GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 30, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Mixed US economic data push Treasury yields higher** (link)
- **China expected to launch major new spending package** (link)
- **Markets scale back ECB rate cut expectations as euro area GDP beats forecasts** (link)
- **Markets reduce Fed rate cut expectations as US data improve** (link)
- **Strong data dominate election expectations in driving US Treasury yields higher** (link)
- **Fiscal concerns push rates higher in Colombia** (link)

Mature Markets | Emerging Markets | Market Tables

Markets in retreat ahead of key risk events

Global markets presented a sea of red as stocks sold off in most countries. Caution prevails ahead of key economic reports around the world, the Bank of Japan meeting, the budget announcement from the new UK government and the all-important US election. Europe is down across the board and Asia also lost ground overnight, although Japan extended its post-election rally. US equity index futures were flat as investors prepared for a slew of major data releases. US Treasuries gave up early gains after a much stronger than expected ADP jobs report. The benchmark 10-year yield is up over 60 bps over the past six weeks on expectations that the next US administration will increase budget deficits regardless of the outcome of the election. Market participants are also focused on China, where press reports indicate that a major new fiscal package may be announced next week. China's economic challenges are heightened by fears that a potential second Trump administration could impose much higher tariffs on the country. Meanwhile, UBS, Standard Chartered and Google reported better than expected earnings.

Key Global Financial Indicators

Last updated: 10/30/24 7:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5833	0.2	0	1	40	22
Eurostoxx 50		4891	-1.2	-1	-2	21	8
Nikkei 225		39277	1.0	3	4	27	17
MSCI EM		45	-0.3	-1	-1	22	12
Yields and Spreads					bps		
US 10y Yield		4.23	-2.4	-2	45	-66	35
Germany 10y Yield		2.33	-1.2	2	20	-50	30
EMBIG Sovereign Spread		339	2	-3	-28	-108	-45
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.8	0.0	-1	-3	-4	-7
Dollar index, (+) = $ appreciation		104.2	-0.1	0	3	-2	3
Brent Crude Oil ($/barrel)		72.0	1.2	-4	0	-18	-7
VIX Index (%, change in pp)		19.6	0.3	0	3	0	7

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

Mature Markets

back to top

United States

The latest US economic data were mixed, with a very strong ADP jobs report and a marked reduction in the latest estimate for Q3 GDP, down to 2.8% from last month's estimate of 3%. Inflation data were also mixed. Treasury yields were higher in the immediate aftermath of the data release, and the dollar appreciated.

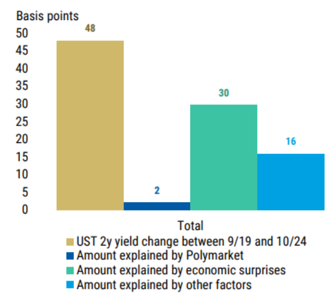
Selected US Economic Data

Source: Bloomberg

Variable	Consensus Forecast	Actual Data
ADP Employment	110K jobs gained	233K
Q3 GDP Annualized qoq	2.9%	2.8%
Q3 GDP Price Index	1.9%	1.8%
Q3 Core GDP Price Index qoq	2%	2.2%

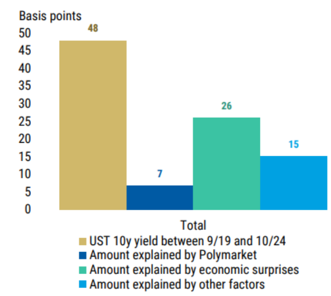
The recent surge in US Treasury yields was driven by positive upside data surprises rather than speculation about the election, according to analysis by Morgan Stanley. Since the odds favoring the Democratic Presidential candidate peaked around September 15, the 10-year Treasury yield has surged by over 60 bps and the two-year yield has shot up by over 50 bps. The five-year Treasury Inflation Protected Security (TIPS) real yield is up by over 35 bps over the same period and the 10-year TIPS yield is up by 45 bps. Many market participants thought that large these moves were driven by rising expectations of a Republican victory in the Presidential election, on the assumption that this outcome would lead to high tariffs and other fiscally expansive policies, a rise in inflation and a more hawkish Fed. However, the analysis found that positive data surprises played a much greater role. The last six weeks have much better than expected reports on jobs growth, the consumer sector, and the business environment. The widely followed Citi Economic Surprise Index turned positive for the first time since May, in contrast to the indexes for China, the euro area, and Japan, which are all still stuck in negative territory.

