GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 19, 2024
LEAD EDITOR: JEFF WILLIAMS

- **Markets remain more dovish on rates compared to the Fed** (link)
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- **The BoE kept policy rates on hold at 5.00%, in line with expectations** (link)
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Markets just can't get enough

Despite the Fed's not-fully anticipated 50bp rate cut, US equity markets declined into the close yesterday, as markets intepreted the subsequent press conference as delivering a more hawkish message. Treasury yields also generally finished higher on the day. At the press conference, Chair Powell emphasised that 50bp cuts are not the new norm, and that the large move is a "sign of our commitment not to get behind." Nonetheless, markets continue to price in significant cuts for the remainder of the year. While the Fed's updated dot plot implies 50bp of additional cuts by year-end, markets are pricing 70bp. Despite the somewhat lukewarm reaction in US trading, foreign markets have reacted to the the news in a much more positive fashion. European and Asian markets are up sharply, and in turn, US equity futures are pointing to a higher opening with futures on the S&P 500 more than 1.5% higher pre-opening.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
9/19/24 8:25 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5618	-0.3	1	0	26	17.79
Eurostoxx 50		4928	1.9	2	1	16	9
Nikkei 225		37155	2.1	4	-2	13	11
MSCI EM		43	-0.3	1	-2	10	7
Yields and Spreads					bps		
US 10y Yield		3.71	0.9	4	-16	-65	-17
Germany 10y Yield		2.18	-0.6	3	-6	-55	16
EMBIG Sovereign Spread		371	-6	-22	-28	-49	-12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.2	0.1	1	0	-3	-4
Dollar index, (+) = $ appreciation		100.7	0.1	-1	-1	-4	-1
Brent Crude Oil ($/barrel)		74.4	1.0	3	-4	-21	-3
VIX Index (%, change in pp)		16.8	-1.4	0	2	3	4

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

Mature Markets

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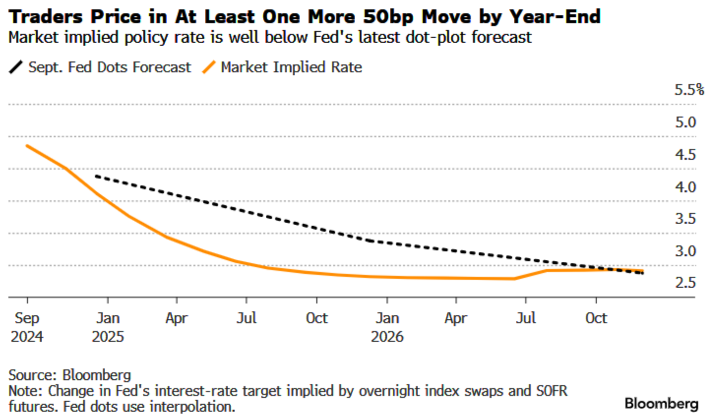
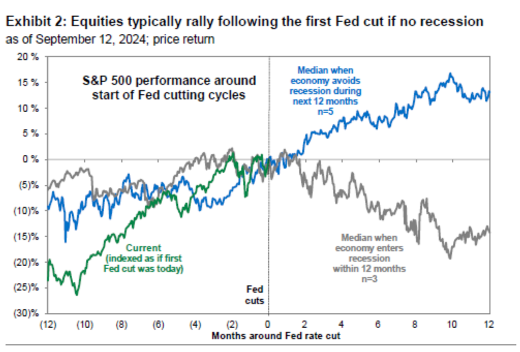
United States

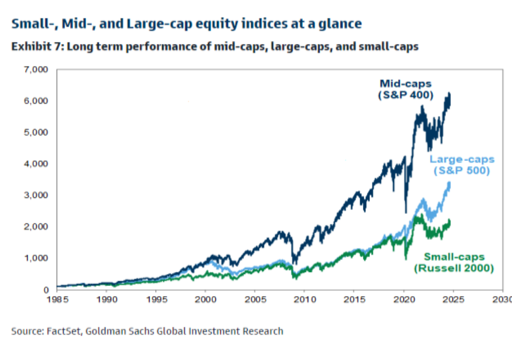


Markets remain more dovish on rates compared to the Fed. The Fed started the easing cycle aggressively, moving forward with a 50bp cut that had not been fully priced in by investors. Looking ahead, markets remain more dovish compared to the Fed. The Fed's projections—as seen in the dot plot—show that a narrow majority favors 50bp of remaining cuts by the end of this year, with the Fed Chair pushing back against the idea of repeated 50bp cuts. This pushback may have been the catalyst for halting further declines in Treasury yields. However, the policy-sensitive horizons remained little changed. The market is still pricing in more than 30bp for November and 70bp in total for December. The gap becomes larger in 2025. The dot forecast implies four additional quarter-point moves, compared to almost six moves priced in by markets.

