GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, OCTOBER 7, 2024

LEAD EDITOR: FABIO CORTES

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Bond yields continue their ascent

Advanced economy sovereign bond yields extended their selloff this morning, with 10-year US Treasury yields back at 4% for the first time since late July, after a stronger-than-expected US nonfarm payrolls release on Friday led investors to reassess their outlook for monetary policy. Fed fund futures no longer fully price a 25 bps cut in November from the Fed, with 50 bps priced for the rest of the year, much less than the 67 bps priced in prior to the US jobs report on Friday. Across the pond, European sovereign bond yields followed US Treasury yields higher, with 10-year bund yields up 3 bps this morning and 52 bps of rate cuts priced by year-end from the ECB. Meanwhile, oil prices gained on fears of Middle East escalation, with brent crude prices above $79 per barrel. In emerging markets, offshore Chinese equities extended their rally, anticipating additional policy measures from China's economic planning agency to be discussed tomorrow.

Key Global Financial Indicators

Last updated: 10/7/24 8:01 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5751	0.9	0	6	33	21
Eurostoxx 50		4957	0.0	-1	5	20	10
Nikkei 225		39333	1.8	4	8	27	18
MSCI EM		47	0.9	1	12	24	17
Yields and Spreads					bps		
US 10y Yield		4.00	3.5	22	29	-80	12
Germany 10y Yield		2.24	3.4	12	7	-64	22
EMBIG Sovereign Spread		351	-6	-17	-53	-103	-33
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.8	0.0	-1	0	-1	-5
Dollar index, (+) = $ appreciation		102.4	-0.1	2	1	-3	1
Brent Crude Oil ($/barrel)		79.6	2.0	11	12	-6	3
VIX Index (%, change in pp)		21.2	2.0	4	-1	4	9

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

On **the data front,** inflation is again at the forefront this week, with US CPI expected to move closer to 2% when released on Thursday. Inflation prints also expected across a range of EMs (Russia, Mexico, Brazil, Argentina, Colombia and Chile) giving markets a broader sense of the pace of global disinflation. Central bank activity should bring some interesting headlines as the FOMC minutes will give insights into the discussion behind the Fed's 50 bps cut in September. Finally, Bloomberg analysts expect rate decisions for South Korea (-25 bps) India (-25 bps), New Zealand (-50 bps), and Peru (-25 bps) during the week.

Mature Markets

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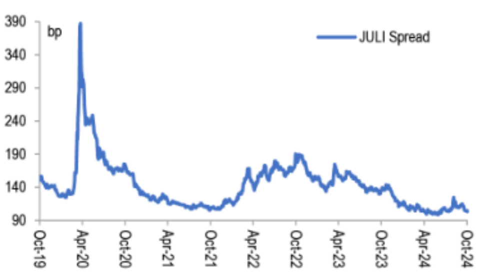
United States

US small caps are trading at a big discount to the S&P 500. Recent macro and labor market data indicate that a soft-landing of the US economy is potentially in sight. Small caps tend to be comparatively better off in this scenario as they generally have a higher debt burden, therefore benefitting more from falling rates. But, when looking at the one year forward price-to-sales measure, the Russell 2000 is currently trading at its steepest discount with the respect to the S&P 500 in over 20 years. This could suggest that a strong re-rating is in the books, or that the market remains skeptical of the Russell's future revenue and growth profile. YTD, the S&P 500 has outperformed the Russell 2000 by about 12 ppts but this difference has narrowed by about 6 ppts since mid-July.

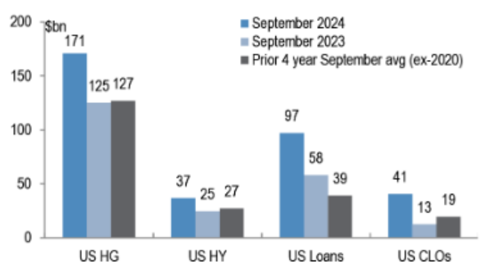
Tight credit spreads may be masking heightened tail-risks. Investment grade bond yields are hovering around the tightest levels seen this cycle, as strong demand remains in the driving seat despite high issuance in September. However, JP Morgan analysts believe there is room to worry as potential tail risks seem elevated. Potential catalysts include geopolitical risk, US elections, a slowdown global growth, among others. A large array of noteworthy events coming from outside the credit world that might lead to a reassessment of overall risk sentiment and prompt a sharp repricing across the asset class.