Exhibit 10: Decomposition of the 2y US Treasury yields change over past month



Source: Morgan Stanley Research, Federal Reserve, Bloomberg

Exhibit 11: Decomposition of the 10y US Treasury yield changes over past month

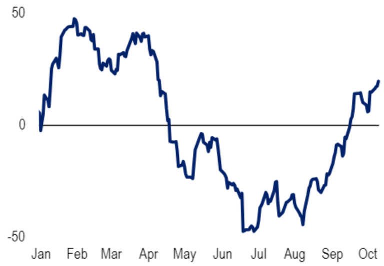


Source: Morgan Stanley Research, Federal Reserve, Bloomberg

Stronger than expected US economic data reports are forcing markets to reduce their expectations for Fed rate cuts. The widely followed Citi Economic Surprise Index for the US has turned positive for the first time since May, in contrast to the indexes for the euro area and China which are still stuck in negative territory. Based on pricing for options on Fed Funds futures, markets expected the policy rate in June to be 3.71% as of last Friday, compared to 3.05% a month earlier (although yesterday's pricing indicated a slightly higher June rate of 3.80%). The market forecast for the Fed's terminal policy rate (predicted to be reached by January 2027) has risen from 3% a month ago (in line with the Fed's September dot plot) to 3.5% as of yesterday. Rising Treasury yields have also played a role in these changing expectations, as have stronger than expected US corporate earnings.

Exhibit 11: Citi economic surprise index

Citi surprise index showing increased economic resiliency



Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 12: Rate cut expectations as of 10/25

Markets are paring the number of rate cuts being priced in

	As of October 25		As of September 25	
Meeting	Cumulative 25bp cuts	Implied Rate	Cumulative 25bp cuts	Implied Rate
Nov	0.9	4.59%	-1.6	4.42%
Dec	1.8	4.39%	-3.1	4.05%
Jan	2.4	4.22%	-4.4	3.72%
Mar	3.3	4.01%	-5.7	3.41%
May	3.9	3.86%	-6.5	3.21%
June	4.5	3.71%	-7.1	3.05%

Source: BofA Global Research, Bloomberg WIRP

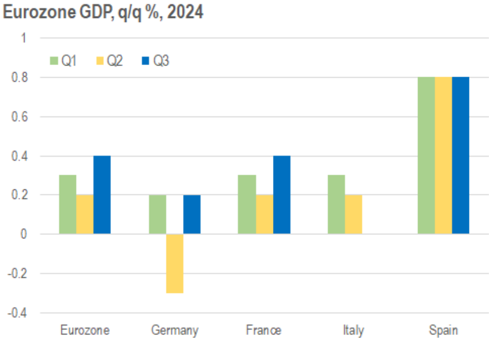
BofA GLOBAL RESEARCH

Euro Area

European equities were lower while the euro was marginally stronger against the dollar this morning. The Stoxx 600 index fell (-0.8%) with all sectors trading in the red. The euro was marginally stronger (+0.1%) against the dollar this morning, trading at around $1.08/€. **European government bond yields followed Treasury yields lower this morning with the 10y bund yield (-3bps) trading at around 2.31%.**

