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## US dollar strengthens as elections approach

With the US elections less than two weeks away, the US dollar continues to strengthen versus other currencies. Market participants focus on possible trade implications in case of a Republican win. Month-to-date, the US dollar index, reflecting the dollar's strength versus a basket of currencies, advanced by 3.6%. The one-month option implied (ATM) volatility for a number of currency pairs involving the dollar has increased markedly as the election date moved into the one-month window, including the Mexican peso as well as the euro. The impact of a potentially tougher trade stance is not limited to FX markets. Bloomberg notes that mentions of the word "tariff" on earnings calls this period have more-than doubled in Europe, and tariff sensitive stocks have underperformed in October. Today, euro area sovereign bonds recovered some of the losses earlier this week, but especially so in the shorter-end of the curve, while Monday's sell-off was concentrated in the longer maturities. European equities fell by -0.4% reflecting a risk-off sentiment, extending moderate losses earlier this week. The euro weakened by -0.3% versus the US dollar today. The Japanese yen stood out in FX markets, weakening by 1.4% to 153.14 versus the US dollar. US Treasury yields trade slightly higher this morning, in contract with their euro area peers. Today, the Fed will release its "Beige Book", summarizing economic conditions, and the Bank of Canada is expected to cut its policy rate by 50bps to 3.75%. However, some market participants see scope for a smaller 25bps cut.

Key Global Financial Indicators

Last updated: 10/23/24 8:28 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5851	0.0	1	2	39	23
Eurostoxx 50		4919	-0.4	0	1	22	9
Nikkei 225		38105	-0.8	-3	0	23	14
MSCI EM		46	-0.2	1	3	24	13
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.24	3.6	23	49	-61	36
Germany 10y Yield		2.31	-0.5	13	16	-56	29
EMBIG Sovereign Spread		342	6	-9	-27	-111	-41
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		44.9	-0.4	-1	-3	-4	-7
Dollar index, (+) = \$ appreciation		104.5	0.4	1	4	-1	3
Brent Crude Oil (\$/barrel)		74.7	-1.7	1	1	-17	-3
VIX Index (% change in pp)		18.6	0.4	-1	3	-2	6

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

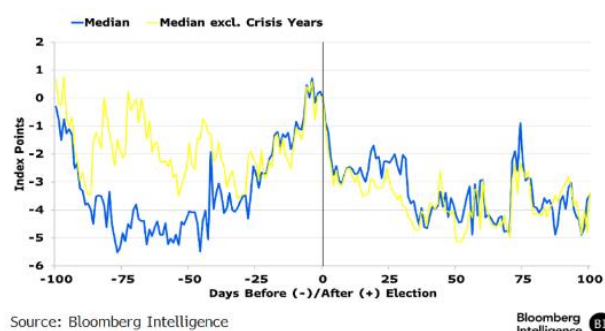
## Mature Markets

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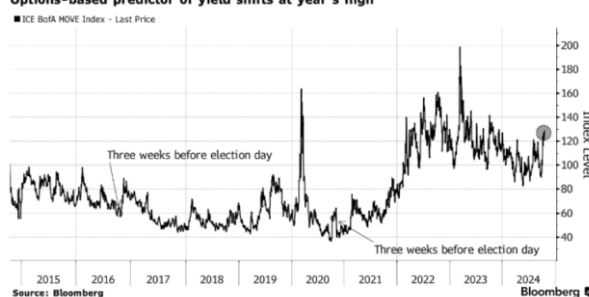
### United States

**Market volatility has increased for both bonds and equities ahead of the US elections.** Treasury volatility based on options (MOVE Index), has climbed to its highest level this year. Equity volatility based on S&P 500 options (VIX Index), has been on an upward trend since July, although it has declined recently. While the drivers of market volatility are debated, several analysts believe the upcoming U.S. elections play a significant role. For equities, they note a seasonal pattern where equity market volatility peaks before elections but fades afterward. Currently, options investors are betting on a decline in the VIX by year-end. This logic could also apply to bonds under certain election outcomes, but the mood there is gloomier. Some rates analysts are concerned that, regardless of the election outcome, the path forward for rates may remain volatile due to ongoing uncertainty over fiscal deficits and geopolitics.