Figure 2: HG bond spreads are close to their decade tights



Source: J.P. Morgan.

Figure 3: Issuance in September was very active not just in HG but also across all other credit markets



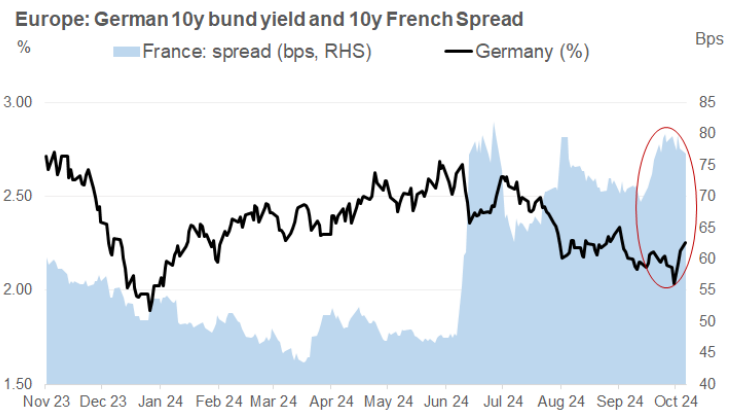
Source: J.P. Morgan, Dealogic.

Euro-area

European equities were little changed this morning. The Stoxx 600 index was marginally lower (-0.2%) as data released this morning showed German factory orders for August declined by 5.8% m/m, above expectations of a 2.0% decline. The euro was broadly unchanged against the dollar in early morning trade, while European sovereign bond yields were higher across all tenors with the 10-year bund yield up 3 bps to trade at 2.24%. Elsewhere, the Eurozone October Sentix investor confidence gauge printed at -13.8 ahead of expectations of a -15.4 reading.

Some analysts think the next week's anticipated ECB rate cut may be a close call. While financial markets moved to price in a rate cut for the ECB's October meeting following weaker-than-expected PMI and inflation data, analysts at ING believe there is a risk of policymakers delivering a hawkish surprise. The analysts note that they are far less certain than financial markets that the ECB will actually cut rates next week. The analysts note that while sentiment indicators have been deteriorating and pointing to lower growth, this was already reflected in the September ECB staff projections and while headline inflation declined, services inflation remains elevated, arguing against a rate cut at next week's meeting. This morning, **however, ECB Governing Council member Villeroy remarked that the ECB will "quite probably" cut interest rates** at its upcoming meeting saying that officials must be alert to the risk of inflation undershooting target given weak growth. **Market pricing for next week's meeting remains broadly steady with around 23 bps of easing priced in, unchanged relative to last Monday, with around 52 bps of easing expected by year-end**.

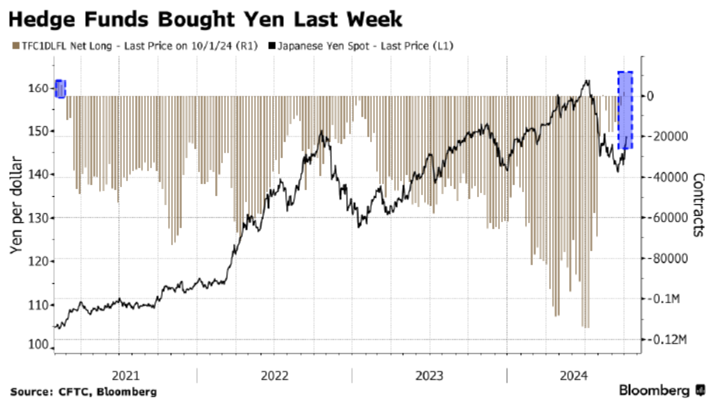
The French budget and credit rating review could present upside risk to spreads. This week, the budget is expected to be presented to parliament and should provide further detail on how the government expects to achieve the €60 bn in spending cuts. Analysts at Citi noted that the key concern for markets is the deficit target which is expected to come in at 5% of GDP next year, which will feed into ratings agency decisions with the latest round of reviews kicking off on Friday. Contacts note that fiscal slippage and political uncertainty have increased downside risks to France's ratings outlook. While current pricing appears to reflect this risk, some contacts note that an increase in foreign investor outflows could push the 10-year OAT-Bund spread towards the 85–90 bps level. **This morning, the 10-year French OAT spread over bunds was 1 bp tighter at around 77 bps.**