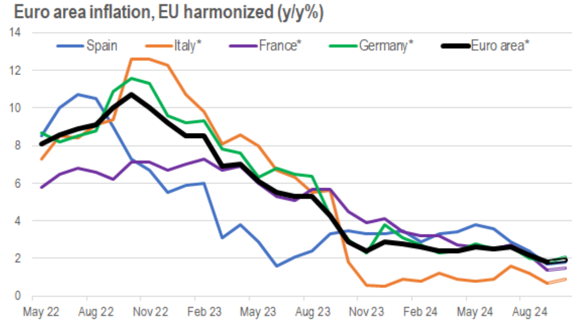
Markets scaled back ECB rate cut bets slightly after euro area preliminary Q3 GDP surprised on the upside with Germany avoiding a recession. Preliminary data released this morning showed the euro area's GDP expanding by +0.4% q/q in Q3 (versus expectations to remain unchanged at +0.2%). Separate data releases showed upside surprises for preliminary Q3 GDP in Germany (+0.2% SA q/q versus an expected decline of 0.1%, Spain (+0.8% q/q versus an expected +0.6%) and France (+0.4% q/q versus an expected +0.3%), although Italy's preliminary Q3 GDP disappointed (0.0% q/q versus an expected +0.2%). Markets have scaled back expectations for ECB easing slightly, with markets now pricing in 134bps of ECB easing by September 2025, compared to 138bps priced in yesterday. **Ahead of the euro area's October preliminary inflation data due tomorrow, Spain's inflation data increased in line with expectations.** Elsewhere on the data front, Germany's adjusted unemployment rate was unchanged in October at 6.1%, as expected.

Eurozone GDP, q/q %, 2024



Source: Bloomberg and IMF calculations. Note: Q3 data are preliminary

Euro area inflation, EU harmonized (y/y%)



* Data for October 2024 show median Bloomberg forecast

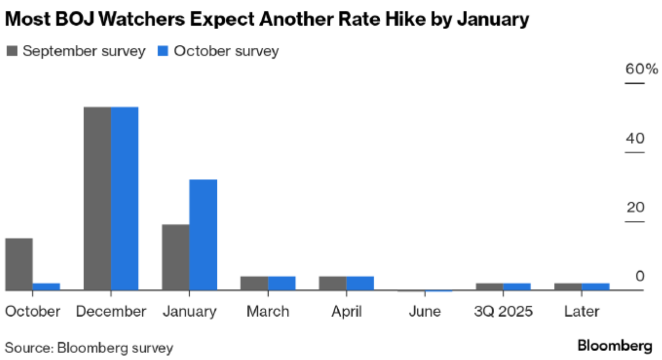
Source: Bloomberg and IMF calculations

United Kingdom

Gilt yields fell, equities were marginally lower and Sterling slightly weaker against the dollar ahead of the UK budget later today. This morning, 10-year gilt yields eased (-8bps to 4.23%) but are still roughly 22bps higher than at the start of the month. Bloomberg analysts attribute much of the recent rise in gilt yields to higher US yields ahead of next week's US election. The pound weakened against the dollar this morning (-0.3% to 1.2975). ING analysts expect that an increase in the gilt supply above the expected £300bn for the 2024/25 financial year would likely weigh on both the sterling and the gilt market.

Japan

The Bank of Japan (BoJ) is anticipated to keep its benchmark interest rate unchanged at 0.25% tomorrow, ahead of the US presidential election and a special Diet session on PM selection scheduled for 11 November. While most analysts expect a hike by January according to a Bloomberg survey, traders are keen to see if BoJ Governor Ueda will shed any further light on future policy. JP Morgan analysts anticipate efforts for minimum wage increases and fiscal expansion to intensify under the projected new governmenty, which could indirectly support BoJ normalization, as the election results also partly reflect the public's dissatisfaction with prolonged inflation and currency depreciation. Nomura analysts note that markets have mostly digested Japan's Lower House election outcome, with the yen stabilizing around 153/US$. Amid ongoing political uncertainties, they believe the equity rally in the past few days is likely due to continued short covering of positions accumulated before the election. Today, the Nikkei 225 advanced (+1.0%), and the yen appreciated (+0.2%). The Nikkei has gained 3.5% since the election on Sunday.



