GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 12, 2024

LEAD EDITOR: BENJAMIN MOSK

- **ECB cut its deposit rate by 25 bps to 3.5%, as widely expected** (link)
- **August US PPI inflation accelerated and was higher than expected** (link)
- **US mortgage rates have fallen to the lowest level since February 2023** (link)
- **Brazil's Finance Minister concerned about drought's impact on inflation** (link)
- **Inflation remained below Riksbank's target for the third consecutive month in Sweden** (link)

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Back to Tech and ECB on Track

The European Central Bank (ECB) cut its deposit facility rate by 25 bps to 3.5% in line with expectations. There were no surprises in its policy statement, although its forecast of core inflation was slightly adjusted upward for 2024 and 2025. Yesterday, US markets ended a wild trading session on a positive note. Initially, markets reacted strongly to a small miss on the August CPI print, which saw core inflation marginally higher than expected at 0.3% m/m (0.2% expected). The 2-year Treasury yield initially increased by 11 bps, subsequenly recovered, but then reversed course once again to end the day 6 bps higher at 3.66%. US equities initially declined by 1.6% but then recovered and ended the day up 1%, led by the technology sector. These large market gyrations reflect a combination of uncertainty and recession fears, whilst the FOMC is expected to kick off its cutting cycle next week. Market pricing suggests a base case for a 25 bps cut; a jumbo 50 bps cut is largely priced out after yesterday's CPI print. Positive sentiment was also seen in Asian and European equity markets today, with the Japanese and European stock markets advancing by 3.4% and 1.2% respectively, both led by the technology sector. China saw a mixed picture. Oil prices rebounded from recent lows on the back of Hurricane Francine's impact on the Gulf of Mexico, prompting traders to cover short positions (+1.7% to 68 USD per barrel). Nonetheless, longer term drivers—notably weak demand from China—are seen to exert downward pressures. US initial jobless claims came in slightly higher than expected, while the August producer price final demand index came in at 0.2% m/m versus 0.1% expected. Treasury yields fell after the releases (down 5 bps at the 2-year).

Key Global Financial Indicators

Last updated: 9/12/24 8:39 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5554	1.1	1	4	24	16.44
Eurostoxx 50		4829	1.4	0	3	14	7
Nikkei 225		36833	3.4	0	2	13	10
MSCI EM		42	0.7	-1	0	8	5
Yields and Spreads					bps		
US 10y Yield		3.64	-1.1	-8	-26	-64	-24
Germany 10y Yield		2.10	-1.0	-11	-13	-54	8
EMBIG Sovereign Spread		393	-3	-10	-16	-26	10
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.6	0.1	-1	0	-4	-5
Dollar index, (+) = $ appreciation		101.7	0.0	1	-1	-3	0
Brent Crude Oil ($/barrel)		71.5	1.3	-2	-13	-22	-7
VIX Index (%, change in pp)		17.6	-0.1	-2	-3	3	5

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

August US PPI inflation accelerated and was higher than expected, while initial jobless claims picked up for the first time in three weeks. The headline PPI inflation for August came in at 0.2% m-o-m (0.1% prior, 0.1% expected) and 1.7% y-o-y (2.2% prior, 1.7% expected). Initial jobless claims were registered at 230k (227k prior, 227k expected), while continuing claims stood at 1,850k (1,838k prior, 1,850k expected). The 2-year Treasury yield edged down by 4 basis points after the release, while 10-year yield down by 2 basis points. S&P 500 futures edged down by 0.05%. The dollar weakened fractionally.

