GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 1, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **Bank of England leaves the policy rate unchanged in a split decision** (link)
- **Central banks in Brazil, Chile, and Colombia cut interest rates** (link)
- **Chinese stocks pared early gains amid a persistent decline in new home sales** (link)
- **Fed leaves rates unchanged, but pushes back against March rate cut expectations** (link)
- **Euro area inflation eased less than expected** (link)
- **Emerging market sovereigns issued record $44.3 bn of international bonds in January** (link)

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Markets look for new catalyst after central bank meetings, with jobs report on Friday

Advanced economy bond yields retraced higher before a larger-than-expected initial jobless claims report pushed yields lower again. Initial jobless claims came in at 224k (vs 212k expected). US stock futures edged higher after the S&P500 sold off 1.6% yesterday**.** Eurozone inflation came in slightly above expectations at 2.8% y/y, helping drive advanced economy bond yields higher early in the day. Treasury yields and regional bank stocks declined yesterday following concerns about US commercial real estate losses, a risk echoed by a midsize Japanese bank today. Market expectations of a first rate cut in March declined to less than 40% after the Fed left the policy rate unchanged yesterday. Elsewhere, Chinese stocks pared early gains amid renewed concerns about home sales.

Key Global Financial Indicators

Last updated: 2/1/24 8:41 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4846	-1.6	0	2	18	2
Eurostoxx 50		4650	0.0	1	3	11	3
Nikkei 225		36011	-0.8	-1	8	31	8
MSCI EM		38	-0.5	-1	-5	-8	-5
Yields and Spreads					bps		
US 10y Yield		3.90	-1.5	-22	2	48	2
Germany 10y Yield		2.17	0.6	-12	15	-11	15
EMBIG Sovereign Spread		401	1	2	18	-42	18
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.2	-0.1	0	-2	-9	-2
Dollar index, (+) = $ appreciation		103.6	0.3	0	2	2	2
Brent Crude Oil ($/barrel)		81.4	1.0	-1	6	-2	6
VIX Index (%, change in pp)		14.1	-0.2	1	2	-4	2

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

Initial jobless claims came in above expectations, driving Treasury yields 2–3 bps lower. Initial jobless claims were 224k (vs 212k expected), with continuing claims at 1.898 mn (vs 1.839 mn).

Markets endured a volatile day amid FOMC meeting and concern about US regional banks. Warnings about commercial real estate losses weighed on New York Community Bancorp, which fell 38% to drive a regional banking index down 6%, its worst day since the Silicon Valley Bank shock last March**.** As a result, Treasuries rallied heading into the Fed meeting, and bounced around during the press conference before ultimately ending up close to where they started. Nevertheless, on the day, 2yr and 10y yields closed 10 bps and 12 bps lower.

Treasury rates and money market forwards closed the session unchanged

Source: Bloomberg, and IMF staff calculations

Table 1: Cross-Asset Market Reaction to November Press Statement and Conference

	Level			Change	
	13:55	14:25	15:25	13:55 ~ 14:25	14:25 ~ 15:25
UST 2-year (%)	4.24	4.26	4.26	1.9	0.0
2s10s (bp)	-28.2	-28.6	-28.5	-0.3	0.0
TIPS 2-year (%)	2.00	2.01	2.01	1.4	0.0
S&P 500	4889.5	4876.0	4861.4	-0.3	-0.3
VIX	13.8	14.0	14.1	0.2	0.1
IG CDX (bp)	55.7	56.0	56.0	0.3	0.0
HY CDX (bp)	356.9	358.8	358.1	1.9	-0.7
EM CDX (bp)	179.9	181.6	182.1	1.7	0.5
Dollar index	103.2	103.4	103.6	0.1	0.3
EM index	47.3	47.3	47.3	0.0	0.1
EUR/USD	1.0846	1.0833	1.0804	0.1	0.3
USD/JPY	146.4	146.6	147.3	0.1	0.4
GBP/USD	1.2716	1.2697	1.2664	0.1	0.3

Notes: Changes for rates and spreads in bps and for Equities and FX in %.
For FX, +ve change denotes stronger dollar

The Federal Reserve left the target for the federal funds rate unchanged as expected in a unanimous decision. Notably, **Chair Powell signaled that a March rate cut is unlikely** even while acknowledging that progress on inflation will likely lead to policy easing later this year. He highlighted that the FOMC will stand pat until it has *"…gained greater confidence that inflation is moving sustainably toward 2 percent."* Chair Powell removed the reference to tighter financial conditions in response to the easing seen since the fourth quarter. In reference to the balance sheet, Chair Powell noted the committee will have an in depth discussion in March, while stating there is no compelling reason for the overnight reverse repo facility to decline to zero before adjusting the quantitative tightening program. While market pricing for a March rate cut declined, futures are pricing in slightly more rate cuts for the year as a whole (~140 bps of easing).

