GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 24, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Chinese markets soar as authorities unveil multiple new measures to boost growth** (link)
- **US corporate bond market sees flood of new issuance** (link)
- **Convexity risk in US bond markets down sharply** (link)
- **Options market turns less dovish on Yen** (link)
- **Weaker than expected IFO survey highlights continued problems in Germany** (link)

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Rally in China boosts global markets

Markets in China soared after the authorities announced multiple new measures to boost growth and support local financial markets. The measures included cuts to money market and mortgage rates and a potential market stabilization fund. The positive momentum from the announcement continued into the European session, with stocks rallying across the board. US equity index futures were also up, although the gains were relatively modest. Longer term Treasury and bund yields were higher in early morning trading, while the dollar was weaker. The US House of Representatives agreed on measures to prevent a government shutdown and fund government activities through December. However, a weak IFO business confidence survey in Germany and the escalation of violence in the Middle East were reminders that risks for financial markets continue to lurk. In other news, the Reserve Bank of Australia stayed on hold as expected at 4.35%.

Key Global Financial Indicators

Last updated: 9/24/24 7:49 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5719	0.3	2	1	32	19.89
Eurostoxx 50		4939	1.1	2	1	17	9
Nikkei 225		37941	0.6	4	-1	16	13
MSCI EM		44	0.8	2	0	14	10
Yields and Spreads					bps		
US 10y Yield		3.80	4.7	15	0	-64	-8
Germany 10y Yield		2.18	2.4	4	-5	-56	16
EMBIG Sovereign Spread		372	3	-12	-25	-50	-11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.1	0.1	0	0	-3	-4
Dollar index, (+) = $ appreciation		100.9	0.0	0	0	-4	0
Brent Crude Oil ($/barrel)		75.6	2.3	3	-4	-19	-2
VIX Index (%, change in pp)		15.9	0.1	-2	0	-1	3

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

Mature Markets

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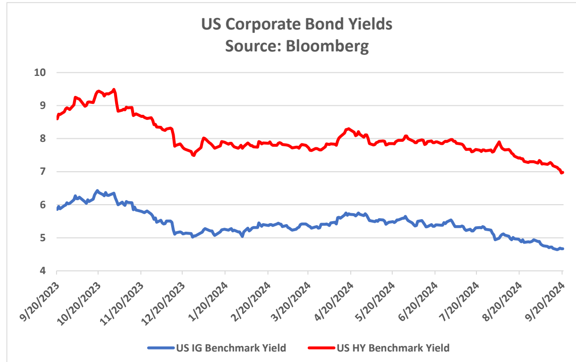
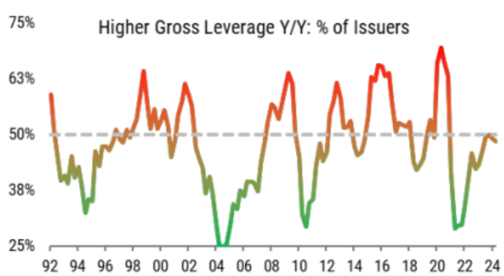
United States



The US corporate bond market is experiencing a flood of new bond issuance as companies rush to lock in cheaper funding costs. Yields for both investment grade (IG) and high yield (HY) bonds have fallen to their lowest level in years as credit spreads tighten due to rising confidence about the US economy and Treasury yields remain relatively low. With the new Fed rate cut cycle underway, confidence in the market is strong. Yesterday, ten IG issuers came to market with $20–25 bn of new bonds and ten HY issuers also launched new deals, making Monday the most active day of the year so far in terms of the number of companies issuing bonds, according to Bloomberg. The day also saw the launch of 14 new leveraged loan deals. Most of the new issuance is intended to refinance existing debt, but a small minority of deals are being used to fund leveraged buyouts. Some analysts caution that low Treasury yields may be a sign of future weakness in the economy and that markets could be getting ahead of themselves. Others are more optimistic, predicting that Treasury yields will rise as the continued strength of the economy becomes more apparent, and that companies are doing the right thing by taking advantage of low yields while they can.