The VIX index tends to peak just before Election Day



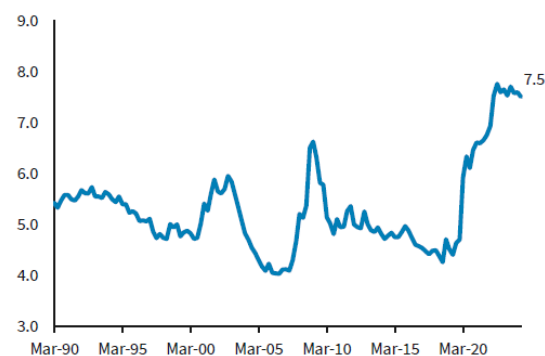
### Treasury Market's Expected Volatility Has Jumped



### Rotation from cash to credit is seen as unlikely for another six months.

Since COVID-19, households and non-financial businesses have allocated substantially more of their financial assets to cash, reaching historically high levels. Money Market Funds have seen over \$1.5 trillion in inflows since the start of the latest hiking cycle, while bank deposits have remained resilient. With the easing cycle underway and equity markets at record highs and outperforming cash, some equity analysts expect investors to shift this cash into equities. Barclays analysts believe this is more likely for corporate bonds than equities, as bonds are more likely the first step in the rotation towards riskier assets. They argue that, with rates unlikely

FIGURE 3. Cash allocation (% fin assets)

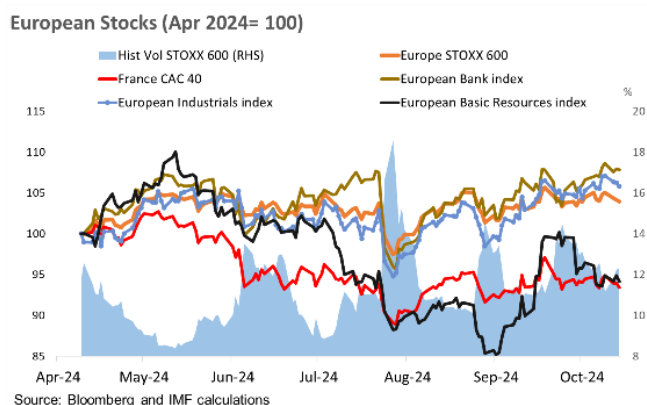


Note: Household and nonfinancial business money fund and checking deposits as a share of financial assets.  
Source: Federal Reserve, Barclays Research

to return to near-zero levels and bank deposits less interest-sensitive than previously thought, the interest rate-sensitive portion of cash available to move would not exceed \$1 trillion. Currently, MMF yields remain higher than front-end investment-grade corporates, but as the Treasury yield curve steepens, Treasury forwards suggest that the rotation could become economically meaningful in about six months.

### Europe

**European equities continued to trade lower this morning**, as the Stoxx 600 index edged down by -0.2% dragged by losses in the materials (-0.7%), industrial (-0.5%) and energy (-0.4%) sectors, with the latter affected today by declining oil prices (Brent -1.8% at \$74.63 per barrel). All main European bourses were in the red this morning, with France underperforming (CAC 40 -0.7%).

