GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 1, 2023

LEAD EDITOR: JOHANNES S. KRAMER

- **Bond markets in US saw in November their best month since the 1980s** (link)
- **The S&P 500 posted in November a record gain** (link)
- **In Q3, US bank balance sheets shrank by -$77bn** (link)
- **Some analysts now see ECB rate cut possible in Q2 2024** (link)
- **Despite better-than-expected manufacturing PMIs Chinese equities declined** (link)
- **Yesterday, the Colombian peso declined by as much as -1.7%** (link)
- **Bank stocks in Türkiye rally on S&P revising its credit outlook to positive** (link)

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Stronger PMIs out of China and Europe leave markets unimpressed

Today's lineup of Fed speakers precedes tomorrow's start of the December meeting blackout period. Barr spoke earlier today at an ECB event, advocating for the Fed's discount window to lose its stigma. Fed Chair Powell, Cook and Goolsbee will speak later today with market pricing being attuned to any dovish hint although financial conditions have already considerably eased since the November Fed meeting. Some market participants perceive that sustaining further market strength could be challenging without data supporting the dovish narrative as the market has already taken credit for data confirming growing signs of an immaculate disinflation. The ISM Manufacturing PMI highlights today's economic data and kicks off the major US data releases for November. Abroad, PMIs out of China and Europe have largely printed above expectations but have had little impact on price action. Bund yields inched fractionally lower while Gilt yields remained essentially flat. Other markets remained quiet with equities posting mixed results and currencies remaining mostly flat. In China, stock markets pared back from losses on news that a state-owned institution bought ETFs. In Colombia, bond markets sold off on central bank governor Villar's statement that real interest rates do not yet appear extraordinarily high.

Key Global Financial Indicators

Last updated: 12/1/23 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4568	0.4	0	8	12	19
Eurostoxx 50		4407	0.6	1	8	11	16
Nikkei 225		33432	-0.2	-1	5	20	28
MSCI EM		40	0.2	0	7	0	4
Yields and Spreads					bps		
US 10y Yield		4.32	-0.4	-14	-41	82	45
Germany 10y Yield		2.43	-1.6	-21	-33	62	-14
EMBIG Sovereign Spread		405	-6	-10	-37	-63	-47
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.9	0.0	0	1	-5	-4
Dollar index, (+) = $ appreciation		103.5	0.0	0	-3	-1	0
Brent Crude Oil ($/barrel)		80.8	-0.1	0	-5	-7	-6
VIX Index (%, change in pp)		13.0	0.0	0	-4	-7	-9

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

Mature Markets

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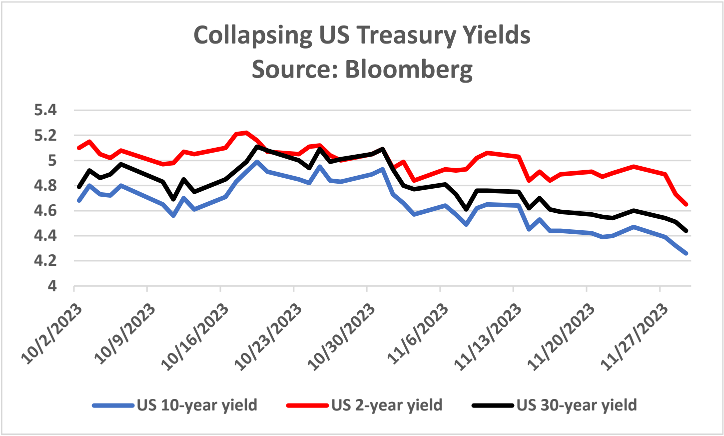
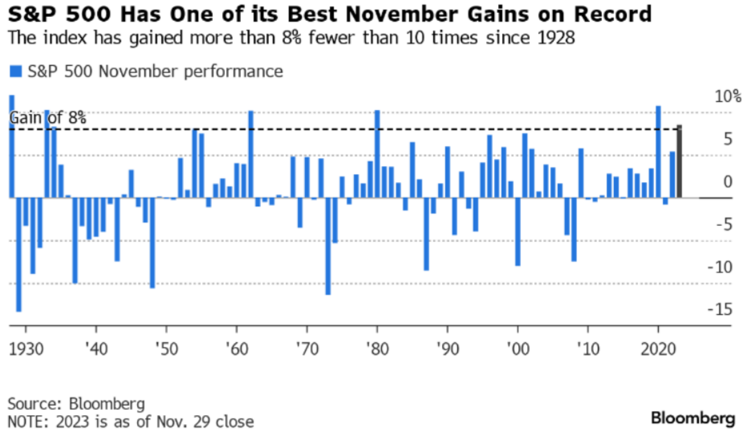
United States