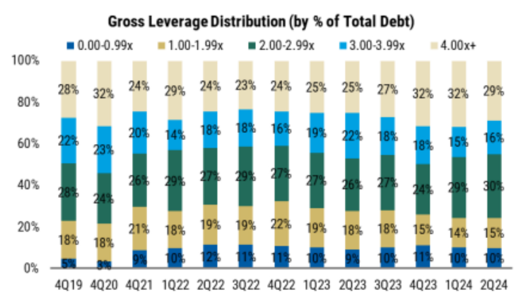
Investors are eagerly buying the new bonds because the credit profile of companies is improving. Among IG issuers, gross leverage came down in Q2. The proportion of IG issuers with high leverage also declined in Q2. In addition, the outstanding debt issued by high leverage companies was also lower, as the amount of debt from issuers with 4X leverage fell from 32% to 29%. Net leverage for IG issuers was flat at 1.75X and remained close to this level over the past two years.

Breadth of issuers with higher leverage declined in 2Q



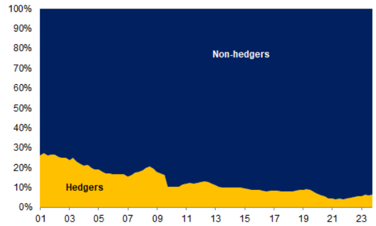
Source: Bloomberg, Morgan Stanley Research

Debt in higher-leverage buckets modestly lower Q/Q



Convexity risk in US bond markets has declined significantly. Convexity risk is the asymmetric interest rate risk borne by investors in mortgage-backed securities (MBS) and other financial instruments that have short option positions built into their structures. MBS holders suffer greater losses when interest rates rise but experience much more modest gains when interest rates fall due to the prepayment options embedded in these bonds. In past years, large changes in interest rates could be destabilizing for the broader markets because there were large MBS investors who had to hedge their interest rate risk when rates moved, causing higher volatility. Prior to the Global Financial Crisis (GFC), US Government Sponsored Enterprises (GSEs) such as Fannie Mae, Freddie Mac and "Ginnie Mae" had a big impact on markets when they adjusted their hedges in response to large rate moves. After the crisis, significant restrictions were imposed on the GSEs that reduced their sensitivity to interest rate changes. Goldman estimates that hedged MBS investors have fallen to just 6% of the MBS market compared to the peak of 27% before the GFC.

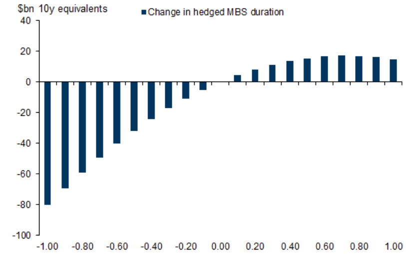
Exhibit 3 : We estimate the share of hedged investors in the MBS market has fallen from a peak of 27% in 2002 to 6% today
Share of hedged investors in the MBS market (GSEs, mortgage REITs, dealers, and hedge funds) vs. other investors.



After 2014, hedge fund ownership is estimated using the SEC's private funds statistics under the asset-backed relative value classification, while before 2014 we assume a fixed hedge fund share of the Flow of Funds \"household\" category

Source: Federal Reserve Board, U.S. Securities and Exchange Commission, Goldman Sachs Global Investment Research

Exhibit 4 : Hedged duration would contract more significantly in a large rally than it would extend in a material selloff
Estimated change in hedged duration vs shift in underlying yield

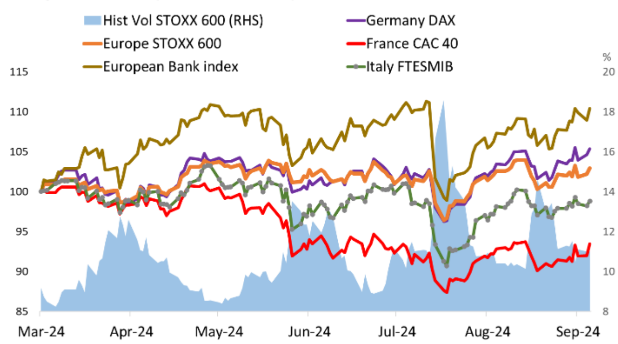


Source: Goldman Sachs Global Investment Research

Euro Area

European equities edged higher this morning. The Stoxx 600 index was up +0.8% led by gains in the materials (2%), consumers goods (1.9%) and banking (1.5%) sectors, with France outperforming (CAC 40 1.6%).

