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Markets slightly recover ahead of US inflation data

European and US stock markets recovered some of last week's losses, easing recession concerns for now. Absent major US data releases today, investors are focused on tomorrow's consumer price report and Thursday's producer price data. Market contacts suggest that if inflation comes in lower than expected, it could give dovish Fed members more room to push for a larger rate cut, especially as labor market weakness gains attention. However, markets still expect a higher likelihood of quarter-point cuts, as larger cuts could spark self-amplifying fears that the US economy is deteriorating more rapidly than anticipated. In the UK, the labor market data release for July showed decelerating unemployment rates and wage growth. In the Euro Area, Italian industrial production for July came in softer than expected while the final release of Germany's August inflation validated the flash estimate. Ahead of the ECB meeting on Thursday and amid well telegraphed issuance supply in primary markets, Bund yields remain well supported. In China, the August trade report highlights weak domestic demand despite rising production, a trend reflected in the widening yield spread between corporate and government bonds that appears driven by poor earnings and deflation concerns. Crude oil kept depreciating, underpassing \$68/bbl while the Yen and gold were little changed.

Key Global Financial Indicators

Last updated: 9/10/24 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5471	1.2	-3	2	23	14.70
Eurostoxx 50		4772	-0.1	-3	2	13	6
Nikkei 225		36159	-0.2	-7	3	11	8
MSCI EM		42	0.8	-3	0	9	5
Yields and Spreads			bps				
US 10y Yield		3.71	1.3	-12	-23	-55	-17
Germany 10y Yield		2.18	1.2	-10	-5	-43	16
EMBIG Sovereign Spread		391	3	3	-18	-28	8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.6	0.0	0	-1	-3	-5
Dollar index, (+) = \$ appreciation		101.6	0.1	0	-1	-3	0
Brent Crude Oil (\$/barrel)		71.0	-1.2	-4	-11	-22	-8
VIX Index (% change in pp)		19.6	0.2	-1	-1	6	7

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

Mature Markets

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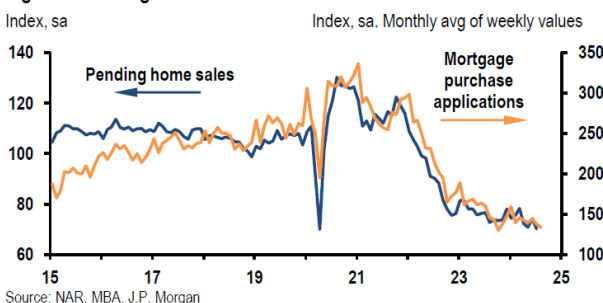
United States

The personal saving rate is approaching a historical low. While consumption has remained strong in recent months, personal income continues to grow at a slower pace. Consequently, the personal saving rate has been steadily declining and is approaching a historical low of 2.9% as of July 2024. As the chart below reveals, after a drastic decline following the pandemic, the personal saving rate rebounded to 5.3% in May 2023, before reverting to a downward trajectory. By comparison, the rate consistently remained at or above 5% during the decade before the pandemic. Going forward, if the labor market softens further and labor income growth weakens, the recent string of strong consumption readings may also moderate, although the accumulated household wealth over the last few years could continue to support consumption.



Housing data remains weak with leading indicators pointing to subdued existing home sales. Pending home sales, which typically leads existing home sales by one to two months, declined in July by -5% m/m (from +4.8%). Despite recent declines in mortgage rates, e.g., from 6.95% in early July to 6.35% in early September—an almost 60 basis points drop—weekly mortgage purchase applications remained at very low levels throughout late August. In recognition of weak housing starts and home sales, JP Morgan analysts are revising their Q3 real residential investment growth forecast down from -5% to -10%.

Figure 4: Leading indicators of home sales



Source: NAR, MBA, J.P. Morgan

Euro Area

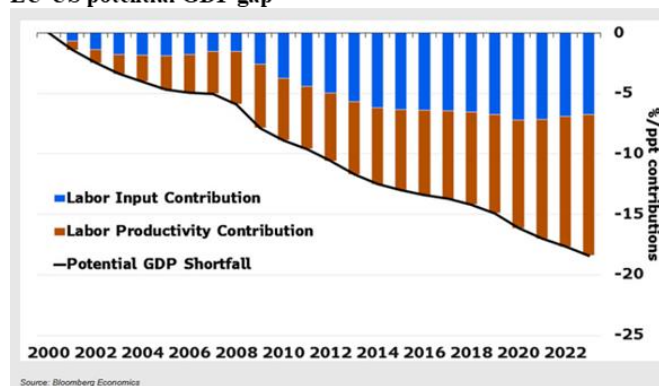
European equities traded marginally higher this morning while the Euro remained flat. The Stoxx 600 index inched up (+0.1%), led by gains in the industrial, tech and banking sectors while the euro remains flat against the dollar this morning, trading at \$1.10/€.