This morning initial jobless claims in September came in lower than expected (219k vs expected 230k, pointing to resilience in the labor market, while a Philadelphia Fed business outlook surprised on the upside. The news added to previous positive macro news earlier this week. Treasury yields ticked upwards across the curve after the releases, reinforcing the case for a soft landing.

Investors can be optimistic on equities based on historical patterns. The equity market reaction remained muted, on net, despite the strong start to the cutting cycle. However, investors have reasons to remain positive about equities reaching new highs if a soft landing is achieved. Historically, the S&P 500 has rallied in the 12 months following the start of a central bank rate-cutting cycle, excluding the recessionary years of 2001 and 2007. Goldman Sachs analysts note that mid-cap stocks have typically outperformed both large-caps and small-caps during the 12 months following the first Fed rate cut in an easing cycle. As markets position themselves after the first rate cut, it is possible to see a continued market broadening and rotation into mid-caps and away from Mega Cap tech. However, this cycle carries additional uncertainty in the months ahead, with the US election appearing as the next significant hurdle.



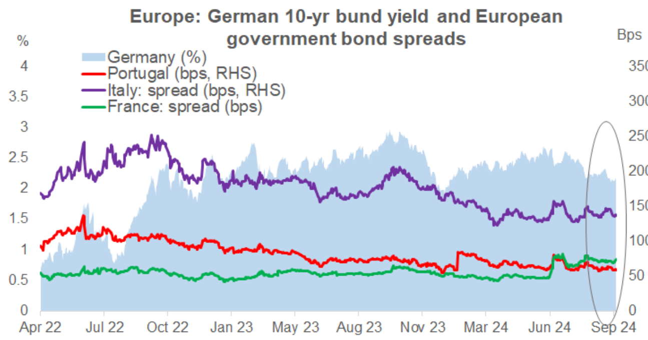


Europe

European equities were mostly trading higher following yesterday's FOMC decision. The Stoxx 600 index opened sharply higher (+1.3%) this morning with most sectors in the green, as the Fed's "jumbo" rate cut buoyed risk sentiment. 10Y bund yields were slightly higher (+1bp) at 2.20% while the euro was stronger (+0.5%) against the dollar to trade at 1.1170 on a relatively quiet day on the data front. Elsewhere, ECB

Governing Council (GC) member Knot commented that he was "more or less fine with market expectations of further [rate] cuts" if inflation continues to decline as projected. Current market pricing points to around 38bp of ECB easing expected by year-end.

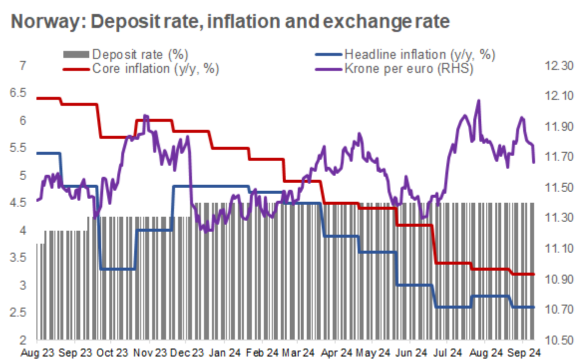
Southern European government bonds lead in positive rating outlooks. Analysts at Credit Agricole note that sovereign credit rating momentum has been strong for Southern European government bonds, while ratings changes for countries such as France and Finland have been negative. Ahead of Fitch's rating review for Portugal tomorrow, the analysts note that rating momentum for Portugal has exhibited a strong, positive trend, reflecting the country's improved fiscal outlook, while the trend for France has been negative given "deteriorating fundamentals" with added recent political uncertainty. Furthermore, the analysts note that upcoming ratings revisions dates may impact on European government bond spreads as many benchmarked investors rely on ratings as part of their asset allocation process. This morning, 10Y Portuguese government bond spreads over equivalent tenor German bunds were broadly unchanged at 59bp. Meanwhile, 10Y French OAT spreads were steady at 73bp, while Italian BTP spreads were narrower (-2bp) at 136bp.



