GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 3, 2023

- **US jobs data are much stronger than expected** (link)
- **Euro area bond yields fall sharply** (link)
- **Japan's government pension fund posts largest loss in two decades** (link)
- **Bond markets start year with significant rally and major inflows** (link)
- **Demand for US Treasuries surges** (link)
- **EM bond issuance was high in January** (link)
- **Czech Republic in hawkish surprise** (link)

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Markets cautious to end the week

Markets were lower across the board as investors digested the implications of the Fed, ECB and BOE decisions and took note of the latest jobs data in the US which were much stronger than expected. In China, sentiment has become more negative after a period of optimism following the exit from the zero Covid policy. This was despite an uptick in local PMI data. In Japan, the world's largest pension fund registered a fourth consecutive quarter of losses, the worst losing streak in two decades, triggered by the recent appreciation of the Yen versus the dollar and the rise in Japanese government bond yields. In the euro area, bond yields are holding steady today after major declines yesterday in the wake of the ECB statement and press conference. The consensus view is that the market did not believe the ECB's hawkish rhetoric, expecting a more dovish turn to the central bank's policy stance in the months ahead. In the US, softer than expected earnings from Apple, Amazon, and Alphabet (Google) increased worries about potential weakness in the US economy.

Key Global Financial Indicators

Last updated: 2/3/23 8:19 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities				%			%	
S&P 500		4180	1.5	3	9	-7	9	-1
Eurostoxx 50		4228	-0.3	1	9	2	11	6
Nikkei 225		27509	0.4	0	6	0	5	4
MSCI EM		42	-0.6	-2	9	-14	10	-12
Yields and Spreads				bps				
US 10y Yield		3.39	-0.6	-12	-35	156	-49	140
Germany 10y Yield		2.14	6.4	-10	-25	200	-43	192
EMBIG Sovereign Spread		427	-16	-12	-25	49	-25	14
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		51.5	-0.1	1	3	-3	3	-3
Dollar index, (+) = $ appreciation		101.6	-0.2	0	-3	6	-2	6
Brent Crude Oil ($/barrel)		82.4	0.3	-5	0	-10	-4	-15
VIX Index (%, change in pp)		18.3	-0.5	0	-5	-6	-3	-13

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 latest US jobs data came in much stronger than expected. Government bond yields shot up in response, with the dollar stronger and equity index futures lower. The data challenge the market consensus of a dovish Fed with rate cuts penciled in for the second half of the year. If employment remains this strong, the Fed might have to push the policy rate higher than current forecasts and keep it high for longer than most are currently expecting.

US Jobs Report 8.30am EST

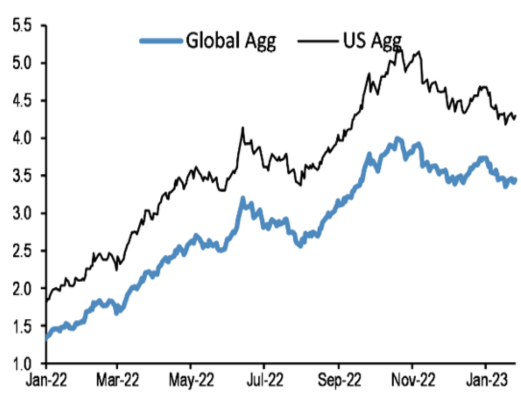
Source: Bloomberg

Data Point	Consensus Forecast	Actual Outcome
Nonfarm Payrolls	**188K**	**517K**
Unemployment Rate	**3.6%**	**3.4%**
Average Hourly Earnings	**0.3%**	**0.3%**
Hourly Earnings Annualized	**4.3%**	**4.4%**

Bonds in the US and globally have seen a significant rally to start the year. JP Morgan points out that retail investors have played a significant role in US markets. In 2022, retail investors accounted for net outflows of $200 bn from bond funds. In contrast, January 2023 saw net inflows of $50 bn from retail investors, on pace for $600 bn on an annualized basis. This compares to $1.2 tn of net retail inflows in 2021. The rally in both bond and equity markets has likely resulted in more bond market inflows from institutional investors as well. In the US, most of the pension fund sector is fully funded, leading them to increase their allocations to fixed income while reducing their allocations to equities, further boosting bond markets.

