GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 8, 2023
LEAD EDITOR: SANJAY HAZARIKA

- **US jobs data came in stronger than expected** (link)
- **China has largest monthly increase in foreign reserves in 10 years** (link)
- **Economist survey predicts slower ECB rate cut path than market forecasts** (link)
- **Treasury yields in US could face further declines** (link)
- **Equity rally in US has made valuations much more expensive** (link)
- **Special Feature: EM and Frontier Market Issuance Monitor** (attached)

Mature Markets | Emerging Markets | Market Tables

US jobs data test market's faith in Fed rate cuts

The US jobs report was stronger than expected. Earlier, European stocks posted modest gains while US equity index futures were lower and Treasury yields were slightly higher. Markets finally got some good news on China as it reported the largest monthly increase in foreign exchange reserves in 10 years. The Reserve Bank of India stayed on hold at 6.5% as expected, while maintaining its hawkish rhetoric on inflation and upgrading its growth forecast for the year as the economy booms. A Bloomberg survey of economists found that the first ECB rate cut is not expected until June, and that a total of 75 bps of rate cuts is expected next year. This is in stark contrast with market forecasts, which predict the first rate cut in March or April and predict 150 bps of rate cuts in 2024. Meanwhile, oil prices are down 25% since the mid-September high, although they were up this morning. Strong supply from the US has countered the effects of supply cuts by OPEC+, putting pressure on the equity prices of oil companies such as Exxon and Chevron.

Key Global Financial Indicators

Last updated: 12/8/23 7:50 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4587	0.8	0	5	16	19
Eurostoxx 50		4498	0.5	2	8	15	19
Nikkei 225		32308	-1.7	-3	-1	16	24
MSCI EM		39	0.5	-1	2	0	3
Yields and Spreads			bps				
US 10y Yield		4.13	3.2	-1	-31	70	31
Germany 10y Yield		2.24	5.3	-12	-37	42	-33
EMBIG Sovereign Spread		399	-1	-6	-30	-75	-53
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.7	0.0	-1	0	-5	-4
Dollar index, (+) = $ appreciation		103.7	0.2	0	-2	-1	0
Brent Crude Oil ($/barrel)		75.6	2.1	-4	-5	-1	-12
VIX Index (%, change in pp)		13.0	0.1	0	-1	-9	-9

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

Mature Markets

back to top

United States

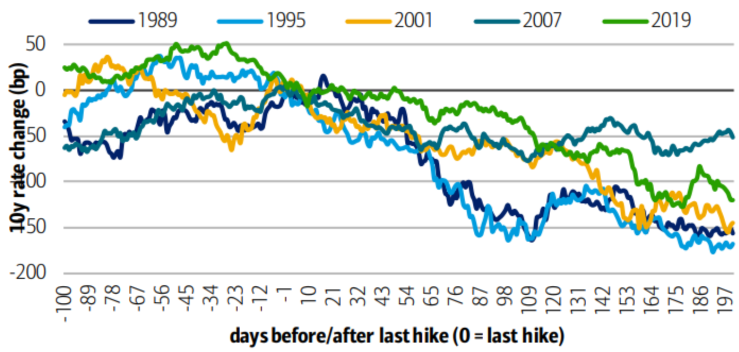
The latest job market data were stronger than expected, with the decline in the unemployment rate the most notable feature. Treasuries sold off sharply in response, while the dollar rallied. US equity index futures fell further.

Variable	Consensus Forecast	Actual Data
Non-Farm Payrolls	**+185K**	**+199K**
Unemployment Rate	**3.9%**	**3.7%**
Average Hourly Earnings (mom)	**0.3%**	**0.4%**
Average Hourly Earnings (yoy)	**4.0%**	**4.0%**

US Treasury yields could face further declines based on previous hiking cycles, according to research by Bank of America. Its analysts report that the benchmark 10-year Treasury yield typically falls an average of 107 bps between the last rate hike and the first rate cut, and usually to levels seen before the hiking cycle begins. Over the last five cycles, the decline has ranged from 72 bps to 163 bps. Today, the 10-year Treasury remains well above the 3.90% level seen before the commencement of the current rate hike cycle, suggesting there is room for further declines. Yields typically decline further as the Fed cuts its policy rate, so 10-year Treasuries could fall further towards the 3.50% mark.