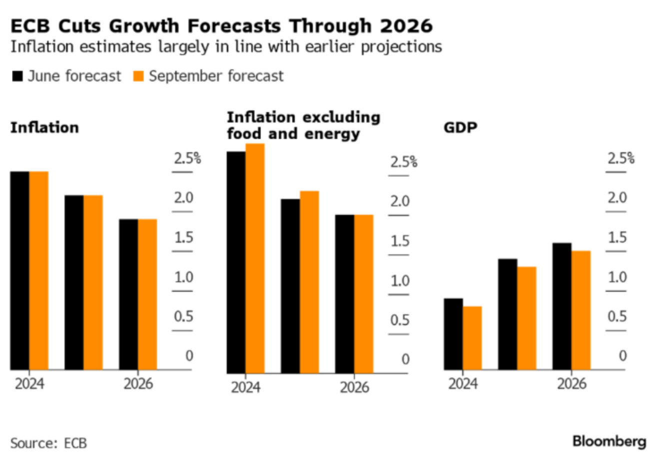
Mortgage rates have fallen to the lowest level since February 2023. The 30-year mortgage rate dropped by 14 basis points to 6.29% last week, marking the sixth consecutive weekly decline. The average contract rate for a 15-year mortgage also fell, down 27 basis points to 5.71%, also the lowest since February 2023. Adjustable-rate mortgage rates saw declines as well. Lower financing costs spurred a 1.8% increase in the home purchase applications index, according to data released by the Mortgage Bankers Association earlier today. Mortgage applications to refinance also rose by 0.9%, reaching the second-highest level since May 2022. Weeks of falling mortgage rates are encouraging prospective homebuyers to re-enter a market still constrained by low inventories of existing homes and elevated prices.

Chart: 30-year Fixed-Term Mortgage Rate

Source: Bloomberg.

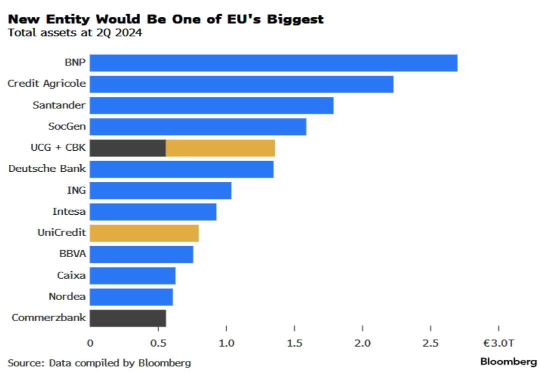
Europe

The ECB cut its deposit interest rates by 25 bps to 3.5%, as widely expected. The ECB also reduced the spread between the deposit and the main refinancing rate (MRO) to 15 bps as announced in March, with the MRO rate now lower by -60bps to 3.65%, while keeping the spread between the MRO and the marginal lending rate at 25bps (marginal lending rate at 3.90%). The accompanying statement described today's decision as a further step in moderating the degree of policy restrictiveness, with the revised staff projections broadly confirming the June forecast of inflation averaging at 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. The statement also noted that financing conditions remain restrictive while economic activity is still subdued due to weak private consumption and investment; ECB staff project that the economy will grow by 0.8% in 2024, 1.3% in 2025 and 1.5% in 2026. The ECB restated that it continues to follow a data-dependent and meeting-by-meeting approach.



Markets were little changed following the announcement, with 10y bund yields trading at around 2.11% and the euro at around 1.10 against the dollar. Forward rates price in 16bps further easing by October (64% likelihood of another -25bps rate cut). The GC also confirmed that the ECB's PEPP portfolio will be reduced by €7.5 bn per month on average as it no longer reinvests principal payments from maturing PEPP securities. Focus now shifts to the press conference, due later today. European equities traded higher earlier this morning, with the Stoxx 600 index up by +1.1% led by gains in the technology (+2.6%), industrial (+1.7%) and banking (1.6%) sectors. The stock markets were in the green across all main European countries ahead of the ECB decision later today, with Germany outperforming (Dax index +1.3%).

