GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 17, 2024
LEAD EDITOR: BENJAMIN MOSK

- **Markets remain divided over the magnitude of a Fed cut, raising the risk of corrections** (link)
- **Markets indicate improvement in US banks' risk and performance outlook** (link)
- **ECB officials reiterate cautious approach to further rate cuts** (link)
- **August headline inflation surprised to the upside in Israel** (link)

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Uncertainty around Fed decisions as markets try to connect the dots

Markets appear to be shrugging off today's upside surprise on US retail sales—at least initially. US retail sales for August came in higher than expected at 0.1% m/m (-0.2% surveyed). This could test recent rate-cut optimism, but the market's initial appetite to reprice expectations seems limited, with S&P futures holding steady at +0.4%, and the 2-year US Treasury yield edging up marginally. Later this morning, data on industrial production will come in as well, possibly providing further direction. Yesterday, the market implied probability of a larger 50 bps cut reached 70%. Former Fed official Dudley weighed in by saying that he expects a 50bps cut, noting that short-term rates remain far above neutral, whilst the price stability and maximum sustainable employment objectives have come into closer balance. Politicians also chimed in as Democratic senators urged the Fed in a letter to cut by 75 basis points to protect the US economy from potential harm. By contrast, a Bank of America survey shows 79% of global fund managers forecast a soft-landing, with only 11% expecting a hard landing. This is the highest implied probability for a "soft-landing" since the May 2023 edition of the monthly survey. A US recession does remain the biggest tail risk according to the respondents, and 60% believe that global monetary policy is too restrictive. Besides the FOMC's decision on rates, markets will also be looking at the new dot-plot, which reflects Fed officials' expectations of future rates. Some analysts consider that it could provide a dovish signal in case of a more conservative rates move, but others see it as a potential source of disappointment.

Key Global Financial Indicators

Last updated: 9/17/24 8:47 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5633	0.1	3	1	27	18.10
Eurostoxx 50		4858	0.6	2	0	13	7
Nikkei 225		36203	-1.0	0	-5	8	8
MSCI EM		43	0.3	2	-1	10	7
Yields and Spreads				bps			
US 10y Yield		3.60	-1.5	-4	-28	-73	-28
Germany 10y Yield		2.10	-2.2	-3	-15	-58	8
EMBIG Sovereign Spread		384	0	-7	-15	-31	1
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.1	-0.1	1	0	-3	-4
Dollar index, (+) = $ appreciation		100.6	-0.1	-1	-2	-4	-1
Brent Crude Oil ($/barrel)		72.7	-0.1	5	-9	-23	-6
VIX Index (%, change in pp)		17.1	-0.1	-2	2	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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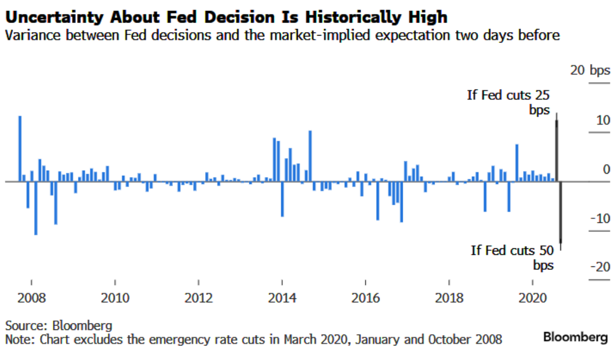
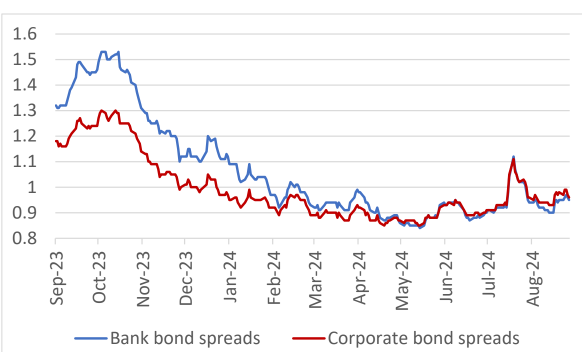
United States

Markets remain divided over the magnitude of a Fed cut, raising the risk of corrections. Typically, monetary policy decisions by the Fed are well anticipated, but not this time. The divide among investors over a 25bps or 50bps cut is particularly acute, with uncertainty also feeding into the path of policy rates ahead. This increases the risk of significant re-pricing action on Wednesday when the Fed's decision is announced, and the new dot-plot provides updated guidance on the way ahead. OIS swaps could move by more than 12bps in either direction, possibly stirring re-calibrations across the yield curve. Credit markets are especially vulnerable to corrections from a hawkish outcome. With spreads on the lowest rated (junk) bonds the tightest in over two years, and the gap between spreads on bonds rated B and CCC the narrowest since June 2022, adjustments following a disappointment could be abrupt.

