GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, APRIL 26, 2024
LEAD EDITOR: JEFF WILLIAMS

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- **Weakness in Norwegian krone and higher wage growth to keep Norges Bank on hold** (link)
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Yen continues to falter after BoJ decision

In today's decision, **the Bank of Japan kept its rate unchanged in line with expectations, though gave a more dovish signal than markets had been looking for.** The announcement sent the yen weaker, pushing close to 157 versus the dollar. Notably there was a brief blip in yen trading where the yen quickly appreciated to 154.99 but nearly immediately reversed the move. After yesterday's US data, markets had seemingly been bracing for an upside surprise in this morning's PCE inflation release. Instead, the data came mostly in line with expectations, driving a decline in treasury yields. In equity markets, earnings of major tech companies continue to be a major driver. Stronger than expected earnings from Microsoft and Alphabet sent US equity futures higher ahead of the inflation release, with futures on the Nasdaq rising more than 1%.

Key Global Financial Indicators

Last updated: 4/26/24 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5048	-0.5	1	-3	24	6
Eurostoxx 50		4976	0.8	1	-2	14	10
Nikkei 225		37935	0.8	2	-6	31	13
MSCI EM		41	0.2	2	0	6	1
Yields and Spreads			bps				
US 10y Yield		4.68	-2.4	6	45	123	80
Germany 10y Yield		2.59	-3.7	9	24	20	57
EMBIG Sovereign Spread		342	2	2	-1	-155	-41
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.3	0.1	0	-1	-8	-4
Dollar index, (+) = $ appreciation		105.8	0.2	0	1	4	4
Brent Crude Oil ($/barrel)		89.5	0.6	3	4	15	16
VIX Index (%, change in pp)		15.6	0.3	-3	2	-3	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

In this morning's data release, monthly PCE and Core PCE deflators were broadly in line with expectations, reassuring markets that an inflation burst does not appear to be around the corner. The UST 10-year, which was already 2bp lower on the day, fell an additional 4bp immediately after the print. The dollar was unchanged against a basket of major currencies (DXY). S&P futures rallied 0.7% in pre-market trading but mostly on the back of strong tech earning last night from Microsoft, Alphabet and Snap.

	Actual	Consensus	Prior
PCE Deflator m/m	0.3%	0.3%	0.3%
PCE Deflator y/y	2.7%	2.6%	2.5%
Core PCE Deflator m/m	0.3%	0.3%	0.3%
Core PCE Deflator y/y	2.8%	2.7%	2.8%

May's refunding announcement should see slightly lower net bill issuance in the U.S. Tax receipts are 9% above last year's levels but remain weak relative to 2022, driving JPMorgan analysts to reaffirm their $1.51tn deficit forecast for 2024. The report expects the Fed to cut the pace of treasury run-off in half by May while reducing their estimate for the Treasury General Account to $775 billion. This leaves net bill issuance at $245bn for the year. Analysts expect the Treasury to keep coupon auction sizes unchanged, a decision that drove much market chatter in the last refunding announcement.

Figure 2: We look for slightly less T-bill issuance given an earlier reduction of QT caps and slightly lower year-end cash balance relative to our prior forecasts

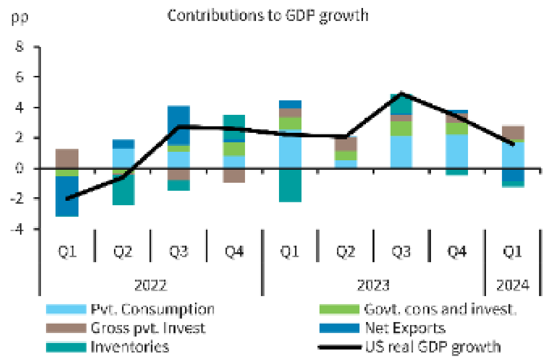
Annual net privately-held borrowing, Federal Reserve purchases of Treasuries, and expected change in Treasuries held by private investors; $bn

