



- Italian spreads narrow after PEPP reinvestment announcement ([link](#))
- Euro area sovereign yields continue to decline after euro area flash PMI disappoints ([link](#))
- UK PMI surprises on the upside ([link](#))
- PBOC injected a record amount of 1.45 trillion yuan via one-year policy loans ([link](#))
- Mexico's central bank delivers a hawkish hold ([link](#))
- **Special Feature: 3Q23 GSIB Report (Attached)**

[Mature Markets](#)

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Markets try to settle for a brief winter's nap

With the New Year approaching, all through the markets / Traders were nervously assessing Fed targets
Inflation easing, the economy buoyant / Expectations of cuts seemingly clairvoyant

Could a cut come as early as March or May? / Or will caution warrant additional delay?

Early this week, we had a surprise from the DOTs / That has ingrained the thought they may cut quite a lot
As the board continues to seek a soft landing / Markets just hope this is no misunderstanding

Across the Atlantic, inflation was falling / Ease policy rates soon, the markets were calling

Too soon to declare victory, officials say / Wage pressures loom, the ECB tries to convey

During the meeting this week, no cuts were discussed / But investors believe that soon they will adjust

Emerging central banks that hiked early and large / With easing are now expected to lead the charge


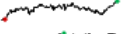
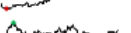

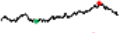
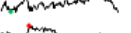
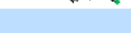


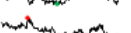
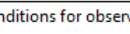
For a few EMs, cuts have already started / But concerns of outflows may make them more guarded

So now as we look ahead into the New Year / Let us hope that investors have nothing to fear

May markets be stable and economies strong / And policymakers guide us to where we belong

Programming Note: The Global Markets Monitor is going on vacation and will return on January 8.

Key Global Financial Indicators

Last updated: 12/15/23 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				
S&P 500		4720	0.3	3	5	21	23
Eurostoxx 50		4555	0.3	1	6	19	20
Nikkei 225		32971	0.9	2	-2	20	26
MSCI EM		40	1.5	3	1	7	6
Yields and Spreads			bps				
US 10y Yield		3.91	-1.4	-32	-62	46	3
Germany 10y Yield		2.04	-8.1	-24	-61	-5	-53
EMBIG Sovereign Spread		390	-18	-9	-44	-66	-62
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		48.0	-0.3	1	0	-4	-4
Dollar index, (+) = \$ appreciation		102.2	0.2	-2	-2	-2	-1
Brent Crude Oil (\$/barrel)		77.1	0.7	2	-5	-5	-10
VIX Index (% change in pp)		12.1	-0.4	0	-2	-11	-10

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

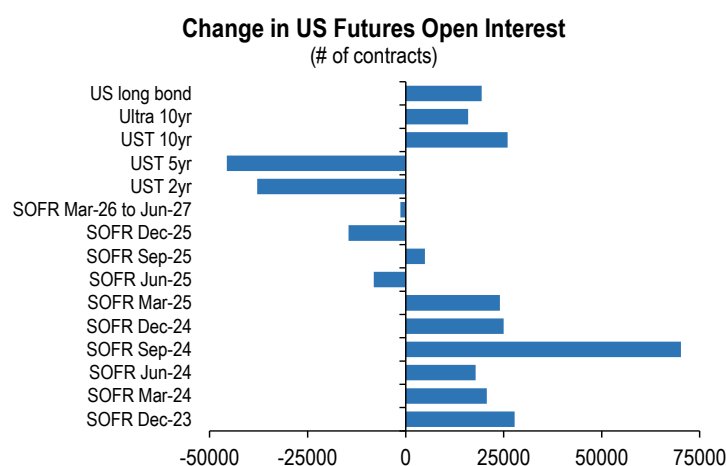
Mature Markets

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United States

The post-FOMC rally extended for a second day though both stocks and Treasuries eased from session highs. Some investors worried that the recent moves went too far and too fast, while others pointed to technical factors as repositioning flows are mostly through the system. The Treasury curve flattened with 2-year yield down 4 bp and 10-year yield down 10 bp to close below the 4% mark. Stocks closed modestly higher, as investors shifted into more rate-sensitive, cyclical and underperformed sectors, with small cap, energy, real estate and materials outperforming at the expense of tech and utilities. This morning, markets are experiencing some stability with treasury yields essentially unchanged from yesterday's close while equity futures are pointing to mild gains once markets open.

