



- Investors are eager to see aggressive Fed rate cuts ([link](#))
- Growth considerations likely more important for US equities than rate cuts ([link](#))
- Fed may impact Japanese government bonds more than the Bank of Japan ([link](#))
- August real activity and credit data point to further slowing of Chinese economy ([link](#))
- Analysts constructive on European banks amid renewed M&A perspectives ([link](#))

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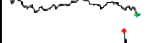
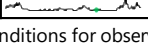
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## Central Bank Decisions in the Spotlight This Week

Markets focus on the FOMC decisions on Wednesday, as pricing reflects growing expectations for a **50 bps cut**. The market implied probability for a 50 bps cut increased dramatically from 17% last Wednesday to 67% today. A rate cut, regardless of whether it would be 25 bps or 50 bps, would constitute the start of a long-anticipated easing cycle in the US. Also on Wednesday, the central bank of Brazil is expected to move into the opposite direction with its policy rate. It started its easing cycle in July 2023, taking its Selic rate from 13.75% to 10.5%, but the central bank is now expected to reverse course and raise by 25 bps. The Japanese yen strengthened today versus the US dollar, as markets ponder the possibility of larger-sized rate cut for the FOMC. The yen briefly crossed through the 140 per US dollar level. In July, the currency reached a multidecade low versus the US dollar, but has appreciated by around 13.5% since then, driven by the countries' respective monetary policies moving in opposite directions faster than initially expected, reducing rate differentials. The Bank of Japan is expected to hold this week, but analysts see scope for another rate hike in its December meeting.

Key Global Financial Indicators

Last updated: 9/16/24 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5626	0.5	4	1	26	17.95
Eurostoxx 50		4839	-0.1	1	0	13	7
Nikkei 225		36582	-0.7	1	-4	9	9
MSCI EM		43	0.5	3	-1	9	7
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.64	-1.7	-6	-25	-70	-24
Germany 10y Yield		2.14	-1.4	-3	-11	-54	11
EMBIG Sovereign Spread		385	-4	-4	-26	-39	1
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.1	0.1	1	0	-3	-4
Dollar index, (+) = \$ appreciation		100.6	-0.5	-1	-2	-4	-1
Brent Crude Oil (\$/barrel)		72.1	0.8	0	-10	-23	-6
VIX Index (% change in pp)		17.2	0.6	-2	2	3	5

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

**Central bank decisions will be in the spotlight in the week weak ahead.** The main event will be the FOMC decision, now almost a coin flip between a 25bps and 50bps cut. With the FOMC out of the way, markets will turn to the UK, where the inflation data report will be released ahead of the Bank of England (BoE) meeting on Thursday. Although the BoE is expected to hold rates, much of the focus will be on its quantitative tightening strategy. In Asia, markets expect a pause from the People's Bank of China (1-year medium-term lending facility and loan prime rates) and the Bank of Japan. Meanwhile, central bank decisions will come from Türkiye (hold), South Africa (cut), Indonesia (hold), Norway (hold), and Brazil (hike). Inflation data will also be reported for Canada, the euro area, Nigeria, South Africa, and Japan, along with GDP data for New Zealand and Argentina.

## Mature Markets

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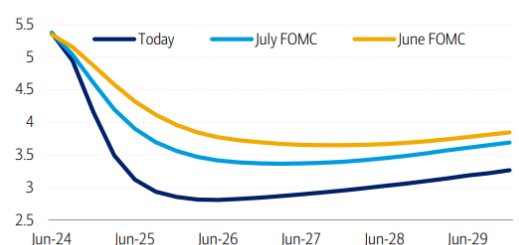
### United States