Bund yields remained well supported this morning. 10y bunds remained flat at 2.17%, with the spreads against 10y Italian and French sovereign bonds remaining similarly stable at 145bps and 72bps. Market contacts perceive that this week's issuance supply, including that from the EU and Italy, as potentially adding steepening pressure from the long end. Italy is expected to raise €5bn from the sale of a new 30-year note, which according to Bloomberg analysts garners solid demand. In addition, Commerzbank expects the EU to sell 7-year bonds and to reopen a green 2050 bond in order to raise up to €7bn.

In a report published yesterday, the former ECB President Mario Draghi called on the EU to significantly boost investment. He urged the EU to invest by about 5% of its GDP in order to deal with the "existential challenge" of fostering the competitiveness of its economy, which was "persistently slower"

than the US in recent years. In doing so, Draghi calls on the EU to develop its advanced technologies, create a plan to meet its climate targets and boost defense and security of critical raw materials. The EU failed so far to further integrate its capital markets to ease raising cross border the resources needed to accelerate transition to a sustainable economy or to support a new generation of technology champions. The report suggests common funding for defense and research, noting that Europe could follow the model of Next Generation EU, the recovery fund financed by €800bn in joint debt to overcome the consequences of the Covid pandemic. Under current rules, the EU will cease additional net borrowing from 2026 when its pandemic-relief program expires. Understandably, German Finance Minister and known fiscal hawk Christian Lindner reportedly commented about being “*very skeptical about Mr. Draghi’s approach to debt*”.

EU-US potential GDP gap



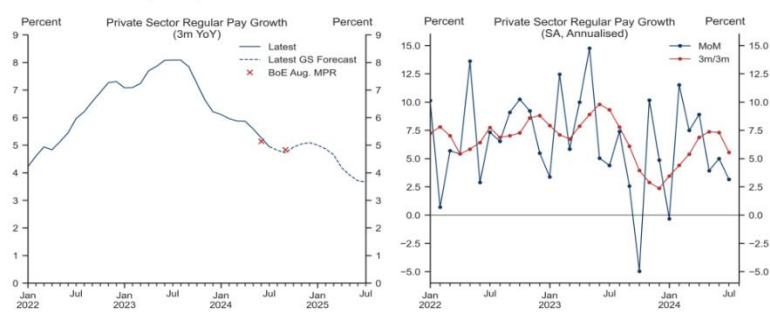
United Kingdom

The pound sterling slightly appreciated against the dollar this morning. The pound rose (+0.2%)

trading at \$1.30/£, and 2y gilt yields ticked up (+2bps) to 3.9% after today's data. July labor market data showed that private sector regular three-month pay growth printing at 5.1%/y/y in July (exp. 5.1% from 5.4%) and three-month Labor Force Survey unemployment rates ticking down to 4.1% (exp. 4.1% from 4.2%).

Following the data release, analysts at Goldman Sachs continue to expect the Bank of England to keep its benchmark rate unchanged at 5% at the MPC meeting in September.

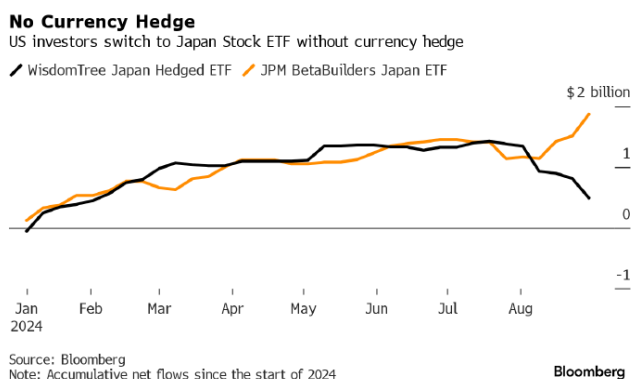
Private Sector Regular Pay Growth



Japan

A stronger yen is driving asset managers to buy Japanese equities unhedged against FX risk.