Year	Net privately-held borrowing		Fed secondary market purchases		Net change in privately-held debt	
	Bills	Coupons	Bills	Coupons	Bills	Coupons
CY 2018	387	989	0	0	387	989
CY 2019	77	1133	169	77	-92	1056
CY 2020	2547	1752	157	2184	2390	-432
CY 2021	-1195	2898	0	957	-1195	1942
CY 2022	-37	1638	0	75	-37	1563
CY 2023	2047	1107	0	0	2047	1107
CY 2024	245	1896	0	0	245	1896

Source: J.P. Morgan, US Treasury, Federal Reserve Bank of New York
*2024 is J.P. Morgan forecast

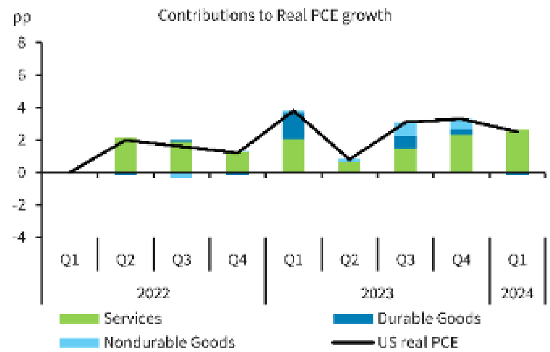
US 1Q24 GDP might not be as bad as it looks. According to Barclays Research, US 1Q24 annualized GDP growth of 1.6% (consensus 2.5%, previous 3.4%) was "reasonably strong under the hood". About half the miss was due to weaker inventory investment, while the other half was due to lower personal consumption expenditures. On the other hand, final sales to domestic purchasers grew by 2.8%, potentially signaling that demand might remain strong. Core PCE price index increased by 3.7% q/q (annualized), adding to investor concerns. US markets experienced a volatile day Thursday with the S&P falling by 0.5%. The US 2-year yield closed just shy of 5% (+7bp) while the 10-year hit a year-to-date high of 4.7% (+6bp).

Figure 2. PCE remains the driving force for growth in GDP during Q1...



Source: BEA, Haver Analytics

Figure 3. ...reflecting gains in services spending while goods spending was roughly flat

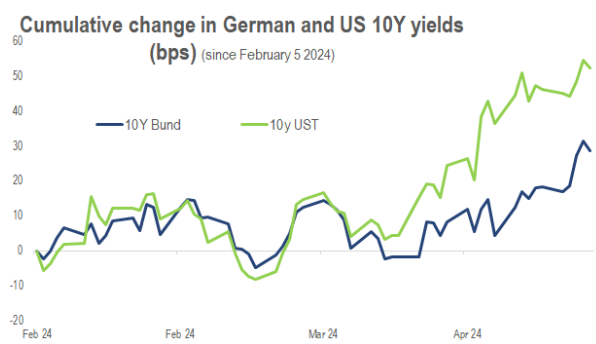


Source: BEA, Haver Analytics

Euro Area

Strong tech sector earnings from Alphabet and Microsoft boosted European equities this morning. The STOXX 600 index was up 0.5% in early morning trading led by gains in the technology sector (+1.7%). Meanwhile 10y bund yields were lower (-3bp) to trade at around 2.60%, although are some 10bp higher compared to last week. The euro was marginally stronger against the dollar (+0.1%).

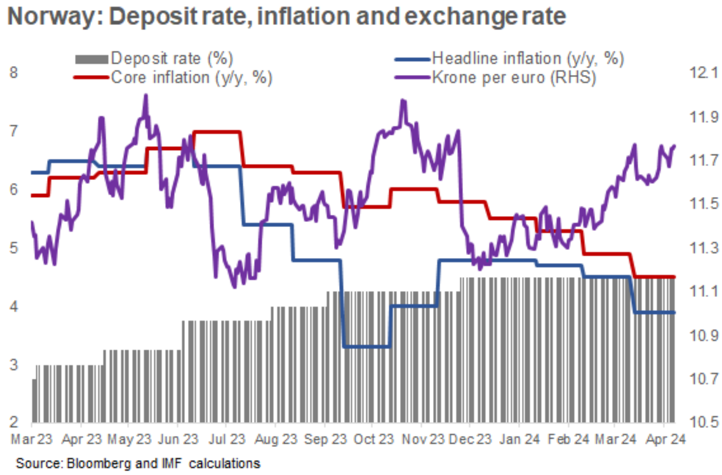
Analysts at Citi note that the breakout in 10Y bund yields above 2.5% is significant as this may suggest that € yields are "succumbing to the higher for longer narrative" and are being dragged higher in line with US Treasuries. They note that since early February, 10Y bunds had been trading in a 20bp narrow range, although have recently sold off which they argue may suggest that external spillovers, rather than domestic developments may be having more of an impact on bund yields. As a result, they think next week's flash euro area inflation data will be an important test of their thesis.



