GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, FEBRUARY 14, 2024
LEAD EDITOR: BENJAMIN MOSK

- **US rates markets reprice Fed monetary policy path after yesterday's inflation print** (link)
- **Current Fed policy could be more stimulative than widely believed** (link)
- **Pound weakens after marginally lower-than-expected UK inflation data** (link)
- **Japanese yen appreciates slightly after strong verbal warnings** (link)
- **Zambia surprises with a larger-than-expected 150 bps rate hike** (link)
- **EM sovereigns' ESG issuance premium narrowed in recent years** (link)

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UK inflation data offers solace after US shocker-print roiled markets yesterday

Yesterday's higher-than-expected US inflation print reverberated across global markets, as it reignited fears of a sticky inflation scenario. The number of priced-in 2024-Fed-cuts declined from 4.5 to 3.7 after the print, and Treasury yields increased by up to 18 bps at the two-year maturity. Today, markets found some solace in the lower-than-expected UK inflation print for January, and sovereign bond yields retraced some of the previous day's increases. UK headline inflation for January came in at 4.0% y/y versus 4.1% expected**.** European equities advanced, led by the FTSE 100, and gilt yields also led the way for sovereign bonds, declining by 7–9 bps across the curve. US Treasury yields trade 2–4 bps lower as well in the early morning market. US equities are set to rebound after sizeable losses yesterday, with S&P 500 futures (+0.5%) pointing to a higher open. The S&P 500 lost 1.4% yesterday, bringing it back to a more humble sub-5000 level. The more duration-heavy NASDAQ lost 1.8%. Currency markets were also roiled by yesterday's US CPI print, as the US dollar strengthened promptly after the release, versus most other currencies. The US dollar index is still up by 0.9% since the release, and contrary to Treasury markets, no retracement has taken place at this point.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
2/14/24 8:07 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4953	-1.4	0	4	20	4
Eurostoxx 50		4707	0.4	1	5	11	4
Nikkei 225		37703	-0.7	4	5	37	13
MSCI EM		39	-1.9	-1	0	-3	-3
Yields and Spreads					bps		
US 10y Yield		4.30	-1.2	18	36	56	42
Germany 10y Yield		2.37	-2.3	5	19	-7	35
EMBIG Sovereign Spread		386	-4	-7	-13	-62	2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.7	0.1	-1	-2	-8	-3
Dollar index, (+) = $ appreciation		104.9	-0.1	1	2	2	4
Brent Crude Oil ($/barrel)		82.9	0.1	5	6	-3	8
VIX Index (%, change in pp)		15.0	-0.9	2	2	-4	3

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

Mature Markets

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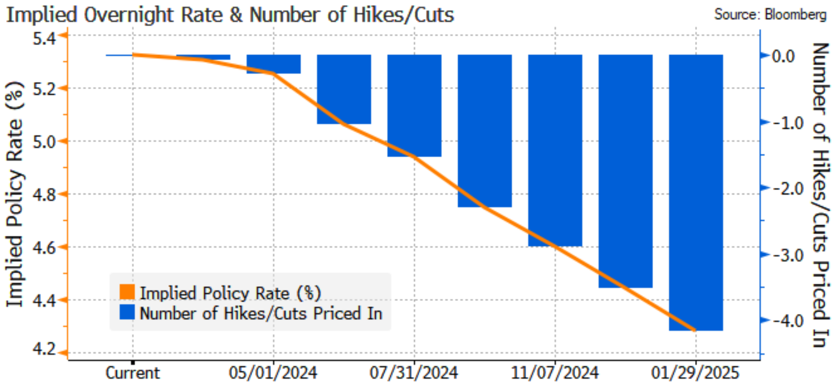
United States

Markets repriced the projected Fed monetary policy path after the hotter-than-expected January CPI released Tuesday morning: The number of 25bps cuts discounted in the OIS market has decreased to 3.7 times from 4.5 times before the data release. The possibility of a March rate cut has been virtually ruled out, with a probability of less than 10%. The majority now expect the first hike in June. Stock market sell-off Tuesday was broad-based, particularly in rate-sensitive sectors, such as consumer durables, real estate, and banks, underperformed. The VIX spiked to 16.1, the highest since early November last year.