#### Investors are eager to see aggressive Fed rate cuts.

Markets expect the Fed to deliver its first rate cut at next week's FOMC meeting, but opinions are divided on whether it will be 25bps or 50bps. The odds of a 50bps cut rose significantly late last week, with the futures market on Friday pricing a 45% chance of a 50bps cut, and this increased to 65% this morning. GS analysts note that the Fed has been more willing to surprise with rate cuts than hikes, but larger cuts (more than 25bps) typically follow a macro-economic shock, which is not currently the case. Nevertheless, markets are pricing in 115bps of cumulative Fed easing in 2024 and an additional 140bps of cuts in 2025. This suggests aggressive rate cuts that will eventually bring policy rates below the neutral rate. In contrast, at the June/July FOMC meeting, markets anticipated the Fed would cut only to the neutral rate. Investors will undoubtedly focus on the Summary of Economic Projections (SEP) for guidance on the pace of rate cuts in the year ahead.

**Exhibit 6: SOFR curve pricing at recent FOMC meetings**

Market now expects a Fed that cuts below neutral



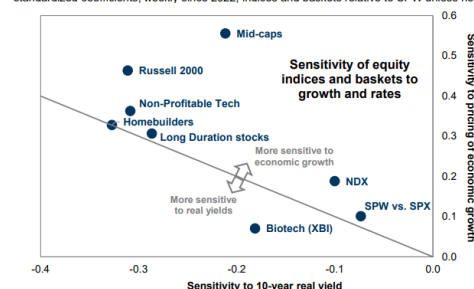
Source: Bloomberg

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#### Growth considerations are likely more important than rate cuts for US equities.

The recent gyrations in equity markets reflect a delicate balance between a worsening market outlook on economic growth and expectations for more aggressive easing. Nevertheless, GS analysts believe that the trajectory of growth is, ultimately, a more important driver for stocks than the speed of rate cuts. For most equity indices returns have been more sensitive to economic growth expectations. With the correlation between equities and bonds flipped back to positive territory, if the market prices additional Fed easing due to disappointing economic data, equities may still decline as yields decline. However, GS analysts do not believe this will be the more likely outcome. They anticipate a scenario where growth turns out more resilient than currently expected, leading to modestly higher bond yields and higher equity prices.

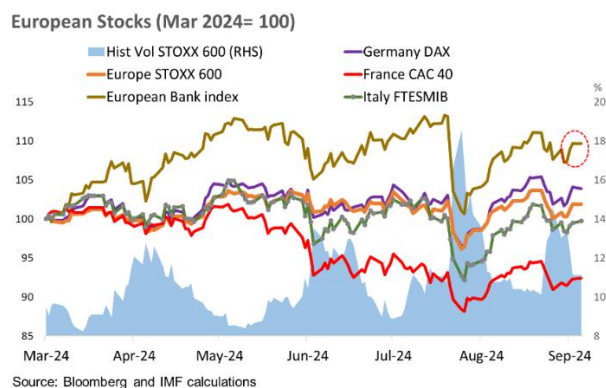
**Exhibit 4: Most equity indices and baskets are slightly more sensitive to growth**  
standardized coefficients, weekly since 2022; indices and baskets relative to SPW unless noted