US Treasury announced an increase in coupon auction sizes yesterday that was broadly in line with market expectations. While this constituted the third increase in a row, the authorities did not signal any further increases. Under the new auction schedule, the US Treasury will raise $121 bn in refunding auctions next week across multiple tenors, including 3yr notes ($54 bn on Feb 6th), 10yr bonds ($42 bn on Feb 7th), and 30yr bonds ($25 bn on Feb 8th). The Treasury Department also announced they will maintain the pace of bill issuance until late-March, leaving the share of bills above the level recommended by the Treasury Borrowing Advisory Committee (TBAC).

Increase in auction size has largely met market expecations

bn USD	Nominals 2yr	3yr	5yr	7yr	10yr	20yr	30yr	TIPS 5yr	10yr	30yr	FRN 2yr	Total
Feb-24	63	54	64	42	42	16	25	0	0	9	28	343
Mar-24	66	56	67	43	39	13	22	0	16	0	28	350
Apr-24	69	58	70	44	39	13	22	23	0	0	30	368

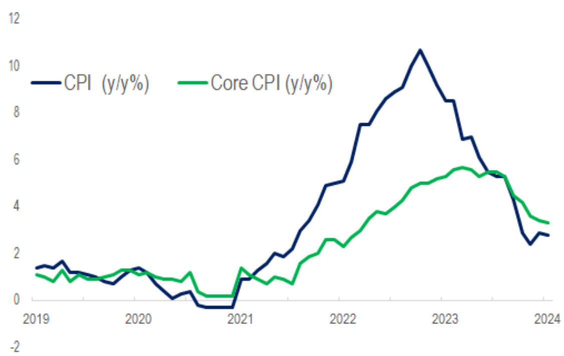
Share of bills in total outstanding likely to remain above the TBAC-recommended 15-20% range

Source: Goldman Sachs Global Investment Research , US Treasury, and IMF staff calculations

Europe

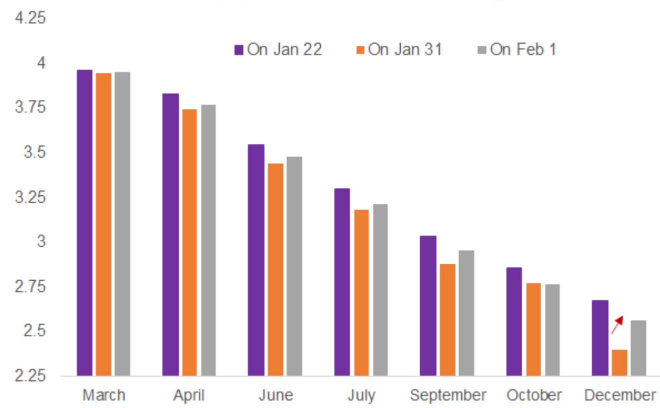
Sovereign bonds sold off, with yields edging higher after January preliminary euro area inflation eased less than expected. Data released this morning showed both headline and core inflation in the euro area fell by less than expected, with headline at 2.8% y/y (vs 2.7% expected) and core at 3.3% (vs 3.2%). Italian inflation surprised on the upside at 0.9% y/y (vs 0.8%), up from 0.5% previously. European yields climbed 3–5 bps before paring the moving later on, after falling as much as 10 bps yesterday on downside inflation surprises in Germany and France, as well as spillovers from the CRE inspired US regional banking stress. **Markets are still pricing in roughly 23 bps of rate cuts by April and a total of roughly 143 bps of rate cuts in 2024.** Yesterday, ECB chief economist Lane proclaimed the ECB would not cuts absent further confidence that inflation is returning to target.