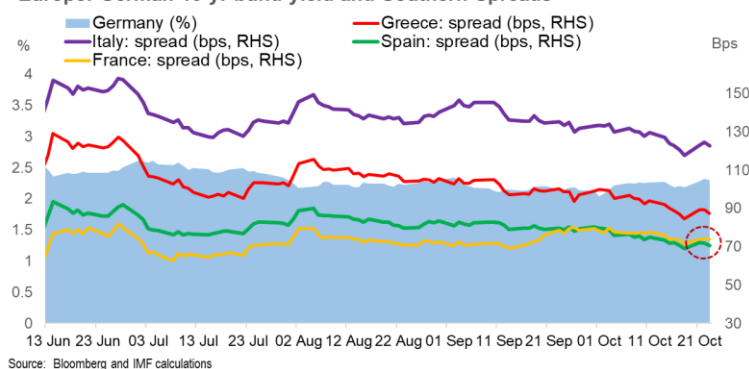


**The euro weakened (-0.3%) against the dollar this morning to trade below \$1.08**, as markets have come back to price-in -36bps of policy rate easing at the December ECB meeting (42% likelihood of a -50bps cut) pushing the EUR-USD 2y swap rate differential to 145bps. Analysts at ING see the euro with few chances of regaining above the current level as the dollar strengthens heading into the US elections. Various ECB policymakers commented on the trajectory of inflation in Europe. ECB President Christine Lagarde, Governor Robert Holzmann, and Governor Mario Centeno highlighted downside risks to inflation. Christine Lagarde stated that euro zone inflation could steadily reach the 2% target sooner than expected by the end of 2025; adding that this made the direction for policy "clear" but that the pace of further cuts in the 3.25% deposit rate remained dependent on incoming data. Mario Centeno also highlighted early signs of a weakening labor market and low consumer and investor confidence in Europe and called for a gradual reduction in interest rates to a neutral level around 2%. ECB Governor Francois Villeroy de Galhau warned yesterday that persistently too-strong inflation is no longer the "sole and dominant risk" for the euro area as there's equally the opposite risk of undershooting the 2% target especially if growth remains weak.

### European government bond yield curve bull-steepened this morning, as the 2y Bund yields declined by -7bps to 2.09%, 5y Bund yields fell to 2.10% and 10y Bund yields to 2.29% (-2bps).

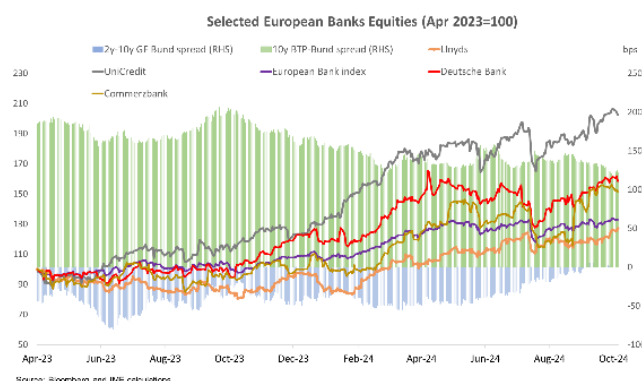
This morning, the 10y Italian BTP spread over equivalent tenor Bunds was steady at 123bps while the 10Y French OAT-Bund spread was stable at around 74bps. Italy's main business federation Confindustria said that Italy's economy may grow slower than expected, with GDP forecasted at 0.8% in 2024 and 0.9% in 2025; public deficit is projected at 3.9% of GDP this year and 3.1% next year, while debt is foreseen to remain at 136.9% in 2024 and 138.54% in 2025.

Europe: German 10-yr bund yield and Southern Spreads



**European bank stocks traded slightly lower (-0.1%) this morning amid mixed Q3 earnings reported so far.** Strong results from UK and Scandinavian banks were tempered by some disappointment regarding Deutsche Bank. Lloyds beat on profit and reaffirmed its 2024 guidance, while in Sweden both Swedbank and Svenska Handelsbanken had better-than-expected profits driven by resilient net interest income despite decreasing interest rates, with DNB in Norway having also posted yesterday record net interest income. Deutsche Bank shares edged down by -3.2% this morning as the bank beat expectations on Q3 results (Q3 net profit +8%y/y to €1.3bn, RoTE 7.6%) but guided for higher credit provisions in 2024 (now expected at €1.8bn) following further losses from CRE exposures in the US. Analysts at Crédit Agricole

