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Markets cautious on Google news and ahead of the FOMC minutes and US CPI

European stocks were flat and US equity futures signaled an opening in the red following news that the US authorities are weighing an antitrust crackdown on Google-owner Alphabet. Alphabet shares fell about 1.5% in premarket trading after the US justice department said it is contemplating asking a federal judge to force Alphabet's Google search engine to sell parts of its business. US Treasury yields were little changed as investors waited for the release of the latest FOMC minutes later today and CPI tomorrow. Across the pond, euro area sovereign bond yields were little changed, with money markets continuing to nearly fully price an ECB rate cut next week. In emerging markets, onshore Chinese stocks slumped the most since 2020 as investors worried about the pace of future stimulus measures despite the announcement of a finance ministry briefing on fiscal policy this Saturday.

Key Global Financial Indicators

Last updated: 10/9/24 7:59 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5751	1.0	1	5	33	21
Eurostoxx 50		4955	0.1	0	4	20	10
Nikkei 225		39278	0.9	4	9	24	17
MSCI EM		46	-2.5	0	10	23	15
Yields and Spreads			bps				
US 10y Yield		4.02	1.2	24	32	-78	14
Germany 10y Yield		2.23	-0.9	14	7	-54	21
EMBIG Sovereign Spread		353	3	-7	-35	-98	-30
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.6	-0.1	-1	0	-2	-5
Dollar index, (+) = \$ appreciation		102.6	0.1	1	1	-3	1
Brent Crude Oil (\$/barrel)		76.9	-0.4	4	7	-13	0
VIX Index (% change in pp)		21.5	0.1	3	2	4	9

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

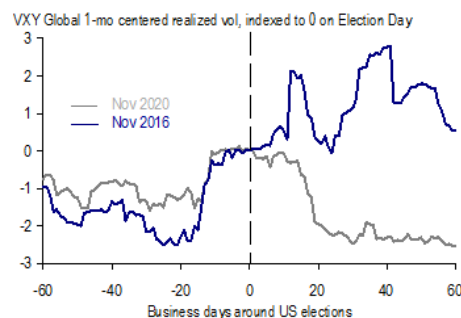
Mature Markets

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United States

Soft landing optimism is fading as the election uncertainty rises. Optimism around the potential soft landing of the US economy has lifted the dollar through the channel of higher US Treasury yields, according to analysts from JP Morgan. However, the upcoming election will likely bring noise into FX markets, increasing volatility for the dollar. Pre-election de-risking is expected in coming weeks but is highly dependent on the “shock value” of policy proposals being floated by candidates. For example, while the 2016 elections saw strong de-risking, with currency movements north of +/- 2 percent in the 4 weeks prior to the vote, the 2020 elections had little impact on FX markets as Covid related news dominated markets.

Figure 1: FX markets tend to get noisier as US election day approaches



Source: J.P.Morgan

Equity resilience might be tested by higher yields. Equity markets are being tested by higher yields as markets challenge the speed of the Fed's upcoming interest rate cuts. US 10-year Treasury yields have surpassed 4% on the back of strong US economic data, while futures are now pricing in two 25 basis points reductions by year end compared to almost three two weeks ago. Stronger economic activity coupled with higher yields are a difficult territory to navigate for equity markets, leading to potential volatility and sharp re-pricing ahead if earnings come in lower than expected.

Stocks' Resilience to Rising Yields May Be Tested
Soft-landing expectations outweigh receding rate-cut bets so far



