



- Markets increase their bets on an October ECB rate cut after inflation slows ([link](#))
- Analysts turn more positive on China following stimulus announcements ([link](#))
- Banks with large CRE exposure have outperformed recently despite lingering concerns ([link](#))
- Banxico cut its benchmark policy rate by 25 bps ([link](#))
- The Japanese yen rallied sharply following leadership election for ruling LDP party ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Stocks continue to climb on Chinese stimulus hopes

Enthusiasm in Chinese markets continued, with the CSI 300 climbing another 4.5% for a handsome weekly gain of 15.7%. European stocks also edged higher, while US stock futures were up slightly this morning after reaching another record high yesterday. The yen rallied to around 143 per dollar following the ruling Liberal Democratic Party election, where the soon to be PM, Shigeru Ishiba, is seen as being more supportive of the Bank of Japan's policy tightening than other candidates. However, after market close, Japanese stock futures were down sharply. European bond yields edged lower after French and Spanish inflation data came in below expectations. In the US, inflation data came in below expectations, with core PCE at 0.1% m/m (vs 0.2% expected) and headline PCE at 0.1% m/m (vs 0.1% expected). Treasury yields were down 3–4 bps immediately following the release.

Key Global Financial Indicators

Last updated: 9/27/24 8:41 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5745	0.4	1	2	34	20.45
Eurostoxx 50		5065	0.6	4	3	23	12
Nikkei 225		39830	2.3	7	3	25	19
MSCI EM		47	3.7	7	7	23	16
Yields and Spreads			bps				
US 10y Yield		3.76	-3.2	2	-6	-84	-12
Germany 10y Yield		2.14	-4.3	-7	-15	-70	12
EMBIG Sovereign Spread		365	-3	-3	-28	-58	-18
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	0.1	1	1	-1	-4
Dollar index, (+) = \$ appreciation		100.4	-0.2	0	0	-6	-1
Brent Crude Oil (\$/barrel)		71.4	-0.3	-4	-10	-26	-7
VIX Index (% change in pp)		15.5	0.1	-1	0	-3	3

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

Mature Markets

[back to top](#)

United States

PCE inflation data came in slightly weaker than expected, while personal income and spending also missed expectations on the downside. Treasury yields declined about 3–4 bps following the release, while stock futures rose slightly.

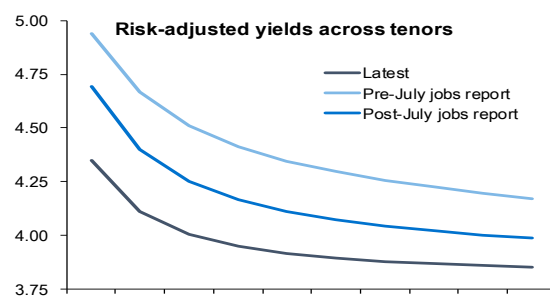
Variable	Forecast	Actual Data
PCE	+0.1 % m/m, +2.3% y/y	+0.1 % m/m, +2.2% y/y
Core PCE	+0.2 % m/m, +2.7% y/y	+0.1 % m/m, +2.7% y/y
Personal Income	0.4% m/m	0.2% m/m
Personal Spending	0.3% m/m	0.2% m/m

Treasury yields rose higher on Thursday following stronger than expected economic data, with 2y yields rising 6 bps. 10y yields rose more modestly (+1 bp), undoing some of the recent steepening of the yield curve. Initial jobless claims and durable goods came in better than expected, while upward revisions to past GDP data showed the economy had recovered from the pandemic faster than originally reported. Elsewhere, Treasury Secretary Yellen highlighted the need to cut budget deficits to ensure stable funding costs.

Term premium estimates have remained negative despite the recent steepening of the yield curve.

