GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, OCTOBER 21, 2024
LEAD EDITOR: BENJAMIN MOSK

- **Traders are cautious amid the uncertain outcome of Japan's parliamentary election** (link)
- **New Fed measure suggests abundant reserves, but markets are not fully convinced** (link)
- **Chinese banks lowered the Loan Prime Rates more than expected** (link)
- **Gold prices hit an all-time high on geopolitical uncertainty** (link)
- **US equity rally seen to be supported by strong economic fundamentals** (link)
- **Special Feature: Climate Finance Monitor Q2 2024 (attached)**

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Markets assess geopolitical risk and fast-approaching US elections

Oil prices increased with the WTI active contract rising by 2.2% since Friday. Market commentary mentions the drone attack on Israel's Prime Minister's home, which has reignited concerns about escalation in the Middle East. Gold continued its advance, with the spot price increasing by 0.5% since last week, up 33% year-to-date. The US dollar strengthened, with the US dollar index increasing by 0.2%. The index is up 2.85% month-to-date, and while other factors—such as Fed pricing and the September non-farm payrolls print—play a role, some market participants attribute part of the dollar strength to the "Trump trade" increasingly being priced in. Analysts consider that EM currencies and local markets have recently been very susceptible to global drivers, such as Fed pricing, geopolitical risk and new stimulus in China. Now, uncertainty around the US elections is expected to add to that list. Elsewhere, European sovereign yields increased across the board today, with US Treasury yields following suit this morning. Similarly, European stock markets declined (-0.9%) whilst US equities are set to open lower as well, with the S&P futures down 0.35%. A Bloomberg article suggests that European stocks' underperformance may increase as markets price the risk of tariffs, in addition to recent disappointing earnings news.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
10/21/24 8:07 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5865	0.4	1	3	39	23
Eurostoxx 50		4957	-0.6	-2	2	23	10
Nikkei 225		38955	-0.1	-2	3	25	16
MSCI EM		46	1.0	-1	5	25	14
Yields and Spreads					bps		
US 10y Yield		4.13	4.3	3	38	-79	25
Germany 10y Yield		2.25	6.2	-3	4	-64	22
EMBIG Sovereign Spread		337	2	-14	-35	-109	-47
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.1	-0.2	-1	-2	-3	-6
Dollar index, (+) = $ appreciation		103.7	0.2	0	3	-2	2
Brent Crude Oil ($/barrel)		74.2	1.6	-4	0	-19	-4
VIX Index (%, change in pp)		18.9	0.9	-1	3	-3	6

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

In the coming week, markets will focus on a fresh wave of global macroeconomic data. Regarding activity indicators, in the US, UK and the euro are PMI surveys for October and economic activity data for Mexico and Argentina will indicate how economic growth is developing in the fourth quarter. In addition, survey data (US consumer sentiment, German Ifo survey, Italian sentiments) will provide additional clues on the outlook towards year-end. Regarding price indicators, markets will focus on fresh inflation prints in Japan, South Africa and Brazil and recalibrate their monetary policy bets. Finally, central banks will announce rate policies, including Canada (expectation for a 50bps cut) and Russia (a significant 100bps hike is expected) while in China, banks will likely lower their loan prime rates, tracking the People's Bank of China's late September cut. On Wednesday, the Fed will present its Beige Book, which summarizes information on current economic conditions. This week will also see central bank decisions from Hungary (Tuesday, hold expected), Canada (Wednesday, 50 bps cut expected) and Russia (Friday, 1 pp hike expected). On the earnings side, Tesla, Boeing and Deutsche Bank are in focus. The International Monetary Fund and the World Bank will be holding their annual meetings this week.

Mature Markets

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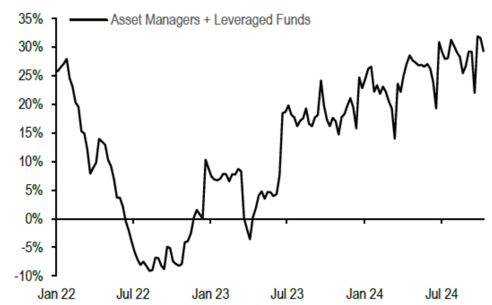
United States

US equities continue to rise on strong economic fundamentals. The S&P500 posted a weekly gain for the sixth consecutive week. While skeptics argue that extending a rally that has lasted for two years is unsustainable, some asset managers see fundamental reasons behind the ongoing increase. These reasons are not necessarily related to election scenarios, which dominated market chatter last week. Economic data from last week supported a robust economy with a low probability of recession, bolstered by a strong earnings season so far. With equities closely monitoring corporate and macro fundamentals, JP Morgan analysts point out that risk markets, such as equities and rates, have consistently indicated lower recession probabilities compared to other asset classes. This has led to record high long positions on US stock futures by asset managers.

