Global Markets Monitor

GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

INTERNATIONAL MONETARY FUND

THURSDAY, OCTOBER 31, 2024
LEAD EDITOR: JOHANNES S. KRAMER

- **US Department of Treasury keeps nominal coupon auction sizes unchanged** (link)
- **Yen appreciates as Bank of Japan holds rates with Ueda signaling readiness to hike** (link)
- **Gilt yields continue to increase following the announced UK budget** (link)
- **Uncertainty of sustained election-related volatility is affecting FX markets** (link)
- **Latin American rates sell-off mainly on local factors as Goldman Sachs analysis shows** (link)
- **China's local corporate bond issuance declined with a surge in cancellations** (link)

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Earnings Ghosts Haunt Markets Ahead of Non-Farm Payroll Release

Caution rises as 70% of S&P 500 market cap reports earnings ahead of Friday's non-farm payroll. US stock markets fell yesterday as reports from tech companies took center stage. Semiconductor manufacturer AMD dropped sharply after its earnings report, dragging down other semiconductor stocks. After the market closed, Microsoft and Meta reported upbeat earnings with mixed market reaction. While Microsoft's stock rose in after-hours trading, Meta's fell due to warnings of increased AI-related costs and lower-than-expected user growth. Futures are pointing down ahead of today's market opening, with Apple and Amazon reporting their latest quarterly results. Caution may increase ahead of Friday's important non-farm payrolls given lower-than-expected jobless claims last week and upbeat ADP employment data which appears at odds with continued declines in job openings, prompting some market contacts to suggest that the US labor market is becoming calcified. Abroad, the British pound this morning slightly recovered following the announcement of UK's 2025 budget, which includes the highest tax hike in 30 years and plans for increased borrowing for investment. Particularly the estimated £23bn increase in financing requirements over the next four fiscal years has been met with apprehension among market participants, leading to a rise in Gilt yields. As expected, the Bank of Japan (BoJ) kept interest rates unchanged in its overnight meeting while raising its growth forecast and hinting at the readiness of further rate hikes, which has supported the yen.

Key Global Financial Indicators

Last updated: 10/31/24 9:40 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5814	-0.3	0	1	39	22
Eurostoxx 50		4852	-0.7	-2	-3	19	7
Nikkei 225		39081	-0.5	2	1	24	17
MSCI EM		45	0.0	-1	-2	22	11
Yields and Spreads					bps		
US 10y Yield		4.30	0.4	9	52	-63	43
Germany 10y Yield		2.43	4.5	17	31	-37	41
EMBIG Sovereign Spread		333	-6	-11	-28	-109	-50
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.8	0.1	-1	-3	-5	-7
Dollar index, (+) = $ appreciation		103.9	-0.1	0	3	-3	3
Brent Crude Oil ($/barrel)		73.1	0.8	-2	2	-16	-5
VIX Index (%, change in pp)		21.2	0.9	2	5	3	9

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

Mature Markets

United States

The latest US PCE inflation data validated expectations. Jobless claims were lower than expected and personal spending was higher. The market response was limited, with very little reaction from Treasuries, the dollar or US equity index futures.

US PCE Inflation Data
Source: Bloomberg

Variable	Consensus Forecast	Actual Data
PCE Inflation m/m	0.2%	0.2%
PCE Inflation y/y	2.1%	2.1%
Core PCE Inflation m/m	0.3%	0.3%
Core PCE Inflation y/y	2.6%	2.7%

The latest quarterly announcement (QRA) from the US Treasury under the Biden administration did not significantly impact the markets. The Treasury decided to keep the size of coupon notes and bond issuance the same. This was a relief for some investors who were worried about the market's ability to absorb larger issuance supply. Importantly, the

Exhibit 1: Treasury's TGA and privately held borrowing estimates suggest $71bn and $382bn in net bill issuance for 4Q24, 1Q25 respectively
Projected composition of Treasury borrowing, in $bn