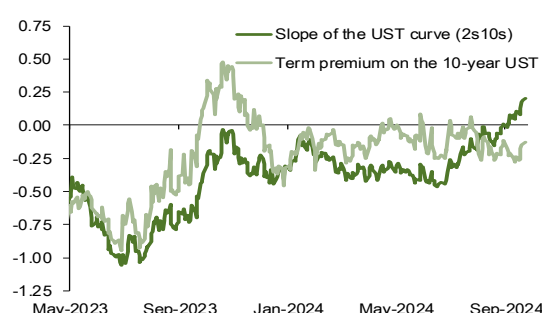
The slope of the Treasury yield curve finally turned positive in early September after inverting over two years ago. The spread between 10y and 2y Treasury yields reached 16 bps yesterday, down slightly from earlier in the week. Notably however, term premium has remained fairly steady, rising only incrementally in recent weeks despite historically showing some correlation with the slope of the yield curve. This partially reflects the fact that short term interest rates fell significantly more than long term rates as markets began to price in policy normalization. Indeed, expectations for future short term interest rates, or risk neutral rates, have fallen sharply since July.

Risk-adjusted yields have rallied significantly across the term structure since the July jobs report.
Percent



Source: Adrian, Crump & Moench (2013), Bloomberg, NYFRB and IMF Staff Analysis

Term premium has held steady as the yield curve has bull steepened.
Percent



Banks with large CRE exposure have outperformed recently despite lingering concerns. Banks that exceed regulatory CRE concentration guidance (exposure relative to risk-based capital or 36-month growth) have delivered annualized returns of 12.3% since July 12 and narrowed the valuation gap relative to less exposed peers. Analysts attribute the outperformance to the impact of the Fed's easing cycle on borrowing rates, as well as early signs of recovery in physical CRE markets. After declining 19% in 2022, average CRE prices have risen 3% this year, and analysts expect credit volume to recover. Nevertheless, bank stocks exposed to CRE have returned only 3.6% YTD, compared to the overall sector's 18% return. Moreover, highly exposed banks still trade at 1–1.2x tangible book value, compared with 1.8x for the banking sector overall.

Investment returns

YTD median total return at US public banks (%)

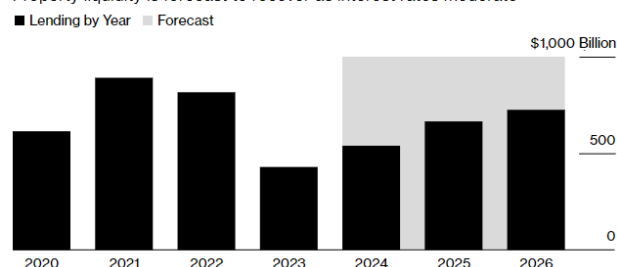


Source: S&P Global, Bloomberg, Mortgage Bankers Association

Credit volume

Commercial Real Estate Finance Rebounds

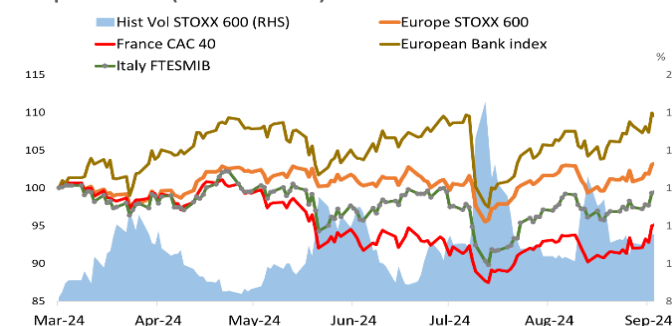
Property liquidity is forecast to recover as interest rates moderate



Europe

European equities continued to climb, with the Stoxx 600 up 0.2% and 2.4% for the week. Personal and household goods (+1.65%), energy (+0.9%), and materials (+0.8%) outperformed today, while the banking sector edged down lower. Stocks gained in most major European markets, with Germany outperforming (DAX +0.6%). **The euro fell (-0.3%) against the dollar this morning, trading at \$1.1152/€.** Analysts at ING continue to have a constructive view on the euro, which they believe could strength further following next week's US payrolls data.