Figure 7: Yield to worst on Global Agg and US Agg indices

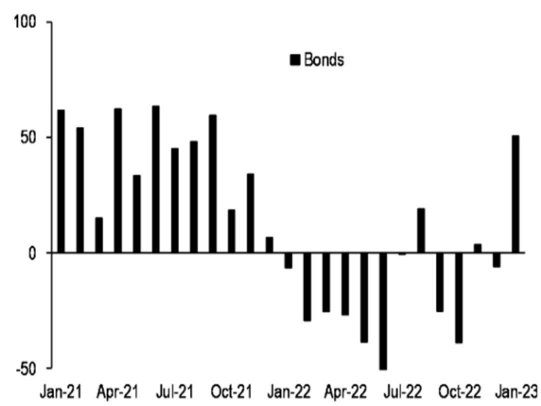
In %



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 8: Bond monthly fund flows

In $bn



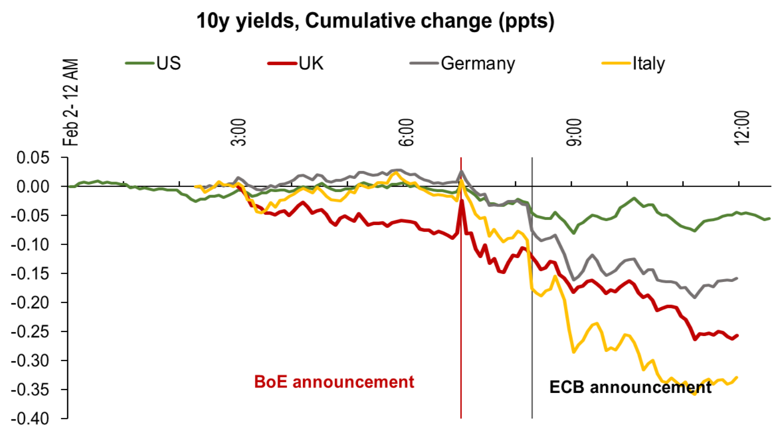
Source: EPFR, J.P. Morgan

US Treasuries have seen a surge in demand. Treasury auctions in January saw the strongest demand in 10 years, as measured by the average auction tail (the auction tail is the amount by which the final auction yield falls below the pre-auction yield level; a tail indicates strong demand for the auction). Bank of America believes that foreign buyers have played an important role in the surge in demand for Treasuries, as the dollar index has weakened by 8% since its peak last year, making Treasuries more attractive for foreign investors. The other factor fueling Treasury demand is the strong negative correlation between equity prices and Treasury yields that has emerged in 2023, making Treasuries attractive as a hedge for equity exposures.

Euro area

10-yr bund yields (+6 bps) and the euro (+0.2%) are higher after eye-catching moves yesterday.

Italian 10-yr yields fell a stunning 39 bps and German 10-yr yields fell by 20 bps yesterday as traders did not buy the ECB's hawkish rhetoric in what analysts describe as a "rollercoaster" of a press conference. The ECB's terminal rate repriced about 15 bps lower (at around 3.3%) compared to before the announcement (about 3.5%). As expected, the ECB hiked its three key interest rates by 50 bps, bringing its depo rate to 2.5%. The statement noted that activity had been more resilient than previously anticipated, but ECB president Lagarde was very clear in the press conference that underlying inflation pressures had not abated. The ECB pre-committed to hiked 50 bps at its next meeting in March.



Contacts are questioning the logic of ECB communication and policy. First, the ECB made a commitment to hike 50 bps again and intends to keep raising rates "significantly at a steady pace", which is seen as inconsistent with a data-dependent "meeting-by-meeting approach." ECB president Lagarde said in November that forward guidance is not helpful. Many contacts also believe that forward guidance led to a costly delay in hiking in June 2022. Second, the ECB did not respond to the emergence of several disinflationary forces in the economy. In addition, previous rate hikes seem to be transmitting through the economy, with a clear negative impact on bank lending in several countries.

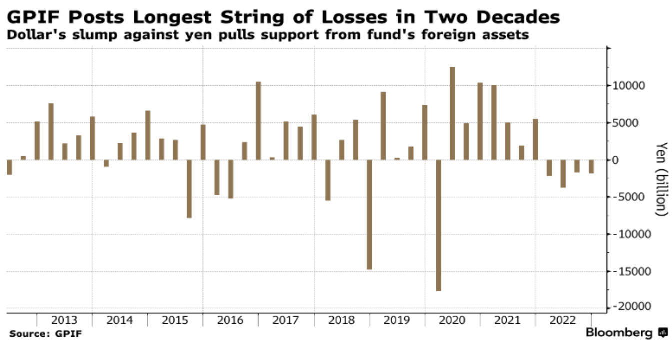
They were few additional details on Quantitative Tightening, but the ECB confirmed that the APP portfolio will decline by €15 bn per month on average from the beginning of March until the end of June 2023. For the corporate bond purchases, the remaining reinvestments will be tilted more strongly towards issuers with a better climate performance to support the gradual decarbonization of the Euro system's corporate bond holdings.