	Total borrowing			Fed net purchases			Privately held borrowing			TGA
	Coupons	Bills	Total	Coupons	Bills	Total	Coupons	Bills	Total	Quarter end
Q4 2024	401	71	472	-75	0	-75	476	71	547	700
Q1 2025	366	382	748	-75	0	-75	441	382	823	850
Q2 2025	500	-226	274	0	0	0	500	-226	274	850
Q3 2025	455	105	560	0	0	0	455	105	560	850

Note: Estimates derived under the assumption of an early resolution to a potential debt limit standoff
Source: Goldman Sachs Global Investment Research

announcement confirmed the January policy to maintain coupon auction sizes, maintaining the phrase of no expected changes for "*at least the next several quarters*." As a result, primary dealers expect no changes until late 2025 or early 2026. However, the Treasury will increase the sizes of TIPS auctions, adding $1bn to the December 5-year TIPS reopening, bringing it to $22bn, and raising the January 10-year new issue by $1bn to $20bn. Although these increases were anticipated, Barclays analysts advise caution due to a drop in demand for TIPS. This decline has coincided with growing interest in strategies that benefit from higher breakeven inflation through nominal bonds while shorting TIPS, which aligned with increased odds of a Republican sweep next week. Therefore, the next QRA in February will continue to attract significant attention as it will clarify the funding plans of the new administration's fiscal policies.

Japan

Japanese stock markets fell for the first time in four days, with both Topix and Nikkei indices dropping (by -0.3% and -0.5%, respectively). Sentiment soured on disappointing earnings from major companies like Hitachi and Kyocera.

The Bank of Japan (BOJ) maintained policy rates on hold, validating expectations. The central bank maintained its benchmark rate at 0.25%, reflecting a cautious stance amid rising political uncertainty following the ruling coalition's poor election results. While the BOJ is not expected to raise rates immediately, it acknowledges potential upside risks to inflation, suggesting a long-term normalization path may remain intact. During the press conference in the afternoon, BOJ's Governor Ueda avoided confirming a timeline for the rate hike while emphasizing the uncertainty in domestic economic conditions and external risks, particularly related to the US economy. Ueda also noted that the BOJ has raised its growth forecast, indicating some confidence in economic resilience. Analysts are now speculating whether the next rate increase will occur in December or January, especially after the BOJ trimmed its core inflation forecast for 2025 to 1.9% from 2.1%. Following the BOJ's decision, the yen appreciated 0.9% against the dollar for the first time in a week, approaching at a level of around ¥153/$, although still facing an accumulated loss of

more than -6% for the month of October. The yen's rebound comes as investors respond to Ueda's reminder that the central bank remains prepared to raise interest rates if the economic outlook improves, in line with his remarks at the IMF/World Bank fall meetings on Wednesday last week.

Most BOJ Watchers Expect Another Rate Hike by January

Source: Bloomberg survey
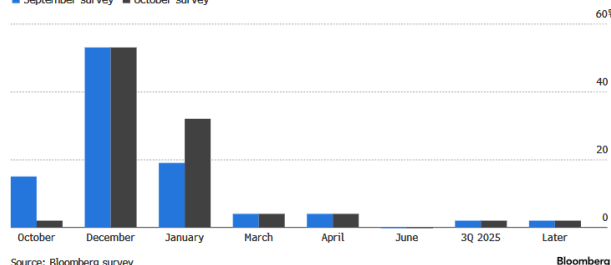

US Economic Strength Drags Dollar-Yen Higher

Source: Bloomberg
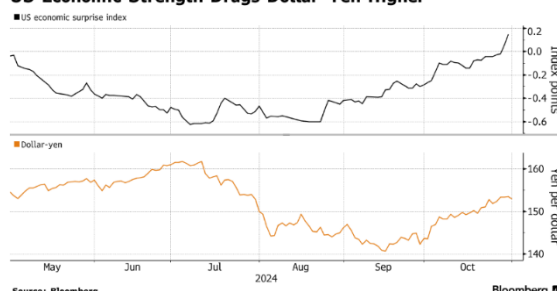
Euro area

This morning, European equities inched lower while the euro and bund yields remained flat. The Stoxx 600 contracted (-0.9%), led by underperformance in the retail sector (-2.9%), while the banking sector trades marginally higher (+0.2%). The euro fractionally appreciated to the dollar (+0.1%), trading at around $1.0870/€, holding on to yesterday's gains amid upbeat growth in Germany and upside surprises in CPI releases across the region. European government bond benchmark yields continued to trade around 2.17% at the 2-year tenor, only slightly higher this morning (+1bps).