Source: Bloomberg

Bloomberg

Euro-area

European equities were flat this morning, with the Stoxx 600 index up by +0.2% led by gains in the real estate (+0.8%), utilities (+0.5%) and consumers staples (+0.4%) sectors, while the banking sector continued to be in red territory (-0.2%). **The euro continued to weaken (-0.1%) against the dollar this morning, trading at \$1.098/€**, after Bundesbank president Nagel said yesterday that he is open to another ECB rate cut next week due to weaker than expected growth in the Eurozone and after noting monetary policy's success in approaching the 2% inflation target. Nagel agreed with Germany's revised forecast of a -0.2% economic contraction in 2024 (from previous estimates of 0.3% GDP growth in 2024). Nagel also reportedly

commented on the possible implications for Europe of the outcome of the US presidential elections, noting that a possible boost to policies aimed at protectionism and trade restrictions “is not good for global economic growth overall and that is difficult and challenging for Europe.” Banque de France governor Villeroy de Galhau reiterated that a decrease in rates is very likely due to weak growth, while ECB GC member Kazimir warned today that, as inflation in the Eurozone declined below the 2% target for the first time since 2021 only in September he is not “completely convinced that we should make decisions based on one good number,” referring to possibility of another rate cut by the ECB next week and stressing that it is “crucial to make decisions based on the overall summary of information.” Money markets continue to nearly fully price-in (95% likelihood, -24 bps of easing) a rate cut by the ECB at its upcoming MPC meeting next week.



Analysts at ING noted that bund yields reacted only moderately to the recent uptick in oil prices, signaling markets’ diverging expectations between global and eurozone growth, with the concerns on weak demand and growth getting more attention by investors and policy makers than inflation. Analysts expected therefore the front end of the Bund yield curve to remain stable in the short term. European sovereign bonds traded rangebound this morning, with yields marginally lower across tenors.

Recent uptick in oil prices did not find its way to Bund yields



Sovereign bond yield spreads of Italy and France were little changed, with the 10-year BTP-bund spread at 131 bps and the 10-year OAT-bund spread at 78 bps. Analysts at Crédit Agricole continued to have a constructive view on Italian sovereign bonds, given Italy’s underlying political stability and recent fiscal executions. On the other hand, analysts warned on risks being tilted towards the downside in France and in Belgium, as difficulties in restraining deficit figures persist, and highlighted Friday’s ratings revision by Fitch Ratings as events to be closely monitored as both countries share negative rating momentum.

Japan

Investors are closely watching the influence of political uncertainty on Japanese financial markets. PM Ishiba dissolved the lower house on Wednesday, setting up a snap election on 27 October. Strategists noted increasing speculation that fiscal spending may rise, which could limit the upside of super-long bonds.

With anticipation that new governments will implement economic support measures, and the historical pattern that Japanese equities mostly gain during the weeks leading up to snap votes, speculators are unlikely to sell unless a strong selling factor emerges, Bloomberg reported. Nomura analysts note that the largest opposition party, the CDP, has proposed lowering the inflation target to above 0% from the current 2% as one of its election pledges. They expect Ishiba to adopt a more dovish stance to counter the CDP's stance, a possible tailwind for the yen in October. Today, the yen depreciated by -0.2%. Japanese equities advanced (Nikkei 225: +0.9%).

Nikkei Tends to Rise After Parliament Is Dissolved



New Zealand

The Reserve Bank of New Zealand (RBNZ) cut its benchmark rate by 50 bps to 4.75%, as expected.

This accelerated rate cut followed a 25 bps reduction in August, when the RBNZ shifted to an easing stance, having previously indicated no easing until H2 2025. In its statement, the RBNZ attributed subdued economic activity partly to restrictive monetary policy and left the door open for more easing by noting the 4.75% rate remains restrictive. JP Morgan analysts noted an important tweak by the RBNZ to be less inflation-centric and focus more on activity and demand weakness, expecting a 25 bps cut at the November meeting with a non-trivial risk of a 50 bps move. The New Zealand dollar softened (-0.9%) after the rate decision.

Commodities

Brent oil prices dropped by -4.6% to \$77 a barrel yesterday, ending a five-day rally, in absence of new stimulus measures in China and given persisting uncertainty on the developments of the conflict in the Middle East. **Today, Brent fell modestly (-0.4%).** Analysts at Goldman Sachs see the oil market remaining vulnerable to Middle East tensions after the geopolitical risk premium increased sharply last week as witnessed by the call options implied volatility skew. **Goldman Sachs sees \$10–20 a barrel of possible upside to Brent in the case of disruptions in Iranian production**, while analysts expect prices to stabilise around current levels in the absence of major disruptions. The American Petroleum Institute reported that crude inventories increased by about 11 mn barrels last week. Following the end of a political stalemate, Libya's crude oil production has reached 1.1 mn barrels per day, with gas equivalent production at 206,666 barrels, and is now expected to return shortly to a level of 1.2 m barrels per day. Separately, India is reportedly planning to reform regulations and inviting foreign oil companies to explore onshore and offshore.



