GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, SEPTEMBER 30, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **EM bond and equity funds received their largest weekly inflows of the past year** (link)
- **Ghana's central bank surprised markets by cutting its policy rate by 200 bps on Friday** (link)
- **Japanese stocks fell sharply in first trading session following LDP leadership election** (link)
- **US equity rally has been broad based, partially reflecting expectations of a soft landing** (link)
- **Chinese equities have rallied 25% since last week despite analyst caution** (link)

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Chinese stocks continue massive rally, while US investors look ahead to jobs report.

Chinese equities posted another huge day of gains, with the CSI300 up 8.5% on Monday and 25% since last week. In contrast, Japanese stocks fell over 4% (Nikkei) following the leadership election on Friday. US markets have been in a holding pattern, with stock futures little changed and Treasury yields up slightly, as investors look ahead to Friday's nonfarm payrolls report for clues on whether the Federal Reserve will follow up with another 50 bp cut in November. In Europe, bond yields were modestly higher even as Germany will reportedly cut its 2024 growth forecast close to zero. Markets are increasingly confident of an ECB rate cut in October. Elsewhere, oil prices were fairly stable, with the November contract trading around $71 per barrel despite a fresh round of violence in the Middle East. In contrast, iron ore futures are up 20% over the last 5 days on hopes for a renewal in Chinese demand.

Key Global Financial Indicators

Last updated: 9/30/24 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5738	-0.1	1	2	34	20.30
Eurostoxx 50		5010	-1.1	3	1	20	11
Nikkei 225		37920	-4.8	1	-2	19	13
MSCI EM		47	-0.2	7	7	23	16
Yields and Spreads					bps		
US 10y Yield		3.78	2.7	3	-13	-79	-10
Germany 10y Yield		2.16	2.7	0	-14	-68	14
EMBIG Sovereign Spread		367	2	-2	-27	-56	-16
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.4	0.1	1	1	-1	-4
Dollar index, (+) = $ appreciation		100.3	-0.1	-1	-1	-6	-1
Brent Crude Oil ($/barrel)		71.5	-0.6	-3	-9	-25	-7
VIX Index (%, change in pp)		17.3	0.4	1	2	0	5

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

In the week ahead, the US nonfarm payrolls report on Friday will be the key data release for investors to judge the strength of the economy. Euro area CPI will be released on Tuesday, with the trend in services inflation likely to impact the outlook for the upcoming ECB meeting later in October. Elsewhere, Colombia's central bank is expected to cut its policy rate by 50 bps on Monday, while surveys expect no change from Poland and Romania later in the week.

Mature Markets

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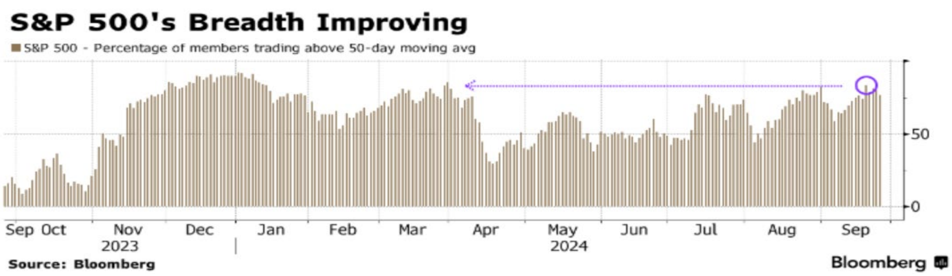
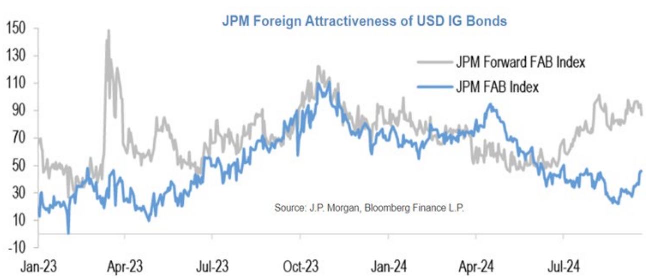
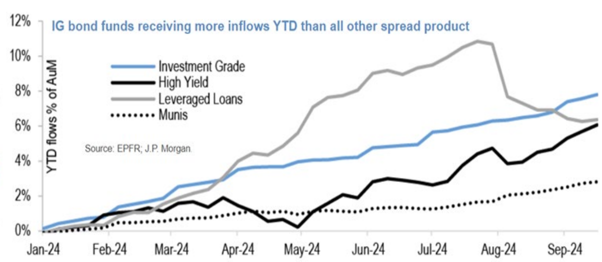
United States