Eurozone inflation



Source: Bloomberg and IMF calculations

Implied rates (%) for ECB 2024 meeting dates



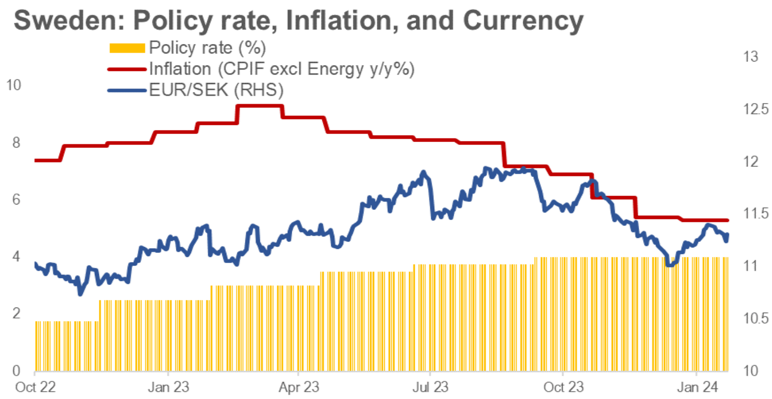
Source: Bloomberg and IMF calculations

United Kingdom

The Bank of England kept its policy rate unchanged at 5.25%, as expected. Six MPC members were in favor of keeping rates unchanged, while two members preferred a 25 bps hike and one member preferred a 25 bps rate cut. Bloomberg highlighted that the minutes of the meeting dropped references for further tightening, with the minutes saying that the BoE "*will keep under review for how long Bank Rate should be maintained at its current level*." The accompanying February Monetary Policy Report showed that the BoE expects inflation to fall temporarily to the 2% target in Q2 and then increase in the second half of the year. The committee sees risks around its modal CPI inflation projection as skewed to the upside over the first half of the forecast period on geopolitical factors. **10y gilt yields increased as much as 4 bps initially before fading the move.**

Sweden

The Swedish krona weakened (-0.5%) after Riksbank left its policy rate unchanged at 4%, while signaling a possible rate cut in the first half of the year. The policy statement indicated that rates could "be cut sooner than indicated in the November forecast" and surprised some economists with the time frame. Contacts note that the krona was also likely impacted by the Riksbank's slower than expected increase in the pace of quantitative tightening, with SEK6.5bn/month, falling short of some analysts' expectations for an increase to around SEK7bn/month.



Source: Bloomberg and IMF calculations

Japan

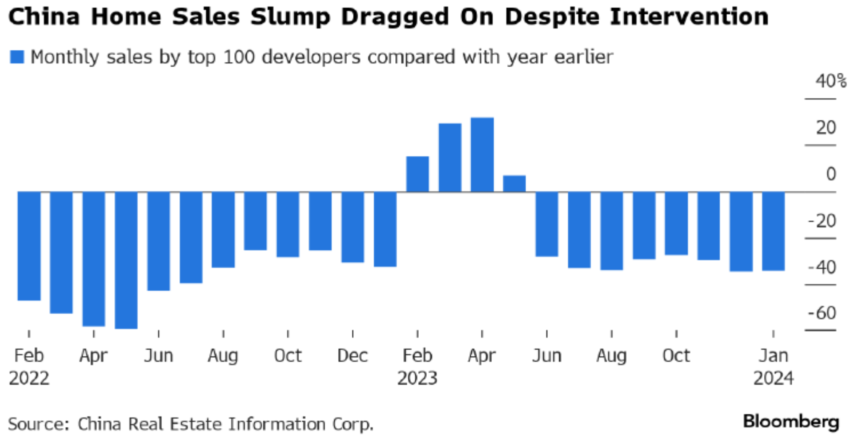
Japanese stocks fell 0.8% amid a sharp decline in Aozora Bank on concerns about US commercial real estate losses. Aozora Bank, known for having a relatively large overseas loan portfolio, fell as much as 21% after it forecast it would post a net loss for the year, driven by CRE exposure and increased provisioning. The broader Japanese banking sector was down only slightly.

Emerging Markets back to top

EMEA equity markets were mostly trading higher this morning, with equities in Türkiye (+1.8%) outperforming after the January manufacturing PMI climbed to 49.2 (from 47.4). Most regional PMIs signaled continued contraction. **Asian equity markets were mixed, up 0.5% on net, led by Korea (+1.8%)** as the government reiterated its commitment to boosting local stock market valuations. **Indian bond yields fell 9 bps after lower-than-expected borrowing estimates for the upcoming fiscal year.** Most Asian currencies were slightly higher**. Latin American currencies were little changed on Wednesday** despite the volatility in US markets.