Exhibit 1: Rates historically have rallied after the last hike

10y rate today is still above the 3.9% level of the assumed last hike of this cycle in July 2023.



Source: BofA Global Research, Bloomberg

Based on the past five cycles, the Fed begins to cut rate on average eight months after the last rate hike. If the data were to exclude the unusual case of the Greenspan pause in 2007, the average time for the first rate cut would be six months.

Exhibit 2: Past 5 cutting cycles started about 8 months after the last hike

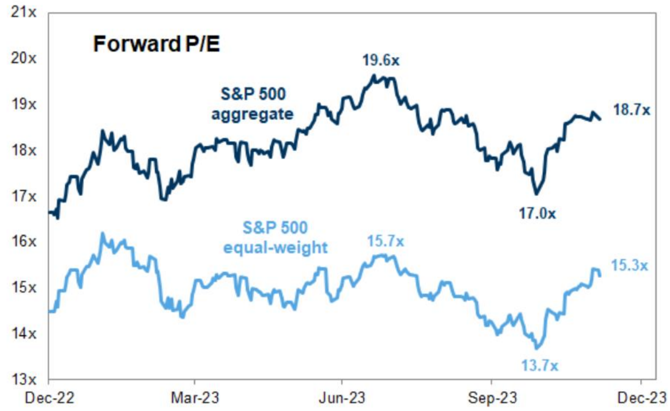
50bp cuts occurred in the bubble bursts of 2001 and 2007.

Last hike	First cut	months to 1st cut	size of 1st cut	% cuts in 1st year	months of cuts	total cuts	total hikes
2/24/1989	6/5/1989	3.3	-12.5	22%	40	-675	325
2/1/1995	7/6/1995	5.1	-25	100%	7	-75	300
5/16/2000	1/3/2001	7.7	-50	86%	30	-550	175
6/29/2006	9/18/2007	14.8	-50	65%	15	-500	425
12/19/2018	7/31/2019	7.4	-25	100%	3	-75	225
average		8	-33	75%	19	-375	290

Source: BofA Global Research

The sharp decline in bonds yields sparked a rally in US equities, although this has made valuations more expensive. The S&P 500 is up more than 10% over the past month, taking the valuation for the equal weighted index up to 15x earnings from 11x a month earlier, according to analysis by Goldman. The capital weighted index is at 19x. With the Fed Funds futures market predicting five rate cuts in 2024, there is a strong probability of further declines in Treasury yields, which could provide a further boost to equities. However, this highly optimistic scenario could be challenged at the next FOMC meeting on December 13. There is a big divergence between the FOMC's dot plot of interest rate forecasts and current market forecasts, and even a mildly hawkish statement or press conference could derail the rally.

Exhibit 1: Valuations have expanded alongside the decline in bond yields



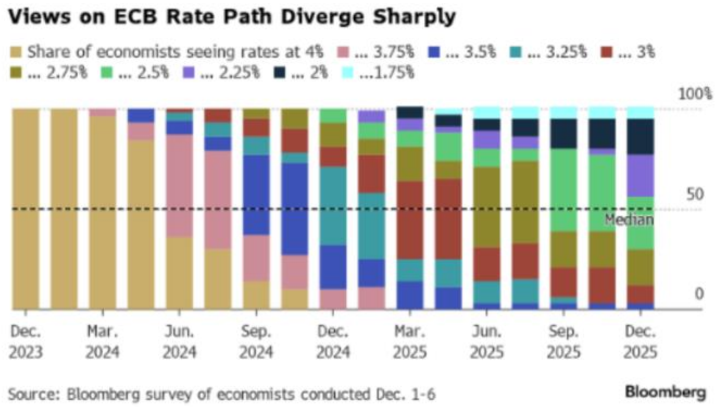
Source: FactSet, Goldman Sachs Global Investment Research

Euro Area

Ahead of the US jobs report due later today, European equities were mostly trading higher (Stoxx 600 equity index +0.3%) with the majority of sectors trading in the green. The euro was marginally weaker against the dollar this morning (trading at around €1.0771/$) with some contacts noting that dovish ECB rate repricing could have run its course. Euro area sovereign yields increased (10y bund yield +5bps to 2.24%). Bloomberg reports that EU finance ministers failed to reach an agreement on new fiscal rules.

