



- US bank stocks gained amid the bond rally ([link](#))
- ON-RRP balance has fallen rapidly as MMF shifted towards Treasury holdings ([link](#))
- Markets price in more BoE rate cuts in 2024 after GDP data disappoints ([link](#))
- Argentina announces large currency devaluation and cuts in fiscal expenditure ([link](#))
- Slower inflation in Brazil validates expectations for another expected rate cut today ([link](#))
- China's export prices decline significantly on excess inventories and weak yuan ([link](#))
- Rand weakens after inflation eases, albeit marginally less than expected ([link](#))

[Mature Markets](#)


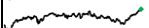


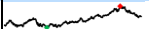
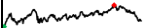





[Emerging Markets](#)

[Market Tables](#)

VIX Hits Yearly Lows, Signaling Sanguine Sentiment

The VIX has yesterday reached a new yearly low, approaching levels last seen in January 2020. Equity markets continued their rotation from the Magnificent Seven into the Nasdaq 100. The decline in oil prices suggests continuation of the disinflation while the restrained response to specific elements in yesterday's November CPI report (e.g., stronger rents, higher used car prices, and an increase in the super-core measure), akin to the subdued reaction following last Friday's increase in average hourly wages, signals a considerable hurdle for significant adjustments in rate cut expectations. For today's Fed meeting, market consensus is that the dot plot will show two rate cuts. Market contacts expect Chair Powell to repeat his verbiage from before the blackout period that it "would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease."

Key Global Financial Indicators

Last updated: 12/13/23 8:29 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4644	0.5	2	5	16	21
Eurostoxx 50		4542	0.2	1	7	14	20
Nikkei 225		32926	0.3	-2	1	17	26
MSCI EM		39	0.0	1	2	2	4
Yields and Spreads			bps				
US 10y Yield		4.18	-1.5	8	-46	68	30
Germany 10y Yield		2.20	-2.4	0	-51	28	-37
EMBIG Sovereign Spread		398	0	-6	-32	-57	-54
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.6	0.0	0	1	-5	-5
Dollar index, (+) = \$ appreciation		103.9	0.1	0	-2	0	0
Brent Crude Oil (\$/barrel)		73.8	0.5	-1	-11	-9	-14
VIX Index (%, change in pp)		12.2	0.2	-1	-3	-10	-9

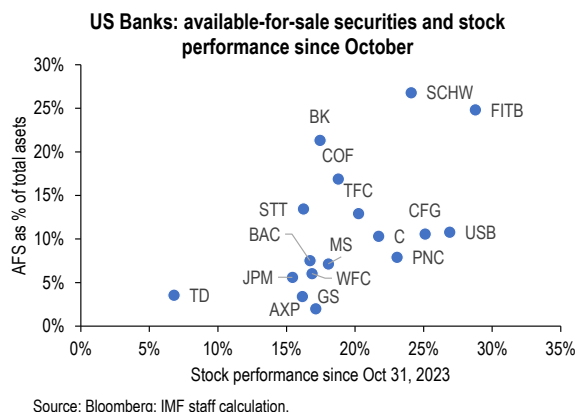
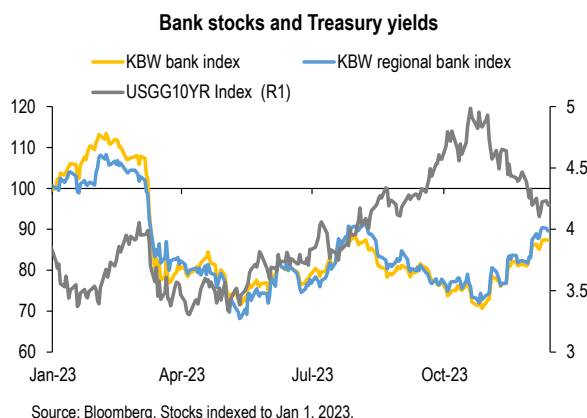
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