Preliminary euro area inflation data surprised to the upside. The euro area's preliminary October headline inflation data rebounded, printing at 2.0%y/y (exp. 1.9% from 1.7%) while core inflation remained at 2.7% (exp. 2.6% from 2.7%). This follows after preliminary data yesterday showed an upside surprise in euro area's Q3 GDP and Germany's October inflation print. Yesterday, European government bond yields closed higher, with 2-year bund yields rising sharply (+12bps) to 2.26% while 10-year bund yields rose less (+5 bps) towards 2.39%. Following the inflation data release, yields held on to modest increases (2y bund yield +1bps at 2.27% and 10y bund yield +1bps at around 2.40%). ECB President Lagarde recently commented in an interview that while inflation is heading towards the ECB's target, the fight is yet to be won. President Lagarde reiterated that the magnitude and sequence of rate cuts would be determined by data. ECB's executive board member Schnabel and governing council member Nagel also spoke in favor of a gradual approach to cutting rates. Markets scaled back ECB rate cut expectations with -30bps of easing priced in by end-2024 (compared to -36bps at the start of the week), and -119bps by September 2025 (compared to -139bps at the start of the week).

Eurozone inflation

Source: Bloomberg and IMF calculations
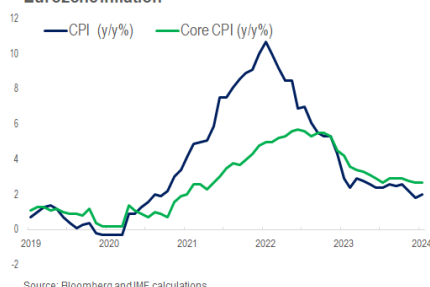
Implied rates (%) for ECB meeting dates

Source: Bloomberg and IMF calculations
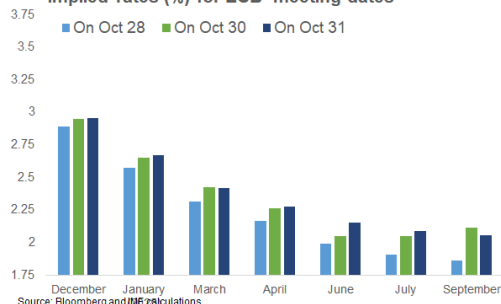
United Kingdom

Gilt yields increase while BoE rate cut expectations retreat following the announced UK budget. The Chancellor of the Exchequer Reeves yesterday announced £40bn in tax increases with the Debt Management Office's (DMO) gilt issuance plans amounting to £297bn, marginally higher than what was expected. While Gilt yields traded on notable concessions in the run up to the budget announcement,

initially Gilt markets saw signs of relief with yields in the 10-year tenor notably declining (-10bps) to 4.2%. However, yields retraced on a complementary announcement of the DMO later in the afternoon that the budget will coincide with an estimated £23bn increase in financing requirements over the next four fiscal years. Contacts also note that markets were surprised by the maturity split of issuance skewed to the longs. Against this backdrop 10-year Gilt yields to rebound (+4bps), closing at 4.35%. The DMO commented that the bond market is "*well placed to absorb higher debt issuance needs*," according to Reuters. This morning, yields continue to increase with 2-year Gilts yields continuing to markedly rise (+8bps) at 4.38%, slightly more than 10-year ones (+6bps) that yield 4.40%. Markets are now pricing in -30bps of easing by end-2024 (compared to -40bps on Monday) and -92bps of easing by September 2025 (compared to -116bps on Monday). The pound was stronger against the dollar this morning (+0.2%) at $1.2987/£, partially retracing yesterday's decline.