The ECB is expected to leave rates unchanged at the policy meeting next week, with contacts focused on a possible signal of an earlier end to PEPP reinvestments and whether the ECB will push back against market expectations for major ECB rate cuts in early 2024. Financial markets have significantly increased their expectations regarding when the ECB would start cutting rates, with markets now pricing in roughly 18bps of easing by March 2024. Some analysts have also brought forward their expectations regarding when the cuts would start and also how much the ECB would cut rates in 2024, for example Deutsche Bank now expects the first rate cut in April 2024 and also expect 150bps of easing in 2024 (100bps previously). However, other analysts, who see market pricing as too optimistic, expecting the ECB to push back forcefully against market pricing. Unicredit analysts, for example, also argue that rate cut expectations are premature, especially since unit labor cost growth in the

Source: BEA, Eurostat, UniCredit Research euro area recently increased to 6.8% y/y in the eurozone. Contacts expect that the ECB staff projections would show weaker growth and inflation for 2024.



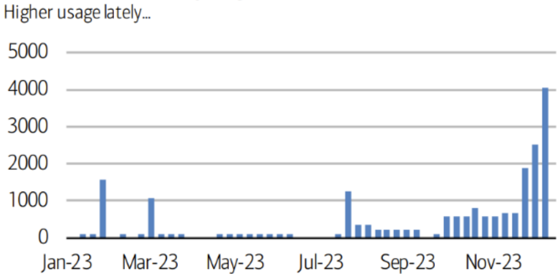
More economists now expect the ECB to start cutting rates by June with a total of 75bps of easing expected in 2024, according to a recent Bloomberg survey. When the survey was conducted in October the median view of economists was that the first rate cut would be in September. While expectations for the ECB rate path differ significantly, the median results of the most recent survey show economists expect the policy rate to hit 3.25% at the end of 2024 and 2.5% by the end of end 2025. The vast majority of economists (82%) are not concerned that ECB will loosen policy too soon. Roughly two thirds of respondents anticipate that PEPP reinvestments would end before the end of 2024 (compared to 43% in an October survey), with close to 60% of these respondents expecting that reinvestments would end in Q2 2024. Roughly 60% of respondents expect the ECB to raise its minimum reserve requirements (MRR) within the next 12 months, with roughly 80% of respondents expecting the MRR to be increased to 2% (from the current 1%).

United Kingdom

The BoE's quarterly survey of household inflation expectations showed further improvement in Q4. The November Inflation Attitudes Survey show median expectations of the rate of inflation over the coming year eased to 3.3% (from 3.6% in August). 10y gilt yields were higher this morning (+6bps to 4.03%) while the pound was little changed against the dollar, in line with global trends.

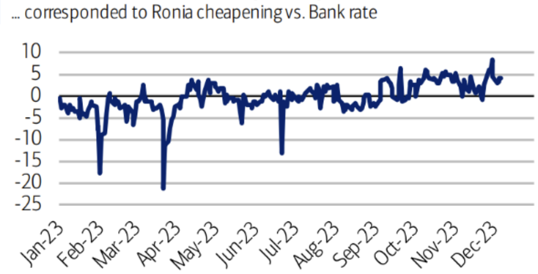
Usage of the BoE's Short-Term Repo (STR) facility increased significantly after the spread between the repo and Bank Rate widened. The latest BoE STR usage data showed that £4bn was allocated to banks yesterday, against high quality Level A collateral at Bank Rate. This compares to £2.5bn in the prior week, and an average of £0.5bn/week since late September. This occurred as the repo rate cheapened versus the BoE's Bank Rate, with the Repurchase Overnight Index Average (RONIA) spread to the Bank Rate briefly surpassing 8bps on November 30. The STR was created last year to ensure that short-term market interest rates remain close to Bank Rate as the level of Sterling central bank reserves decline. BofA analysts note that the increase reflects that the cash/collateral imbalance is dissipating.

Exhibit 4: BoE STR facility usage, £mn
Higher usage lately...