United Kingdom

Yesterday, 10-yr yields fell 30 bps to 3% and the pound fell 1.2% after the Bank of England hiked by 50 bps to 4% but softened policy language with new forecasts largely seen as dovish. Growth and inflation forecasts over the medium-term were upgraded while the near-term profile of inflation was revised lower. **The BoE noted signs that inflation had turned the corner, but added that it is too early to declare a victory with risks significantly tilted to the upside.** Yesteday's outcome was split again, with 7 members supporting the decision while MPC members Tenreyro and Dhingra preferred to keep rates unchanged. Analysts generally expect another 25 bps hike at the next meeting on March 23, with divergent views on the policy path thereafter. **Money markets are pricing in one more hike of 25 bps to 4.5%, followed by cuts and the policy rate trading at 3.85% by December.** This morning, gilt yields were up 2–5 bps.

Japan

Governor Kuroda said that it is appropriate for the Bank of Japan (BOJ) to continue with monetary policy easing. He noted that uncertainties over Japan's economy are extremely high. Separately, the BOJ's unrealized losses from its bond holdings grew about 10 times last quarter, reaching 8.8 tn yen ($68.5 bn) as of end-December after the BOJ's December policy adjustments that drove up bond yields. **The Government Pension Investment Fund (GPIF) posted a fourth straight quarterly loss in its longest losing streak in two decades.** The GPIF is Japan's state pension fund and the world's largest. The GPIF's loss was due to the rapid appreciation of yen against dollar and the decline in JGB prices.



Emerging Markets

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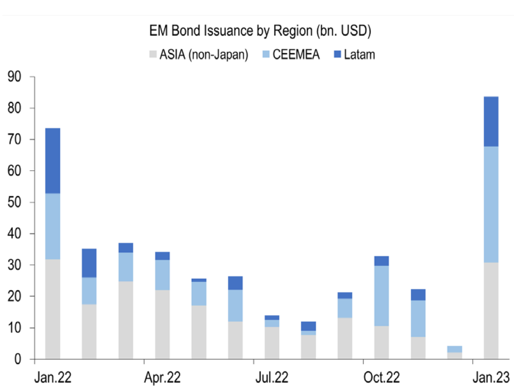
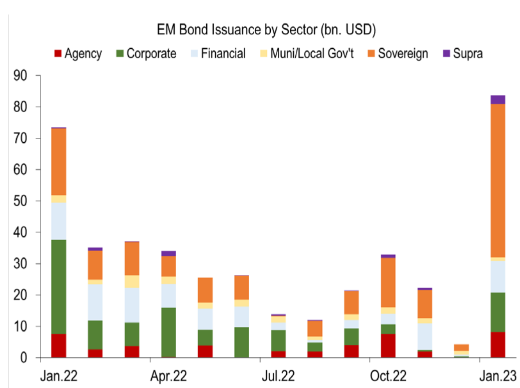
EMEA markets were fairly quiet. Yesterday, the Egyptian central bank kept rates on hold at 16.25%, against market expectations of a 100 bps hike. **Most Asian equities gained, with share prices rising in India (+1.0%) and Korea (+0.5%).** In India, opposition parties stepped up pressure on Prime Minister Modi over his links with tycoon Gautam Adani, and both houses of Parliament were adjourned for a second day over the demand for a parliamentary investigation in in the Adani stock rout. **Latin American equities fell, and currencies were mixed on Thursday.** There were notable equity losses in Mexico (-2.06%), Brazil (-1.76%), Argentina (-1.20%). The Chilean peso continued appreciating, and reached another year-to-date high midday, before closing slightly lower.

EM bond issuance

EM bond issuance volumes started off strong for the first month of 2023. Total issuance finished at $83.7 bn last month, greater than the $73.5 bn in January 2022. Sovereigns dominated, with 58.5% of the total volume. On a regional level, EMEA had the strongest monthly issuance, equating to about 44.2%, followed by Asia (non-Japan) with 36.8% and Latam with 19%. Issuance picked up this week ($9.25 bn vs $5.18 bn last week), with Latam more than doubling week over week ($5.9 bn vs $2.13 bn). Most of these bonds were sovereign and corporate, all with maturities between 3 to 10 years.





