GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, AUGUST 20, 2024
LEAD EDITOR: SANJAY HAZARIKA

- **Investors think monetary policy is too restrictive and predict lower rates** (link)
- **Markets forecast close to 200 bps of Fed rate cuts over next 12 months** (link)
- **China stays on hold as expected but rate cuts are expected soon** (link)
- **Japanese pension funds snapped up Japanese equities during August selloff** (link)
- **Swiss National Bank lowers threshold to remunerate excess bank liquidity reserves** (link)
- **Nigeria to remain on hold for a few months as inflation improves** (link)

Mature Markets | Emerging Markets | Market Tables

Markets hold steady after a day of strong gains

The MSCI All World Equity Index is headed for a ninth consecutive daily gain in early morning trading, which if realized will be the longest daily winning streak of the year and underlines the global nature of 2024's equity rally. Most major markets around the world have had a good year, with the notable exception of China. Stocks are treading water today, with most of Europe lower and US equity index futures mixed. Treasury and bund yields are mostly unchanged. Meanwhile, the Swedish Riksbank cut its policy rate by 25 bps to 3.50% as expected, with dovish guidance, and the interest rate futures market predicts three more rate cuts in 2024 as the economy weakens. In other news, Grenada became the first country in history to invoke a "hurricane clause" to delay payment on a government bond.

Key Global Financial Indicators

Last updated: 8/20/24 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5608	1.0	5	2	28	17.58
Eurostoxx 50		4878	0.1	4	1	16	8
Nikkei 225		38063	1.8	5	-5	21	14
MSCI EM		44	1.0	4	3	14	9
Yields and Spreads					bps		
US 10y Yield		3.87	-0.6	2	-37	-39	-1
Germany 10y Yield		2.24	-1.0	5	-23	-39	21
EMBIG Sovereign Spread		396	-4	-14	4	-29	12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.2	-0.1	1	1	-3	-4
Dollar index, (+) = $ appreciation		101.8	-0.1	-1	-2	-2	0
Brent Crude Oil ($/barrel)		77.9	0.3	-3	-6	-8	1
VIX Index (%, change in pp)		15.0	0.3	-3	-2	-2	3

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

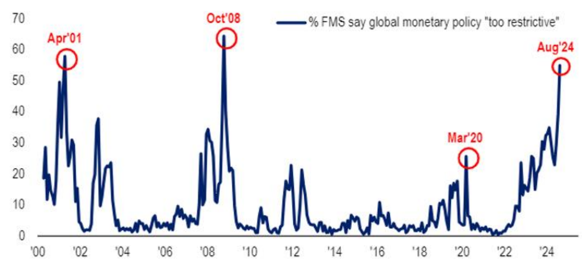
Mature Markets

[back to top]

United States

Investors think monetary policy is highly restrictive, according to the latest investor survey from Bank of America. As many as 55% of those surveyed thought policy was too restrictive, the highest proportion since October 2008. As a result, a significant majority (59%) of investors expect central bank rate cuts to lead to lower bond yields. This 14% increase over the previous month is the third largest monthly increase in the 22-year history of the survey and the largest monthly move since June 2009, representing a major change in investor outlook. This dovish view on rates is in keeping with the consensus forecast among investors that the Fed will engineer a soft landing for the US economy.

Chart 5: Monetary policy viewed as most restrictive since Oct'08
% of FMS that say global monetary policy is "too restrictive"



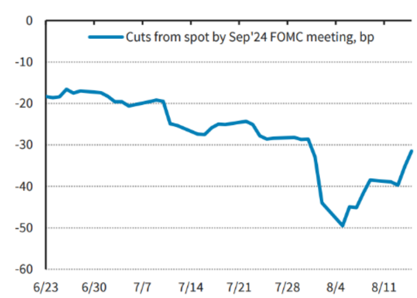
Source: BofA Global Fund Manager Survey
BofA GLOBAL RESEARCH

Chart 6: Lower bond yield expectations back to 2023 highs
% of FMS expecting lower long-term rates in the next 12 months