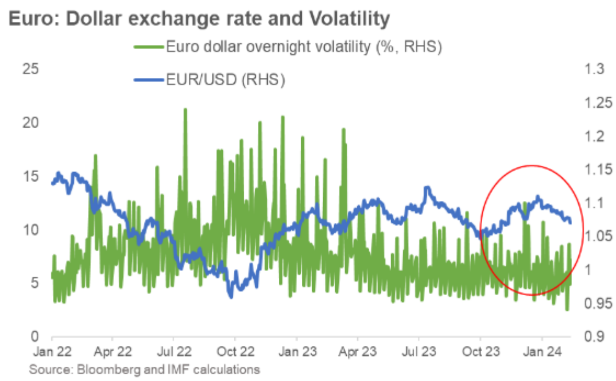


The current monetary policy stance could be more stimulative than widely believed. According to the back-of-the-envelope measure of the neutral rate using forward inflation swaps, as proposed by Fed chair Powell at the post-FOMC press conference on January 31, current monetary policy is stimulative and about where it was in mid-2018. This contrasts with mainstream estimates of neutral rates like the Holston Laubach Williams model, which shows that current monetary policy is the most restrictive since the financial crisis, looking at the gap between ex-post real interest rates and the model estimate of r*. Bloomberg analysts argued that the back-of-the-envelope measure could explains why the economic data is still so strong even with the highest policy rate in a generation.

Euro Area

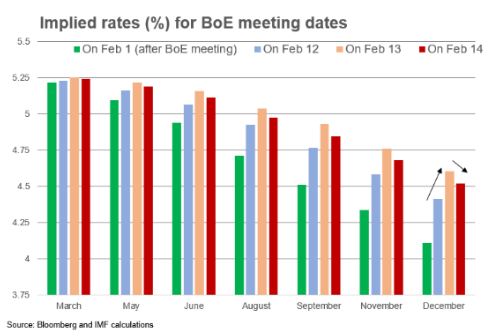
European equities were trading in the green with the Stoxx 600 index up 0.4% after closing roughly 1% weaker yesterday in the aftermath of the US CPI data release. Euro area sovereign bond yields eased this morning and are back close to levels seen on Monday (10-year bund yield -4bps trading at around 2.36%). Markets scaled back ECB rate cut expectations after the upside surprise in the US CPI data release yesterday but retraced some of the moves this morning. Markets are now pricing in 114bps of ECB rate cuts in 2024, compared to 110bps yesterday and 120bps at the start of the week. On the data front Q4 euro area GDP was confirmed at 0.0%q/q, while December industrial production data surprised on the upside (+1.2% versus expected -4.0% from an upwardly revised -5.4%).

The euro was marginally weaker against the dollar trading at around 1.07 against the dollar, after closing -0.6% weaker yesterday, and some contacts expect further weakening. Contacts note that the euro is continuing to unwind the rally seen in late 2023, and Morgan Stanley analysts think that weak growth and disinflation could result in a faster and deeper ECB rate cut cycle, which could weigh on the euro.

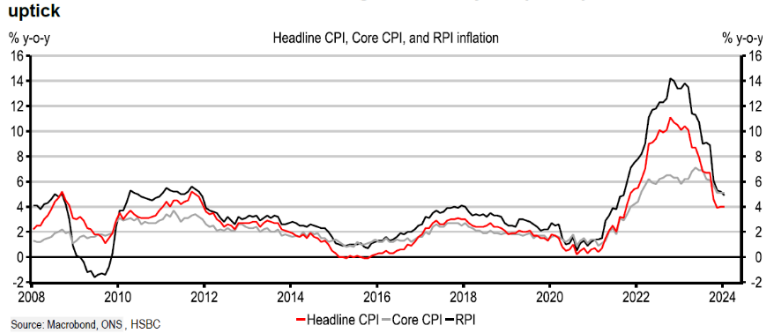


United Kingdom

The pound weakened and gilt yields eased after inflation remained unchanged in January, while a small increase had been expected. Headline inflation remained unchanged at 4.0%y/y (versus expectations to increase to 4.1%) and core inflation remained unchanged at 5.1%y/y (versus expectations to increase to 5.2%). Moreover, the increase in services inflation was smaller than anticipated (+6.5%y/y versus expected 6.8% from 6.4%). The pound weakened against the dollar this morning (-0.4% to 1.25), adding to yesterday's weakening (-0.3%), while 10-year gilt yields eased (-9bps to 4.05%), reversing yesterday's increase. In the aftermath of the upside surprise in US CPI data yesterday, as well as an upside surprise in UK wage growth data, markets had scaled back rate cut expectations for the Bank of England, but moves retraced somewhat this morning. Markets are now pricing in roughly 76bps of rate cuts this year, with the first rate cut fully priced in August.