The large move in Treasury yields after the FOMC meeting was boosted by investor positioning, specifically by short covering in the front and belly of the curve and new long positions in the back end. In SOFR futures, investors added new long positions as they ramped up rate cut expectations for next year and beyond. Open interest increased by a combined 185,500 contracts worth about \$4.6mn of DV01 (dollar value of 1 basis point) from the Dec23 tenor out to the Mar25 tenor. In 2- and 5-year Treasury futures, open interest dropped a combined \$3.5mn DV01 indicating some short covering. In the longer bond futures, a combined \$7.3mn DV01 of positions was added.



Source: As of Dec 13, 2023. Bloomberg.

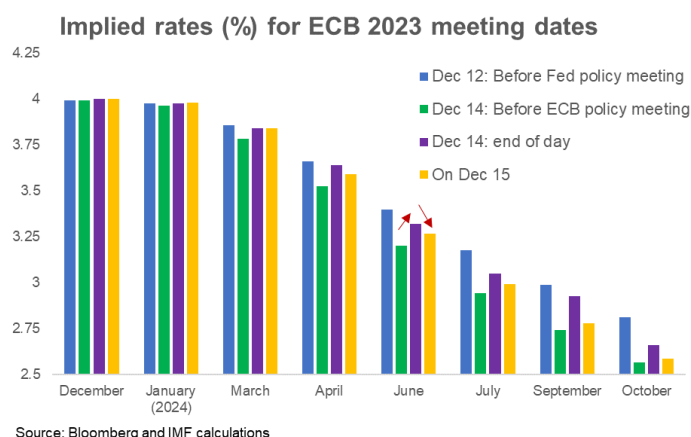
Europe

European equities were mostly trading higher while sovereign yields continued to decline, and the euro weakened. The Stoxx 600 equity index was 0.2% higher, adding to yesterday's gains when it closed at a 22-month high with contacts pointing to the impact of the Fed's policy meeting.

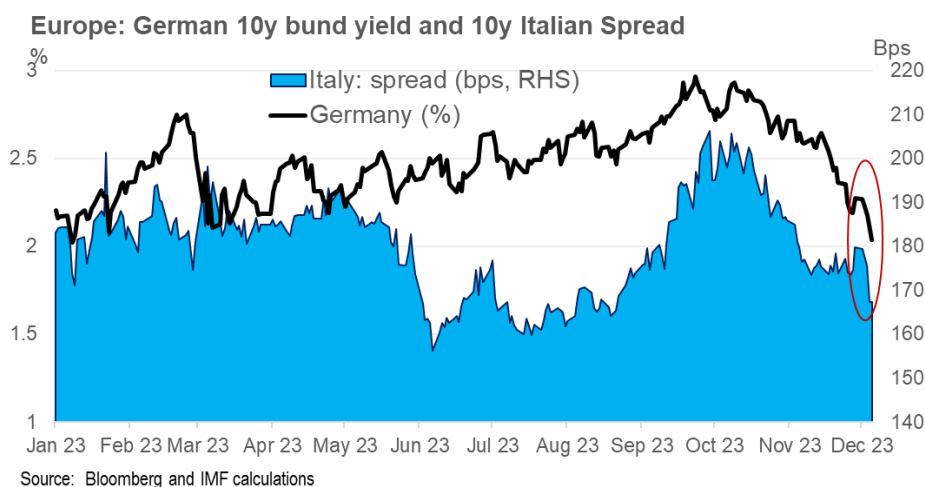
Sovereign yields continued to ease this morning (10y bund -7bp to 2.04%) after eurozone December flash PMI data disappointed. The composite index fell to 47.0 while the market was expected an increase (to 48.0 from 47.6). The decline was driven by the services index (48.1 versus expected 49.0 from 48.7). S&P Global noted that the "likelihood of the eurozone being in a recession since the third quarter remains notably high". **The euro weakened against the dollar (-0.3% to 1.096).**