November saw the highest one month returns for US bond markets since the 1980s, according to analysis by Bloomberg. Prices for Treasuries, agencies and mortgage-backed securities soared, buoyed by hopes that the US economy is finally showing signs of slowing down and that the Fed has finished its rate hike cycle and that rate cuts will begin in the first half of 2024. The Fed Funds futures market is pricing a full rate hike at the May 1, 2024 FOMC meeting. The US bond rally pushed other markets higher across the globe. The MSCI World equity index gained nearly +9% in November while emerging market equities gained +7.4%. US high yield (HY) bonds rallied by +4%, the best one month gain since July 2022, with investors pouring "*a record $11.9 bn*" into HY exchange traded funds (ETFs), Bloomberg reported. The Bloomberg Global Bond Aggregate Index went up by +5% in November, the largest monthly move since 2008. Euro area government bonds also joined the list of winners as regional inflation data came in lower than expected and futures markets priced earlier rate cuts by the ECB.

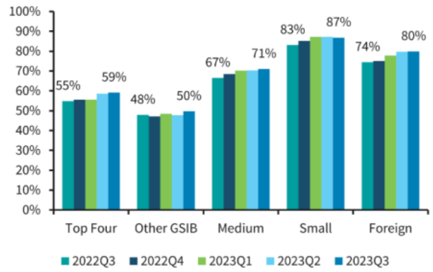


The S&P 500 was up more than +8% for the month of November. This is a very rare occurrence, as the index has posted an +8% monthly gain just 10 times since 1928, Bloomberg data show. The index has regained all the ground it lost since November 30, 2021, when Fed Chair Powell told Congress that he no longer thought inflation was "*transitory*." The index peaked just above 4796 on January 3, 2022, before plunging by more than -22% by mid-October of last year. Conversely, the November rally seems to indicate that the market thinks inflation is finally coming under control, creating a "Goldilocks" scenario where interest rates are headed lower, and the economy is due to experience a soft landing. Risk assets are likely to do well in such a scenario, and investors are looking forward to the traditional Santa rally.



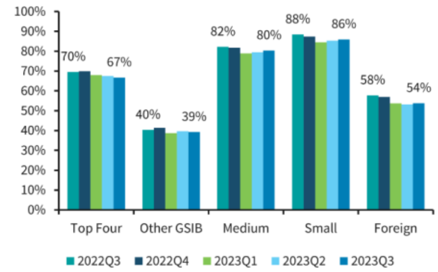
US bank balance sheets shrank by -$77 bn in Q3, the second consecutive quarterly decline. According to analysis by Barclays, this marks a normalization after a major expansion of balance sheets in Q1, when banks were forced to borrow heavily to handle the fallout from the collapse of SVB in March. Available for Sale (AFS) and Held to Maturity (HTM) portfolios declined again by -$64 bn, extending the -$100 bn decline in holdings in Q2. However, the volumes of loans and leases increased, with the big four banks accounting for half of the volume. Deposit outflows continued, with deposits shrinking by -$81 bn as customers sought higher returns in money market funds, T-Bills, and other higher yielding assets.