Implied rates (%) for BoE meeting dates

Source: Bloomberg and IMF calculations

UK: Gilt Yields

Source: Bloomberg and IMF calculations

Foreign Exchange Markets

Volatility in FX markets has increased alongside the rising odds of a Trump victory in the US Presidential elections. This trend is evident across various advanced economy (left chart) and emerging market currency pairs, where implied volatility tends to rise before and immediately after the elections as Barclays analysts point out. The Mexican peso, Korean won, and Australian dollar tend to experience the largest moves. While volatility has typically faded after election

Figure 1. Options implied EURUSD move for the week of the US elections increased recently

Note: Option implied EURUSD move represents move expected by the market during election week.

Source: Bloomberg, Barclays Research

Figure 2. The MXN, KRW, BRL and AUD exhibit the highest excess moves during the week of US elections, while the CAD, JPY, INR, ILS and CZK show lowest excess moves

Note: The chart shows currencies expected move for the election week (1-8 November) in excess of the option-implied move for a regular week (EURUSD forward 1w implied volatility for the week 18-22 November).

Source: Bloomberg, Barclays Research

week on previous occasions, some analysts warn that this time may be different. The possibility of tariff wars under a Republican administration could lead to sustained volatility even in the weeks after the election. This situation could be particularly challenging for emerging market countries that depend heavily on exports to the US (right chart). Countries like Brazil and Mexico have already seen significant currency depreciation pressure amid high domestic inflation, forcing their central banks to adopt a more hawkish stance.

Emerging Markets   **back to top**

EMEA equities and currencies lacked clear trend this morning. Stock markets in Central Eastern Europe edged higher, while in Poland, October data that validated expectations of sticky inflation at 5% y/y (exp. 5.0% from 4.9%) weighed on the stock market. CEE currencies were little changed against the euro, while the Hungarian forint continued to weaken (-0.2%), trading at HUF408.58/€. In Türkiye, the lira remained flat against the dollar at 34.25/$ while the stock market slid (-0.6%).

Asian currencies lacked trend while equity markets declined. EM Asia stock markets declined (-0.4%), led by a correction of Korean equity markets (-1.5%) on declining chip production data that fueled concerns of the AI boom cycle potentially loosing steam. Dollar bond spreads for Asia's top-rated issuers narrowed

to a record low of 75 bps yesterday as China's stimulus measures boost the appeal of the region's debt, according to Bloomberg reports.

Yesterday, Latin American currencies continued their underperformance throughout the week. The Chilean peso was the leading underperformer on the day (-0.8%) followed by the Colombian peso (-0.7%). The Brazilian real was also under pressure, approaching 5.7924/$—a level last seen in 2021—while ending the day flat. Conversely, Brazilian yields rallied on the day as Bloomberg reported that the government is making progress on its plan to cut spending. Finance minister Haddad stated that "*the dynamics of mandatory spending have to fit within the fiscal framework.*" Major equity markets in the region underperformed.

Latin America Rates

Goldman Sachs analysts attribute the sell-off in Latin American rates markets mainly to local factors rather than a pass-through from US rates. Since the Fed's large cut in September, US 10-year swap rates have notably risen by 55bps to 3.73%, driven by better-than-expected economic data and increased odds of a Republican sweep in the US election in five days. Meanwhile, 10-year swap rates in Emerging Markets have risen by an average of 40bps, with Latin American markets feeling the most impact. According to Goldman Sachs analysis, less than half of the rate increases in the region can be explained by recent developments in US rates, global equities, and commodity prices. Additionally, fiscal and political uncertainty in the region has remained high since the start of the year, which has increased borrowing costs. While Goldman Sachs analysts highlight the challenge of separating the effect of the US elections on emerging market rates, yields have risen enough to "*introduce two-sided risks*" as we approach next week.