Separately, ECB March bank lending data points to a subdued recovery in bank lending. The ECB's March M3 report showed that bank lending to non-financial corporates increased from 0.3% to 0.4% growth year-on-year. The ECB also released data on consumer expectations of inflation, which showed that inflation expectations for the coming 12 months have fallen further to 3.0% y/y from 3.1%y/y prior. Analysts at ING note that today's data is unlikely to be a game-changer for the ECB, allowing policymakers to deliver the first rate cut at the June meeting. **Current market pricing shows an 87% likelihood of a June rate cut, with around 70bp of easing priced in by the end of 2024.** Elsewhere, ahead of France's sovereign credit rating announcement this evening. Commerzbank analysts expect a change in outlook to negative from Moody's although they consider a downgrade to Aa1 unlikely. Their base case is for Fitch to affirm its current rating (AA-/stable) next week, although they note that risks remain for an outlook change to negative. This morning, **10Y French OAT spreads over 10y German bunds were broadly unchanged to trade at 50bp.**

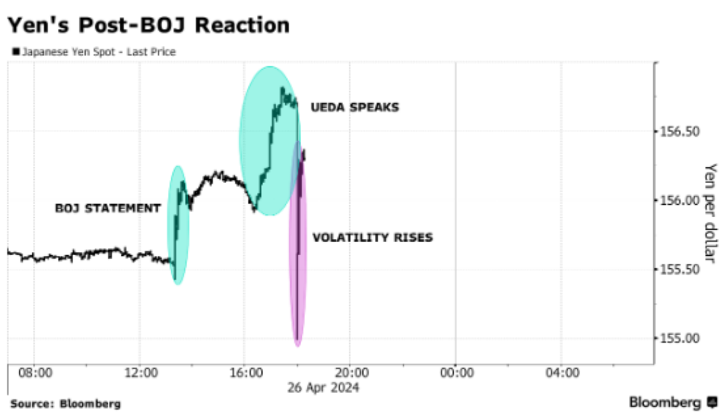
Norway

Weakness in the Norwegian krone and higher wage growth to keep Norges Bank on hold next week. Analysts at Morgan Stanley expect Norges Bank will keep interest rates unchanged at 4.5% when they meet next week given the currency has been weaker than policymakers expected in their March MPR projections and wage negotiations point to wage growth of around 5.2% in 2024—above Norges Bank expectations. Year-to-date the Norwegian krone is 4.61% weaker against the euro, trading at 11.77/€ in early morning trading. The analysts expect little change in forward guidance and expect the first 25bp rate cut in September, with a total of 50bp of cuts in 2024 and a further 100bp of easing expected next year.



Japan

The bank of Japan kept its benchmark rate unchanged between 0% and 0.1%, as widely expected. In a pared back statement, the central bank said it would continue purchases of JGBs and corporate bonds in line with the decision made at the March policy meeting, a pace of around ¥6trn a month. Governor Ueda said that the yen's recent weakness has not affected underlying inflation which the BoJ continues to monitor closely. He said, "the BOJ isn't targeting foreign exchange rates but we are closely watching developments of forex rates and their impact on economic activity and prices." This morning, the yen weakened sharply trading past 156 against the dollar and remains volatile as markets remain on edge for possible intervention by authorities.