Markets scaled back 2024 ECB rate cut expectations slightly after the ECB's policy meeting. As expected, the ECB left its policy rates unchanged at their meeting yesterday. It was seen as somewhat of a hawkish hold, but contacts note that the policy statement had some dovish tweaks. For example,

compared to the previous policy statement, wording that inflation is expected to stay too high for too long was replaced with "Inflation is expected to decline gradually over the course of next year". However, the statement maintained that "the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal." Inflation and growth forecasts were mostly revised downwards, but revisions were not seen as large overall. In the press conference President Lagarde said that "we should absolutely not lower our guard" and that "we did not discuss rate cuts at all". The euro closed the day 1.1% stronger at 1.993 against the dollar and briefly traded above 1.10. Markets tapered expectations for ECB 2024 rate cuts after the meeting (to roughly 134bp of easing by October, compared to 143bp before the meeting). **This morning markets are again pricing in more ECB rate cuts in 2024, following disappointing PMI data.** The market is now close to fully pricing in three 25bp rate cuts by June, with 140bp of rate cuts priced in by November.



The spread between 10y German and Italian sovereign yields narrowed to levels last seen in August 2023 after the ECB announces delayed and gradual reduction in PEPP reinvestments. Yesterday, the ECB announced that the PEPP portfolio would be reduced by €7.5bn per month on average over H2 2024, and that reinvestments under PEPP would be discontinued by year-end 2024. Italian 10y spreads narrowed (-8bp to 167bp) after the announcement, with contacts noting that the announced PEPP reinvestment tapering is more cautious than had been anticipated. Some analysts also noted that the impact of the decision is likely to be limited as the effect on the ECB's balance sheet is small and the flexibility of PEPP reinvestments would still be available for a while. Other analysts warn that market pressures could intensify in 2024, noting that the end of PEPP reinvestments adds to large amounts of issuance that would have to be absorbed in 2024.



United Kingdom

UK flash composite PMI data surprised on the upside in December, increasing to a six-month high of 51.7 (versus expected 51.0 from 50.7). The increase was led by a larger-than-expected increase in services PMI (to 52.7 from 50.9), while manufacturing PMI deteriorated (to 46.4 from 47.2). Separately, **GfK consumer confidence index improved to a 3-month high in December**, in line with expectations. JPMorgan analysts, who had earlier this week revised down Q4 GDP growth forecasts to zero, note that positive PMI momentum increases confidence that GDP growth could turn positive early next year. **Markets tapered back expectations for BoE rate cuts in 2024 somewhat**, with markets now pricing in 95bp of rate cuts by November (compared to 96bp yesterday and 63bp at the start of the week), Gilt yields were lower (10y gilt -4bp to 3.74%) while the pound was little changed against the dollar.

Emerging Markets

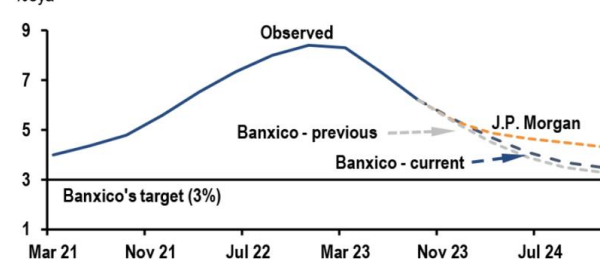
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EMEA equity markets were mostly trading higher, and currencies were mostly weakening, while local currency sovereign debt yields continued to ease. Equity markets in Türkiye (+2.0%) and Poland (+1.8%) outperformed, while those in Bulgaria (-0.5%) continued to decline. CEE currencies were weaker against the euro, with the Hungarian forint (-0.2%) underperforming. On the central bank front, **Ukraine cut its key policy rate by 100bp to 15% yesterday**, as expected. **Russia hiked its policy rate by 100bp to 16%, as expected**, with the central bank noting that inflationary pressures remain high. **LatAm markets rallied on Thursday.** Equities in Mexico (3.4%), Peru (+3.2%) and Chile (2.1%) saw the largest gains, while others closed the day 0.8-1.1% higher. Regional currencies also appreciated, in line with the broader trend in EM currencies. The Chilean peso, however, stood out as it gained 1.2% on stronger copper prices.

