GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 26, 2024
LEAD EDITOR: PATRICK SCHNEIDER

- **Chinese authorities pledge additional fiscal stimulus to boost the economy** (link)
- **French spreads over German bond yields have risen to 80 bps, the highest since June** (link)
- **Swiss central bank cut the policy rate by 25 bps amid currency strength** (link)
- **Market pricing suggests tail risks of Fed policy distribution have declined** (link)
- **Czech central bank cut the policy rate by 25 bps as expected** (link)

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Global stocks rallied after China pledged additional fiscal support

Asian and European stock markets gained after reports that Chinese authorities would support consumers and the housing sector through additional fiscal spending. While details were vague, the new support measures will be financed by around $284 bn in special sovereign bonds, and comes on the heels of a monetary and financial support package announced earlier this week. US stock futures also rose, while Treasury yields jumped 5–6 bps higher immediately following stronger than expected economic data this morning. The yen weakened early in the day before rebounding amid uncertainty over tomorrow's LDP election result, which markets believe could impact the monetary policy outlook. European bond generally yields declined as market analysts increasingly believe the ECB could cut interest rates in October. However, French OAT spreads over bunds increased to 80 bps—up from 70 bps last week—as pressure increases to present a budget bill. The Swiss National Bank cut interest rates by 25 bps and signaled that more easing is likely in the coming months. Elsewhere, media reports suggested that Saudi Arabia will consider boosting oil production to regain market share at the expense of lower prices, with oil down over 2% this morning.

Key Global Financial Indicators

Last updated: 9/26/24 8:20 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5722	-0.2	2	2	34	19.97
Eurostoxx 50		5007	1.8	1	2	21	11
Nikkei 225		38926	2.8	7	2	20	16
MSCI EM		45	-1.1	5	4	19	12
Yields and Spreads			bps				
US 10y Yield		3.76	-2.7	5	-6	-78	-12
Germany 10y Yield		2.14	-4.0	-6	-11	-67	11
EMBIG Sovereign Spread		368	-6	-3	-29	-51	-15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	0.3	0	1	-1	-4
Dollar index, (+) = $ appreciation		100.8	-0.1	0	0	-5	0
Brent Crude Oil ($/barrel)		71.5	-2.7	-5	-12	-24	-7
VIX Index (%, change in pp)		15.3	-0.2	-1	-1	-4	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

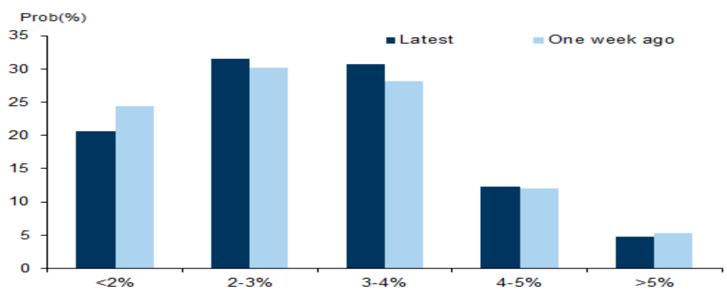
Treasury yields reversed their early morning decline and moved 5–6 bps higher after economic data came in stronger than expected. Durable goods orders beat estimates, initial jobless claims came in below expectations, and the third estimate of Q2 GDP was unchanged but higher than expectations.

	Survey	Actual Data
Q2 GDP (third est)	2.9 %	3.0%
Durable Goods Orders	-2.7%	0.0%
Initial Jobless Claims	223k	218k
Continuing Claims	1.828 mn	1.834 mn

The Treasury curve continued to steepen on Wednesday, with 10y yields up 5 bps. The 5y Treasury bond auction ($70 bn) was generally well received despite a modest bid cover ratio of 2.38, with another 7y auction ($44 bn) scheduled for tomorrow. In public comments, Fed Governor Kugler affirmed support for last week's 50 bp cut and highlighted the employment side of the central bank's dual mandate. She also emphasized the need to frontload rate cuts given monetary policy lags.

