- **More stimulus expected in China as central bank lowers key interest rate** (link)
- **ECB rate cut expectations rise after weak euro area PMI data** (link)
- **Election in Sri Lanka raises questions about debt restructuring** (link)
- **Mexico expected to cut policy rate by 25 bps this week** (link)
- **S&P equal weight stock market index at steep discount to headline index** (link)

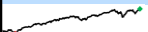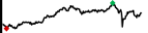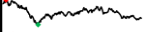Mature Markets | Emerging Markets | Market Tables

Markets weigh implications of recent central bank moves

Stocks in Europe are mixed and US equity index futures are posting slight gains as market participants weigh the implications of recent central bank moves and the prospects for future action. Government bond yields are lower and the euro and the Yen are slightly weaker against the dollar. A number of Fed officials are expected to speak today and market attention is focused on the key US PCE inflation report later this week. There are growing expectations for lower policy rates and potential stimulus measures in a number of emerging markets, especially in China, with ra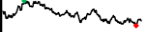te cuts expected in countries such as Mexico and Hungary. Rate cuts are also expected in advanced economies such as Switzerland and Sweden. France remains in the spotlight amidst worries that the new government's fiscal policies may not be as conservative as markets hope.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
9/23/24 8:15 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5703	-0.2	1	1	32	19.55
Eurostoxx 50		4884	0.3	1	-1	16	8
Nikkei 225		37724	1.5	2	-2	16	13
MSCI EM		44	-0.2	2	0	14	9
Yields and Spreads			bps				
US 10y Yield		3.76	1.5	14	-4	-68	-12
Germany 10y Yield		2.18	-3.1	6	-5	-56	15
EMBIG Sovereign Spread		369	0	-15	-28	-43	-14
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.0	-0.2	0	0	-3	-4
Dollar index, (+) = $ appreciation		100.9	0.2	0	0	-4	0
Brent Crude Oil ($/barrel)		74.6	0.1	3	-6	-20	-3
VIX Index (%, change in pp)		16.5	0.3	-1	1	-1	4

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

This week, the US data calendar will feature important reports on PCE inflation, the latest estimate of Q2 GDP, and durable goods orders. In the euro area, today's PMI data will be followed by the German IFO business confidence survey, the German employment report, and euro area consumer confidence. Japan will report CPI data later in the week. Central banks will continue to dominate the news, with rate cuts expected in Switzerland, Sweden and possibly Mexico, although the central bank of Nigeria is expected to stay on hold to help support the economy.

Mature Markets   back to top

United States

The equal weight version of the S&P 500 equity index is trading at the steepest discount to the headline index in 15 years. The headline index is weighted by market capitalization, giving more weight to stocks with higher prices, while the equal weight index treats each stock equally. Some analysts take comfort from this divergence, arguing that the US stock market has room to rally further despite setting a new record high last week, because the less popular non-technology stocks are far less overvalued than their big technology rivals. Lower interest rates after the Fed rate cut will benefit all companies, and non-tech price to earnings ratios (P/Es) are down at their five year average in contrast to the lofty valuations of companies such as the "Magnificent Seven." A similar argument is made for small cap stocks, with the Russell 2000 Small Cap Index (RTY) trading at its worst level versus the S&P 500 since 2001 and the pandemic year.

Plenty of Room for a Catch-up
SPW trading at the lowest in more than a decade to SPX
■ S&P 500 Equal Weighted Index / S&P 500 INDEX
Source: Bloomberg

Steeply Discounted Relative Valuation
RTY is trading at the cheapest versus SPX since pandemic and 2001
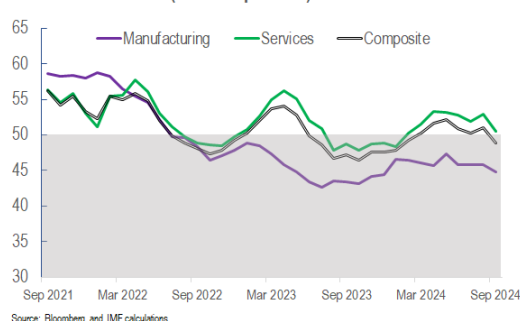■ Russell 2000 Index / S&P 500 Index Best P/S Ratio
Source: Bloomberg

Euro Area

European equities were mixed this morning. The real estate sector was outperforming (+1.0%) while the banking sector underperformed (-0.9%). Commerzbank shares retraced opening losses following reports that UniCredit has increased its stake in Commerzbank by roughly 11.5%, according to Bloomberg. On the ratings front Fitch last week raised the outlook for Portugal (A-) to positive from stable on a reduction of public debt. This morning, the 10-year Portuguese debt yield was 4bps lower, with the spread to 10y German Bunds little changed at around 58bps.