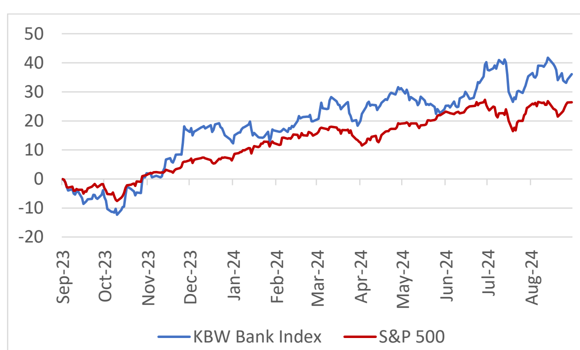


Markets indicate sharp improvements in bank default risk and sustainable performance. Over the past twelve months, US bank credit spreads have tightened by 30 basis points and are now 1bp lower than corporates. Wells Fargo analyst Mike Mayo argues that these improvements counter recent concerns about the stability impact of margin pressures and risks from real estate exposures and recession prospects. He attributes this in part to banks' persistently low delinquency indicators through a period of elevated rates. Other potential drivers may be recovery in the value of banks' bond holdings, improvements in funding stability, and potentially lower borrower default risks as rates decline. Equity price performance has been more volatile but, overall, also points to banks' resilient performance prospects.

Bond spreads: US banks and corporates



Share price performance over past 12 months



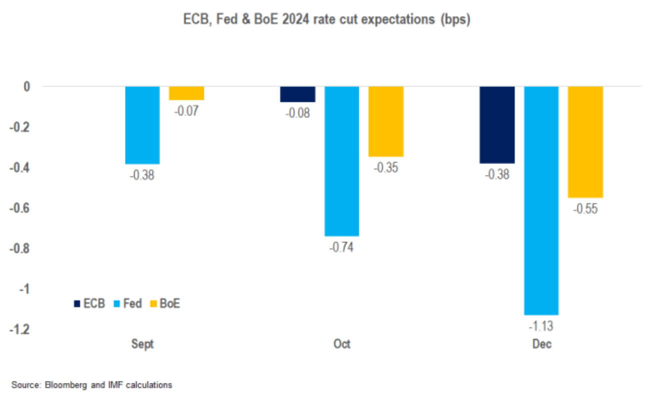
Source: Bloomberg

Europe

European equities were mostly higher ahead of tomorrow's US interest rate decision. The Stoxx 600 index was higher (+0.7%) this morning, led by gains in the consumer discretionary (+1.1%) and industrials (+1.3%) sectors, with the banking sector also edging higher (Stoxx Banks index +1.4%). 10y bund yields were relatively unchanged at 2.11% while the euro was flat against the dollar to trade at 1.1138. Spreads of 10y Italian government bonds (BTPs) over equivalent tenor Bunds were steady at 134bps, while 10y French OAT spreads held steady at 72bps.

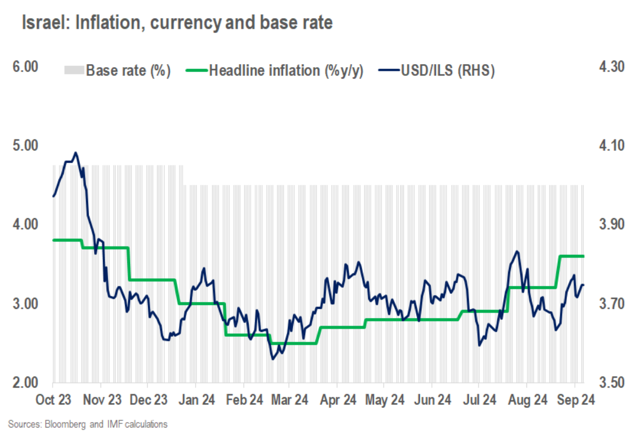
ECB's Lane says that it should maintain gradual approach to rate cuts. Speaking at an event yesterday, ECB Chief Economist Philip Lane said that officials should continue with their cautious stance to lowering interest rates remarking that inflation is expected to fluctuate in the coming months. Specifically, Lane noted that "negotiated wage growth will remain high and volatile over the remainder of the year' which he argued favored a meeting-by-meeting approach to policy setting contingent on incoming data. In his speech, Lane also noted that the ECB "should retain optionality about the speed of adjustment". Echoing the cautious tone, this morning, ECB Governing Council member Simkus was quoted as saying that "it is questionable whether [an] October cut is needed".

