



- VIX surges on increasing risk aversion amid hedging flows ([link](#))
- Equity option markets appear to be more sensitive to US employment data releases ([link](#))
- Downside Swiss inflation surprise firms up expectations for another rate cut ([link](#))
- Demand for gold expected to remain strong ([link](#))
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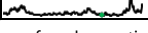
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Markets sell off

Risky assets continued selling off today after rising concerns about the health of the US economy and deleveraging in the tech sector triggered the worst decline in US stocks since the August 5 meltdown yesterday. The tech sector rout accelerated on news the US justice department sent subpoenas to Nvidia and other companies as it seeks evidence that the chipmaker violated antitrust laws. Nvidia shares sank 10% yesterday, wiping off \$280 bn in value, the biggest one-day market capitalization drop for a US stock in history. Asian and European stocks fell today, with the tech sector selling off and Japanese stocks underperforming amid a strengthening yen. The VIX index soared to 23 percentage points on the rising risk aversion with option hedging flows reportedly contributing to its increase. In fixed income, US Treasury yields were little changed while euro area sovereign bond yields fell modestly. In emerging markets, equities were mostly lower, mirroring moves in advanced economies. Elsewhere, the Chilean central bank cut rates 25 bps, as expected, and the Bank of Canada is also expected to cut 25 bps later this morning.

Key Global Financial Indicators

Last updated: 9/4/24 8:31 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5529	-2.1	-2	3	22	15.91
Eurostoxx 50		4851	-1.3	-1	5	13	7
Nikkei 225		37048	-4.2	-3	18	12	11
MSCI EM		43	-2.0	-2	2	7	6
Yields and Spreads			bps				
US 10y Yield		3.83	0.2	0	4	-35	-5
Germany 10y Yield		2.24	-3.6	-2	7	-34	22
EMBIG Sovereign Spread		397	9	2	-24	-20	14
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.7	-0.2	-1	0	-5	-5
Dollar index, (+) = \$ appreciation		101.7	-0.1	1	-1	-2	0
Brent Crude Oil (\$/barrel)		73.8	0.1	-6	-4	-17	-4
VIX Index (% change in pp)		22.9	2.2	8	0	10	10

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

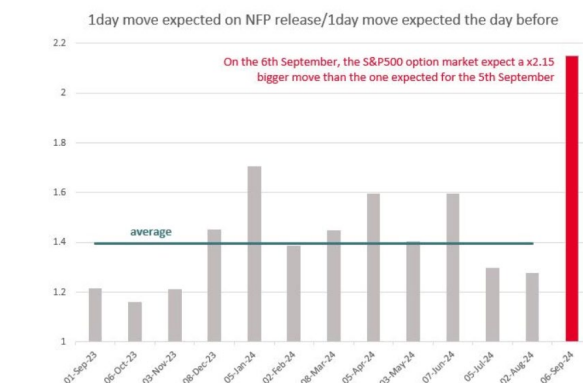
Mature Markets

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United States

Amid the selloff in US stocks (-2.1%) yesterday, the VIX index surged 5 percentage points, with option hedging flows reportedly contributing to the increase. Ahead of the Labor Day weekend, there were reports of sizeable hedging flows with options positioned for a VIX jump. With Tuesday seeing the worst US equity slump since the August 5 meltdown, market makers on the other side of the trade had to quickly hedge their book by buying volatility and selling stock index futures into an already selling market, which may have contributed to accelerate the sell off, according to Bloomberg. While the VIX increased significantly, market contacts noted the move in the so-called volatility of volatility (proxied by the CBOE VVIX index), which surged 36 points yesterday, the most since February 2018.

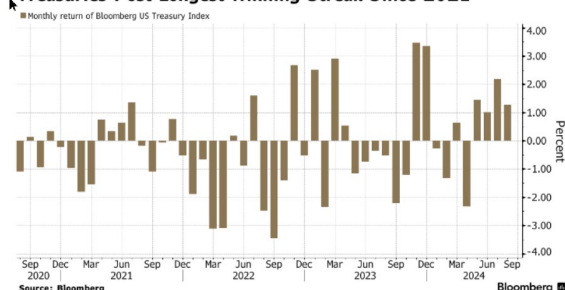
Equity option markets are more sensitive to US employment data releases. The S&P 500 options market has consistently priced in higher volatility on the days of non-farm payroll (NFP) releases compared to the day immediately before. The market is now expecting a 2.15x move on September 6th relative to the day before, as this NFP release is drawing significant investor attention. Société Générale analysts attribute this “volatility premium” to the increased risk of recession and the Fed being increasingly more data dependent. Therefore, the end of the week could be volatile.