Source: BofA Global Fund Manager Survey
BofA GLOBAL RESEARCH

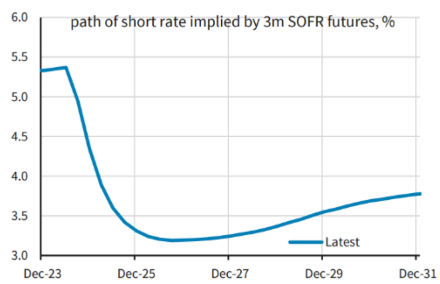
Markets are pricing close to 200 bps of rate cuts over the next 12 months. The Fed Funds futures market is predicting more than 7 ½ rate cuts starting at the upcoming September 18 through the meeting on July 30, 2025. Although markets have reduced their expectations for the potential Fed move at the next Fed meeting from 1.8 rate cuts on August 6 to 1.24 rate cuts as of yesterday's close, the consensus still supports a very dovish view of Fed policy. Barclays does not agree with the market outlook, taking the view that 200 bps of cuts are not consistent with the soft landing that markets are expecting. Their analysts think such a large number of rate cuts would only occur if the economy falls into recession, which they think is unlikely. The Fed's dot plot is also considerably more bearish than the market forecast.

FIGURE 12. **Markets have pared back expectations of a 50bp cut by September**



Source: Bloomberg, Barclays Research

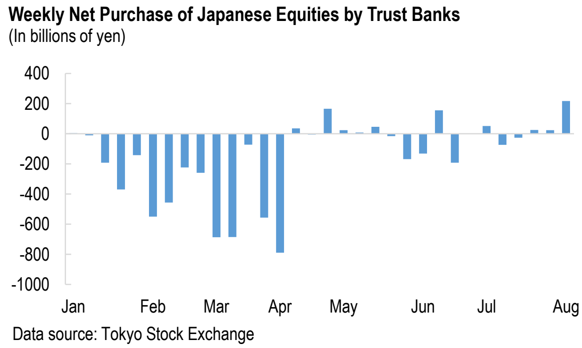
FIGURE 13. **Markets are still pricing in 200bp cuts within a year**



Source: Bloomberg, Barclays Research

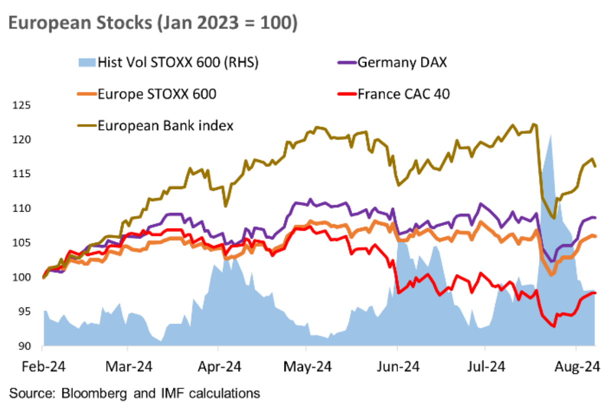
Japan

Japanese pension funds made sizable purchase of domestic equities during the market rout in early August. Data from the Tokyo Stock Exchange revealed that the trust banks, mainly pension funds, bought ¥217 bn (US$ 1.5 bn) domestic equities on net during the first week of August, eight times more than the net purchase in the prior week, Nikkei reported. Some analysts believe the data partly reflect the Government Pension Investment Fund (GPIF) rebalancing its portfolio towards risk assets. Nomura's estimate indicates that the share of domestic equities in the GPIF's portfolio was 24.3% on 16 August, below its target of 25%. Nomura strategists note that investors are covering their short positions in Japanese equities after the market rout, with net short positions down to ¥800 bn (US$ 5.4 bn) from ¥2 tn, according to the CTA data. Today, **Japanese equities had another major rally (Nikkei 225: +1.8%).**

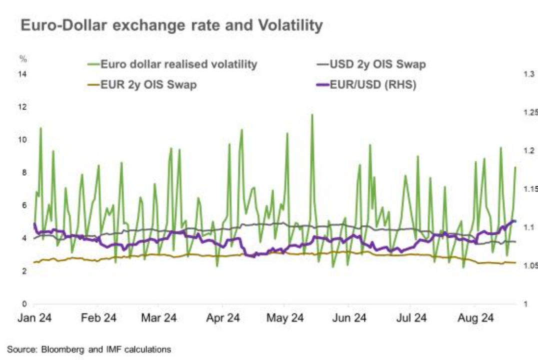


Euro Area

European equities traded higher (+0.2%) but retraced gains during the morning with the Stoxx 600 index flat and markets slightly lower in Italy and Spain. The banking sector continued to underperform the market, with the Stoxx 600 Banks index down 0.8%.