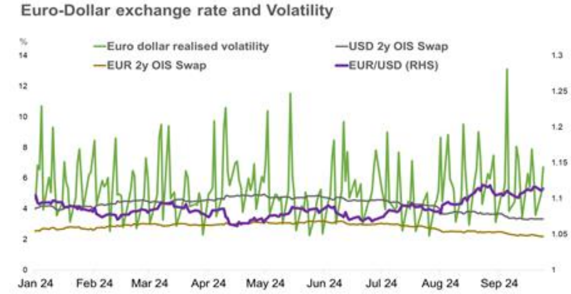
European Stocks (Mar 2024= 100)



Source: Bloomberg and IMF calculations

The euro was marginally stronger (0.2%) against the dollar, trading at $1.113/€. Analyst at ING see the currency supported by the global inflationary environment and holding in the range of $1.11/€-$1.115/€ with further gains possibly resulting from US PCE data on Friday. The bund yield curve steepened in step with the US Treasury curve, while the 10-year French OAT spread versus bunds went down by two bps to 78 bps. The pound also appreciated versus the dollar, with analysts at Goldman predicting it could reach 1.40 over the next 12 months, a level not seen since 2021.

Euro-Dollar exchange rate and Volatility

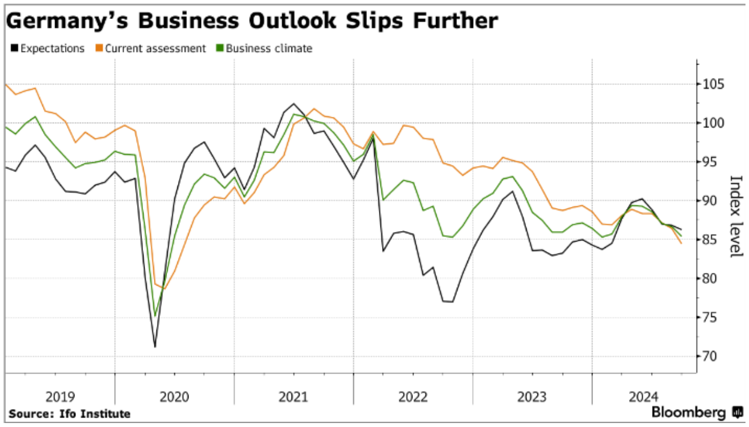


Source: Bloomberg and IMF calculations

1 month EUR/USD risk reversal

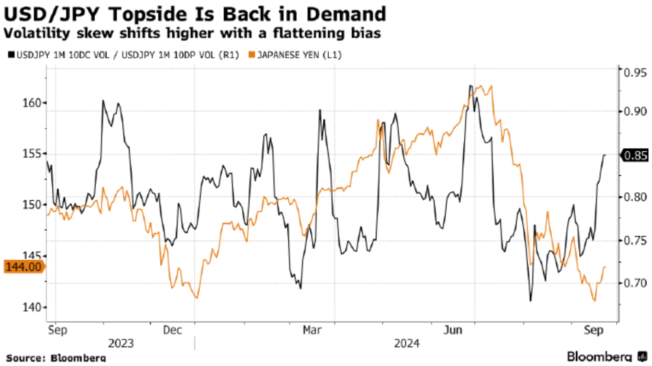
Source: Bloomberg and IMF calculations

The German IFO business survey was weaker than expected, in another sign after yesterday's weak PMI data that the euro area economy is slowing. The indicator fell for the fifth consecutive month to 85.4pts (vs est. 86), from 86.6pts in August; the current conditions indicator plunged to 84.4pts (vs est. 86) from 86.5pts in August. Analysts at HSBC see the broad-based worsening of corporate sentiment as casting doubts on economic recovery in Germany, since even the services sector is weakening, adding to the decline of manufacturing, trade, and construction; overall analysts maintain a flat forecast for GDP growth in Germany in 2024 and warn about risks to the moderate rebound foreseen in 2025.



Japan

The options market suggests less bullish sentiment on the Japanese yen. This shift followed the dovish tone from Bank of Japan (BoJ) Governor Ueda at the monetary policy meeting press conference last Friday. According to Bloomberg, 70% of the total vanilla exposure has been positioned for a stronger dollar against the yen since last Friday, while one-week risk reversals indicate the least bullish sentiment for the yen since July 11. The BoJ's reluctance to raise rates contrasts with the Fed's cautious easing approach, raising doubts about whether yield differentials will narrow sufficiently to support the yen. Today, the yen depreciated 0.6% following its worst week in nearly five months. Japanese stocks extended a rally (Nikkei 225: +0.6%) amidst the weaker yen.