China

Chinese stocks pared early gains as an extended decline in new home sales weighed on investor sentiment. Despite policymakers' efforts to kick-start demand for new homes, the sales value of the top one hundred real estate developers plunged 34% y/y in January 2024, down 48% from the previous month to RMB235 billion (US$33 billion), the lowest in years. Stocks had received an early boost after Chinese officials pledged support for the technology sector. Some market participants also have become concerned that the pledged shares of listed companies may require additional collateral or face the risk of forced selling, worsening the market's downward spiral. As Chinese equities have continued to decline, the number of announcements by listed companies regarding additional pledges of share for loans reached 60 in January, the highest since April 2022, according to Bloomberg.



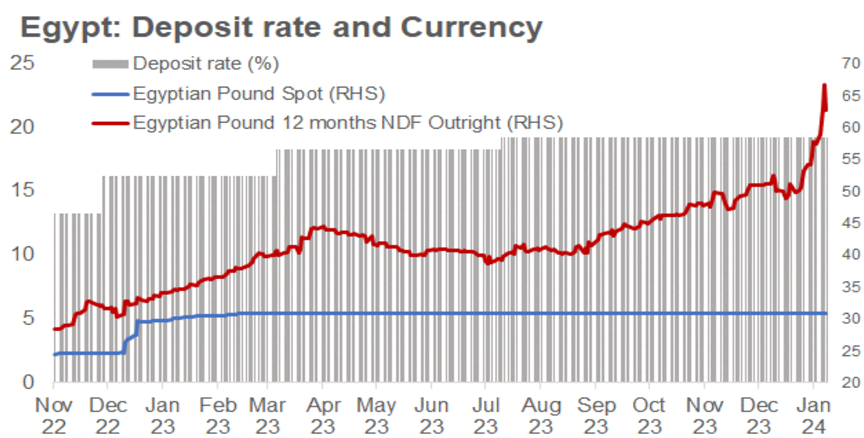
January Caixin manufacturing PMI indicated that China's factory activities continued to expand (January: 50.8, previous: 50.8, consensus: 50.8), in contrast to the official gauge that showed prolonged weakness of the manufacturing sector.

Emerging market bond issuance

Emerging market sovereigns issued a record $44.3 bn in international bonds in January, led by $37.3 bn from investment grade sovereigns. 82% of bonds were dollar denominated, with the remainder issued in euros. Nonfinancial corporate issuance was also relatively strong (ex. China), with $12.6 bn the third highest total in the last 2 years. Chinese corporate issuance ($1.5 bn) remains depressed after averaging nearly $10 bn per month from 2017–2021.

Egypt

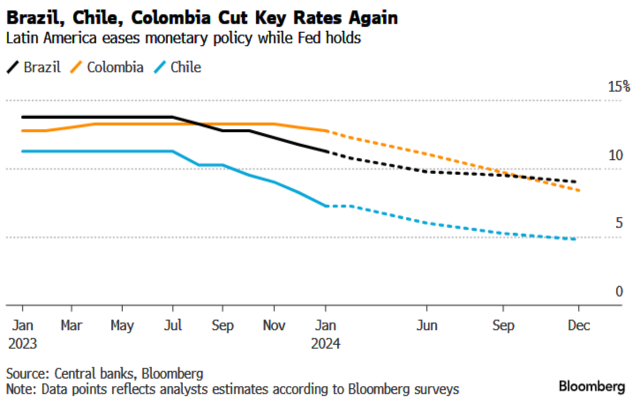
Market pressures on the Egyptian pound have intensified, with non-deliverable forwards trading at a record EGP66/USD. The pound is trading in a range between 65 and 70/USD in the parallel market according to Bloomberg, compared to the official spot rate of 30.9/USD. Consensus expects the central bank to keep the deposit rate unchanged at 19.25% today, but Goldman Sachs analysts argue that hikes (up to 300 bps) are coming given the "the likelihood of a new IMF deal in the coming weeks will result in a hawkish shift in the monetary stance". Elsewhere, Egyptian dollar bonds of various maturities rose on news that the IMF has extended its visit until the end of the week for urgent talks.