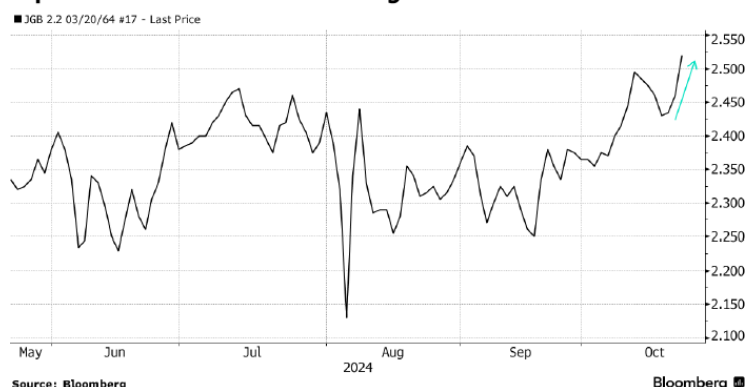
maintain a constructive view on Deutsche Bank supported by the partial release of Postbank litigation-related provisions and deliver against guidance led by strong investment banking and fixed income revenues with CRE provisions still decreasing on a quarterly basis signaling stabilization in asset quality.



## Japan

**The 40y Japanese government bond (JGB) yields rose to a 16-year high on the Fed and Bank of Japan (BoJ) rate outlook.** The yield climbed by 1.5 bps to 2.535% at one point on Wednesday morning, amid growing speculation that the BoJ will push ahead with another rate hike in the coming months, partly fueled by the recent weakening of the yen. Some analysts note that while BoJ Governor Ueda indicated at the September press conference that the BoJ could delay additional rate hikes due to easing yen depreciation, recent market movements could weaken this stance. Although the BoJ is widely expected to stay pat in the October meeting, swap data indicate a 66% chance of a 25 bps hike by January. Decreased demand from life insurers, who had been major investors in long-term bonds to meet new regulatory requirements, is also contributing to the upward pressure on longer-maturity yields, Bloomberg reported. Today, the yen depreciated by 0.9% past 152/US\$. Some traders note that selling pressure on the yen was more intense during New York trading hours in the past few sessions, partly reflecting the potential pricing of a Trump win or a “Red Sweep.” Japanese equities extended losses (Nikkei 225: -0.9%), despite a surge in Tokyo Metro on its debut after its IPO drew strong foreign demand. Investors are watching whether this will mark a sustained return of overseas funds to Japanese equities.

## Japan 40-Year Yield Rises to Highest Since 2008



## Emerging Markets

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**EMEA equities and currencies mostly traded lower this morning**, reflecting continued broad risk off tone in markets. CEE equities and currencies edged lower, save for in Czechia where the stock market gained +0.5% while the koruna slightly advanced against the euro to trade at CZK25.19/€. Equities were little changed today in South Africa where the rand was weaker (-0.3%) against the dollar to trade at ZAR17.60/\$, while in Türkiye the lira was stable against the dollar, at TRY34.26/\$, and equities were down by -0.8%.

**Most Asian currencies softened and government bond yields rose** as investors continue to price in

less aggressive Fed rate cuts and the odds of a Trump win. The Malaysian ringgit (-0.5%) and Thai baht (-0.5%) led the depreciation due to strong export exposure to the US and stretched valuations. **Asian equities were mixed.** Korean equities (+1.1%) outperformed, led by chip stocks, as foreign investors paused tech sector withdrawals following news that lawmakers will discuss industry support measures next week, Bloomberg reported.

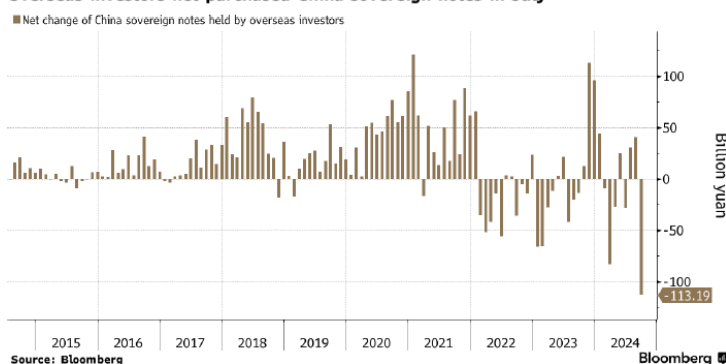
**Latin America assets traded mix. Regional currencies rebounded amidst a recovery in commodity prices.** The Chilean Peso and Peruvian Sol led gains, appreciating +0.5% and +0.4%, respectively against the US Dollar alongside a rise in copper prices. **In contrast, regional equities showed mixed performance;** while benchmark equity indices in Peru and Chile posted marginal gains, other markets experienced broader declines.