European Stocks (Mar 2024= 100)



Source: Bloomberg and IMF calculations

1 month EUR/USD risk reversal

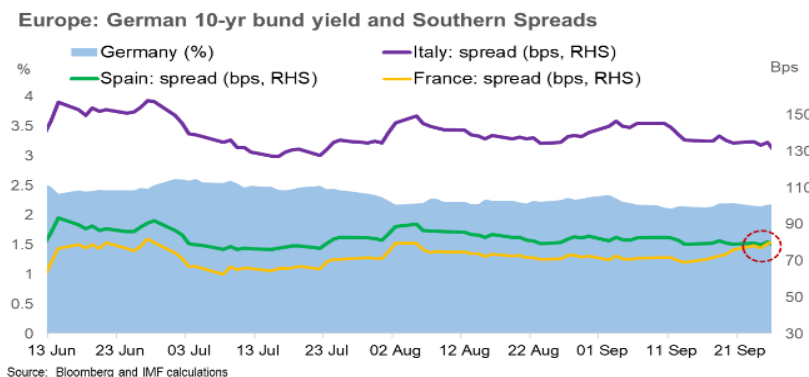


Source: Bloomberg and IMF calculations

Inflation data surprised to the downside in France and Spain, fueling market hopes for a rate cut in October. Harmonized CPI inflation for September softened to 1.5% y/y (vs 1.9% expected, 2.2% previously) in France, and 1.7% y/y (vs 1.9% expected, 2.4% previously) in Spain. ING analysts flagged the impact of lower energy prices (-3.3%) in France and expect headline inflation to remain below 2% the remainder of 2024. Notably, Bloomberg analysts believe the surprise decline (-0.5% y/y) in services prices opens the path for an October rate cut by the ECB. Markets agreed, with **swaps now pricing in 19 bps of easing at the October meeting (against 6 bps a week ago)** and 50 bps of cuts by December (against 38 bps a week ago). The ECB's survey of consumer inflation expectations over the next 12 months declined to 2.7% from 2.8%. Isabel Schnabel also commented yesterday that the eurozone economy is stagnating amid signs of a softening labor market. European bond yields declined 2-3 bps.

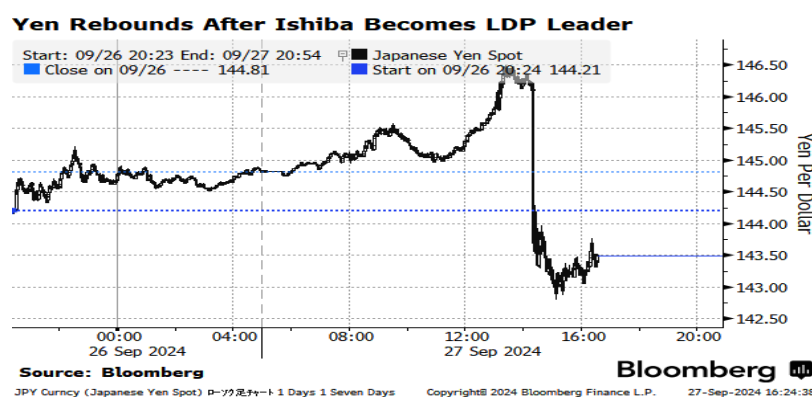
French bond yields briefly rose above Spanish yields for the first time since 2007 amid more positive fiscal news for Spain and Italy. French OAT spreads over German bund yields rose as high as 80 bps this week, up from around 70 bps earlier this month, before easing slightly today. Conversely, Italian 10y BTP spreads declined by 5 bps this week to 130 bps. Crédit Agricole highlighted that recent fiscal developments for Italy and Spain have been positive, with recent revisions lowering Italy's 2023

debt-to-GDP ratio to 134.6% (from 137.3%). Projected deficits also declined to 3.8% (from 4.3%) for 2024 and 3.2% (from 3.7%) for 2025. HSBC noted that the improved outlook for Italy reflects stronger tax revenues and allows the country to restore the primary surplus it had before the pandemic after including the impact of previous subsidies on household expenditures (Superbonus). In Spain, growth projections were upgraded to 2.7% in 2024 (from 2.4%).