Equity gains have been broad based, partially reflecting analyst expectations of a soft landing and lower interest rates. The equal weight S&P500 index has gained nearly 9% over the last three months, compared to 5% for the benchmark market capitalization weighted index. Nearly 80% of the index constituents are currently trading above their 50-day moving averages, particularly in interest rate sensitive sectors such as real estate, financials, and utilities.



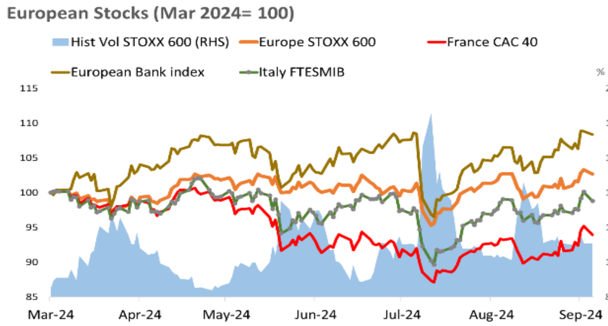
US investment grade bonds have drawn large inflows. Investment grade bond funds have received inflows worth nearly 10% of assets under management, surpassing other fixed income products. Investors may be trying to lock in elevated yields ahead of the current easing cycle. Moreover, despite tight spreads, declining hedging costs could also be making investment grade bonds more attractive to foreign investors. JPMorgan's Index of Foreign Attractiveness (FAB) has rebounded in recent weeks, with the even more substantial gains in the forward index, which is based on expected yields 6 months forward.



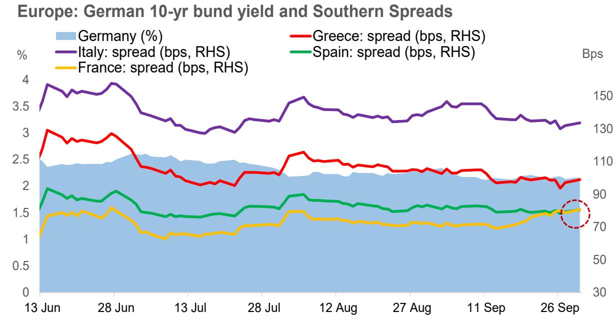


Europe

European equities declined this morning, with the Stoxx 600 down -0.6% led by losses in the consumer goods (-1.3%), real estate (-1.3%), and industrial (-1.2%) sectors. Most major European markets were lower, with Italy (FTSE MIB -1.5%) and France (CAC 40 -1.6%) underperforming. **Bund yields rose 4 bps this morning.** The spread between French and Germany bond yields rose slightly to about 81 bps.

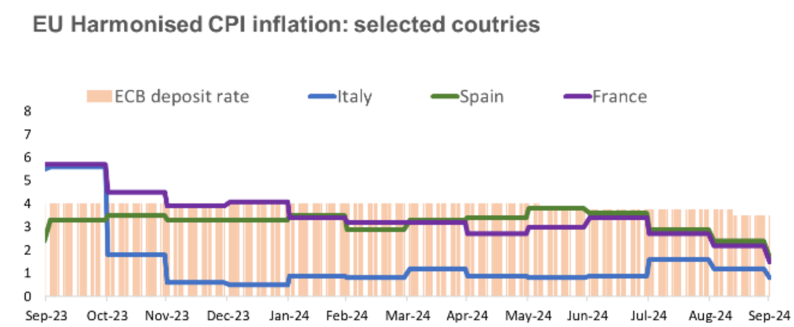


Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Italian inflation softened in line with expectations to 0.8% y/y (from 1.2% previously). Inflation data for Germany also fell to 1.8% y/y as expected (from 2% previously). Alongside softer prints for France and Spain last week, markets have increased their expectations of easing by the ECB this year, pricing in 19 bps of cuts at the October meeting (75% chance of of a 25 bp cut), compared to just 10 bps a week ago. JPMorgan now expects the ECB to cut by 25 in October and each subsequent meeting until reaching a terminal rate of 2% in June 2025 (compared to September previously). Following last week's PCE report in the US, the euro closed higher against the dollar and gained another 0.2% to trade at $1.1185/€.