Figure 4. Loans (% of deposits)



Source: SNL Financial, Barclays Research

Figure 5. Deposits (% of liabilities)



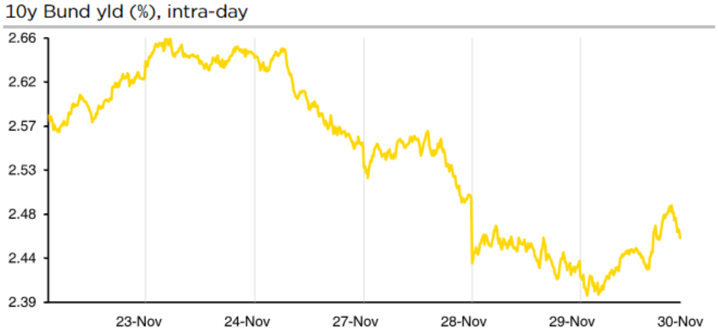
Source: SNL Financial, Barclays Research

Euro Area

European equities were trading in the green with the Stoxx 600 equity index up +0.5%. The euro fractionally appreciated against the dollar this morning (+0.1% to €1.059/$), retracing some of yesterday's losses following downside inflation surprises from the euro area. On the data front, final November eurozone manufacturing PMI was revised higher to 44.2 (exp. 43.8 from 43.8). Italy's manufacturing PMI declined by more than expected to 44.4 in November (exp. 45.2 from 44.9), while Spain's manufacturing PMI surprised on the upside, printing at 46.3 (exp. 45.5 from 45.1).

Euro area sovereign yields eased this morning after closing marginally higher yesterday. Euro area 10y bund benchmark yields declined by -2bps to 2.43%. Commerzbank analysts note that recent supportive factors for bond markets have been subsiding and expect 10y bund yields to retrace back to 2.5% and higher by the end of the year. On the ECB front, ECB Governing Council member Nagel noted "*encouraging*" inflation trends while cautioning that inflation risks are "*skewed to the upside*", also because of geopolitics. He stated that it is "*far too early*" to consider rate cuts while pondering that the wind-down pace of ECB's balance sheet could accelerate.

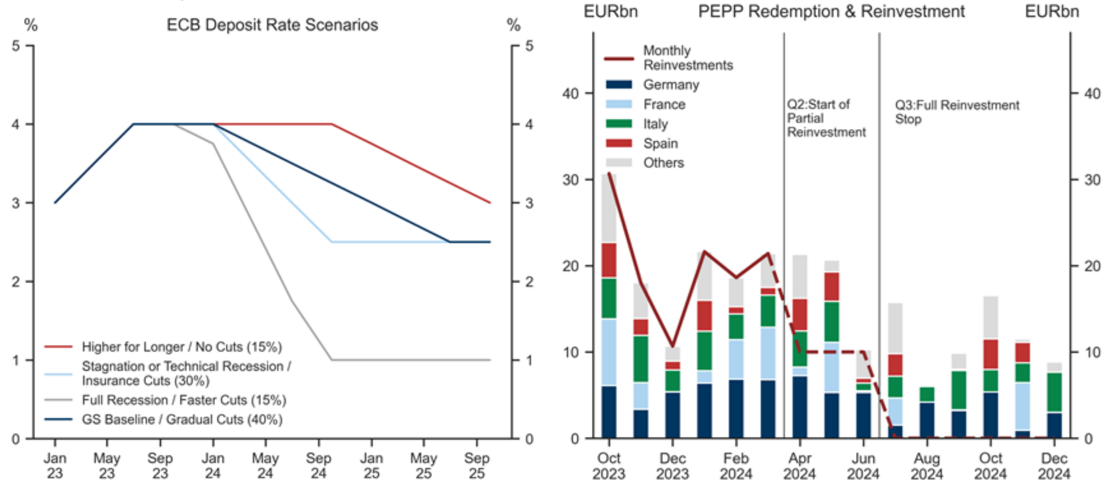
Long-end rally stalls
10y Bund yld (%), intra-day