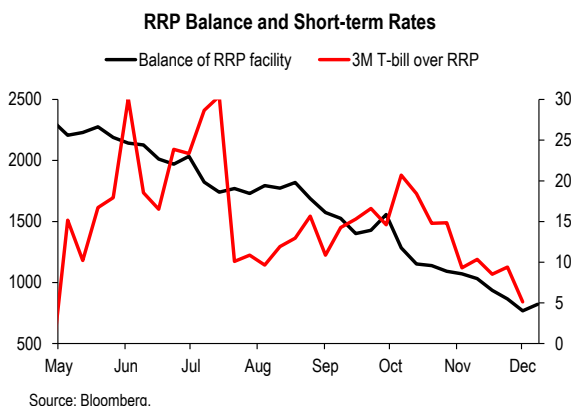
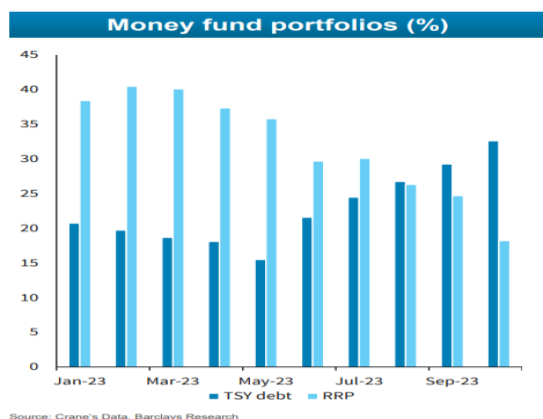
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United States

Bank stocks have rallied amid the bond rally as it relieves unrealized losses from banks' securities portfolio. US banks incurred over \$35 bn unrealized losses on available-for-sale securities in Q3, pushing the aggregate accumulated other comprehensive income to negative \$337 bn, according to S&P. Treasury yields have tumbled since late October, supporting the market value of low-yielding assets in banks' portfolio. This has fueled a recovery in bank stocks since November (+16%), outpacing the gains in S&P 500 (+13%), particularly for those banks that hold more securities with the accounting designation available for sale whose valuation has been recovering with the declining rates.



The balance of the overnight reverse repo (ON-RRP) facility has fallen rapidly as money market funds sharply increased Treasury holdings. Since May, money market funds have increased their holdings of Treasury securities by over \$1.1tn while cash holdings at the Fed declined by \$1tn as Treasury bills started offering a yield advantage over the award rate of the ON-RRP (left chart). Money market funds also nudged up their weighted average maturity in Treasury bills, reversing to a historical average of around 35 days. From a monetary perspective, the absorption of Treasury bills by money market funds makes their allocation shifts critically intertwined to bank reserves. This is because shifts into Treasury bills prevents hedge funds and other investors from withdrawing bank deposits to buy those securities, which this year has helped bolstering bank reserves that would have otherwise declined. As policy rate expectations increasingly shifting towards easing, the spread between Treasury bill yields and the ON-RRP is becoming narrower (right chart), which Barclays analysts see as a harbinger of a slowing pace of ON-RRP outflows. Conversely, this may imply that the drain of liquidity is set to accelerate. Within the banking sector, reserves have risen at larger institutions in both nominal terms and as a share of assets, in contrast to a decline on both measures at smaller banks.

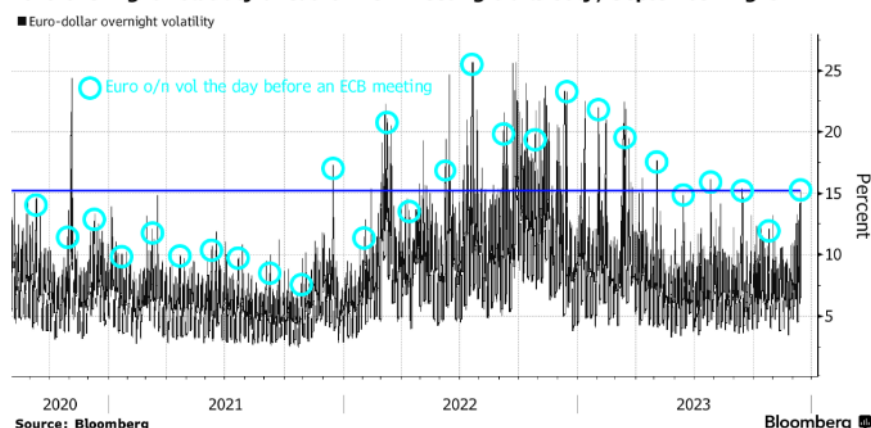


Euro Area

Euro area sovereign yields continued to ease while the euro was marginally weaker against the dollar ahead of the ECB policy meeting tomorrow. The euro was trading at around €1.079/\$ with overnight volatility in the euro increasing to its highest level in three months, although it remains slightly lower than levels seen prior to the ECB meetings in July and September. Euro area sovereign yields were lower, with the 10y bund yield declining by -4bps to 2.18%. On the data front, euro area industrial production for October came in below expectations at -0.7%SA m/m (exp. -0.3% from -1.0%).