The euro weakened and bond yields fell as markets scaled up ECB rate cut expectations after eurozone flash PMI data disappointed in September. The Eurozone's flash PMI data release showed the composite indicator falling into contractionary territory for the first time since February 2024 (48.9 versus expected 50.5 from 51.0), with a sharper than expected decline in both the services PMI (50.5 versus expected 52.3 from 52.9) and manufacturing PMI (44.8 versus expected 45.7 from 45.8). **France and Germany both saw unexpected declines.** Commerzbank analysts argued that the decline in the eurozone composite PMI indicator points to a slowdown in economic growth in Q3 and expect that the ECB's policy makers would likely shift their attention more and more to the weakening economy. The analysts expect one more rate cut by the ECB this year. **Markets scaled up ECB rate cut expectations for this year and are now pricing in roughly 44bps of easing by end-2024**, compared to 38bps last Friday, with 10bps of

easing priced in for the October meeting (compared to 7bps last Friday). 10Y bund yields were 5bps lower this morning, trading around 2.15%, while 2y bund yields (-8bps), were trading at around 2.14%. The euro weakened against the dollar (-0.4%), trading around 1.11.

Eurozone: PMI data (>50 is expansion)
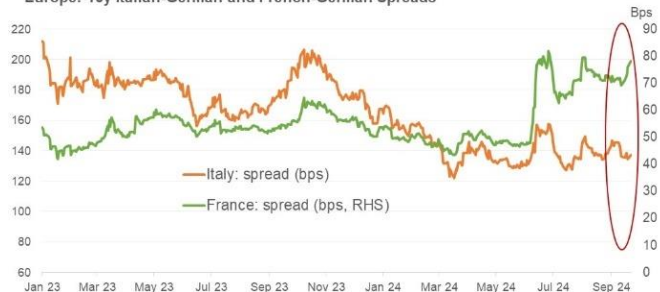Source: Bloomberg and IMF calculations

Yield curves: 10yr - 2yr curve
Source: Bloomberg and IMF calculations

The spread between France's 10y sovereign bonds and those of Germany widened to 79 bps, roughly 6 bps higher than the start of the month, with analysts pointing to economic and political concerns. JPMorgan analysts highlight uncertainties about the new French government's fiscal prudence. Contacts see the 2025 budget as the main near-term economic issue, with the next key date October 1 when prime minister Barnier is expected to set

Europe: 10y Italian-German and French-German Spreads
Source: Bloomberg and IMF calculations

out the government agenda. Commerzbank analysts expect the 10-year French-German spread to remain around 80bps. The 10-year Italian-German spread was also 2bps wider this morning at 137bps but is roughly 3bps narrower than at the start of the month.

Emerging Markets   **back to top**

EMEA markets were lower. Hungary is expected to cut by 25 bps tomorrow. **Asian equities were mixed, while most Asian currencies depreciated.** Philippine equities (+2.3%) led the gains, with the Philippine peso underperforming (-0.5%) amid growing anticipation of further rate cuts by the Bangko Sentral ng Pilipinas as inflation cools. **Markets in Latin America were weaker after the initial euphoria over the jumbo Fed rate cut dissipated.** In credit rating actions, Moody's revised Peru rating outlook to stable from negative, citing improvements to institutional stability. In contrast, S&P revised the outlook of Honduras to negative, noting recent weakness in external liquidity and consequent dampened prospects for private sector investment.