Japan

The Japanese yen strengthened following former Defense Minister Shigeru Ishiba's victory in the ruling Liberal Democratic Party (LDP) election. The yen appreciated 2.6% intraday to end the day 1.2% higher after markets had been positioned for a Takaichi win. Many investors believe that soon to be PM Ishiba will be more supportive of the Bank of Japan's tightening cycle and independence than Mr. Takaichi, though he also has expressed some uncertainty about whether conditions are right for further hikes. Analysts believe the market will now shift its focus back to the narrowing interest rate differential between the US and Japan. **Japanese equities gained today (+2.3%),** though the market was closed before the election outcome was announced, **and Nikkei 225 futures tumbled** by as much as 4.1% after the election results. Elsewhere, Tokyo core CPI inflation slowed to 2.0% in August as expected (+2.4% previously).

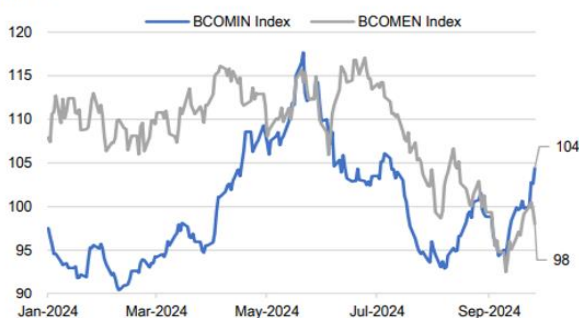


Oil

Supply concerns have weighed on oil prices despite lingering concerns about weaker demand from China. Prices of energy products and industrial metals diverged yesterday (*left chart*) following reports that Saudi Arabia may abandon its unofficial \$100/barrel target and increase production from December 1 to regain market share. In addition, earlier this month, the International Energy Agency projected increased supply for next year, driven by production from non-OPEC+ nations. Brent futures prices, particularly in the front end, have declined over the last week (*right chart*). Spot Brent prices are trading near \$71 per barrel.

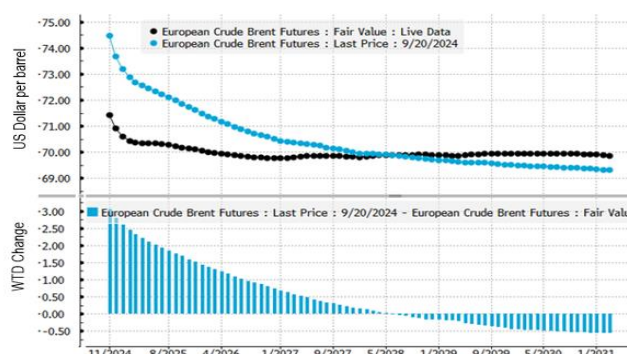
Divergent performance in metals and energy since the announcement

Vertical axis (index). BCOMIN Index and BCOMEN Index with base 100 on the 29-Dec-23.



Source: J.P. Morgan, Bloomberg Finance L.P.

Short-term oil futures pressured this week amidst supply-side concerns



Source: Bloomberg

Emerging Markets

[back to top](#)

In EMEA, regional equities were mostly lower, while currencies were mixed. The South African rand outperformed, up 0.1% against the dollar. Türkiye's recent \$3.5 bn bond issuance allowed it to raise \$1.6 bn in new cash and push back \$1.9 bn in bond payments to 2035. **In Asia, Chinese (CSI 300: +4.5%) and Hong Kong (+3.6%) stocks continued to rally for the fourth consecutive day.** Asian currencies were mixed, with the Malaysian ringgit outperforming (+0.6%) following comments by the central bank. **In Latin America, most regional financial assets rallied on Thursday following the announcement of additional Chinese stimulus.** The Chilean peso gained 1.4% alongside a rally in copper prices, which traded above \$10k/ton on the Lond Metal Exchange. The MSCI Latin America equity index rose 1.1%.