Source: Bank of England, BofA Global Research

Exhibit 5: Ronia vs. Bank rate spread, bp
... corresponded to Ronia cheapening vs. Bank rate



Source: Bloomberg, BofA Global Research

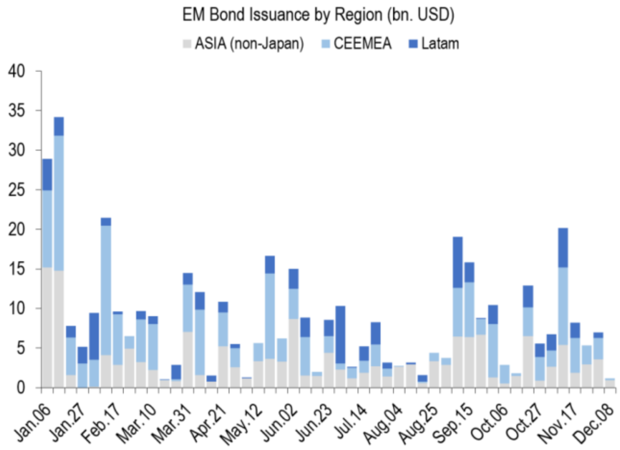
Emerging Markets

back to top

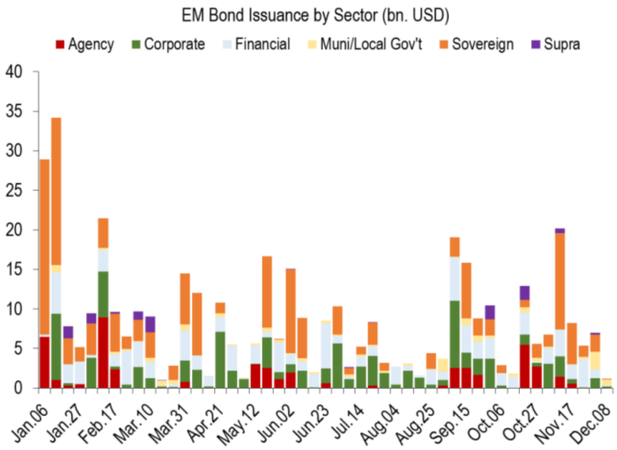
EMEA equity markets were mixed while currencies were mostly weakening. The South African rand underperformed (-0.8% to 18.91/$) while CEE currencies were trading in a tight range against the euro. **Most Asian equities gained, led by Korean (+1.0%) and Taiwanese (+0.6%) equities, as share prices of chip makers surged, fueled by optimism on the prospects of artificial intelligence development.** Regional currencies were generally stronger. India stayed on hold at 6.5% as expected. **Thursday was a busy day across Latin America as new inflation continues to cool.** Markets reacted favorably as equities rose all around, led by Colombia (+1%) and Chile (+0.9%). The Argentinian peso continued to decline (-3.6%). Bearish analysts expect a devaluation of 44% after Milei's inauguration on Sunday.

Emerging Market Bond Issuance

Emerging market bond issuance increased $1.2bn during the week of Dec 8th. Most bonds were denominated in fixed rates while 65% were local government bonds, 18% were corporate bonds, 9% were sovereign bonds, and 8% were financials. By region, Asia ex-Japan issued 83% of the share while CEEMEA issued 17%. Latin American countries did not issue any bonds this week. By country, China issued the majority of bonds (83%), followed by Romania (9%), and South Africa (8%). Total EM issuance YTD is $425bn.

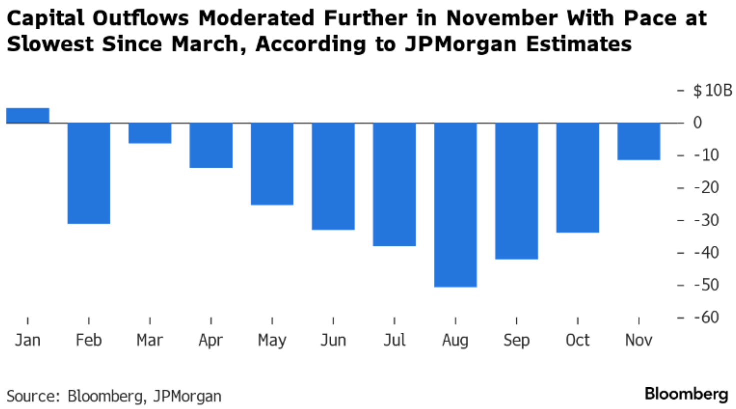


Sources: Bond Radar and IMF staff calculations.



