GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, AUGUST 24, 2023

LEAD EDITOR: JEFF WILLIAMS

- **US mortgage applications for home purchases dropped to multiyear lows** (link)
- **US high yield credit spreads may be too tight amid deteriorating fundamentals** (link)
- **Analysts' views remain divergent on BoE's policy path after September** (link)
- **Turkish lira rallies after central bank's larger-than-expected hike** (link)
- **Chilean peso has rebounded from YTD lows amidst rally in copper prices** (link)

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Yields edge higher as focus shifts to Jackson Hole

Treasury yields are higher this morning after falling sharply yesterday on disappointing economic data that led investors to reassess the outlook for future monetary policy. While this morning's slew of US data releases gives a mixed message, treasury yields are about 4bp higher across the curve. That follows a sharp drop yesterday driven by weaker than expected PMI data in both the US and Europe, along with historically low US mortgage applications. The Mortgage Bankers Association index of home purchase applications dropped to its lowest level since 1995. The yield on the 10-year treasury declined by 13bp yesterday, and the 10-year German bund yield saw a similar decline. With continued uncertainty about the expected path of monetary policy, the meeting in Jackson Hole, scheduled to begin today, will be watched closely. Equity markets rallied yesterday, driven by the sharp yield declines. Sentiment has been further boosted this morning, especially in the tech sector, following a strong sales forecast from Nvidia after yesterday's market close. This morning, the central bank of Türkiye surprised markets with a 750bp hike, compared to consensus expectations of 250bp, driving a 3% rally in the lira.

Key Global Financial Indicators

Last updated: 8/24/23 8:36 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities				%			%	
S&P 500		4436	1.1	1	-3	7	16	5
Eurostoxx 50		4264	-0.1	1	-3	16	12	7
Nikkei 225		32287	0.9	2	-1	13	24	22
MSCI EM		39	1.6	1	-5	-2	3	-18
Yields and Spreads				bps				
US 10y Yield		4.22	3.2	-5	35	112	35	223
Germany 10y Yield		2.53	0.8	-18	10	116	-5	230
EMBIG Sovereign Spread		422	0	7	7	-72	-30	10
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		48.2	0.0	1	-2	-4	-3	-9
Dollar index, (+) = $ appreciation		103.7	0.3	0	2	-5	0	8
Brent Crude Oil ($/barrel)		83.4	0.2	-1	1	-18	-3	-14
VIX Index (%, change in pp)		15.7	-0.3	-2	2	-7	-6	-15

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

Mature Markets

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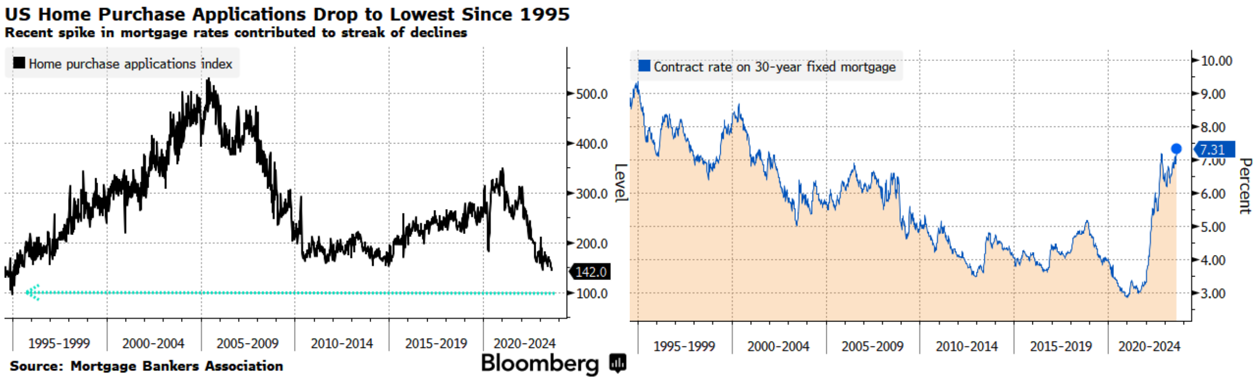
United States