Exhibit 8 : COP, HUF and MXN Local Rates Have Underperformed, Local Rates in Asia More Resilient
Change in 5Y IRS since Oct 4th that is explained by US rates, global equities and commodities, versus residual/unexplained component
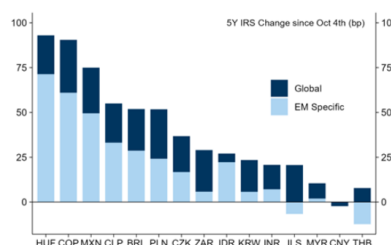
Source: Goldman Sachs Global Investment Research, Bloomberg

China

Today's manufacturing PMI data for October hints at green shoots of recovering real activity. While the non-manufacturing PMI release for October came in slightly below expectations, printing at 50.2 (exp. 50.3 from 50.0), the manufacturing release approaches expansion for the first time in six month, printing at 50.1 (exp. 49.9 from 49.8). While the CSI 300 ended flat, and the RMB appreciated by 0.1%.

Corporate bond issuance declined with a surge in cancellations amid rising borrowing costs. Data compiled by Bloomberg show that Chinese firms issued RMB2.51 trn ($352 bn) of domestic corporate bonds in September and October, reflecting a -8.4% y/y decline and the lowest issuance volume for the same period since 2021. This drop highlights rising borrowing costs (chart below) along with redemptions from bond funds, a growing risk appetite for stocks, and a large supply of local government bonds, creating a challenging environment for corporate bond issuers in the primary market. Reflecting these headwinds, 83 corporate bond issuances have been pulled month-to-date, totaling RMB43.1 bn ($6.05 bn). However, in recent days, the market showed signs of stabilizing as issuers and investors gradually adjusted their expectations for policy changes. Natixis analysts expect that stimulus measures can help rekindle investor interest in credit bonds in Q2 2025 once corporate bond spreads show signs of narrowing.


Borrowing Cost Jumps for Companies After Stimulus
Yield of 5Y corporate bonds with AAA rating

Source: Chinabond

Bloomberg

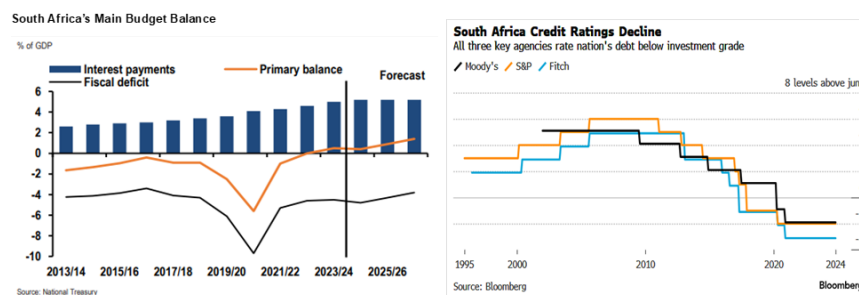**Chinese banks posted modest profit gains in Q3 with rising pressure from retail non-performing loans (NPLs)**. UBS analysts note that big banks' Q3 profitability was helped by a narrower drop in non-interest income and a strong swing in trading and investment gains driven by bond trading, equity revaluation, and FX, while net interest margins continued to decline. Despite most banks reporting a broadly stable overall NPL ratio, they observed that the overdue ratio and special mention loans ratio were trending up across the retail book for

Mounting Pressure
China banks' margins sank to record low as bad loans stacked up
Source: NAFR

the two banks that disclosed segment details, an early signal of worsening asset quality in retail loans, such as small business loans and credit card lending.
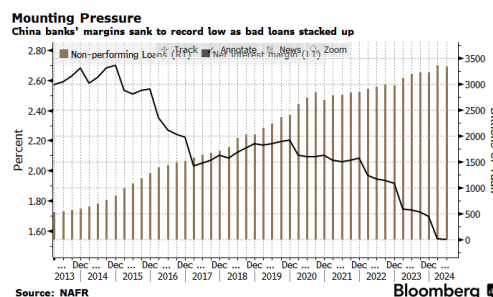
South Africa