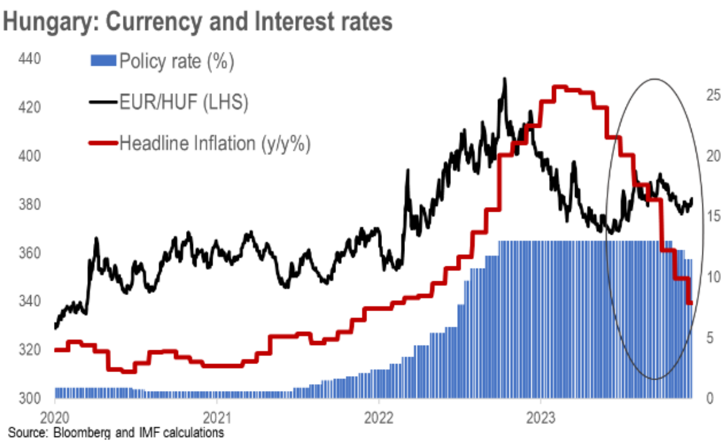
China

China's foreign reserves recorded the largest monthly increase in ten years in November. The foreign reserves increased by $71 bn to $3.17 tn at end-November (previous: $3.10 tn), exceeding market expectations of an increase of US$38 bn. Analysts said that the larger-than-expected increase in foreign reserves implied a slowdown of capital outflows together with the valuation effect on the back of higher bond prices in advanced economies. Onshore Chinese equities gained (CSI 300: +0.2%). This week, China's Ministry of Finance issued draft guidelines to allow social security funds to invest in listed stocks and other equity assets up to 40% and 30% of total portfolios, respectively. The measure is one of the recent policy initiatives taken to support the capital market and is expected to bring long-term funds to the stock markets.



Hungary

The Hungarian forint weakened after November inflation data was slightly lower than expected. Headline inflation eased to 7.9% y/y in November (versus expected 8.0% from 9.0%). The Hungarian forint weakened after the data release but retraced moves later in the session to trade around 382.06/€, roughly 0.8% weaker than at the start of the week. Bloomberg analysts note that the forint is the worst performer amongst emerging market currencies this week. **ING analysts expect that the central bank would continue with the current 75bps pace of rate cuts per month.**



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 (New York Representative), Benjamin Mosk (Senior 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),Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (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.

Global Financial Indicators

12/8/23 7:56 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4586	0.8	0	5	16	19
Europe		4498	0.5	2	8	15	19
Japan		32308	-1.7	-3	-1	16	24
China		3399	0.2	-2	-5	-15	-12
Asia Ex Japan		65	0.5	-1	1	-3	0
Emerging Markets		39	0.5	-1	2	0	3
Interest Rates					basis points		
US 10y Yield		4.13	3.2	-1	-31	70	31
Germany 10y Yield		2.24	5.3	-12	-37	42	-33
Japan 10y Yield		0.77	0.8	7	-9	51	34
UK 10y Yield		4.02	5.6	-12	-22	94	35
Credit Spreads					basis points		
US Investment Grade		141	-0.5	1	-18	-18	-18
US High Yield		418	-3.4	-3	-20	-64	-64
Exchange Rates					%		
USD/Majors		103.74	0.2	0	-2	-1	0
EUR/USD		1.08	-0.2	-1	1	2	1
USD/JPY		144.5	0.2	-2	-4	6	10
EM/USD		47.7	0.0	-1	0	-5	-4
Commodities					%		
Brent Crude Oil ($/barrel)		75.6	2.1	-4	-5	0	-6
Industrials Metals (index)		136	0.8	-3	-3	-21	-18
Agriculture (index)		65	0.3	-1	-2	-2	-6
Implied Volatility					%		
VIX Index (%, change in pp)		13.0	0.1	0.5	-1.3	-9.2	-8.5
Global FX Volatility		8.0	0.0	0.5	0.4	-2.8	-2.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		119	0.4	-4	-10	-85	-87
Italy		178	3.6	4	-8	-9	-36
Portugal		68	2.5	3	-6	-24	-34
Spain		103	2.4	3	-2	2	-7