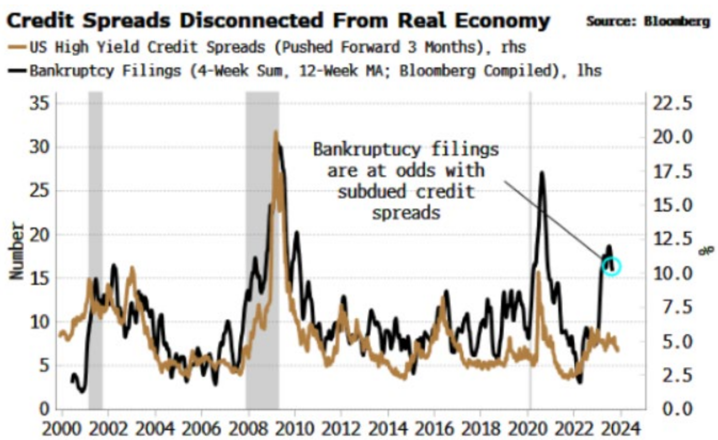
Yesterday, the S&P 500 rose by 1.1%, in part supported by the market interpretation of economic data releases in Europe and the US. All sectors closed higher, except Energy (-0.3%). US Treasury nominal yields fell by 8−13 bp across the yield curve, attributed entirely to real yields.

This morning's slew of data releases paints a mixed picture. Durable goods orders for July fell 5.2%, much deeper than the surveyed figure (-4.0%). In contrast, Durables ex transportation increased by 0.5%, better than the surveyed 0.2%. The Chicago Fed National Activity Index was reported at 0.12, suggesting an improvement in growth (contrary to the consensus expectation of -0.22). Weekly initial jobless claims and continuing jobless claims came in at at 230k and 1702k respectively, mostly in line with expectations (240k and 1705k, correspondingly). The market reaction immediately after the release was muted.

US mortgage applications for home purchases last week dropped to the lowest in almost three decades, responding to elevated mortgage rates (highest in two decades). However, the situation in the US real estate market was more nuanced in July. On the one hand, transactions on previously owned homes declined to the lowest level since the start of the year, due to the lack of inventory and high mortgage rates. On the other hand, new-home sales rose to the highest level in over a year.



Bloomberg analysts suggest that US high yield credit spreads may be too tight given deteriorating fundamentals. First, subdued credit spreads don't reflect the rising incidence of corporate distress as measured by bankruptcy filings in the US (chart below). Second, corporate earnings show that key measures of income are falling relative to interest expenses. Junk bond sales have been relatively light this year, which has helped keep risk premiums low for many issuers.

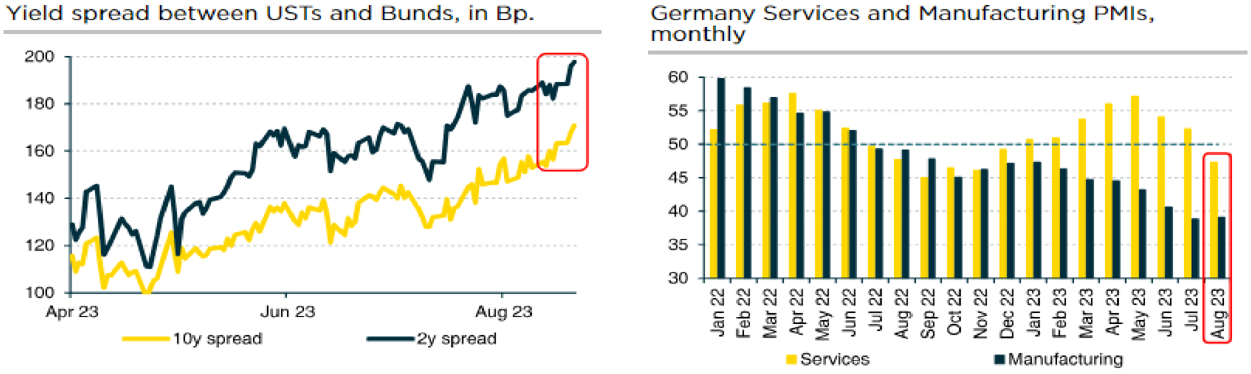


Euro Area

European equities were mostly trading higher (Stoxx 600 Europe index +0.2%), adding to yesterday's gains. Sovereign yields were little changed (10y bund yield -1bp) and the euro was trading marginally weaker against the dollar (-0.1%).

