GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, APRIL 9, 2024

LEAD EDITOR: FABIO CORTES

- **US interest rate volatility declines despite higher interest rates** (link)
- **ECB Bank Lending Survey shows "substantial decline" in loan demand** (link)
- **BoJ's Ueda says the central bank will consider reducing monetary stimulus if inflation continues to accelerate** (link)
- **Liquidity in the JGB market improves but concerns about market functioning remain** (link)
- **Bank of Israel keeps rates on hold, in line with expectations** (link)

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Markets cautious ahead of US CPI tomorrow

US equity futures signaled a flat opening and European bourses were modestly lower ahead of the release of tomorrow's US inflation figures that are key to the debate over when the Fed will begin to cut rates. US Treasury yields fell this morning, with Fed fund futures pricing 22 bps of cuts by the June 12th FOMC meeting and 63 bps of cuts by year-end. Across the pond, euro-area sovereign bond yields were also lower while the latest ECB bank lending survey showed that higher interest rates are impacting loan demand from corporates as well as households, with banks reporting a small net tightening in lending standards in Q1 this year. In Japan, equities outperformed, and the yen was little changed, amid comments from Governor Ueda saying the central bank will consider reducing monetary stimulus if inflation continues to accelerate. Elsewhere, gold prices (+1%) continued their ascent and Brent oil futures hovered around $90/barrel. In emerging markets, the South African rand strengthened for the third consecutive day, benefiting from higher gold prices.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
4/9/24 8:05 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5202	0.0	-1	2	27	9
Eurostoxx 50		5019	-0.5	0	1	16	11
Nikkei 225		39773	1.1	0	0	44	19
MSCI EM		42	0.7	1	2	5	3
Yields and Spreads					bps		
US 10y Yield		4.38	-4.2	3	30	99	50
Germany 10y Yield		2.39	-4.9	-1	12	20	36
EMBIG Sovereign Spread		331	1	-4	-35	-156	-53
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.0	0.1	1	0	-7	-2
Dollar index, (+) = $ appreciation		104.1	0.0	-1	1	2	3
Brent Crude Oil ($/barrel)		90.4	0.0	2	10	6	17
VIX Index (%, change in pp)		15.4	0.2	1	1	-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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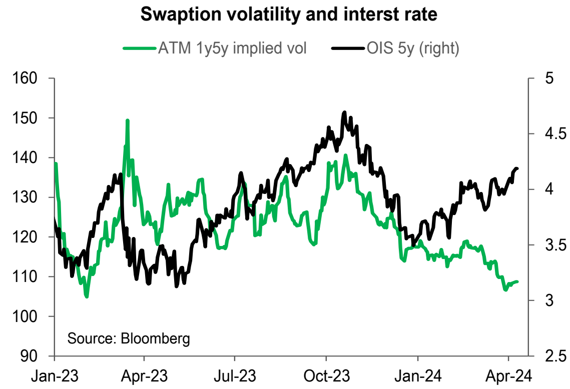
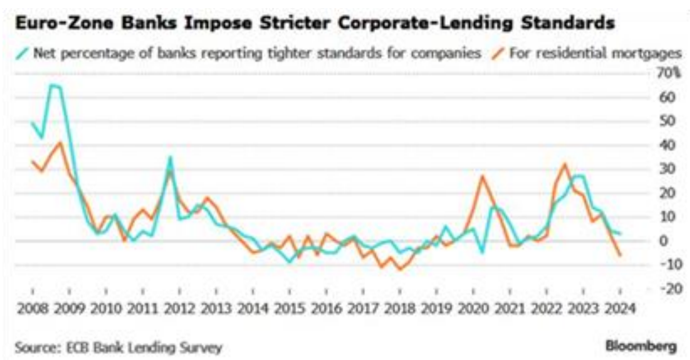
United States

Interest rate volatility has continued to decline despite higher interest rates. Average swaption volatility (across expiries and tenors of the at-the-money options) has dropped to a 2-year low, despite US rates repricing higher on stronger than expected activity data. This may indicate that investors do not yet expect the recent upside surprise in activity to materially alter the inflation and policy outlook. The decoupling of yields and volatility is a break from the relationship over the past few years, with some market participants voicing concerns of complacency.



