



- Investors remain nervously optimistic ahead of today's FOMC meeting ([link](#))
- Bank Indonesia unexpectedly cut its policy rate to 6% ([link](#))
- US stocks expand gains beyond tech-sector, but AI's influence remains broad ([link](#))
- Global funds increasing exposure to ASEAN-4 assets ([link](#))
- Ukraine expected to keep rates on hold amid concerns on inflation and weak currency ([link](#))

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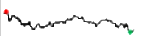

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## Markets nervously await start of long-anticipated US easing cycle

Yesterday, US equity markets seemed directionless as much uncertainty remains with respect to the FOMC's decisions today. The S&P 500 initially opened higher, reaching its July record on an intraday basis, but later fell back as nervousity about the FOMC decisions kicked in. Futures pricing suggests that the index will open flat today, whilst Treasury yields are edging up, in line with movements in European sovereign bond yields earlier today. The Fed is broadly expected to enter its easing cycle today. The likelihood of a 50bps cut is priced at between 58% (swaps) and 67% (futures), whereby both implied probabilities declined yesterday, albeit slightly, after retail sales and industrial production came in stronger than expected. A smaller 25bps cut could lead to an adverse market-adjustment, while a 50bps cut could provide relief, reinvigorating last week's rally. Market participants will also keep a close eye on the new dot-plot. These two opposite outcomes keep markets on edge. While the Fed takes center stage today, this week's agenda is also packed with other central banks' decisions. Today, Bank Indonesia unexpectedly cut its policy rate by 25bps to 6%. By contrast, Brazil's central bank is expected to hike its Selic rate by 25bps to 10.75% later today. Tomorrow, the Bank of England is expected to hold its Bank Rate at 5%, and similarly, the Bank of Japan is expected to hold on Friday.

Key Global Financial Indicators

Last updated: 9/18/24 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5635	0.0	3	1	27	18.13
Eurostoxx 50		4842	-0.4	2	0	14	7
Nikkei 225		36380	0.5	1	-3	9	9
MSCI EM		43	0.1	3	-1	10	7
Yields and Spreads			bps				
US 10y Yield		3.67	2.8	2	-21	-63	-21
Germany 10y Yield		2.18	3.5	7	-7	-53	15
EMBIG Sovereign Spread		378	-7	-18	-22	-38	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.1	0.0	1	0	-3	-4
Dollar index, (+) = \$ appreciation		100.8	-0.1	-1	-2	-4	-1
Brent Crude Oil (\$/barrel)		73.0	-0.9	3	-8	-23	-5
VIX Index (% change in pp)		17.7	0.1	0	3	4	5

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

## Mature Markets

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### United States

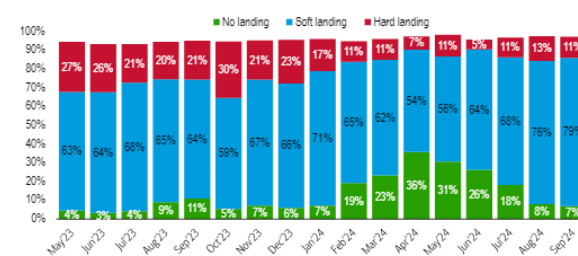
**Investors remain nervously optimistic, ahead of the FOMC meeting.** While the debate of 25bps vs 50bps remains in focus, several investors are focusing on the cumulative aggressive rate cuts ahead, which have risen up to 250bps over the next 12 months. According to a BofA global survey, fund managers consider the current monetary policy stance the most restrictive since the Global Financial Crisis, with the risk of a US recession being the biggest “tail risk.” Nevertheless, they remain optimistic, seeing a 79% chance of a soft landing—the highest in more than a year—as rate cuts support the economy. The strong reliance on aggressive Fed cuts feeds nervousness among investors, with investor risk appetite currently at an 11-month low, and an abrupt rotation out of cyclicals, tech, and commodities into bonds and defensive areas of the stock market. This highlights the importance of the FOMC guidance on the path of rates that will be provided following the meeting, with hawkish disappointment becoming an important risk.