Source: Bloomberg and IMF calculations

United Kingdom

The pound gained (+0.2%) despite final Q2 GDP showing slower growth than previously estimated. The economy expanded 0.5% q/q vs 0.6% q/q previously estimated, with a 0.6% rise in the services sector offsetting declines in production and construction sectors. The household saving ratio rose to 10%, the highest since 2021, and is elevated by historical standards. Some analysts felt the weaker GDP print could pull forward rate cuts by the BoE, even as Prime Minister Starmer pledged to lift growth to 2.5%. **Gilt yields edged higher (+4 bps), with the 10y yield at 4.01%.**

Japan

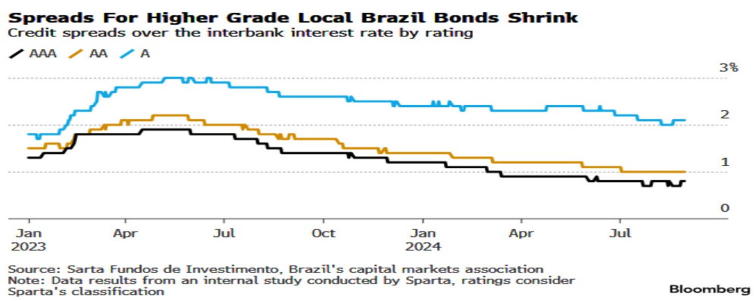
Japanese stocks fell sharply in the first trading session following the LDP leadership election. The Nikkei fell 4.8% on Monday, while the yen weakened slightly (-0.2%). Stock futures had fallen sharply on Friday following the results of the internal leadership election for the governing party. Shigeru Ishiba will formally become the Japanese PM in October, with a general election scheduled for October 27. Market participants believe he will be broadly supportive of the Bank of Japan's moves to normalize policy, which helped the yen rally on Friday. However, some have raised concerns about his views on corporate and investment taxes, contributing to the equity sell off. In addition, **industrial production fell 3.3% m/m in August, below expectations for a 0.5% decline.**

Emerging Markets back to top

EMEA equities and currencies were mostly trading lower on Monday. Equities underperformed in Poland (-1.6%), Romania (-0.5%), and South Africa (-0.4%). The South African rand weakened against the dollar (-0.4%), but has gained nearly 6% in Q3. **In Asia, Chinese equities continued to rally, with the CSI 300 (+8.5%) and Hang Seng (HK, +2.4%) indices up sharply.** Other regional equity markets declined, with India (-1.4%), Korea (-2.1%), Indonesia (-2.2%), and Malasia (-0.7%) all lower. Media reports suggested India's securities regulator (SEBI) will discuss implementing restrictions on retail trading of derivatives after previously proposing various measures in July. **In Latin America, regional currencies were mixed on Friday, with Peru, Brazil, and Chile outperforming.** Several major equity markets declined, with losses in Mexico (-1.5%), Colombia (-0.8%), and Brazil (-0.2%). Elsewhere, Trinidad and Tobago left the policy rate unchanged at 3.5%.

Brazil

Fund managers take cautious approach towards Brazilian corporate debt as spreads tighten. Brazilian corporate spreads have narrowed substantially since early 2023, partly due to the relative lack of investment grade issuers and a lack of trust in high yield domestic issuers. Since peaking in May 2023, spreads over the interbank interest rate have declined 110, 120, and 90 bps for AAA, AA, A rated bonds, respectively. Some managers have closed corporate debt funds, stopped raising capital, or decided to hold more cash as Brazil's central bank embarks on a new tightening cycle.