The spread between bund and US Treasury yields remains following yesterday's PMI data releases. Bund yields fell sharply yesterday (10y bund yield -13bp) after disappointing euro area flash PMI data, with the steepest decline seen in Germany where the services PMI fell into contractionary territory for the first time this year. Analysts from Commerzbank note that spreads between US Treasuries and bunds have been increasing recently as US markets were held down relatively more by soft-landing expectations. While macro-economic data releases yesterday refocused concerns on deteriorating growth prospects both in the US and in Europe, the spread between US Treasuries and bunds was little changed.

Transatlantic spreads drift further apart as macro outlook worsens

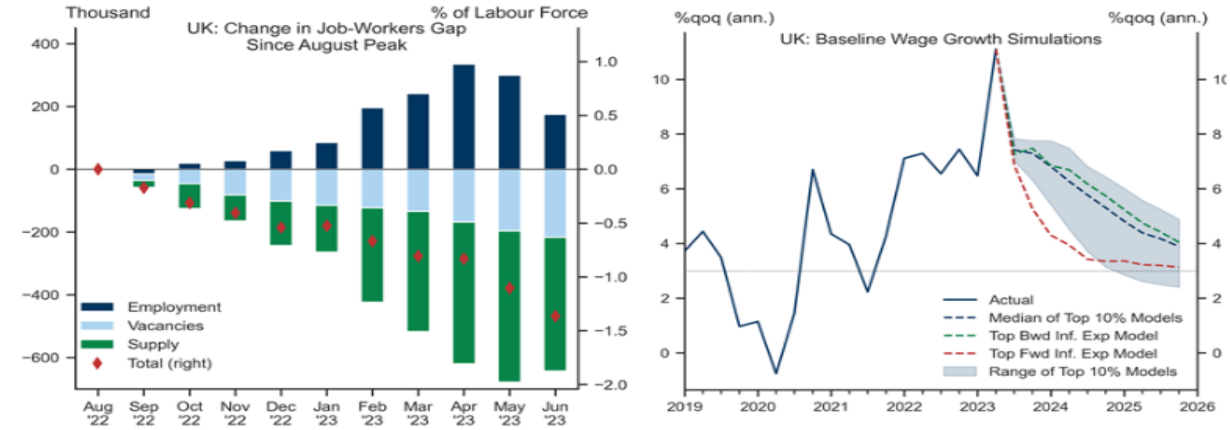


Source: Bloomberg, Commerzbank Research

United Kingdom

Analysts expect a 25bp hike at the upcoming BoE meeting in September, with divergent views on policy moves thereafter. Yesterday's disappointing UK PMI flash data, where the composite measure fell to its lowest level since January 2021, saw markets scaling back BoE hiking expectations as concerns grew about the outlook for the economy. Markets are now pricing in roughly 60bp of tightening by the end of this year, compared to 72bp priced in at the start of the week, but a 25bp hike for the September meeting remains fully priced in. Goldman Sachs analysts have lowered their growth forecast but still expect growth to remain positive and expect wage growth to keep services inflation at high levels. Against this backdrop analysts forecast a 25bp hike at both the September and November BoE meetings to take the bank rate to 5.75% but view a range of 5.5−6% for the terminal rate as reasonable. ING analysts highlight that the latest PMI report also showed prices charged by corporates increasing at the slowest rate since February 2021 and argue that the risk of overtightening has increased with the BoE focusing on inflation and wages—lagging indicators—while appearing cautious about putting too much emphasis on survey data. ING analysts still expect a final BoE hike in September in a scenario where services inflation improves somewhat. This morning gilt yields continued to ease (10y gilt -3bp to 4.44%) and the pound weakened against the dollar (-0.3% to 1.27/$).