**Chart 8: Monetary policy viewed as most restrictive since GFC**  
% of FMS that say global monetary policy “too restrictive”



BoFA GLOBAL RESEARCH

**Chart 5: 79% say “soft landing,” 11% “hard landing,” 7% “no landing”**  
What is the most likely outcome for the global economy in the next 12 months?



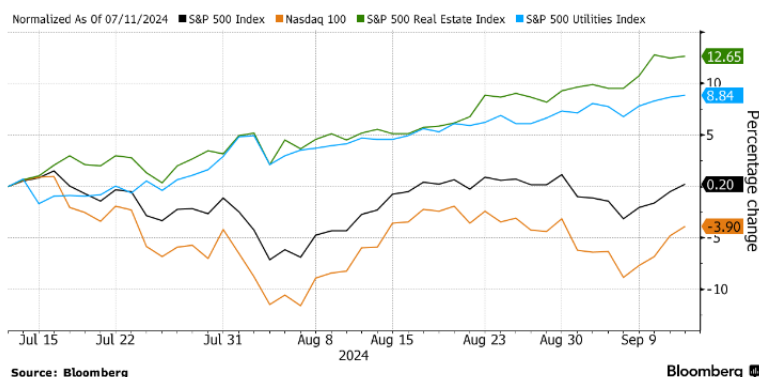
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### US stocks expand gains beyond tech-sector, but AI's influence remains broad.

The expectation of aggressive rate cuts has boosted equity market gains near record highs, but the sectoral composition is changing. Recent market gains have broadened beyond technology stocks, with investors showing interest in sectors like utilities, real estate, industrials, and small-cap stocks. Some claim that this is a defensive turn, away from tech sectors in view of policy rate uncertainty. Some analysts however find this misleading as many of these sectors are still heavily influenced by AI-related growth. For instance, American Tower Corp., a key contributor to the gains of the real estate index, will benefit from AI's expansion. Utilities are also set to gain, given the amount of energy AI expansion relies on. Therefore, analysts warn that investors remain exposed to technology themes, even with seemingly diversified investments.

### Defensives Charge Ahead

Real estate and utilities have outrun broader markets since June inflation data



Bloomberg

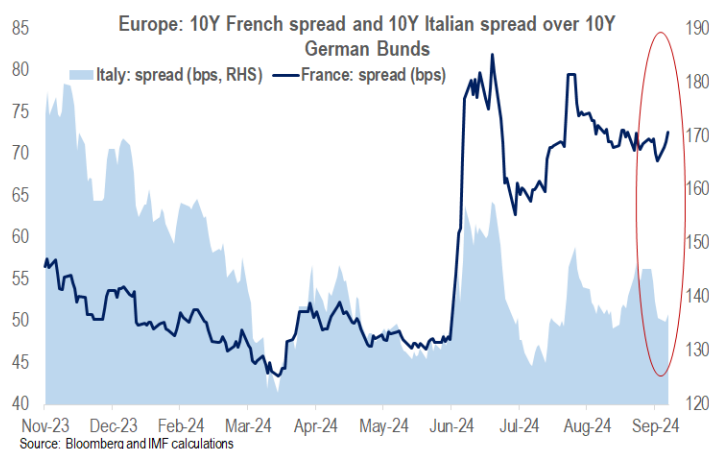
### Europe

**European equities were mostly trading in the red ahead of today's FOMC rate decision.** The Stoxx 600 index was lower (-0.5%) this morning, led by declines in the healthcare (-0.9%) and technology (-0.7%) sectors. Meanwhile, banking sector stocks edged higher (Stoxx Banks index +0.2%). 10Y bund yields were slightly higher (+3bps) at 2.17% while the euro was stronger (+0.2%) against the dollar to trade at 1.1137.