Euro-area

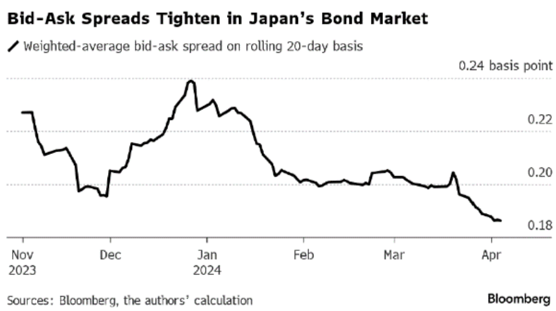
The STOXX 600 index was (-0.2%) lower in early morning trading. The euro was a touch weaker (-0.1%) against the dollar, trading at around 1.09. **Euro area sovereign yields were lower (-4 bps) with the 10-year bund yield trading at 2.41% in line with similar moves in core fixed income markets.** 10-year, Italian BTP spreads over 10-year bunds were narrower (-2 bps) at 137 bps. **The Latest ECB Bank Lending Survey shows a "substantial decline" in loan demand.** According to the April survey, banks reported a small net tightening of their credit standards in the first quarter of 2024 with demand for corporate loans seeing a "substantial decline" in the first quarter of the year, contrary to expectations of a recovery. According to the report, "higher interest rates, as well as lower fixed investment for firms and lower consumer confidence for households, exerted dampening pressure on loan demand." Per the survey, "the reduction of the ECB's monetary policy asset portfolio has had a further negative impact on banks' financing conditions and liquidity positions over the past six months, resulting in a moderate tightening of terms and conditions and a negative effect on lending volumes." Analysts at Commerzbank noted that today's data release is likely to show that "developments in domestic fundamentals is still compatible with a first ECB rate cut in June, regardless of the market shifting its Fed rate cut expectations out to September. Ahead of Thursday's ECB policy meeting, where no change in rates is expected, **markets are pricing in around 85 bps of rate cuts in 2024, with the first 25 bps cut priced in for June.**



Japan

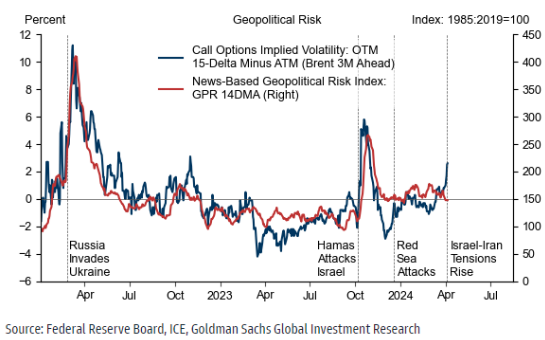
Bank of Japan (BoJ) Governor Ueda said the central bank will consider reducing monetary stimulus if inflation continues to accelerate. Speaking in parliament, Ueda stressed the need to maintain accommodative monetary conditions for the time being, as trend inflation has yet to hit 2%. Under the BoJ's baseline scenario, trend inflation will converge towards 2% in the next 1.5 to 2 years. The BoJ will monitor the strength of wage growth and assess whether services prices will rise to achieve stable inflation.

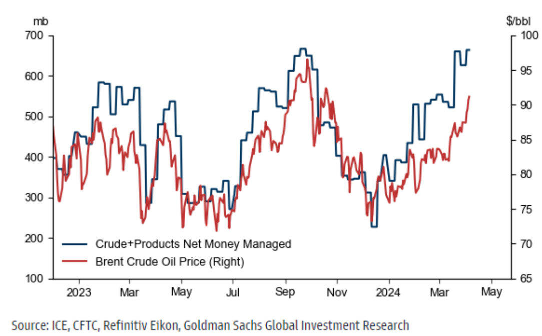
Liquidity conditions in the JGB market appear to have improved since an exit of yield curve control by the BoJ in March. According to Bloomberg, **bid-ask spreads in Japan's bond market have tightened to the narrowest in at least six months** with a pick-up in JGB trading volumes, an indication of growing demand for bond trading. That said, a **recent survey by the BoJ suggests that investors perceived the Japanese bond market to remain far from normal functioning,** despite improvement from one year earlier, as the BoJ's holding of JGBs takes up over half of the outstanding amount after years of asset purchases. Investors are concerned about the potential for price distortions, with a market indicator compiled by Bloomberg showing that deviation of JGB yields from model estimated value stayed elevated. The **Japanese yen was little changed**. Long-end JGB yields were little changed. **Japanese equities extended gains** (NIKKEI 225: +1.1%).