Emerging Market Issuance
In EM issuances, Egypt is reportedly planning to issue approximately $3 billion in external debt across multiple tranches during this fiscal year (ending June 2025), which would mark its first international issuance since late 2021. Meanwhile, China has reportedly mandated several investment banks to arrange investor calls later this week for a proposed euro-denominated bond offering.

FX markets in Latin America
Prospects of deeper policy cuts in Mexico and Colombia, juxtaposed with recent rate hikes in Brazil, has prompted investors to engage in relative-value bets. A portfolio manager at Vinland

Capital noted that these relative-value strategies "make a lot of sense" for regional rates and currencies, pointing out that policies in the region have historically been less synchronized than they have been in the past four years. Specifically, the Brazilian real is anticipated to outperform the Mexican peso (*left chart*), driven by diverging policy pathways (*right chart*). Analysts at BNP Paribas and Morgan Stanley have also advocated for bullish positions in the Brazilian real against the Colombian peso, citing the diverging inflation trends. Nevertheless, some investors remain cautious, warning that Brazil's weaker fiscal position might counterbalance the potential advantages of widening rate differentials.

BRL Bounces After Massive Underperformance Against MXN
Source: Bloomberg

Traders Bet on Opposite Rate Paths in Brazil, Mexico
Source: Bloomberg

China

Expectations for China's stimulus grow amid rate cut. Today, the People's Bank of China (PBC) cut the 14-day reverse repo rate by 10 bps to 1.85% in RMB 74.5 bn (US $10.6 bn) of open market operations, ahead of the National Day holidays in early October. The PBC stated that the 14-day rate was set 15 bps above the 7-day rate, suggesting this was a follow-up move after the 7-day rate cut in July rather than a new round of easing. However, the 10-year government bond yield dipped 1 bp to 2.03%, appearing to price in additional monetary easing, fueled by the

Source: PBOC; Bloomberg Intelligence

news that China will hold a rare briefing by financial regulators tomorrow. Analysts are anticipating cuts to the reserve requirement ratio, medium-term lending facility rate, and mortgage rates in the coming months. Today, Chinese equities gained (CSI 300: +0.4%); RMB was little changed.
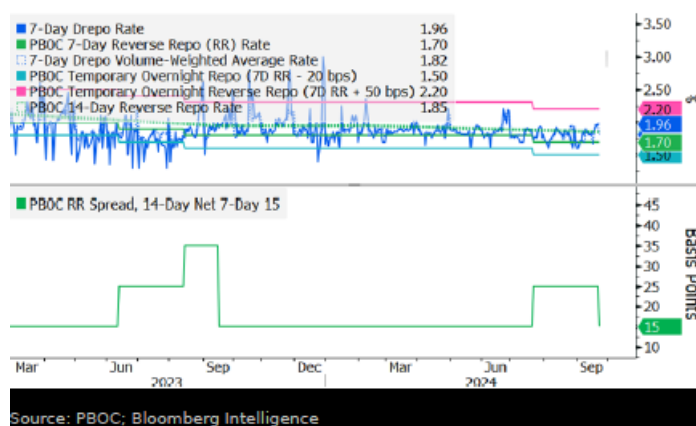
China's fiscal revenue and expenses declined amid a plunge in land sales. In August, fiscal revenue fell by 2.8% y/y, with tax revenues a drag (-5.2%). Fiscal spending saw a significant drop of 6.7% y/y, contrasting with a 6.6% increase in July. The weakness in fiscal positions was exacerbated by a steep drop in local government revenue from land sales (-41.8% y/y), which is managed under the government fund budget. Despite the acceleration of local government bond issuance,