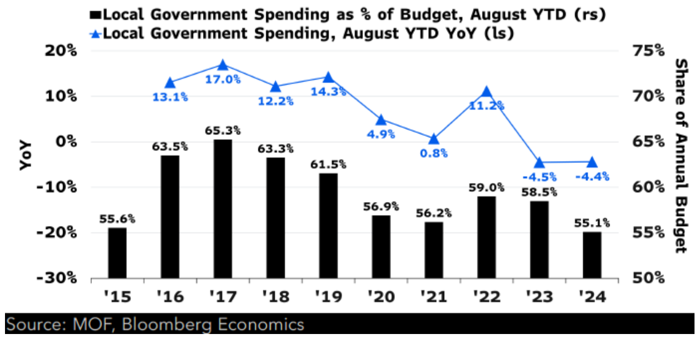
Emerging Markets

back to top

EMEA equities and currencies traded mostly lower this morning. Poland (-0.6%) and Czechia (-0.4%) did worst. **Most Asian currencies gained (EM Asia: +0.2%) as lower US Treasury yields led to a weaker US dollar.** The appreciation was led by the Korean won (+0.6%) and Indonesian rupiah (+0.4%). Asian equities were mostly down (EM Asia: -0.7%) amid growing caution ahead of the US election and several key US data releases. **Currencies in Latin American broadly underperformed against the US dollar yesterday, led by the Colombian peso (-1.2%) and the Brazilian real (-0.9%).** Yields rallied in Colombian and Mexican bond markets.

China

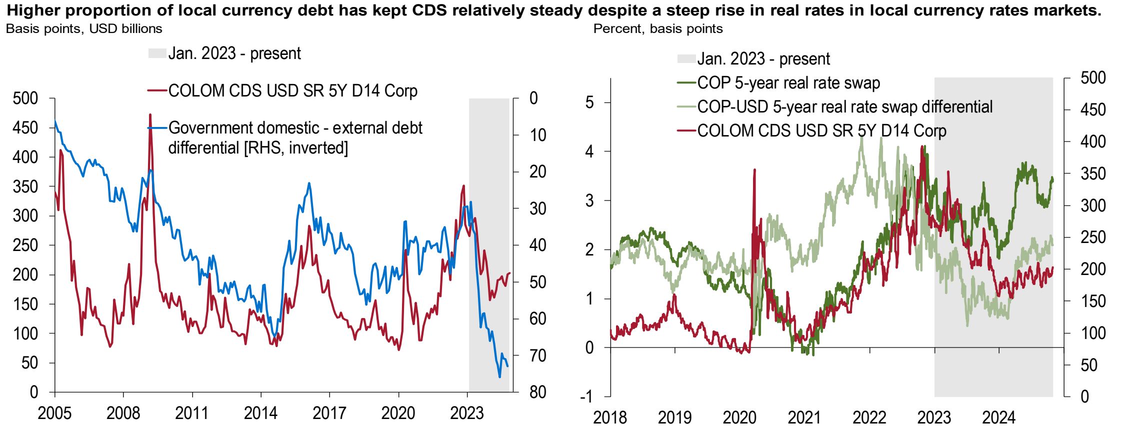
China's fiscal stimulus details are in focus ahead of a top legislative meeting. Reuters reported that China is contemplating a significant fiscal package, potentially approving over RMB10 tn (US$1.4 trn) in additional debt, with a decision expected at the meeting of the Standing Committee of the National People's Congress (NPC) next week. The reported plan, equating to over 8% of China's GDP, includes RMB6 trn of issuance via special sovereign bonds over three years, primarily to address local government debt risks and up to RMB4 tn worth of special-purpose bonds issuance for idle land and property purchases over the next five years. The package is expected to be further bolstered if Trump wins the US election. Bloomberg analysts noted worries that the package is too small, given the estimated impaired liabilities for local government funding vehicles ranging from RMB50 trn to RMB60 tn. JP Morgan analysts think any increases to the package will only occur after the next Politburo meeting and the December Central Economic Work Conference. Today, Chinese equities declined (CSI 300: -0.9%); RMB appreciated (+0.2%).