Source: Bloomberg and IMF calculations

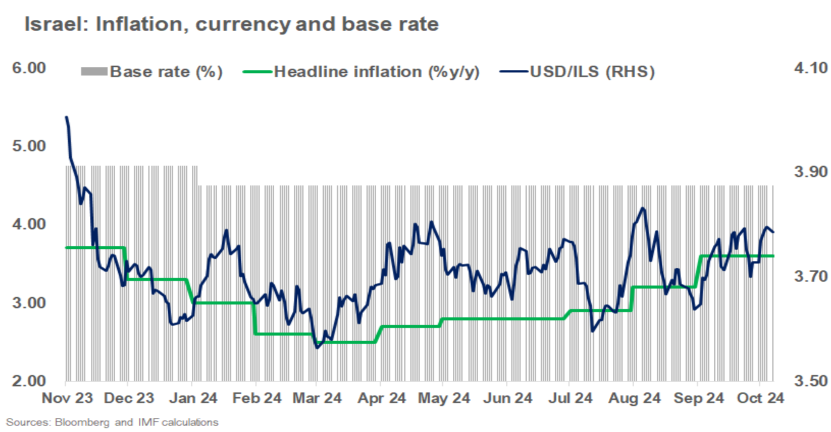
Japan

Hedge funds turned bullish on the yen during its worst week in 15 years. Commodity Futures Trading Commission (CFTC) data indicated that speculative investors flipped to a net long position on the yen for the week ending October 1, anticipating a more hawkish stance from PM Ishiba. However, the yen depreciated 4.4% during the week due to Ishiba's unexpected dovish comments on rate hikes and a stronger-than-expected US labor market report last Friday. The yen pared some losses and was flat today. **Japanese equities soared** (Nikkei 225: +1.8%) following a weaker yen and Ishiba's plan to introduce a fresh economic package. Last Friday, Ishiba formally directed his ministers to create a stimulus plan to be compiled after the general election on October 27, including aid for low-income households and local government subsidies, alongside efforts to raise the minimum wage. The fiscal package and Ishiba's softer-than-expected tone on monetary policy mark a shift in his priority to support growth and achieve an exit from deflation, as he previously advocated fiscal austerity and tighter monetary policy.



Israel

The Bank of Israel is expected to keep rates on hold later this week amid geopolitical uncertainty. Analysts at Goldman Sachs expect policymakers to keep rates unchanged at 4.5% when the MPC meet on Wednesday on account of rising geopolitical uncertainty and elevated inflation. The analysts also expect policymakers to maintain their hawkish stance with updated forecasts expected to show lower growth for 2024 and 2025 alongside higher inflation. Goldman analysts expect the Bank of Israel (BoI) will most likely lag the global easing cycle with the next rate cut expected in Q1 rather than Q4 of this year with external interest rate developments, particularly Fed rate cuts, putting upward pressure on the currency playing in a key factor in determining the timing of any easing. **This morning the Israeli shekel was trading around +0.3% stronger,** although the currency is around 4.4% weaker YTD.