Source: Ministry of Finance, Bloomberg Economics

which amounted to nearly RMB 1.2 trn (US$ 168 bn) in August, local government just spent 60.9% of the initial annual budget, marking the second-lowest spending progress in the past five years. Analysts believe it will take months before these funds translate into meaningful investments in infrastructure projects, as
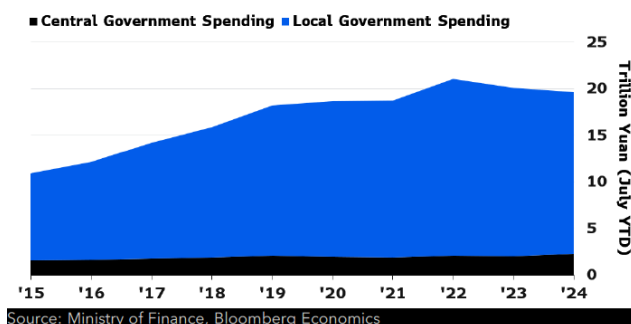
pressure from the authorities to tighten scrutiny of project viability and debt risk is slowing down local governments' decision-making.
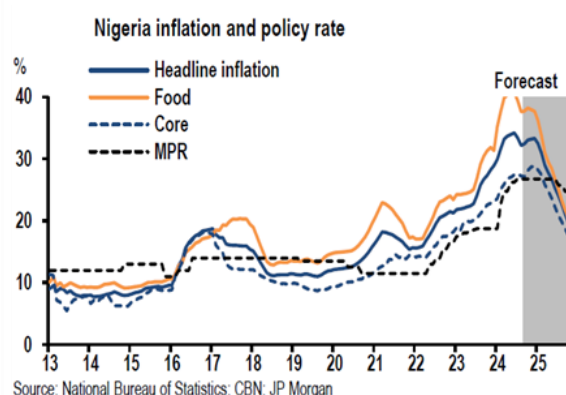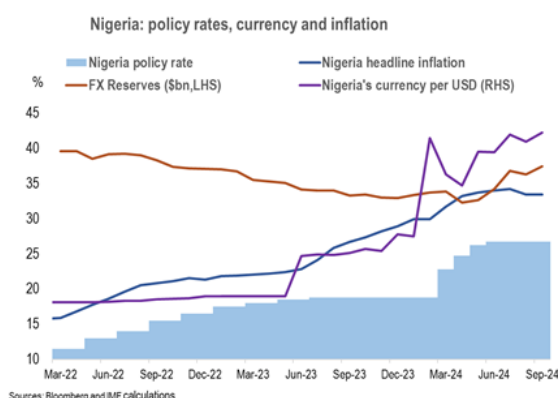
Mexico

Banxico is widely expected to cut policy rate by 25 bps to 10.5% at its Sept. 26 meeting. However, some analysts are predicting a larger 50 bps cut, following the recent move by the US Fed. Out of 22 analysts surveyed by Bloomberg, three anticipate a 50 bps reduction. Goldman Sachs analyst also noted a "20% probability" of a split-decision leading to a 50 bps cut, pointing out that "activity data has been soft" and the output gap is projected to move "deeper into negative territory." Recent inflation data also surprised to the downside and real

Real Ex-Ante Policy Interest Rate Remains Well Above the Upper-Bound of the Neutral Range

Source: Haver Analytics, Banxico, Goldman Sachs Global Investment Research

ex-ante rates remains restrictive. Nonetheless, the baseline is for a 25 bps cut, considering the guidance and balance of views expressed in the previous policy meeting. Market expectations also still lean towards a 25 bps cut and Bloomberg analyst highlighted concerns that the recent weakness in the Mexican Peso, along with domestic policy uncertainties, could discourage Banxico from making a larger cut.
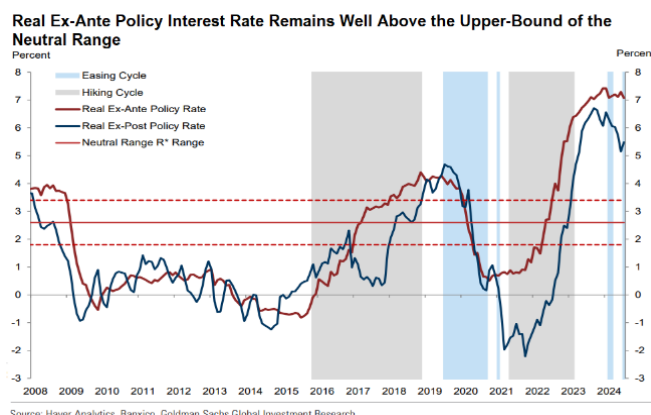
Nigeria