### French government bond spreads are expected to remain elevated.

Commerzbank analysts highlight that despite the broad risk-on sentiment in markets, French OATs (government bonds) have underperformed against European peers which they believe suggests that a “fundamental repricing” is not over yet. Since September 2, Italian BTP spreads have tightened by 7bps, while OAT spreads are 2bps wider. The analysts are doubtful that the upcoming budget will allay investor concerns and expect continued OAT underperformance.

Similarly, analysts at UBS remain cautious on OAT spreads and expect 10Y spreads over bunds to trade in a range of 70–80bps until there is clarity on the budget outlook and long-term debt sustainability. French Prime Minister Michel Barnier described France’s budgetary situation as “very serious” and warned that a projected return to EU deficit rules by 2027 was “not realistic.”



### United Kingdom

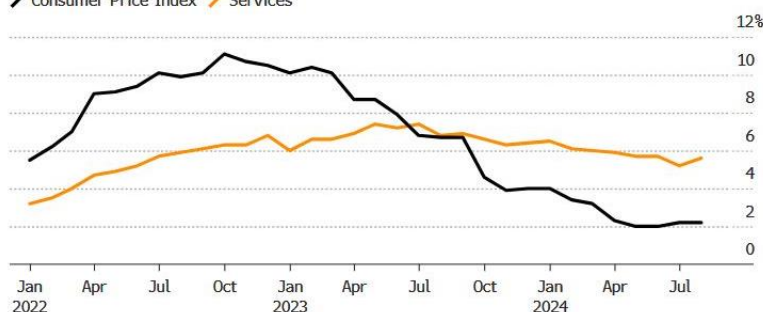
#### UK inflation data for August, released today, may pave the way for dovish tweaks in messaging.

Headline inflation printed in line with consensus expectations at 2.2%/y/y with core inflation rising to 3.6% y/y, also as expected. Analysts at Morgan Stanley note that today’s inflation data are below the Bank of England’s August Monetary Policy Report (MPR) forecasts and believe that the “totality of data since August has surprised dovishly.” While the analysts expect Bank Rate to be held at 5% tomorrow, they expect slightly more dovish messaging from the MPC possibly laying the ground for a second rate cut in November if the progress on disinflation continues. Morgan Stanley expects a 6:3 vote for a hold tomorrow.

#### UK Inflation Held at Just Above the BOE’s Target in August

Annual inflation rate

Consumer Price Index Services



Bloomberg

### Emerging Markets

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**Asian markets traded cautiously ahead of the Fed’s meeting.** Equities were relative unchanged, with the China’s CSI 300 Index closing +0.4% higher after a holiday. Asian currencies traded mix, but in a tight range against the US Dollar. Offshore renminbi led gains, appreciating +0.3% against the US Dollar, while the Philippine Peso and Indonesia rupiah marginally depreciated. Philippines local currency government bonds rallied after Governor Eli Remolona remarked that the central bank will reduce policy rates “substantially” this year and guided for further reductions next year.

**EMEA equities edged lower this morning while currencies were mixed.** In the CEE region, the stock market lost in Czechia (-0.4%) and was little changed elsewhere. In FX markets, the Czech koruna was slightly stronger (+0.1%), trading at CZK25.06/€, while the other main CEE currencies were little changed against the euro. In Romania, the leu held steady at 4.97/€ after Bloomberg reported today that the country

mandated a pool of international banks to potentially assist in issuing bonds denominated in JPY with tenors ranging 3y-20y as part of Romania's Sovereign Green Bond framework. Meanwhile, yesterday Fitch Ratings warned Romania to step-up efforts to contain its public deficit, estimated at 7% of GDP for 2024, to retain its BBB- credit rating (only 1 notch above junk). In South Africa, the stock market lost (-0.5%) and the rand strengthened (+0.3%) against the dollar to trade at 17.56/\$ ahead of the MPC meeting tomorrow, where the central bank is expected to cut its policy rate by -25bps to 8%.

**In LATAM markets, most equities closed lower while major regional currencies appreciated** in the range of 0.5-0.7%. The Brazilian real has appreciated 3.2% in the last four sessions. Later today, Brazil's central bank is expected to hike its selic rate by 25bps to 10.75%. The Chilean peso partly reversed some of its gains from the last few sessions, sliding -1% amid weakness in commodity prices.

