GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, APRIL 23, 2024

LEAD EDITOR: ESTI KEMP

- **Risk to equity valuations seen to remain elevated despite recent pullback** (link)
- **Fed's discount window borrowing surged by $3.5bn in a volatile week for banks** (link)
- **Euro area flash PMI surprises on the upside** (link)
- **Pound strengthens after UK flash PMI surprises on the upside** (link)
- **Institutional investors cut long Mexican peso positions amid increased volatility** (link)
- **Nigeria plans debut foreign currency bond to boost dollar liquidity** (link)

Mature Markets | Emerging Markets | Market Tables

Data reinforce positive mood but focus remains on earnings

Equity markets continue to gain while analysts caution that valuations remain elevated. Equities recovered yesterday with the S&P 500 managing to close higher after six consecutive declines. Positive sentiment was boosted by growing hopes that a further escalation in the Middle East would be avoided, and Brent crude oil prices eased back to $87.00/bbl. Data released this morning supported market sentiment, with flash April PMI data showing key gauges of manufacturing and service activity improving in Japan, while flash PMI data from both the eurozone and the UK also surprised on the upside—driven by services. Against this backdrop equities continued to gain this morning in Europe, with the technology sector outperforming, as the FTSE 100 hit a record high. US futures are wavering however, as earnings remains in focus with companies representing over 40% of the S&P 500's market value are reporting results this week, while some analysts are cautioning that risk to equity valuations remain elevated. On the monetary policy front, Hungary cut its benchmark rate by 50bps to 7.75% this morning, as expected, while Paraguay left its policy rate unchanged at 6.0% yesterday. Elsewhere, Nigeria is reportedly planning to offer a debut foreign currency bond issuance.

Key Global Financial Indicators

Last updated: 4/23/24 12:59 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5011	0.9	-1	-4	21	5
Eurostoxx 50		4985	1.0	1	-1	13	10
Nikkei 225		37552	0.3	-2	-8	31	12
MSCI EM		40	1.1	0	-2	3	0
Yields and Spreads				bps			
US 10y Yield		4.65	3.9	-2	45	108	77
Germany 10y Yield		2.52	3.3	3	20	4	50
EMBIG Sovereign Spread		340	-2	-3	-5	-150	-44
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.1	0.0	1	-1	-9	-4
Dollar index, (+) = $ appreciation		106.0	-0.1	0	2	4	5
Brent Crude Oil ($/barrel)		86.5	-0.6	-4	1	6	12
VIX Index (%, change in pp)		16.6	-0.3	-2	4	0	4

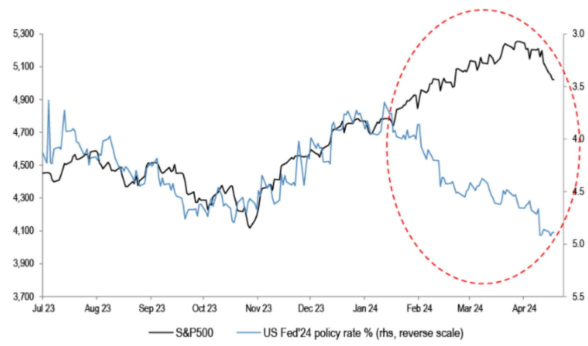
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets back to top

United States

Some analysts believe risk to equity valuations remain elevated despite recent pullback. JPMorgan's strategists believe there is continued complacency in equity valuations as stronger USD, higher yields, more expensive oil and high index concentration will be a drag on the S&P. The gap between the Fed futures (shown below in reverse scale) and the S&P 500 has widened in recent months, which analysts interpret as showing that the repricing of monetary policy expectations has been largely ignored by equity investors. The S&P gained almost 1% on Monday after a strong correction last week (roughly -3%), as investors prepare for a heavy week of earnings reports that could trigger a sharp repricing if expectations are not met.

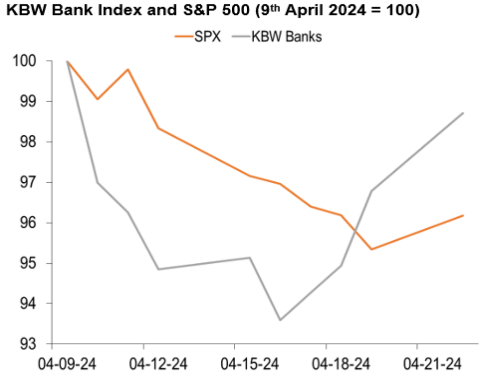
Figure 11: SPX and fed funds futures



Source: Bloomberg Finance L.P.