The euro was little changed this morning and continued to trade at $1.10/€, close to its strongest level against the dollar so far this year amidst sustained dollar weakness. Analysts at ING note that the one-month risk reversal, the relative price (in terms of quoted volatility) of a EUR/USD call option over an equivalent put option, is moving deeper in favor of euro in parallel with rising volatility, suggesting active buying of euro call options and therefore possible room for the euro to appreciate further beyond the $1.10/€ ceiling seen so far; they point out that lower oil prices on the backdrop of a potential Middle East peace deal are also supportive of the euro.

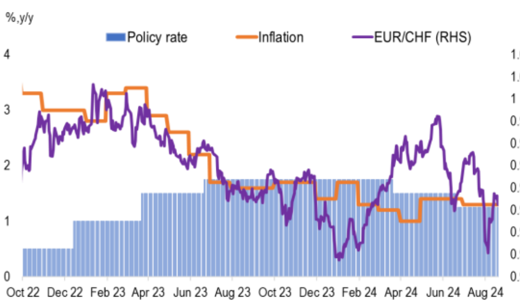


Euro area sovereign yields were little changed this morning (10y bund yield at 2.23%), as well as Southern spreads (10y OAT–Bund spread at 73 bps and BTP-Bund spread at 138bps).

Switzerland

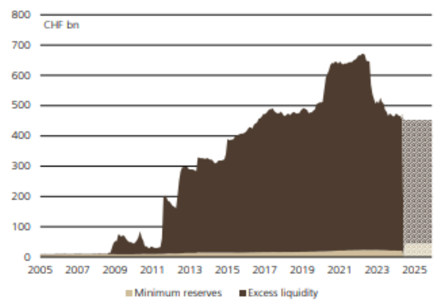
The Swiss National Bank (SNB) announced yesterday that from October 1 it will lower the threshold for money it will pay banks for deposits held at the central bank. The amount of deposits that receive the full interest rate will be cut to 22 times the minimum reserve requirement from the current level of 25, according to Bloomberg and the SNB. The SNB has a tiering system whereby banks' deposits below a certain threshold are remunerated at the full policy rate (currently 1.25%), while deposits above the threshold receive the policy rate -50bps (0.75%). SNB's officials clarified that the move had no impact on the current monetary-policy stance. Analysts at UBS expect one final 25bps cut for this year in September, taking the policy rate to 1%, but sees risks tilted towards more rate cuts and highlights a possible larger role for FX interventions from the SNB after the CHF appreciated by 1% QTD against the euro to trade today (+0.4%) at CHF 0.95/€. The SNB is under some pressure from local exporters to deal with the strong Swiss franc.

Switzerland: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

Minimum reserves and sight deposits in excess of minimum reserve requirement, in CHF bn



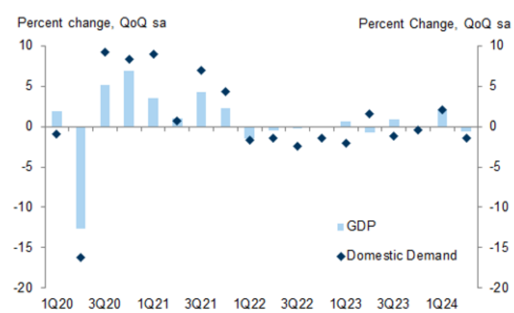
Source: Haver, UBS.

Emerging Markets

back to top

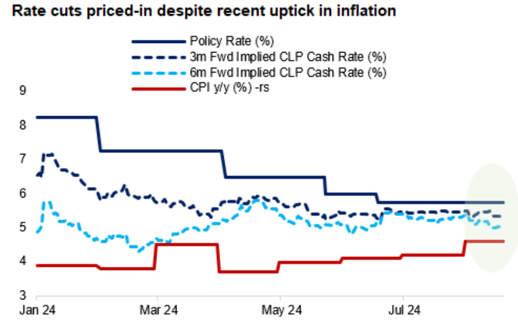
EMEA equities were mixed and most currencies were weaker against the euro and the dollar. In Türkiye, the central bank left its policy rate unchanged at 50%, as expected. **Equities in Asia were mixed, but currencies were stronger on expectations of lower US rates and a weaker dollar.** Indonesian markets rallied after the announcement of a new budget expected to boost household discretionary spending. **In Latin America, most stock markets joined the global rally.** The Chilean peso continued its recent outperformance, appreciating by 1.6% versus the dollar as copper prices rose again. **However, a weak economy has raised expectations of rate cuts by Chile's central bank.**

