GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, OCTOBER 3, 2024

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- **Stocks in Hong Kong SAR fall back as historic China rally takes a pause** (link)
- **Yen depreciates as expectations of further rate hikes recede** (link)
- **Non-recessionary Fed rate cuts tend to be good for risk assets** (link)
- **US Treasury trading volume increasingly concentrated on last day of the month** (link)
- **Sterling weakens on prospects of more aggressive easing** (link)
- **Rhetoric from Central Bank of Mexico stays hawkish** (link)

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Markets fall back on uncertain outlook

The overall mood was cautious as the conflict continues in the Middle East and investors take stock ahead of tomorrow's all-important US jobs report. The historic 13-day rally in China took a pause as stocks in Hong Kong SAR fell back. Stocks in Europe are also lower and US equity index futures are down as well. Government bond yields in the euro area and the US are higher and the dollar is stronger across the board. The weaker yen drew attention as the political establishment indicated that further rate hikes were less likely in the immediate future. Meanwhile, the dockworker's strike in the east coast of the US continued for a third day amidst growing worries about supply disruptions not just in the US but also in Europe and Asia. The Bank of England's Governor Bailey said in a press interview that the BOE could be "a bit more aggressive" in cutting rates.

Key Global Financial Indicators

Last updated: 10/3/24 7:32 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5710	0.0	0	3	35	19.70
Eurostoxx 50		4941	-0.4	-2	1	21	9
Nikkei 225		38552	2.0	-1	4	26	15
MSCI EM		47	2.0	5	11	26	17
Yields and Spreads					bps		
US 10y Yield		3.80	2.3	1	-3	-99	-8
Germany 10y Yield		2.14	5.2	-4	-13	-82	12
EMBIG Sovereign Spread		360	-1	-8	-28	-74	-24
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.9	-0.2	-1	0	-1	-5
Dollar index, (+) = $ appreciation		101.9	0.2	1	0	-5	1
Brent Crude Oil ($/barrel)		75.5	2.2	5	2	-17	-2
VIX Index (%, change in pp)		19.9	1.0	4	-1	0	7

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

Mature Markets

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United States

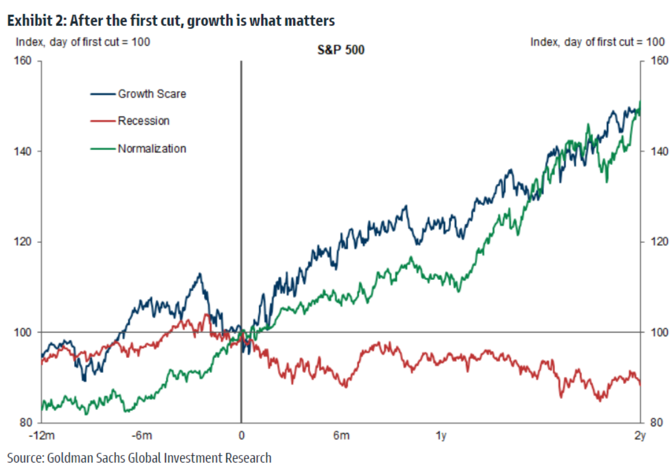
Jobless claims came in close to expectations. Markets were little changed in the immediate aftermath of the data release. Tomorrow's non-farm payrolls report is the main focus for markets this week. The consensus forecast is that 150K new jobs will be added and the that the unemployment rate will hold steady at 4.2%.

US Jobless Claims 8.30 am

Source: Bloomberg

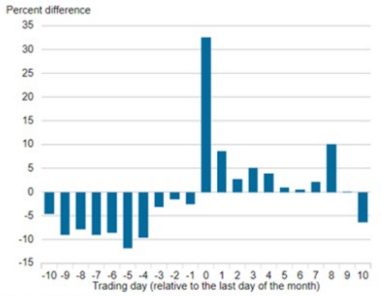
Indicator	Consensus Forecast	Actual Data
Initial Claims	222K	225K
Continuing Claims	1830K	1826K

Fed rate cuts delivered when the US is not in recession tend to be good for risk assets such as equities, Goldman finds. Its analysts determined that rate cuts during "growth scares" such as the current environment where the economy is not in recession but the Fed cuts rates to shore up employment usually lead to positive outcomes for stocks, based on previous history. On average, rate cut cycles during "growth scares" and policy normalization cycles tend to result the S&P 500 rising by 50% over the following two years. Stocks tend to fall when the Fed cuts rates during recessionary episodes. The analysts are optimistic about market prospects, noting that the latest economic data are relatively strong and that lower oil prices will benefit consumers. If the economy stays in good health, corporate earnings are also likely to be strong.