Source: FactSet, Goldman Sachs Global Investment Research

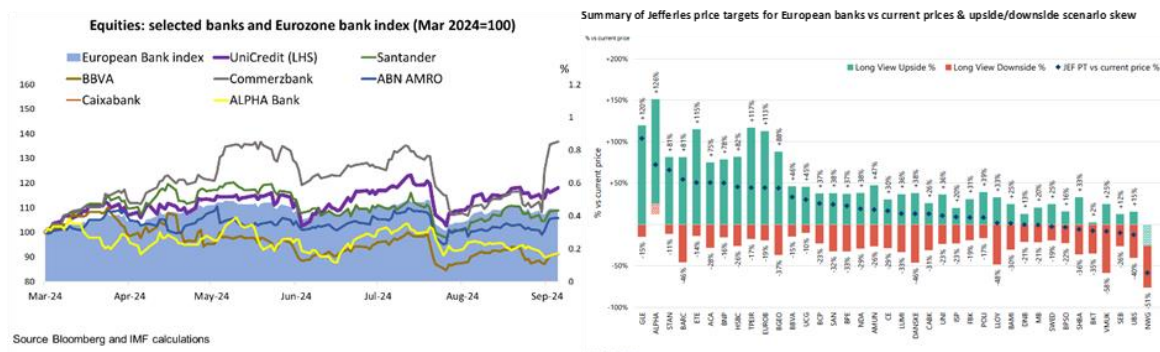
### Europe

**European equities mostly traded laterally this morning, with the Stoxx 600 index little changed (0.05%)** and the stock market in the green in Italy (FTSE MIB+0.3%), Spain (Ibex index +0.4%) and France (CAC 40 +0.1%) but underperforming in Germany (Dax index -0.3%). The health care sector outperformed today (+0.5%), with the banking sector also in the green (Stoxx 600 Banks index +0.1%). The European banking sector has outperformed the broader EURO STOXX index by 18% year-to-date.



The prospect of a business combination between UniCredit and Commerzbank has prompted analysts and to consider the possibility of a broader wave of M&A in Europe's banking industry. Last week UniCredit bought a 4.5% stake in Commerzbank from the German government for €702m, raising its stake to 9%, with UniCredit chief executive Andrea Orcel stating that the stake-building could lead to a full takeover on Commerzbank, and reiterating this morning that Unicredit intends to play an active role in Commerzbank's strategy for the time being. This echoes a similar move in Greece on Alpha Bank last year, where UniCredit bought from the government a 9% stake for €293m.

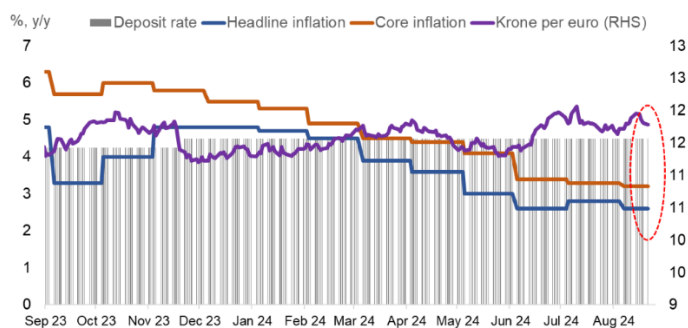
The Financial Times reports that European governments have sold more than €16bn of bailed-out bank stocks over the past year as they sought to capitalize on banks' share price increases. The Greek government raised more than €1.7bn over the past year by selling Alpha Bank, Eurobank and Piraeus Bank, it has also sold €1bn of stock in National Bank and is expected to sell off its remaining 18% stake in the coming weeks. The Irish government has also raised €2.6bn over the past 12 months by reducing its stake in AIB from 46% to 22%. The Italian finance ministry has reduced its stake in Monte dei Paschi di Siena from 64% to 27%. The Dutch government last week sold €1.2bn of ABN stocks.



## Norway

Norges Bank is expected to keep its policy rate at 4.5% on Thursday, and to begin cutting in November as inflation is decelerating faster than projected. Headline inflation in Norway was at 2.6%/y in August, down from 2.8% in July and below Norges Bank's forecast (3.4%/y in 2024). Oil prices have decreased by more than 10% since the August MPC meeting. Analysts at Goldman Sachs note that potential further downward pressure could come on oil prices as global demand is slowing. JP Morgan also expects Norges Bank to hold its policy rate on Thursday, citing currency weakness as a reason (the krone depreciated QTD by 2.9% against the euro). Norway's krone edged higher (+0.24%) this morning against the euro, trading at NOK11.77/€ (+0.64% against the dollar at NOK 10.59/\$).