## China

**Analysts anticipate imminent reserve requirement ratio cuts to support growth.** In its front-page publication earlier today, the China Securities Journal highlighted analysts' expectations for a potential cut in the reserve requirement ratio to support economic growth and mitigate the effects of maturing policy loans and government bond issuances. Such a cut is anticipated to benefit large and medium-sized banks, with some analysts predicting that a reduction of 0.5% later this year could release approximately 1 trillion yuan in liquidity. Late last week, the PBoC issued a statement alongside the release of disappointing credit data, indicating its intention to intensify efforts against deflation. Corporations are reportedly increasingly using deposits to repay loans, while consumers are exercising caution in their spending, resulting in a sharp decline in the M1 narrow money supply.

### China's Narrow Money Supply Falls at Fastest Rate on Record

Companies used deposits to repay loans, consumers unwilling to spend



## Indonesia

**Bank Indonesia surprised markets by cutting its benchmark policy rate by 25 basis points to 6.0%**, marking its first cut since 2021. 10 out of 36 analysts surveyed by Bloomberg and only three out of 33 economists polled by Reuters anticipated the cut, while the remainder expected the central bank to stay put. In the previous meeting, Governor Perry Warjiyo previously signaled that BI may wait until the fourth quarter before easing, when Fed cuts were already well under way. Bloomberg analysts, amongst the few who called for the cut, earlier highlighted that the recent stabilization of the rupiah, coupled with deteriorating domestic conditions, would justify an earlier easing. In the press briefing, Governor Warjiyo emphasized the necessity of supporting domestic growth and indicated that he would remain vigilant to the "room for interest rate cuts", taking into account the prevailing low inflation, stable currency, and steady economic growth. He also added that there was also more clarity on the direction of US policy rates. Following the decision, the rupiah underperformed

### Indonesia Joins Rate Easing Cycle to Support Growth

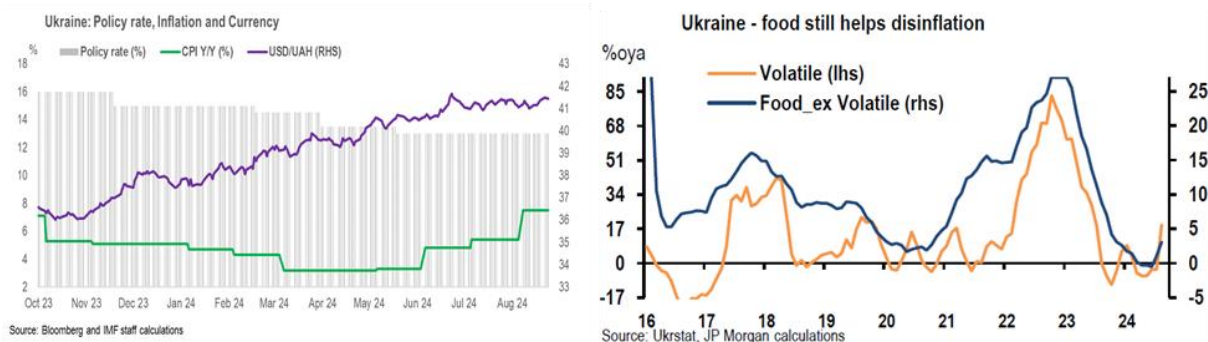




against peers and ended the day relatively unchanged (only -0.03% weaker against the US Dollar), while benchmark government bond yields declining marginally by -1 to -3 bps across the curve.