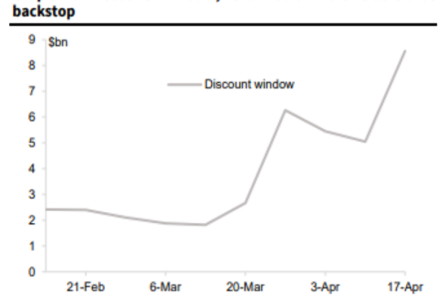
The Fed's discount window borrowing surged by $3.5bn in a volatile week for banks. Borrowing from the Fed's discount window reached $8.56bn on April 17th, the highest level since May 2023, potentially on the back of outflows from US tax payment deadline. On the other hand, balances at the bank-term funding program have continued to decline slowly ($0.6 billion last week to $125.7 billion). **Bank equities have experienced strong volatility following the start of 1Q24 results**. The KBW bank index fell by -6.7% between the April 9–17 but has rebounding sharply since then (4.7ppts), outperforming the S&P 500 by 2.5ppts.

KBW Bank Index and S&P 500 (9th April 2024 = 100)



Source: Bloomberg, IMF Staff

Graph 1. Discount window, the Fed's more traditional backstop



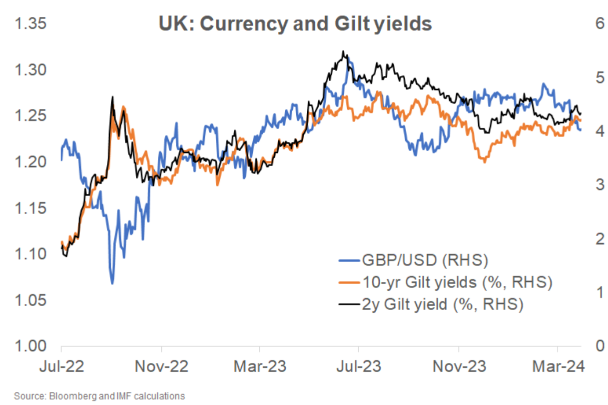
Source: SG Cross Asset Research/Rates, Federal Reserve, Bloomberg

Europe

Strong earnings data coupled with better-than-expected economic data boosted sentiment driving European equities higher for a second consecutive day. The STOXX 600 index was up 0.6%, led by gains in the technology (+1.8%) and healthcare (+1.1%) sectors. **In early morning trading, 2y German bund yields rose (+3bps) to 2.99% following better-than-expected flash April composite PMI data while 10y bund yields were also higher (+1bp) to trade at around 2.50%. The euro was marginally stronger against the dollar (+0.1%) trading at around 1.0670**. Meanwhile, 10Y Italian BTP spreads over 10y German bunds were around 1bps tighter to trade at 135bps.

Eurozone April flash composite PMI data surprises to the upside, driven by services. The flash April composite PMI for Germany rose to 50.5 in April (48.4 exp, 47.7 prior) driven largely by the services sector. Manufacturing sector data continued to point to a contraction, but at a slower pace than the prior month. **Immediately following the data release, German bond prices fell across the curve with the yield on the 2y bund rising three basis points to 2.99%.** It was a similar story in France, where the flash April composite PMI index climbed to 49.9 (48.8 exp, 48.3 prior). The improvement in the German and French data drove the Euro-area flash April composite PMI higher to 51.4 (50.7 exp, 50.3 prior). The better-than-expected momentum in the data was flanked by stronger price pressures in the services sector where rising wages continue to play a role. Contacts note that this could present a potential source of concern for ECB policymakers, who are expected to deliver their first rate cut in June. Following this morning's data release, analysts at HSBC expect a "degree of inflation stickiness" in the eurozone "which means that once rate cuts start, they will only happen gradually at a pace of 25bps per quarter". **Market scaled back ECB rate cut expectations for 2024 slightly, with around 75bps of easing priced in by the end of this year, compared to 78bps yesterday, while pricing still shows an 87% likelihood of a June ECB rate cut.**