Norway: Deposit rate, inflation and exchange rate



## Japan

**Barclays analysts believe the Fed could be a bigger market mover for the Japanese government bond (JGB) markets than the Bank of Japan.** This is due to the increased sensitivity of JGB yields to US yields following the end of Yield Curve Control (YCC), reflecting a clearer inflation environment and strong investor expectations for Japan's interest rate structure to align more with the US and Europe. They also note that the previously heightened correlation between the implied volatility of USD/JPY and US yields has been reversing since the dismantling of YCC began, as domestic-overseas yield differentials now mirror overseas yield changes to a lesser extent. Japanese markets were closed today for Respect for the Aged Day. The yen strengthened today versus the US dollar, briefly breaking through the 140-level.

Figure 10. Changes in JGB yield curve when US 10y yields rise 1pp

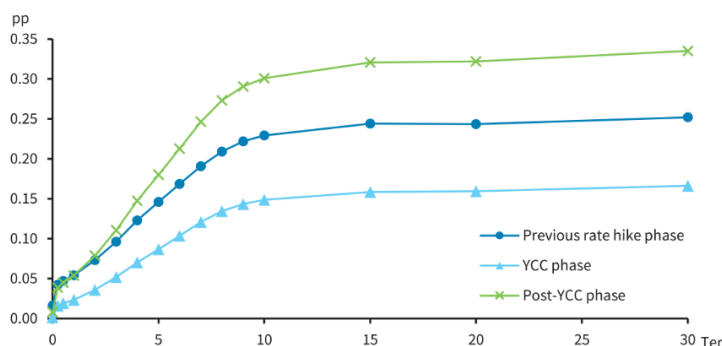
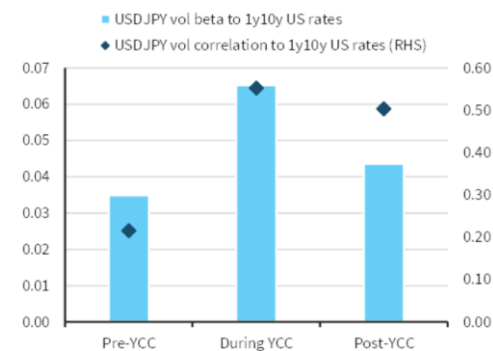


Figure 17. USD/JPY sensitivity to/correlation with US rates volatility



## Emerging Markets

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**EMEA equities were mostly lower in early morning trade.** CEE currencies were mostly firmer against the euro, while the South African rand advanced (+0.4%) against the US dollar to trade at 17.64/\$ ahead of the Fed's interest rate decision on Wednesday and a decision by the Reserve Bank of South Africa (SARB) on Thursday. Elsewhere, Bloomberg reports that S&P upgraded Croatia's long-term foreign currency debt rating to A- from BBB+ on Friday with a positive outlook. The yield on Croatia's 2027 Eurobond declined 3bps to 2.92% this morning, per Bloomberg data

**Several major Asian markets were closed for holidays today**, including China, Korea, Indonesia, and Malaysia, with Philippine equities leading the gains in the region (+1.2%). **Asian currencies appreciated**, spurred by Fed rate cut bets. The Thai baht led the appreciation (+0.4%), reaching its strongest level in 19 months, despite Commercial Minister Pichai Naripthaphan's comments today that the Bank of Thailand should cut rates to shore up the economy and contain the baht's strengthening value.

**Latin America equities traded mostly higher on Friday.** With markets factoring in higher possibility of a larger rate cut by the US Fed this week, major regional currencies gained, led by the Mexican peso (+1.7%) and the Brazilian real (+1.1%). In Peru, however, the currency weakened marginally (-0.2%) following the 25bps cut in the policy rate by the country's central bank last Thursday. Notably, Peru's economic activity saw significant improvement in July, growing at 4.5% y/y vis-à-vis the expectations of 3.5% y/y.