Commodities

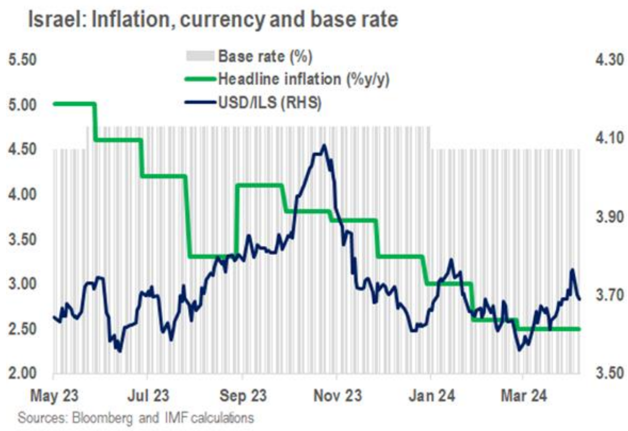
Brent crude briefly dropped below $90/barrel yesterday after news that Israel will remove some troops from Gaza. The geopolitical tensions have added bullish momentum to the oil market that has been grappling with robust demand and supply issues. That said, the geopolitical risk premium, or the cost of insuring against oil price spikes, has been less pronounced recently (left chart), on expectations that the Middle East crude production will remain relatively unaffected. The pullback yesterday could also reflect profit taking by speculative investors after the 4-month rally lifted the oil prices above the psychological $90/barrel level. Indeed, speculative positioning in crude and refined products has increased substantially since last December (right chart).





Israel

The central bank kept interest rates on hold, in line with expectations. The Bank of Israel (BoI) kept interest rates unchanged at 4.50% at yesterday's meeting. Citing an increase in geopolitical uncertainty, the MPC "decided to side with caution" in keeping rates unchanged. The latest BoI forecasts, released yesterday, show a slight uptick in inflation for 2024 and 2025 to 2.7% y/y (2.4% prior) and 2.3% y/y (2.0% prior) respectively, relative to the January forecast, although growth forecasts were unchanged. Analysts at Goldman Sachs had been among those expecting the BoI to deliver a 25bps cut yesterday given recent soft inflation and quarterly GDP data. They now expect the BoI to cut rates at the next MPC meeting in May, although note that if geopolitical uncertainty persists and the shekel remains weak, risks are skewed towards another hold decision. **This morning the shekel was trading stronger against the dollar (+0.4%) at 3.69/$.**



Emerging Markets

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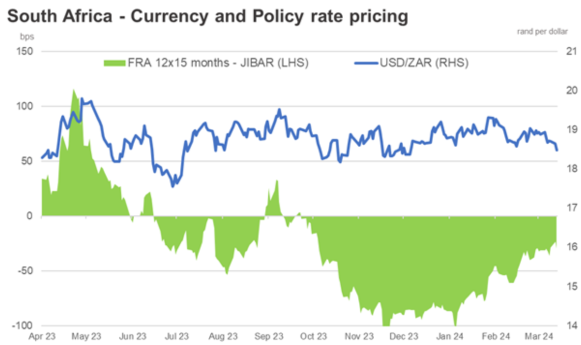
Most Asian equities rose today. The gains were led by equities in Taiwan POC (+1.9%), as the US plan to award $6.6 bn in grants to TSMC to help the chipmaker build factories in the US drove tech stocks higher. Thai equities also gained 1.1%, after the government stepped up a slew of new measures to revive its residential market. **Most Asian currencies traded in a tight range,** with the exception of the Thai baht (+0.9%), as the property stimulus measures spurred optimism over Thailand's growth prospects. Long-end government bond yields were mixed. **EMEA equities were higher**, **while currencies were mixed**. In CEE, equities outperformed in Poland (+0.5%) and Czechia (0.4%). CEE currencies were overall stable against the euro, with the exception of the Hungarian forint which appreciated 0.3% to the euro. In Türkiye, the stock market performed well this morning (+0.5%), while the lira was weaker (-0.6%) after the country announced restrictions on exports to Israel. **In Latam**, buoyant risk sentiment propelled stocks in Brazil (+1.6%), Chile (+1.4%), and Ecuador (+1.7%) yesterday. Regional currencies mostly appreciated, led by the Mexican peso (+0.8%). The Chilean peso (+0.7%), reversed losses from late March as month-over-month inflation data was lower than expected (0.4% m/m vs 0.6% estimate).