Source: Bloomberg, Commerzbank Research

Goldman Sachs analysts bring forward their expectations for ECB rate cuts. After the euro area flash November inflation estimate surprised on the downside yesterday, Goldman Sachs economists now see HICP inflation at +2.3% y/y in mid-2024, down from previously +2.7%. This brings forward their call for a first ECB policy rate cut to Q2 2024 from formerly Q3. Moreover, analysts see a larger fiscal drag in Germany in 2024, after the recent constitutional court decision, and have downgraded their 2024 growth forecast for Germany and in turn their forecast for 2024-euro area growth (to 0.8%, from 0.9%). Goldman Sachs analysts also highlight more signs that the labor market is slowing with an expectation for a gradual cutting cycle with 25bps of rate cuts per quarter, starting in April. As regard PEPP reinvestments, Goldman Sachs analysts maintain their baseline expectation that the Governing Council could announce in January that PEPP reinvestments would become capped from April 2024 and then stopped from 2024Q3. Markets are now fully pricing the first rate cut by April 2024 (-31 bps of easing priced) and roughly -100bps of rate cuts are priced in by October 2024. For now, Bank of America analysts maintain their call for rate cuts starting mid 2024 while other market contacts remain apprehensive. HSBC analysts argue that the odds of a rate cut in H1 2024 remain very low. Commerzbank analysts strike a similarly tone, calling into question the extent of rate cut pricing.

The First ECB Cut in Q2

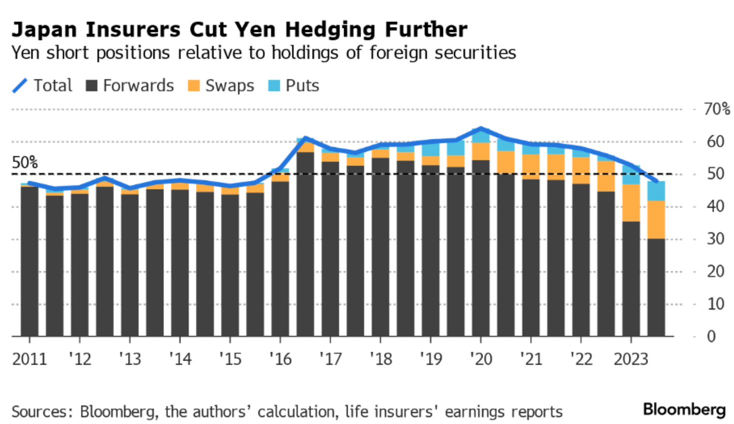


Source: Goldman Sachs Global Investment Research

Japan

Continued robust economic performance boosted the Japanese Yen, lifting JGB yields and tempering equities. The unemployment rate fell to 2.5% in October (exp. 2.6% from 2.6%). Corporate profits growth remained strong in Q3, recording a growth of +20.1% y/y (exp. +13.8% from +11.6%). The Japanese yen appreciated to 147.7 yen per dollar (+0.3%). Japanese equities fell (NIKKEI: -0.2%). Long-end JGB yields increased (10-year: +2.5 bps; 30-year: +0.7 bp), with the 10-year yield at 0.691%.

Lifers have cut FX hedging that protects their investments abroad against a stronger Japanese yen. Derivatives including forwards, swaps and put options protected 47.8% of foreign securities held by life insurers as of September, down from 52.7% six months ago. The drop in the hedge ratio was the largest since 2011. At the same time, lifers' holdings of overseas assets increased by 6.1%, the largest addition in three years. According to market contacts, the reduction in FX hedging signaled that life insurers became less concerned about a Japanese yen appreciation, which appears aligned with a view that the monetary policy tightening by the Bank of Japan will be a gradual adjustment.



Emerging Markets

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EMEA equity markets were mostly trading higher while currencies strengthened. Equities in Poland (+1.5%) and Türkiye (+0.9%) outperformed, while Russian equities (-0.3%) underperformed. On the currency front, the South African rand was outperforming against the dollar (+1% to 18.66/$), while the Turkish lira (-0.2% to 28.91/$) weakened.