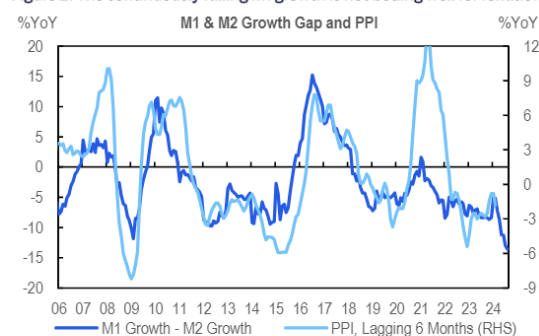
## China

**Disappointing real activity and credit data for August point to a further slowdown of the Chinese economy.** Factory output, consumption, and investment all slowed down more than expected, and the jobless rate has risen to a six-month high. According to Deutsche Bank analysts, China's economic growth declined to 3.7% y/y in August from 4.6% in July, indicating that achieving the government's annual target of 5% will be more challenging without a well-coordinated fiscal and monetary policy response. Meanwhile, aggregate financing growth edged down to 8.1% y/y in August (expected: +8.2%, July: +8.2%) due to declining credit demand from households and corporates, with new yuan loans remaining weak at RMB900 bn (US\$127 bn), compared with RMB 1,360 bn in August 2023.

**A sharper contraction of M1 has become increasingly concerning** (-7.3% y/y, expected: -6.7%, prior: -6.6%). Citigroup analysts noted that the cleanup of arbitrage deposits could be the most obvious trigger for the M1 slowdown since April, but its continuous decline recently could be attributed more to soft demand, as 90% of the deposit cleanup was completed by June for 21 big banks. This raises concerns about the reflation outlook, given that M1 growth used to be a leading indicator for PPI inflation.

In a rare statement accompanying the credit data release, **the People's Bank of China pledged to step up additional measures to lower financing costs to combat deflation.** Barclays analysts expect the rate cuts will likely be measured, considering banks' record low net interest margins, and believe that policy easing will not reverse the downtrend in credit growth, as it reflects more deeply rooted secular issues, such as a deflating housing bubble that has ravaged household and firm balance sheets and spurred deleveraging. Today, onshore Chinese markets were closed for the Mid-Autumn Festival. Hong Kong SAR-listed Chinese equities gained (+0.3%).

Figure 2. The continuously falling M1 growth is not boding well for reflation



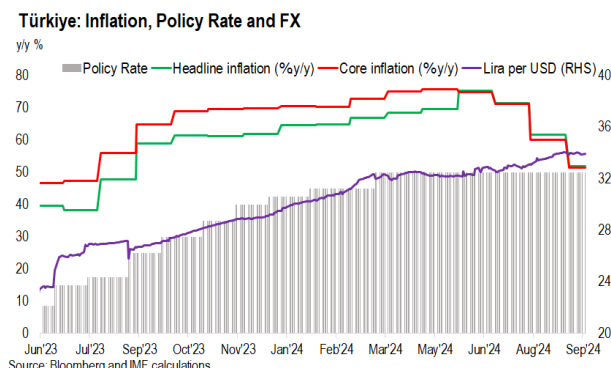
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Source: NBS, PBoC, Wind, Citi Research

## Türkiye

**The central bank of Türkiye is expected to keep its policy rate on hold this week.** Consensus expectations are that the Central Bank of the Republic of Türkiye (CBRT) will keep the one-week repo rate unchanged at 50% when policymakers meet on Thursday. Analysts at Goldman Sachs note that the focus will be on any change in forward guidance given recent data outturns have pointed to a slowing in domestic demand. Goldman expect that weaker activity in the coming months will result in lower inflation momentum thus allowing the CBRT to deliver its first rate cut (-100bps) in November. That said, the analysts expect officials will remain cautious around any signaling and implementation of the easing cycle. This morning

the Turkish Lira was trading weaker (-0.3%) against the US dollar at 34.0/\$ with the currency around 13% weaker against the greenback on a year-to-date basis.