Emerging Markets

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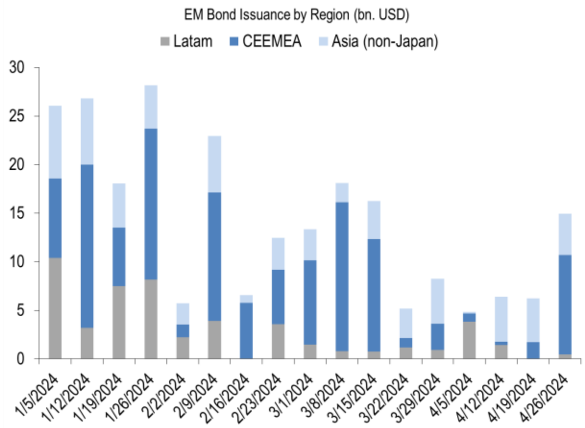
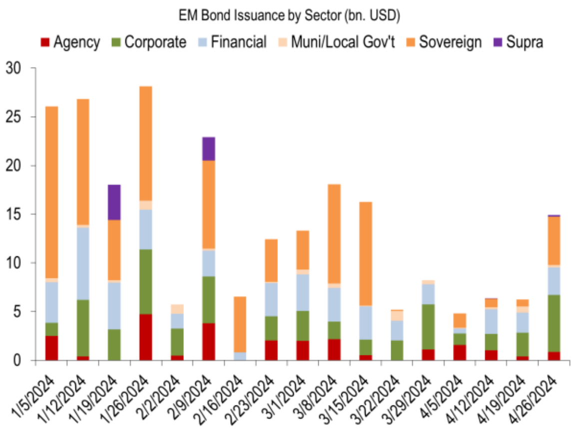
EMEA equities were mostly trading higher today, while currencies were mixed. Equities in Türkiye (+1.2%) and Poland (+1.1%) outperformed, while those in the Czech Republic fell (-0.8%). The South African rand was trading stronger against the dollar (+0.2% at 18.99/$), while CEE currencies were mostly weaker against the euro. The Nigerian Naira continued to depreciate against the dollar this morning (-2.0% to 1305.6/$) according to Bloomberg data, after the currency weakened by roughly 10% in the parallel market yesterday to close at 1405/$, according to media reports. **On the central bank front, Russia left its key rate unchanged at 16%. Latin American currencies mostly depreciated,** and equities were mixed on Thursday. The Mexican peso (-0.7%) led the currency retreat, followed by the Peruvian sol (-0.6%), Colombian peso (-0.4%), and Brazilian real (-0.3%), while the Chilean peso (+0.1%) bucked the regional trend. Equities advanced in Argentina (+3.5%), Mexico (+1.1%), and Colombia (+0.5%), but fell in Chile (-0.8%) and Brazil (-0.1%). On the monetary policy front, **Costa Rica's central bank cut their benchmark interest rate by 50 bp to 4.75%.**

EM Bond Issuance

EM weekly bond issuance more than doubled its volume from the previous week. Through Thursday, weekly issuance totaled $14.92bn, up from $6.23bn last week. CEEMEA accounted for more than two-thirds of the total issuance, equating to $10.24bn of the total. The amount of bonds issued from Asia ex-Japan remained consistent over the past three weeks, totaling $4.22bn this week. Corporate and sovereign issuance comprised 39% and 33% of the total, respectively.