Emerging Markets

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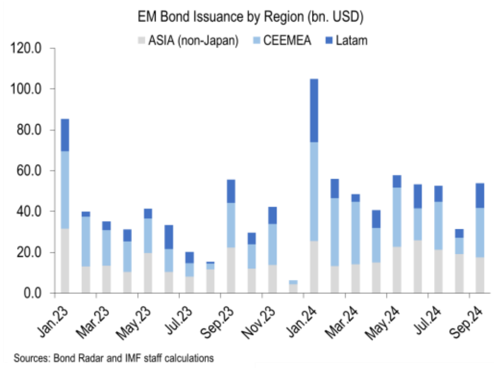
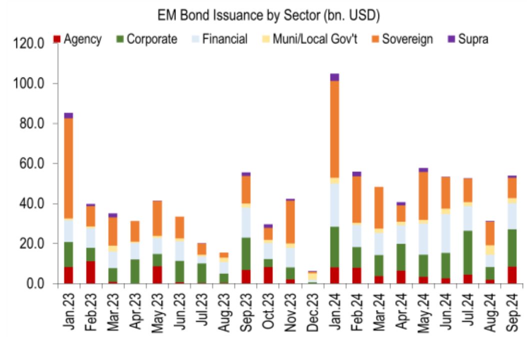
EMEA markets joined the global rally. However, local currencies traded in a tighter range. Hungary is expected to cut by 25 bps to 6.5% later today, and the Czech National Bank is expected to cut by 25 bps to 4.25% tomorrow. **Asian equities advanced (EM Asia: +2.0%) as market sentiment was lifted by China's stimulus package.** Chinese (+4.3%) and Hong Kong (+4.0%) equities led the gains. **Latin American stocks were mixed.** Local currencies were mostly weaker, led by the Peruvian Sol which depreciated by 0.5% versus the dollar.

Emerging Market Bond Issuance

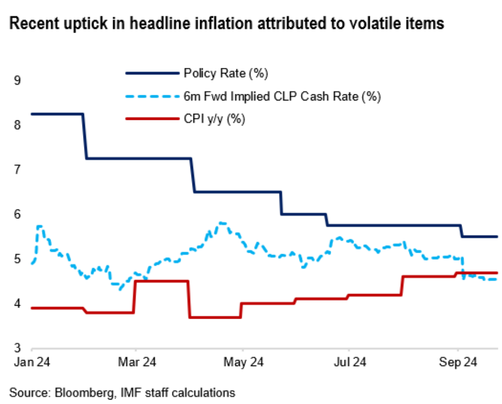
EM international bond issuance was robust in the past week, which was filled with central bank meetings**.** Issuance stood at $12.5 bn for the week ending on September 20th, and cumulatively at $53.9 bn month-to-date, according to data compiled by Bond Radar**.** MTD September issuance is on track to exceed issuance for the whole of September 2023 ($55.6 bn) and has outpaced issuance for four other months in 2024. Issuance was primarily from sovereigns ($6.1 bn), financials ($3.4 bn) and non-financial corporates ($2.9 bn). CEEMEA issuers constituted most of the flow ($8.9 bn), led by Romania's multi-tranche deal in EUR (€2.25bn 7-year and €0.75bn 20-year) and USD ($2.1 bn 10.5-year). Romania has raised around $18 billion in external debt this year, the largest amongst central and eastern Europe sovereigns. Year-to-date EM aggregate issuance stood at $499bn and has exceeded all of 2023's level of $435 bn.

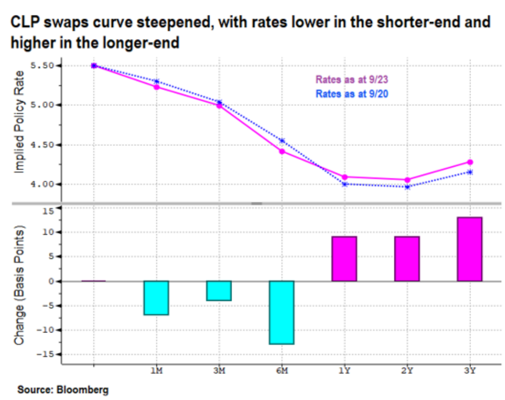




Chile

Central bank meeting minutes for the September meeting affirmed a dovish policy stance. They revealed that the board members unanimously agreed on a 25 bps cut, and that the policy rate could be further reduced towards its neutral level. Policymakers debated a rate cut of either 25 bps or 50 bps, but quickly ruled out the latter, noting that decision was consistent with conditions evolving "within its central scenario". The minutes highlighted that domestic activities are softer than previously anticipated, with reduced risk of inflation in the medium turn. Members also attributed recent uptick in headline inflation (*left chart*) to volatile components and noted that "inflation expectation is aligned with the 3% target". Consequently, policy rates could be reduced faster than previously expected. Market read the minutes as dovish, with short-end CLP swaps rates pricing-in a marginally larger magnitude of rate cuts (*right chart*).