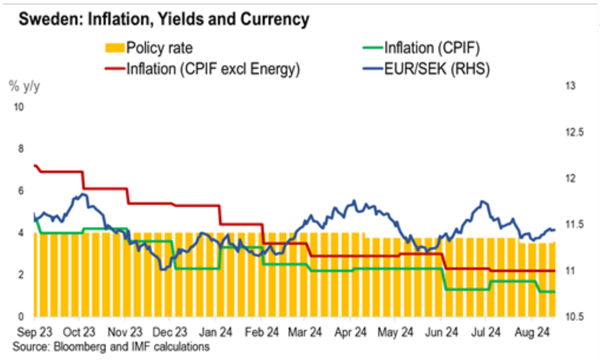
Sentiment in the banking sector was supported by renewed interest for possible consolidations after Unicredit purchased yesterday all the shares (4.5% of share capital) of Commerzbank offered by the German government, taking its stake in the bank to 9%, and after UniCredit's Chief Executive Officer Andrea Orcel reportedly said today that a full takeover of Commerzbank is an option. The stocks of Unicredit rose today by 2.6% and those of Commerzbank by 5.3%. Analysts at BNP and Jefferies are constructive on a possible merger between the two groups due to synergies on both costs and revenues, which they see as increasing EPS in the range of 7–10% at the cost of about 110bps decline of CET1 for Unicredit after the possible business combination. Germany's services sector union (Verdi), however, has reportedly strongly opposed a potential merger, urging Finance Minister Christian Lindner to block the potential takeover.



The euro was little changed against the dollar this morning and continued to trade tight at $1.10/€ ahead of the ECB decision later today where the central bank is largely expected to cut its policy deposit rate by -25bps to 3.5% and to reduce the gap between the main refinancing and deposit rates from 50 to 15 basis points as announced in March as part of the review of its operational framework, thus taking the main refining operation rate down by-60bps to 3.65%.Analysts at Commerzbank see the decision as possibly impacting on the euro, while ING remains constructive on the euro as they expect today's ECB decision to dampen expectations of a further rate cut in October.

Sweden

The krona strengthened (+0.2%) against the euro this morning, trading at SEK 11.41/€ although today's August headline inflation print slightly surprised to the downside. CPIF inflation fell to 1.2%y/y (-0.5%m/m) in August, from 1.7%y/y in July and against consensus expectations of 1.4%y/y (-0.4%m/m) and Riksbank's estimate of 1.7%.The drop was due to lower energy prices. Headline inflation remained below the 2% Riksbank's target for the third consecutive month, while today's data also showed that unemployment rose to 3.7% in August, from 3.6% in July. This has increased pressure on the Riksbank, with Governor Erik Thedeen reportedly favoring reducing the policy rate to 2.75% by the end of 2024 from 3.5%. According to Bloomberg, today's data could fuel speculation on a -50bps cut at the September MPC meeting. Markets have marginally scaled up expectations of rate cuts today, pricing-in -89bps of easing by the end of the year, against -85bps yesterday, this implies a 40% likelihood of a fourth 25 bps cut this year.



Japan

Japanese equities rallied today while the yen weakens despite comments from Bank of Japan (BoJ) official suggesting that interest rates should be increased to at least 1%. BoJ Board member Tamura spoke in favor of increasing the BoJ's short-term rate to at least 1% during the second half of the central bank's projection period through fiscal year 2026. Earlier this week the yen reached its strongest level since January after another BoJ official signaled potential rate hikes. Since then, the yen has weakened somewhat (overnight -0.2% to around 142.55 against the dollar), with Bloomberg analysts seeing support for the US dollar as expectations for aggressive Fed easing are dialed back. The Nikkei was rallying (+3.4%) with Bloomberg analysts attributing the move partly to a weaker yen. The analysts caution however, that the rally in equities could prove unsustainable and argue that a slower start to the US rate easing cycle would not prevent a further strengthening of the yen. The BoJ's next policy meeting is set to take place next week, with consensus expecting the central bank to remain on hold.

Emerging Markets

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EMEA equities were higher with Poland (+1.7%) and Türkiye (+1.1%) outperforming, while currencies were mostly trading weaker. CEE currencies were weaker against the euro, with the Polish zloty sliding -0.2% to trade at 4.29/€, to reach a one-month low against the euro. According to Bloomberg, comments from Citibank analysts who expect the National Bank of Poland to deliver as much as 150bps of rate cuts next year were partly responsible for the weakness in the currency. Meanwhile, the Turkish lira was broadly unchanged to trade at 33.98/$. Elsewhere, Bloomberg reports that Maldives' April 2026 sukuk bond price climbed for a sixth consecutive day, buoyed by comments from the monetary authority that the country will make its upcoming debt payment due next month.