Source: SG Cross Asset Research/Derivatives, Bloomberg

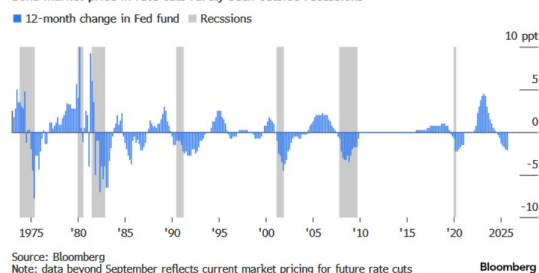
The last four months mark the longest winning streak for Treasuries since 2021 on the back of market expectations that the Fed will cut rates by 200 bps in the next 12 months. According to Bloomberg analysts, risks seem elevated as any sign that the labor market is resilient should allow the Fed to cut at a more moderate pace. Specifically, the market is pricing in 100 bps cut by the end of the year, which implies a 50 bps cut in at least one of the three meetings left in 2024. So, all eyes are poised on the labor market, and to what extent Powell's indication that further cooling in the labor market is “unwelcome” will be met with deep rate cuts.

Treasuries Post Longest Winning Streak Since 2021



Deep Cuts

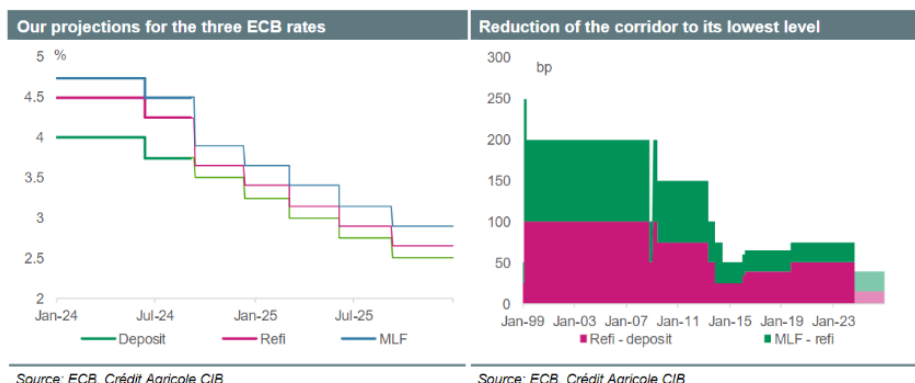
Bond market price in rate cuts rarely seen outside recessions



Euro area

European equity markets were weaker this morning (Stoxx 600 -0.9%) in line with global trends while sovereign bond yields fell. The Stoxx 600 index added to yesterday's losses when it closed 1% lower, posting its worst daily performance since August 5. This morning losses were led by the technology sector (-2.6%), with the banking sector also down (-0.6%). Bund yields continued to ease this morning (10-year bund -4 bps at 2.24%) adding to yesterday's moves (10-year bund yield -6 bps), with contacts highlighting the weaker US ISM data as a driver, together with the sell-off in US tech stocks and a significant decline in oil prices amid prospects of increased OPEC+ supply. The euro was strengthened marginally.