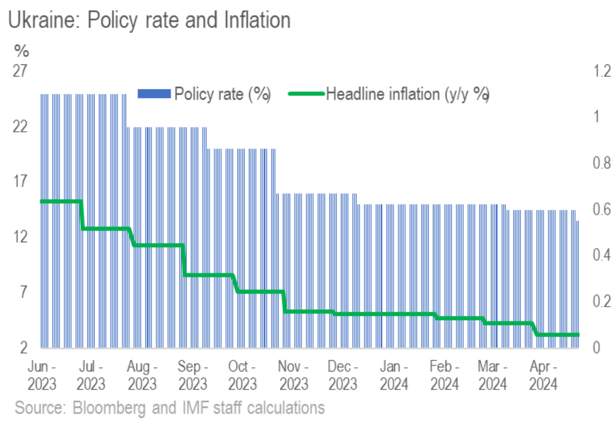




Sources: Bond Radar and IMF staff calculations

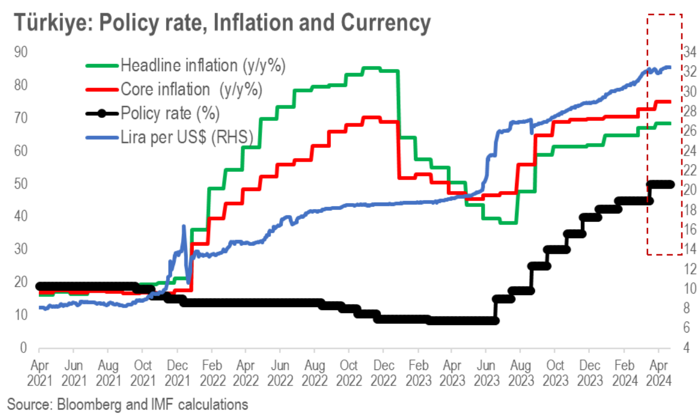
Ukraine

The national bank of Ukraine (NBU) surprised consensus with a 100bp rate cut to take the key rate to 13.5% and guided for the easing of FX restrictions. Consensus had expected a 50bp rate cut yesterday, but some analysts had already anticipated a larger move. This follows after the NBU surprised at the March meeting with a 50bp rate cut against expectations to remain on hold. The NBU yesterday also noted that the baseline scenario of the NBU's forecast envisages the key policy rate to be cut to 13% this year. Moreover, the central bank anticipates that it would resume the liberalization of FX restrictions in the coming weeks, against a backdrop of a sufficient level of international reserves, expectations of further international assistance inflows, and a situation in the FX market that is under control. With the March inflation data showing that headline inflation had eased to 3.2%y/y, undershooting the NBU's 5% target, contacts were somewhat surprised by the only slight change in the NBU's inflation forecasts for end-2024 (to 8.2% from 8.6%). Goldman Sachs analysts, however, expect weak inflation prints in Q2 and have lowered their policy rate forecast. **Goldman Sachs analysts expect the NBU will be able to cut by 100bp at the June policy meeting and then see further rate cuts at a slower pace in H2, while Raiffeisen analysts have maintained their policy rate forecast of 13% by end-2024.**



Türkiye

The central bank of Türkiye (TCMB) left its key policy rate unchanged at 50%, as expected, and maintained a tightening bias. The central bank noted in the accompanying press release that financial conditions had tightened significantly because of the monetary policy decisions that were taken in March, when the central bank surprised consensus with a 500bp rate hike and also announced additional macroprudential measures. The press release yesterday noted that “the tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range“. **JPMorgan analysts maintain their end-2024 policy rate forecast of 45%, expecting the CBRT to cut its policy rate in November and December.** The lira pared early morning gains after the decision yesterday and ended the day little changed. The currency was little changed this morning, trading at 32.56 against the dollar, roughly 9.3% weaker YTD.



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Global Financial Indicators

4/26/24 8:05 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5098	-0.5	3	-2	26	7
Europe		4976	0.8	1	-2	14	10
Japan		37935	0.8	2	-6	31	13
China		3584	1.5	1	1	-11	4
Asia Ex Japan		68	0.4	3	0	4	2
Emerging Markets		41	0.2	2	0	6	1
Interest Rates					basis points		
US 10y Yield		4.68	-2.4	6	45	123	80
Germany 10y Yield		2.59	-3.7	9	24	20	57
Japan 10y Yield		0.89	-0.8	4	15	43	28
UK 10y Yield		4.35	-1.0	12	38	62	82
Credit Spreads					basis points		
US Investment Grade		120	0.0	-4	-1	-42	-14
US High Yield		354	0.0	-15	4	-138	-32
Exchange Rates					%		
USD/Majors		105.77	0.2	0	1	4	4
EUR/USD		1.07	-0.1	1	-1	-3	-3
USD/JPY		156.8	0.8	1	3	17	11
EM/USD		46.3	0.1	0	-1	-8	-4
Commodities					%		
Brent Crude Oil ($/barrel)		89.5	0.6	3	5	20	17
Industrials Metals (index)		158	1.0	0	14	4	11
Agriculture (index)		60	-0.3	2	1	-11	-4
Implied Volatility					%		
VIX Index (%, change in pp)		15.6	0.3	-3.1	2.4	-3.2	3.2
Global FX Volatility		7.3	0.0	-0.1	0.9	-2.1	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		103	-2.3	-4	0	-79	-1
Italy		136	-3.7	-7	6	-51	-31
Portugal		64	-1.6	-3	-3	-19	1
Spain		79	-1.4	-2	-4	-26	-18