Asian markets traded without clear direction. Asian equities posted mixed results, falling -1.2% on net. Hong Kong (-1.2%) and Korean (-1.2) equities declined, while share prices rose in India (+0.6%) and Singapore (+0.6%). Asian currencies posted similarly mixed results. The Korean won (-1.2%) and the Taiwan dollar (-0.6%) depreciated, while the Thai baht (+0.4%) appreciated. Long-end government bond yields fell in Indonesia (10-year: -1.0 bp) but rose in Singapore (10-year: +2.1 bps).

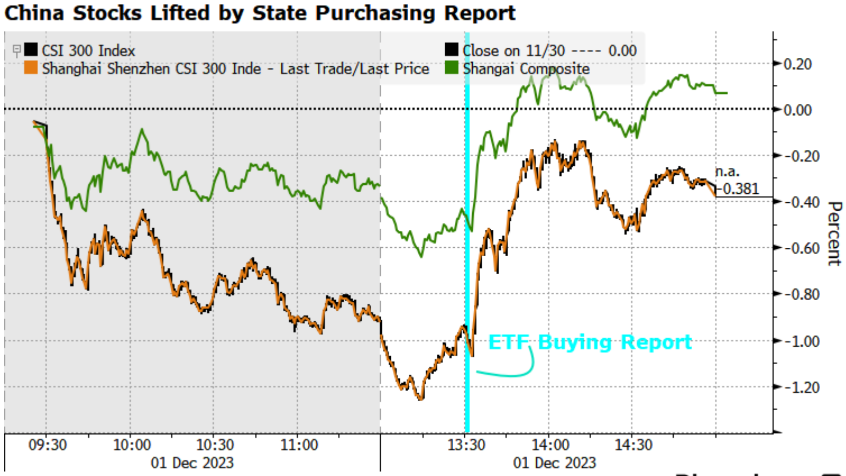
Yesterday, Latin American equities advanced while currencies retreated. Stocks gained in Mexico (2.40%), Brazil (0.92%), Colombia (0.72%) and Chile (0.44%), while Peru's equity market lost 0.91%. Currencies depreciated in Brazil (-0.30%), Mexico (-0.58%), Colombia (-1.02%) and Peru (-0.22%) against the US dollar.

China

Money market rates fell after month-end funding pressures subsided as government debt supply moderated. The key interbank rate (DR007) dropped to 1.80% (-37.9bps), the same level as the policy rate. The People's Bank of China withdrew liquidity in an amount of 545bn yuan ($76.9bn). The government debt supply moderated in November, helping alleviate concerns about funding pressures. The total issuance of central and local government bonds amounted to 1.95tn yuan ($273bn) in November, the lowest level since August. Large government bond issuances contributed to notable funding pressures, which briefly drove overnight borrowing costs to about 50% for some smaller banks in October.

Despite better-than-expected November PMI data, Chinese equities declined. The Caixin manufacturing PMI surpassed expectations printing at 50.7 (exp. 49.6 from 49.5). However, the CSI 300 fell -0.4% after paring back from a -1.3% loss on news that a state-owned institution bought ETFs attempting to boost stock markets. After the market closing, China Reform Holding Corp confirmed in a statement that one of its units bought an unspecified amount of an ETF tracking central state-owned enterprises in the tech sector. Meanwhile, Hong Kong SAR-listed Chinese equities declined -1.6%. The RMB remained essentially flat at 7.14 yuen per dollar.

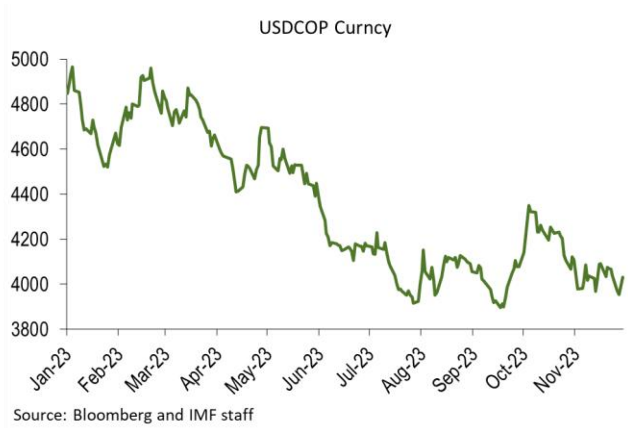
China Stocks Lifted by State Purchasing Report