Market pricing for ECB rate cuts suggests around 38bps of easing is priced in for the remainder of the year. On the data front, Germany's September ZEW expectations index declined sharply to 3.6, missing expectations of a reading of 17 and down from 19.2 in August. Contacts report that today's disappointing data release comes on the back of a string of data which suggests that growth in Europe's largest economy is slowing with weak industrial production and consumers reluctant to spend, despite rising real income.



Israel

Headline inflation surprised to the upside in August. Data released showed August headline inflation printed at 3.6%y/y, ahead of expectations of 3.2%. While much of the upside was driven by one-offs such as airfare and fresh vegetables, analysts at JP Morgan note that momentum in prices was elevated across a range of items. Following the data release, the analysts revised their year-end inflation projection to 3.7%y/y (from 3.3% previously) and expect that August's inflation print will "solidify the case for an extended pause by the Bank of Israel". The analysts expect policymakers to resume the easing cycle from April 2025 onwards with around 75bps of cuts expected next year, although they note that risks are skewed towards a later and perhaps shallower easing cycle. This morning the Israeli shekel was broadly unchanged against the dollar to trade at 3.75/$.



Emerging Markets

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Asian currencies mostly advanced versus the US dollar. The Indonesian rupiah was about 0.5% stronger today, whilst on Wednesday, its central bank is expected to keep its policy at 6.25%. The Thai baht was the exception, weakening by -0.2% versus the US dollar. A Bloomberg report suggested that Thailand plans to raise government borrowing by about 8% in the next fiscal year to aid economic growth; this was not confirmed by officials. Asian equity markets saw a mixed picture today. There was no trading on mainland China and in some other jurisdictions due to the Mid-Autumn Festival holiday, but Hong Kong SAR stocks advanced by 1.4%. This stands in contrast with developments elsewhere in the region, as Japanese stocks fell by 1% in advance of policy meetings of the Fed (Wed) and the Bank of Japan (Fri), and with the yen continuing to trade around the 140 level versus the US dollar.

EMEA equities traded mostly higher today, and currencies were mixed. In CEE, the stock market was in the red in Czechia (-0.2%) while outperformed (+1%) in Poland, where the government announced yesterday a reconstruction plan for the regions in southwestern Poland affected by recent floods. CEE currencies were overall little changed against the euro this morning. In South Africa the stock market gained +0.9%, and the rand was little changed against the dollar at 17.60/$, while in Türkiye equities outperformed (+1.8%) and the lira was marginally weaker (-0.1%) against the dollar to trade at 34.04/$. Elsewhere, yesterday August headline inflation printed at 32.2%y/y in Nigeria, in line with consensus expectations Market reaction was limited, and the naira was little changed against the dollar today trading at 1639.18/$.

In LATAM, markets had a mixed start to the week. While the Brazilian real (+1%) and the Chilean peso (+0.4%) showing continued to strengthen against the US dollar, the Colombian peso weakened by -1.2% amid domestic political turmoil. Other major currencies saw marginal declines. Among the key regional equity markets, those of Colombia (+0.5%) and Brazil (+0.2%) saw some gains, while others closed marginally lower. Tomorrow, the central bank of Brazil is expected to come with a 25bps rate hike, whilst the Fed is expected to cut on that same day.

China

Chinese equity markets seen to remain weak ahead of US elections. Chinese markets have struggled in recent months due to stagnation on the mainland, according to JP Morgan analysts, who call for broader policy adjustments in China, including larger policy rate cuts, a comprehensive housing stabilization plan, and a balanced approach to supporting both consumption and investment. Historically, Chinese stocks have tended to advance slowly before US elections, with investors only raising allocations to China equities after the new US President's policy priorities became clear. This time, JPM analysts expect the local equity market to remain on the weak side ahead of the US elections, compared to the historical picture. In addition, the post-election relief rally may be weaker due to adverse macro-political dynamics.