Source: Bloomberg and IMF calculations

Norway

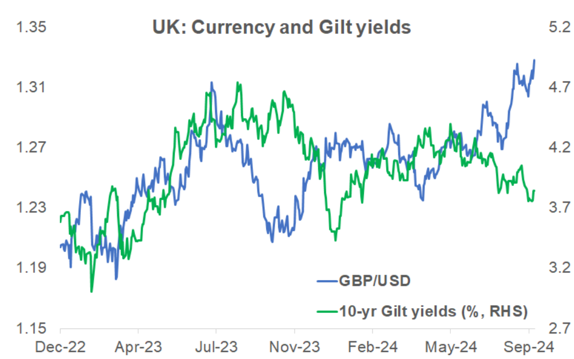
Norges Bank keeps policy rate unchanged at 4.5%. In line with expectations, the Norges Bank kept policy rates on hold and signaled that it will likely remain on hold for the remainder of this year. The accompanying statement noted that "there is a need to keep the policy rate at today's level for a period ahead, but that the time to ease monetary policy is approaching". Updated forecasts released by the Norges Bank today suggest that a first cut may be likely in Q125. **Immediately following the announcement, the Norwegian krone was stronger (+0.9%) against the euro** to trade at its strongest level in almost three weeks. Ahead of today's decision, market pricing was pointing to a 25bp rate reduction in December, however, this was pared back to just 16bp following the announcement.



Source: Bloomberg and IMF calculations

United Kingdom

The BoE kept policy rates on hold at 5.00% as widely expected. The vote split was 8–1 with external MPC member Dhingra voting in favor of a 25bp rate cut. The accompanying statement noted that "In the absence of material developments, a gradual approach to removing policy restraint remains appropriate" and reiterated a meeting-by-meeting approach to policy setting. On the pace of quantitative tightening (QT), the MPC voted to maintain the current pace of £100bn over the next twelve months. Immediately, following the announcement, the pound extended earlier gains against the dollar to trade

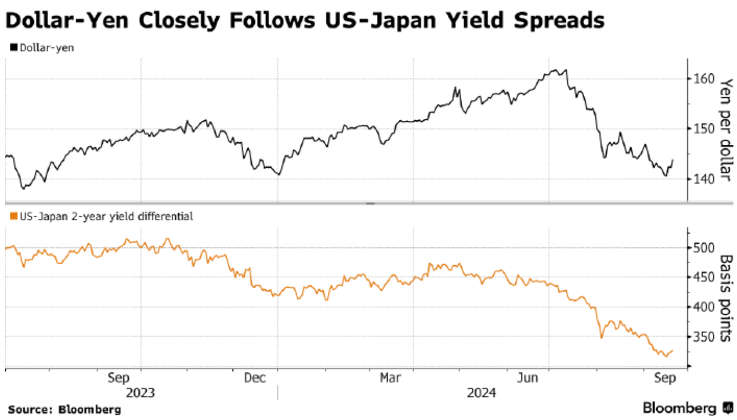


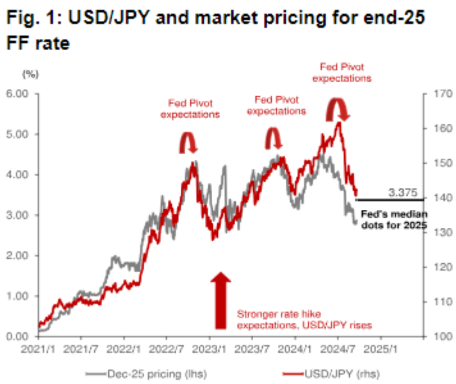
Source: Bloomberg and IMF calculations

(+0.7%) at 1.3306 while 10Y gilt yields were a touch higher at 3.86%.

Japan

The Japanese yen depreciated in choppy trading following a short-lived gain in the US session, after the initial dovish surprise from the Fed's 50bp cut turned out to be less so in the press conference. The yen weakened by 0.2% to 142.6 in Asian trading, reversing gains to reach 140.45 after the Fed's rate announcement. Some traders attribute the weakening of the yen to a narrowing US-Japan yield differential after an increase in US Treasury yields, which the currency pair follows closely. Nomura analysts believe that the subsequent reversal in yen gains reflects that cumulative rate cuts by the Fed matter more than the size of the immediate rate cut, while market expectations for rate cuts into 2025 did not increase after the Fed's communication. Today, **Japanese equities staged a major rally** (Nikkei 225: +2.1%), led by exporter stocks, as the yen did not gain as many traders had previously worried. Traders believe the exchange rate remains a key focus for equity investors until the next earnings season and are keenly watching the Bank of Japan's communication tomorrow, which could potentially move the market given the divergence between market pricing and the central bank officials' recent messages.