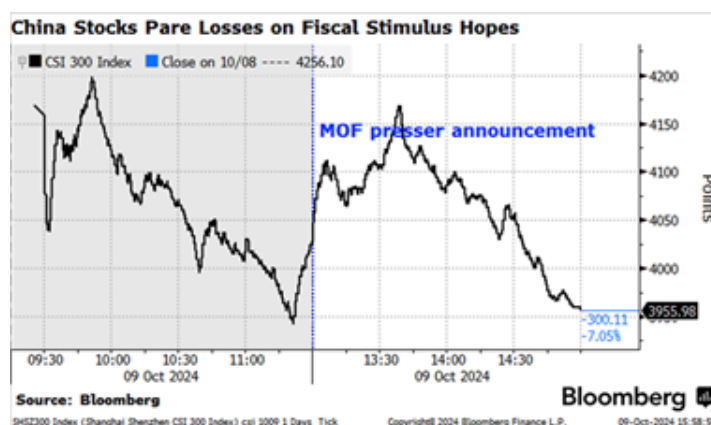
Emerging Markets

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Asian equities were mixed. **Losses were led by equities in China (CSI 300: -7.1%) and Hong Kong SAR (-1.5%) due to concerns over China's stimulus.** Most Asian currencies traded in a tight range **ahead of the US Fed's monetary policy meeting minutes**, The Reserve Bank of India (RBI) held the repo rate unchanged at 6.50% **and unanimously decided to shift its monetary policy stance to "neutral" from "withdrawal of accommodation", marking the first change in two years.** **The RBI's stance shift, along with the news that Indian bonds will be included in an emerging market bond index next September, supported another bond market rally, with 10-year government bond yields down -5 bps.** **EMEA equities and currencies were mixed in early morning trade.** Equities underperformed in Türkiye (-1.2%) but were higher in Poland (+1.4%). CEE currencies were mixed against the euro, while the South African rand (-0.2%) weakened to a three-week low against the dollar. In **Serbia, some analysts expect further ratings upgrades.** Analysts at JP Morgan expect other ratings agencies to follow S&P which upgraded Serbia to investment grade (BBB-, stable) status last week. Citing improving macro-fundamentals and a higher likelihood of being rated investment grade by two of the three rating agencies over the near-term, analysts at JP Morgan expect Serbia's sovereign bond spreads to tighten further relative to similarly or better rated peers. **Latin American markets closed yesterday on a downbeat note** as China's latest stimulus measures fell short of expectations. Equity indices in Colombia (-0.7%) and Mexico (-0.5%), and Brazil (-0.4%) fell, while Chilean stocks posted modest gains. Most currencies weakened.

China

Chinese equities slumped amid growing skepticism about growth support, despite a scheduled finance ministry briefing. Both onshore and offshore Chinese equities went through a choppy session. The CSI 300 pared losses to -2.1% from -7.3% at one point following the news about a briefing on fiscal policy on Saturday, before ending -7.1% lower, while the ChiNext index was down -10.6%. Chinese equities listed in Hong Kong SAR flipped into losses twice and finished at -1.6%. Some investors expect the market to stay volatile unless concrete figures on the stimulus size and specific moves around consumption and the property market are rolled out. Concerns persist about fundamental economic issues, including a prolonged property crisis, and debt and deflation risks, with some analysts calling the recent stock rally overdone. **The impact of the news about the finance ministry briefing on RMB was also short-lived,** with offshore RMB appreciating by +0.3% to 7.054 before paring most of its gains to trade around 7.069.