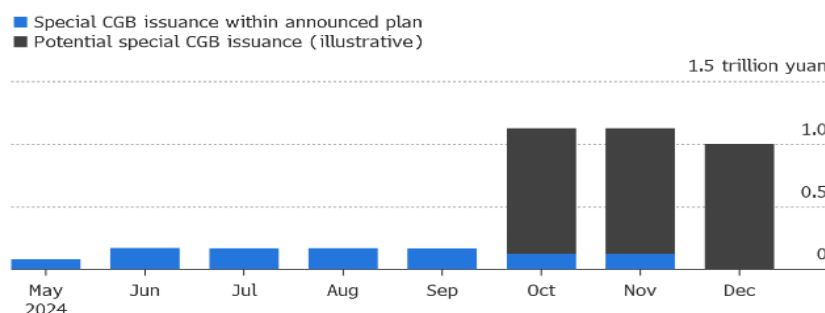
China

Investment banks increased their growth forecasts for China and hedge funds increased their exposure to Chinese assets. Goldman Sachs raised its 2024 growth projection to 5.2% from 4.8%, while Morgan Stanley, Citigroup and JP Morgan lifted their forecasts to as high as 5.4%. Goldman analysts noted that hedge funds, which had been underweight Chinese equities, reversed course and made the largest daily net purchases since March 2021 earlier this week. Some analysts also highlighted that increased allocation to China by mutual funds, which had a historically low 5% weight in Chinese equities, has contributed to the rally in Chinese stocks. The Nasdaq Golden Dragon Index has gained 19% in the past four sessions.



Strong risk appetite in Chinese markets continued following recent stimulus announcements. Chinese equities extended gains (CSI 300: +4.5%, HSCEI: +3.0%) with tech names leading the rally, while the ChiNext index soared by 10% with record turnover. Several prominent hedge fund managers loudly proclaimed their excitement and positions in Chinese stocks. **Vanke led Chinese developers' dollar bonds higher**, with its dollar bond due 2029 up 11.5 cents on the dollar to 59.3 cents. Yesterday, the Politburo pledged to “stop the decline of the property market”, while announcing plans to limit housing supply and provide other forms of support. **Government bond yields rose sharply today, with 10y and 30y yields up 8.3 bps and 13.5 bps respectively after authorities pledged to issue at least RMB2 tn (\$284 bn) in new special bonds.** The offshore RMB rose as high as 6.97 against the dollar before falling back near 7.0 to close 0.3% lower. Underscoring the challenge for Chinese authorities, August industrial profits posted the sharpest decline since April at -17.8% y/y (+4.1% previously).

China May Embrace Debt Supply Surge on Fiscal Support



Source: Bloomberg

Note: The additional supply is illustrative only and calculated based on reports that are not confirmed by officials.

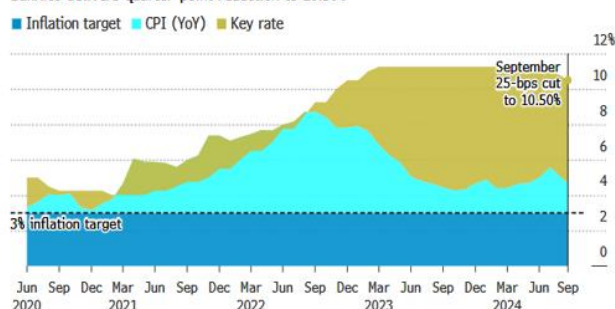
Bloomberg

Mexico

Mexico's central bank (Banxico) cut its benchmark rate by 25 bps to 10.5%, in line with consensus expectations. One voting member dissented, with Deputy Governor Johnathan Heath voting to keep policy rates at 10.75%. The policy statement highlighted “a period of weakness” in economic activity, with a slowdown in labor markets and risks tilted towards the downside. Banxico also revised its inflation forecasts lower after inflation had decelerated in recent months, with inflation expected to return to 3% by late 2025. However, a lack of forceful forward guidance on future rate cuts saw swap rates move modestly higher over the next two years.

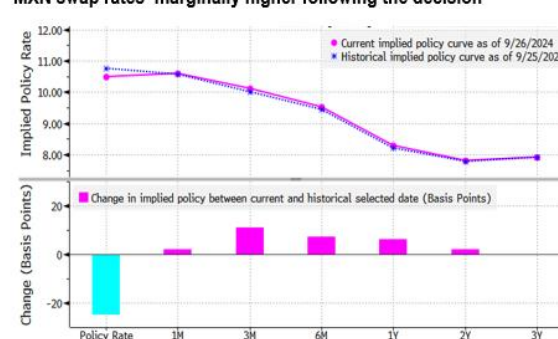
Mexico Cuts Key Rate for Second Month as Inflation Slows