No Snoozefest But No Party Either

Euro overnight volatility ahead of ECB meeting trails July, September highs

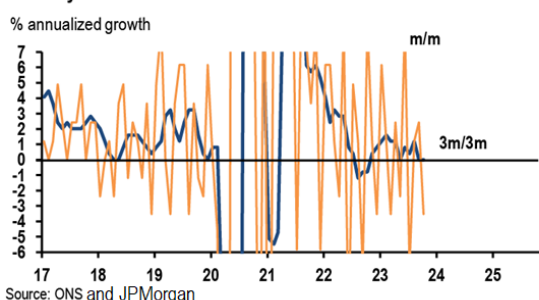


European equities were trading higher with mixed performances across sectors. The Stoxx 600 equity index increased by +0.2% while the banking sector declined by -0.2%. Bloomberg reports that final negotiations on the Corporate Sustainability Due Diligence Directive are set to start later today, with views split regarding whether the finance industry should face civil liability risks for human rights and environmental violations in their value chains.

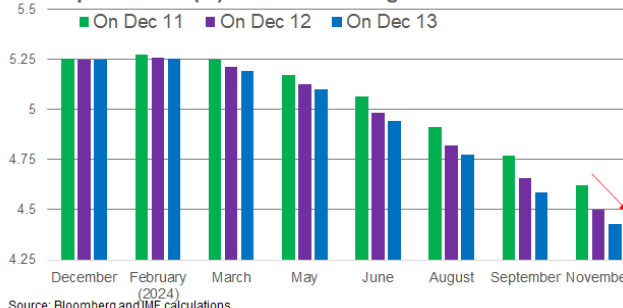
United Kingdom

Markets have further scaled up expectations for 2024 BoE rate cuts. Monthly October GDP data printed lower than consensus expectations at -0.3%m/m (exp. -0.1% from +0.2%). Following data released yesterday depicting UK wage growth slowing more than expected, the latest data confirms the perception of an increased slowdown of the UK economy, prompting Goldman Sachs analysts to mark down their 2023 annual economic growth estimate to +0.5% from +0.6%. Markets are now pricing in -31 bps BoE rate cuts by June 2024 (compared to -27bps yesterday), bringing the cumulative rate cuts by November to -82bps (compared to -75bps yesterday). The pound weakened against the dollar (-0.3% to 1.25/\$) and 10y gilt yields rallied by -8bps to 3.88%.

Monthly GDP



Implied rates (%) for BoE meeting dates



Emerging Markets

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In Asia, equity markets and currencies weakened. Only Malaysia's stock markets posted nimble gains (+0.1%) while China's (-1.7%) and Thailand's (-1.2%) led the descent. In currencies, the Philippine peso was weakest (-0.9%), followed by the Malaysian ringgit (-0.5%) while the Chinese yuan and Indian rupee remained flat.

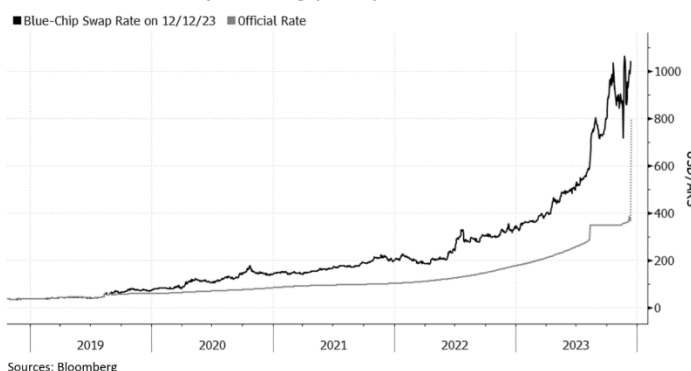
EMEA equity markets posted mixed results, while currencies were mostly weaker against the dollar. Equity markets in Türkiye (-1.7%) were underperforming while equities in Egypt (+1.8%) outperformed. CEE currencies were mostly stronger against the euro, with the Hungarian forint, outperforming (+0.1% to 381.75/€). On the data front, inflation in Romania surprised on the downside in November at +6.7%/y (exp. 7.2% from 8.1%). ING analysts expect inflation to pick up again in Q1 2024 and continue to expect the first rate cut in Q2 2024.