The naira was little changed against the dollar (trading at 1,639/$) and equities edged higher (0.2%) in Nigeria this morning, ahead of tomorrow's decision of central bank (CBN) where the benchmark rate is expected to be kept on hold at 26.75%. The CBN has raised rates steadily since March 2022, with the last rate hike of 50 bps coming on July 23. Data released last week showed that inflation slowed down in August to 32.2%y/y from 33.4%y/y in July, in line with expectations, while Q2 GDP grew slightly less than expected at 3.20%y/y (vs. est. 3.19%) up from 2.98%y/y in Q1. However, inflation is not expected to fall below 30%y/y until early 2025. According to Bloomberg, Nigeria's government is expected to issue today naira 70bn ($ 42.6m) of bonds due on April 17, 2029, at a 19.3% coupon rate.
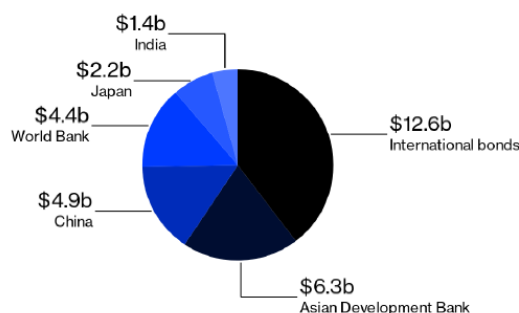

Nigeria: policy rates, currency and inflation

Sources: Bloomberg and IMF calculations

Nigeria inflation and policy rate

Source: National Bureau of Statistics; CBN; JP Morgan

Sri Lanka

The leftist candidate, Anura Kumara Dissanayake, won a closely contested presidential election, defeating incumbent President Ranil Wickremesinghe after a historic second round of counting. Dissanayake represents a radical departure from previous governance, pledging sweeping reforms to tackle deep-rooted inequalities in Sri Lanka. He had earlier stated that his first action, if elected, would be

to dissolve the parliament, suggesting ongoing political uncertainty in the months ahead. Traders are also keenly watching any comments from Dissanayake on the restructuring deal for the country's US$12 bn debt, which was reached two days before the election. He has also pledged to renegotiate with the IMF regarding a US$3 bn bailout, causing concerns about potential delays in funding. Government bonds maturing in 2029 declined 3.1 cents to 50.2 cents on the dollar. The Sri Lankan rupee (+0.4%) and equity market (+0.5%) reacted positively today.

Sri Lanka's Main Creditors
Total external debt stands at about $38 billion

$1.4b India
$2.2b Japan
$4.4b World Bank
$4.9b China
$12.6b International bonds
$6.3b Asian Development Bank
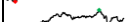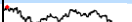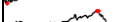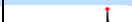
Source: Quarterly Debt Bulletin, Sri Lanka
Note: Debt outstanding, including unpaid principal, as of June 2024

Bloomberg

Global Financial Indicators

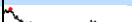| 9/23/24 8:22 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
United States		5706	-0.2	1	1	32	20
Europe		4884	0.3	1	-1	16	8
Japan		37724	1.5	2	-2	16	13
China		3213	0.4	1	-3	-14	-6
Asia Ex Japan		74	0.1	3	0	15	11
Emerging Markets		44	-0.2	2	0	14	9
Interest Rates				basis points			
US 10y Yield		3.76	1.5	14	-4	-68	-12
Germany 10y Yield		2.18	-3.1	6	-5	-56	15
Japan 10y Yield		0.85	0.0	0	-5	10	24
UK 10y Yield		3.92	1.4	16	1	-33	38
Credit Spreads				basis points			
US Investment Grade		129	0.5	-6	-3	-14	-5
US High Yield		361	-0.7	-20	-9	-58	-25
Exchange Rates					%		
USD/Majors		100.94	0.2	0	0	-4	0
EUR/USD		1.11	-0.4	0	-1	5	1
USD/JPY		143.7	-0.1	2	0	-3	2
EM/USD		46.0	-0.2	0	0	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		74.6	0.1	3	-5	-10	-1
Industrials Metals (index)		146	-0.3	0	-1	3	2
Agriculture (index)		57	1.6	2	7	-13	-9
Implied Volatility					%		
VIX Index (%, change in pp)		16.5	0.3	-0.7	0.6	-0.7	4.0
Global FX Volatility		8.4	0.0	-0.2	-0.1	0.4	0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		100	1.4	2	-4	-46	-3
Italy		135	0.7	0	1	-50	-32
Portugal		57	0.5	-1	-1	-19	-6
Spain		80	1.0	0	0	-28	-17