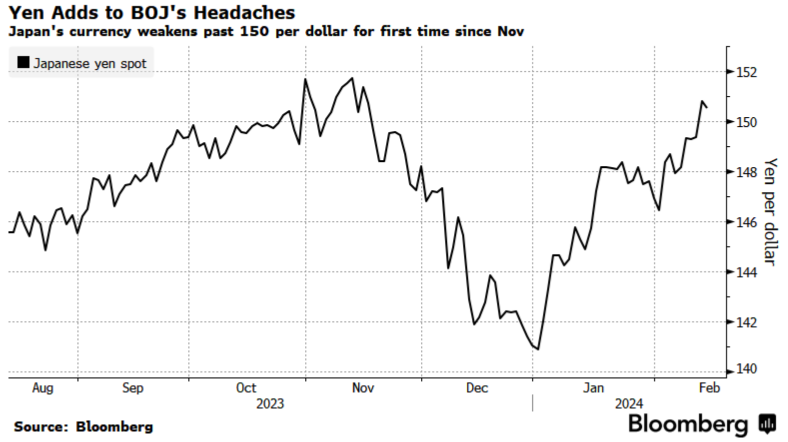


1. CPI and core CPI inflation were unchanged in January, despite expectations for an uptick



Japan

The Japanese yen appreciated today (+0.1%) after strong verbal warnings. Japanese yen depreciated to nearly 151 yen per dollar yesterday after the higher-than-expected US CPI print, the weakest level since November 2023. Given the rapid depreciation pace, Masato Kanda (the country's currency chief) issued his strongest warnings in months, noting that part of the rapid exchange rate depreciation was speculative and undesirable and that Japanese authorities stand ready to respond 24 hours a day. Two factors drove the recent weakness of Japanese yen. One was markets' unwinding expectations for the Federal Reserve's rate cuts; another was the Bank of Japan's communication that financial conditions will remain accommodative even after an exit from the negative interest rate policy. Long-end JGB yields increased (10-year: +2.6 bps; 30-year: +1.6 bps). The 10-year JGB yield traded at 0.748%. Yesterday, the Japanese government issued its first climate transition bonds in an amount of 800 bn yen ($5.3 bn) at a 0.74% yield for the 10-year tenor, enjoying a greenium of about 1 bps. Japanese equities declined (NIKKEI: -0.7%), similar to regional and global trends.



Emerging Markets

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EMEA markets were mixed this morning. Equities in Poland (+0.5%) and Czechia (+0.3%) outperformed**.** The Hungarian forint was weaker (-0.2%) against the euro (at 387.9/€) following weaker-than-expected preliminary Q4 GDP data which came in unchanged both y/y and q/q (exp +0.6% y/y and +0.3% q/q). There was little immediate market reaction to the release with the Polish zloty broadly unchanged this morning against the euro at 4.34/€. The National Bank of Romania yesterday kept its policy rate unchanged at 7.0%, in line with expectations. Analysts at Goldman Sachs (GS) remarked that the shift in the inflation forecast was incrementally hawkish.

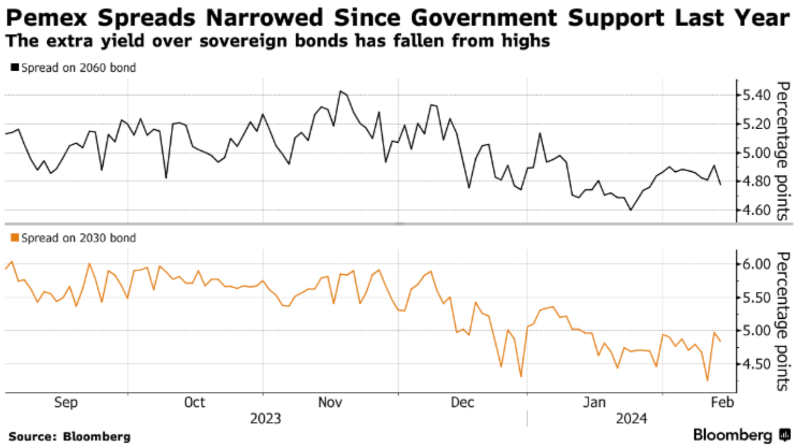
Separately, January inflation data in Ghana surprised to the upside, with inflation printing at 23.5%y/y (exp 22.8%y/y) up from 23.2%y/y in December—the first uptick in six months. Elsewhere, Bloomberg reports that the Kenyan shilling rose 2% against the dollar (at 153.4/$) in trading today driven by inflows from the recent bond sale, as well as "soft" demand for dollars from businesses.