United Kingdom



April flash PMI data for the UK surprised to the upside and points to recovery. April's flash composite PMI came in at 54 (52.6 exp, 52.8 prior), increasing to an 11-month high. **Immediately following the data release, sterling rose by as much as 0.3% against the dollar to trade at $1.2389.** Analysts note that today's data may add to concerns among some policymakers at the BoE that the UK may experience a resurgence in price pressures, like those seen in the US. Markets have been steadily pushing back on the likely timing of the first BoE rate cut, with the first rate cut now fully priced in for August, followed by one more cut by the end of the year, although economists continue to expect the first rate cut in June. **Markets are now pricing in around 59bps of rate cuts in 2024, compared to around 70bps expected at the start of April.**

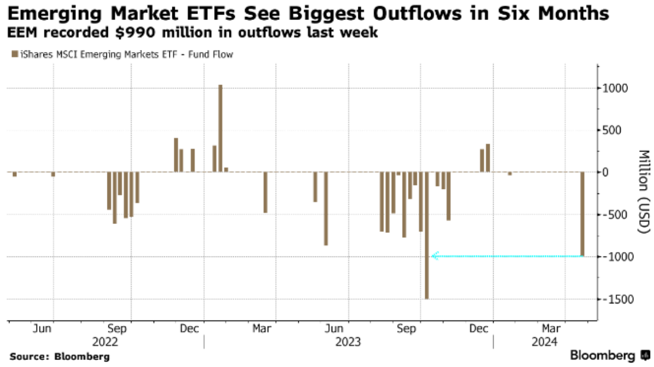
Elsewhere, **Gilts underperformed European peers as the government increased planned gilt sales by more-than-expected.** The Debt Management Office this morning said it would sell £12.4bn more gilts in this fiscal year, compared to its original plan, taking total issuance for the current fiscal year to £277.7bn. The additional issuance will be skewed towards shorter maturities, with planned sales increasing by £5.4bn. Combined with the BoE's annual target of reducing its gilt stockpile by £100bn, the total stock of debt that the market will have to absorb this year, could reach an all-time high. According to Bloomberg, following the announcement, UK gilts were lower across the curve, with 10Y yields rising 2bps to trade at 4.23%.

Emerging Markets back to top

EMEA equities traded mostly higher today, while currencies were mostly weakening. In CEE, equities gained in Hungary (+0.7%) and the forint was marginally stronger (+0.1%) against the euro, trading at around 394/€, ahead of today's MPC meeting where consensus expects the central bank to cut its policy rate by 50bps to 7.75%. In Poland equities were lower (-0.1%) and the zloty weaker against the euro (-0.5%), trading at 4.33/€, after data released this morning showed weaker-than-expected March retail sales (+6%y/y, versus expected 7.5%y/y from 6.7%y/y). In South Africa the rand was weaker (-0.3%) against the dollar, trading at 19.24/$. **Asian equities mostly gained while currencies were mixed against the dollar**. Equities outperformed in the Philippines (+1.0%), but fell in Vietnam (-1.1%) and China (-0.7%). Currencies were mixed, with the Chinese yuan marginally weaker. Long-end government bond yields were mixed. **Latin American equities gained along with the global trend and currencies were mixed across the region**. Equities in Argentina (+6.66%) led the advance, followed by Mexico (+1.2%) and Colombia (+0.9%). Currencies appreciated in Brazil (+0.7%) and Chile (+0.2%) but depreciated in Mexico (-0.3%) and Colombia (-0.1%). On the monetary policy front, **Paraguay's central bank left its key interest rate unchanged at 6%.**

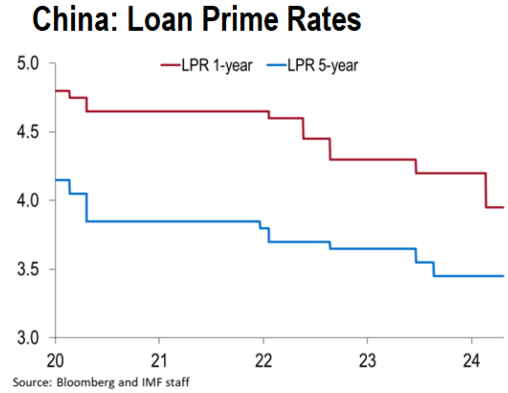
EM Fund Flows

EM ETFs experienced their largest weekly outflow in six months. According to Bloomberg analysts, US listed emerging market ETF outflows totaled -$2bn last week while the iShares MSCI Emerging Markets ETF saw -$990mn of outflows. The largest equity ETF outflows were all from the Asia Pacific region, with China/Hong Kong (-$795mn), Taiwan (-$330mn), India (-$275mn), and South Korea (-$150.2mn) leading the global trend.