Colombia

Increased local currency debt issuance has kept CDS steady despite fiscal concerns in Colombia. After markets closed for the day, the Colombian senate passed legislation that would pave the way for the central government to increase fiscal transfers to regional government. The bill has been a cause for concern for investors as tax collection has come in below expectations this year. Bloomberg has reported that the bill will need two additional votes in the lower house to become law. Government bond yields have risen notably over the last month (+90bps). Despite higher domestic yields, the Colombian peso has underperformed significantly (-12.2% YTD) after strong gains against the US dollar in 2023 (+25.9%). Factors such as lower oil prices, reduced carry returns, and broad dollar strength, along with fiscal concerns, have pressured the peso. While Colombian assets have underperformed, CDS volatility remains subdued, likely due to rangebound trading in comparable emerging markets' CDS, increased domestic issuance, and a recent surge in long-dated US bond yields over the last month. CDS spreads on Colombian debt have remained the widest in the region since 2022.

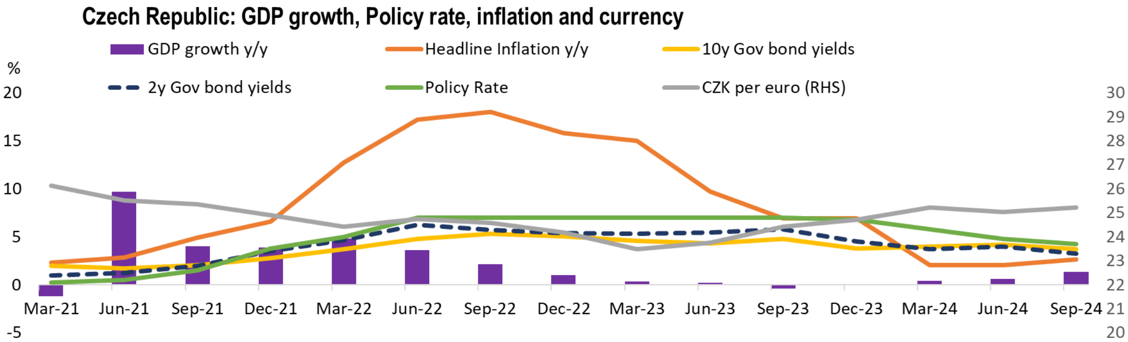
Higher proportion of local currency debt has kept CDS relatively steady despite a steep rise in real rates in local currency rates markets.



Source: Bloomberg, Haver Analytics, IMF Staff Analysis

Czech Republic

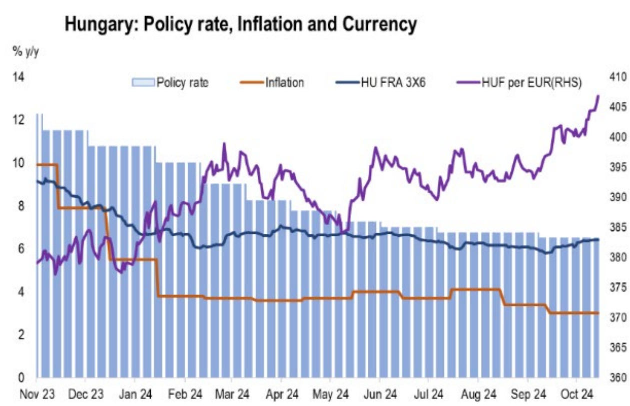
Government bond yields fell (2-year yields -13bps to 3.36%) after today's data showed Czechia's economy growing less than expected in Q3 due to persistently weak exports (notably to the Eurozone). GDP grew by 1.3% y/y (vs. est.1.4%). Czechia's economy has lagged European peers in the recovery from the pandemic, and as inflation has fallen to the target range of 1–3% (printing last at 2.6%y/y in September) the central has cut its policy rate by -275 bps in 2024 down to 4.25%, with markets pricing in another 28bps of easing by the end of 2024 according to Crédit Agricole.