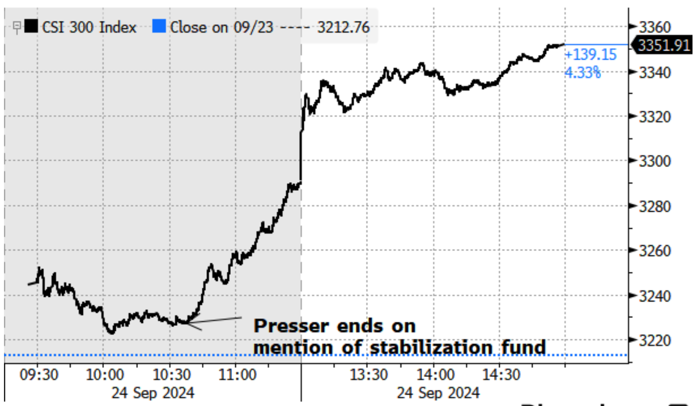


China

Chinese authorities unleashed the most extensive package of supportive measures in years to boost growth. Key monetary easing measures include cutting the 7-day reverse repo rate by 20 bps to 1.5% and lowering the reserve requirement ratio by 50 bps, and potentially another 25–50bps before year end. To revive the property market, the People's Bank of China (PBC) will lower mortgage rates on existing housing loans (~-50 bps) and reduce the minimum down payment ratio for second-home loans (-10 ppt), aligning them with new mortgage loans and first-home loans, respectively. The central bank's RMB300 bn (US$42.6 bn) support for affordable housing relending will be increased from 60% to 100%. To support capital market development, the PBC will set up a swap facility, allowing brokers, funds, and insurers to tap central bank liquidity to purchase stocks through asset pledging, and establish a relending facility for supporting stock buybacks. Meanwhile, authorities also pledged to support state-backed funds in driving long-term capital into the stock market and to support insurers in establishing private equity securities investment funds.

The measures were bolder than many analysts had expected. Analysts view the simultaneous delivery of all these measures as highly unusual, highlighting the urgency to combat deflation and the increasing risks of missing the growth target. **Chinese equities staged a major rally** (CSI 300: +4.3%, Hang Seng +4.1%), led by consumer, financial and technology stocks. The rally was partly driven by the hope of the creation of a stabilization fund, which PBC Governor Pan Gongsheng announced at a press conference as currently under study. The 10y government bond yield briefly dipped to a record low of 2% before rising to 2.06% (+2.5 bps), while the RMB appreciated (+0.3%).

Presser Ends on Positive Note



Source: Bloomberg

SHSZ300 Index (Shanghai Shenzhen CSI 300 Index) csi intray 1 Days Tick Copyright© 2024 Bloomberg Finance L.P. 24-Sep-2024 15:29:21

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Global Financial Indicators

9/24/24 7:50 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		5719	0.3	2	1	32	20
Europe		4939	1.1	2	1	17	9
Japan		37941	0.6	4	-1	16	13
China		3352	4.3	6	1	-10	-2
Asia Ex Japan		75	0.9	3	1	16	12
Emerging Markets		44	0.8	2	0	14	10
Interest Rates					basis points		
US 10y Yield		3.80	4.7	15	0	-64	-8
Germany 10y Yield		2.18	2.4	4	-5	-56	16
Japan 10y Yield		0.82	-3.4	-1	-8	7	20
UK 10y Yield		3.98	5.9	21	7	-27	45
Credit Spreads					basis points		
US Investment Grade		129	-0.1	-6	-4	-15	-5
US High Yield		361	-0.5	-20	-9	-58	-24
Exchange Rates					%		
USD/Majors		100.86	0.0	0	0	-4	0
EUR/USD		1.11	0.2	0	0	5	1
USD/JPY		144.0	0.3	1	0	-3	2
EM/USD		46.1	0.1	0	0	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		75.6	2.3	3	-3	-9	0
Industrials Metals (index)		150	2.3	3	2	6	5
Agriculture (index)		58	0.6	3	8	-12	-8
Implied Volatility					%		
VIX Index (%, change in pp)		15.9	0.1	-1.7	0.1	-1.3	3.5
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		99	-1.1	2	-5	-47	-5
Italy		134	-1.2	-2	0	-51	-34
Portugal		56	-0.5	-2	-2	-20	-7
Spain		79	-0.5	0	0	-29	-18