Figure 5: Positions in US equity futures by Asset Managers and Leveraged Funds

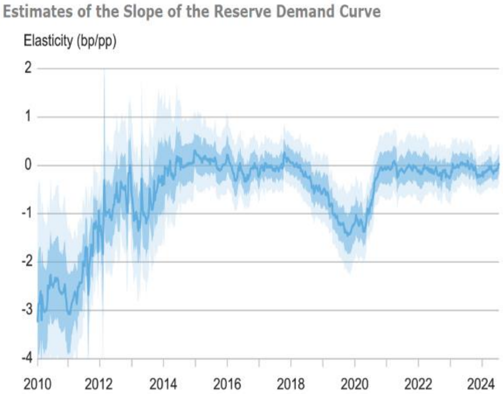
CFTC positions in US equity futures by Leveraged funds and Asset managers (as a % of open interest). It is an aggregate of the S&P500, DowJones, NASDAQ and their Mini futures contracts.



Source: CFTC, Bloomberg Finance L.P., J.P. Morgan.

A new Fed measure suggests that reserves are currently abundant, but markets are not fully convinced. Last week, the Fed NY introduced a monthly barometer for liquidity conditions in US funding markets. Values near zero indicate abundant funding liquidity, meaning small changes in bank reserves don't impact funding rates. More negative values suggest smaller liquidity cushions, where shifts in reserves can increase funding rates. Currently, the barometer is close to zero, indicating abundant reserves. The measure is complementary to a broader set of funding liquidity indicators monitored by the Fed. Market contacts consider the new barometer a timely addition to a range of alternative publicly available measures, but skepticism about the adequacy of reserves is growing. Concerns about reserve scarcity have increased following repo market volatility at the end of the previous quarter, which wasn't reflected in the federal funds market or the new measure but appears in other Fed indicators. Some expect QT to end this year, though an extension to Q1 2025 is possible.

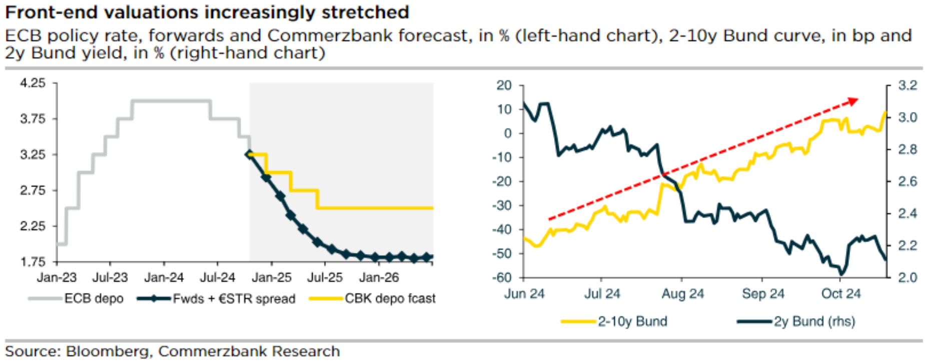
FRBNY Estimates of the Slope of the Reserve Demand Curve



Europe

European equities were trading in the red this morning on mounting tensions in the Middle East. The euro was lower (-0.2%) against the dollar in early morning trade at around 1.0848 with the currency around 1.7% weaker against the greenback year-to-date. Elsewhere, reflecting the muted mood in markets, the 10Y Italian BTP spread over equivalent tenor bunds climbed a touch to 118bps.

The recent rally in front-end euro area yields could be tested this week. Analysts at Commerzbank think that macro data and central bank speakers will determine whether the recent rally in front-end euro area yields will be sustained. Last's week's 25bps rate cut by the ECB and a Reuters story quoting ECB sources which suggested that some Governing Council (GC) members were in favor of "dropping a pledge to keep policy tight as inflation may turn out lower than anticipated" added to rate cut expectations with markets moving to assign around a 40% probability of a larger 50bps cut in December and 2 year bund yields declining 12bps over the course of last week. Commerzbank analysts argue that this week's flash PMI data and German Ifo data would need to surprise on the downside to "substantiate the latest leg lower in yields". This morning 2Y bund yields were trading around 4bps higher at 2.14%.