Emerging Markets

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Most **Asian equities advanced** as upbeat US labor market data last Friday fueled risk-on sentiment. The gains were led by equities in Taiwan POC (+1.8%) and Hong Kong SAR (+1.6%). Most **Asian currencies weakened**, with the Malaysian ringgit (-1.3%) and Indonesian rupiah (-1.3%) underperforming. Bank Indonesia stepped in to support the rupiah, intervening in the spot, domestic non-deliverable forwards and bond markets to balance currency supply and demand. Long-term government bond yields rose in most Asian economies, tracking US Treasury yields higher. **EMEA equities and currencies were mixed** while local currency bond yields were mostly higher. Equities outperformed in Saudi Arabia (+1.6%) and Egypt (+1.1%) but were lower in Poland (-0.5%). The South African rand gained against the dollar (+0.3%) and CEE currencies were mostly weaker against the euro with the Hungarian forint (-0.2%) underperforming. The **Romanian leu** was little changed after policy makers last week left its policy rate unchanged at 6.5%, as expected. Bloomberg also reports that Romania raised roughly 33 bn yen (€204 mn) it its debut Samurai bond issue**. Moody's downgraded Senegal's rating to B1 from Ba3** on Friday and placed long-term ratings on review for a downgrade, citing a significantly weaker fiscal and debt position than previously thought. On the central bank front this week contacts expect easing to continue in Kenya and Serbia with the respective MPC decisions due tomorrow and Thursday. Elsewhere, Bloomberg consensus expect rates to remain on hold in Kazakhstan on Friday.

In **Latin America**, the Mexican peso appreciated on Friday and strengthened 2.1% for the week. The Colombian peso (+0.4%) also strengthened as oil prices made their biggest weekly gain in more than a year (+6.2%). Equity markets rallied across the region. Late on Thursday, **Brazilian** officials issued an executive order to establish a minimum 15% tax on multinational corporate income to reach fiscal targets. On Friday, a Fitch sovereign rating director mentioned an upgrade to Brazil's BB credit rating is unlikely in the near term due to ongoing fiscal concerns, even amid improving growth.

EM Fund Flows

Weekly flows in EM equity funds surged to +$7.2 bn (from +$1.8 bn the previous week), their largest inflows in nearly two years, driven by ETF inflows. Equity ETFs saw very strong inflows (+$7.8 bn, from +$2.8 bn), while non-ETFs had decreased outflows (-$585 mn, from -$927 mn). In fixed income, bond inflows moderated to +539 mn (from +$1.3 bn) for the week ending on October 4. YTD, EM bonds and equities flows are -$13.5 bn and -$12 bn, respectively.

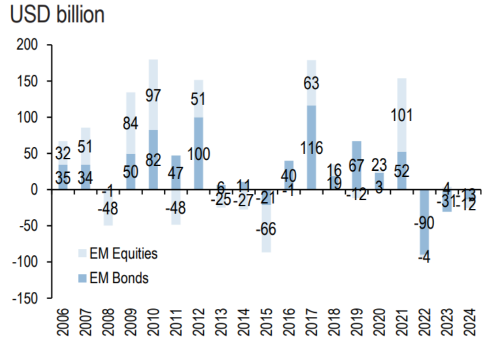
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		7.7	-25.5
	EM Bonds		0.5	-13.5
	Hard Ccy		0.2	-4.5
	Local Ccy^		0.4	-9.0
	o.w. EM ex-China		0.2	-7.6
	o.w. China		0.1	-1.8
	EM Equities		7.2	-12.0
	US HG		5.8	286.2
	US HY		2.5	26.2
	Global Equities		-0.9	135.6
	EM Bond and Equity ETFs		7.9	19.8
	EM Bond ETFs		0.1	-0.6
	EM Equity ETFs		7.8	20.4
	Non-resident EM flows*		-2.6	12.5