Banxico delivers quarter-point reduction to 10.50%



Source: Central bank, national statistics agency, Bloomberg
Note: Sept. 2024 CPI data via Citi survey

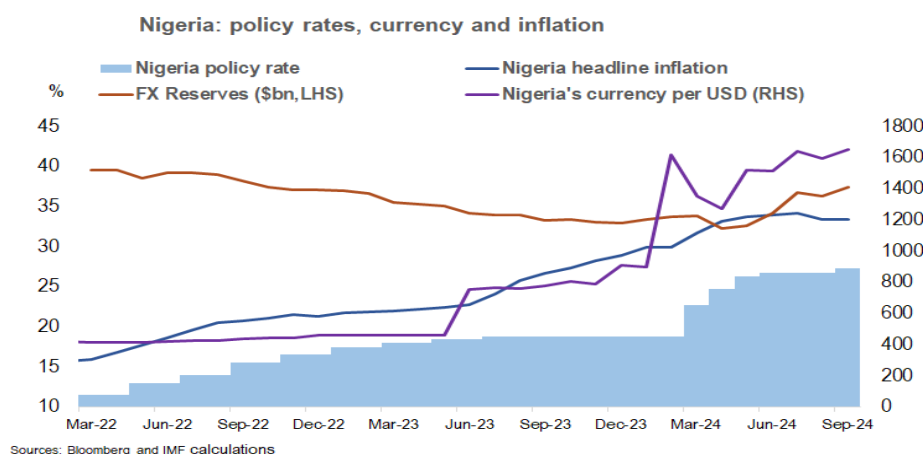
MXN swap rates marginally higher following the decision



Source: Bloomberg

Nigeria

Analysts at Bank of America (BofA) expect the Central Bank of Nigeria (CBN) to deliver one more 50 bp rate hike at its upcoming November meeting following a surprise hike in September. Although inflation eased to 31.15% y/y in August, real rates remain negative, with the policy rate at 27.75%. Since February 2024, the CBN has hiked 850 bps. BofA analysts expect inflation to moderate to around 25% y/y by year-end which “should support positive real rates as well as anchor inflation at a lower level and attract foreign capital”. Finally, the analysts believe that Moody’s may look to upgrade Nigeria’s Caa1 rating to B3 at the next review given the increase in FX reserves, improved macro stability, and slowing inflation trend.



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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.











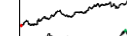

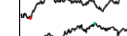
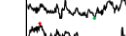






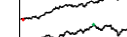




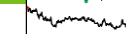

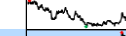



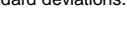




Global Financial Indicators

9/27/24 7:45 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5745	0.4	1	2	34	20
Europe		5053	0.4	4	3	22	12
Japan		39830	2.3	7	3	25	19
China		3704	4.5	16	12	0	8
Asia Ex Japan		80	4.1	8	9	26	20
Emerging Markets		47	3.7	7	7	23	16
Interest Rates			basis points				
US 10y Yield		3.78	-1.3	4	-4	-82	-10
Germany 10y Yield		2.16	-2.7	-5	-13	-69	13
Japan 10y Yield		0.85	2.2	0	-3	11	24
UK 10y Yield		3.99	-1.9	9	-1	-37	45
Credit Spreads			basis points				
US Investment Grade		130	-0.1	0	-2	-17	-4
US High Yield		359	-5.1	0	-8	-74	-26
Exchange Rates			%				
USD/Majors		100.50	-0.1	0	0	-6	-1
EUR/USD		1.12	-0.1	0	0	6	1
USD/JPY		143.2	-1.1	0	-1	-4	2
EM/USD		46.4	0.1	1	1	-1	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		71.7	0.1	-4	-9	-15	-5
Industrials Metals (index)		154	0.1	6	4	11	8
Agriculture (index)		57	-0.7	3	6	-12	-8
Implied Volatility			%				
VIX Index (%, change in pp)		15.6	0.2	-0.6	0.2	-2.6	3.1
Global FX Volatility		8.4	0.0	0.0	-0.2	0.1	0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		97	2.9	-2	-8	-57	-7
Italy		132	1.7	-3	-6	-63	-36
Portugal		56	-0.3	-1	-4	-21	-7
Spain		79	1.0	0	-3	-31	-18