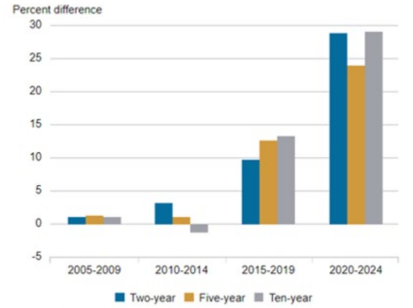
The highest trading volume of Treasury securities is increasingly concentrated on the last trading day of the month, according to research by analysts at the New York Fed. Since 2020, trading volume of US Treasury notes and bonds on the last day of the month has been 33% higher on average than earlier days in the month. In addition, this trend has been growing over time. The analysts speculate that this phenomenon is due to exchange traded funds (ETFs) and other passive investment vehicles such as indexed bond mutual funds that must rebalance their portfolios on the last day of the month. Actively managed investment vehicles may not need to rebalance their portfolios on the last day. The analysts also found that the price impact of trades is lowest on the last trading day, suggesting a high degree of liquidity. One exception to the trend is the month of December, when average volume on the last day of the year is 16% lower on average due to staff being on leave for the holidays.

Trading Volume Is Higher on the Last Day of the Month



Source: Authors' calculations, based on data from BrokerTec.
Notes: The chart shows the average percent deviation of trading volume on each day of the month as compared to the average for the same day of the week for the two weeks preceding and following that day. Days of the month are plotted relative to the last day of the month, with 0 being the last trading day and 1 being the first trading day. Volume is for the most recently auctioned two-, three-, five-, seven-, ten-, twenty-, and thirty-year nominal securities and the sample period is January 1, 2020, to July 31, 2024.

End-of-Month Effects Have Been Growing over Time



Source: Authors' calculations, based on data from BrokerTec.
Notes: The chart shows the average percent deviation of trading volume on each day of the month as compared to the average for the same day of the week for the two weeks preceding and following that day for the indicated time periods and benchmark Treasury notes. The sample period is January 1, 2005, to July 31, 2024.

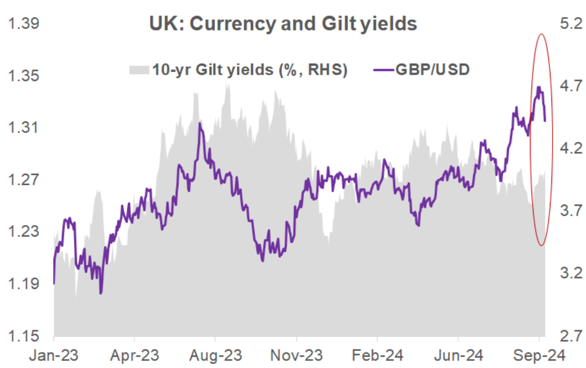
Source: Henry Dyer, Michael Fleming, and Or Shachar, "End-of-Month Liquidity in the Treasury Market," Federal Reserve Bank of New York *Liberty Street Economics*, September 24, 2024, https://libertystreeteconomics.newyorkfed.org/2024/09/end-of-month-liquidity-in-the-treasury-market/.

Euro Area

European equities were lower as escalating tensions in the Middle East continue to weigh on risk sentiment. The Stoxx 600 index was lower (-0.6%) this morning, extending losses to around 2% since last Friday, with all sectors trading in the red. On the data front, the September final composite PMI reading for the eurozone printed at to 49.6 (vs flash reading 48.9). The September final services PMI index for the eurozone printed at 51.4 (vs flash reading of 50.5). There was little immediate reaction to the data release. The euro was a touch weaker against the dollar in early morning trade at around 1.1036 while European sovereign bond yields were higher across all tenors with the 10Y bund yield up 5 bps to trade at 2.14%. The 10Y French OAT spread over equivalent tenor bunds was steady at around 79 bps.