Market pricing suggests the Federal Reserve managed to trim tail risks from the policy outlook. The probability of short-term interest rates falling below 2% (plausibly in a recession scenario) fell from 25% to 20% following last week's FOMC meeting according to the swaption market. Goldman Sachs analysts noted that the proactive 50 bp cut prevented a "*behind the curve narrative"* from gaining traction. The distribution of outcomes has become more centrally distributed, with close to a 30% chance each of interest rates ending up between 2–3% and 3–4% at the end of 2025.

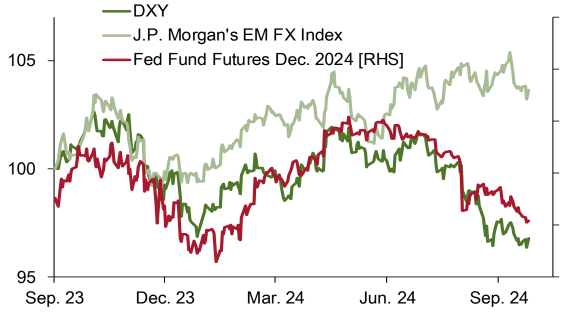
Exhibit 2 : The distribution YE25 forwards suggests a shift in mass from deeper cuts towards more central outcomes for US terminal rates
YE25 swaption implied distribution of 1m SOFR, live vs one week ago



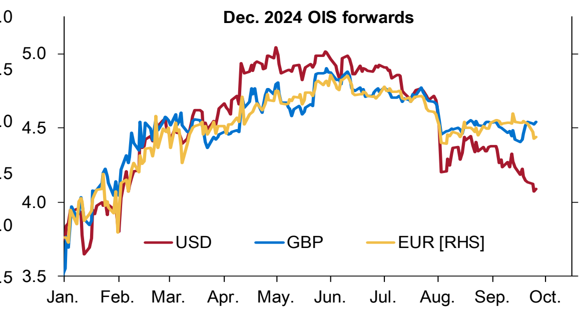
Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Recent dollar weakness has been driven by expectations of frontloaded rate cuts. Despite rebounding 0.5% yesterday, the dollar is down close to 5% over the last three months, with major G10 currencies all posting large gains. The yen has strengthened 11%, followed by the British pound and Swiss franc up nearly 6%. Markets have been pricing over 100 bps in cuts by the Fed in 2024, with an additional 75 bps the remainder of the year following last week's 50 bp move. While several EM currencies have also appreciated, notably in EM Asia, domestic risks have driven more varied performance, with the Mexican peso, Turkish lira, and Colombia peso all weakening over the same period.

Dollar weakness more against G10 peers than EMs…
Indexed = 100 (Sep. 2023), Percent



… as markets expect the Fed to ease more quickly.
Percent

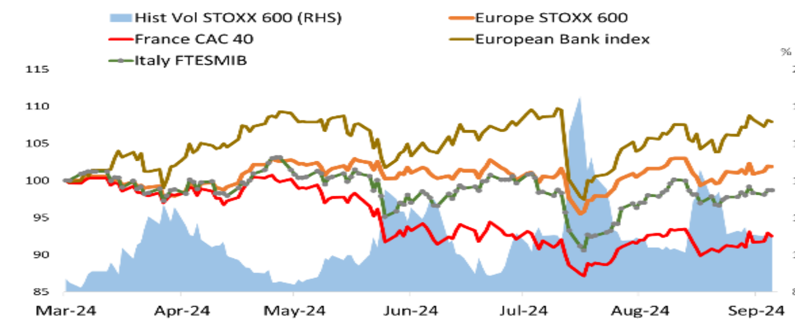


Source: Bloomberg, J.P. Morgan, IMF Staff Analysis

Europe

European equities rallied (Stoxx 600 +1%) following reports of new Chinese stimulus, led by personal goods (+3.3%), technology (2.7%), banking (1.9%), and industrials (1.3%). Italian and French markets outperformed, with luxury goods seen as benefitting from increased demand. Tech stocks gained after Micron earnings (US) signaled continued strong demand for AI.