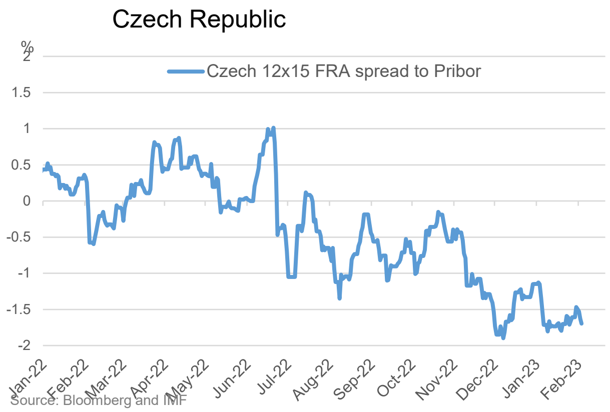
Sources: Bond Radar and IMF staff calculations

China

Chinese equities declined as doubts grow about the economic recovery (CSI 300: -0.9%), ending a run of weekly gains. Market participants noted that sentiment is turning more cautious after optimism over China's exit from the zero COVID policy. While data during the Lunar New Year holidays pointed to a comeback in consumer spending, the property market remains a key drag. There is a growing divergence in views on the pace of recovery, with retail investors less confident. Market reaction to the news on a full re-opening of the border between Mainland China and Hong Kong SAR was muted. Caixin PMI composite improved to 51.1 in January from 48.3 in December, supported by stronger-than-expected services PMI which improved to 52.9 from 48.0 (consensus: 51.0). Manufacturing PMI, released earlier on Wednesday, showed a slight improvement in manufacturing activity. The People's Bank of China continued withdrawing liquidity that was injected ahead of the Lunar New Year holidays. Repo rates continued to fall, with the key interbank repo rate (DR007) dropping to 1.82% (-9.0 bps). The RMB depreciated (-0.2%).

Czech Republic

The Czech National Bank (CNB) kept the policy rate on hold at 7% yesterday as expected, but governor Michl delivered a hawkish surprise saying that he sees rates staying high longer than currently priced by the market. Markets are pricing about 160 bps in cuts in 2023. The CNB's forecast horizon for returning inflation to 2% is now back to the standard 12–18 months from an extended 18–24 months decided in August last year. The CNB revised its inflation forecast for Q4 2023 down to 7.6% y/y (inflation is forecast to go up to 17.6% in January) with a slightly lower path for inflation in 2024 (around 2.3%). The CNB now also forecasts a milder contraction in 2023, owing mainly to favorable energy market developments and more robust external demand, with overall growth for 2023 at 0.3%.



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Global Financial Indicators

2/3/23 8:19 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		4167	1.5	2	9	-7	9	-1
Europe		4228	-0.3	1	9	2	11	6
Japan		27509	0.4	0	6	0	5	4
China		4142	-0.9	-1	4	-9	7	-10
Asia Ex Japan		72	-0.7	-2	9	-12	10	-10
Emerging Markets		42	-0.6	-2	9	-14	10	-12
Interest Rates					basis points			
US 10y Yield		3.39	-0.6	-12	-35	156	-49	140
Germany 10y Yield		2.14	6.4	-10	-25	200	-43	192
Japan 10y Yield		0.50	-0.2	1	7	32	7	30
UK 10y Yield		3.00	-0.8	-33	-65	163	-67	152
Credit Spreads					basis points			
US Investment Grade		136	0.1	-7	-25	11	-22	-6
US High Yield		420	-0.5	-22	-64	42	-60	13
Europe IG		73	-1.3	-5	-17	12	-18	1
Europe HY		381	-4.5	-26	-82	87	-93	29
Exchange Rates					%			
USD/Majors		101.57	-0.2	0	-3	6	-2	6
EUR/USD		1.09	0.2	1	4	-4	2	-3
USD/JPY		128.4	-0.2	-1	-2	12	-2	12
EM/USD		51.5	-0.1	1	3	-3	3	-3
Commodities					%			
Brent Crude Oil ($/barrel)		82.4	0.3	-5	0	2	-4	-4
Industrials Metals (index)		173	-0.9	-2	5	-4	5	-8
Agriculture (index)		69	-0.4	1	3	7	1	-1
Implied Volatility					%			
VIX Index (%, change in pp)		18.3	-0.5	-0.2	-4.6	-6.1	-3.4	-12.8
US 10y Swaption Volatility		100.3	-0.3	-4.8	-32.6	22.9	-25.4	6.0
Global FX Volatility		10.1	0.0	0.0	-0.8	2.7	-0.6	2.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		181	-14.4	-21	-43	-14	-25	-59
Italy		178	-4.9	-8	-34	27	-37	6
Portugal		82	-0.4	-8	-19	9	-19	-10
Spain		90	-1.3	-8	-16	11	-19	-13