United Kingdom

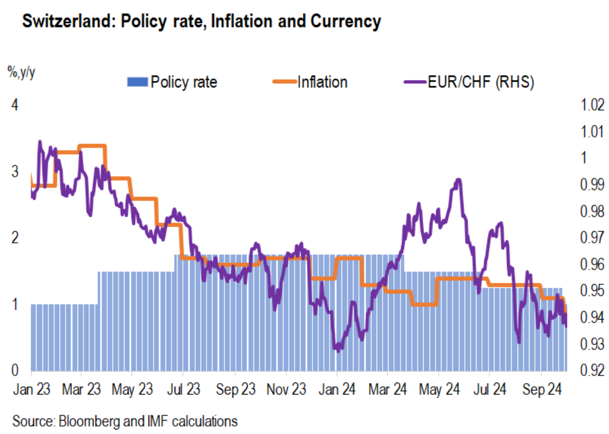
Sterling weakened on prospects of more aggressive easing. In early morning trade, sterling fell as much as 1.2% to $1.3115, registering its third straight day of declines as markets moved to fully price in a 25 bps rate cut at the BoE's November meeting, with a 64% probability assigned to a consecutive rate cut in December, up from 47% on Wednesday. Market participants attributed the moves in the currency this morning to remarks from Governor Bailey who said in an interview that the Bank could become a "bit more aggressive" in cutting interest rates if news on inflation continued to be good. The comments from Governor Bailey were seen as a shift given recent communications had continued to emphasize a gradual approach to easing. Meanwhile, on the data front, the final September services PMI reading printed at 52.4, slightly lower than the earlier flash estimate of 52.8 and down from 53.7 in August. Gilt yields were lower across all tenors in early morning trading and UK equities were lower, in line with most global averages as rising tensions in the Middle East weigh on risk sentiment.



Source: Bloomberg and IMF calculations

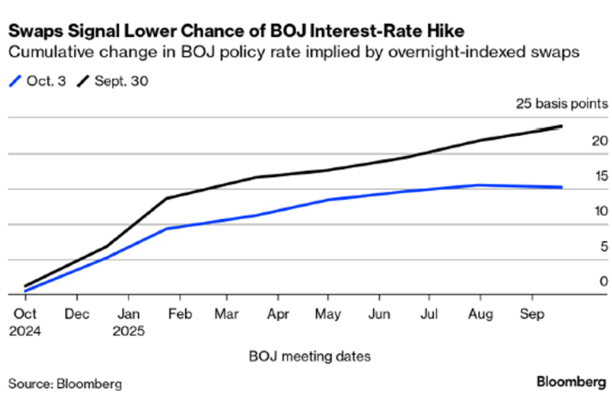
Switzerland

September headline inflation slowed to a three-year low, prompting expectations of further easing. Swiss headline inflation in September printed at 0.8% y/y, below expectations of 1% y/y, and below the mid-point of the Swiss National Bank's (SNB) 0–2% target. Last week, the SNB delivered its third 25bps rate cut, taking the policy rate to 1%, with the accompanying statement suggesting further rate cuts may be necessary to "support price stability over the medium-term." Analysts at UBS expect the SNB to cut rates by 25bps at each of the next two meetings (December and March), taking the terminal rate to 0.5%. In addition, they think the SNB may intervene more in foreign currency markets as the policy rate moves closer to zero. This morning, the Swiss franc was trading broadly unchanged against the euro at 0.94/€ although the currency is around 1% weaker against the euro year-to-date.