The fiscal plans of the new national unity government are met with skepticism by bond markets. This morning, after the release of the Medium-Term Budget Policy Statement (MTBPS), 10-year government bonds continued to rise (+8bps) to 10.52%, while the rand depreciated (-0.5%) against the dollar to ZAR 17.73/$. The government is s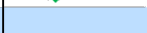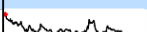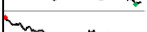hifting its approach to infrastructure, envisioning greater private sector participation, particularly in the energy sector, while maintaining a focus on spending-led fiscal consolidation. The deficit is projected to slip to -4.7% of GDP in 2024/25 (compared to an estimate of -4.5%) from -4.3% in the pre-election February budget, largely due to lower tax revenues from softer import VAT. For subsequent years, the MTBPS projects deficits of -4.3% of GDP in 2025/26, -3.8% in 2026/27, and -3.4% in 2027/28, which are in line with expectations but cumulatively 1.2pp. more than in the February budget. This will take the debt to GDP ratio 75.5% by 2025/26, slightly above the previous peak estimate of 75.3%. JP Morgan and Goldman Sachs have constructive views on the MTBPS, but warrant caution that the impacts of US elections may still weigh on South Africa's bonds in the near term. Morgan Stanley sees improving economic prospects possibly leading to a re-rating of the country, which has been rated sub-investment grade since 2020.
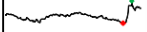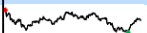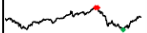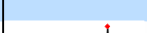
South Africa's Main Budget Balance
% of GDP
Source: National Treasury

South Africa Credit Ratings Decline
All three key agencies rate nation's debt below investment grade
Source: Bloomberg

Global Financial Indicators

10/31/24 9:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,768	-0.3	-0.7	0.1	37.5	21
Europe		4,852	-0.7	-1.7	-3.0	19.5	7
Japan		39,081	-0.5	2.5	1.1	23.7	17
China		3,891	0.0	-1.0	-3.2	9.0	13
Asia Ex Japan		76	0.0	-1.1	-2.8	24.2	15
Emerging Markets		45	0.0	-0.9	-2.4	21.9	11
Interest Rates			basis points				
US 10y Yield		4.3	0	9	52	-63	43
Germany 10y Yield		2.4	5	17	31	-37	41
Japan 10y Yield		1.0	-1	-1	9	1	34
UK 10y Yield		4.5	13	24	48	-3	94
Credit Spreads			basis points				
US Investment Grade		125	2	2	-3	-36	-8
US High Yield		328	2	-10	-25	-134	-57
Exchange Rates			%				
USD/Majors		103.9	-0.1	-0.2	3.1	-2.6	3
EUR/USD		1.1	0.3	0.5	-2.3	2.9	-1
USD/JPY		152.7	-0.5	0.6	6.3	0.7	8
EM/USD		44.8	0.1	-0.6	-3.1	-4.5	-7
Commodities			%				
Brent Crude Oil ($/barrel)		73.1	0.8	-1.7	2.0	-8.9	-2
Industrials Metals (index)		148.6	0.2	-1.3	-3.4	7.8	4
Agriculture (index)		55.6	0.0	-1.1	-4.7	-14.0	-11
Implied Volatility			%				
VIX Index (%, change in pp)		21.2	0.9	2.2	4.5	3.1	8.8
Global FX Volatility		9.3	0.0	0.3	0.7	1.2	1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		89	-2	2	-10	-49	-15
Italy		125	0	4	-8	-67	-43
Portugal		38	-2	-5	-20	-34	-25
Spain		69	-2	0	-11	-38	-27