European Stocks (Mar 2024= 100)



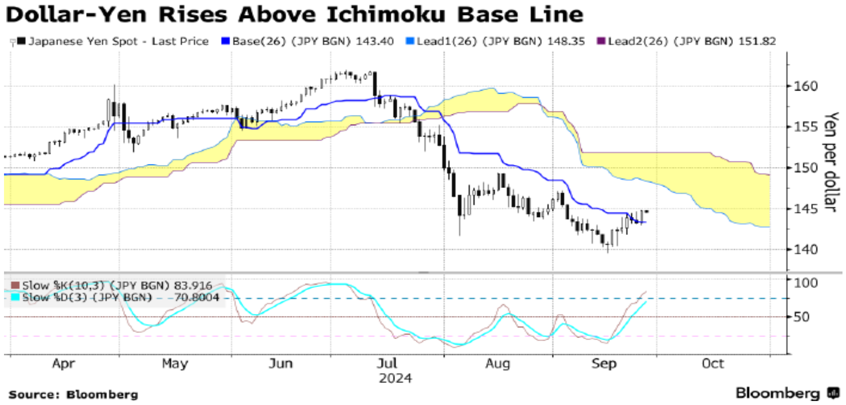
Source: Bloomberg and IMF calculations

Most European government bond yields declined, though the spread between French and German 10y yields rose to 80 bps. Bund yields fell 3–4 bps, with the 10y-2y spread marginally higher. French OAT spreads over German Bunds rose to 80 bps this morning as pressure mounts on the French government to present a 2025 budget bill. Prime Minister Michel Barnier plans to raise taxes on big companies and wealthy individuals, with the Governor of the Banque de France Villeroy advocating for a balanced approach of cutting spending and increasing revenues. The finance minister stated that France's deficit could exceed 6% of GDP in 2024. **Analysts and market pricing see an increasing probability of an ECB rate cut in October.** Swap markets are pricing about 16 bps of easing in October, up from 6 bps a week ago.

Bank loans to the private sector in the eurozone rose 1.4% y/y in August, up from 1% y/y in July. Broad money supply (M3) also grew more than expected at 2.9% y/y (vs 2.5% expected), up from 2.3% y/y in July. However, analysts at ING highlighted that bank lending remains weak and implies weak investment ahead, with nonfinancial firms borrowing at a rate of just 0.8% y/y and households at 0.6% y/y

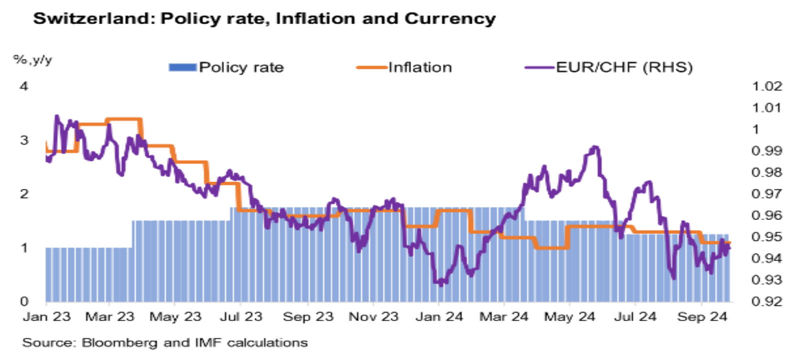
Japan

The yen depreciated amid uncertainty over the upcoming LDP election, weakening by 0.3% to 145.2 before rebounding after falling 1.1% yesterday. The yen's overnight implied volatility against the US dollar surged to as high as 25.5 from 12.4 yesterday, ahead of the announcement of election results for the governing LDP party. Market analysts have been split on the future path of the yen given uncertainty over the monetary and political outlook in both Japan and the US. Mizuho Securities analysts expect the yen to strengthen to 139 amid a narrower interest rate differential, while Fukuoka Financial Group predicts it will weaken to 155. **Japanese stocks advanced today, with a weaker yen supporting exporters (Nikkei 225: +2.8%)**. Japan's yield curve steepened after a 40y JGB auction, with 30y yields rising 4 bps to 2.1%.