Mexico

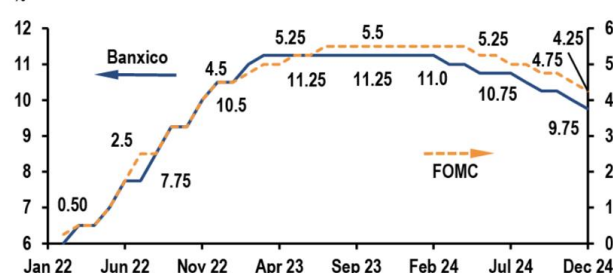
Mexico's central bank (Banxico) unanimously decided to hold the policy rate at 11.25%, in line with expectations. However, the bank surprised markets by adopting a hawkish tone as it underscored its concerns over persistence in core inflation and revised the 2024 inflation projections upwards. In addition, it guided to keep the policy rates on hold "for some time". As a result, market analysts are now attaching a lower probability to a rate cut in February 2024. In local markets, the swap rates rose by 3–5 bp for 6–12 month tenors yesterday. The currency, which is still seen as a contender for carry trade, appreciated 0.3% in tandem with the performance of broader EM currencies.

Quarterly inflation path: Core inflation
%oya



Source: INEGI, Banxico and J.P. Morgan forecasts. Last update for Banxico Dec 14, 2023

Banxico vs. Fed policy rate outlook
%



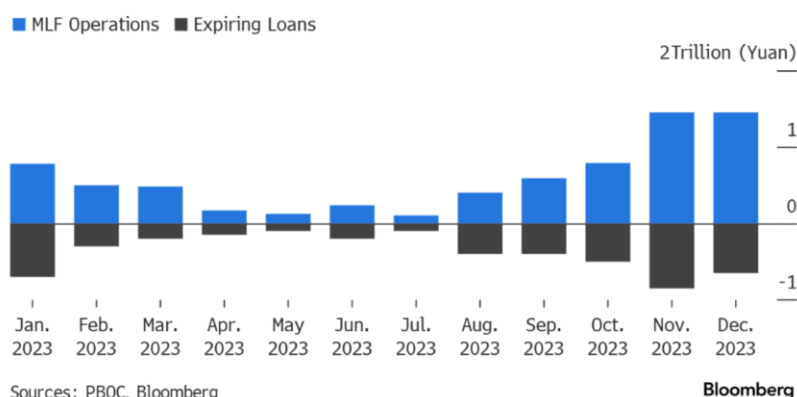
Source: J.P. Morgan forecasts. Updated November 23 (Banxico) and December 13 (FOMC)

China

People's Bank of China injected a record 1.45 trillion yuan (\$204 billion), through one-year policy loans to support the economy amidst a housing slump and weak demand. The 800-billion-yuan (\$112 billion) net increase is the most significant since 2016 and is more than twice the amount expected by analysts. This signals a commitment to easing monetary policy. The move comes as Beijing grapples with the challenging task of selling an additional 1 trillion yuan in the last quarter to finance stimulus. Economic struggles persist

due to a weaker-than-expected rebound from the pandemic. November's industrial production exceeded expectations, but a 9.4% plunge in property development investment highlights ongoing economic difficulties.

China Injects Most Liquidity Since 2016 to Revive Economy

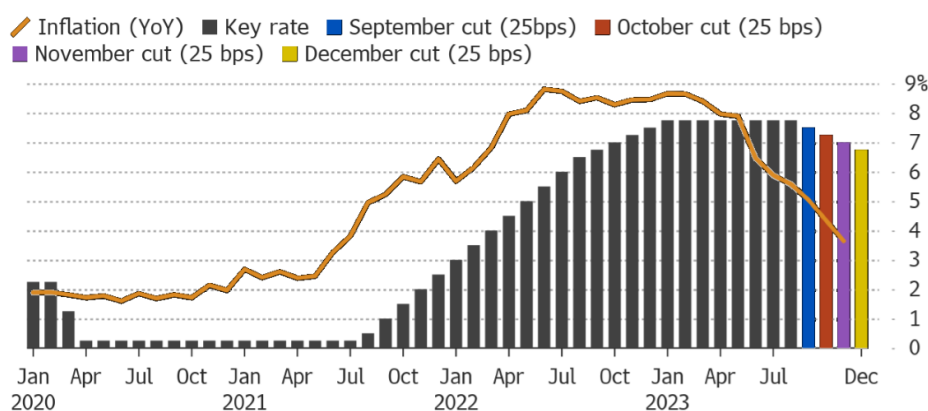


Peru

Central bank (BCRP) cut its policy rate by 25bp to 6.75%. Considering the deceleration, the central bank is expecting inflation to fall inside the tolerance band “within the coming months”. Market analysts observed that while the inflation trajectory, weak domestic economic outlook, and benign external financial conditions provided BCRP room to accelerate the pace of rate cuts, it chose to stay the course owing to inflation being above target, political uncertainty, and unfavorable weather conditions.