Most Asian equities declined, led by Korean (-1.1%) and Thai (-0.6%) stocks. Meanwhile, Hong Kong SAR equities gained (+0.8%) as Chinese stocks advanced on reported strong spending during the Lunar New Year holiday. **Asian currencies generally depreciated,** led by Thai baht (-1.3%), Korean won (-0.5%) and Malaysian ringgit (-0.5%). Markets' unwinding expectations for the Fed rate cuts triggered equity selloffs and weakened Asian currencies. Long-end government bond yields also increased, with 10-year yields rising in Singapore (+10.5 bps) and the Philippines (+10.1 bps), following the rise in US treasury yields. Markets remained closed in mainland China for the Lunar New Year holiday. **In Hong Kong SAR,** top private housing estates had no sales during the Lunar New Year holiday for the first time since records began in 2010, highlighting the housing market slump. Share prices of property developers fell (-0.5%).

Latin American regional currencies, bonds and equities broadly declined yesterday following hotter-than-anticipated US inflation print. Risk sentiments dampened, with the Mexican Peso leading losses (-0.7% against the US dollar). The Chilean Peso was an exception, ended the day relatively unchanged despite experiencing wild swings during the trading session. Local currency government bond yields also traded higher, with most benchmark 10-year yields broadly tracking the 10-year UST, albeit by a lesser quantum. MSCI's decision to include Brazilian companies listed on foreign exchanges, starting in August, could see inflows of around $4.7 bn, according to a Morgan Stanley analysis.

Mexico

Government grants tax relief to Pemex following rating downgrade. President Obrador published a decree that removed specific levies (DUC) on Petroleos Mexicanos (PEMEX) for 4Q'23 and January this year, which is estimated to save the company about MXN70 bn ($4.1 bn). The aid was an addition to the unprecedented budgetary support for Pemex after an allocation of MXN 145bn ($8.5bn) in the fiscal budget for Pemex. The fresh announcement came on the heels of the recent rating downgrade by Moody's, citing concerns over Pemex's ability to manage its current debt obligation of around $115 bn. Some analysts believe that the tax relief will provide some flexibility for Pemex to focus on restructuring its operations, besides serving a strong signal of the government's continued commitment to support Pemex. Following the announcement, Pemex bonds spreads retraced some of the recent widening, despite the higher-than-expected US inflation print.

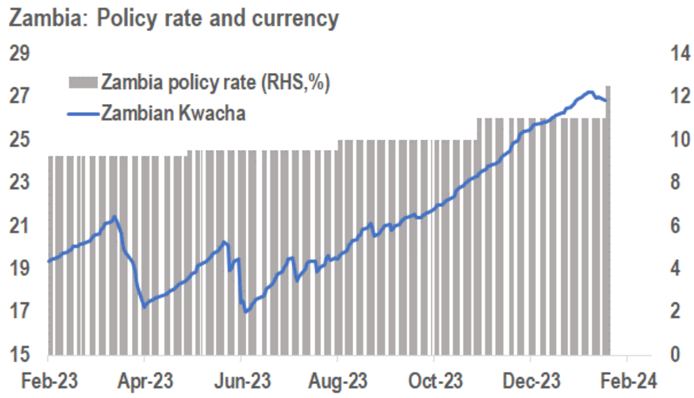


India

Indian equities remained resilient amid famer protests. Several thousands of farmers marched to Delhi, the country's capital city. The police force in Delhi and surrounding states have set up barriers to block city access roads and halt thousands of farmers marching to the capital. Farmers are demanding for guaranteed crop prices and loan waivers. Indian equities were little changed, eliminating losses in the morning session. Indian rupee depreciated (-0.1%). Long-end government bond yields rose (10-year: +2.4 bps). **Anadi stocks gained after Moody's raised the outlook to stable from negative for four Adani Group companies.** Moody's noted that the group companies have demonstrated continued access to capital markets at a reasonable cost.