Japan

Traders are cautious amid the uncertain parliamentary election outcome. A weekend poll showed that approval ratings for Japan's new PM Ishiba have dropped to 41.1%, down from 42.0% a week earlier and 50.7% in early October, ahead of this weekend's general election. Another poll indicates Japan's ruling coalition of the Liberal Democratic Party and Komeito may fall short of the 233 seats needed for a parliamentary majority. According to the poll, around 40% of respondents remain undecided, leaving the election outcome uncertain. Amid the political uncertainty, Japanese equities fell (Topix: -0.3%), led by banks and insurers, due to investor caution in taking large positions. The Japanese yen fluctuated near 150/US$. Some traders believe that if the coalition loses its majority, markets may speculate that Ishiba will struggle with Bank of Japan (BoJ) policy normalization and fiscal consolidation. Investors will also closely monitor next year's wage negotiations, as Japan's largest trade union federation aims to secure a wage increase of over 5% in the spring negotiations.

Commodities

Gold prices hit an all-time high as investors flock to safety amid on-going tensions in the Middle East and ahead of what is expected to be a tightly fought US election race. Year-to-date gold prices have surged 33%, with demand for bullion supported by central bank buying as well as from investors looking to reposition portfolios ahead of the US election on November 5. According to Bloomberg, gold traders, refiners and miners who attended last week's annual London Bullion Market Association's event expect prices to rise to around $2,917 an ounce by late October 2025. This morning, gold was trading at $2,751/ounce in early morning trade. Separately, European natural gas prices ticked higher, rising as much as 1.3% in early morning trade to €39.71/mwh as the possibility of an escalation in tensions in the Middle East which may affect the supply of heating fuel weighed on markets.

Emerging Markets

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EMEA equities and currencies were mixed this morning. CEE equities and currencies edged mostly lower, with the Hungarian forint underperforming (-0.5%) to trade at HUF402.04/€ against the euro ahead of tomorrow's policy decision where the National Bank of Hungary is expected to keep its policy rate unchanged at 6.50%. The stock market traded lower (-0.3%) and the zloty weakened (-0.3%) this morning in Poland, after the September print of industrial production came in below expectations. The stock market edged lower (-0.2%) in South Africa this morning, while the rand was little changed to trade at ZAR17.61/$ against the dollar.

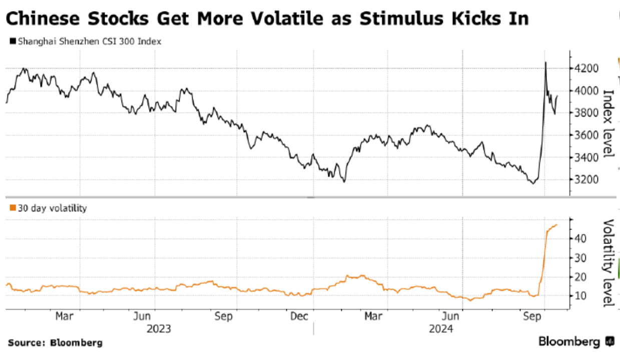
Asian currencies depreciated as investor jitters grew over the potential for higher tariffs in a possible second Trump presidency. The depreciation was led by the Thai baht (-0.9%) and Korean won (-0.6%), affected by concerns that these economies are closely linked to China. 10y government bond yields in Korea (-3.1 bps) and Thailand (-2.5 bps) also led regional peers down. **Most Asian equities fell** (EM Asia: -0.8%), with equities in Hong Kong SAR (-1.6%) and Singapore (-0.7%) underperforming.

LATAM currencies mostly weakened amidst idiosyncratic domestic developments. The Chilean Peso led regional currencies decline, depreciating -0.8% against the US Dollar following a dovish policy rate cut, while Brazilian real depreciated -0.67% amidst fiscal uncertainties. Colombian Peso also weakened, declining -0.36% amidst lower oil prices, following reports that the US is pushing for truce in the Middle East. Local currency bond yields traded marginally higher, while regional equities were mix. Looking ahead, Paraguay central bank is expected to hold policy rates while Brazil and Mexico are poised to report their latest inflation print later in the week.