Figure 2: MXCN's average performance (past three US elections)

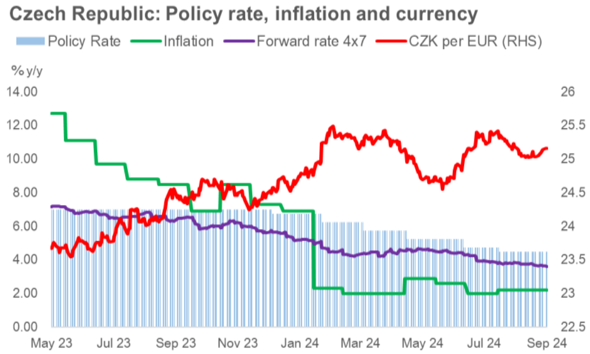
Source: Wind, MSCI, J.P. Morgan

Note: MXCN = MSCI China Index

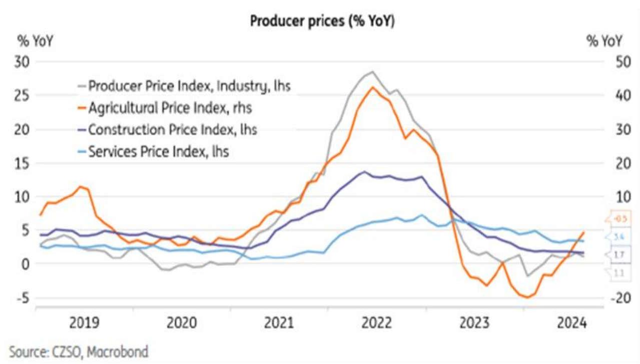
Czechia

The koruna was little changed against the euro this morning despite producer price data coming in lower than expected. The koruna traded at CZK 25.16/€, after data released yesterday showed that the industrial Producer Price index (PPI) fell in August by -0.4% m/m, more than expected (median est. -0.1%).

On a yearly basis the PPI index grew by 1.1% in August (vs est. 1.5%) against 1.7% in July. Producer prices softened across sectors, although momentum resisted for services prices (0.5.%m/m, 3.4%y/y). Declining PPI reflected lower energy and oil prices, and a stronger koruna which appreciated against the dollar by 3.3% QTD. Analysts at ING see yesterday's data as showing limited inflationary pressures from the supply side, especially as the effects of weak foreign and domestic demand, coupled with lower energy prices, are expected to prevail on increasing wage costs, so that analysts expect the Czech National Bank (CNB) to proceed with less restrictive monetary policy after it cut its benchmark rate by -25bps to 4.5% in August. Goldman Sachs also highlights that weak Eurozone manufacturing and German demand are weighing on Czechia's growth and expects the CNB to continue to ease its rate at a pace of -25bps at each of the remaining three MPC meetings for 2024.even if inflation was higher than expected in August (2.2%y/y, vs est.2%). Yesterday CNB board member Tomas Holub said that ""It would be premature to end or pause the rate-cutting cycle now," with CNB member Jan Kubíček also commenting that "We will see what the update of the forecast brings. But I believe that certainly there is still room for decline".



Pricing was softer across sectors in Czechia



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 Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

9/17/24 8:47 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5633	0.1	3	1	27	18
Europe		4858	0.6	2	0	13	7
Japan		36203	-1.0	0	-5	8	8
China		3159	-0.4	-2	-6	-15	-8
Asia Ex Japan		72	0.3	2	-1	11	9
Emerging Markets		43	0.3	2	-1	10	7
Interest Rates					basis points		
US 10y Yield		3.60	-1.5	-4	-28	-73	-28
Germany 10y Yield		2.10	-2.2	-3	-15	-58	8
Japan 10y Yield		0.83	-1.9	-7	-5	11	22
UK 10y Yield		3.73	-2.8	-9	-20	-63	19
Credit Spreads					basis points		
US Investment Grade		135	-0.6	-3	1	-11	1
US High Yield		381	-2.7	-4	5	-25	-4
Exchange Rates					%		
USD/Majors		100.64	-0.1	-1	-2	-4	-1
EUR/USD		1.11	0.1	1	0	4	1
USD/JPY		140.5	-0.1	-1	-4	-5	0
EM/USD		46.1	-0.1	1	0	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		72.7	-0.1	5	-8	-14	-3
Industrials Metals (index)		146	-0.2	6	3	2	2
Agriculture (index)		55	0.0	2	5	-17	-11
Implied Volatility					%		
VIX Index (%, change in pp)		17.1	-0.1	-2.0	2.2	3.3	4.6
Global FX Volatility		8.6	0.0	0.2	0.5	0.4	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		97	-1.2	-8	-11	-46	-7
Italy		134	-1.5	-11	-4	-44	-33
Portugal		58	-0.5	-5	-5	-17	-5
Spain		79	-0.1	-3	-5	-27	-17