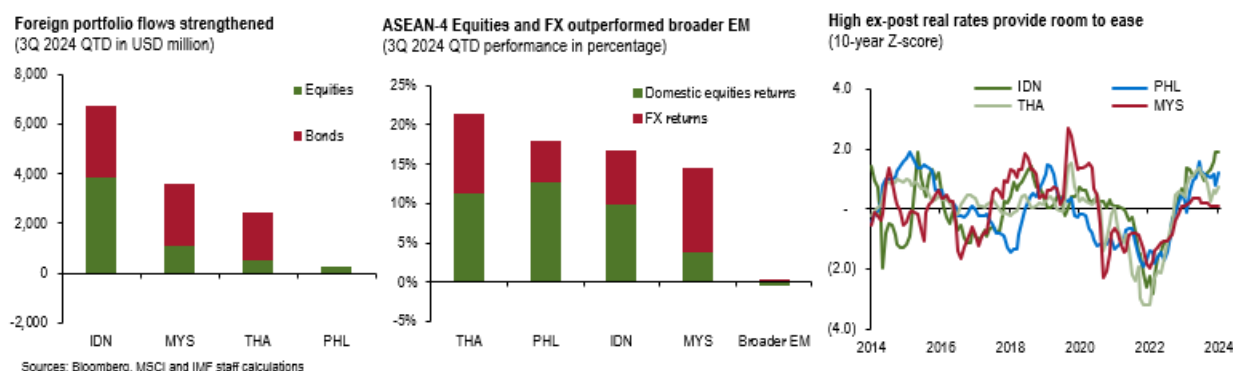
## Ukraine

**The hryvnia was little changed against the dollar this morning**, trading at UAH 41.46/\$, ahead of tomorrow's National Bank of Ukraine's (NBU) decision, where the benchmark rate is expected to remain unchanged at 13%. Headline inflation rose above expectations in August (7.5%, vs est. 6.9%, from 5.4% in July), and core inflation also printed higher at 6.5% (vs JP Morgan's est. 6.3%, from 5.7% in July) with both inflation figures outside the target range of the central bank (5% +/-1%). The surprise was driven by higher food and service prices. Analysts at JP Morgan expect the NBU, which kept the policy rate unchanged in July, to continue to keep its rate on hold tomorrow and for the rest of 2024, with possible rate cuts only in Q1 2025 when the food price shock will fade, although there are caveats on other inflationary pressures due the weakness of the hryvnia, that has depreciated by -8.7% against the dollar YTD. Separately, Ukraine's external credit rating was downgraded by S&P from CC to SD (Selective Default) and by Fitch Ratings from C to RD (Restricted Default) in August due to debt restructuring. Ukraine agreed with some creditors in late July to exchange \$20bn of international bonds against \$15.2bn of new eurobonds at terms enabling the country to save \$11bn payments over the next three years according to Bloomberg. Fitch expects Ukraine's public debt to decline to 89.6% of GDP in 2024, from 92.5% foreseen in June, although the deficit forecast remains high at 17.5% of GDP in 2024 and 15.3% in 2025.



## ASEAN-4 Fund Flows

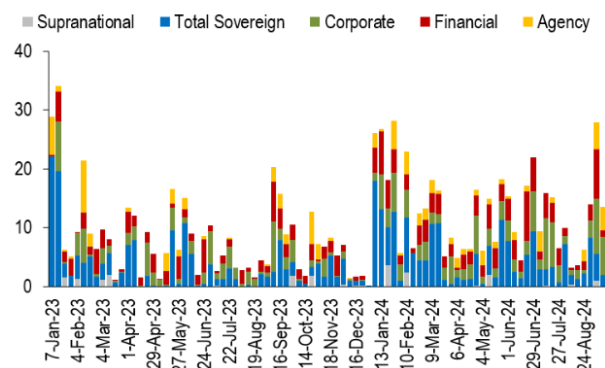
**Global funds are their increasing exposure to ASEAN-4 assets as investors see prospects of interest-rate cuts and attractive currency valuations.** Non-resident portfolio inflows have notably strengthened in the local currency bond markets (LCBM) of Indonesia, Malaysia, Thailand, and the Philippines this quarter, alongside net purchases in domestic equities (*left chart*). These inflows have driven ASEAN-4 currencies and equities to outperform the broader EM space this quarter (*middle chart*). Regional central banks are poised to begin rate-cutting cycle, with the Philippines already eased in August and Indonesia following suit earlier today. Ex-post real interest rates are at historically high levels (*right chart*), offering significant room for further policy easing. Amundi analyst noted that this "room to ease" could provide substantial support to local bond markets, while BlackRock expressed plans to capitalize on any volatility by adding exposure. According to a Bloomberg analyst, these countries' real effective exchange rate is currently 1.8% below its 10-year average, indicating potential currency undervaluation.