China

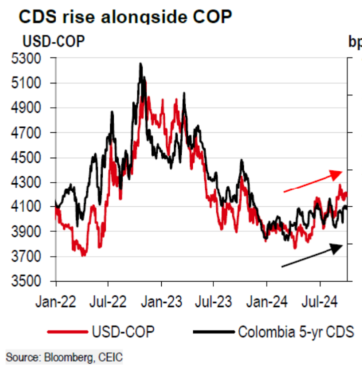
Chinese banks lowered the Loan Prime Rates (LPR) more than expected. Both the 1y and 5y LPR were cut by 25 bps to 3.10% and 3.60%, respectively, slightly exceeding the market expectation of a 20 bps cut. This move followed the 20 bps cut of the 7d reverse repo rate by the People's Bank of China (PBC) on September 27, and the 25 bps cut of deposit rates by China's largest state-owned banks last Friday, aimed at mitigating the impact on their profit margins. Local media reported that the mortgage rate reduction for some existing borrowers may exceed 1 ppt, with a total of 60 bps cut in the 5y LPR so far this year and previous efforts by authorities to reduce existing mortgages by an average of 50 bps. The boost from the rate cuts to the equity market was short-lived. The CSI 300 initially jumped 0.8% but soon reversed to a 0.7% loss, ending the session with 0.3% gains in a choppy trading day. Analysts expect the volatility of the Chinese equity market to remain elevated due to uneven stimulus between monetary and fiscal measures.

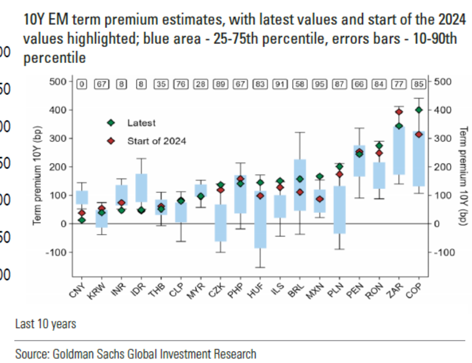
The RMB has softened with rising volatility in the past few weeks due to reduced bets on the US Fed rate cuts and the potential for a Trump victory. However, Bloomberg reported that the one-month implied volatility of the onshore yuan around the US election day is trading at the largest discount to its offshore counterpart since 2022. Some analysts view this as a sign of greater confidence among domestic RMB traders in managing currency turbulence around the US presidential election, partly due to the expectation that the PBoC will intervene if necessary to stabilize the currency. Today, the RMB fixing was set at 7.0982, 0.4% stronger than the previous trading day and largely in line with the consensus. RMB depreciated (-0.1%).

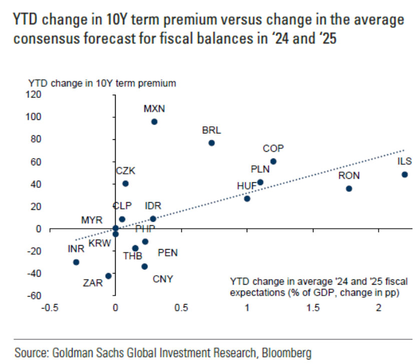


Colombia

The Colombian peso (COP) and local currency bonds are increasingly sensitive to fiscal risk. According to an HSBC analyst, recent trends in the Colombian peso have shown a correlation with CDS spreads (*left chart*). The underperformance of the COP since the budget was filed in July indicates that the market's tolerance for negative fiscal developments is diminishing. The analyst cautions that a potential rating shift in 2025 is becoming more likely. Additionally, a Goldman Sachs analyst highlighted that the risk premium for Colombia's 10-year local government bonds is relatively high compared to other EM peers (*center chart*). Importantly, the year-to-date factors influencing the long-end risk premium appears to have been primarily driven by expectations surrounding fiscal balance (*right chart*).

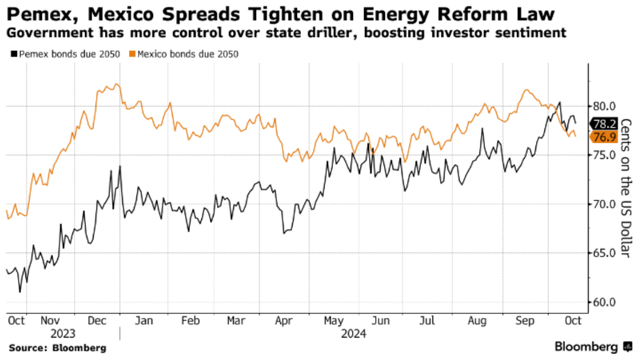






Mexico

Markets anticipate increased government support for Pemex following the Senate's approval of Mexico's energy reform bill, which reclassifies Pemex as a "public company." This change is expected to strengthen the government's connection to Pemex. While the bill must first pass through state legislatures before reaching the president for final approval, it is expected to support Pemex bonds. T. Rowe Price analyst highlights that the ruling coalition's significant majority in Congress could facilitate guarantees on Pemex's debt, thereby improving its financial condition and narrowing its bond spreads against sovereign debt. Earlier, Fitch Ratings indicated that it is considering upgrading Pemex's credit rating, potentially elevating it from its current junk status of B+ to investment grade. Over the past month, Pemex's long-term bond spreads have tightened by approximately 100 basis points against sovereign debt.