Japan

The yen extended its depreciation for a second day amid diminished expectations for a near-term BOJ rate hike. In a speech today, Asahi Noguchi, a member of the BOJ's policy board suggested that it might be premature for the central bank to tighten policy in the near term. Noguchi's comments were in line with the cautious stance struck yesterday by BOJ Governor Ueda and new Prime Minister Ishiba who both hinted that there was little urgency to raise rates in the coming months. Market participants surveyed by Bloomberg expect the BOJ to hold policy steady at its meeting on October 31st. Meanwhile, interest rate swaps suggest just a 22% probability of a December rate hike, down from 26% a week earlier. The yen fell as much as 1.4% during Asian session against the US dollar following a 2.9% depreciation overnight, its sharpest decline in more than two years. RBC Capital Markets and Mizuho expect the yen to weaking further, which could spur a renewal of yen carry trades. At the close of the Asian session, the yen pared most of its intraday losses to end modestly weaker against the US dollar.



Emerging Markets

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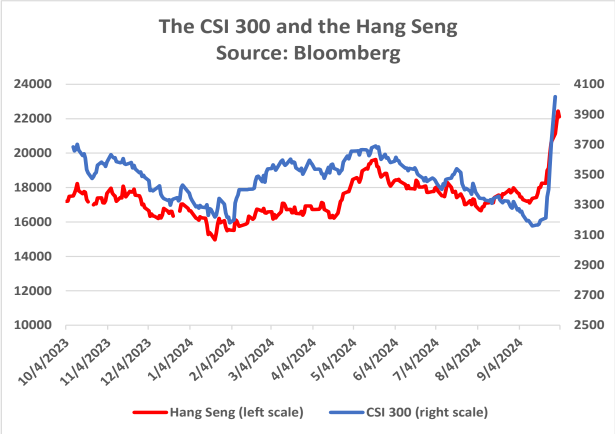
EMEA markets were mixed on the uncertain outlook. The forint stands out in the region due to its 4.5% depreciation so far this year. **Asian equities and currencies were mostly lower amidst a pause in China's market rally and diminished expectations for more aggressive Fed rate cuts.** The Indonesian rupiah (-1.0%), the Malaysian ringgit (-0.9%) and Thai baht (-0.8%) led declines following the release of higher-than-expected private payrolls and job openings in the US earlier in the week. **Stocks in Latin America were mostly lower while currencies finished mixed.** Equities in Brazil (+0.8%) bucked the trend, while the rest of the region experienced losses in a range of -0.4–0.9%.

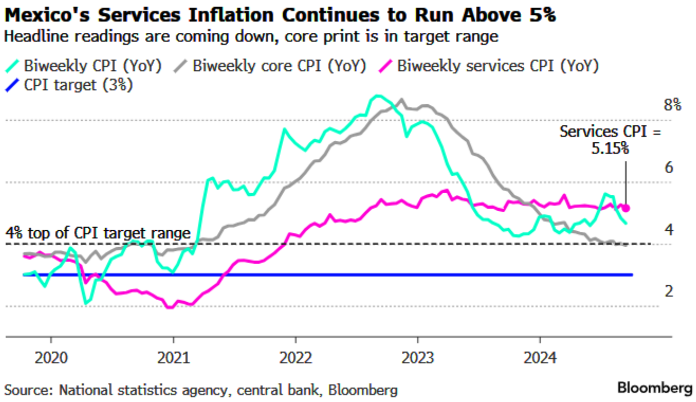
China

The historic 13-day rally in Chinese stocks paused as investors took profits. The Hang Seng Index in Hong Kong SAR fell as much as 4.9% before trimming its loss to 1.5%, as traders took profits following gains of more than 30% from the September low. Chinese developers led the declines following a record surge in share prices yesterday while investors reassessed the sector's outlook. An index of Chinese property firms constructed by Bloomberg Intelligence fell 9% on the day after having gained 47% over the past five trading sessions. Shimao Group and Sunac China, which both had seen gains of more than 200% yesterday, led declines in the sector. Mainland China markets remain closed for the Golden Week holiday.