Sources: Bloomberg and IMF calculations

Hungary

The forint continued to weaken (-0.6%) **against the euro,** trading at HUF 407.76/€, **and government bond yields edged lower** (10y yields -17bps at 6.78%) after **today's data showed Hungary's economy unexpectedly entering a recession in Q3** due to weak domestic demand on the back of a downturn in industrial production. GDP fell sequentially by -0.7% q/q (vs est. 0.1% q/q) in Q3 and dropped by -0.8% y/y from 1.5%y/y in Q2. Analysts at Goldman Sachs see today's release as a meaningful downside surprise but continue to expect the central bank to keep its policy rate unchanged at 6.5% in the short term amidst the continued weakness of the forint, which has depreciated by 6.1% YTD against the euro.



Source: Bloomberg and IMF calculations

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

10/30/24 8:00 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,833	0.2	-0.3	1.2	40.0	22
Europe		4,891	-1.2	-0.6	-2.2	21.4	8
Japan		39,277	1.0	3.1	3.6	27.3	17
China		3,889	-0.9	-2.1	-3.2	8.9	13
Asia Ex Japan		77	-0.3	-0.8	-1.6	24.4	16
Emerging Markets		45	-0.3	-0.7	-1.5	22.4	12
Interest Rates					basis points		
US 10y Yield		4.2	-2	-2	45	-66	35
Germany 10y Yield		2.3	-1	2	20	-50	30
Japan 10y Yield		1.0	-2	-2	10	7	35
UK 10y Yield		4.2	-9	3	23	-33	69
Credit Spreads					basis points		
US Investment Grade		124	1	2	-5	-38	-9
US High Yield		337	7	-1	-22	-140	-48
Exchange Rates					%		
USD/Majors		104.2	-0.1	-0.2	3.4	-1.8	3
EUR/USD		1.1	0.1	0.4	-2.8	2.0	-2
USD/JPY		153.0	-0.2	0.2	6.5	2.6	8
EM/USD		44.8	0.0	-0.5	-3.1	-4.4	-7
Commodities					%		
Brent Crude Oil ($/barrel)		72.0	1.2	-4.0	0.4	-11.1	-4
Industrials Metals (index)		149.1	-0.2	-0.9	-3.1	7.2	5
Agriculture (index)		55.2	-0.2	-2.0	-5.4	-14.3	-12
Implied Volatility					%		
VIX Index (%, change in pp)		19.6	0.3	0.4	2.9	-0.1	7.2
Global FX Volatility		9.4	0.0	0.2	0.8	1.5	1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		94	5	7	-5	-38	-9
Italy		127	4	5	-6	-65	-41
Portugal		43	2	-2	-15	-28	-21
Spain		72	2	2	-8	-35	-25