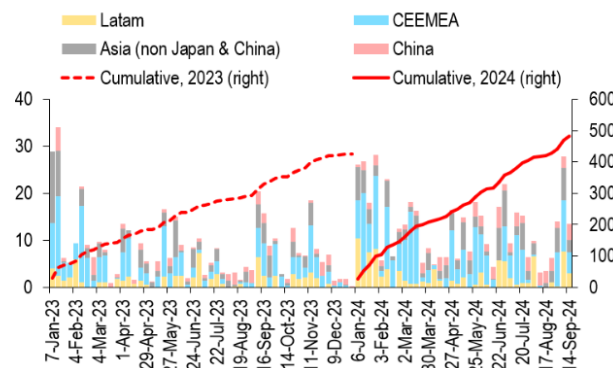
## Emerging Markets

**EM bond issuance came in at \$13.5 bn for the week ending on Sep 14<sup>th</sup>**, halving from the \$27.8 bn volume seen in the week before. A good chunk of these weekly issuance came from the non-financial corporate sector (\$6.4 bn), while sovereigns and financial raised \$2 bn and \$1.2 bn, respectively. In terms of regional distribution, CEEMEA saw the largest volume of \$4.6 bn during the week, followed by China (\$3.4 bn) and LATAM (\$2.9 bn). Issuance volumes in EM Asia ex-China dwindled to \$2.6 bn from \$7 bn in the week before. This takes the cumulative bond issuance in EMs to \$482.2 bn for YTD 2024, vs. about \$330 bn for the corresponding period of last year.

**Figure 1. EM bond issuance, by sector (bn. USD)**











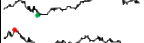
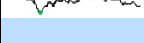









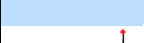

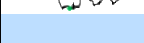



**Figure 2. EM bond issuance, by region (bn. USD)**



*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 Shehryar 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.*

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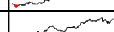
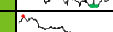
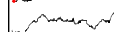


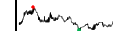


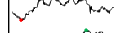
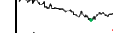
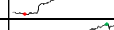






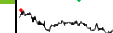

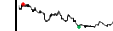
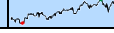


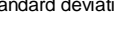


## Global Financial Indicators

9/18/24 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5635	0.0	3	1	27	18
Europe		4842	-0.4	2	0	14	7
Japan		36380	0.5	1	-3	9	9
China		3171	0.4	-1	-6	-15	-8
Asia Ex Japan		72	0.1	2	-1	11	9
Emerging Markets		43	0.1	3	-1	10	7
<b>Interest Rates</b>			basis points				
US 10y Yield		3.67	2.8	2	-21	-63	-21
Germany 10y Yield		2.18	3.5	7	-7	-53	15
Japan 10y Yield		0.83	0.0	-3	-5	11	22
UK 10y Yield		3.82	5.5	6	-10	-57	29
<b>Credit Spreads</b>			basis points				
US Investment Grade		133	-2.0	-6	-1	-13	-1
US High Yield		371	-9.4	-24	-4	-35	-14
<b>Exchange Rates</b>			%				
USD/Majors		100.82	-0.1	-1	-2	-4	-1
EUR/USD		1.11	0.1	1	0	4	1
USD/JPY		141.9	-0.4	0	-3	-4	1
EM/USD		46.1	0.0	1	0	-3	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		73.0	-0.9	3	-7	-14	-3
Industrials Metals (index)		146	0.3	4	3	2	2
Agriculture (index)		56	0.8	3	7	-15	-10
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.7	0.1	0.0	2.9	3.7	5.2
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		99	2.1	-3	-8	-45	-4
Italy		138	2.1	-5	-1	-43	-30
Portugal		59	1.2	-3	-4	-15	-4
Spain		81	1.4	-1	-3	-26	-16