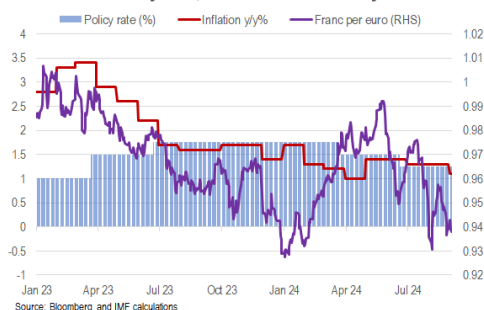
Some analysts expect a limited impact from the reduction in the spread between the ECB's main refinancing rate and the deposit rate. In March this year the ECB announced changes to its operation framework for implementing monetary policy and said that the spread between the rate on the main refinancing operations and the deposit facility rate will be reduced to 15 bps. These changes are set to come into effect on September 18, 2024. Contacts continue to expect quarterly rate cuts from the ECB with the next 25 bps rate cut expected at the upcoming ECB meeting later this month. Along with the 25 bps rate cut to take the deposit rate to 3.5%, the ECB is also expected to reduce the main refinancing rate by 60 bps to 3.65% and the Marginal Lending Facility (MLF) rate by 60 bps to 3.9%. CACIB analysts noted that this decision is aimed at making the standard refinancing operations more attractive for banks. The analysts commented that excess liquidity would gradually become scarcer under the new monetary framework, with banks then returning to standard refinancing operations to obtain liquidity. However, the analysts do not expect a significant increase in banks' borrowing at standard refinancing operations as excess liquidity is expected to remain ample enough over the next two years.



Switzerland

Analyst expectations for a 25 bps rate cut in September firmed up after August inflation surprised on the downside. Data released yesterday showed headline inflation easing to 1.1% y/y (vs. expected 1.2% from 1.3%), while Q2 GDP growth was also stronger than anticipated (+0.7% q/q vs. expectations to remain unchanged at +0.5%). The Swiss National Bank (SNB) has cut its policy rate by 50 bps so far this year to take the policy rate to 1.25%. Analysts expect another, possibly final, 25 bps rate cut in September to the terminal rate of 1% that the analysts see as broadly neutral. In addition, after weakening throughout most of H1, the Swiss Franc has appreciated by roughly 3.2% against the euro since the start of July. BofA analysts highlighted that the correlation between the Swiss Franc and FX volatility has remained strong and noted the currency has seen support from geopolitics and regime shifts. The analysts continue to see FX interventions by the SNB as a complement to policy rate changes. Contacts noted that the Swiss franc gained less yesterday than other safe-haven currencies after the downside inflation surprise, with the currency strengthening roughly +0.4% against the euro around 0.94.

Switzerland: Policy rate, Inflation and Currency



CHF TWI vs FX Volatility

CHF increasingly correlated to FX volatility



BofA GLOBAL RESEARCH

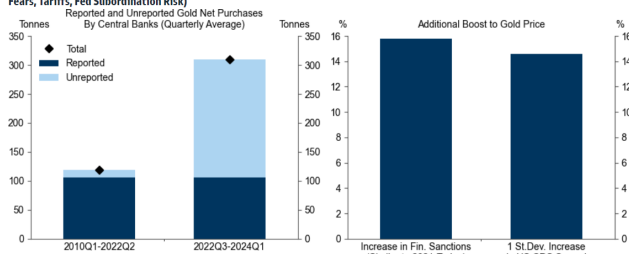
Japan

Japanese equities tumbled amid a strengthening yen and following heavy selloffs in the US market. The Nikkei 225 closed 4.2% lower, with chipmaker stocks underperforming. However, despite the heightened market volatility, **many analysts do not expect a repeat of last month, when Japanese equity indices erased all of this year's gains.** In a note today, Nomura analysts believe Japanese equities will continue their upward trend, though occasional dips in sentiment are expected. They do not expect a significant unwinding of yen carry trades like in early August, given that speculators are currently slightly long on the yen. JP Morgan strategists observe a faster return of medium- to long-term investors than short-term investors following the early August turbulence. Some medium- to long-term investors do not necessarily view yen appreciation as a negative factor, as long as the pace of appreciation is not too rapid, and they prefer domestic demand-related stocks that are less sensitive to yen movements. JP Morgan analysts believe a reduction in yen selling positions and higher shareholdings among medium- to long-term investors would help improve the equity market's resilience. Today, **the yen appreciated (+0.4%), and 10-year JGB yield fell (-4 bps).**

Commodities

Demand for gold is expected to remain strong. Goldman Sachs maintains its bullish view of gold despite its recent rally. Analysts believe that central bank demand (which has tripled since mid-2022), US fiscal concerns, imminent Fed rate cuts and heightened geopolitical tensions, including potential sanctions, should support gold prices into 2025. All these factors have made it difficult to disentangle if current prices hint at investors seeing this asset class as an inflation hedge, safe heaven asset, or just a simple diversification factor, and therefore it is challenging to understand if there is any strong market signal behind these close to all-time high prices.