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

Emerging Market Financial Indicators

Last updated: 4/26/2024 8:06 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		7.25	-0.1	-0.1	0	-4	-2		2.4	6.5	8	1	-72	-16
Indonesia		16210	-0.1	0.3	-3	-8	-5		7.2	8.3	14	49	66	70
India		83	0.0	0.1	0	-2	0		7.6	2.1	5	35	35.1	35
Philippines		58	0.2	-0.1	-2	-4	-4		5.8	5.1	11	32	-23	12
Thailand		37	0.2	-0.3	-2	-8	-7		2.9	2.0	1	35	31	19
Malaysia		4.77	0.2	0.3	-1	-7	-4		4.0	0.0	3	14	26	26
Argentina		874	-0.1	-0.5	-2	-75	-7		40.5	-219.9	-343	-1397	-4986	-4590
Brazil		5.16	0.0	0.8	-3	-2	-6		11.9	10.2	31	84	-60	147
Chile		949	0.2	1.8	3	-14	-7		5.5	-0.2	9	31	26	56
Colombia		3956	-0.4	-0.4	-1	14	-2		8.6	0.0	15	86	-10	99
Mexico		17.24	-0.2	-0.9	-3	5	-2		9.6	0.5	24	79	118	111
Peru		3.8	-0.6	-0.6	-1	0	-1		7.4	0.4	-15	7	-6	70
Uruguay		38	-0.2	0.3	-2	1	1		9.1	3.1	11	9	-112	-47
Hungary		366	0.0	1.1	0	-7	-5		7.0	0.0	-5	58	-81	125
Poland		4.03	-0.3	0.3	-1	3	-2		5.4	-3.3	-4	31	-3	94
Romania		4.6	-0.1	0.6	-1	-4	-3		6.6	7.0	10	22	-58	41
Russia		92.0	0.3	1.3	1	-11	-3							
South Africa		18.9	0.9	1.3	1	-2	-3		10.2	-9.0	-1	38	76	105
Türkiye		32.51	0.1	0.1	-1	-40	-9		28.1	-3.0	-26	121	1585	139
US (DXY; 5y UST)		106	0.2	-0.4	1	4	4		4.70	-1.4	3	48	121	86

	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		3584	1.5	1	1	-11	4		142	0	-8	-54	-16
Indonesia		7036	-1.7	-1	-3	2	-3		99	6	3	-60	3
India		73730	-0.8	1	0	21	2		101	-1	-6	-59	-15
Philippines		6629	0.8	3	-4	0	3		85	5	2	-47	5
Thailand		1360	-0.3	2	-1	-11	-4		0	0	0	0	0
Malaysia		1575	0.4	2	3	11	8		84	2	-1	-19	-1
Argentina		1245144	3.5	6	3	309	34		1236	-11	-184	-1419	-677
Brazil		124646	-0.1	0	-2	22	-7		215	-3	6	-69	0
Chile		6312	-0.8	-1	-3	19	2		119	3	-4	-25	-6
Colombia		1350	0.5	1	2	14	13		301	-2	12	-102	30
Mexico		57086	1.1	2	0	6	-1		309	-13	-5	-84	-25
Peru		28602	1.7	3	-1	30	10		146	0	9	-39	2
Hungary		66779	1.0	3	3	54	10		149	3	1	-84	0
Poland		84317	0.9	1	4	36	7		93	2	-2	4	-4
Romania		17017	0.3	1	1	37	11		184	3	3	-78	-17
South Africa		75082	1.0	2	2	-4	-2		350	4	-3	-78	42
Türkiye		9885	1.7	4	12	107	32		281	-4	-29	-254	-33
EM total		41	1.0	2	0	6	1		288	0	-8	-140	-57

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

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