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

Emerging Market Financial Indicators

Last updated: 9/27/2024 7:47 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	0.0	0.5	2	4	1		2.0	12.1	15	-2	-73	-54
Indonesia		15125	0.3	0.2	2	3	2		6.5	1.0	4	-16	-40	-1
India		84	-0.1	-0.1	0	-1	-1		7.0	3.1	0	-3	(77.0)	-26
Philippines		56	-0.2	-0.7	0	2	-1		4.8	-2.5	-13	-31	-102	-82
Thailand		32	0.5	2.0	5	13	5		2.4	1.3	8	-3	-92	-30
Malaysia		4.13	0.5	1.9	5	14	11		3.7	0.3	3	-5	-25	0
Argentina		967	0.1	-0.5	-2	-64	-16		41.6	16.3	173	174	-7502	-4482
Brazil		5.44	0.7	-0.2	1	-8	-11		12.1	2.4	13	65	25	175
Chile		901	0.0	3.4	1	1	-2		4.7	0.0	17	-17	-106	-18
Colombia		4159	0.9	0.0	-3	-2	-7		7.6	0.0	10	-3	-180	-4
Mexico		19.54	0.5	-0.7	1	-10	-13		8.7	0.0	8	-35	-105	20
Peru		3.7	0.7	0.6	1	2	-1		6.3	-0.2	6	-26	-114	-39
Uruguay		42	0.9	0.2	-3	-8	-7		9.9	-6.2	-31	34	42	34
Hungary		355	-0.2	-0.9	-1	5	-2		5.8	-2.0	-22	-17	-142	1
Poland		3.83	-0.1	-0.1	0	15	3		4.5	-4.6	-6	-11	-41	-1
Romania		4.5	-0.1	-0.2	0	6	1		6.5	-1.5	-5	2	-23	29
Russia		92.9	-0.3	-0.6	-1	5	-4		8.4	-2.0	-7	-19	-152	-70
South Africa		17.1	0.2	1.7	3	12	7		8.4	-2.0	-7	-19	-152	-70
Türkiye		34.18	-0.1	-0.2	0	-20	-14		28.5	-13.0	9	9	115	175
US (DXY; 5y UST)		100	-0.1	-0.2	0	-6	-1		3.56	-1.2	6	-9	-113	-29

	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		3704	4.5	16	12	0	8		124	0	-28	-60	-34		
Indonesia		7697	-0.6	-1	0	11	6		99	-3	-2	-29	3		
India		85572	-0.3	1	4	30	18		107	-4	-4	-31	-9		
Philippines		7428	-0.4	2	8	18	15		82	-5	-5	-23	2		
Thailand		1450	-0.3	0	7	-1	2		0	0	0	0	0		
Malaysia		1660	-0.7	-1	-1	17	14		81	-3	-10	-16	-4		
Argentina		1715671	-1.6	-7	6	208	85		1305	-14	-211	-1080	-608		
Brazil		133010	1.1	0	-3	16	-1		220	0	-2	-6	5		
Chile		6530	1.4	3	2	13	5		117	-2	-4	-7	-8		
Colombia		1332	0.8	1	-1	20	11		318	2	7	-10	47		
Mexico		53591	0.8	1	2	4	-7		312	-1	-3	-58	-22		
Peru		30160	1.8	3	7	34	16		136	-3	-5	-15	-8		
Hungary		74656	-0.3	2	2	33	23		149	-5	-8	-38	0		
Poland		84603	0.2	3	1	30	8		113	2	5	-5	16		
Romania		17655	0.4	0	-4	25	15		196	-2	-4	-4	-5		
South Africa		87758	0.5	5	4	22	14		268	-20	-32	-121	-40		
Türkiye		9767	-0.6	-1	0	19	31		281	-6	-14	-101	-33		
EM total		47	0.4	7	7	23	16		394	2	-12	7	49		

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

[back to top](#)