Peru Cuts Key Rate by Quarter-Point for Fourth Straight Month

Central bank extends monetary easing cycle to trim benchmark to 6.75%



Sources: National statistics agency, central bank, Bloomberg.

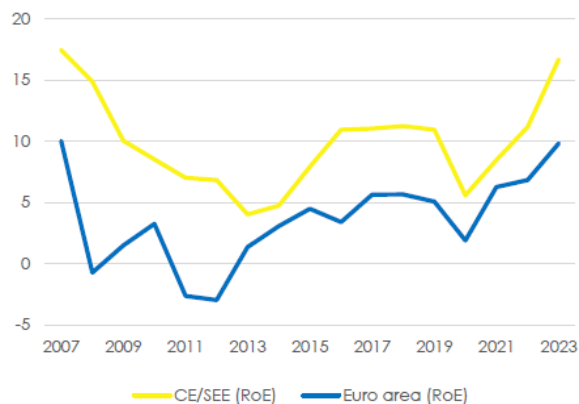
Bloomberg

Central and Eastern Europe

The banking sector in Central and Eastern Europe (CEE) is expected to post record profits in 2023, according to Raiffeisen analysts. Whilst higher interest rates have supported net interest margins (NIMs) and is the main driver of profitability, cost optimization efforts from prior years are also providing a supportive tailwind. Analysts anticipate that Return on Equity (RoE) could exceed 20% across the region, a level last seen in 2005/06, despite several headwinds in the region ranging from geopolitical instability, external shocks and FX/rates volatility. Excluding Eastern European markets (Russia, Ukraine), CEE/SE banks' RoE sits around 6–7ppts above euro area banks (see chart below). Analysts at Raiffeisen expect these record profits to be subject to windfall taxes, with Ukraine, Romania, Slovenia and Slovakia to follow

Hungary and the Czech Republic where such levies were introduced in 2022. Of particular note, banks in Russia are expected to record RoE of around 27% in 2023—despite the on-going conflict with Ukraine which the report suggests demonstrates the strength of domestic banking trends. Large macro-financial assistance to Ukraine may see its banks post RoE in excess of 50%. According to the report, as Western banks have exited from Russia, Chinese banks have increased their presence in the country with a growing role in transactional business and are expected to facilitate foreign trade going forward. These record profits for the CEE banking sector are expected to revert to more “normal” levels in 2024 with analysts expecting greater divergence in performance across regions and business models.

CE/SEE vs. EA banking: RoE (%)



Source: national sources, ECB, RBI/Raiffeisen Research

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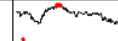




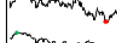









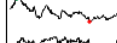


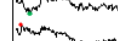

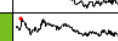
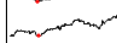



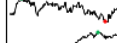





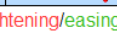
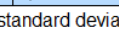




Global Financial Indicators

12/15/23 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4722	0.3	3	5	21	23
Europe		4555	0.3	1	6	19	20
Japan		32971	0.9	2	-2	20	26
China		3342	-0.3	-2	-6	-15	-14
Asia Ex Japan		66	1.4	3	0	2	3
Emerging Markets		40	1.5	3	1	7	6
Interest Rates			basis points				
US 10y Yield		3.91	-1.4	-32	-62	46	3
Germany 10y Yield		2.04	-8.1	-24	-61	-5	-53
Japan 10y Yield		0.70	2.2	-7	-11	44	27
UK 10y Yield		3.75	-4.2	-29	-48	50	8
Credit Spreads			basis points				
US Investment Grade		131	-0.3	-8	-19	-24	-27
US High Yield		392	0.8	-19	-35	-74	-88
Exchange Rates			%				
USD/Majors		102.16	0.2	-2	-2	-2	-1
EUR/USD		1.09	-0.5	2	1	3	2
USD/JPY		141.7	-0.1	-2	-6	3	8
EM/USD		48.0	-0.3	1	0	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		77.1	0.7	2	-5	0	-4
Industrials Metals (index)		139	0.4	3	-1	-15	-16
Agriculture (index)		64	0.0	0	-4	-5	-7
Implied Volatility			%				
VIX Index (% change in pp)		12.1	-0.4	-0.3	-2.1	-10.8	-9.6
Global FX Volatility		8.0	0.0	0.1	0.6	-1.5	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		115	-1.7	-3	-9	-94	-90
Italy		169	1.3	-11	-11	-40	-46
Portugal		62	0.0	-5	-6	-37	-39
Spain		97	0.4	-6	-6	-11	-13

