GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 15, 2024
LEAD EDITOR: JEFF WILLIAMS

- **US markets rebound from post-CPI sell-offs** (link)
- **Private credit origination recovers** (link)
- **Pound continues to weaken after UK GDP disappoints** (link)
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Recession data in UK and Japan fail to disrupt market rebound

While data releases showed that both the UK and Japan entered technical recessions in the second half of 2023, equity markets continued to recover from the higher-than-expected US inflation print earlier this week. This morning, ECB president Lagarde cautioned against early rate cuts, highlighting the importance of wage growth. US equity markets have nearly fully recovered pricing from before the inflation release, and this morning's weaker than expected US retail sales data for January has pushed the 2-year treasury back to within 3 bp of where it closed Monday. In emerging markets, the Kenyan shilling rallied 4.5%, its largest one-day gain in 16 years according to Bloomberg, following the country's successful $1.5 bn eurobond sale. That issuance was followed by the sale of a nearly $1.6 bn USD equivalent domestic infrastructure bond yesterday that reportedly drew significant interest from foreigners.

Key Global Financial Indicators

Last updated: 2/15/24 8:07 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5001	1.0	0	5	21	5
Eurostoxx 50		4748	0.8	1	7	11	5
Nikkei 225		38158	1.2	6	7	38	14
MSCI EM		40	1.4	0	1	-1	-1
Yields and Spreads					bps		
US 10y Yield		4.23	-2.7	7	29	42	35
Germany 10y Yield		2.32	-1.7	-3	9	-16	30
EMBIG Sovereign Spread		389	4	0	-9	-53	6
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	-0.1	0	-2	-8	-3
Dollar index, (+) = $ appreciation		104.6	-0.2	0	2	1	3
Brent Crude Oil ($/barrel)		81.3	-0.4	0	4	-5	5
VIX Index (%, change in pp)		14.3	-0.1	2	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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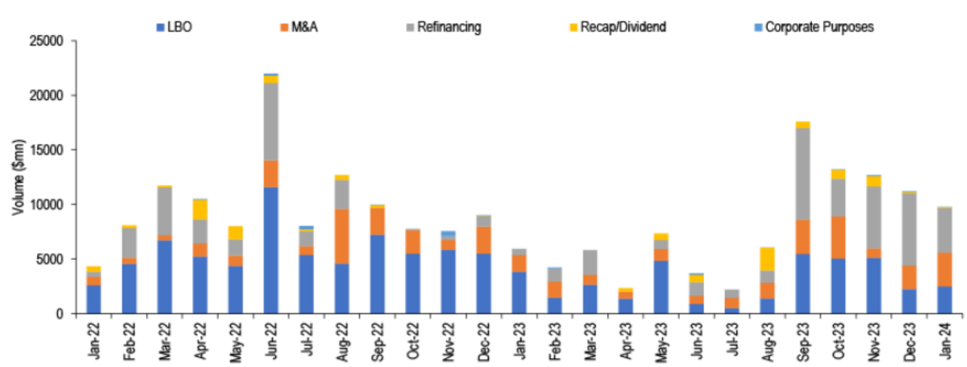
United States

Markets rebounded yesterday from Tuesday's Fed repricing sell-off: The S&P500 rose to just below 5,000, and Treasury 2-year yields declined by 8bp, with the yield curve steepening. Messages from officials were mixed, but investors seemed to focus more on the dovish ones. Treasury Secretary Yellen, addressing the market reaction to CPI data Tuesday, said it is a tremendous mistake to focus on minor fluctuations, and inflation overall is coming back down to normal levels. Chicago Fed's Goolsbee also noted that slightly higher inflation data for a few months would still be consistent with a path back to 2%. Meanwhile, Fed Vice Chair Barr said more data is needed indicating that inflation is heading back to the 2% goal before it begins to cut rates. Bitcoin climbed to above $52,000, pushing its market capitalization above $1 trillion for the first time since December 2021.

This morning, January retail sales were reported weaker than expected (headline: -0.8%m/m versus -0.2% consensus). The ex-auto series was also weaker (-0.6% m/m versus +0.2% consensus). Investors shrugged off other stronger-than-expected data, including initial jobless claims, the Philly Fed survey, and the import price index, pushing Treasury yields lower (2-year down 6bp) lower and the dollar weaker (-0.3%).

Global private credit origination improved late last year after seeing slow activity in early 2023 due to a higher cost of capital. According to JPMorgan, the number of private credit transactions in January 2024 was nearly double that of January 2023. The median tranche size decreased to $116mn, down from the 2023 average of $148mn. The average tranche size over the last two years has been $160mn. Through 2023, private credit origination was mainly directed to M&A and LBO-related activity, while many deals since September last year were used for refinancing. The dry powder available to private credit funds has been at $430bn globally, up 7.5% over the year.