Source: Bloomberg, Nomura

Emerging Markets

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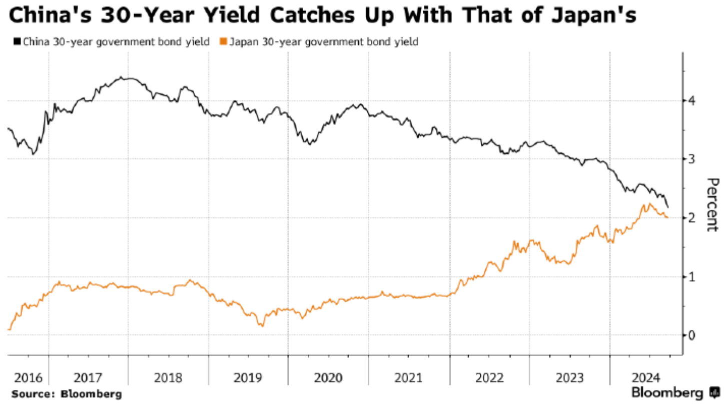
Asian equities gained overnight (EM Asia: +1.4%) as the Fed's rate cut increased investors' appetite for growth stocks. Hong Kong (+2.0%) and Taiwan (+1.7%) equities led the gains. **Most Asian currencies advanced,** with the Bloomberg Asia Dollar Index up 0.2% to the strongest level since July 2023. The appreciation was led by the Indonesian rupiah (+0.6%) and Thai baht (+0.5%). The Philippine peso held onto gains (+0.2%), despite Philippine Finance Secretary Ralph Recto's remarks that he will support a 50bp cut **at** the October meeting. One exception was the Korean won, which depreciated by 0.5% after Bank of Korea (BoK) Governor Rhee's comments that the BoK can now focus on domestic factors for the timing of potential rate cuts, as the Fed's cut has reduced pressure on the forex market. **EMEA equities were mostly trading higher and currencies were gaining against the** dollar in the aftermath of the FOMC decision, with focus on upcoming central bank decisions. The South African rand was strengthening against the dollar (+0.7%) ahead of the central bank policy meeting today, where the easing cycle is expected to start with a 25bp rate cut to take the policy rate to 8%. The Turkish lira was little changed against the dollar (+0.1%) ahead of the policy decision later today, where the policy rate is expected to remain unchanged at 50%. **In LatAm, markets had a mixed performance yesterday.** While the Brazilian real appreciated (0.4%) as the central bank delivered on rate hike expectations, the Mexican peso depreciated (-0.2%) as the "jumbo cut" by the US Fed narrows its prospective rates differential with the latter. Other major moves in the region included the Colombian peso outperforming its peers by appreciating 0.7%. Equities were mixed as well, with those of Peru and Mexico seeing gains, while those of Brazil and Colombia closed lower. Among other key developments, Argentina's 2Q2024 GDP contracted by 1.7% y/y, worse than the expectation of -1.4%.

China

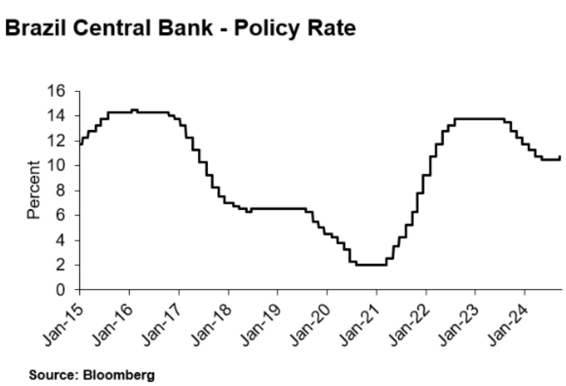
The RMB appreciated to its strongest level in more than a year, gaining 0.2% to 7.07 and recovering from earlier losses. Traders noted that customer forex settlements increased significantly today, with some exporters hedging their forex exposure with short-term forward settlements to mitigate the risk of short-term RMB appreciation. **Long-end Chinese government bond (CGB) yields hit record lows**, as traders anticipate that the Fed's rate cut cycle will create more room for further easing of China's monetary policy. The 10y yield, at 2.03%, is approaching a key level of 2%, while the 30y yield is catching up with its Japanese counterparts. Some local strategists view the interbank Negotiable Certificate of Deposit rate, a gauge of the marginal cost of bank liabilities, as the lower bound resistance level for the decline in the 10-year CGB yield. That rate has declined to near 1.9% for large banks. Today, Chinese equities gained (CSI 300: +0.8%), in line with a regional rally. **State-backed funds have ramped up purchasing Chinese stocks in recent months**, with their total holdings of RMB 3.19 trn (US$451 bn) hitting a record high, Bloomberg reported. The funds have invested RMB220 bn since July in four major ETFs tracking the CSI 300 index, accelerating from RMB310 bn in H1.