Switzerland

The Swiss National Bank (SNB) cuts its benchmark rate by 25 bps and signaled further easing is likely. The statement noted easing inflationary pressures, driven partly by a strengthening of the Swiss franc over the past three months. The Swiss franc was trading at around €1.056/CHF this morning, roughly 1.7% stronger against the euro in Q3, but little changed on the day. The statement highlighted that "further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term." The SNB lowered its inflation forecasts to 1.2% for 2024, 0.6% in 2025, and 0.7% in 2026, firmly within its target range of 0%-2%. It forecast growth of around 1% in 2024 and 1.5% in 2025. ING analysts noted that today's communication was aimed at the recent strength of the currency, with the SNB also reiterating that it remains prepared to intervene in the foreign exchange market if necessary.



Emerging Markets

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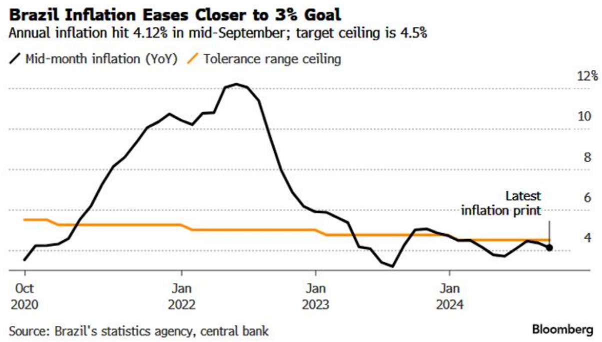
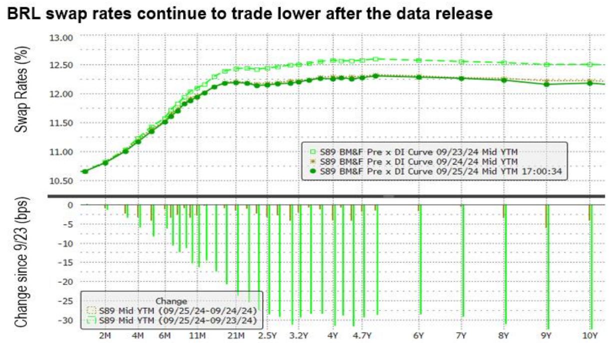
EMEA equities were mostly trading higher while currencies were mixed. South African assets ouperformed, with equities up 1.3% and the rand gained 0.6% against the dollar. CEE currencies were mixed against the euro. **Most Asian equity markets gained following positive headlines on Chinese stimulus efforts (EM Asia: +2.9%), led by by China (CSI 300: +4.2%), Hong Kong SAR (+4.2%), and Korea (+2.9%).** Regional currencies were mixed, with the Korean won and Thai baht outperforming after the RMB also gained. **In Latin America, regional assets declined on Wednesday, with the Mexican peso falling nearly 2%** after Moody's warned that domestic developments could weigh on Mexico's sovereign rating. The broader MSCI Latin America equity index fell 1.1%.

Brazil

Inflation moderated to 4.12% y/y (vs 4.29% expected), easing pressure for more aggressive rate hikes for the time being. The mid-month inflation print fell to 0.13% m/m (vs 0.28% expected) from 0.19% previously. Analysts at Pantheon warned that "upwards risk" to inflation remain despite the positive trend. Capital Economics also noted that the data is not likely to "alter the mood at the central bank" with policymakers keen "to shore up their credibility". Brazilian swap rates extended their decline from the previous trading session after the central bank meeting minutes lacked an explicit commitment to accelerate pace of rate hikes.