According to Bloomberg, the stronger yen is driving asset managers to increasingly hold Japanese equities without hedging the currency risk. Strategists from JPMorgan, UBS, and BNP Paribas Asset Management are now recommend such approach to benefit from the potential yen appreciation following Japan's July rate hike. This strategy is gaining traction as the Topix rebounded from its August 5 crash, up +7.1% ytd in dollar terms, outperforming the MSCI AC Asia Pacific Excluding Japan Index's +5.4% gain. Reflecting this shift, WisdomTree's Japan Hedged Equity ETF saw -\$897mln of outflows since August, while JPMorgan's unhedged BetaBuilders Japan ETF attracted +\$687 million over the same period. Opinions on corporate earnings, however, remain divided. Some analysts warn that a stronger yen could squeeze profits, while others argue that inflation-driven pricing power now plays a larger role in earnings growth than yen weakness. Today, Japanese equities declined (Nikkei 225: -0.2%) and the yen depreciated (-0.3%).



Norway

Inflation continues to ease but contacts do not expect a dovish reaction from the central bank. Data released this morning showed Norway's headline inflation surprising on the downside in August with a +2.6%/y print (exp. 2.8% from 2.8%) and underlying CPI easing to 3.2%/y (exp. 3.2% from 3.3%). JPMorgan analysts highlight that the August report marks a 10th consecutive month featuring a downside surprise in core inflation. According to them, even though core inflation is now 0.4ppts below the Norges Banks' forecast, the inflation report could still be considered slightly hawkish as core inflation remains being supported by food, rent and some services items. This is at odds with views from ING analysts, who argue that the movement in the currency appears more relevant for the Norges Bank than inflation data, pointing to remarks from Governor Wolden Bache that caution against risks of a weaker Norwegian krone. The Norwegian krone was +0.5% stronger against the euro this morning, trading at around 11.89, while remaining -5.6% weaker than at the start of the year.

Norway's Core Inflation Extends Slide



Emerging Markets

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EMEA equities and currencies traded on country specific factors. CEE currencies were mostly weaker against the euro, while the Turkish lira remained unchanged to the dollar at 34.06/\$. Elsewhere, Bloomberg reports that Türkiye raised 8.5bn lira in bond sales. The sales were split across a 9y bond which raised 5.5bn lira and a 7-year floating rate note which raised 3bn lira.

Asian equities and currencies lacked directionality. The EM Asia equity index remained muted (+0.2%) while the Malaysian ringgit outperformed (+0.5%) after Bank Negara Malaysia's deputy governor Adnan Zaylani stated that there is no pressure on interest rates, even as global central banks pivot to cut rates. Conversely, the Korean won depreciation slightly (-0.3%) as the latest Bank of Korea meeting minutes indicated that conditions for rate cuts are emerging.

Yesterday, Latin American assets performed mixed. Stocks gained in Peru (+0.8%), while declining in Colombia (-0.5%). Currencies depreciated in Colombia (-1.7%) and Peru (-0.4%), while the Mexican peso strengthened (+0.5%) against the US dollar. Mexico's annual inflation slowed to 4.99% in August (exp. +5.06% from +5.57%).

CEE3

Inflation data diverge in CEE3 with headline inflation surprising on the upside in Czechia, while easing by more than expected in Hungary. August headline inflation for Czechia rose by 2.2%/y/y, unchanged versus the prior month, but ahead of expectations of 2%/y/y, while in Hungary, headline inflation data for August slowed by more than expected to 3.4%/y/y (vs 3.6% expected). Immediately following the data release, the Czech koruna strengthened a touch (+0.1%) against the euro as markets reassessed the pace of any further monetary easing, although

the gains were quickly reversed with the currency trading a fraction lower (-0.1%) at 25.06/€. The Czech National Bank's latest forecast implies policy rates holding steady at the current level of 4.5% for the remainder of the year, although money markets are pricing in a further 75bps of easing in the upcoming three meetings. Meanwhile, with inflation slowing by more than expected in Hungary, combined with a weakening in the forint, some investors expect the central bank may consider resuming interest-rate cuts. At the last policy meeting in August, Deputy Governor Virag stated that rate cuts by foreign central banks, as well as risk assessment and economic confidence would determine if Hungary could resume rate cuts. Policymakers will consider a 25bps rate cut versus no change at each meeting this year, according to Virag. This morning the forint was also trading marginally weaker (-0.1%) against the euro at 397.0/€.