China

Chinese equities were mixed (CSI 300: -0.1%, HKSAR-listed: +0.4%). During her four-day visit to China, US Treasury chief Yellen underscored the need for China to shift its industrial policy away from boosting its manufacturing base, including electronic vehicles (EVs). She stressed that the shift is necessary to avoid aggravating domestic macroeconomic imbalances, overcapacity and adverse spillovers to the US and globally. As a pushback, China argues that global EV production still falls significant short of meeting market demand. Equity investors appear to believe China's expansion on industrial capacity is likely to continue, with EV stocks rising 2.5% on Tuesday (based on WIND new energy vehicles index). Investors reportedly believe that transforming the Chinese economy toward a high-tech and higher value-added economy tops China's policy agenda and acts as a major driver to achieve the government's annual growth target. The **RMB was little changed.** Today, RMB fixing was set at 7.0956, 1306 pips stronger than the consensus. CGB yields declined modestly (1-year: -1.4 bps; 10-year: -0.8 bp).

South Africa

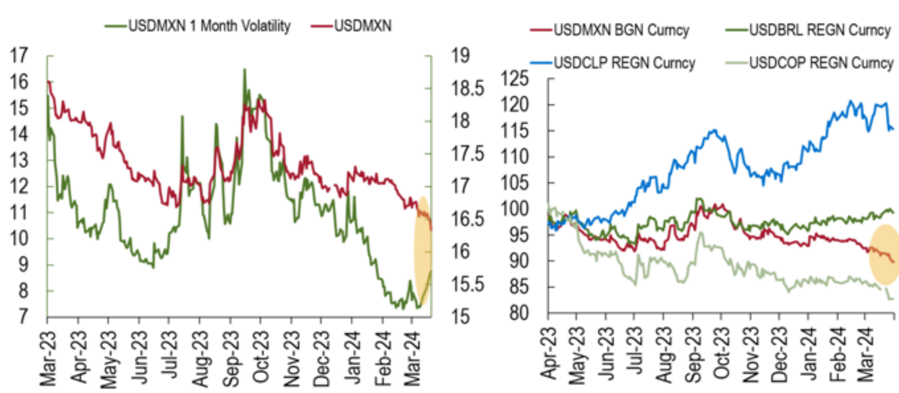
The rand appreciated (+0.6%) for a third straight day as gold prices held near record highs. The benefed from gold's 14% increase since the start of 2024, and a slightly weaker dollar ahead of this week's US inflation print. There is speculation, however, that investors are hedging rand exposures ahead of May 29's elections, as the cost of hedging and implied volatility have increased. The vote is being viewed as a test for the ruling party (ANC) since it came to power in 1994, as it may be forced into partnership with one or more rivals to continue governing. According to Bloomberg, analysts at Coex Partners believe that a grand coalition with the opposition will be seen as market friendly.



Source: Bloomberg and IMF calculations

Mexico

The Mexican peso appreciated yesterday to levels last seen in 2015, outperforming peers year-to-date. The Peso has breached the psychological 16.50 level and is 4% stronger year-to-date. Forthcoming economic prints from Mexico and the US, including inflation and industrial data are set to provide further market direction later this week. Recent political developments may also influence market sentiment as the first presidential debate took place Sunday night, featuring frontrunner Claudia Sheinbaum.



Sources: Bloomberg and IMF staff calculations.

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Global Financial Indicators

4/9/24 8:03 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5205	0.0	0	2	27	9
Europe		5019	-0.5	0	1	16	11
Japan		39773	1.1	0	0	44	19
China		3533	-0.1	0	0	-14	3
Asia Ex Japan		68	0.5	0	1	1	3
Emerging Markets		42	0.7	1	2	5	3
Interest Rates					basis points		
US 10y Yield		4.38	-4.2	3	30	99	50
Germany 10y Yield		2.39	-4.9	-1	12	20	36
Japan 10y Yield		0.80	-0.2	5	7	33	19
UK 10y Yield		4.03	-5.2	-5	6	60	50
Credit Spreads					basis points		
US Investment Grade		119	-0.9	-1	-8	-44	-15
US High Yield		346	1.5	-8	-20	-153	-39
Exchange Rates					%		
USD/Majors		104.10	0.0	-1	1	2	3
EUR/USD		1.09	0.0	1	-1	0	-2
USD/JPY		151.8	0.0	0	3	14	8
EM/USD		47.0	0.1	1	0	-7	-2
Commodities					%		
Brent Crude Oil ($/barrel)		90.4	0.0	2	11	15	18
Industrials Metals (index)		149	0.5	5	7	-3	5
Agriculture (index)		60	-0.4	1	1	-12	-5
Implied Volatility					%		
VIX Index (%, change in pp)		15.4	0.2	0.8	0.6	-3.0	2.9
Global FX Volatility		6.7	0.0	0.0	-0.1	-3.4	-1.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		102	-0.5	-5	1	-89	-2
Italy		138	-1.7	-6	6	-47	-30
Portugal		66	0.0	-4	1	-21	3
Spain		81	-0.6	-5	0	-23	-16