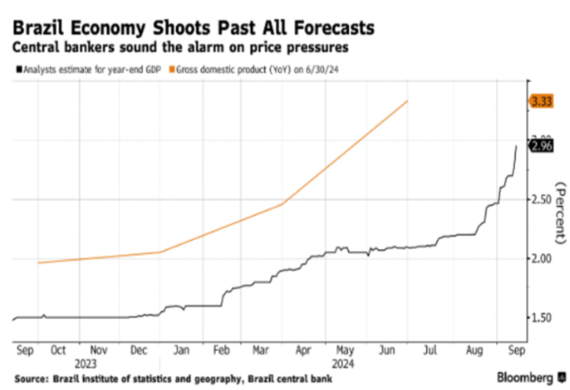


Chinese home price declines accelerated amid record-high unsold inventory. In August, new home prices in 70 major cities fell 5.3% y/y, the fastest pace since May 2015, with a 17.9% cumulative decline over the past three years. The inventory of unsold homes reached a new high of 738 mn sqm amid a plunge in new home sales by 18% y/y in the first eight months. A local research institute estimates that it will take 26.6 months for 100 cities to clear their inventories, and up to 34.2 months for some smaller cities, compared to the normal 13 months, Caixin reported. Latest figures indicate that new home sales during the Mid-Autumn holiday, traditionally a peak sales period, fell by 29% compared to the same period in 2023, and were 55% lower than in 2019.

Brazil

Brazil's central bank delivered a much anticipated 25 bp hike in a unanimous decision, taking the policy rate to 10.75%. However, the bank surprised markets by adopting a hawkish tone, identifying the need for a restrictive monetary policy while acknowledging upside risks to inflation, even though it refrained from giving overt guidance on the future path of the policy rate. According to media reports, market analysts largely expect further hikes, with some even expecting the terminal policy rate to go beyond 12% as inflation remains above the central bank's target amid sustained growth in the economic activity.





Romania

Romania is expected to become the next emerging market to tap the yen market. Romania has reportedly mandated banks for its debut Samurai green bond issuance, with maturities ranging from three to 20 years, according to Bloomberg citing anonymous sources. An official from Romania's finance ministry had earlier this year noted that the government is aiming to diversify its investor base, with Bloomberg also highlighting that a higher-than-expected budget deficit increased this year's funding needs. Analysts at Global Capital note that Romania would be the fourth emerging market to issue Samurai bonds since late August, after Mexico, Slovenia and Hungary. Bloomberg reports that subject to market conditions, the deal is expected to be launched in the near future, issued under Romania's sovereign green bond framework. Earlier this week, rating agency Fitch cautioned that insufficient fiscal consolidation in the medium term could lead to negative rating action on Romania's 'BBB-' rating. The rating agency noted that the 2023 budget deficit widened to 6.6% of GDP (from 6.3% in 2022), with their forecasted 2024 budget deficit of 7.2% of GDP more than twice the 'BBB' current median of 3.2% of GDP. While Fitch anticipates significant fiscal consolidation in the medium term, aided by the re-introduction of EU fiscal rules, the rating agency also highlight significant downside risks—including uncertainty around post-election fiscal plans.

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

9/19/24 8:24 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5669	-0.3	1	1	28	19
Europe		4928	1.9	2	1	16	9
Japan		37155	2.1	4	-2	13	11
China		3196	0.8	0	-4	-14	-7
Asia Ex Japan		72	-0.3	1	-2	11	9
Emerging Markets		43	-0.3	1	-2	10	7
Interest Rates					basis points		
US 10y Yield		3.71	0.9	4	-16	-65	-17
Germany 10y Yield		2.18	-0.6	3	-6	-55	16
Japan 10y Yield		0.85	2.2	-2	-4	13	24
UK 10y Yield		3.88	2.8	9	-5	-47	34
Credit Spreads					basis points		
US Investment Grade		130	-1.3	-7	-3	-15	-4
US High Yield		364	-1.7	-23	-6	-45	-21
Exchange Rates					%		
USD/Majors		100.69	0.1	-1	-1	-4	-1
EUR/USD		1.12	0.3	1	1	4	1
USD/JPY		142.8	0.3	1	-3	-3	1
EM/USD		46.2	0.1	1	0	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		74.4	1.0	3	-3	-12	-1
Industrials Metals (index)		148	1.1	4	3	4	4
Agriculture (index)		56	-0.5	2	5	-16	-10
Implied Volatility					%		
VIX Index (%, change in pp)		16.8	-1.4	-0.3	2.2	2.7	4.4
Global FX Volatility		8.5	0.0	0.2	0.1	0.5	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		100	-0.6	1	-7	-39	-4
Italy		137	-1.4	-2	0	-41	-31
Portugal		58	-1.0	-2	-3	-15	-5
Spain		80	-0.9	-1	-3	-26	-17