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

Emerging Market Financial Indicators

Last updated: 10/30/2024 8:02 AM	Exchange Rates: Level Last 12m	Level Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Level Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.12	0.1	0.1	-1.5	2.6	-0.3		2.0	-1	-1	1	-72	-53
Indonesia		15705	0.4	-0.5	-3.6	1.2	-1.9		6.8	-2	5	39	-28	36
India		84	0.0	0.0	-0.3	-1.0	-1.0		7.2	-3	4	26	-56	-1
Philippines		58	0.1	-0.5	-3.8	-2.3	-4.9		4.9	0	0	23	-100	-74
Thailand		34	-0.2	0.2	-3.9	6.4	1.5		2.4	-4	-4	1	-91	-29
Malaysia		4.38	0.0	-0.6	-5.8	8.8	4.9		3.9	-4	1	16	-24	14
Argentina		988	0.0	-0.4	-1.9	-64.6	-18.1		35.9	-125	-274	-458	-7150	-5047
Brazil		5.76	0.0	-1.3	-5.4	-12.5	-15.8		12.7	10	5	44	80	232
Chile		958	-0.3	-1.2	-6.2	-5.3	-8.1		5.2	0	10	51	-81	33
Colombia		4394	-1.3	-2.9	-4.3	-7.4	-11.8		8.6	0	3	102	-59	95
Mexico		20.13	-0.3	-1.4	-2.2	-10.3	-15.7		9.5	0	-12	78	-20	102
Peru		3.8	-0.2	-0.5	-1.8	1.8	-1.7		6.8	1	13	54	-90	10
Uruguay		41	-0.1	0.6	0.9	-3.3	-5.8		9.3	5	-39	-61	-64	-27
Hungary		377	-0.6	-0.9	-5.4	-4.3	-7.9		6.8	-8	15	97	-82	98
Poland		4.01	0.0	0.5	-4.1	4.5	-1.9		5.1	-8	-9	61	4	59
Romania		4.6	0.1	0.4	-2.8	1.7	-1.9		6.7	4	9	25	-14	52
Russia		97.1	0.4	-1.1	-4.2	-4.6	-7.8							
South Africa		17.6	0.4	1.1	-1.8	7.2	4.4		8.9	-6	-17	43	-104	-26
Türkiye		34.29	-0.1	0.0	-0.3	-17.6	-13.9		30.5	20	42	206	105	371
US (DXY; 5y UST)		104	0.0	-0.1	3.5	-1.7	2.9		4.07	-2	1	51	-76	22

	Equity Markets: Level Last 12m	Level Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Level Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
								basis points					
China		3,889	-0.9	-2.1	-3.2	8.9	13.4		109	-3	-16	-63	-49
Indonesia		7,570	-0.5	-2.8	0.6	12.1	4.1		91	0	-10	-40	-5
India		79,942	-0.5	-0.2	-5.2	25.2	10.7		88	-5	-17	-48	-28
Philippines		7,280	0.6	-1.2	0.1	21.9	12.9		77	-2	-8	-32	-3
Thailand		1,447	-0.3	-1.6	-0.1	4.7	2.2		0	0	0	0	0
Malaysia		1,602	-0.8	-2.4	-2.9	11.1	10.1		65	-6	-17	-30	-20
Argentina		1,845,639	-0.3	2.1	8.7	211.9	98.5		937	-167	-378	-1625	-976
Brazil		130,730	-0.4	0.6	-0.8	16.2	-2.6		205	-4	-16	-18	-10
Chile		6,673	-0.9	-0.2	2.8	22.8	7.7		111	0	-7	-35	-14
Colombia		1,339	0.0	1.4	2.4	23.0	12.1		319	7	0	-25	48
Mexico		51,166	-1.3	-2.3	-2.5	3.8	-10.8		294	-6	-14	-79	-40
Peru		31,010	0.1	0.9	3.6	41.8	19.5		135	-2	-1	-27	-9
Hungary		74,094	-0.2	0.3	0.3	31.3	22.2		153	9	-2	-50	4
Poland		80,936	-0.9	-0.2	-2.8	14.0	3.2		109	7	-6	-7	12
Romania		17,494	-0.1	0.3	-0.7	22.5	13.8		200	15	1	-19	-1
South Africa		86,787	-0.6	0.4	0.3	24.2	12.9		283	6	3	-111	-25
Türkiye		9,004	0.6	1.9	-7.9	16.8	20.5		270	-6	-12	-124	-44
EM total		45	-1.1	-0.7	-1.5	22.4	12.4		382	-7	-14	-26	37

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

back to top