Chile

The Chilean peso weakened as inflation in Chile came in lower-than-expected in September at 4.1% y/y (0.1% m/m) from 4.7% (0.3% m/m), reinforcing expectations for an interest rate cut next week. Inflation has steadily declined from its peak of 14% y/y two years ago, prompting the Chilean central bank to cut its benchmark interest rate nine times, bring it to the current 5.5%, slightly above the neutral rate range of

3.5% to 4.5%. Economists surveyed by Bloomberg expect another 25 bps cut at the upcoming October 17th meeting. The Chilean peso depreciated as much as 1.1% intraday, closing 0.7% weaker with falling copper futures (-2.4%) further pressuring the currency.

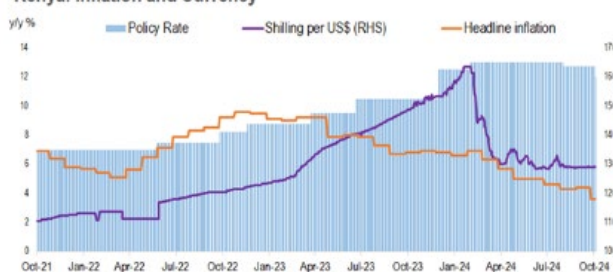
Chile Consumer Prices Rose Less Than Expected in September Annual inflation inched down toward 3% target



Kenya

The Central Bank of Kenya delivered a larger than expected rate cut. Yesterday, the Central Bank of Kenya (CBK) cut its benchmark policy rate by 75 bps to 12.0%, delivering a larger rate cut than the 25 bps that most economists had anticipated. In its accompanying statement, the CBK noted that “overall inflation has declined further and is expected to remain below the midpoint of the target range in the near term.” The rate of inflation slowed to 3.6% y/y in August, below the CBK’s 5% midpoint. Analysts at Goldman Sachs expect the CBK to continue lowering its policy rate noting that “risks are tilted toward continued front-loaded monetary easing due to consecutively soft inflation prints and growing evidence that the restrictive monetary policy stance is holding back the economy and loan growth.” The Kenyan shilling was broadly unchanged against the dollar at 129/\$ and is one of the best performing currencies on a year-to-date basis, appreciating around 21% to the dollar.

Kenya: Inflation and Currency



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.

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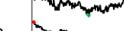

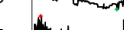
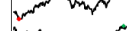


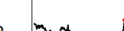
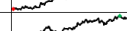
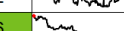
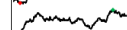


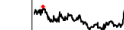




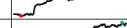
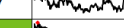

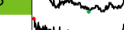





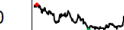


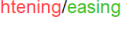
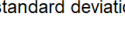


Global Financial Indicators

10/9/24 7:58 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5751	1.0	1	5	33	21
Europe		4955	0.1	0	4	20	10
Japan		39278	0.9	4	9	24	17
China		3956	-7.1	16	24	8	15
Asia Ex Japan		79	-3.5	0	12	25	19
Emerging Markets		46	-2.5	0	10	23	15
Interest Rates			basis points				
US 10y Yield		4.02	1.2	24	32	-78	14
Germany 10y Yield		2.23	-0.9	14	7	-54	21
Japan 10y Yield		0.94	0.8	11	3	13	32
UK 10y Yield		4.18	-0.9	15	32	-30	64
Credit Spreads			basis points				
US Investment Grade		124	0.3	-5	-14	-31	-10
US High Yield		344	2.4	-15	-44	-109	-42
Exchange Rates			%				
USD/Majors		102.63	0.1	1	1	-3	1
EUR/USD		1.10	-0.1	-1	-1	4	-1
USD/JPY		148.6	0.3	1	4	0	5
EM/USD		45.6	-0.1	-1	0	-2	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		76.9	-0.4	4	8	-3	3
Industrials Metals (index)		150	-1.2	-5	8	8	5
Agriculture (index)		57	0.5	-2	4	-10	-8
Implied Volatility			%				
VIX Index (% change in pp)		21.5	0.1	2.6	2.0	3.8	9.0
Global FX Volatility		8.7	0.0	-0.1	0.3	0.3	0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		96	0.9	-4	-9	-58	-8
Italy		132	1.4	-1	-14	-75	-36
Portugal		52	0.9	-5	-11	-28	-11
Spain		76	1.2	-3	-7	-39	-21