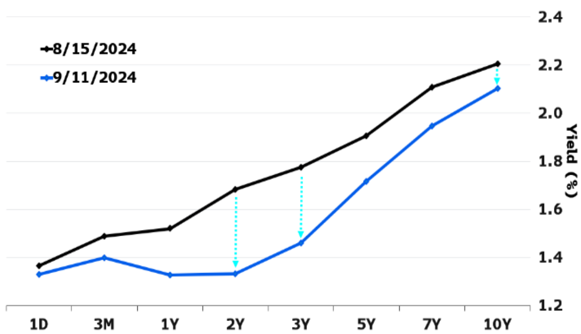
Asian equities advanced today, with the exception of Chinese equities. On aggregate, stocks advanced by 1.6% in the APAC region, following positive global sentiment. Most currencies depreciated slightly versus the US dollar. India's August CPI inflation came in at 3.65% y/y; whilst slightly higher than expected (3.47%), it is the second time that it is below the Reserve Bank of India's (RBI) 4% target; a Bloomberg article suggests that it expects the RBI to start its cutting cycle in October. Today, the State Bank of Pakistan cut its policy rate by 2 pp to 17.5%, while of 18% was expected.

Latin American equities rebounded yesterday. Stocks gained in Brazil (+0.3%), Mexico (+0.4%), and Chile (+1.4%). Currencies appreciated in Mexico (+1.4%), Chile (+0.7%), and Peru (+0.7%) against the dollar. The central bank of Peru is expected to cut its policy rate by 25 bps to 5.25% later today.

China

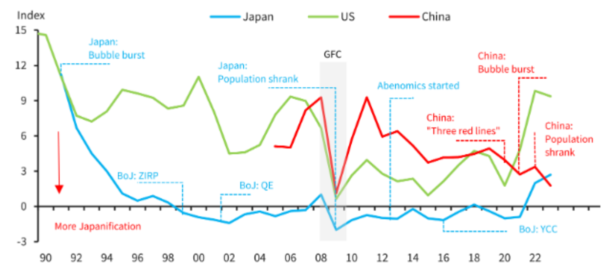
Analysts suspect PBoC bond sales but see limited impact on curve steepness. Some analysts expressed that they suspect that the PBoC has intervened in government debt markets to boost curve steepness, after longer-term yields have rapidly fallen this year. But the impact of these suspected interventions might be less than last month, according to strategists interviewed by Bloomberg, as the shock effect has lessened. Barclays analysts see that the Chinese economy is moving closer to a Japan-style balance sheet recession, with a deflating housing bubble and its impact on household/firm balance sheets, and a deleveraging that may be only half done.

Yield Curve Steepening



Source: Bloomberg

Figure 1. China has become more like Japan in several ways: low inflation rate, low population growth and low policy rate

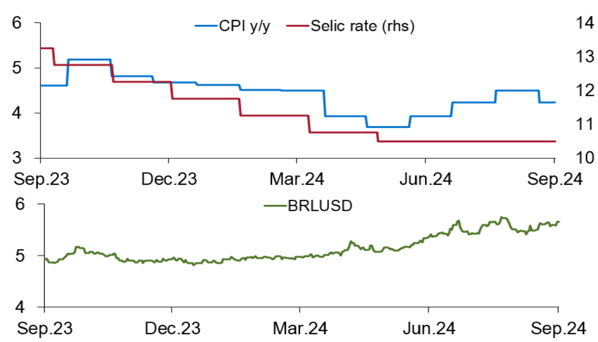


To measure the phenomena of slow growth, low inflation, and low policy rate, a Japanese economist, Takatoshi Ito, introduced a Japanification Index, which measured the sum of the inflation rate, nominal policy rate, and the GDP gap. To apply to China's economy, we adjusted this index, by replacing the GDP gap with working-age population growth, as the estimation methods of GDP gaps differ across nations and working-age population is by far the most fundamental determinant for long-term growth.