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

Emerging Market Financial Indicators

Last updated: 12/15/2023 8:06 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		7.11	0.0	0.9	2	-2	-3		2.6	0.5	-5	-6	-51	-46
Indonesia		15493	0.1	0.2	0	1	1		6.6	-6.5	-4	-38	-32	-37
India		83	0.4	0.5	0	0	0		7.1	-4.0	-21	-35	(11.3)	-34
Philippines		56	0.2	-0.5	0	0	0		5.8	-4.9	-3	-8	-17	-17
Thailand		35	0.1	2.0	2	1	-1		2.7	6.0	-8	-30	23	11
Malaysia		4.67	0.0	-0.1	0	-5	-6		3.7	0.6	0	-12	-27	-30
Argentina		801	-0.1	-54.6	-56	-78	-78		83.4	239.9	-1725	-2767	-525	-485
Brazil		4.94	-0.6	-0.2	-2	8	7		10.7	-5.0	-23	-48	-258	-191
Chile		871	-0.5	0.2	2	1	-2		4.8	0.0	-24	-43	-35	-54
Colombia		3973	-0.1	0.4	1	21	22		7.9	5.8	1	-25	-183	-187
Mexico		17.32	-0.7	0.2	0	14	13		8.5	1.5	-25	-39	24	-21
Peru		3.8	0.7	-0.2	0	2	1		6.7	-0.3	-19	-37	-107	-123
Uruguay		40	0.1	-0.8	0	-2	1		9.7	0.0	0	5	-114	-100
Hungary		349	-1.2	1.3	-1	9	7		5.8	-12.0	-49	-126	-295	-379
Poland		3.94	-0.5	2.3	3	12	11		4.3	-8.5	-25	-64	-145	-189
Romania		4.5	-0.4	1.6	1	2	2		6.3	-19.7	-19	-49	-118	-137
Russia		90.3	-0.9	1.7	-1	-29	-18							
South Africa		18.3	0.4	3.8	0	-4	-7		8.9	0.0	-33	-44	-16	-26
Turkey		29.05	-0.1	-0.3	-1	-36	-36		25.9	-38.0	-131	-540	1546	1602
US (DXY, 5y UST)		102	0.2	-1.8	-2	-2	-1		3.88	-2.0	-35	-63	27	-12

	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		3342	-0.3	-2	-6	-15	-14		155	1	-13	-34	-22	
Indonesia		7191	0.2	0	3	6	5		104	-4	-30	-62	-36	
India		71484	1.4	2	9	17	17		112	-3	-16	-31	-30	
Philippines		6478	1.1	4	4	0	-1		83	-3	-28	-43	-14	
Thailand		1391	0.9	1	-2	-14	-17		0	0	0	0	0	
Malaysia		1462	0.4	1	0	-1	-2		82	-4	-11	-19	-18	
Argentina		989696	-1.4	11	57	501	390		1826	-88	-678	-421	-379	
Brazil		130842	1.1	3	6	26	19		214	-2	-16	-61	-60	
Chile		6181	2.1	4	7	20	17		129	3	-17	-12	-3	
Colombia		1175	0.8	3	6	-4	-9		294	-5	-18	-90	-78	
Mexico		57036	3.4	5	8	16	18		342	-14	-26	-37	-39	
Peru		23366	3.2	6	6	11	10		149	3	-12	-34	-31	
Hungary		60761	0.5	4	5	36	39		156	-6	-41	-61	-66	
Poland		78913	1.9	2	7	40	37		103	-1	-19	22	30	
Romania		15412	0.8	3	5	29	32		205	7	-11	-44	-50	
South Africa		75290	0.0	1	1	3	3		328	-16	-45	-59	-39	
Turkey		7947	1.7	0	4	53	44		317	-36	-62	-140	-123	
Ukraine		507	0.0	0	0	-2	-2		3835	93	287	-124	-244	
EM total		40	0.1	3	1	7	6		349	-8	-50	-28	-26	

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

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