Exhibit 6: Rebalancing in Train



Source: Goldman Sachs Global Investment Research, Haver Analytics

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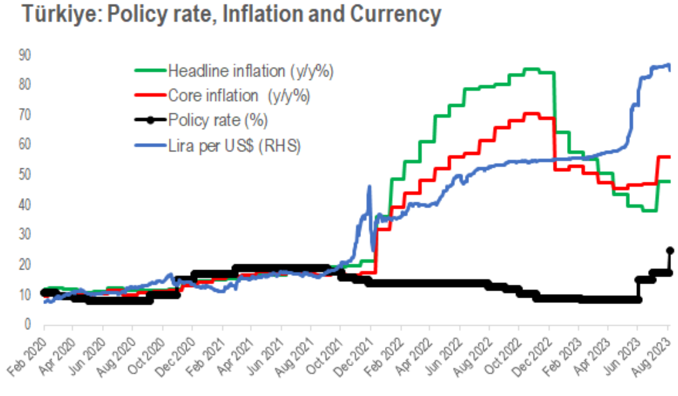
In line with moves seen in the US and Europe, equities in Asia were mostly trading higher while currencies were mixed against the dollar. Equities in Vietnam (+1.4%) outperformed. **Equity markets in EMEA were higher while currencies were trading weaker against the dollar and local bond yields were mostly lower.** Equities in Türkiye (+1.6%) and South Africa (+1%) were outperforming. CEE currencies were mostly trading weaker against the euro. On the monetary policy front Zambia hiked its policy rate by 50bps to 10% yesterday. **LatAm assets' rally continued Wednesday as AE yields retreated, and Chinese markets stabilized.** Regional equities rose, currencies appreciated while bond yields traded broadly lower. Alongside supportive iron ore prices and passage of a fiscal framework, Brazil led the rally for the second consecutive day, with the real appreciating by +1.7% while the BOVESPA index also rose by 1.7%. Local bond markets also rallied, with 10-yr Colombia, Brazil and Mexico bond yields declining by around 20bp.

Türkiye

The lira strengthened 2% after the central bank of Türkiye (CBT) surprised markets with a 750bp hike to take the one-week repo rate to 25%. A recent poll of economists showed expectations for a 250bp hike. The CBT has hiked rates by 900bp in the past two meetings. Analysts had recently scaled up hiking expectations somewhat for today's meeting after the July inflation data print surprised on the upside (+47.83% vs expected 46.8% from 38.2%) and a recent survey by the central bank showed inflation expectations increasing to 42% in August, the highest level since 2002 according to Bloomberg.

Türkiye: Policy rate, Inflation and Currency

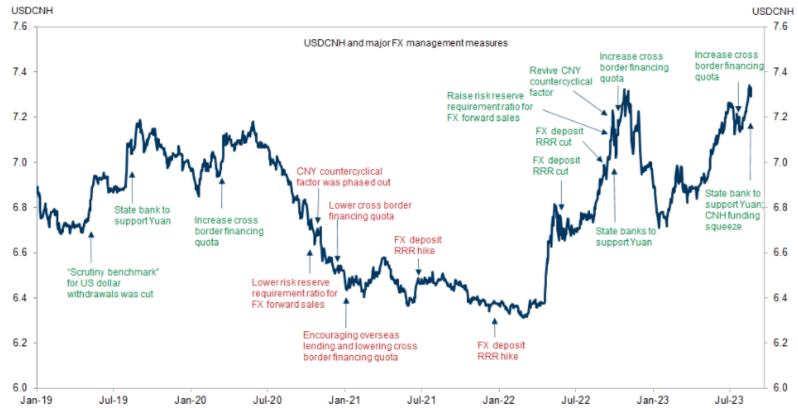


Source: Bloomberg and IMF calculations

China

Markets are worried about the weakness in the yuan and local funding costs. China's currency is at a 15-year low versus the dollar even as authorities have intervened on numerous occasions to support the market. The latest PBOC report warned against "excess moves in the FX market." Offshore funding costs have surged on talk that authorities have asked banks to reduce liquidity and make it more expensive to short the yuan. A popular recent carry trade has been to short the yuan and go long the Brazilian real, and contacts suggest that many traders have been forced to close these positions due to the rise in funding costs. As the local currency market is closed, offshore markets and non-deliverable forwards are the main venues for investors to go long and short the yuan.

Exhibit 1: Weakening in the RMB has triggered a new round of policy reaction

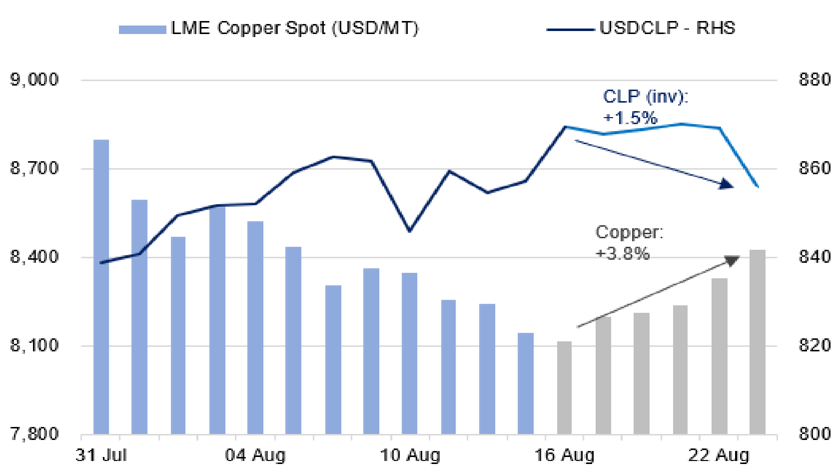


Measures in red will weaken CNY, while those in green will boost CNY.