## EM fund flows

**Outflows from EM fund intensified last week**, reaching -\$2.1 bn. vis-à-vis -\$0.5 bn in the week before. This surge was driven by equity funds, which had experienced only marginal outflows since early-August, but saw withdrawals increase sharply to -\$1.4 bn last week. On the regional front, EM Asia focused equity funds accounted for majority of these withdrawals (-\$1.1 bn.), followed by LatAm. Bond funds also witnessed a significant rise in the outflows, increasing to -\$0.7 bn from -\$0.4 bn in the previous week. This increase was almost entirely due to the hard-currency market (-0.69 bn), while outflows from the local currency bond funds continued to decline and remained marginal. With this, the YTD EM fund flows now stand at -\$35 bn.

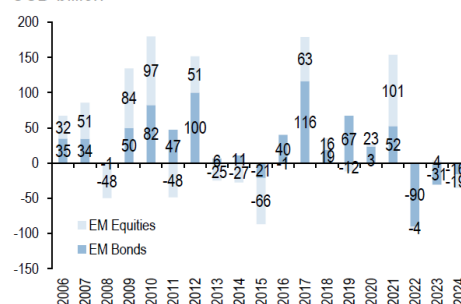
**Figure 1: Weekly cross-asset flows**

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		-2.1	-35.2
EM Bonds		-0.7	-15.9
Hard Ccy		-0.7	-5.7
Local Ccy*		0.0	-10.2
o.w. EM ex-China		0.0	-8.8
o.w. China		-0.1	-1.8
<b>EM Equities</b>		-1.4	-19.3
US HG		6.2	253.0
US HY		1.8	19.7
Global Equities		-8.4	105.4
<b>EM Bond and Equity ETFs</b>		-0.7	8.3
EM Bond ETFs		-0.1	-2.5
EM Equity ETFs		-0.6	10.8
<b>Non-resident EM flows*</b>		-4.0	3.5

**Figure 2: EM bond and equity fund flows**

USD billion










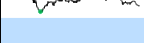
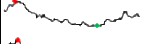








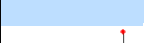


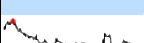




\*High-frequency non-resident EM portfolio flow data where available. \*Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

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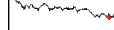


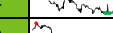
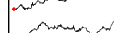






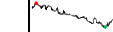






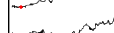




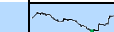

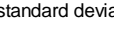


## Global Financial Indicators

9/16/24 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5607	0.5	2	1	26	18
Europe		4839	-0.1	1	0	13	7
Japan		36582	-0.7	1	-4	9	9
China		3159	-0.4	-2	-6	-15	-8
Asia Ex Japan		72	0.3	3	-1	10	8
Emerging Markets		43	0.5	3	-1	9	7
<b>Interest Rates</b>			basis points				
US 10y Yield		3.64	-1.7	-6	-25	-70	-24
Germany 10y Yield		2.14	-1.4	-3	-11	-54	11
Japan 10y Yield		0.85	0.0	-5	-3	13	23
UK 10y Yield		3.76	-0.6	-9	-16	-60	23
<b>Credit Spreads</b>			basis points				
US Investment Grade		136	0.2	-2	2	-11	2
US High Yield		387	2.9	3	11	-19	2
<b>Exchange Rates</b>			%				
USD/Majors		100.63	-0.5	-1	-2	-4	-1
EUR/USD		1.11	0.4	1	1	4	1
USD/JPY		139.9	-0.7	-2	-5	-5	-1
EM/USD		46.1	0.1	1	0	-3	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		72.1	0.6	0	-9	-15	-4
Industrials Metals (index)		145	1.0	5	3	2	2
Agriculture (index)		56	0.3	2	6	-17	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.2	0.6	-2.3	2.4	3.4	4.7
Global FX Volatility		8.5	0.0	0.1	0.5	0.4	0.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		97	0.3	-8	-11	-45	-6
Italy		136	-0.7	-10	-3	-43	-32
Portugal		58	-0.3	-5	-5	-16	-5
Spain		79	0.3	-3	-5	-27	-17