Figure 2: EM bond and equity fund flows

USD billion



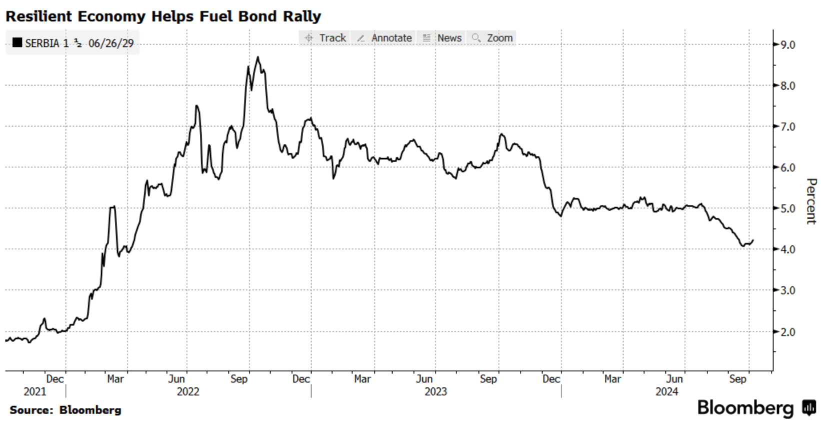
*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

China

Offshore Chinese equities extended their rally, anticipating additional policy measures from China's economic planning agency to be discussed tomorrow. The Hang Seng China Enterprises Index, featuring Chinese stocks listed in Hong Kong SAR, rose 2.1% today and a striking 36% over the past month, the top performing stock market globally. Today's rally followed news that the National Development and Reform Commission (NDRC) will hold a press briefing on Tuesday to discuss new policies aimed at boosting economic growth. Citibank analysts expect a budget to add RMB2 tn ($285 bn) in stimulus and an extra quota of RMB1 tn for special central government bond issuance to finance bank recapitalization for the rest of 2024. Meanwhile, Jia Kang, former head of a research institute affiliated with the Ministry of Finance, said that authorities have room to ramp up fiscal support by as much as RMB10 tn, Bloomberg reported. Goldman Sachs analysts predict a 15–20% potential rise for Chinese equities if policy measures are effectively implemented, given below-average valuations, potential earnings improvement, and light global investor positioning. However, other analysts are concerned about global geopolitical uncertainties, including the upcoming US elections, while others warn of a possible market crash similar to 2015. Onshore markets were closed today and will re-open tomorrow after a week-long holiday.

Serbia

Serbia received an investment grade rating from a major rating agency for the first time in history. S&P upgraded Serbia's long-term sovereign credit rating one notch higher on Friday to BBB-, with a stable outlook, citing the country's improved resilience against shocks amid strong macroeconomic management. The upgrade lifts the country's foreign currency bonds out of junk status for the first time. With both Fitch and Moody's ratings currently having a positive outlook on the country, Serbia's FM shared views over the weekend that at least one of these rating agencies would confirm Serbia's investment grade in the coming six months. The FM did not comment on any potential bond issuance. Market contacts noted that expectations for an investment grade rating had already been priced in, and amid robust economic growth and easing inflation, both foreign-currency and domestic bonds have rallied YTD. The yield on the 2029 euro-denominated debt is at its lowest level since 2022 and the yield on the 2034 sustainable dollar bond is now at around 5.66%, roughly 70 bps lower than when it launched in June.



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Global Financial Indicators

10/7/24 7:59 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5751	0.9	0	6	33	21
Europe		4957	0.0	-1	5	20	10
Japan		39333	1.8	4	8	27	18
China		4018	8.5	25	21	9	17
Asia Ex Japan		81	1.2	2	15	27	22
Emerging Markets		47	0.9	1	12	24	17
Interest Rates					basis points		
US 10y Yield		4.00	3.5	22	29	-80	12
Germany 10y Yield		2.24	3.4	12	7	-64	22
Japan 10y Yield		0.93	4.8	7	8	13	32
UK 10y Yield		4.19	5.7	18	30	-39	65
Credit Spreads					basis points		
US Investment Grade		123	-0.8	-6	-15	-32	-11
US High Yield		336	0.4	-18	-52	-117	-49
Exchange Rates					%		
USD/Majors		102.45	-0.1	2	1	-3	1
EUR/USD		1.10	0.0	-1	-1	4	-1
USD/JPY		148.3	-0.3	3	4	0	5
EM/USD		45.8	0.0	-1	0	-1	-5
Commodities					%		
Brent Crude Oil ($/barrel)		79.6	2.0	11	13	3	6
Industrials Metals (index)		156	0.3	2	13	13	10
Agriculture (index)		57	-0.9	-2	6	-10	-8
Implied Volatility					%		
VIX Index (%, change in pp)		21.2	2.0	4.4	-1.2	3.7	8.7
Global FX Volatility		8.8	0.1	0.2	0.1	0.5	0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		96	0.2	-3	-9	-57	-8
Italy		130	0.5	-3	-15	-72	-37
Portugal		52	-1.2	-6	-12	-25	-12
Spain		76	-0.2	-5	-7	-37	-21