Figure 27: New Deals by Use of Proceeds



Source: J.P. Morgan.

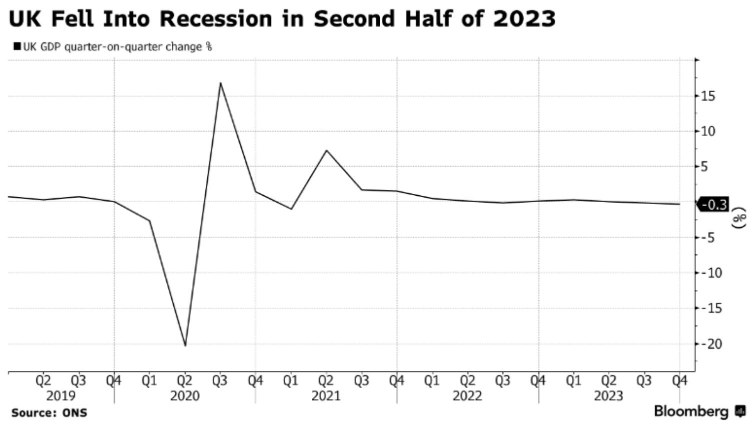
Euro Area

European equities were trading in the green for the second consecutive day, with the Stoxx 600 index up 0.6% this morning. Goldman Sachs analysts have rolled forward their index target for Europe and now forecast the STOXX 600 at 510 in 12 months. Analysts note expectations that Europe's economy will improve, highlighting expectations that rates have peaked, a strengthening in recent data, a turn in PMIs and also plenty of gas supply. Euro area sovereign bond yields were lower (10y bund yield -2bp trading at around 2.31%) while the euro was marginally stronger against the dollar (trading at around 1.073). On the data front the final print for Spain's January inflation confirmed earlier estimates (EU harmonized measure 3.5%y/y).

ECB President Lagarde cautioned this morning against the ECB making hasty decisions on interest rate cuts, highlighting the importance of wage growth as a driver of inflation. President Lagarde noted a lack of evidence to have sufficient confidence that the ECB would reach their medium-term 2% inflation target and that inflation would remain sustainably at this target. Yesterday ECB governing council member Nagel said that history indicates that a too-early rate cut would be worse than a too-late rate cut. Nagel also noted that Germany's economy could contract in Q1. Markets are pricing in roughly 115bp of ECB rate cuts in 2024, little changed from yesterday.

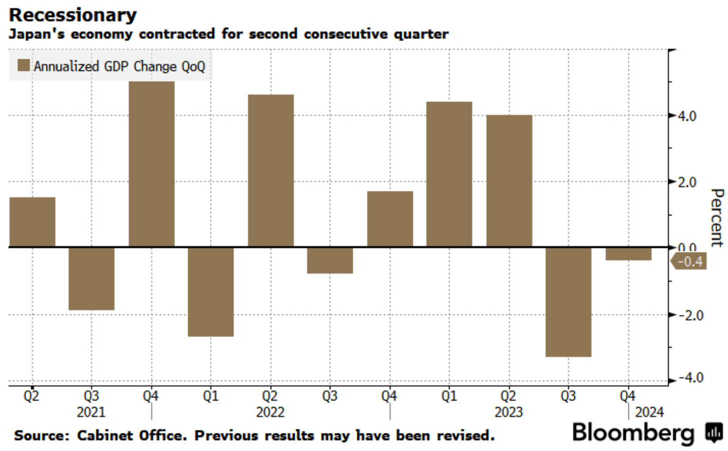
United Kingdom

The pound continued to weaken after Q4 preliminary GDP data disappointed. Preliminary GDP data released this morning showed GDP contracting more than anticipated in Q4 (-0.3%q/q versus expectations to remain unchanged at -0.1%), indicating that the UK economy was in a technical recession in H2 2023. This follows previous data releases this week that included a marginally lower than expected January inflation print, and an upside surprise in wage growth. ING analysts highlight underlying volatility in the GDP data, and also note an improvement in the growth outlook. Morgan Stanley analysts also think the economy would improve going forward, highlighting that PMIs and consumer confidence have improved. The pound continued to weaken against the dollar this morning (-0.1% to 1.25) and is now roughly 0.6% weaker than at the start of the week. 10y gilt yields were marginally lower (-2bp to 4.02%). While BoE Governor Bailey yesterday said that services inflation (6.5%y/y in January) is not compatible with the BoE's inflation target, markets are still pricing in roughly 76bp of rate cuts this year, with the first rate cut fully priced in August.