Yesterday, Latin American regional stock markets and currencies mostly gained. In Brazil, however, the markets continued to slide as equities and the currency were down -0.4% and -0.6%, respectively. Argentine's regional stock market outperformed, gaining +3.4%. Other major regional currencies appreciated due to a broader weakening in USD, except for the Colombian peso that depreciated -0.3%.

Argentina

Yesterday, the administration announced a set of measures aimed at addressing macroeconomic concerns. Key is the devaluation of the currency to 800/\$ from the current 366.5/\$, which will be supplemented by a provisional increase of import levies. However, the devaluation still leaves a gap from the parallel exchange rate, which has lately been trading above 1000/\$. In addition, the administration has announced reduction in fuel and transportation subsidies, halving of the number of ministries, reduction in

Devaluation doesn't fully close the gap with parallel rates

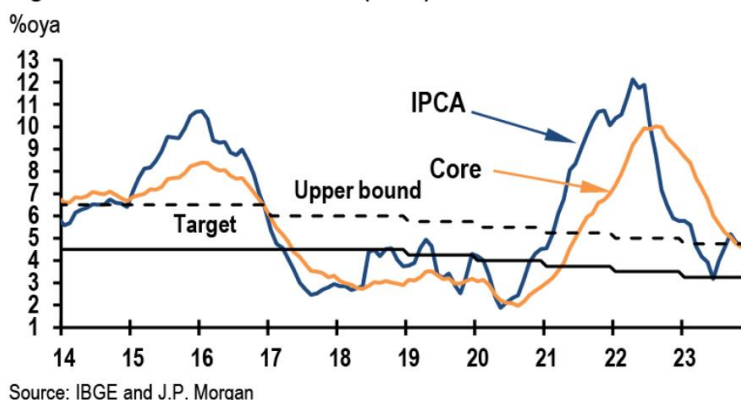


transfer payments to provinces, and suspension of public works. The expectation is that these spending cuts will reduce fiscal expenditure by 2.9% of GDP in 2024. While market analysts acknowledge these steps to be in the right direction, they await more clarity on the details of implementation of these measures. Media reports also expect the country's central bank to make an announcement on its new crawling peg regime today.

Brazil

Inflation continues to decelerate in November validating consensus expectations. Headline printed at 4.7% y/y (exp. 4.7% from 4.8%). An average over 5 main core inflation measures also cooled to 4.56% y/y (down 15 bps sequentially), however inflation in services remains elevated due to tight labor conditions. With latest data prompting core inflation to approach the upper bound of the central bank's inflation tolerance band (4.75%), market analysts expect a -50bps policy rate cut today.

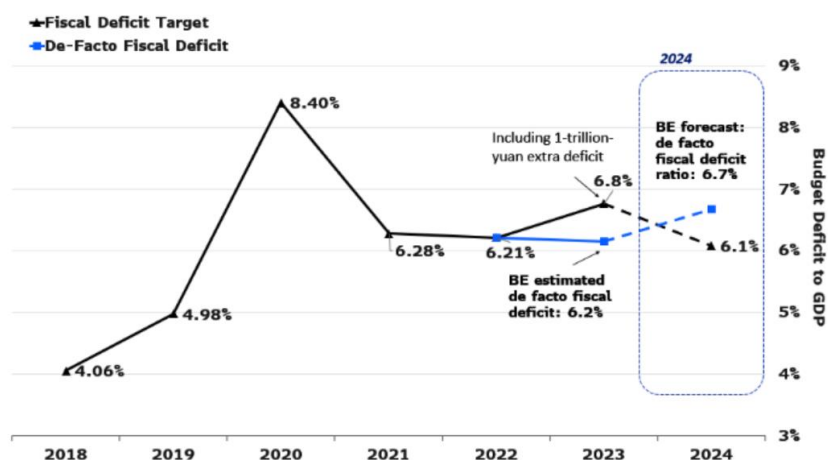
Figure 5: Headline and core CPI (IPCA)



China

Fiscal policy is set to become more pro-active role in 2024. Bloomberg analysts believe fiscal stimulus will be crucial for China's economy next year. Growth has been weak in 2023 partly because the government disbursed less of its budgeted funds than in 2022, and the recovery will not gain traction in 2024 unless this changes, as the private sector is unlikely to provide meaningful growth impetus. What supports analysts' confidence is the Politburo's meeting statement released last week, suggesting that the fiscal policy will be stepped up appropriately, hinting at a high government deficit in 2024.