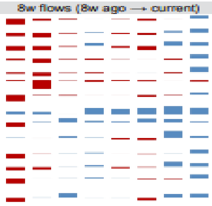


Emerging Market Fund Flows

EM funds received their largest weekly inflows in over a year. Total bond and equity fund inflows rebounded to $3.1 bn, though YTD flows remain negative. Local currency ($730 mn) and hard currency ($550 mn) bond funds combined for $1.3 bn of inflows, up from $541 mn previously. Local currency flows were led by EM ex-China ($786 mn), alongside small outflows for China dedicated funds. Hard currency flows were driven by global EM funds ($542 mn). Equity fund flows totaled $1.8 bn (from -$599 mn previously), driven by the highest ETF inflows in the past year. Regionally, Asia ex-Japan outperformed with inflows of $1.3 bn.

Figure 1: Weekly cross-asset flows

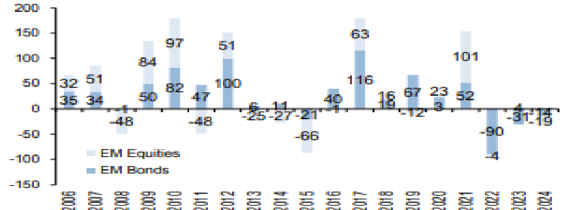
USD billion



Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		3.1	-33.2
EM Bonds		1.3	-14.0
Hard Ccy		0.5	-4.7
Local Ccy^		0.7	-9.4
o.w. EM ex-China		0.8	-7.9
o.w. China		-0.1	-1.9
EM Equities		1.8	-19.2
US HG		6.4	280.4
US HY		0.6	23.7
Global Equities		9.9	136.5
EM Bond and Equity ETFs		3.4	12.0
EM Bond ETFs		0.7	-0.7
EM Equity ETFs		2.8	12.7
Non-resident EM flows*		5.5	15.3

Figure 2: EM bond and equity fund flows

USD billion



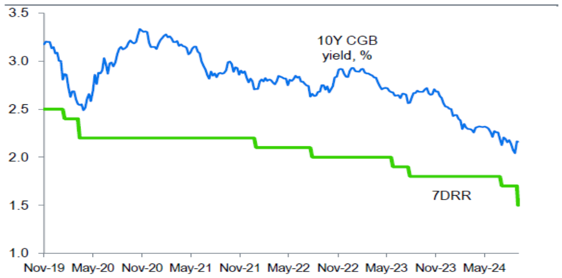
*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

China

Chinese equities have rallied 25% since last week following a series of policy announcements and pledges for more fiscal stimulus. Many global fund managers have been severely underweight and reducing exposure to China, though the scale of recent gains could prompt some to reverse course and add more fuel to the fire. Nevertheless, many analysts remain cautious and noted that implementation and follow through would determine whether the sugar high from the stock market would translate to positive economic momentum. China's property market is going through a deep, slow-moving correction that has weighed on consumer sentiment. Despite policy efforts to facilitate credit, households may be reluctant to spend given the decline in property prices and large amounts of real estate debt. To illustrate the scale of the challenge, Goldman Sachs estimated that RMB7.7 tn would be needed to return housing inventory to 2018 levels. **On Sunday, several major cities announced they would ease rules on homebuyers and lower minimum downpayment requirements**. Homeowners will also reportedly be able to refinance and renegotiate their lending terms effective November 1.

The yuan has appreciated 0.6% over the last week amid growth optimism despite decline in interest rates. The central bank has continued to set the daily reference rate lower (7.0074), indicating the authorities are comfortable with some appreciation for the time being, while the onshore rate has closely tracked the fixing in recent weeks. Standard Chartered also noted that some exporters have been converting their foreign currency deposits. Long term bond yields have been declining amid weak inflation and monetary policy easing. Some analysts noted that market pricing of frontloaded rate cuts by the Federal Reserve have likely helped the currency appreciate despite declining domestic interest rates. 10y government bond yields were down 2.5 bps on Monday after rising last week following the announcement of up to RMB2 tn ($284 bn) in new special sovereign bond issuance.