Source: Bloomberg, PBOC, SAFE, Data compiled by Goldman Sachs Global Investment Research

Chile

The Chilean peso rebounded from YTD lows amidst a rally in copper prices. Alongside the Brazilian real, the peso outperformed against most regional peers, appreciating 1.54% Wednesday. The rally coincides with the fifth consecutive trading sessions of higher copper prices. Crucially, onshore China copper prices have outperformed LME pricing during the recent selloffs, suggesting that demand remains resilient in China. Copper mines, mostly located in the northern region, were also largely unaffected by the recent floods, which has impacted the central-southern region.

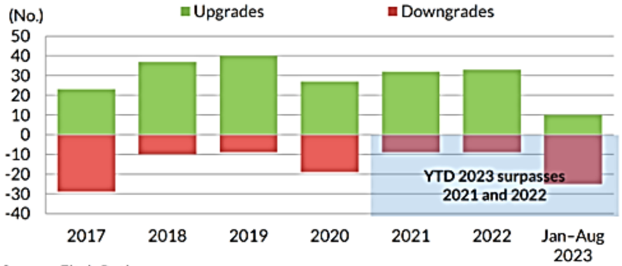


Source: Bloomberg, IMF staff calculations

Brazil

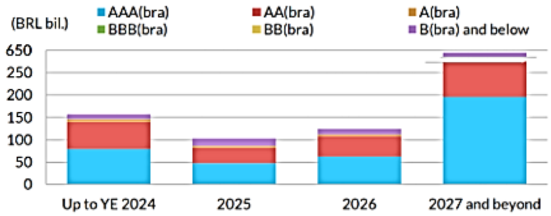
Fitch expects fewer ratings downgrades for Brazilian corporates in 2H 2023. Fitch has downgraded 25 Brazilian corporates YTD 2023, exceeding the total downgrades for 2021 and 2022, with energy, retail and healthcare constituting almost half of downgrades this year. Nonetheless, downgrade pressures are expected to ease for the remainder of the year, as credit supply improves (increased issuances plan) alongside supportive economic activities. Fitch also noted that lower policy rates will be key for improvements to cash flow for domestic corporates and estimates that the policy rate will be 12.25% by 2023-end and 9% by 2024 end, which coincide with current market pricing. Refinancing risks were deemed "manageable" with low international bond maturities through end 2024 and concentrated on issuers with strong credit quality.

Downgrades and Upgrades



Source: Fitch Ratings

Fitch-Rated Brazilian Corporates' Capital Market Debt Maturities



Note: Figures as of March 31, 2023.
Source: Fitch Ratings, issuers

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Global Financial Indicators

Last updated: 8/24/23 8:36 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4459	1.1	2	-2	8	16
Europe		4264	-0.1	1	-3	16	12
Japan		32287	0.9	2	-1	13	24
China		3723	0.7	-3	-5	-10	-4
Asia Ex Japan		65	1.4	1	-5	-3	1
Emerging Markets		39	1.6	1	-5	-2	3
Interest Rates					basis points		
US 10y Yield		4.22	3.2	-5	35	112	35
Germany 10y Yield		2.53	0.8	-18	10	116	-5
Japan 10y Yield		0.66	-1.8	1	19	43	23
UK 10y Yield		4.45	-1.7	-30	20	175	78
Credit Spreads					basis points		
US Investment Grade		145	-1.3	-5	2	-14	-14
US High Yield		416	-2.8	-13	6	-66	-64
Exchange Rates					%		
USD/Majors		103.74	0.3	0	2	-5	0
EUR/USD		1.08	-0.2	0	-2	9	1
USD/JPY		145.7	0.6	0	3	6	10
EM/USD		48.2	0.0	1	-2	-4	-3
Commodities					%		
Brent Crude Oil ($/barrel)		83	0.2	-1	1	-8	1
Industrials Metals (index)		142	-0.6	2	-2	-10	-14
Agriculture (index)		67	0.2	2	-8	-3	-3
Implied Volatility					%		
VIX Index (%, change in pp)		15.7	-0.3	-2.2	1.8	-7.1	-6.0
US 10y Swaption Volatility		119.0	0.7	-1.0	17.7	-12.7	-6.7
Global FX Volatility		8.5	0.0	-0.1	0.1	-2.8	-2.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		132	-0.3	3	-1	-130	-73
Italy		166	0.7	-5	6	-66	-48
Portugal		71	-0.1	-3	1	-38	-31
Spain		102	-0.1	-3	1	-17	-7