Fiscal Pivot



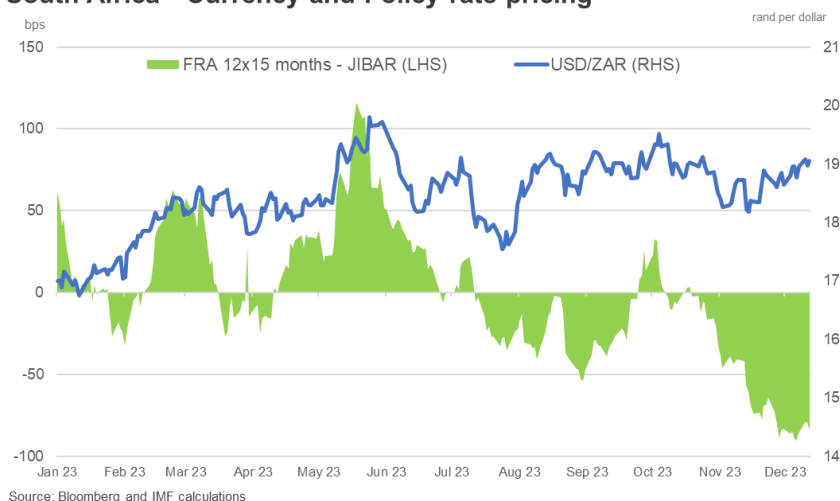
Export prices have declined significantly over the past year. Nikkei newspaper reported that prices of 70% of China's major exports, including steel products and cars, have declined over the last year as companies have increasingly chosen to sell excess inventories abroad at low prices given the stagnated domestic demand. These "deflationary exports" from China can ease inflationary pressure overseas. At the same time, they could also spark debate about trade frictions, as Chinese companies are taking advantage of the weak yuan to lower dollar-denominated prices and improve their competitiveness abroad.



South Africa

The rand weakened after data showed headline inflation easing in November, albeit by less than anticipated. Incoming November data shows that headline inflation eased to 5.5%/y (exp. 5.4% from 5.9%), while core inflation increased to 4.5% (exp. 4.4% from 4.4%). A separate data release showed retail sales disappointing in October at -1.2%/m (exp. +0.1% from revised -0.1%). The South African rand weakened against the dollar by -0.6% to 19.09/\$ and is now roughly -11% weaker than at the start of the year.





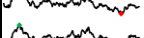
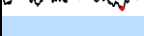
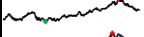


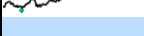









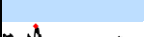
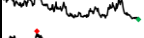
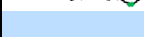


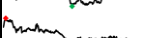
South Africa - Currency and Policy rate pricing



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (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 Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), 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), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Ying Xu (Economist), 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.

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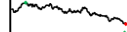



















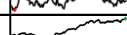
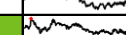