Zambia

Zambia's central bank surprised with a 150bp increase in its benchmark rate to 12.5%. Expectations had been for the central bank to hike rates by around 100bps. Citing "persistent depreciation of the kwacha against major currencies as well as elevated food and energy prices," the monetary policy committee raised rates for the fifth consecutive meeting. According to Bloomberg, today's decision adds to several other measures introduced by authorities to stabilize the currency which is down by around 13% against the dollar since the previous MPC decision in November. This includes the Bank of Zambia raising the reserve ratio requirement to 26% from 17% last month. Several other African countries have also maintained tight monetary policy in the face of rising inflation and currency depreciation.

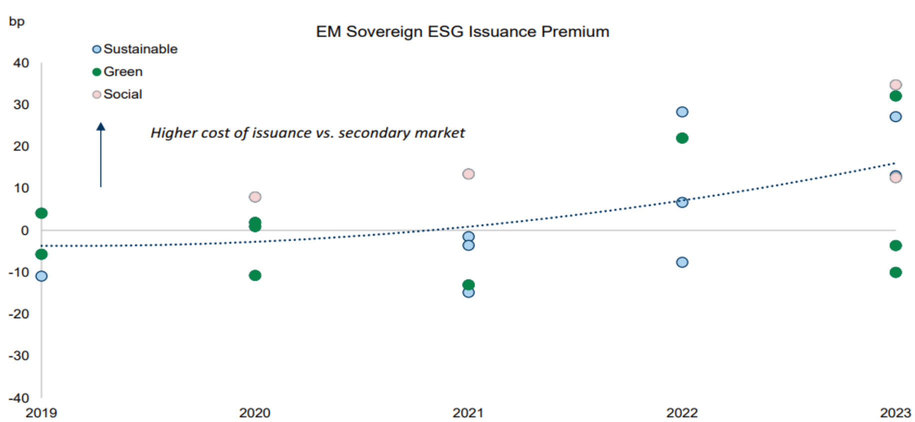


Source: Bloomberg and IMF calculations

EM Sovereign ESG Issuance

Emerging market sovereigns' ESG issuance premium has declined in the past few years. Goldman Sachs analysis noted that there has been an uptick in EM sovereign ESG issuances ($35bn in 2023 from $30bn in the prior year) with new countries, such as India, Turkey and Brazil, issuing last year. Nonetheless, the ESG bond market remain relatively small ($127bn outstanding), with Chile constituing approximately 36% of the sovereign ESG bond market. The analysis also indicated that the ESG issuance premium has narrowed significantly over the years, which was similar to the observation for advanced economy corporates. These observations could have been driven by a combination of factors, such as weaker risk sentiment or concerns around green-washing. Nonetheless, the true counterfactual for such premium has always been dificult to establish, and there may be other benefits of issuing ESG bonds.

The EM Sovereign ESG premium appears to have narrowed in recent years



The exhibit shows the difference between the issuance yield of the EM Sovereign USD ESG bonds on the day of issuance, and the yield that would have been required on the secondary market on the day before issuance for a similar maturity (implied either by the point on the yield curve or by a bond of a similar maturity).

Source: Bloomberg, Goldman Sachs Global Investment Research

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Global Financial Indicators

2/14/24 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4953	-1.4	0	4	20	4
Europe		4707	0.4	1	5	11	4
Japan		37703	-0.7	4	5	37	13
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		64	-2.1	-1	0	-7	-3
Emerging Markets		39	-1.9	-1	0	-3	-3
Interest Rates			basis points				
US 10y Yield		4.30	-1.2	18	36	56	42
Germany 10y Yield		2.37	-2.3	5	19	-7	35
Japan 10y Yield		0.75	2.5	4	15	24	14
UK 10y Yield		4.08	-6.8	10	29	56	55
Credit Spreads			basis points				
US Investment Grade		126	-1.9	-1	-5	-17	-8
US High Yield		372	-1.3	-15	-26	-70	-14
Exchange Rates			%				
USD/Majors		104.89	-0.1	1	2	2	4
EUR/USD		1.07	-0.1	-1	-2	0	-3
USD/JPY		150.6	-0.1	2	3	13	7
EM/USD		46.7	0.1	-1	-2	-8	-3
Commodities			%				
Brent Crude Oil ($/barrel)		82.9	0.1	5	6	3	8
Industrials Metals (index)		133	0.1	-1	-2	-19	-7
Agriculture (index)		60	-1.0	-2	-1	-15	-4
Implied Volatility			%				
VIX Index (%, change in pp)		15.0	-0.9	2.2	2.3	-3.9	2.6
Global FX Volatility		7.2	0.0	-0.3	-0.4	-3.1	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		113	0.1	-6	7	-67	9
Italy		153	-2.3	-4	-2	-26	-15
Portugal		78	-2.6	-3	20	-6	15
Spain		94	-1.7	1	3	1	-3