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

Emerging Market Financial Indicators

Last updated: 2/3/2023 8:22 AM	Exchange Rates: Level, Last 12m	Level, Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.74	-0.1	0.8	3	-6	2	-6		3.1	-2.3	-7	9	44	8	29
Indonesia		14894	0.0	0.6	5	-3	5	-4		6.5	-4.4	-20	-51	10	-40	5
India		82	0.4	-0.4	1	-9	1	-9		7.2	-7.0	-26	-15	63.3	-21	
Philippines		54	0.3	1.5	4	-5	4	-5		5.9	0.0	-3	-10	133	-10	93
Thailand		33	0.0	-0.7	4	0	5	-2		2.5	1.0	0	-12	45	-10	31
Malaysia		4.26	-0.3	-0.3	4	-2	3	-2		3.8	-0.3	1	-24	12	-27	11
Argentina		188	-0.2	-1.2	-5	-44	-6	-43		86.9	-7.1	30	48	3727	-128	3897
Brazil		5.07	-0.6	0.7	8	4	4	-1		13.3	23.8	9	24	204	71	177
Chile		781	-0.2	3.3	10	5	9	1		5.2	0.0	-6	-13	-46	-14	-71
Colombia		4614	0.1	-0.8	6	-14	5	-15		8.8	0.0	-72	-105	153	-98	93
Mexico		18.72	-0.3	0.2	4	10	4	8		8.2	-4.0	-17	-55	67	-55	34
Peru		3.8	0.5	0.1	-1	1	-1	-3		7.8	0.3	-17	-20	173	-17	180
Uruguay		39	-0.1	-0.3	3	13	3	9		10.0	-10.0	-6	-70	132	-70	183
Hungary		353	0.1	1.6	7	-12	6	-10		7.8	0.0	0	-154	292	-179	300
Poland		4.29	0.1	0.9	3	-7	2	-6		5.1	-4.0	-17	-85	105	-110	115
Romania		4.5	0.2	0.5	4	-4	3	-2		7.2	-12.4	7	-48	218	-48	206
Russia		70.8	-0.2	-1.4	3	8	5	15		10.2	-28.4	-28	-35	82	-170	-102
South Africa		17.1	-0.5	0.2	-1	-11	-1	-12		8.5	2.5	-14	-54	90	-63	95
Turkey		18.81	0.0	-0.1	0	-28	-1	-27		10.8	9.0	43	217	-1219	101	-1158
US (DXY; 5y UST)		102	-0.2	-0.4	-3	6	-2	6		3.48	-0.5	-13	-41	181	-52	158

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		4142	-0.9	-1	4	-9	7	-10		184	0	7	-20	7	-24
Indonesia		6912	0.3	0	3	3	1	0		142	-6	2	-46	2	-43
India		60842	1.5	3	2	4	0	6		154	7	12	13	12	0
Philippines		7027	0.6	0	5	-6	7	-5		109	-6	12	-8	12	-28
Thailand		1688	0.3	0	1	1	1	0		0	0	0	0	0	0
Malaysia		1490	0.0	-1	1	-2	0	-6		105	-1	5	-18	5	-28
Argentina		248855	-0.9	-5	25	182	23	172		1807	-36	-398	86	-398	70
Brazil		110256	-1.7	-2	6	-1	0	-2		266	-8	-8	-50	-8	-65
Chile		5287	0.1	-1	3	19	0	21		135	-2	3	-19	3	-39
Colombia		1260	-0.7	-2	-1	-17	-2	-17		364	2	-8	2	-8	-28
Mexico		53875	-2.1	-2	10	5	11	5		340	-17	-41	4	-41	-30
Peru		22400	-0.8	-2	4	1	5	-4		186	-4	6	16	6	-4
Hungary		45249	-0.9	-3	1	-13	3	-5		197	-22	-25	65	-25	44
Poland		61463	0.2	0	5	-10	7	-2		79	-9	6	66	6	63
Romania		12287	0.2	1	2	-8	5	-7		228	-20	-28	27	-28	-4
Russia		2250	0.3	3	4	-35	4	-27		3411	-577	938	3228	3234	2897
South Africa		80035	0.3	-1	8	7	10	7		343	-15	-24	-21	-24	-46
Turkey		4920	3.5	-5	-13	151	-11	144		489	-12	49	-63	49	-74
Ukraine		507	0.0	0	-2	-3	-2	-2		4177	102	98	3329	98	2704
EM total		42	-0.1	-2	9	-14	10	-12		356	-10	-20	-52	-20	-102

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

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