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

Emerging Market Financial Indicators

Last updated: 8/24/2023 8:36 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		7.28	0.2	0.3	-1	-6	-5		2.6	-0.5	-1	-11	-14	-48
Indonesia		15295	0.1	-0.1	-2	-3	2		6.6	-6.0	17	36	-52	-33
India		83	0.3	0.3	-1	-3	0		7.7	-6.9	8	30	16	20
Philippines		57	-0.6	-0.3	-4	-1	-2		#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Thailand		35	0.3	1.6	-1	3	-1		3.0	0.5	16	27	44	38
Malaysia		4.66	-0.2	-0.6	-2	-4	-5		3.9	-0.8	-1	2	-13	-19
Argentina		350	0.0	0.0	-23	-61	-49		102.7	-517.3	375	1251	2753	1452
Brazil		4.85	1.8	2.9	-2	5	9		11.2	-18.6	-10	27	-71	-135
Chile		857	1.5	1.5	-3	7	-1		5.3	-12.9	-4	27	-147	0
Colombia		4076	1.0	1.2	-3	7	19		8.2	-15.5	11	53	-115	-156
Mexico		16.79	0.7	2.1	0	19	16		8.8	-21.0	-1	59	22	5
Peru		3.7	0.3	0.3	-3	4	3		7.2	0.7	37	33	-79	-80
Uruguay		38	0.2	0.5	1	7	6		9.2	-0.8	11	-4	-158	-149
Hungary		352	0.2	1.0	-3	18	6		7.3	-22.0	-1	44	-225	-235
Poland		4.11	0.3	-0.1	-2	16	6		4.9	-13.3	7	33	-110	-123
Romania		4.5	0.1	-0.2	-2	8	2		6.7	3.4	12	38	-98	-96
Russia		94.1	0.1	1.5	-4	-36	-21							
South Africa		18.5	1.7	3.7	-4	-8	-8		9.5	-16.0	0	26	68	36
Turkey		27.20	0.0	-0.5	-1	-33	-31		21.3	-4.0	-62	233	810	1148
US (DXY; 5y UST)		103	-0.2	0.0	2	-5	0		4.37	-11.6	-3	28	121	37

	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		3697	0.0	-3	-3	-9	-5		180	-1	-4	-31	3
Indonesia		6921	0.0	0	0	-4	1		130	5	-3	-54	-10
India		65433	0.0	0	-1	11	8		137	1	6	-21	-5
Philippines		6180	0.0	-2	-7	-7	-6		106	5	-2	-25	9
Thailand		1549	0.0	2	2	-5	-7						
Malaysia		1440	0.0	-2	2	-3	-4		96	3	6	-17	-4
Argentina		615499	3.6	17	30	349	205		2051	-167	30	-397	-154
Brazil		118135	1.7	2	-2	5	8		234	0	-2	-88	-40
Chile		6189	0.5	0	-2	15	18		126	7	6	-59	-6
Colombia		1100	-1.5	-3	-6	-15	-15		336	12	2	-78	-36
Mexico		53677	1.0	0	0	12	11		374	8	0	-43	-7
Peru		23113	0.7	1	0	18	8		157	5	-3	-35	-23
Hungary		56927	0.0	3	7	32	30		198	3	1	-16	-24
Poland		68153	0.0	-1	-4	27	19		116	2	-4	111	43
Romania		13013	0.0	0	-2	5	12		211	8	2	-59	-44
South Africa		74023	0.0	-1	-4	6	1		397	10	22	-66	30
Turkey		7602	0.0	-1	14	144	38		405	-2	-21	-282	-35
Ukraine		507	0.0	0	0	-2	-2		3477	13	-151	148	-602
EM total		39	0.0	1	-3	-2	3		381	0	9	-51	5

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

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