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
9/23/2024	Level		Change (in %)					Level		Change (in basis points)				
8:25 AM	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		7.06	-0.1	0.6	1	4	1		1.9	1.0	-1	-13	-90	-67
Indonesia		15206	-0.4	1.3	2	1	1		6.5	2.9	-11	-18	-30	-1
India		84	0.0	0.4	0	0	0		7.0	0.0	11	-2	(83.9)	-26
Philippines		56	-0.6	-0.1	1	1	-1		4.7	-21.0	-34	-41	-111	-91
Thailand		33	-0.2	0.8	3	10	4		2.4	4.0	4	-5	-90	-34
Malaysia		4.20	0.0	2.3	4	12	9		3.7	-0.7	-3	-8	-28	-4
Argentina		963	0.0	-0.3	-2	-64	-16		40.9	109.0	56	139	-7389	-4546
Brazil		5.56	-0.9	-0.9	-1	-11	-13		12.5	20.0	62	99	77	211
Chile		929	0.2	-0.6	-2	-3	-5		4.6	2.5	6	-32	-106	-32
Colombia		4152	0.2	0.8	-3	-6	-7		7.5	4.0	9	-14	-105	-13
Mexico		19.41	0.0	-0.9	-2	-10	-13		8.6	6.5	-9	-31	-58	12
Peru		3.8	-0.3	0.5	0	-1	-1		6.2	-0.3	-13	-32	-78	-46
Uruguay		42	-0.7	-2.0	-3	-9	-7		10.3	8.5	30	79	88	73
Hungary		355	-0.9	-0.3	-1	4	-2		5.9	-9.0	15	0	-111	14
Poland		3.85	-0.6	-0.2	-1	13	2		4.5	-2.5	10	-1	-34	2
Romania		4.5	-0.7	-0.2	-1	5	1		6.5	-5.1	-8	3	-12	29
Russia		93.0	-0.7	-1.7	-2	3	-4							
South Africa		17.4	0.3	1.4	2	8	6		8.5	-2.5	7	-12	-127	-66
Türkiye		34.15	-0.1	-0.4	0	-20	-14		28.2	-21.0	-107	-3	226	145
US (DXY; 5y UST)		101	0.3	0.2	0	-4	0		3.51	1.2	11	-14	-105	-34

	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		3213	0.4	1	-3	-14	-6		124	-2	-26	-56	-34
Indonesia		7776	0.4	0	3	11	7		100	-11	-12	-26	4
India		84929	0.5	2	5	29	18		109	-5	-1	-28	-7
Philippines		7417	2.3	4	7	21	15		84	-11	-15	-18	4
Thailand		1448	-0.3	1	7	-5	2		0	0	0	0	0
Malaysia		1665	-0.2	1	2	15	14		83	-7	-7	-14	-2
Argentina		1822928	-1.3	0	13	229	96		1315	-90	-180	-943	-598
Brazil		131065	-1.6	-3	-3	13	-2		220	-9	-8	-3	5
Chile		6333	-0.2	1	-2	6	2		119	-8	-6	-4	-6
Colombia		1321	0.0	0	-1	21	11		312	-17	-3	-7	41
Mexico		52190	-1.4	0	-2	1	-9		316	-11	0	-45	-18
Peru		29307	0.3	1	3	29	13		140	-8	-5	-14	-4
Hungary		73285	0.2	1	0	32	21		152	-13	-11	-33	3
Poland		81814	0.1	0	-3	23	4		110	-9	-3	-9	13
Romania		17661	0.2	1	-4	23	15		196	-14	-7	-5	-5
South Africa		84568	0.9	3	0	15	10		285	-24	-17	-86	-23
Türkiye		9914	0.1	4	3	23	33		282	-24	-18	-97	-32
EM total		44	0.1	2	0	14	9		393	-15	-15	19	48

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

back to top