Exhibit 6: We See Value in Long Gold Positions Given Higher Central Bank Demand and Hedging Value Against Geopolitical/Financial Shocks (Sanctions, Debt Fears, Tariffs, Fed Subordination Risk)



Right panel: We quantify financial sanctions as the GDP-weighted count of related US executive orders and simulate a rise in our index by 48 points, similar to the increase from 2021 to present. This is akin to two additional sanctions on China or six on India. In our analysis, we include US financial sanctions-related Executive Orders (SREOs) effective between 2000 and April 23, 2024. The executive orders are sourced from OFAC and are publicly available on www.ofac.treasury.gov. The selection of financial executive orders follows the approach outlined in the book "Bucking the Buck" by Professor Daniel McDowell. Sanction intensities are not differentiated; all are weighted equally. We use the US 5-year CDS spread as a proxy for US debt or global financial dollar system fears, and simulate a one standard deviation increase, which corresponds to 13bps, that persists for one year. This rise mirrors the spike in 2023Q1 around the US debt ceiling debate, and would lead to a CDS level similar to the one observed in the 2011 debt ceiling crisis.

Source: World Gold Council, IMF, Company data, Goldman Sachs Global Investment Research

Emerging Markets

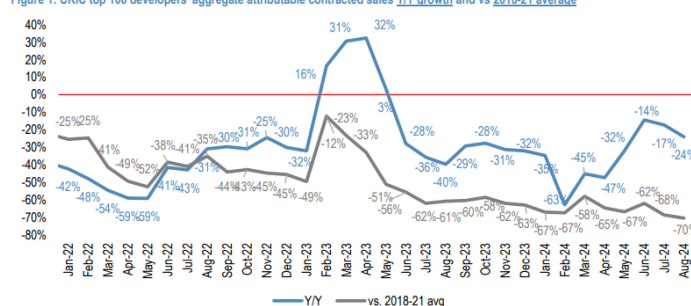
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Asian equities witnessed their worst selloff since the early August rout (EM Asia: -2.7%), tracking a slump in the US markets. Selloffs in semiconductor stocks drove the underperformance of equity markets from Taiwan POC (-4.5%), with the Taiwanese dollar (-0.4%) weakening. **Other Asian currencies appreciated**, led by the Malaysian ringgit (+0.6%). **Long-term government bond yields fell in most Asian economies**, following the decline in US Treasury yields. **EMEA equities were mostly lower, mirroring moves in euro area markets, while currencies were mostly trading mixed.** The Polish zloty was steady against the euro ahead of today's policy meeting where the National Bank of Poland is widely expected to keep rates unchanged at 5.75%. **In Latam, equity markets declined yesterday**, with Mexico (-1.7%) underperforming. **Latam currencies broadly weakened**, with the Chilean peso (-1.3%) and Colombian peso (-0.8%) underperforming. **Brazil's Q2 GDP exceeded expectations** at 3.3% y/y (vs 2.7% estimate), driven by robust consumer spending. Although the Brazilian real initially appreciated (+1.1%) following their positive GDP print, it closed -0.5% weaker. Elsewhere, Mexico's unemployment rate rose slightly less-than-expected to 2.93% from 2.78%.

China

JP Morgan analysts expect property sales to remain weak in the absence of stronger stimulus and expect Beijing to deliver more support (or at least a stronger narrative) at China's next Politburo meeting. Despite the authorities' efforts since April to revive the property market, data compiled by JP Morgan analysts indicate that developers' contracted sales hit a new low in August, 70% lower than the average of 2018–2021. Local media reported that local government land sales revenue fell to its lowest level in seven years in the first seven months of the year, down 22.3% y/y. According to CRIC statistics, builders have become increasingly cautious about acquiring land since the beginning of 2024. This trend is not limited to private builders, whose land purchases have nearly halted, but also includes some state-owned developers like China Resources, Poly, China Overseas, and China Merchants, which recorded investment declines of over 50% compared to the previous year, as they prioritize destocking. Reflecting investor concerns, The Shanghai Stock Exchange Property Index fell to a fresh 10-year low.. On the data front, **services sector expansion slowed faster than expected in August**, as suggested by the Caixin PMI (51.6, expected: 51.8, prior: 52.1). The Caixin Composite PMI stayed flat at 51.2. **Chinese equities declined** (-0.6%); the **RMB appreciated** (+0.1%).