EM Fund Flows

EM fund flows weakened with bonds flows ended a four-week streak of inflows while equities inflows moderated. Last week, EM bond funds reverted to outflows (-$0.1 bn, prior week +$0.8 bn) while equities flows moderated (+$1.7 bn, prior week +$9.8 bn). EM bond funds outflows were largely due to hard currency funds (-$0.4 bn), whereas local currency funds saw modest inflows (+$0.25 bn). For equity funds, inflows declined from the prior week, with notable outflows from non-ETF investments (-$1.3 bn). Regionally, Asia ex-Japan recorded inflows (+$1.6 bn), while EMEA faced marginal outflows (-$25mn). Meanwhile, non-resident portfolio flows indicated net inflows into local bonds, primarily from Indonesia (+$0.3 bn), while equities saw outflows mainly from India (-$2.0bn). The year-to-date overall flows currently stand at -$5.4 bn.

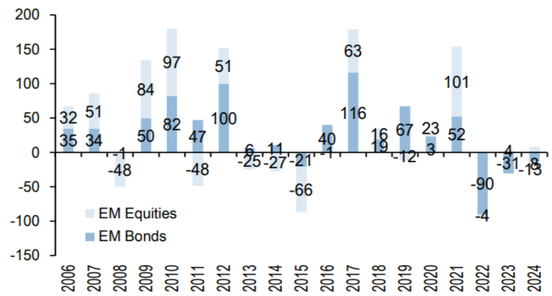
Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		1.6	-5.4
	EM Bonds		-0.1	-13.3
	Hard Ccy		-0.4	-5.1
	Local Ccy^		0.3	-8.2
	o.w. EM ex-China		0.3	-7.1
	o.w. China		0.0	-1.6
	EM Equities		1.7	7.9
	US HG		7.2	308.7
	US HY		1.0	26.8
	Global Equities		23.6	180.1
	EM Bond and Equity ETFs		2.8	38.9
	EM Bond ETFs		-0.2	-0.8
	EM Equity ETFs		3.0	39.7
	Non-resident EM flows*		-2.4	2.8

EM bond and equity fund flows

USD billion



*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

10/21/24 8:06 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,865	0.4	0.9	2.8	38.8	23
Europe		4,957	-0.6	-1.7	1.7	23.2	10
Japan		38,955	-0.1	-1.6	3.3	24.6	16
China		3,935	0.3	-0.7	22.9	12.1	15
Asia Ex Japan		79	1.2	-1.2	6.2	27.4	18
Emerging Markets		46	1.0	-0.9	5.1	24.8	14
Interest Rates					basis points		
US 10y Yield		4.1	4	3	38	-79	25
Germany 10y Yield		2.2	6	-3	4	-64	22
Japan 10y Yield		1.0	-1	1	11	12	35
UK 10y Yield		4.1	5	-13	21	-54	57
Credit Spreads					basis points		
US Investment Grade		121	1	0	-10	-37	-13
US High Yield		337	-1	-6	-29	-121	-49
Exchange Rates					%		
USD/Majors		103.7	0.2	0.4	2.9	-2.3	2
EUR/USD		1.1	-0.2	-0.6	-2.4	1.6	-2
USD/JPY		150.0	0.3	0.1	4.4	0.2	6
EM/USD		45.1	-0.2	-1.1	-2.2	-3.1	-6
Commodities					%		
Brent Crude Oil ($/barrel)		74.2	1.6	-4.2	0.7	-10.8	-1
Industrials Metals (index)		151.4	0.6	0.0	3.8	11.2	6
Agriculture (index)		55.5	-0.1	-1.5	-0.6	-15.4	-11
Implied Volatility					%		
VIX Index (%, change in pp)		18.9	0.9	-0.8	2.7	-2.8	6.4
Global FX Volatility		8.8	0.1	0.3	0.4	0.5	0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		86	1	-6	-13	-63	-18
Italy		119	1	-8	-16	-85	-49
Portugal		44	0	-6	-13	-28	-20
Spain		70	1	-4	-9	-42	-27