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

## Emerging Market Financial Indicators

Last updated: 9/16/2024 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		7.10	0.3	0.0	1	2	0		1.9	-2.0	-6	-14	-81	-67
Indonesia		15400	0.2	-0.2	3	0	0		6.6	-1.6	-4	-21	-8	10
India		84	0.0	0.1	0	-1	-1		6.8	-3.0	-13	-16	(95.7)	-37
Philippines		56	0.2	1.1	2	2	-1		5.1	13.6	14	-10	-75	-57
Thailand		33	0.3	2.2	5	8	3		2.3	-1.5	-10	-7	-84	-38
Malaysia		4.30	0.8	0.7	3	9	7		3.7	-0.2	-1	-6	-17	0
Argentina		959	0.1	-0.3	-2	-64	-16		40.4	3.1	94	-124	-8102	-4602
Brazil		5.56	0.1	0.5	-2	-13	-13		11.7	-7.5	5	35	32	134
Chile		924	0.3	2.3	2	-4	-5		4.6	0.0	-9	-32	-77	-32
Colombia		4185	0.6	-0.2	-4	-6	-8		7.4	-7.0	-22	-15	-112	-22
Mexico		19.26	-0.3	3.3	-3	-11	-12		8.7	-11.2	-26	-14	-36	21
Peru		3.8	-0.2	0.5	-1	-2	-2		6.4	-0.5	-7	-15	-44	-28
Uruguay		41	0.3	-1.1	-1	-6	-5		10.0	1.0	21	45	62	43
Hungary		354	0.7	1.6	1	1	-2		5.8	-5.0	-6	-20	-107	1
Poland		3.84	0.7	0.9	1	13	3		4.4	0.0	-6	-15	-28	-9
Romania		4.5	0.5	0.8	1	4	1		6.6	4.0	5	16	-5	37
Russia		91.1	-1.1	-0.6	-2	6	-2							
South Africa		17.6	0.4	1.4	1	8	4		8.4	-8.0	-18	-35	-117	-74
Türkiye		34.00	-0.2	0.2	-1	-21	-13		29.0	19.0	19	28	173	222
US (DXY; 5y UST)		101	-0.5	-0.9	-2	-4	-1		3.41	-2.6	-8	-35	-106	-44

	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		3159	0.0	-2	-6	-15	-8		126	1	-29	-58	-32	
Indonesia		7812	0.0	1	5	12	7		111	-2	-9	-25	15	
India		82989	0.1	2	3	22	15		114	2	-1	-26	-2	
Philippines		7104	1.2	2	4	16	10		95	-3	-7	-17	15	
Thailand		1436	0.8	0	10	-7	1		0	0	0	0	0	
Malaysia		1652	0.0	0	2	13	14		90	4	-7	-8	5	
Argentina		1817734	1.5	6	10	220	96		1405	-82	-157	-771	-508	
Brazil		134882	0.6	0	1	14	1		229	-8	-9	-2	14	
Chile		6351	0.1	2	-2	6	2		127	-1	-2	-1	2	
Colombia		1312	-0.7	-1	-4	19	10		329	-3	6	-16	58	
Mexico		52017	0.0	2	-4	1	-9		327	-8	5	-33	-7	
Peru		28951	1.4	3	1	26	12		148	-1	-4	-13	4	
Hungary		72952	-0.1	1	1	26	20		165	4	-3	-33	16	
Poland		82290	0.0	0	-3	22	5		119	8	3	-11	22	
Romania		17444	0.3	0	-4	23	13		209	-2	5	-9	9	
South Africa		82111	0.2	1	-1	10	7		309	-2	-15	-72	1	
Türkiye		9636	-0.5	-1	-2	21	29		306	-4	-15	-96	-8	
EM total		43	0.3	3	-1	9	7		408	-6	-16	25	63	

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

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