Figure 1: CRIC top 100 developers' aggregate attributable contracted sales Y/Y growth and vs 2018-21 average



Source: CRIC

Chile

Chile's central bank unanimously cut its benchmark interest rate by 25 bps to 5.5%, as expected, on Tuesday evening. The central bank noted weaker-than-forecast demand in the economy and on-target inflation projections in a statement accompanying the decision. The decision came as GDP fell in Q2 from 1.9% m/m to -0.6% and unemployment rising from 8.3% to 8.7% in July. Still, the central bank has limited room for rate cuts going forward as annual inflation hit 4.6% in July. Chile's key rate has now fallen from its of 11.25% peak seen in 2023, following a pause in the easing cycle at the July meeting.

Chile Monetary Policy Interest Rate

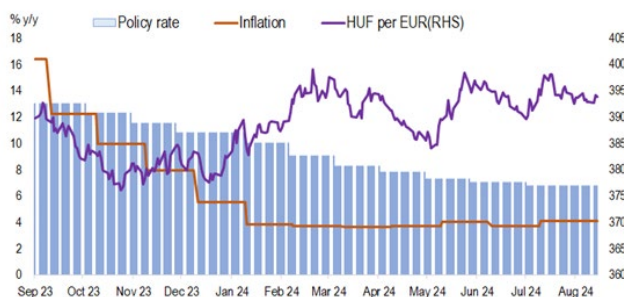


Source: Central Bank of Chile, Bloomberg Economics

Hungary

Q2 GDP growth slowed in line with an earlier flash estimate. Data released earlier in the week confirmed that Hungary's Q2 GDP growth was -0.2% q/q, unchanged from the earlier flash estimate and in line with expectations. Following the detailed release, analysts at Raiffeisen have revised their 2024 and 2025 GDP estimates downwards to 1.7% (from 2.2% previously) and 3% (from 3.4% previously) respectively. The analysts note that the headwinds facing the economy including poor external demand, government fiscal consolidation measures and the lack of inflow of EU funds are unlikely to fade in the near-term, prompting them to lower their GDP growth estimates. This morning the Hungarian forint was trading broadly unchanged against the euro while the currency is around 2.7% weaker against the common currency on a YTD basis.

Hungary: Policy rate, Inflation and Currency



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.

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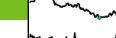





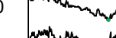
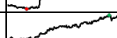










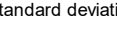






Global Financial Indicators

9/4/24 8:30 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5510	-2.1	-2	3	22	16
Europe		4851	-1.3	-1	5	13	7
Japan		37048	-4.2	-3	18	12	11
China		3252	-0.6	-1	-3	-15	-5
Asia Ex Japan		72	-2.1	-2	2	8	7
Emerging Markets		43	-2.0	-2	2	7	6
Interest Rates			basis points				
US 10y Yield		3.83	0.2	0	4	-35	-5
Germany 10y Yield		2.24	-3.6	-2	7	-34	22
Japan 10y Yield		0.88	-4.2	-2	-7	24	27
UK 10y Yield		3.96	-3.0	-4	13	-50	42
Credit Spreads			basis points				
US Investment Grade		136	0.1	3	-5	-10	2
US High Yield		378	1.2	9	-24	-32	-7
Exchange Rates			%				
USD/Majors		101.72	-0.1	1	-1	-2	0
EUR/USD		1.10	0.0	-1	1	2	0
USD/JPY		145.2	-0.2	0	1	-1	3
EM/USD		45.7	-0.2	-1	0	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		73.8	0.1	-5	-3	-11	-2
Industrials Metals (index)		140	-0.9	-6	1	-3	-2
Agriculture (index)		55	-0.2	2	2	-18	-12
Implied Volatility			%				
VIX Index (% change in pp)		22.9	2.2	7.5	-0.4	9.9	10.5
Global FX Volatility		8.6	0.0	-0.1	0.6	0.6	0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		105	-0.5	0	-9	-30	1
Italy		146	-1.1	7	0	-26	-22
Portugal		62	0.0	0	-7	-12	-1
Spain		83	0.0	0	-6	-21	-14