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

Emerging Market Financial Indicators

Last updated: 9/24/2024 7:51 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		7.03	0.3	0.9	1	4	1		1.9	1.0	1	-12	-89	-66
Indonesia		15187	0.1	1.0	2	1	1		6.4	-1.8	-12	-19	-31	-3
India		84	-0.1	0.1	0	-1	-1		7.0	0.0	10	1	(83.9)	-26
Philippines		56	-0.5	-1.0	0	1	-2		4.9	16.1	7	-25	-95	-75
Thailand		33	0.3	1.7	4	10	4		2.4	2.0	9	2	-88	-32
Malaysia		4.16	1.1	2.4	5	13	10		3.7	1.6	4	-5	-25	0
Argentina		965	-0.3	-0.5	-2	-64	-16		39.6	-136.7	-62	36	-7644	-4682
Brazil		5.54	-0.5	-0.5	-1	-10	-12		12.5	17.5	59	97	74	208
Chile		915	0.8	1.7	-1	-1	-4		4.7	0.5	10	-25	-99	-25
Colombia		4159	-0.2	2.0	-3	-3	-7		7.5	0.0	18	-13	-142	-10
Mexico		19.40	0.1	-1.5	0	-10	-13		8.6	-0.1	2	-32	-79	13
Peru		3.8	-0.5	0.0	-1	0	-2		6.2	2.4	-11	-30	-75	-44
Uruguay		42	-0.8	-2.6	-4	-9	-7		10.2	-3.6	21	71	90	70
Hungary		355	0.2	0.1	0	4	-2		5.9	2.5	15	3	-109	16
Poland		3.83	0.3	0.3	0	13	3		4.5	3.1	14	4	-29	7
Romania		4.5	0.1	0.1	0	5	1		6.5	-0.3	-10	2	-16	29
Russia		93.1	-0.1	-1.6	-1	3	-4							
South Africa		17.3	0.1	1.6	2	8	6		8.5	0.5	4	-8	-123	-63
Türkiye		34.14	0.0	-0.1	0	-20	-14		28.2	-5.0	-79	-5	224	143
US (DXY; 5y UST)		101	0.0	0.0	0	-4	0		3.54	3.8	10	-10	-101	-30

	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		3352	4.3	6	1	-10	-2		124	-2	-29	-58	-34
Indonesia		7778	0.0	-1	3	11	7		101	-12	-6	-34	5
India		84914	0.0	2	5	29	18		109	-5	-3	-28	-7
Philippines		7432	0.2	4	7	20	15		85	-12	-8	-26	5
Thailand		1462	1.0	2	8	-3	3		0	0	0	0	0
Malaysia		1670	0.3	0	2	16	15		83	-6	-9	-14	-2
Argentina		1790228	-1.8	-1	11	224	93		1311	-71	-217	-1059	-602
Brazil		130568	-0.4	-3	-4	13	-3		222	-10	-4	-5	7
Chile		6374	0.7	0	-1	9	3		120	-10	-3	-6	-5
Colombia		1322	0.1	1	-1	21	11		313	-13	-1	-12	42
Mexico		52422	0.4	1	-2	1	-9		315	-14	-4	-52	-19
Peru		29357	0.2	2	3	30	13		140	-8	-3	-14	-4
Hungary		73372	0.4	1	1	32	21		154	-13	-5	-36	5
Poland		83211	1.6	0	-1	25	6		112	2	2	-13	15
Romania		17683	0.5	1	-4	23	15		196	-15	-7	-8	-4
South Africa		84778	0.0	3	1	16	10		288	-20	-13	-92	-20
Türkiye		10076	1.9	3	4	25	35		286	-23	-14	-97	-28
EM total		44	2.0	2	0	14	10		397	-10	-13	12	51

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

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