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

Emerging Market Financial Indicators

Last updated: 2/14/2024 8:04 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		7.19	0.0	0.0	0	-6	-1		2.4	0.0	2	-11	-73	-12
Indonesia		15595	0.0	0.9	0	-3	-1		6.6	-0.3	3	-2	-10	16
India		83	0.0	-0.1	0	0	0		7.3	5.1	13	9	(18.9)	5
Philippines		56	-0.3	-0.3	-1	-2	-1		5.4	0.1	0	-22	-47	-20
Thailand		36	-1.2	-1.5	-3	-6	-6		2.6	4.0	-2	-12	-14	-9
Malaysia		4.79	-0.5	-0.5	-2	-9	-4		3.8	2.7	4	3	-3	11
Argentina		831	-0.1	-0.5	-2	-77	-3		74.2	0.0	16	-696	-1311	-1216
Brazil		4.95	0.9	0.3	-1	6	-2		10.8	1.5	7	5	-286	37
Chile		964	0.7	-1.0	-5	-18	-9		5.0	-3.5	25	16	-45	14
Colombia		3925	-0.2	0.7	0	22	-2		7.7	0.0	26	14	-158	5
Mexico		17.15	0.3	-0.6	-2	8	-1		8.8	0.0	9	41	0	35
Peru		3.9	-0.4	-0.6	-5	-1	-5		6.8	2.8	5	27	-121	10
Uruguay		39	0.1	-0.4	1	0	-1		9.1	0.0	-12	-11	-60	-42
Hungary		363	-0.5	-0.8	-5	-3	-4		6.2	1.0	4	52	-193	38
Poland		4.06	-0.1	-0.6	-2	10	-3		4.9	6.0	20	42	-51	45
Romania		4.6	0.0	-0.6	-2	-2	-3		6.3	2.7	5	7	-107	9
Russia		91.5	-0.3	-0.3	-4	-20	-2							
South Africa		19.1	0.2	-1.0	-2	-6	-4		9.4	2.5	21	33	57	33
Türkiye		30.75	-0.1	-0.5	-2	-39	-4		26.5	-7.0	-64	-31	1493	-25
US (DXY; 5y UST)		105	-0.1	0.8	2	2	4		4.29	-2.3	22	46	29	45

	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		3365	0.0	5	2	-19	-2		157	-3	-7	-17	-1
Indonesia		7210	0.0	0	0	4	-1		99	-17	-14	-54	3
India		71823	0.4	0	-2	17	-1		113	-9	-15	-36	-3
Philippines		6855	0.4	1	3	0	6		81	-15	-14	-45	1
Thailand		1385	-0.5	-1	-2	-16	-2		0	0	0	0	0
Malaysia		1529	-0.1	1	2	3	5		87	-3	-7	-14	2
Argentina		1128511	1.1	-14	9	352	21		2043	184	133	58	130
Brazil		128026	-0.2	1	-2	18	-5		213	-8	4	-51	-2
Chile		6024	-1.3	0	1	13	-3		132	-4	-1	-5	7
Colombia		1236	-1.0	-3	-4	1	3		313	-10	19	-71	42
Mexico		56907	-0.9	-3	2	8	-1		333	-1	-2	-29	-1
Peru		27462	-0.7	1	5	25	6		148	-7	-4	-39	4
Hungary		64871	0.2	1	2	40	7		162	-7	-4	-50	13
Poland		78326	0.4	-1	3	30	0		102	-8	-3	22	5
Romania		15690	0.1	0	-1	28	2		194	-5	-14	-45	-6
South Africa		72877	-0.3	-2	-2	-9	-5		359	9	26	-10	51
Türkiye		8969	-0.3	1	12	99	20		317	-37	-27	-209	3
Ukraine		507	0.0	0	0	0	0		4386	205	545	-41	382
EM total		39	1.1	-1	0	-3	-3		349	-4	-10	-36	4

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

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