Domestic Demand Contracted in 2Q2024 After a Rebound in Q1



Source: BCCh, Goldman Sachs Global Investment Research

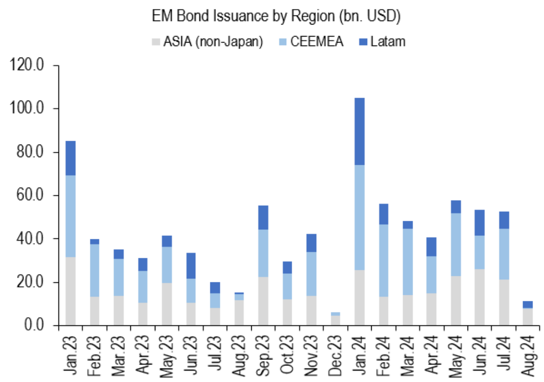
Rate cuts priced-in despite recent uptick in inflation

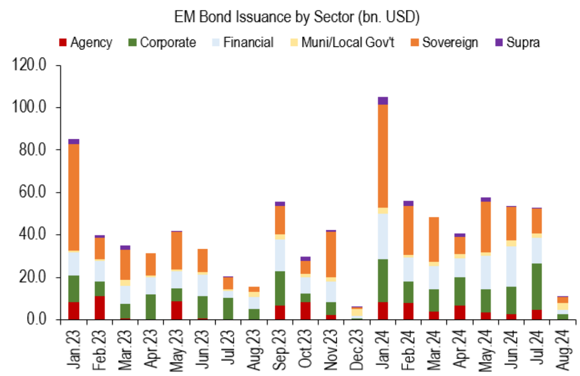


Source: Bloomberg, IMF staff calculations

EM Bond Issuance

EM international bond issuance was sluggish in August, consistent with a typical slow month as observed in previous years. Issuance stood at $3.5 bn for the week ending on August 16th, and only $11.1 bn month-to-date, according to data compiled by Bond Radar**.** Issuance was primarily from non-financial corporates ($1.5 bn) and local governments ($1.3bn). On regional distribution, China issuers constituted most of the volume ($3.1 bn), including several deals from local government-linked entities. The year-to-date aggregate issuance stood at $425bn, exceeding 2023's level of $294 bn for the corresponding period. Looking ahead, Romania is said to be planning to tap international markets two more times this year, after already raising over EUR 12bn this year. Additionally, Kazakhstan is said to be considering its first Dollar bond sales since 2015, while Angola is mulling a Eurobond sale.



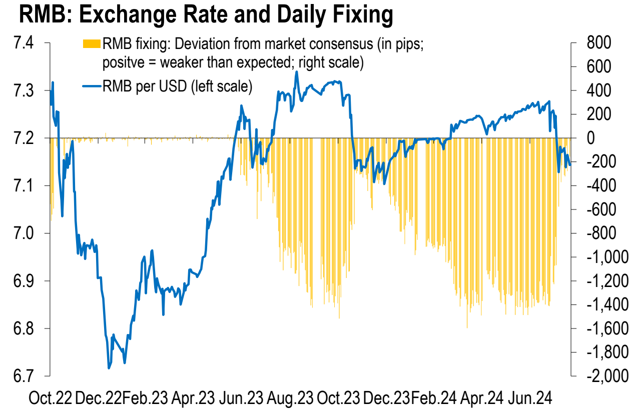


Sources: Bond Radar and IMF staff calculations

China

The central bank announced that local banks will keep the one-year prime loan rate unchanged at 3.35% and the five year rate steady at 3.85%. The decision reflects a cautious approach by the People's Bank of China (PBOC), following the PBOC Governor Pan's statement last week that authorities will avoid "drastic" measures while aiming to meet growth targets. Analysts expect further rate cuts and a possible reduction in reserve requirements later this year, as potential Fed cuts will make more room for monetary easing. **Smaller regional banks have significantly reduced deposit rates this month**, with the rate cuts up to 80 bps and many long-term savings rates falling below 2%. Some analysts attribute the trend to the pressure on banks' net interest margins due to falling loan rates. Separately, **China is considering allowing local governments to use special bonds to buy unsold homes**, which are currently restricted to infrastructure and environmental projects, according to a Bloomberg news report. Meanwhile, the latest RMB fixing was set at its strongest level for the year.