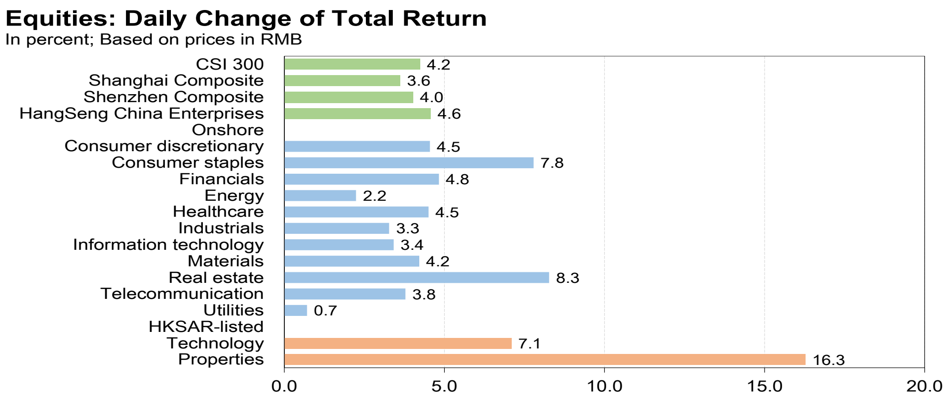




Source: Bloomberg

China

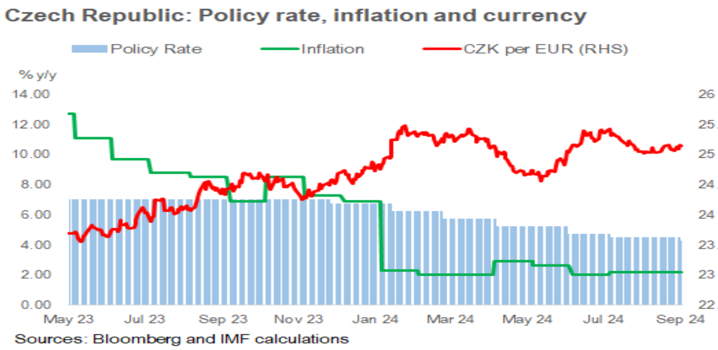
Chinese equities rallied after a Politburo meeting pledged to stabilize the housing market and boost consumption through fiscal stimulus. Chinese authorities are reportedly planning a series of fiscal measures to support consumption following a monetary and financial stimulus package on Tuesday, though the details remain unclear. Reportedly, China will issue around $284 bn (~RMB2 tn) in special sovereign bonds, with about half of that dedicated to supporting consumers, and much of the remainder dedicated to helping local governments. Bloomberg previously reported that China is considering injecting a substantial amount of capital into its largest state banks, in what some analysts interpreted as a sign that authorities would like the banks to take additional risk to support the economy. Shanghai also announced that it will issue over RMB500 mn ($71 mn) in discount vouchers to support consumer spending. Lastly, government officials also explicitly pledged to halt the downturn in the housing sector. **Chinese equities rallied (CSI 300: +4.2%, Hang Seng +4.2%), led by property and consumer stocks.** The offshore RMB advanced by 0.3%, while onshore RMB appreciated by 0.1% against the dollar.



Source: Bloomberg, IMF staff calculations.