Source: Haver Analytics, Barclays Research

Brazil

Brazil's Finance Minister Fernando Haddad reportedly expressed concern about inflation caused by extreme weather conditions; severe drought can raise food and energy prices. He noted that interest rate hikes might not fully control these costs. The central bank is expected to raise its Selic rate on September 18 to combat inflation, which has been above target. The drought, the worst in 40 years, is threatening both crops and energy supplies, adding to economic pressures. Despite these challenges, Barclays analysts believe the Brazilian real will strengthen as the central bank is set to start a hiking cycle, while the rest of the world, including the Fed, is easing.

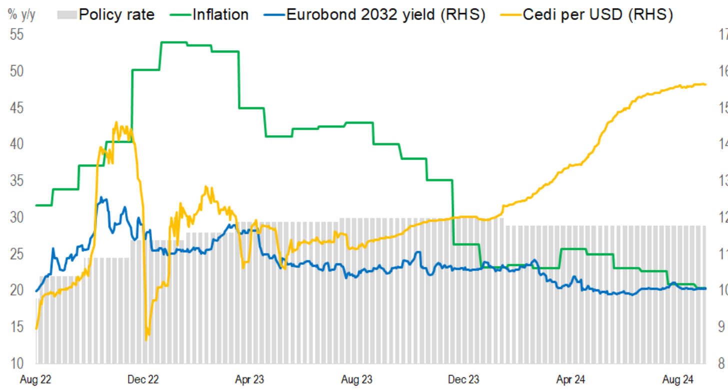


Source: Bloomberg and IMF staff

Ghana

Downside surprise in inflation bolsters expectations of easing. August headline inflation printed at 20.4% y/y versus consensus expectations of 22.8%, driven by deflation in food prices which account for around 43% of the consumption basket. Goldman Sachs analysts believe the latest inflation data, combined with the stabilization in the currency increases the case for rate cuts and they continue to expect 200bps of easing starting at the upcoming September policy meeting. That said, the analysts note the potential for fiscal slippage as well as a decline in confidence in the cedi ahead of December elections present hawkish risks to their forecast for the policy rate path. This morning, indicative Bloomberg pricing data showed that the cedi was trading broadly unchanged against the dollar at 15.65/$.

Ghana: Policy rate, Inflation, Currency and Eurobond yield



Source: Bloomberg and IMF staff calculations

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Global Financial Indicators

9/12/24 8:40 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5555	1.1	1	4	24	16
Europe		4829	1.4	0	3	14	7
Japan		36833	3.4	0	2	13	10
China		3172	-0.4	-3	-5	-15	-8
Asia Ex Japan		71	0.9	0	1	9	7
Emerging Markets		42	0.7	-1	0	8	5
Interest Rates					basis points		
US 10y Yield		3.64	-1.1	-8	-26	-64	-24
Germany 10y Yield		2.10	-1.0	-11	-13	-54	8
Japan 10y Yield		0.87	1.3	-1	2	16	26
UK 10y Yield		3.75	-1.3	-17	-17	-67	21
Credit Spreads					basis points		
US Investment Grade		138	-0.3	2	-4	-10	4
US High Yield		390	-1.0	11	-7	-20	4
Exchange Rates					%		
USD/Majors		101.67	0.0	1	-1	-3	0
EUR/USD		1.10	0.1	-1	1	3	0
USD/JPY		142.0	-0.2	-1	-4	-3	1
EM/USD		45.6	0.1	-1	0	-4	-5
Commodities					%		
Brent Crude Oil ($/barrel)		71.5	1.2	-2	-12	-15	-5
Industrials Metals (index)		142	1.7	2	2	0	0
Agriculture (index)		55	0.9	0	3	-17	-12
Implied Volatility					%		
VIX Index (%, change in pp)		17.6	-0.1	-2.3	-3.1	3.4	5.2
Global FX Volatility		8.5	0.0	-0.2	-0.1	0.3	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		102	-0.7	-1	-9	-38	-2
Italy		141	-1.8	-2	0	-35	-26
Portugal		61	-0.8	1	-3	-12	-2
Spain		81	-1.1	0	-4	-24	-15