RMB: Exchange Rate and Daily Fixing



Sources: Bloomberg; and IMF staff

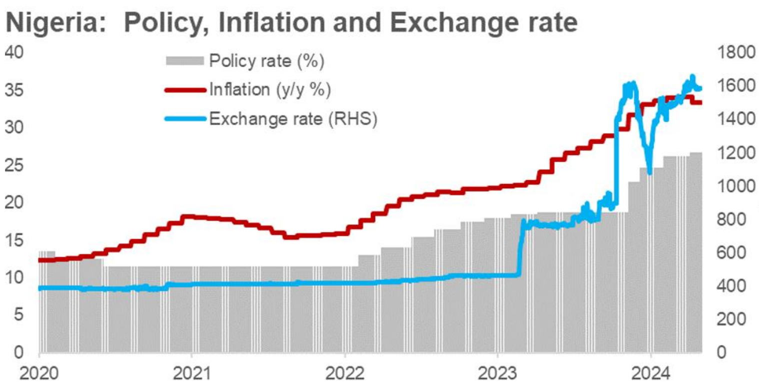
Grenada

Grenada becomes first country to invoke unique "hurricane clause" in a government bond. The clause allows the government to defer interest payments, due November 12th, and May 12th next year, following the devastation caused by Hurricane Beryl. In a notice to bondholders, the finance ministry said that it had "elected to make a Deferral Claim as a result of the Event", which allows for a postponement of over $12.5 million of interest payments until 2030, when the bond matures. This clause was instituted in

2015 after previous hurricanes led to debt restructurings. Barbados and Jamaica are other countries with such clauses, although these have not yet been activated in response to Hurricane Beryl.

Nigeria

Analysts think it is unlikely that the central bank of Nigeria would tighten interest rates further after the most recent inflation print showed a slight easing. The July inflation print is seen by some market participants as showing that headline inflation had peaked in June. JPMorgan analysts expect inflation to ease to 29% by end 2024, as the recent currency stability and improved harvests later this year are expected to further help ease price pressures. According to Bloomberg data, the Nigerian naira has appreciated by roughly 4.3% so far this month, and Standard Bank analysts note that improved sentiment on the local currency is expected to support stability in the near-term and an appreciation bias. The analysts expect the central bank to maintain its policy rate at 26.75% until at least March 2025. Similarly, JPMorgan analysts think it is unlikely that the central bank would hike rates further. Separately, **Nigeria is aiming to raise up to $2bn in a domestic dollar bond sale**, according to a Bloomberg article. It is reported that the bonds will have a 5yr tenure with the first series of the domestic dollar bond program opening yesterday offering $500mn at 9.75%.



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

8/20/24 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5611	1.0	3	2	28	18
Europe		4878	0.1	4	1	16	8
Japan		38063	1.8	5	-5	21	14
China		3333	-0.7	0	-6	-11	-3
Asia Ex Japan		74	1.0	4	2	15	11
Emerging Markets		44	1.0	4	3	14	9
Interest Rates					basis points		
US 10y Yield		3.87	-0.6	2	-37	-39	-1
Germany 10y Yield		2.24	-1.0	5	-23	-39	21
Japan 10y Yield		0.89	0.3	5	-15	26	28
UK 10y Yield		3.93	1.1	5	-19	-74	40
Credit Spreads					basis points		
US Investment Grade		134	0.6	-7	6	-15	0
US High Yield		371	1.7	-26	20	-59	-14
Exchange Rates					%		
USD/Majors		101.81	-0.1	-1	-2	-2	0
EUR/USD		1.11	0.0	1	2	2	0
USD/JPY		146.3	-0.2	0	-7	0	4
EM/USD		46.2	-0.1	1	1	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		77.9	0.3	-3	-4	-3	3
Industrials Metals (index)		145	0.9	4	1	4	2
Agriculture (index)		53	-0.2	1	-3	-20	-15
Implied Volatility					%		
VIX Index (%, change in pp)		15.0	0.3	-3.2	-1.6	-2.3	2.5
Global FX Volatility		8.4	0.0	-0.3	1.2	-0.3	0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		107	0.2	-1	9	-24	3
Italy		137	0.5	-2	6	-33	-30
Portugal		61	-0.8	-3	0	-13	-2
Spain		83	-0.4	-2	4	-23	-14