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

Emerging Market Financial Indicators

Last updated: 9/4/2024 8:30 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		7.12	0.1	0.1	0	2	0		1.9	-1.0	-8	-9	-77	-61
Indonesia		15480	0.3	-0.4	5	-2	-1		6.7	-0.1	3	-18	29	19
India		84	0.0	0.0	0	-1	-1		7.0	-7.0	2	17	(57.8)	-20
Philippines		57	0.1	-0.6	2	0	-2		5.1	5.0	-5	-16	-82	-55
Thailand		34	0.1	-0.4	4	3	0		2.4	-1.5	-2	6	-52	-29
Malaysia		4.35	0.4	-0.2	2	7	6		3.8	-1.4	-2	5	-8	2
Argentina		953	-0.1	-0.5	-2	-63	-15		41.1	15.2	123	-349	-7593	-4533
Brazil		5.65	0.0	-1.4	1	-13	-14		12.1	3.1	40	29	76	166
Chile		929	-1.2	-2.3	3	-8	-5		4.9	-5.5	-4	-9	-47	-3
Colombia		4184	-0.8	-3.5	-1	-3	-7		7.9	0.0	22	14	-34	25
Mexico		19.87	-0.4	-1.1	-3	-14	-15		9.1	0.0	1	7	25	62
Peru		3.8	-0.6	-1.3	-2	-2	-2		6.5	-0.3	0		-31	-13
Uruguay		40	-0.1	-0.2	0	-7	-4		9.6	0.6	5	4	35	5
Hungary		356	0.2	-0.7	2	-1	-2		6.0	-3.0	-4	29	-82	18
Poland		3.88	0.0	-0.4	1	7	2		4.6	-5.3	-7	22	-13	12
Romania		4.5	0.0	-0.6	1	2	0		6.5	1.6	4	11	-2	31
Russia		89.3	-2.8	2.5	-5	8	0							
South Africa		17.9	0.3	-0.5	3	6	2		8.6	-8.5	-7	-19	-85	-52
Türkiye		34.05	-0.1	0.0	-2	-21	-13		28.8	31.0	33	110	630	205
US (DXY; 5y UST)		102	-0.1	1.2	-1	-2	0		3.64	0.2	-2	2	-66	-21

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3252	-0.6	-1	-3	-15	-5		125	-26	-26	-60	-33	
Indonesia		7673	0.7	0	9	10	6		110	9	-19	-14	14	
India		82353	-0.2	1	5	25	14		110	-1	-1	-31	-6	
Philippines		6882	0.0	-1	7	11	7		95	6	-19	-3	15	
Thailand		1365	0.1	0	7	-12	-4		0	0	0	0	0	
Malaysia		1670	-0.4	0	9	15	15		84	-6	-10	-14	-1	
Argentina		1735253	-1.1	7	21	174	87		1473	-41	-140	-623	-440	
Brazil		134353	-0.4	-2	7	14	0		231	8	-15	2	16	
Chile		6387	-1.1	0	1	7	3		124	3	-15	3	-1	
Colombia		1348	-0.5	0	2	25	13		323	12	-12	0	52	
Mexico		51589	-1.7	-2	-1	-3	-10		329	10	-8	-30	-5	
Peru		28082	-2.2	-1	-2	21	8		146	5	-19	2	2	
Hungary		72323	-0.9	-1	0	30	19		155	-1	-19	-37	6	
Poland		84390	-0.4	1	3	23	8		108	0	-15	-9	11	
Romania		17996	-0.6	-2	-2	35	17		207	5	-1	3	7	
South Africa		81807	-0.4	-3	2	9	6		303	6	-32	-76	-5	
Türkiye		9920	-1.0	2	-5	22	33		308	10	-29	-83	-6	
EM total		43	-1.0	-2	2	7	6		410	1	-27	36	64	

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

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