CEE3: Inflation (yoy%)



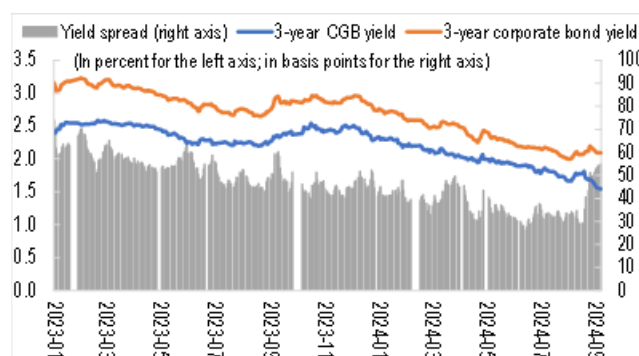
Source: Bloomberg and IMF calculations

China

China's exports rose to the highest in nearly two years. In August, exports rose +8.7% y/y (exp. +6.6% from +7.0%) reaching a level of US\$309bn. The strong export performance contrasts with stagnant import growth of +0.5% y/y (exp. +2.5% from +7.2%) owing to weak domestic demand. Chinese equities slightly gained (CSI 300: +0.1%) following the trade report, recovering from a loss of -0.7% earlier in the day. The RMB was little changed.

China's corporate bond spreads widened to a one-year high as sovereign bonds continued to rally.

Data from WIND shows the yield spreads between 3-year top-rated corporate bonds and Chinese Government Bonds reached 55 basis points, up +27 bps in the past three weeks (see chart below). Bloomberg analysts note that, unlike the surge to 96 bps in late 2022—driven by redemptions from wealth management products—the current widening is mainly due to stronger gains in government bonds, despite China's efforts to cool the rally. The growing gap reflects a shift away from riskier debt after a poor earnings season, deflation worries, and expected rate cuts that have pushed 3-year CGB yields to a 4-year low of 1.54%.



Source: WIND and IMF calculations.

Sri Lanka

The selloff in Sri Lanka dollar bonds intensified yesterday. Investors have cut their exposure to Sri Lanka bonds due to rising political uncertainty ahead of the September 21 elections. Bonds maturing in 2030 dropped by 3 cents to 49.9 cents on the dollar, their lowest level since February, before stabilizing at 50.5 cents today. Opposition leader Anura Kumara Disanayake opposes the current debt restructuring framework and plans to renegotiate terms if elected. The bond market's volatility highlights investor fears that a change in leadership could derail debt talks, though some see the recent price drops as an opportunity to buy undervalued assets.











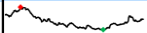








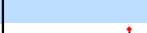
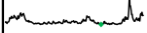

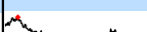


Sri Lanka Dollar Bonds Tumble on Election Worry



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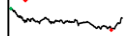

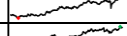
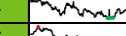
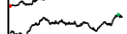



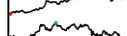

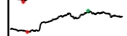

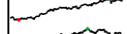

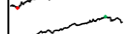






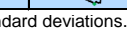








Global Financial Indicators

9/10/24 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5479	1.2	-1	3	23	15
Europe		4772	-0.1	-3	2	13	6
Japan		36159	-0.2	-7	3	11	8
China		3196	0.1	-2	-4	-15	-7
Asia Ex Japan		71	1.2	-3	1	9	7
Emerging Markets		42	0.8	-3	0	9	5
Interest Rates			basis points				
US 10y Yield		3.71	1.3	-12	-23	-55	-17
Germany 10y Yield		2.18	1.2	-10	-5	-43	16
Japan 10y Yield		0.90	-0.1	-3	5	25	29
UK 10y Yield		3.87	1.2	-12	-8	-56	33
Credit Spreads			basis points				
US Investment Grade		137	-0.2	1	-4	-8	4
US High Yield		384	-0.3	7	-8	-27	-1
Exchange Rates			%				
USD/Majors		101.64	0.1	0	-1	-3	0
EUR/USD		1.10	0.0	0	1	3	0
USD/JPY		143.0	-0.1	-2	-3	-2	1
EM/USD		45.6	0.0	0	-1	-3	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		71.0	-1.2	-4	-10	-15	-6
Industrials Metals (index)		138	-0.5	-2	0	-2	-3
Agriculture (index)		55	0.0	0	2	-17	-12
Implied Volatility			%				
VIX Index (% change in pp)		19.6	0.2	-1.1	-0.7	5.8	7.2
Global FX Volatility		8.5	0.0	-0.2	-0.3	0.2	0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	-1.1	-2	-6	-32	0
Italy		144	-1.3	-3	2	-30	-24
Portugal		62	-1.0	0	-3	-11	-1
Spain		82	-0.9	-1	-4	-22	-15