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

Emerging Market Financial Indicators

Last updated: 8/20/2024 8:09 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		7.14	-0.1	0.1	2	2	-1		2.0	1.1	-2	-12	-57	-54
Indonesia		15436	0.7	2.6	5	-1	0		6.6	-4.6	-14	-31	13	16
India		84	0.1	0.2	0	-1	-1		7.0	-0.9	0	-16	(71.7)	-22
Philippines		57	0.1	0.7	3	0	-2		5.2	4.9	0	-9	-87	-42
Thailand		34	0.7	2.4	6	3	0		2.4	3.5	-4	-21	-57	-28
Malaysia		4.38	0.0	1.5	7	6	5		3.8	0.5	2	-3	-8	5
Argentina		943	-0.2	-0.5	-2	-63	-14		40.6	-31.0	-148	-586	-6731	-4578
Brazil		5.45	-0.8	0.0	2	-9	-11		11.3	-8.0	-22	-76	-20	91
Chile		924	1.6	1.1	2	-6	-5		4.9	0.0	-4	-37	-60	-2
Colombia		4031	0.0	0.5	0	2	-4		7.7	5.5	-4	-31	-41	7
Mexico		18.81	-0.7	1.1	-5	-10	-10		8.8	0.3	4	-54	-15	39
Peru		3.7	-0.1	0.1	0	0	-1		6.5	-0.1	1	-39	-45	-14
Uruguay		40	0.1	0.0	0	-6	-3		9.5	0.5	-1	-13	32	-4
Hungary		355	0.1	0.7	1	-1	-2		6.0	0.0	5	-8	-160	21
Poland		3.85	0.0	1.4	2	7	2		4.6	3.3	21	-37	-49	15
Romania		4.5	0.0	0.8	2	1	0		6.4	3.4	5	-7	-24	24
Russia		90.9	-1.2	0.1	-3	3	-2							
South Africa		17.8	-0.5	1.9	3	7	3		8.7	2.3	10	-20	-101	-37
Türkiye		33.82	-0.2	-0.8	-3	-20	-13		28.6	-20.0	-8	57	650	180
US (DXY; 5y UST)		102	-0.1	-0.7	-2	-2	0		3.74	-1.6	7	-43	-64	-11

	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		3333	-0.7	0	-6	-11	-3		150	-5	8	-33	-8
Indonesia		7534	0.9	2	3	10	4		110	-8	5	-20	14
India		80803	0.5	1	0	24	12		110	-6	5	-29	-6
Philippines		6945	0.8	4	2	10	8		94	-7	6	-13	14
Thailand		1328	0.4	2	1	-13	-6		0	0	0	0	0
Malaysia		1643	-0.4	2	0	13	13		90	-8	4	-8	5
Argentina		1657075	0.5	4	6	184	78		1478	-96	-112	-650	-435
Brazil		135778	1.4	4	6	18	1		224	-13	-1	-15	9
Chile		6459	0.0	2	-2	5	4		123	-8	3	-5	-2
Colombia		1361	0.1	2	0	20	14		315	-13	-1	-19	44
Mexico		54105	0.0	2	1	2	-6		313	-9	3	-66	-21
Peru		28690	0.1	0	-3	26	11		144	-10	2	-15	0
Hungary		72282	0.0	0	-1	29	19		160	-5	10	-41	11
Poland		84355	-0.6	3	-2	24	8		111	-4	11	-6	14
Romania		18330	0.8	2	-2	44	19		200	0	12	-13	-1
South Africa		83865	0.1	4	5	15	9		301	-18	-1	-91	-7
Türkiye		10012	-0.4	1	-10	33	34		298	-18	10	-115	-16
EM total		44	-0.2	4	3	14	9		408	-16	1	23	63

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

back to top