Mexico

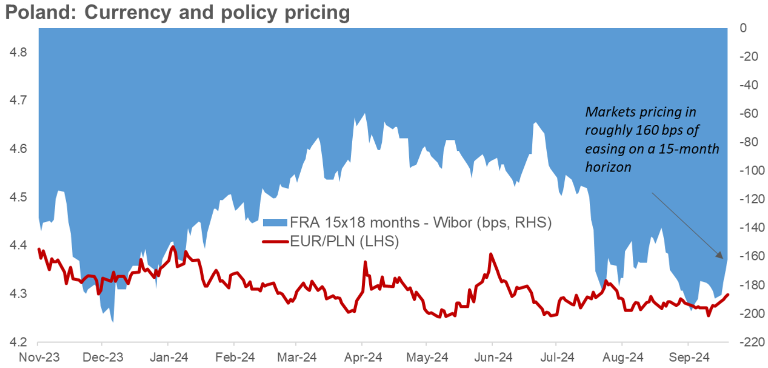
The Banxico Deputy Governor insisted on maintaining restrictive policy to slow inflation. Deputy Governor Heath emphasized the importance of slowing sticky services inflation in the battle to bring core CPI back down to the 3% target. The latest print demonstrated that core inflation continued to slow, dropping to 3.95% y/y, while services inflation remains higher at 5.15% y/y. Bloomberg analysts reported that Heath was the only Banxico member in favor of staying on hold at the September meeting, in which the bank cut by 25 bps to 10.5%. Heath's message comes days after Governor Rodriguez also supported a tighter monetary policy stance, although mentioning possible reassessment to the size of cuts. The peso is up (+1.43%) this week, greatly outperforming the region.



Poland

The Polish zloty was little changed after the National Bank of Poland (NBP) kept its policy rates unchanged at 5.75%, as expected, with analysts expecting rate cuts in March 2025. This is the 11th consecutive meeting that rates were left unchanged. Against the backdrop of faster and deeper rate cuts from global central banks, HSBC now expect the NBP to begin cutting rates in March of next year, versus May previously, but expect a total of 150bps of easing in 2025 (100bp previously), taking the policy rate to 4.25%. The FRA market is pricing roughly 160bps of easing in 15 months. Analysts are now focused on the Governor's press conference later today. This morning the Polish zloty was marginally weaker against the euro to trade at 4.30/€, roughly -0.4% weaker than at the start of September but still 1.1% stronger YTD, while 10y Polish government bond yields were 4bps lower at 5.35%. Elsewhere, **Bloomberg reports that Poland is planning to sell between PLN40–60bn of bonds across regular auctions in the fourth quarter**, starting with issuance of between PLN 5–10bn of bonds at auction on October 9. According to Bloomberg, Poland had financed around 93% of its 2024 gross borrowing requirements by the end of September**.**

Poland: Currency and policy pricing



Source: Bloomberg and IMF calculations

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Global Financial Indicators

10/3/24 7:34 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5710	0.0	0	3	35	20
Europe		4941	-0.4	-2	1	21	9
Japan		38552	2.0	-1	4	26	15
China		4018	8.5	25	21	9	17
Asia Ex Japan		81	2.3	6	14	30	22
Emerging Markets		47	2.0	5	11	26	17
Interest Rates			basis points				
US 10y Yield		3.80	2.3	1	-3	-99	-8
Germany 10y Yield		2.14	5.2	-4	-13	-82	12
Japan 10y Yield		0.83	0.7	0	-9	7	22
UK 10y Yield		4.01	-1.1	0	2	-58	48
Credit Spreads			basis points				
US Investment Grade		127	-1.8	-3	-6	-25	-7
US High Yield		355	-3.1	-9	-9	-82	-30
Exchange Rates			%				
USD/Majors		101.91	0.2	1	0	-5	1
EUR/USD		1.10	0.0	-1	0	6	0
USD/JPY		146.8	0.2	1	1	-2	4
EM/USD		45.9	-0.2	-1	0	-1	-5
Commodities			%				
Brent Crude Oil ($/barrel)		75.5	2.2	6	3	-8	1
Industrials Metals (index)		156	-0.9	1	10	12	10
Agriculture (index)		58	-0.4	1	6	-9	-7
Implied Volatility			%				
VIX Index (%, change in pp)		19.9	1.0	4.5	-0.9	0.1	7.4
Global FX Volatility		8.8	0.0	0.4	0.2	0.3	0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		99	-0.3	5	-6	-52	-4
Italy		133	0.5	3	-13	-64	-34
Portugal		57	-0.7	0	-5	-18	-7
Spain		79	-0.4	1	-4	-31	-18