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

Emerging Market Financial Indicators

Last updated: 12/8/2023 7:59 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.16	-0.2	-0.5	2	-3	-4		2.6	-1.3	-4	-2	-50	-41
Indonesia		15518	0.0	-0.2	1	1	0		6.6	1.2	-1	-19	-36	-34
India		83	0.0	-0.1	0	-1	-1		7.3	2.0	-14	-22	12.8	-13
Philippines		55	-0.2	0.0	1	0	1		5.9	-2.5	-5	-3	-14	-14
Thailand		35	-0.6	-1.4	0	-2	-2		2.8	0.0	-14	-30	31	18
Malaysia		4.66	0.2	0.2	0	-6	-6		3.7	0.6	-8	-13	-32	-30
Argentina		364	-0.1	-1.0	-4	-53	-51		100.6	-4.4	68	-882	1166	1241
Brazil		4.91	-0.1	-0.6	0	6	8		11.0	8.1	10	-42	-187	-162
Chile		873	-0.1	-0.4	2	-1	-3		5.0	0.0	-1	-43	-16	-30
Colombia		3988	0.3	1.1	1	21	22		7.9	0.0	-20	-33	-163	-188
Mexico		17.43	0.2	-1.4	1	13	12		8.7	0.0	-6	-45	32	-4
Peru		3.8	-0.1	-0.5	1	2	1		6.9	-7.1	-28	-28	-81	-104
Uruguay		39	-0.2	-0.1	2	0	2		9.7	5.0	9	-2	-114	-100
Hungary		354	-0.1	-1.8	0	12	5		6.2	-1.0	-43	-94	-246	-336
Poland		4.02	-0.1	-1.0	3	10	9		4.5	-3.5	-25	-33	-99	-168
Romania		4.6	-0.2	-1.1	1	1	0		6.5	-0.5	-21	-14	-91	-118
Russia		91.4	1.0	-0.5	0	-31	-19							
South Africa		18.9	-0.8	-1.4	-2	-9	-10		9.2	2.4	0	-27	13	3
Turkey		28.98	-0.2	-0.2	-2	-36	-35		27.2	24.0	-38	-454	1619	1733
US (DXY; 5y UST)		104	0.3	0.5	-2	-1	0		4.17	3.8	5	-33	47	17

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
									basis points				
China		3399	0.2	-2	-5	-15	-12		154	-1	-13	-32	-23
Indonesia		7160	0.4	1	5	7	5		108	0	-21	-70	-32
India		69826	0.4	3	8	12	15		115	-11	-15	-28	-27
Philippines		6235	0.0	0	1	-4	-5		86	-1	-19	-50	-11
Thailand		1381	0.2	0	-1	-15	-17		0	0	0	0	0
Malaysia		1442	-0.1	-1	0	-2	-4		86	-4	-9	-13	-14
Argentina		941830	5.3	16	61	450	366		1914	-75	-579	-427	-291
Brazil		126010	0.3	-1	6	17	15		216	4	-9	-61	-58
Chile		5971	0.9	3	6	15	13		126	0	-22	-28	-6
Colombia		1145	1.0	0	4	-7	-11		299	-3	-18	-108	-73
Mexico		54457	0.7	1	7	7	12		356	5	-8	-43	-25
Peru		22023	-0.6	0	2	-1	3		146	4	-18	-42	-34
Hungary		58419	0.0	1	2	33	33		162	-9	-31	-84	-60
Poland		76996	0.6	1	8	38	34		104	0	-12	11	31
Romania		14972	0.9	2	3	23	28		198	-12	6	-76	-57
South Africa		74175	-0.8	-2	2	0	2		344	4	-27	-58	-23
Turkey		7931	-0.6	-1	1	63	44		353	-4	-21	-123	-87
Ukraine		507	0.0	0	0	-2	-2		3742	-52	283	-226	-337
EM total		39	-0.1	-1	2	0	3		357	-8	-40	-39	-18

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

back to top