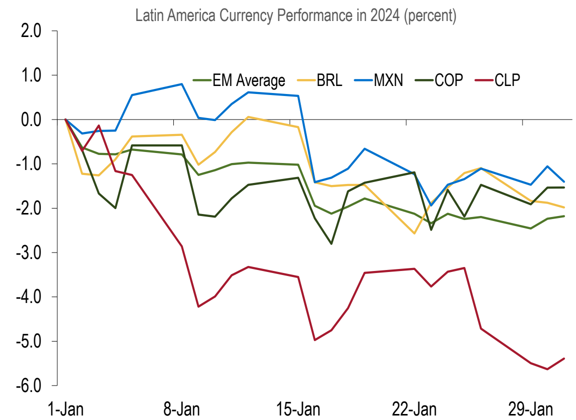


Source: Bloomberg and IMF calculations

Latin America

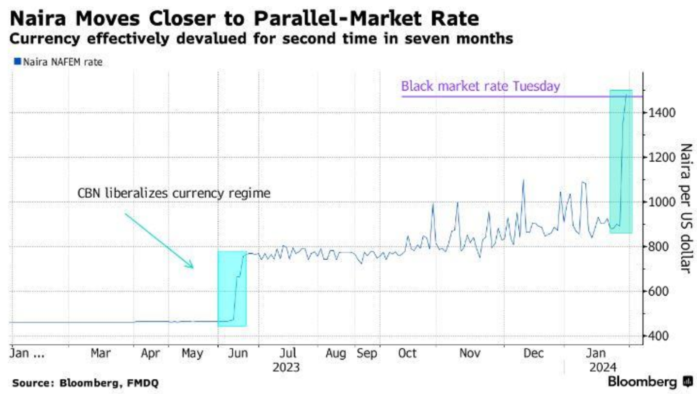
Central banks in Brazil (-50 bps), Chile (-100 bps), and Colombia (-25 bps) cut interest rates on Wednesday. Rate cuts in Brazil and Chile were broadly in line with market expectations, while analysts had been expecting a larger 50 bps cut in Colombia. While annual inflation declined to 9.3% in December, the lowest since May 2022, consensus estimates expect Colombian inflation to remain above the 3% target through the end of 2024. The monetary policy committee in Brazil noted that uncertainty around the start of easing cycles in advanced economies would require continued caution from emerging market central banks. Swap markets are pricing in roughly 175 bps of additional easing in Brazil this year following the 250 bps of cuts seen since August 2023. **Latin American currencies have declined in 2024, broadly in line with other EMs, with Chile underperforming.**





Nigeria

Amid naira depreciation, the central bank warns banks to limit their foreign currency exposure. Following a revision in the methodology used to set the exchange rate, the naira fall 31% to 1,413 naira per dollar earlier in the week. The central bank statement on banks noted *"the growth in foreign currency exposures of banks through their Net Open Position (NOP) has created an incentive for banks to hold excess long foreign currency positions, which exposes banks to foreign exchange and other risks."* To limit these risks, the CBN announced a number of prudential requirements including limits on the net open position of foreign currency assets and liabilities.



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Global Financial Indicators

2/1/24 8:51 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		4861	-1.6	-1	2	18	2
Europe		4652	0.1	2	3	12	3
Japan		36011	-0.8	-1	8	31	8
China		3218	0.1	-4	-5	-23	-6
Asia Ex Japan		63	-0.7	-2	-5	-12	-5
Emerging Markets		38	-0.5	-1	-5	-8	-5
Interest Rates			basis points				
US 10y Yield		3.90	-1.3	-22	2	48	2
Germany 10y Yield		2.17	0.7	-12	15	-11	15
Japan 10y Yield		0.71	-2.7	-4	9	21	9
UK 10y Yield		3.78	-1.9	-21	24	47	24
Credit Spreads			basis points				
US Investment Grade		130	0.1	5	-4	-10	-4
US High Yield		398	0.6	15	13	-43	13
Exchange Rates			%				
USD/Majors		103.49	0.2	0	2	2	2
EUR/USD		1.08	0.0	0	-2	-2	-2
USD/JPY		146.5	-0.3	-1	4	14	4
EM/USD		47.2	-0.1	0	-2	-8	-2
Commodities			%				
Brent Crude Oil ($/barrel)		81.3	0.9	-1	6	4	6
Industrials Metals (index)		138	-1.0	-1	-3	-21	-3
Agriculture (index)		61	-0.8	-1	-2	-12	-2
Implied Volatility			%				
VIX Index (%, change in pp)		14.1	-0.3	0.6	1.6	-3.8	1.6
Global FX Volatility		7.7	0.0	0.2	-0.5	-2.6	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		106	1.5	6	3	-96	3
Italy		155	-1.1	1	-12	-46	-12
Portugal		81	0.4	-2	18	-10	18
Spain		92	0.0	2	-4	-7	-4