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

Emerging Market Financial Indicators

Last updated: 10/3/2024 7:35 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		7.02	-0.1	0.5	1.4	4	1		2.0	0.0	13	8	-72	-53
Indonesia		15429	-1.0	-1.7	1	1	0		6.5	3.2	7	-13	-49	6
India		84	-0.2	-0.4	0	-1	-1		7.0	4.9	8	-9	(81.6)	-22
Philippines		56	-0.3	-0.7	0	1	-2		4.8	-0.1	-4	-24	-101	-84
Thailand		33	-0.8	-2.3	3	12	3		2.5	2.8	7	4	-92	-24
Malaysia		4.22	-1.1	-1.8	3	12	9		3.7	-0.7	-1	-5	-30	-2
Argentina		970	-0.1	-0.2	-2	-64	-17		40.5	30.8	-91	-41	-7774	-4589
Brazil		5.44	0.0	0.6	3	-7	-11		12.2	-6.1	8	13	26	181
Chile		917	-0.6	-1.7	1	0	-4		4.7	0.5	-4	-24	-116	-21
Colombia		4184	0.9	0.4	-1	-1	-7		7.6	0.0	4	-25	-190	0
Mexico		19.47	-0.3	0.8	2	-7	-13		8.7	2.0	8	-34	-89	28
Peru		3.7	0.2	1.0	1	2	0		6.2	1.9	-6	-32	-121	-44
Uruguay		42	0.0	0.7	-3	-7	-7		9.5	-19.4	-41	-5	-4	-1
Hungary		364	-0.4	-2.5	-2	2	-5		6.1	11.0	28	10	-137	31
Poland		3.90	-0.3	-1.9	-1	13	1		4.6	8.8	14	0	-35	17
Romania		4.5	0.0	-1.2	0	5	0		6.5	1.9	-5	-3	-31	26
Russia		95.2	0.5	-2.7	-9	5	-6							
South Africa		17.5	-0.8	-1.8	3	11	5		8.6	2.0	17	-8	-151	-51
Türkiye		34.18	0.1	-0.1	-1	-19	-14		29.3	28.0	68	82	285	256
US (DXY; 5y UST)		102	0.2	1.3	0	-5	1		3.58	2.3	1	-6	-122	-27

	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		4018	0.0	25	21	9	17		124	0	0	-45	-34
Indonesia		7544	-0.3	-3	-2	10	4		96	-3	-4	-27	0
India		82497	-2.1	-3	0	26	14		104	-3	-9	-33	-12
Philippines		7389	-0.2	-1	7	17	15		83	1	-4	-16	3
Thailand		1443	-0.6	-1	6	-1	2		0	0	0	0	0
Malaysia		1642	0.1	-2	-2	16	13		77	-5	-7	-19	-8
Argentina		1715159	-0.8	-2	-1	205	84		1283	-20	-155	-1315	-630
Brazil		133515	0.8	1	-1	18	0		210	-12	-11	-11	-5
Chile		6392	-0.9	-2	0	12	3		111	-7	-6	-15	-14
Colombia		1301	-0.4	-2	-3	18	9		311	-4	-1	-29	40
Mexico		52200	-0.5	-3	1	4	-9		300	-12	-20	-72	-34
Peru		30157	0.1	2	7	36	16		131	-5	-6	-24	-13
Hungary		72714	-0.5	-3	0	30	20		153	1	5	-55	4
Poland		82035	-1.0	-3	-3	29	5		106	-4	5	-18	9
Romania		17478	0.2	-1	-3	22	14		195	1	-2	-15	-6
South Africa		86469	-0.7	-1	5	22	12		276	2	-16	-119	-32
Türkiye		9101	1.0	-7	-9	7	22		286	5	-13	-106	-28
EM total		47	-0.9	5	11	26	17		393	-3	-8	-7	47

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

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