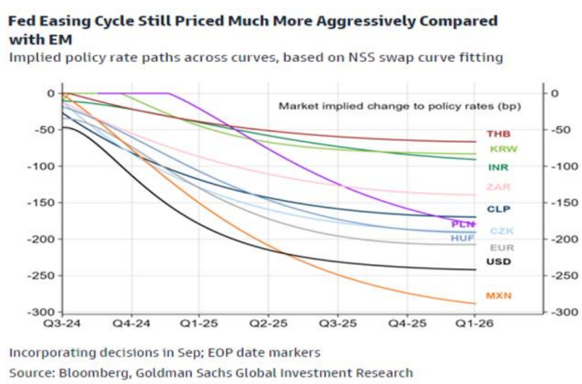
Czechia

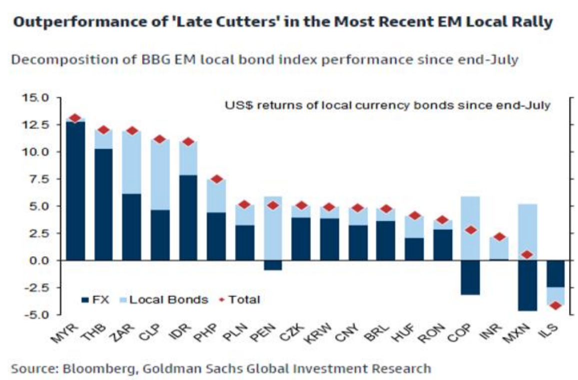
Czech National Bank eased the policy rate by 25 bps as expected. Policymakers lowered the key rate by 25 bps to 4.25% in a 6:1 vote, with one Board member arguing for a larger 50 bp reduction. JPMorgan analysts noted that the accompanying statement was broadly unchanged with monetary policy likely to remain restrictive as the Board continues to see some inflationary pressures in the economy. They also highlighted that Governor Michl did not provide much forward guidance, instead emphasizing a data dependent approach. Goldman Sachs expects the central bank to remain cautious despite a more favorable external environment. Nevertheless, they still expect two 25 bp cuts at each of the final two meetings of the year. The Czech koruna was marginally stronger (+0.1%) against the euro at 25.14/€.



EM Local Currency Bond Markets

Local currency bonds have posted strong returns in recent months. In particular, sovereign bonds from countries that have yet to cut policy rates aggressively (South Africa) or at all (Malaysia, Thailand) have rallied the most since end-July. Outperformance across several ASEAN countries and elsewhere has been driven by strong currency appreciation. **Market pricing for EM central bank cuts has remained more cautious compared to the Fed,** which might reflect more of a domestic focus in some cases and the fact that some central banks had already eased policy rates substantially. Goldman Sachs analysts noted that policy easing by the Fed should be “constructive” for risk assets, including emerging markets, particularly if growth concerns dissipate as some expect. Some analysts also felt that certain central banks would wait for the Fed to cut several times before following suit.





EM Hard Currency Issuance

China issued €2 bn in euro denominated 3y and 7y notes, with an order book of nearly €18 bn. **Türkiye sold $3.5 bn in dollar denominated bonds** with a coupon of 6.5%, the lowest in three years, and plans to use some of the proceeds to erase near term redemptions.

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

9/26/24 7:23 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5722	-0.2	2	2	34	20
Europe		5001	1.7	1	2	21	11
Japan		38926	2.8	7	2	20	16
China		3545	4.2	11	7	-4	3
Asia Ex Japan		76	-1.3	6	5	21	15
Emerging Markets		45	-1.1	5	4	19	12
Interest Rates					basis points		
US 10y Yield		3.77	-1.5	6	-5	-77	-11
Germany 10y Yield		2.14	-3.3	-6	-11	-67	12
Japan 10y Yield		0.83	1.7	-2	-6	9	22
UK 10y Yield		3.98	-0.6	9	7	-34	45
Credit Spreads					basis points		
US Investment Grade		130	1.1	-1	-3	-14	-4
US High Yield		364	-2.4	-2	-6	-58	-21
Exchange Rates					%		
USD/Majors		100.85	-0.1	0	0	-5	0
EUR/USD		1.12	0.2	0	0	5	1
USD/JPY		144.4	-0.3	1	0	-3	2
EM/USD		46.3	0.1	0	0	-1	-4
Commodities					%		
Brent Crude Oil ($/barrel)		71.4	-2.7	-5	-11	-14	-5
Industrials Metals (index)		153	1.7	4	4	9	7
Agriculture (index)		58	0.5	4	10	-10	-6
Implied Volatility					%		
VIX Index (%, change in pp)		15.2	-0.2	-1.2	-1.0	-3.8	2.7
Global FX Volatility		8.4	0.0	0.0	-0.3	0.3	0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		96	-2.4	-3	-8	-54	-7
Italy		132	-3.0	-4	-3	-62	-36
Portugal		58	-0.3	0	-1	-20	-6
Spain		79	-0.9	0	-1	-30	-18