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

Emerging Market Financial Indicators

Last updated: 4/9/2024 8:02 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		7.23	0.0	0.0	-1	-5	-2		2.3	-0.5	2	-2	-81	-19
Indonesia		15848	0.3	0.1	0	-6	-3		6.7	-1.9	-4	0	-4	17
India		83	0.0	0.1	-1	-2	0		7.4	-0.1	13	20	0.6	14
Philippines		56	0.1	-0.1	-2	-4	-2		5.4	0.0	0	-7	-52	-20
Thailand		36	0.9	0.7	-3	-6	-6		2.7	6.2	14	20	11	-2
Malaysia		4.75	0.1	0.1	-1	-7	-3		3.9	-1.3	1	5	1	15
Argentina		864	-0.2	-0.8	-2	-75	-6		45.9	-204.0	-684	-2538	-4310	-4053
Brazil		5.03	0.7	0.5	-1	1	-4		11.3	-4.5	16	48	-147	94
Chile		942	0.7	4.5	2	-13	-7		5.3	-1.0	3	30	7	37
Colombia		3772	-0.1	2.5	4	21	3		8.3	0.0	21	77	-51	69
Mexico		16.33	-0.1	1.4	3	11	4		9.1	0.0	21	56	80	69
Peru		3.7	-0.3	1.0	0	3	0		7.2	7.2	-30	29	#VALUE!	57
Uruguay		39	-0.5	-2.5	0	0	1		9.1	0.1	5	9	-127	-47
Hungary		358	0.2	2.3	1	-4	-3		6.6	-2.0	3	69	-157	86
Poland		3.92	0.1	1.6	0	10	0		5.1	-3.8	2	25	-19	62
Romania		4.6	0.1	0.9	-1	-1	-1		6.4	1.7	5	6	-76	21
Russia		92.8	-0.2	-0.4	-3	-12	-4							
South Africa		18.5	0.6	1.4	1	0	-1		9.8	-5.0	-3	43	73	68
Türkiye		32.19	-0.5	-0.4	-1	-40	-8		27.2	-8.0	97	-92	1683	40
US (DXY; 5y UST)		104	-0.1	-0.7	1	2	3		4.40	-2.7	6	36	91	56

	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		3533	-0.1	0	0	-14	3		147	0	-7	-47	-11
Indonesia		7287	0.0	0	-1	7	0		94	6	-20	-66	-2
India		74684	-0.1	1	1	25	3		105	-1	-5	-63	-11
Philippines		6741	0.0	-3	-3	4	5		82	8	-15	-52	2
Thailand		1401	1.9	2	1	-12	-1		0	0	0	0	0
Malaysia		1554	-0.4	0	1	9	7		81	-2	-7	-19	-4
Argentina		1229638	1.3	1	23	386	32		1279	-159	-414	-1184	-634
Brazil		128857	1.6	1	1	28	-4		209	0	-13	-69	-6
Chile		6603	1.4	-1	4	25	7		114	-6	-22	-32	-11
Colombia		1387	-0.1	1	7	16	16		279	-12	-29	-121	8
Mexico		57990	-0.2	1	6	8	1		303	-6	-26	-93	-31
Peru		27371	-0.4	-3	-5	25	5		139	0	-10	-54	-5
Hungary		66470	-0.1	1	1	50	10		146	1	-19	-85	-3
Poland		85112	0.5	3	6	45	8		88	-5	-17	17	-9
Romania		17273	0.1	1	6	40	12		172	-4	-33	-84	-29
South Africa		75676	0.5	2	3	-2	-2		339	-9	-9	-85	31
Türkiye		9814	0.6	9	7	99	31		279	-13	-59	-228	-35
EM total		42	0.3	1	2	5	3		280	-9	-39	-135	-66

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

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