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

Emerging Market Financial Indicators

Last updated: 9/10/2024 8:19 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	-0.1	0.0	1	2	0		1.9	-2.0	-5	-19	-85	-65
Indonesia		15450	0.0	0.5	3	-1	0		6.6	-0.6	-5	-15	7	14
India		84	0.0	0.0	0	-1	-1		7.0	-0.9	-12	-1	(80.9)	-25
Philippines		56	0.1	0.4	2	1	-2		5.1	16.1	5	-10	-85	-55
Thailand		34	0.6	1.4	5	5	1		2.4	-1.5	-3	-8	-67	-30
Malaysia		4.34	0.7	0.6	3	8	6		3.7	-1.8	-4	-4	-12	0
Argentina		958	-0.2	-0.5	-2	-63	-16		39.1	-36.3	-185	-561	-8338	-4732
Brazil		5.58	0.1	1.1	-2	-12	-13		11.7	2.3	-32	18	26	131
Chile		944	0.0	-1.6	-1	-6	-7		4.7	-0.8	-27	-34	-61	-24
Colombia		4244	-1.6	-1.8	-4	-6	-9		7.5	0.0	-38	-16	-108	-14
Mexico		19.89	0.0	-0.5	-4	-13	-15		8.9	1.6	-21	4	-34	41
Peru		3.8	-0.4	-1.2	-2	-3	-3		6.4	-2.6	-11		-54	-24
Uruguay		40	-0.1	-0.3	0	-6	-4		9.7	-0.3	17	25	43	22
Hungary		360	-0.1	-0.9	0	-1	-4		5.9	4.0	-10	-9	-101	11
Poland		3.88	-0.2	-0.1	1	11	1		4.4	-0.3	-20	-8	-10	-3
Romania		4.5	0.0	-0.1	1	2	0		6.5	0.4	2	16	-6	32
Russia		91.0	-0.5	-4.7	0	5	-2							
South Africa		17.9	-0.1	0.4	2	5	3		8.5	-1.5	-15	-17	-88	-58
Türkiye		34.06	0.0	-0.1	-1	-21	-13		28.6	-20.0	9	26	479	183
US (DXY; 5y UST)		102	0.1	-0.2	-1	-3	0		3.50	1.4	-14	-30	-90	-35

	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		3196	0.1	-2	-4	-15	-7		126	2	-28	-56	-32		
Indonesia		7761	0.8	2	7	11	7		117	17	0	-12	21		
India		81921	0.4	-1	3	22	13		113	0	-4	-27	-3		
Philippines		6985	0.0	1	5	12	8		102	15	3	-2	22		
Thailand		1428	-0.2	5	10	-7	1		0	0	0	0	0		
Malaysia		1660	0.5	-1	4	14	14		87	3	-11	-10	2		
Argentina		1738556	1.0	-1	10	226	87		1442	4	-119	-721	-471		
Brazil		134737	0.1	0	3	17	0		239	18	3	8	24		
Chile		6232	-0.2	-2	-1	6	1		129	12	-3	2	4		
Colombia		1322	-0.5	-2	1	24	11		335	23	9	-5	64		
Mexico		51136	0.1	-3	-4	-3	-11		337	17	14	-19	3		
Peru		28283	0.8	-2	-1	24	9		152	15	-2	-3	8		
Hungary		72031	-0.1	-1	0	27	19		165	17	2	-30	16		
Poland		81688	-0.3	-4	3	23	4		116	15	3	-9	19		
Romania		17541	0.4	-3	-2	27	14		216	19	19	1	15		
South Africa		81571	0.2	-1	1	11	6		314	22	-6	-61	6		
Türkiye		9631	-0.7	-4	-3	16	29		314	15	-2	-76	0		
EM total		42	-0.2	-3	0	9	5		416	16	-6	38	71		

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

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