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

Emerging Market Financial Indicators

Last updated: 10/9/2024 7:58 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		7.07	-0.1	-0.7	0.7	3	0		2.0	-1.1	1	11	-71	-51
Indonesia		15630	0.2	-2.3	-1	0	-1		6.7	-6.3	18	6	-34	20
India		84	0.0	-0.2	0	-1	-1		7.0	-5.0	9	6	(84.7)	-18
Philippines		57	-0.2	-1.5	-1	0	-3		4.8	3.7	3	-10	-92	-81
Thailand		33	0.3	-1.7	1	11	2		2.5	-3.3	6	8	-94	-20
Malaysia		4.28	0.1	-2.5	2	11	7		3.8	0.6	5	3	-29	4
Argentina		974	0.0	-0.5	-2	-64	-17		40.4	12.7	25	102	-6748	-4595
Brazil		5.53	-0.8	-1.7	1	-7	-12		12.1	-7.2	-17	42	25	170
Chile		933	-0.7	-3.0	1	-1	-6		4.8	0.0	13	14	-95	-9
Colombia		4228	-0.3	-0.1	0	2	-8		7.8	0.0	16	29	-189	16
Mexico		19.35	0.0	0.3	3	-6	-12		9.0	0.0	26	12	-52	52
Peru		3.7	-0.1	-0.7	2	2	-1		6.5	#####	28	4	-107	-17
Uruguay		41	-0.1	1.0	-2	-4	-6		9.5	10.8	-21	-24	-30	-2
Hungary		364	-0.1	-0.5	-1	1	-5		6.2	-4.0	23	36	-136	42
Poland		3.92	0.1	-0.7	-1	10	1		4.8	-0.8	22	33	-30	31
Romania		4.5	-0.1	-0.7	-1	4	-1		6.5	-0.4	9	1	-46	33
Russia		97.2	-0.4	-1.6	-7	3	-8							
South Africa		17.6	-0.3	-1.6	1	10	4		8.7	-4.0	12	15	-126	-41
Türkiye		34.25	0.0	-0.1	-1	-19	-14		29.8	-6.0	76	101	279	304
US (DXY; 5y UST)		103	0.1	0.9	1	-3	1		3.85	0.6	30	36	-91	0

	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		3956	-7.1	16	24	8	15		117	-7	-8	-56	-41	
Indonesia		7501	-0.7	-1	-3	8	3		92	-9	-21	-37	-4	
India		81467	-0.2	-3	-1	23	13		95	-8	-17	-52	-21	
Philippines		7425	-1.5	0	6	19	15		78	-8	-20	-28	-2	
Thailand		1457	0.3	0	2	2	3		0	0	0	0	0	
Malaysia		1635	0.0	0	-2	14	12		74	-2	-12	-24	-11	
Argentina		1731370	1.0	0	0	167	86		1189	-104	-298	-1490	-724	
Brazil		131512	-0.4	-1	-2	14	-2		205	-13	-32	-22	-10	
Chile		6493	0.3	2	4	15	5		113	-1	-15	-23	-12	
Colombia		1300	-0.7	0	-2	16	9		306	-9	-26	-54	35	
Mexico		51765	-0.5	-1	1	5	-10		298	-9	-37	-78	-36	
Peru		30246	-0.3	0	7	36	17		137	3	-12	-22	-7	
Hungary		74278	0.1	2	3	35	23		146	-7	-15	-62	-3	
Poland		82754	1.2	0	1	27	5		107	-7	-4	-27	10	
Romania		17579	0.3	1	1	26	14		190	-5	-21	-34	-11	
South Africa		84997	-0.6	-2	4	19	11		268	-9	-43	-135	-40	
Türkiye		8929	-1.3	-1	-8	9	20		277	-6	-33	-123	-37	
EM total		46	-0.8	0	10	23	15		388	-6	-26	-27	42	

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

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