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
2/1/2024	Level		Change (in %)					Level		Change (in basis points)				
8:18 AM	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	-0.2	-0.1	-1	-6	-1		2.4	0.5	-8	-13	-79	-13
Indonesia		15765	0.1	0.4	-2	-5	-2		6.5	-3.7	-12	6	-12	6
India		83	0.1	0.2	0	-1	0		7.1	-7.1	-9	-11	(28.8)	-13
Philippines		56	0.3	0.8	-1	-3	-1		5.4	-2.6	-3	-20	-47	-20
Thailand		35	0.0	0.8	-4	-7	-4		2.7	-0.2	-7	-1	16	-1
Malaysia		4.73	-0.1	0.0	-3	-10	-3		3.8	-0.1	-3	5	-1	5
Argentina		827	-0.1	-0.5	-2	-77	-2		73.3	13.4	88	-1309	-1403	-1309
Brazil		4.95	0.1	-0.7	-2	2	-2		10.7	2.9	-4	27	-250	27
Chile		940	-1.2	-3.2	-6	-16	-6		4.8	1.5	-10	-8	-48	-8
Colombia		3911	0.1	0.8	-1	18	-1		7.3	2.0	-8	-34	-186	-31
Mexico		17.22	0.0	-0.1	-1	8	-1		8.6	1.5	-5	19	42	19
Peru		3.8	0.0	-1.3	-3	1	-3		6.6	-0.4	-4	-6	-141	-6
Uruguay		39	0.1	-0.2	-1	-1	-1		9.3	-0.8	-2	-27	-84	-27
Hungary		354	0.1	0.2	-2	0	-2		5.8	-11.0	-24	6	-218	6
Poland		4.01	-0.2	0.5	-2	7	-2		4.6	-1.6	-16	13	-70	13
Romania		4.6	0.0	-0.2	-2	-3	-2		6.2	-4.9	-6	0	-111	0
Russia		90.4	-0.6	-1.4	-1	-23	-1							
South Africa		18.7	-0.1	0.9	-2	-9	-2		9.1	-3.3	-4	3	50	3
Turkey		30.37	-0.1	-0.3	-3	-38	-3		27.4	-26.0	1	69	1669	69
US (DXY; 5y UST)		104	0.4	0.1	2	2	2		3.85	1.0	-15	0	33	0

	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		3218	0.1	-4	-5	-23	-6		166	6	8	-16	8
Indonesia		7202	-0.1	0	-2	5	-1		121	14	25	-30	25
India		71645	-0.1	1	0	20	-1		124	-2	8	-31	8
Philippines		6623	-0.4	-1	1	-5	3		104	13	24	-18	24
Thailand		1368	0.3	-1	-5	-19	-3		0	0	0	0	0
Malaysia		1513	0.0	1	4	2	4		96	7	11	-8	11
Argentina		1260563	-0.5	1	36	402	36		1969	68	56	138	56
Brazil		127783	0.3	0	-5	14	-5		237	18	22	-37	22
Chile		5996	0.3	0	-3	13	-3		138	8	13	-2	13
Colombia		1277	-0.3	1	7	1	7		309	-1	38	-70	38
Mexico		57373	-0.3	4	0	4	0		334	-2	0	-20	0
Peru		26934	0.1	2	4	19	4		151	-6	7	-43	7
Hungary		65015	1.5	1	7	44	7		174	9	25	-44	25
Poland		78808	1.8	5	0	30	0		110	8	13	26	13
Romania		15616	0.7	3	2	28	2		200	-1	0	-55	0
South Africa		74236	-0.4	0	-3	-7	-3		356	17	48	-9	48
Turkey		8653	1.8	6	16	84	16		370	31	56	-140	56
Ukraine		507	0.0	0	0	0	0		4334	232	330	170	330
EM total		38	0.0	-1	-5	-8	-5		364	3	19	-10	19

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

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