Source: Bloomberg

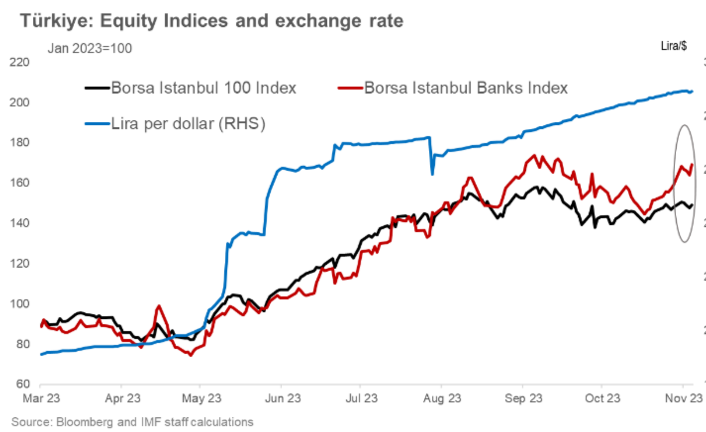
Colombia

The Colombian peso declined as much as -1.7% during the day, marking it one of the worst performing currencies on the day despite a +1.3% increase in crude oil prices. The one-week implied volatility for USD/COP reached 19.1%, ranking the second highest globally among major currencies, surpassed only by the Russian Ruble. The currency has exhibited a pattern of alternating between strong and weak sessions, prompting traders to turn to options for protective measures. The IBR swaps curve witnessed an uptick amidst a robust increase in US Treasury yields. Colombia's real interest rates, taking into account current inflation levels, appear not "extraordinarily" high, central bank governor Villar said in a conference.



Türkiye

Bank stocks climbed +3% on news that S&P ratings revised its credit outlook for Türkiye to positive. The rating agency yesterday revised Türkiye's outlook on its 'B' unsolicited long-term sovereign credit ratings to positive, from stable, noting that policy makers are making progress towards cooling down the overheated Turkish economy while also rebuilding the depleted stock of net foreign currency reserves of the central bank. Türkiye's equities gained this morning (+0.9%), and local currency bond yields were sharply lower (10y bond yield roughly -50bps lower to 27.2% according to Bloomberg).



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Global Financial Indicators

	Level		Change				
12/1/23 8:04 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4561	0.4	0	8	12	19
Europe		4407	0.6	1	8	11	16
Japan		33432	-0.2	-1	5	20	28
China		3483	-0.4	-2	-3	-10	-10
Asia Ex Japan		65	0.0	-1	6	-2	1
Emerging Markets		40	0.2	0	7	0	4
Interest Rates					basis points		
US 10y Yield		4.33	0.8	-14	-41	82	45
Germany 10y Yield		2.43	-1.5	-21	-33	62	-14
Japan 10y Yield		0.70	2.5	-8	-26	44	28
UK 10y Yield		4.19	1.1	-10	-31	109	52
Credit Spreads					basis points		
US Investment Grade		139	-0.4	-3	-22	-21	-20
US High Yield		417	-2.5	-1	-50	-46	-63
Exchange Rates					%		
USD/Majors		103.52	0.0	0	-3	-1	0
EUR/USD		1.09	-0.1	-1	3	3	2
USD/JPY		148.2	0.0	-1	-2	10	13
EM/USD		47.9	0.0	0	1	-5	-4
Commodities					%		
Brent Crude Oil ($/barrel)		80.7	-0.2	0	-4	-2	0
Industrials Metals (index)		138	0.3	0	0	-16	-16
Agriculture (index)		65	-1.0	0	1	-3	-6
Implied Volatility					%		
VIX Index (%, change in pp)		12.9	0.0	0.5	-4.0	-6.9	-8.8
Global FX Volatility		7.5	0.0	0.2	-0.5	-3.8	-3.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		123	-1.7	3	-17	-84	-83
Italy		174	-4.7	-2	-23	-15	-41
Portugal		66	-2.8	0	-6	-25	-35
Spain		100	-2.1	1	-7	1	-9