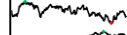


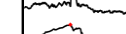



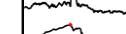



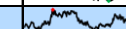
Global Financial Indicators

12/13/23 8:28 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4646	0.5	2	5	16	21
Europe		4542	0.2	1	7	14	20
Japan		32926	0.3	-2	1	17	26
China		3370	-1.7	-1	-6	-15	-13
Asia Ex Japan		65	0.1	1	1	-2	0
Emerging Markets		39	0.0	1	2	2	4
Interest Rates			basis points				
US 10y Yield		4.18	-1.5	8	-46	68	30
Germany 10y Yield		2.20	-2.4	0	-51	28	-37
Japan 10y Yield		0.69	-2.7	6	-18	44	27
UK 10y Yield		3.88	-8.6	-7	-44	58	21
Credit Spreads			basis points				
US Investment Grade		137	-0.7	-5	-18	-17	-22
US High Yield		412	1.4	-8	-21	-39	-69
Exchange Rates			%				
USD/Majors		103.93	0.1	0	-2	0	0
EUR/USD		1.08	-0.1	0	1	1	1
USD/JPY		145.6	0.1	-1	-4	7	11
EM/USD		47.6	0.0	0	1	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		73.8	0.7	-1	-10	-5	-9
Industrials Metals (index)		134	-0.1	0	-3	-20	-19
Agriculture (index)		64	-0.3	1	-4	-4	-7
Implied Volatility			%				
VIX Index (% change in pp)		12.2	0.2	-0.7	-2.5	-10.3	-9.4
Global FX Volatility		7.9	0.0	0.2	0.3	-2.1	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		123	1.4	7	-3	-83	-82
Italy		177	-1.2	3	-8	-11	-38
Portugal		67	-0.1	1	-5	-25	-35
Spain		100	-1.3	1	-5	-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: 12/13/2023 8:27 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		7.18	0.0	-0.2	2	-3	-4		2.6	0.5	-2	-3	-53	-44
Indonesia		15660	-0.3	-1.1	0	0	-1		6.8	6.7	17	-10	-20	-18
India		83	0.0	-0.1	0	-1	-1		7.3	-4.0	-3	-24	3.3	-14
Philippines		56	-0.9	-1.4	0	0	-1		5.9	0.0	0	0	-9	-9
Thailand		36	-0.4	-1.8	1	-3	-3		2.8	2.7	1	-39	30	19
Malaysia		4.71	-0.5	-0.8	0	-6	-6		3.9	8.3	12	-4	-26	-19
Argentina		475	-22.8	-23.4	-26	-64	-63		80.8	-652.2	-1923	-2965	-832	-738
Brazil		4.97	-0.2	-1.4	-1	7	6		10.9	-3.3	6	-41	-240	-168
Chile		877	-0.2	-0.6	5	-2	-3		5.0	-3.5	4	-41	-9	-31
Colombia		3995	0.0	0.1	1	19	21		8.1	0.0	21	-32	-176	-166
Mexico		17.34	-0.2	-0.3	2	13	12		8.8	-1.0	12	-31	56	10
Peru		3.8	0.0	-0.4	1	2	1		7.1	0.1	7	-13	-64	-90
Uruguay		40	-0.3	-2.2	0	-3	0		9.7	0.6	5	-2	-114	-100
Hungary		353	0.2	0.0	0	9	6		6.2	-4.0	-12	-110	-230	-345
Poland		4.01	0.0	0.3	3	10	9		4.5	-7.1	1	-50	-94	-163
Romania		4.6	-0.1	0.1	1	0	0		6.6	0.1	8	-11	-89	-110
Russia		89.8	0.5	3.5	2	-30	-17							
South Africa		19.1	-0.6	-0.7	-2	-10	-11		9.2	-6.0	1	-37	7	2
Turkey		29.06	-0.1	-0.5	-2	-36	-36		26.7	-7.0	-11	-503	1571	1687
US (DXY; 5y UST)		104	0.1	-0.2	-2	0	0		4.21	-1.4	10	-46	55	20

	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
								basis points						
China		3370	-1.7	-1	-6	-15	-13		154	0	-9	-29	-23	
Indonesia		7075	-0.7	0	3	4	3		105	-12	-21	-53	-35	
India		69585	0.0	0	7	11	14		110	-10	-18	-32	-32	
Philippines		6256	-0.6	-1	2	-5	-5		85	-12	-17	-34	-12	
Thailand		1358	-1.2	-2	-2	-17	-19		0	0	0	0	0	
Malaysia		1448	0.1	0	0	-2	-3		85	-2	-7	-11	-15	
Argentina		1010022	3.4	19	59	510	400		1894	-44	-588	-398	-311	
Brazil		126395	-0.4	1	5	22	15		216	1	-9	-50	-58	
Chile		5916	0.5	0	3	13	12		128	1	-18	-11	-4	
Colombia		1149	0.7	0	4	-7	-11		301	3	-14	-82	-71	
Mexico		54439	0.1	1	6	8	12		363	12	-3	-19	-18	
Peru		22150	0.2	-1	3	3	4		152	7	-10	-20	-28	
Hungary		58869	-0.2	1	3	31	34		162	-6	-28	-57	-60	
Poland		77086	0.3	0	8	34	34		102	-7	-13	26	29	
Romania		15181	0.3	2	4	25	30		203	-1	10	-48	-52	
South Africa		72926	0.4	-3	2	-4	0		345	-2	-30	-44	-22	
Turkey		7620	-1.7	-3	1	45	38		344	-14	-38	-97	-96	
Ukraine		507	0.0	0	0	-2	-2		3683	-126	192	-274	-396	
EM total		39	-0.3	1	2	2	4		358	-5	-39	-18	-17	

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

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