China

The latest Loan Prime Rate (LPR) remained unchanged, as expected. Authorized by the People's Bank of China, yesterday the National Interbank Funding Center announced that the 1-year LPR, a benchmark for corporate loans, remained unchanged at 3.45%, and the 5-year and above term, a reference for mortgages, remained unchanged at 3.95%. This follows after the PBoC at its April meeting last week announced that the Medium-Term Lending Facility (MLF) operation rate remained at 2.5%. Some analysts argue that while recent encouraging Q1 economic data from China likely removes the urgency for further monetary stimulus, easing efforts continue to be constrained by a weakening yuan, lower net interest margins of commercial banks and also uncertainty around when the Fed would start easing rates.

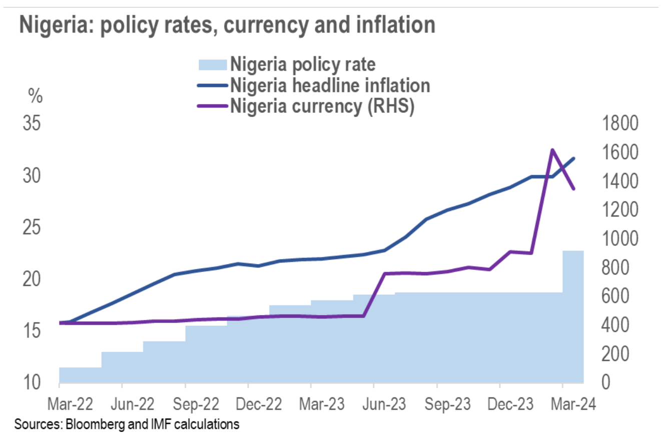


Mexico

Institutional investors cut long Mexican peso positions amid increased volatility. CFTC data show that asset managers and leveraged funds have reduced their long positions on the currency in the week ending April 16 by 20,012 and 222 contracts, respectively, according to Bloomberg. The reduction of the asset managers' positioning represents roughly 12% of these investors' total bullish positioning. The peso has been the worst performing emerging market currency since the start of April, having depreciated by -3.38% against the dollar. Over the same time horizon, the currency's one-month implied volatility has increased from 7.75% to 12.4%. Analysts attribute the increased volatility to uncertainty of US monetary policy and geopolitical tensions.

Nigeria

Nigeria's government is planning to offer foreign currency bonds targeting specifically domestic investors to boost its dollar liquidity, according to Bloomberg. Nigeria' foreign-exchange reserves are declining rapidly, raising concerns that the central bank is depleting its dollar holdings to support the naira after pledging it would allow the currency to float more freely. Liquid reserves have declined by 5.6% from $34.4bn on March 18, when the naira started its rebound from record-low level against the dollar, to $31.7bn as of April 12, according to Bloomberg's calculations based on the latest available data from the Central Bank of Nigeria. Yesterday, the country also secured a $2.3bn loan from the World Bank. **The naira has recovered roughly half of its losses against the dollar since a 43% devaluation in January, trading today at 1232.46/$.** This follows after the CNB introduced measures to improve liquidity, attract capital inflows and allow the market to determine the naira's exchange rate**.**



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), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), 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), Ying Xu (Economist), 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

	Level		Change				
4/23/24 1:00 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5011	0.9	-1	-4	21	5
Europe		4985	1.0	1	-1	13	10
Japan		37552	0.3	-2	-8	31	12
China		3506	-0.7	0	-1	-12	2
Asia Ex Japan		66	1.3	0	-2	0	0
Emerging Markets		40	1.1	0	-2	3	0
Interest Rates					basis points		
US 10y Yield		4.65	3.9	-2	45	108	77
Germany 10y Yield		2.52	3.3	3	20	4	50
Japan 10y Yield		0.89	-0.1	2	15	42	28
UK 10y Yield		4.26	5.9	-4	34	51	73
Credit Spreads					basis points		
US Investment Grade		123	-1.1	-1	3	-35	-11
US High Yield		362	-6.8	-3	13	-112	-24
Exchange Rates					%		
USD/Majors		106.00	-0.1	0	2	4	5
EUR/USD		1.07	0.2	1	-1	-3	-3
USD/JPY		154.8	0.0	0	2	15	10
EM/USD		46.1	0.0	1	-1	-9	-4
Commodities					%		
Brent Crude Oil ($/barrel)		86.5	-0.6	-4	2	12	13
Industrials Metals (index)		155	-2.4	2	10	-1	9
Agriculture (index)		59	-0.2	1	0	-13	-5
Implied Volatility					%		
VIX Index (%, change in pp)		16.6	-0.3	-1.8	3.6	-0.1	4.2
Global FX Volatility		7.3	0.0	-0.5	0.4	-1.8	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	0.5	-2	1	-77	3
Italy		136	0.2	-10	4	-51	-31
Portugal		63	-0.3	-6	-4	-19	0
Spain		78	0.1	-7	-6	-26	-19