## China

**Global funds sold a record amount of Chinese government bonds (CGBs) amid market shifts.** According to a bond custodian's data, foreign investors sold a record RMB 113.2 bn (US\$15.9 bn) of CGBs in September. Some strategists believe that index investors have passively reduced their positions after bond prices fell back in late September. This reflects a boost in risk appetite due to stimulus measures, with a stock market rally and an interruption of the bond bull market.

Additionally, concerns about increasing CGB supply pressuring bond prices amid front-loaded bond issuance have emerged. Bloomberg analysts also note a further reduction in foreign holdings of Negotiable Certificates of Deposit (NCDs), as RMB appreciation has disrupted foreign traders' profitable strategy of swapping US dollars for RMB to buy higher-yielding onshore bonds. Today, Chinese equities advanced (CSI 300: +0.4%) after the State Council-affiliated Chinese Academy of Social Sciences urged the government to issue RMB 2 trillion of special government bonds to set up a market stabilization fund. The RMB depreciated (-0.1%).

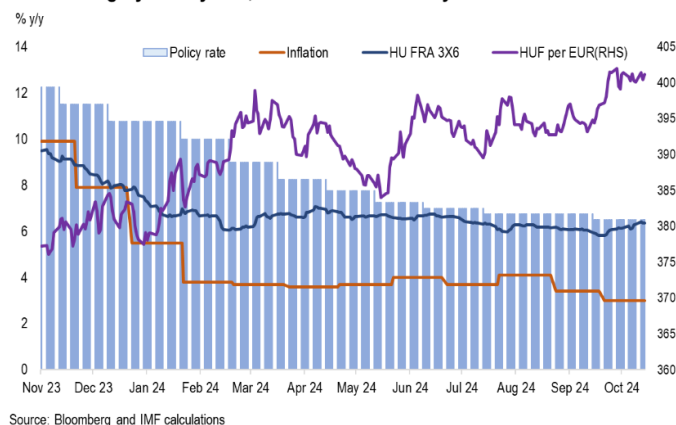
**September Saw Record Cut in Foreigner CGB Position**  
Overseas investors net purchased China sovereign notes in July



## Hungary

**The Forint gained after National Bank of Hungary kept rates unchanged, in line with expectations.** As widely expected, the National Bank of Hungary (NBH) maintained the key interest rate unchanged at 6.5% yesterday. Deputy Governor Kandracz remarked that rate decisions warranted a "cautious and data-driven manner" citing policymakers' concerns about elevated core price-growth. Immediately after yesterday's decision the forint gained 0.4% against the euro but reversed course (-0.2%) this morning to trade at HUF401.18/€. Analysts at JP Morgan commented that there was a hawkish shift during yesterday's press conference with Deputy Governor Kandracz reinforcing Deputy Governor Virag's comments last week stating that the NBH would keep rates on hold for an extended period if

**Hungary: Policy rate, Inflation and Currency**





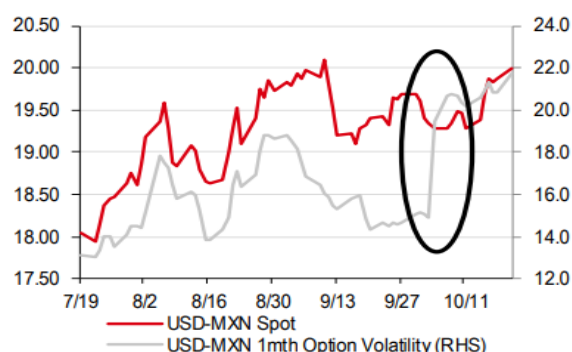
necessary, given the external backdrop. That said, JP Morgan analysts still expect the NBH to deliver a 25bps rate cut at the December meeting, although note risks to this decision if the forint depreciates further.