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations.
Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 10/21/2024 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.11	-0.2	-0.3	-0.9	2.8	-0.2		2.0	2	-1	10	-81	-57
Indonesia		15495	-0.2	0.4	-1.9	2.8	-0.6		6.6	-2	-5	20	-47	16
India		84	0.0	0.0	-0.6	-1.0	-1.0		7.1	3	4	19	-64	-7
Philippines		58	-0.1	-0.2	-2.8	-1.3	-3.8		4.8	-2	-4	9	-100	-82
Thailand		33	-0.8	-0.2	-1.2	9.3	2.2		2.4	-1	-9	3	-109	-31
Malaysia		4.31	0.0	-0.2	-2.4	11.3	6.7		3.8	-1	-2	7	-34	4
Argentina		981	0.0	-0.6	-1.9	-64.3	-17.6		39.1	-57	-163	-80	-6634	-4728
Brazil		5.69	-0.7	-1.4	-4.1	-11.1	-14.7		12.8	4	18	85	91	237
Chile		954	-0.8	-3.1	-2.3	-1.2	-7.9		5.0	-2	4	42	-101	7
Colombia		4272	-0.4	-1.5	-2.1	-0.8	-9.8		8.3	3	29	89	-119	65
Mexico		19.95	-0.4	-2.9	-2.6	-9.1	-14.9		9.3	6	24	72	-37	84
Peru		3.8	0.1	0.0	-0.1	3.0	-1.3		6.4	2	-3	22	-133	-24
Uruguay		42	0.2	-0.1	-0.6	-3.8	-6.5		9.6	2	5	-48	-16	12
Hungary		371	-0.7	-0.9	-4.1	-3.5	-6.3		6.5	7	8	58	-114	72
Poland		3.98	-0.5	-1.2	-3.5	5.0	-1.2		5.0	8	7	50	-25	54
Romania		4.6	-0.2	-0.5	-2.3	1.6	-1.7		6.6	0	5	3	-30	40
Russia		96.1	-0.9	-0.5	-3.2	-1.6	-6.9							
South Africa		17.6	-0.1	-0.3	-1.5	7.6	4.2		8.9	5	6	40	-116	-24
Türkiye		34.24	0.0	0.1	-0.3	-18.0	-13.8		29.7	-5	-16	124	42	290
US (DXY; 5y UST)		104	0.2	0.4	2.9	-2.3	2.3		3.93	5	2	43	-93	8

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3,935	0.3	-0.7	22.9	12.1	14.7		114	-2	-11	-53	-44
Indonesia		7,773	0.2	2.8	0.4	13.5	6.9		93	5	-6	-28	-3
India		81,151	-0.1	-1.0	-4.0	24.1	12.3		93	-2	-17	-41	-23
Philippines		7,407	-0.1	1.1	2.1	20.6	14.8		79	5	-6	-20	-1
Thailand		1,489	-0.1	1.3	2.6	6.4	5.1		0	0	0	0	0
Malaysia		1,646	0.0	0.6	-1.4	14.2	13.1		69	-5	-17	-23	-16
Argentina		1,823,330	1.2	2.3	0.0	127.7	96.1		1100	-11	-262	-1295	-813
Brazil		130,499	-0.2	0.4	-0.4	15.3	-2.7		207	-3	-11	-10	-8
Chile		6,644	1.1	1.1	4.9	18.0	7.2		110	0	-11	-31	-15
Colombia		1,362	1.2	2.7	3.1	21.9	14.0		302	-8	-13	-43	31
Mexico		53,027	1.1	1.2	1.6	9.8	-7.6		297	0	-21	-65	-37
Peru		30,767	0.7	1.0	5.0	38.7	18.5		134	-4	-6	-25	-10
Hungary		74,297	0.1	-0.2	1.6	31.9	22.6		143	0	-12	-50	-6
Poland		82,476	-0.2	-1.0	0.9	20.6	5.1		106	2	-4	-5	9
Romania		17,451	0.3	-0.8	-1.0	24.7	13.5		184	-2	-17	-29	-17
South Africa		87,056	-0.2	0.8	3.8	24.0	13.2		271	4	-21	-126	-37
Türkiye		8,772	-0.2	0.8	-11.4	16.8	17.4		275	4	-14	-122	-39
EM total		46	-0.8	-0.9	5.1	24.8	14.2		382	-3	-13	-22	36

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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