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

Emerging Market Financial Indicators

Last updated: 10/31/2024 9:41 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		7.12	0.0	0.1	-1.4	2.8	-0.2			2.0	-1	-3	0	-72	-54
Indonesia		15697	0.0	-0.7	-3.5	1.2	-1.9			6.8	-5	4	34	-32	31
India		84	0.0	0.0	-0.3	-1.0	-1.0			7.3	6	10	32	-43	5
Philippines		58	0.2	-0.4	-3.6	-2.4	-4.7			4.9	1	13	24	-98	-73
Thailand		34	-0.1	-0.2	-4.6	6.5	1.2			2.4	1	-1	2	-87	-27
Malaysia		4.38	0.0	-0.6	-5.8	8.8	4.9			3.9	-4	1	16	-21	14
Argentina		990	-0.1	-0.5	-2.1	-64.6	-18.3			36.0	9	-358	-346	-7325	-5038
Brazil		5.78	-0.2	-1.9	-5.6	-12.8	-15.9			12.7	5	18	41	82	230
Chile		962	-0.8	-1.6	-6.6	-5.7	-8.7			5.2	0	12	50	-81	32
Colombia		4409	0.2	-2.5	-4.6	-6.6	-12.6			8.6	0	14	105	-46	98
Mexico		20.07	0.4	-1.3	-1.9	-10.1	-15.4			9.5	-2	-4	78	-18	103
Peru		3.8	0.1	-0.3	-1.6	1.9	-1.6			6.8	0	17	56	-88	11
Uruguay		42	-0.4	-0.1	0.4	-4.0	-6.7			9.3	0	-34	-46	-59	-27
Hungary		375	0.0	-0.8	-4.9	-3.5	-7.4			6.7	-8	2	91	-81	92
Poland		4.00	0.4	0.5	-3.7	5.4	-1.5			5.2	4	13	73	19	71
Romania		4.6	0.3	0.5	-2.2	2.8	-1.4			6.7	-2	6	27	-15	50
Russia		97.2	-0.2	-1.0	-4.3	-3.9	-8.0								
South Africa		17.6	0.1	0.3	-2.1	5.8	4.2			8.9	0	-3	48	-95	-21
Türkiye		34.26	0.0	0.0	-0.2	-17.4	-13.8			30.5	-3	36	210	119	375
US (DXY; 5y UST)		104	-0.1	-0.2	3.1	-2.6	2.5			4.17	1	14	62	-68	33

	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		3,891	0.0	-1.0	-3.2	9.0	13.4			107	-4	-16	-63	-51
Indonesia		7,574	0.1	-1.8	-0.9	14.0	4.1			85	-8	-13	-42	-11
India		79,389	-0.7	-0.8	-5.8	24.8	9.9			88	-5	-15	-48	-28
Philippines		7,143	-1.9	-1.9	-3.2	19.6	10.7			72	-8	-10	-33	-8
Thailand		1,466	1.3	0.4	0.1	6.2	3.5			0	0	0	0	0
Malaysia		1,602	0.0	-2.4	-2.9	11.1	10.1			66	-4	-11	-28	-19
Argentina		1,837,535	-0.4	3.6	8.3	217.3	97.6			960	-136	-328	-1624	-953
Brazil		130,132	-0.1	0.1	-1.3	15.0	-3.0			201	-10	-17	-19	-14
Chile		6,550	-1.8	-2.0	0.9	21.1	5.7			109	-3	-5	-33	-16
Colombia		1,354	1.3	1.2	3.5	24.4	13.3			325	12	9	-4	54
Mexico		50,877	-0.6	-1.8	-3.0	3.7	-11.3			292	-11	-16	-79	-42
Peru		30,836	0.0	0.0	3.0	41.3	18.8			132	-6	-2	-28	-12
Hungary		74,058	0.2	0.5	0.2	32.2	22.2			148	3	-5	-49	-1
Poland		79,608	-0.7	-1.5	-4.4	11.2	1.5			105	3	-6	-6	8
Romania		17,469	0.0	0.1	-0.8	22.9	13.6			194	7	-3	-21	-7
South Africa		86,136	-0.7	-0.9	-0.5	23.7	12.0			276	-6	1	-111	-32
Türkiye		8,935	-0.8	2.5	-7.6	18.9	19.6			260	-15	-19	-133	-54
EM total		45	-0.1	-0.9	-2.4	21.9	11.3			377	-13	-17	-28	32

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

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