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

Emerging Market Financial Indicators

Last updated: 9/17/2024 8:48 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	0.0	-2	-12	-88	-67
Indonesia		15335	0.4	0.7	1	0	0		6.6	-0.8	-5	-15	-12	9
India		84	0.1	0.3	0	-1	-1		6.9	0.9	-11	-15	(94.8)	-36
Philippines		56	0.3	1.3	2	2	-1		4.8	-24.8	-27	-35	-100	-82
Thailand		33	-0.2	1.4	3	7	3		2.3	-3.0	-11	-9	-87	-41
Malaysia		4.26	1.0	2.0	3	10	8		3.7	-2.9	-5	-9	-20	-4
Argentina		961	-0.1	-0.3	-2	-64	-16		40.2	-18.6	112	-74	-7538	-4620
Brazil		5.51	1.0	1.3	-1	-12	-12		11.9	8.0	21	50	47	149
Chile		923	0.0	2.8	0	-4	-5		4.5	0.0	-12	-36	-82	-38
Colombia		4234	-1.2	0.2	-5	-7	-9		7.4	0.0	-3	-29	-100	-22
Mexico		19.37	-0.7	3.8	-4	-12	-12		8.7	-11.2	-26	-14	-36	21
Peru		3.8	0.0	0.9	-1	-2	-2		6.3	-6.2	-12	-20	-50	-33
Uruguay		41	-0.5	-1.5	-2	-7	-5		10.0	6.1	28	53	69	49
Hungary		354	0.0	1.7	0	1	-2		5.8	2.0	-8	-20	-107	1
Poland		3.83	0.3	1.4	0	13	3		4.4	-1.3	-4	-21	-29	-9
Romania		4.5	0.1	1.1	1	4	1		6.6	2.4	7	18	2	39
Russia		91.2	0.1	-0.3	-2	6	-2							
South Africa		17.6	0.0	1.8	0	8	4		8.4	4.5	-9	-29	-111	-68
Türkiye		34.04	-0.1	0.0	-1	-21	-13		29.3	-2.0	37	56	201	250
US (DXY; 5y UST)		101	-0.1	-1.0	-2	-4	-1		3.40	-0.5	-3	-36	-107	-45

	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		3159	0.0	-2	-6	-15	-8		126	0	-25	-57	-32
Indonesia		7832	0.3	2	5	13	8		113	-4	1	-16	17
India		83080	0.1	1	3	23	15		114	1	3	-25	-2
Philippines		7175	1.0	3	5	17	11		97	-5	1	-9	17
Thailand		1437	0.1	1	10	-6	1		0	0	0	0	0
Malaysia		1664	0.7	1	2	14	14		89	2	-3	-7	4
Argentina		1812872	-0.3	4	10	219	95		1382	-60	-99	-792	-531
Brazil		135118	0.2	0	1	14	1		232	-7	2	5	17
Chile		6347	-0.1	2	-2	6	2		130	1	7	6	5
Colombia		1318	0.5	0	-3	20	10		326	-9	7	-6	55
Mexico		52017	0.0	2	-4	1	-9		329	-8	15	-29	-5
Peru		28872	-0.3	2	1	26	11		148	-4	1	-8	4
Hungary		72727	0.0	1	1	25	20		167	2	4	-23	18
Poland		82537	1.0	2	-3	23	5		110	-6	-5	-14	13
Romania		17561	0.2	1	-3	24	14		211	-5	11	5	11
South Africa		82702	0.8	1	0	11	8		308	-6	2	-65	0
Türkiye		9733	1.6	1	-1	22	30		309	-5	5	-92	-5
EM total		43	0.6	2	-1	10	7		407	-9	-5	29	61

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

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