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

Emerging Market Financial Indicators

Last updated: 12/1/2023 8:05 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	-1	-3		2.7	-1.0	-5	-2	-41	-38
Indonesia		15485	0.2	0.5	3	1	1		6.6	-1.0	-4	-46	-27	-32
India		83	0.1	0.1	0	-2	-1		7.5	-2.0	-12	-25	16.3	1
Philippines		55	0.1	0.0	2	1	1		5.9	2.5	-1	2	-17	-9
Thailand		35	0.5	1.3	3	0	-1		2.9	0.0	-13	-40	37	32
Malaysia		4.67	-0.2	0.3	2	-6	-6		3.8	0.1	-4	-25	-24	-22
Argentina		361	0.0	-0.9	-3	-54	-51		99.9	161.8	-528	-932	450	1172
Brazil		4.92	-0.1	-0.4	1	5	7		11.0	7.9	-18	-75	-177	-163
Chile		868	0.2	0.2	3	1	-2		5.1	0.0	-12	-90	6	-20
Colombia		4012	0.6	0.7	2	19	21		8.3	0.0	1	-68	-151	-152
Mexico		17.32	0.4	-1.2	3	11	13		8.8	0.0	-27	-68	40	11
Peru		3.7	-0.2	0.0	3	3	2		7.2	0.7	5	-45	-44	-76
Uruguay		39	0.0	0.3	2	0	2		9.6	11.2	4	-25	-122	-109
Hungary		349	0.1	-0.3	4	12	7		6.7	-3.0	-28	-85	-151	-292
Poland		3.99	0.2	0.2	6	12	10		4.8	-1.0	-19	-20	-80	-136
Romania		4.6	-0.1	-0.5	3	3	1		6.7	0.7	-13	-14	-98	-98
Russia		90.2	-0.3	-1.2	3	-31	-18							
South Africa		18.7	0.9	0.5	-1	-6	-9		9.2	-1.5	-20	-50	-26	6
Turkey		28.91	-0.2	-0.1	-2	-36	-35		27.5	-25.0	-203	-196	1614	1771
US (DXY; 5y UST)		104	0.0	0.1	-3	-1	0		4.27	0.5	-21	-38	61	27

	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		3483	-0.4	-2	-3	-10	-10		155	-8	-15	-46	-22
Indonesia		7060	-0.3	1	4	1	3		108	-13	-19	-59	-32
India		67481	0.7	2	5	7	11		126	3	-10	-28	-16
Philippines		6245	0.3	0	4	-4	-5		87	-13	-18	-46	-10
Thailand		1380	0.0	-1	-3	-16	-17		0	0	0	0	0
Malaysia		1456	0.3	0	0	-2	-3		90	2	-4	-15	-10
Argentina		813394	2.9	-7	32	377	303		1989	-130	-595	-271	-216
Brazil		127331	0.9	1	11	15	16		212	-8	-8	-56	-62
Chile		5797	0.4	0	7	10	10		126	-8	-16	-22	-6
Colombia		1147	0.7	1	5	-7	-11		302	-14	-27	-106	-70
Mexico		54060	2.4	2	9	5	12		351	-4	-20	-35	-30
Peru		21934	-0.9	-1	1	-2	3		142	-11	-18	-34	-38
Hungary		57926	0.1	3	3	25	32		171	-10	-26	-62	-51
Poland		76168	2.6	2	6	34	33		104	-5	-7	10	31
Romania		14712	0.0	0	3	25	26		210	1	-4	-58	-45
South Africa		75713	0.2	0	9	1	4		340	-14	-47	-21	-27
Turkey		8049	1.3	1	7	60	46		357	0	-36	-113	-83
Ukraine		507	0.0	0	0	-2	-2		3794	127	183	81	-285
EM total		40	-0.2	0	7	0	4		365	-11	-39	-21	-10

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

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