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

Emerging Market Financial Indicators

Last updated: 9/12/2024 8:40 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	-0.4	1	2	0		1.9	0.5	-4	-19	-84	-65
Indonesia		15430	-0.2	-0.2	3	-1	0		6.6	0.4	-4	-21	-5	11
India		84	0.0	0.0	0	-1	-1		6.9	3.2	-7	-6	(87.9)	-30
Philippines		56	-0.4	0.1	2	1	-1		5.1	-0.1	0	-10	-88	-55
Thailand		34	-0.3	-0.3	5	6	1		2.4	1.5	-2	-11	-72	-33
Malaysia		4.34	-0.1	0.1	3	8	6		3.7	1.1	0	-2	-13	1
Argentina		958	-0.1	-0.5	-2	-63	-16		39.6	93.3	-174	-504	-8171	-4675
Brazil		5.65	0.3	-1.3	-3	-12	-14		11.8	10.0	2	26	41	139
Chile		935	0.8	0.7	0	-4	-6		4.7	0.0	-22	-36	-65	-26
Colombia		4270	0.2	-2.3	-5	-7	-10		7.4	0.0	-44	-24	-123	-22
Mexico		19.75	0.3	0.6	-3	-13	-14		8.8	0.0	-15	-2	-32	35
Peru		3.8	0.7	0.5	-1	-2	-2		6.4	-0.6	-12	-14	-45	-27
Uruguay		41	-1.1	-1.6	-2	-7	-5		10.0	16.8	36	46	53	43
Hungary		359	0.2	-1.4	0	0	-3		5.9	6.0	7	-11	-103	9
Poland		3.89	0.1	-0.9	1	11	1		4.4	0.7	-17	-14	-31	-9
Romania		4.5	0.1	-0.8	1	2	0		6.5	-0.3	2	16	-3	32
Russia		91.5	0.1	-3.5	-1	3	-2							
South Africa		17.9	-0.1	-1.2	2	6	2		8.5	2.8	-2	-19	-99	-60
Türkiye		33.93	0.2	0.0	-1	-21	-13		28.7	7.0	-6	40	317	198
US (DXY; 5y UST)		102	0.0	0.6	-1	-3	0		3.42	-1.9	-11	-32	-100	-42

	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		3172	-0.4	-3	-5	-15	-8		126	0	-28	-57	-32
Indonesia		7798	0.5	2	6	12	7		114	-2	-3	-15	18
India		82963	1.8	1	5	23	15		115	3	-2	-25	-1
Philippines		7025	1.1	2	6	14	9		98	-2	-1	-6	18
Thailand		1422	0.4	1	10	-7	0		0	0	0	0	0
Malaysia		1638	-0.1	-2	2	13	13		90	4	-8	-7	5
Argentina		1764129	2.9	-2	11	228	90		1447	-21	-114	-728	-466
Brazil		134677	0.3	-1	3	14	0		239	4	3	9	24
Chile		6302	1.4	-1	0	7	2		131	2	-1	4	6
Colombia		1310	-0.3	-2	-2	21	10		336	7	10	-8	65
Mexico		51196	0.4	-1	-3	-1	-11		336	2	13	-21	2
Peru		28191	0.0	0	-1	23	9		153	2	-1	-3	9
Hungary		72385	0.8	0	0	26	19		167	5	4	-27	18
Poland		81105	1.5	-3	-1	22	3		117	2	4	-8	20
Romania		17323	0.0	-2	-4	23	13		216	2	18	0	15
South Africa		81634	1.0	-1	1	10	6		316	5	-4	-54	8
Türkiye		9504	0.9	-4	-3	16	27		314	-2	-2	-76	0
EM total		42	0.6	-1	0	8	5		417	2	-5	37	72

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

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