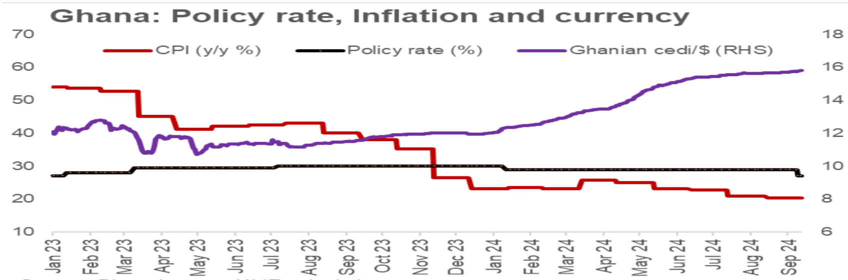
Figure 2: China policy rates lower and yield curve steeper
China 10Y CGB yield, % vs PBoC 7-day repo rate, %



Source: Bloomberg, Standard Chartered Research

Ghana

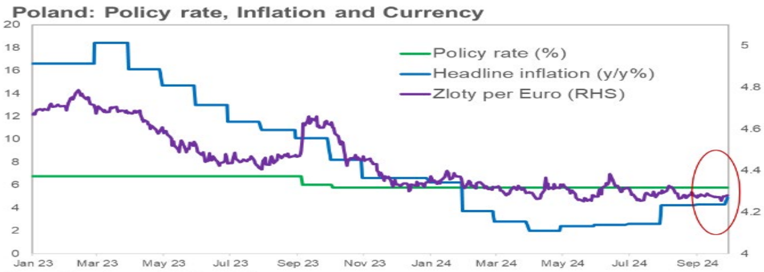
Ghana's central bank surprised markets by cutting its policy rate by 200 bps on Friday (vs 100 bps expected). The central bank of Ghana surprised markets with a 200 bp rate cut on Friday to take the policy rate to 27%. The accompanying statement described risks to inflation as balanced, with forecasts showing that headline inflation would continue easing. Headline inflation eased to 20.4% y/y in August, from 20.9% y/y in July. Both JPMorgan and Absa expect an additional 100 bps cut in November. The central bank also announced the launch of the Ghana Gold Coin (GGC), noting that it enables the central bank to mop up extra cedi liquidity in the banking sector. The statement also noted that the GGC gives resident savers an opportunity to benefit from the central bank's domestic gold purchase program.



Source: Bloomberg and IMF calculations

Poland

Preliminary headline inflation increased to 4.9% y/y in September, as expected, up from 4.3% y/y in August, with analysts pointing to unfavorable base effects. Consensus surveys expect the central bank to leave policy rates unchanged at Wednesday's meeting. JPMorgan analysts place the base case for the next rate cut in May 2025, but believe March 2025 could also be in play. The Polish zloty was little changed against the euro this morning, trading at around 4.28/€, roughly 1.6% stronger YTD.



Source: Bloomberg and IMF calculations

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

9/30/24 8:09 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		5724	-0.1	0	1	33	20
Europe		5011	-1.1	3	1	20	11
Japan		37920	-4.8	1	-2	19	13
China		4018	8.5	25	21	9	17
Asia Ex Japan		80	0.1	8	9	26	20
Emerging Markets		47	-0.2	7	7	23	16
Interest Rates			basis points				
US 10y Yield		3.78	2.5	3	-13	-80	-10
Germany 10y Yield		2.16	2.7	0	-14	-68	14
Japan 10y Yield		0.86	0.7	1	-4	10	25
UK 10y Yield		4.01	3.2	9	-1	-43	47
Credit Spreads			basis points				
US Investment Grade		129	-0.2	1	-4	-22	-5
US High Yield		357	-1.7	-3	-7	-75	-28
Exchange Rates			%				
USD/Majors		100.26	-0.1	-1	-1	-6	-1
EUR/USD		1.12	0.3	1	1	7	1
USD/JPY		142.7	0.4	-1	-3	-5	1
EM/USD		46.4	0.1	1	1	-1	-4
Commodities			%				
Brent Crude Oil ($/barrel)		71.5	-0.6	-3	-7	-14	-5
Industrials Metals (index)		154	0.0	5	7	7	8
Agriculture (index)		58	-0.2	1	7	-9	-7
Implied Volatility			%				
VIX Index (%, change in pp)		17.3	0.4	1.5	2.3	-0.2	4.9
Global FX Volatility		8.6	0.1	0.2	-0.1	0.4	0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		99	1.7	-1	-7	-53	-5
Italy		133	1.2	-2	-7	-61	-34
Portugal		57	0.5	1	-4	-19	-6
Spain		80	0.9	0	-3	-29	-17