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

Emerging Market Financial Indicators

Last updated: 4/23/2024 1:01 PM	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		7.25	0.0	-0.1	0	-5	-2		2.3	-2.0	-4	-7	-86	-25
Indonesia		16220	0.1	-0.3	-3	-8	-5		7.1	-0.2	14	40	38	58
India		83	0.0	0.2	0	-2	0		7.5	0.0	8	31	20.8	33
Philippines		58	0.1	-0.9	-2	-3	-4		5.6	0.0	5	20	-34	1
Thailand		37	-0.2	-1.2	-2	-7	-8		2.9	-4.0	-5	32	30	16
Malaysia		4.78	-0.1	0.3	-1	-7	-4		4.0	0.8	3	12	13	24
Argentina		872	-0.1	-0.4	-2	-75	-7		45.3	86.3	226	-1295	-4438	-4103
Brazil		5.17	0.7	0.4	-3	-3	-6		11.7	13.5	-24	74	-95	133
Chile		953	0.2	2.7	3	-15	-8		5.3	-0.2	-25	20	10	41
Colombia		3916	-0.1	-0.3	-1	14	-2		8.4	0.0	-54	59	-30	72
Mexico		17.12	0.1	-0.3	-3	5	-1		9.4	0.0	-23	64	98	95
Peru		3.7	-0.4	1.1	0	1	0		7.5	0.1	1	50	-1	78
Uruguay		39	0.1	0.7	0	1	1		9.0	0.0	9	1	-119	-54
Hungary		369	0.4	1.0	-1	-8	-6		7.0	-4.0	-18	57	-83	121
Poland		4.04	0.2	1.7	-2	3	-3		5.4	-0.9	-21	21	-19	88
Romania		4.7	0.2	0.5	-2	-4	-3		6.5	1.1	4	15	-68	34
Russia		93.2	0.6	1.1	0	-13	-4							
South Africa		19.2	-0.2	-1.0	-2	-6	-5		10.1	-5.5	-15	44	66	99
Türkiye		32.58	-0.2	-0.3	-1	-40	-9		28.8	43.0	163	250	1666	208
US (DXY; 5y UST)		106	-0.1	-0.2	2	4	5		4.69	4.0	-1	51	103	84

	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		3506	-0.7	0	-1	-12	2		143	0	-7	-50	-15
Indonesia		7111	0.5	-1	-3	4	-2		101	9	0	-46	5
India		73738	0.1	0	1	23	2		103	2	-4	-52	-13
Philippines		6507	1.0	2	-5	-1	1		88	8	1	-33	8
Thailand		1357	0.6	-3	-2	-13	-4		0	0	0	0	0
Malaysia		1562	0.1	2	1	10	7		83	4	-2	-16	-2
Argentina		1268376	6.7	6	3	336	36		1147	-229	-291	-1499	-766
Brazil		125573	0.4	0	-1	20	-6		215	0	5	-57	0
Chile		6374	0.0	-1	-2	22	3		116	2	-8	-24	-9
Colombia		1344	0.9	-2	1	11	12		300	4	12	-104	29
Mexico		56552	1.2	1	0	4	-1		313	-10	-1	-75	-21
Peru		27753	0.0	1	-6	25	7		145	2	8	-40	1
Hungary		65810	1.1	1	1	49	9		149	6	-2	-81	0
Poland		85268	1.0	5	5	37	9		93	5	-4	10	-4
Romania		16913	0.2	1	1	36	10		182	6	-3	-73	-19
South Africa		73740	0.3	1	1	-5	-4		345	-8	-4	-77	37
Türkiye		9645	0.0	0	6	92	29		282	-6	-23	-237	-32
EM total		40	0.9	0	-2	3	0		284	-10	-14	-138	-62

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

back to top