## Mexico

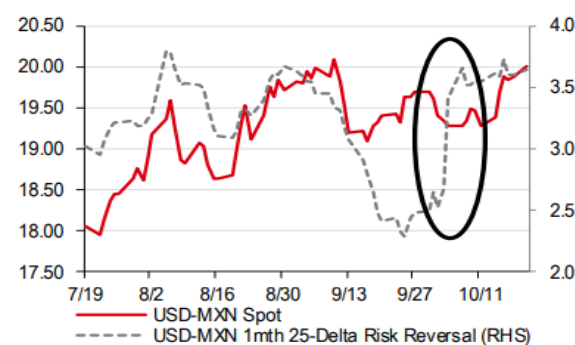
### Currency option markets pricing-in the potential for large fluctuations for the Peso around the US elections.

The USD-MXN one-month at-the-money option-implied volatility rose to 22%, the highest level since November 2020. HSBC analyst noted that the spike in implied volatility coincided once the date of the US elections results was included within the contract's maturity (*left chart*), with market participants pricing-in some premium on election uncertainties. Correspondingly, the 1-month 25 delta risk-reversal also spiked higher, once the election results dates are included in the contract (*right chart*), suggesting a stronger interest for hedges against a depreciation of the Peso. Barclays believes that the MXN response to the US election outcome is less skewed to one side as compared to other currencies, as markets may already have priced in the likelihood of tariffs to a larger degree.

**MXN vols spike once US election is included within 1-mth maturity date**



**MXN risk-reversals also spike higher once US election is included in maturity**



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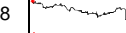


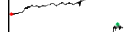
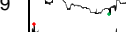




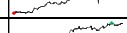
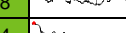



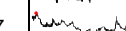



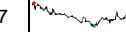

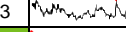
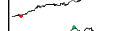






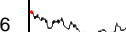



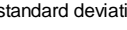


## Global Financial Indicators

10/23/24 8:29 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5,848	0.0	0.1	2.3	38.7	23
Europe		4,919	-0.4	0.2	0.7	21.7	9
Japan		38,105	-0.8	-2.7	0.4	22.7	14
China		3,973	0.4	3.7	18.5	13.9	16
Asia Ex Japan		78	-0.1	0.9	4.2	26.0	17
Emerging Markets		46	-0.2	0.7	3.3	23.8	13
<b>Interest Rates</b>			basis points				
US 10y Yield		4.2	4	23	49	-61	36
Germany 10y Yield		2.3	-1	13	16	-56	29
Japan 10y Yield		1.0	0	3	13	11	37
UK 10y Yield		4.2	5	15	29	-38	68
<b>Credit Spreads</b>			basis points				
US Investment Grade		123	0	3	-6	-39	-11
US High Yield		336	-2	-2	-24	-139	-49
<b>Exchange Rates</b>			%				
USD/Majors		104.5	0.4	0.9	3.6	-1.0	3
EUR/USD		1.1	-0.3	-0.9	-3.1	0.9	-2
USD/JPY		153.1	1.4	2.3	6.6	2.3	9
EM/USD		44.9	-0.4	-0.6	-2.5	-3.9	-7
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		74.7	-1.7	0.7	2.1	-9.0	0
Industrials Metals (index)		149.5	-0.5	-0.4	2.2	10.1	5
Agriculture (index)		55.9	-0.2	0.2	-2.3	-14.6	-10
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		18.6	0.4	-1.0	2.7	-1.8	6.1
Global FX Volatility		8.8	0.0	0.3	0.4	0.6	0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		87	-2	-1	-13	-55	-16
Italy		122	-2	0	-13	-75	-45
Portugal		44	-1	-3	-12	-27	-19
Spain		70	-2	-2	-9	-39	-27