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

Emerging Market Financial Indicators

Last updated: 10/7/2024 7:56 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	1	9	-72	-53
Indonesia		15687	-1.3	-3.5	-1	0	-2		6.7	7.6	27	11	-29	25
India		84	0.0	-0.2	0	-1	-1		7.1	8.4	19	16	(75.0)	-8
Philippines		57	-0.9	-1.3	-1	0	-2		4.7	-6.0	8	-18	-101	-89
Thailand		33	-0.3	-2.9	1	11	3		2.5	6.0	13	12	-90	-16
Malaysia		4.28	-1.5	-3.8	2	10	7		3.8	4.2	7	3	-31	4
Argentina		971	0.1	-0.5	-2	-64	-17		40.0	-37.5	-53	-141	-6935	-4642
Brazil		5.46	0.4	-0.4	3	-5	-11		12.2	1.2	4	39	21	185
Chile		924	0.0	-2.8	2	0	-5		4.9	12.3	19	1	-90	-4
Colombia		4169	0.4	0.2	0	2	-7		7.8	16.0	31	-7	-159	21
Mexico		19.34	-0.3	1.8	3	-6	-12		8.9	10.5	25	-8	-57	45
Peru		3.7	-0.1	-0.5	2	2	-1		6.5	######	20	-4	-113	-22
Uruguay		41	0.6	0.4	-3	-5	-6		9.4	0.3	-42	-15	-11	-9
Hungary		366	-0.1	-2.6	-2	0	-5		6.3	14.0	55	49	-122	56
Poland		3.94	-0.1	-2.3	-2	10	0		4.8	8.8	37	37	-26	35
Romania		4.5	0.0	-1.4	-1	4	-1		6.5	2.9	2	-1	-39	29
Russia		96.4	-1.4	-3.5	-6	4	-7							
South Africa		17.4	0.6	-0.7	3	11	6		8.7	4.5	29	17	-125	-40
Türkiye		34.25	0.0	-0.2	-1	-19	-14		29.9	23.0	154	114	330	319
US (DXY; 5y UST)		102	-0.1	1.7	1	-3	1		3.86	5.8	30	38	-89	1

	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		118	-7	-8	-53	-40
Indonesia		7504	0.1	0	-3	9	3		85	-16	-31	-55	-11
India		81050	-0.8	-5	0	23	12		99	-6	-13	-46	-17
Philippines		7555	1.2	4	9	21	17		72	-13	-28	-46	-8
Thailand		1452	0.6	0	2	1	3		0	0	0	0	0
Malaysia		1635	0.3	-1	-1	15	12		75	-7	-11	-22	-10
Argentina		1756515	0.1	2	2	179	89		1244	-71	-224	-1462	-669
Brazil		131792	0.1	-1	-2	15	-2		202	-19	-33	-25	-13
Chile		6481	1.4	0	4	15	5		107	-11	-22	-27	-18
Colombia		1304	0.1	0	-2	18	9		302	-17	-27	-56	31
Mexico		52610	1.8	-2	3	6	-8		287	-21	-47	-92	-47
Peru		30330	0.9	0	8	36	17		131	-5	-20	-32	-13
Hungary		73883	0.6	0	2	34	22		145	-10	-17	-65	-4
Poland		81965	-0.1	-2	0	28	4		104	-11	-11	-32	7
Romania		17491	0.2	-1	1	25	14		188	-10	-25	-33	-12
South Africa		86483	0.2	0	6	21	12		266	-14	-45	-141	-42
Türkiye		9152	0.5	-5	-6	8	23		275	-7	-41	-133	-39
EM total		47	1.3	1	12	24	17		385	-11	-30	-32	40

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

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