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

Last updated: 9/19/2024 8:25 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		7.07	0.2	0.7	1	3	0		1.9	2.4	-3	-12	-89	-67
Indonesia		15239	0.6	1.3	2	1	1		6.6	-0.3	-4	-13	-21	7
India		84	0.1	0.3	0	0	-1		6.9	2.8	-3	-12	(91.8)	-33
Philippines		56	0.2	1.0	2	2	0		4.8	-26.2	-29	-36	-106	-83
Thailand		33	0.7	1.0	4	9	3		2.3	-2.8	-6	-7	-93	-39
Malaysia		4.21	0.9	3.1	4	12	9		3.7	3.4	0	-5	-18	0
Argentina		962	-0.1	-0.4	-2	-64	-16		39.9	97.3	27	-102	-7433	-4648
Brazil		5.41	0.9	3.9	0	-10	-10		11.7	-26.6	-21	35	14	126
Chile		932	0.0	0.0	-1	-5	-5		4.6	0.0	-8	-33	-79	-35
Colombia		4184	0.6	2.1	-4	-7	-7		7.4	0.0	-10	-31	-115	-24
Mexico		19.23	0.3	1.6	-3	-11	-12		8.6	0.2	-20	-27	-60	12
Peru		3.8	0.1	0.7	0	-1	-1		6.2	-4.8	-17	-29	-60	-43
Uruguay		41	-0.4	-1.7	-2	-8	-6		10.1	-1.1	18	65	75	60
Hungary		354	0.3	1.0	1	2	-2		5.9	11.0	10	-6	-90	15
Poland		3.83	0.4	1.2	1	14	3		4.4	-1.0	3	-18	-28	-6
Romania		4.5	0.3	0.8	1	4	1		6.6	0.2	5	15	-4	37
Russia		92.8	0.0	-3.9	-3	4	-4							
South Africa		17.4	0.6	2.1	1	9	5		8.4	-6.5	-11	-32	-110	-71
Türkiye		34.01	0.1	-0.3	-1	-21	-13		28.5	-34.0	-21	-21	161	179
US (DXY; 5y UST)		101	0.1	-0.7	-1	-4	-1		3.47	-0.9	1	-28	-104	-37

	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		3196	0.8	0	-4	-14	-7		125	-1	-26	-58	-33
Indonesia		7905	1.0	2	5	13	9		99	-15	-13	-36	3
India		83185	0.3	0	3	25	15		110	-5	-1	-30	-6
Philippines		7202	0.6	3	4	19	12		85	-13	-11	-27	5
Thailand		1455	1.3	2	10	-4	3		0	0	0	0	0
Malaysia		1666	0.3	2	1	15	15		86	-4	-6	-12	1
Argentina		1815099	0.1	3	10	215	95		1362	-85	-119	-826	-551
Brazil		133748	-0.9	-1	-1	13	0		218	-21	-12	-12	3
Chile		6333	-0.2	2	-2	6	2		121	-10	-2	-7	-4
Colombia		1307	-0.5	-1	-4	18	9		315	-21	-4	-18	44
Mexico		52583	0.6	3	-3	1	-8		318	-18	4	-48	-16
Peru		29094	1.4	3	1	28	12		140	-13	-7	-21	-4
Hungary		72698	-0.1	0	1	26	20		155	-12	-8	-38	6
Poland		83145	0.5	3	-2	26	6		110	-7	-5	-17	13
Romania		17634	0.9	2	-3	23	15		201	-15	0	-8	0
South Africa		84090	1.7	3	0	14	9		292	-24	-14	-87	-16
Türkiye		9950	1.8	5	-1	28	33		289	-25	-15	-122	-25
EM total		43	1.8	1	-2	10	7		395	-22	-17	12	49

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

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