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

Emerging Market Financial Indicators

Last updated: 9/26/2024 7:22 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		7.01	0.3	0.7	2	4	1		1.9	6.5	1	-12	-84	-66
Indonesia		15166	-0.4	0.5	2	2	2		6.5	2.4	-9	-16	-40	-2
India		84	0.0	0.1	0	0	-1		6.9	-0.2	5	-1	(81.0)	-28
Philippines		56	-0.1	-0.7	1	2	-1		4.8	-5.0	3	-30	-99	-80
Thailand		33	0.5	1.6	4	12	5		2.4	1.3	8	3	-89	-31
Malaysia		4.15	-0.4	1.5	5	13	11		3.7	0.2	3	-5	-26	-1
Argentina		968	-0.3	-0.6	-2	-64	-17		41.4	47.6	151	221	-7489	-4498
Brazil		5.47	-0.3	-0.2	0	-9	-11		12.1	-6.8	20	62	39	173
Chile		914	-0.4	2.0	-1	-1	-4		4.8	0.0	21	-14	-97	-14
Colombia		4198	-1.1	-0.4	-4	-3	-8		7.6	-5.5	17	-4	-147	-1
Mexico		19.63	0.1	-1.6	-1	-11	-14		8.6	0.0	14	-27	-89	19
Peru		3.8	0.3	0.0	0	1	-1		6.3	2.8	1	-24	-97	-38
Uruguay		42	0.5	-1.6	-4	-9	-7		9.9	-25.9	-20	41	58	40
Hungary		355	0.0	-0.6	-1	4	-2		5.8	-8.0	-13	-11	-131	3
Poland		3.83	0.0	-0.1	0	14	3		4.5	-3.5	10	1	-33	5
Romania		4.5	0.2	-0.1	0	5	1		6.5	-0.3	-6	4	-19	31
Russia		92.8	-0.7	-0.5	-1	4	-4							
South Africa		17.2	0.4	1.7	3	11	7		8.4	-2.0	-4	-14	-145	-69
Türkiye		34.16	-0.1	-0.4	0	-20	-14		28.5	16.0	2	19	156	174
US (DXY; 5y UST)		101	-0.1	0.2	0	-5	0		3.51	-1.2	3	-15	-109	-33

	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		3545	4.2	11	7	-4	3		124	-1	-29	-59	-34
Indonesia		7745	0.0	-2	2	12	6		99	0	-8	-26	3
India		85836	0.8	3	5	30	19		107	-3	-5	-32	-9
Philippines		7459	1.3	4	7	17	16		82	-3	-11	-19	2
Thailand		1455	-0.4	0	7	-3	3		0	0	0	0	0
Malaysia		1671	-0.1	0	1	16	15		82	-4	-10	-15	-3
Argentina		1744131	-1.7	-4	9	221	88		1303	-59	-225	-1079	-610
Brazil		131586	-0.4	-2	-4	15	-2		222	4	-4	-1	7
Chile		6441	-0.1	1	0	12	4		118	-3	-5	-3	-7
Colombia		1321	-1.0	0	-2	21	11		315	0	1	-6	44
Mexico		53191	-0.9	1	0	4	-7		312	-6	-7	-53	-22
Peru		29612	-0.7	2	4	31	14		136	-4	-7	-13	-8
Hungary		74762	0.5	2	2	35	23		152	-3	-7	-33	3
Poland		84389	0.7	1	0	28	8		110	0	0	-6	13
Romania		17601	-0.5	0	-5	24	15		195	-6	-8	-3	-6
South Africa		87161	1.4	5	4	20	13		274	-18	-27	-106	-34
Türkiye		9974	0.8	0	4	21	34		281	-8	-19	-97	-33
EM total		45	2.6	5	4	19	12		395	1	-14	12	50

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

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