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

Emerging Market Financial Indicators

	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		4018	8.5	25	21	9	17		125	1	-26	-56	-33
Indonesia		7528	-2.2	-3	-2	8	4		101	1	0	-22	5
India		84300	-1.5	-1	2	28	17		105	-4	-6	-32	-11
Philippines		7273	-2.1	-2	5	15	13		85	1	-4	-14	5
Thailand		1449	-0.1	0	7	-2	2		0	0	0	0	0
Malaysia		1649	-0.7	-1	-2	16	13		82	-1	-8	-14	-3
Argentina		1727777	0.7	-5	1	207	86		1315	0	-199	-1085	-598
Brazil		132730	-0.2	1	-2	14	-1		221	1	-2	-4	6
Chile		6531	0.0	2	1	12	5		118	-1	-3	-6	-7
Colombia		1321	-0.8	0	-3	18	11		319	7	8	-14	48
Mexico		52778	-1.5	1	2	4	-8		308	-8	-11	-64	-26
Peru		30282	0.4	3	6	34	17		136	-4	-5	-18	-8
Hungary		74390	-0.2	2	2	33	23		155	3	-1	-32	6
Poland		83297	-1.9	2	-2	27	6		115	5	7	1	18
Romania		17611	-0.4	0	-3	23	15		198	2	-4	2	-3
South Africa		86889	-0.8	4	4	20	13		280	-5	-17	-110	-28
Türkiye		9670	-1.1	-2	-2	16	29		282	0	-16	-94	-32
EM total		47	0.0	7	7	23	16		396	3	-12	8	51

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

Last updated: 9/30/2024 8:11 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	0.6	1	4	1		2.0	0.0	14	5	-73	-54
Indonesia		15140	-0.1	0.4	3	3	2		6.5	-2.1	-1	-18	-46	-3
India		84	-0.1	-0.3	0	-1	-1		6.9	-1.0	-1	-14	(81.8)	-27
Philippines		56	0.1	-0.1	1	1	-1		4.7	-14.9	-6	-38	-117	-97
Thailand		32	0.7	2.6	6	15	6		2.4	0.3	4	-4	-90	-29
Malaysia		4.12	0.0	1.9	6	14	11		3.7	-0.4	0	-4	-26	-2
Argentina		966	0.1	-0.4	-2	-64	-16		40.5	-107.7	-44	67	-7641	-4589
Brazil		5.41	0.5	2.4	4	-6	-10		12.2	5.5	-10	65	16	181
Chile		896	0.4	2.9	2	1	-2		4.7	-0.5	3	-29	-110	-23
Colombia		4178	-0.5	-0.6	-3	-2	-8		7.5	-7.0	3	-10	-187	-11
Mexico		19.64	0.3	-1.1	1	-10	-14		8.7	-0.5	6	-46	-90	20
Peru		3.7	0.3	1.3	1	3	0		6.2	-0.6	1	-30	-122	-43
Uruguay		42	-0.1	0.3	-3	-7	-7		9.9	-0.3	-40	33	40	34
Hungary		354	0.3	0.3	0	5	-2		5.8	5.0	-13	-20	-167	1
Poland		3.82	0.2	0.6	1	15	3		4.5	-1.0	-6	-24	-51	-2
Romania		4.4	0.3	0.8	1	7	1		6.5	-2.0	-2	0	-25	27
Russia		93.0	0.4	0.1	-4	7	-4							
South Africa		17.2	-0.3	1.0	4	12	7		8.4	5.0	-6	-30	-158	-69
Türkiye		34.18	0.0	-0.1	-1	-20	-14		28.4	-9.0	13	-16	121	161
US (DXY; 5y UST)		100	-0.1	-0.6	-1	-6	-1		3.54	3.6	3	-16	-107	-31

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