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

## Emerging Market Financial Indicators

Last updated: 9/18/2024 8:12 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		7.08	0.2	0.5	1	3	0		1.8	-2.9	-4	-14	-91	-69
Indonesia		15340	0.0	0.4	1	0	0		6.6	-1.2	-3	-16	-17	8
India		84	0.1	0.3	0	-1	-1		6.9	0.0	-3	-15	(94.9)	-36
Philippines		56	-0.1	0.4	2	2	-1		5.1	24.7	-2	-10	-75	-57
Thailand		33	0.1	1.1	4	7	3		2.3	4.5	-2	-5	-83	-36
Malaysia		4.24	0.4	2.0	3	11	8		3.7	3.6	-1	-6	-17	0
Argentina		961	-0.1	-0.4	-2	-64	-16		38.9	-125.2	23	-199	-7663	-4746
Brazil		5.48	0.5	3.2	-1	-11	-11		12.0	7.3	26	66	54	156
Chile		932	-1.0	1.8	-1	-5	-6		4.6	0.0	-9	-33	-79	-35
Colombia		4212	0.5	1.6	-4	-7	-8		7.4	-1.0	-7	-35	-106	-28
Mexico		19.08	0.1	3.9	-2	-10	-11		8.6	0.0	-24	-27	-46	12
Peru		3.8	0.7	1.4	0	-1	-1		6.3	-2.2	-11	-22	-52	-35
Uruguay		41	-0.4	-1.3	-2	-7	-6		10.1	12.2	35	66	81	61
Hungary		355	0.1	1.5	0	1	-2		5.8	1.0	0	-18	-105	3
Poland		3.84	0.2	1.5	0	13	3		4.4	1.1	3	-18	-26	-6
Romania		4.5	0.1	1.0	0	4	1		6.6	-2.6	4	15	-1	36
Russia		91.7	-0.1	-0.2	-2	5	-2							
South Africa		17.6	0.2	1.8	1	8	4		8.5	1.0	-2	-26	-108	-65
Türkiye		34.11	-0.1	-0.4	-1	-21	-13		28.9	-9.0	22	19	121	213
US (DXY; 5y UST)		101	-0.1	-0.8	-2	-4	0		3.47	2.2	2	-29	-98	-38

	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		3171	0.4	-1	-6	-15	-8		124	-3	-27	-59	-34	
Indonesia		7829	0.0	1	5	12	8		107	-11	-5	-22	11	
India		82948	-0.2	2	3	23	15		113	-1	2	-26	-3	
Philippines		7156	-0.3	3	4	18	11		92	-10	-4	-14	12	
Thailand		1436	-0.1	1	8	-6	1		0	0	0	0	0	
Malaysia		1661	-0.2	0	1	14	14		89	-3	-3	-7	4	
Argentina		1813298	0.0	6	10	210	95		1366	-83	-115	-808	-547	
Brazil		134960	-0.1	0	1	14	1		228	-14	-2	1	13	
Chile		6333	-0.2	2	-2	6	2		125	-7	2	1	0	
Colombia		1313	-0.4	0	-4	19	10		320	-19	1	-12	49	
Mexico		52274	0.5	2	-3	1	-9		325	-19	11	-33	-9	
Peru		28697	-0.6	2	0	25	11		144	-13	-3	-12	0	
Hungary		72622	-0.1	1	0	26	20		165	-5	2	-25	16	
Poland		82666	-0.3	3	-2	24	5		115	-6	0	-9	18	
Romania		17518	0.1	1	-3	24	14		207	-12	6	1	7	
South Africa		82484	-0.7	2	0	12	7		295	-25	-11	-78	-13	
Türkiye		9765	0.1	4	-1	27	31		301	-18	-3	-100	-13	
EM total		43	-0.1	3	-1	10	7		401	-20	-11	24	56	

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

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