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.  
Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 10/23/2024 8:29 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.13	-0.1	-0.1	-1.1	2.5	-0.4		2.0	3	8	15	-75	-52
Indonesia		15620	-0.4	-0.7	-2.7	2.0	-1.4		6.8	11	11	32	-31	31
India		84	0.0	-0.1	-0.6	-1.1	-1.0		7.2	-1	11	21	-62	-5
Philippines		58	-0.5	0.0	-3.3	-1.8	-4.3		4.9	0	9	16	-92	-74
Thailand		34	-0.2	-0.4	-1.5	9.0	1.9		2.4	6	-4	9	-103	-25
Malaysia		4.35	-0.5	-1.2	-3.4	10.2	5.6		3.8	1	6	13	-32	11
Argentina		984	0.0	-0.4	-1.9	-64.4	-17.8		38.7	-100	-189	-227	-6756	-4773
Brazil		5.73	-0.6	-1.1	-3.3	-12.4	-15.2		12.7	3	7	22	76	230
Chile		952	-0.5	-1.8	-3.2	-1.9	-7.7		5.1	0	23	49	-102	24
Colombia		4265	0.3	-0.4	-2.5	-0.9	-9.6		8.5	0	38	92	-88	82
Mexico		20.06	-0.5	-0.8	-3.1	-9.5	-15.4		9.6	0	28	97	-3	111
Peru		3.8	0.4	0.4	0.7	3.0	-1.2		6.6	1	25	38	-113	-6
Uruguay		42	-0.2	0.4	1.8	-4.1	-6.4		9.6	0	-1	-61	-22	12
Hungary		373	-0.7	-1.1	-4.9	-4.2	-7.0		6.6	0	33	69	-103	83
Poland		4.04	-0.8	-2.0	-4.8	3.6	-2.5		5.1	3	21	60	-16	64
Romania		4.6	-0.3	-0.9	-3.1	0.8	-2.5		6.6	3	7	14	-31	43
Russia		96.6	-0.8	0.9	-3.7	-2.1	-7.4							
South Africa		17.7	-0.8	-0.4	-2.0	7.1	3.8		8.9	6	10	44	-111	-19
Türkiye		34.29	-0.1	-0.3	-0.5	-18.1	-13.9		30.0	14	47	181	89	329
US (DXY; 5y UST)		105	0.4	0.9	3.7	-0.9	3.2		4.04	4	20	54	-76	20

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3,973	0.4	3.7	18.5	13.9	15.8		112	-2	-12	-60	-46	
Indonesia		7,788	0.0	1.8	0.1	14.4	7.1		91	-2	-9	-40	-5	
India		80,082	-0.2	-1.7	-5.7	24.0	10.9		93	1	-16	-46	-23	
Philippines		7,368	-0.6	-0.9	-0.9	22.0	14.2		79	0	-5	-29	-1	
Thailand		1,470	0.0	0.4	1.5	5.1	3.8		0	0	0	0	0	
Malaysia		1,642	-0.1	0.5	-1.7	14.3	12.8		71	-1	-12	-24	-14	
Argentina		1,807,539	-0.7	-0.5	1.0	157.8	94.4		1104	56	-211	-1314	-809	
Brazil		129,951	-0.3	-0.8	-0.5	15.2	-3.2		209	0	-11	-13	-6	
Chile		6,675	0.1	2.0	4.7	21.3	7.7		111	-2	-8	-31	-14	
Colombia		1,344	-0.9	0.5	1.7	21.3	12.5		312	4	0	-38	41	
Mexico		52,369	-0.8	0.0	-0.1	8.7	-8.7		300	1	-16	-65	-34	
Peru		30,719	0.1	1.6	4.6	39.9	18.3		137	-3	-3	-26	-7	
Hungary		73,846	0.0	-1.2	1.1	31.1	21.8		144	-3	-8	-59	-5	
Poland		80,525	-0.5	-3.9	-1.7	18.2	2.6		102	-7	-8	-16	5	
Romania		17,393	0.3	-0.5	-1.2	23.9	13.2		185	-3	-11	-35	-16	
South Africa		86,683	-0.1	0.3	2.2	23.7	12.7		277	6	-8	-115	-31	
Türkiye		8,788	-0.6	-1.9	-11.1	13.4	17.6		276	4	-6	-127	-38	
EM total		46	-0.2	0.7	3.3	23.8	13.2		389	7	-4	-20	44	

Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

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