Japan

Japan unexpectedly saw an economic contraction in 2023Q4. Real GDP shrank 0.1% q/q (consensus: +0.2%) in Q4 after a 0.8% q/q contraction in Q3. Households and businesses cut spending for a third straight quarter. Meanwhile, the GDP deflator increased 3.8% y/y in Q4, pointing to inflationary forces amid softening economic activity. As Japan's economy unexpectedly slipped into a recession (i.e., two consecutive quarterly economic contraction), markets push back the timing for the Bank of Japan (BOJ)'s exit from the negative rate policy. The 1-year OIS rate declined (-1.2 bp), and long-term JGB yields also fell (10-year: -2.2 bp; 30-year: -0.4 bp), with the 10-year yield trading at around 0.726%. Analysts noted that the weaker-than-expected economic data will complicate the BOJ's policy normalization. Recently, the BOJ ramped up discussions surrounding an exit from negative interest rate policy. Meanwhile, Japanese equities gained (NIKKEI: +1.2%), following a global stock market rebound yesterday. The yen appreciated (+0.3%).



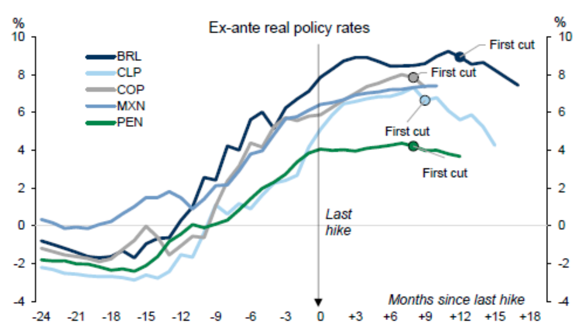
Emerging Markets back to top

Most Asian equities gained, led by Taiwanese (+3.0%) and Indonesia (+1.3%) indices, after a global stock market rebound yesterday. The gain in the Taiwanese market also reflected the post-holiday reopening. Meanwhile, Hong Kong equities extended gains (+0.4%), encouraged by positive signs of reduced short positions in Hang Seng futures market, as traders were placing bets on more stimulus from the Chinese government after long holidays to shore up the economy and market confidence. According to Bloomberg, long positions in options of US-listed ETFs that track Chinese equities also spiked last week. **Asian currencies were mixed**. The Philippine peso (+0.2%) appreciated while the Taiwanese dollar (-0.2%) and Thai baht depreciated (-0.2%) slightly. Long-end government bond yields generally declined, with 10-year yields falling in Singapore (-7 bp) and Korea (-2 bp). **EMEA markets were mixed this morning**. Equities in Türkiye (+1.4%) and Hungary (+1.1%) outperformed, while equities in Poland were lower (-0.3%). On the data front, January inflation data in Poland showed inflation fell to 3.9%y/y (exp 4.1%, 6.2% prior). There was little immediate market reaction to the release with the Polish zloty broadly unchanged against the euro to trade at 4.34/€ while yields fell 5–8bp. **LatAm currencies, local bonds and equities largely rebounded from post-US CPI sharp selloffs**. Major currencies shrugged off losses from the previous day, led by a resurgence of the Chilean and Mexican pesos, appreciating by 1.3% and 0.6%, respectively. In hard currency markets, Argentina's dollar notes were amongst the top performers, with its 2030 notes rising 1.8 cents on the dollar, the biggest jump since November, according to indicative pricing data compiled by Bloomberg.

LATAM FX

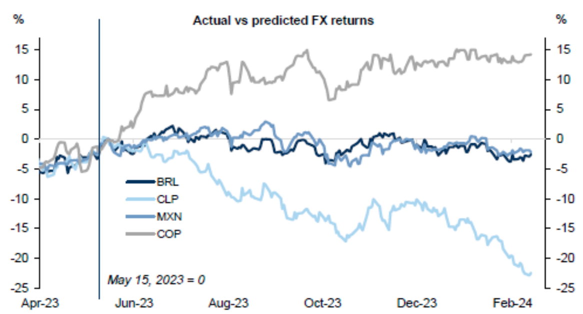
Year-to-date LATAM FX relative performance reflects divergence in recent policy rate actions. While monetary policies were largely synchronous across the region during the previous hiking cycle, there has been differentiation in real policy rates during the easing cycle. A Goldman Sachs analysis indicated that ex-ante real rates declined at different magnitude across the region. Despite Chile and Brazil both initiating policy rate cuts around the same time, Chile's real rates saw steeper declined compared to Brazil's. In contrast, Colombia only began its policy easing last December while Mexico continues to be on hold. Consequently, the divergence in real rates have mirrored the divergence in FX performance, when compared to 'predicted' returns based on historical sensitivities to several global market variables. The analysis highlights that CLP exhibited the most underperformance, while COP demonstrated strong performance. In contrast, both MXN and BRL performance appear to be more closely aligned with global trends.

Real policy rates increased in a relatively coordinated fashion through the hiking cycles, but have diverged more meaningfully more recently



Source: Haver Analytics, Consensus Economics, Goldman Sachs Global Investment Research

Since May 2023,while BRL and MXN have performed broadly in line with their global sensitivities, CLP has underperformed and COP has outperformed

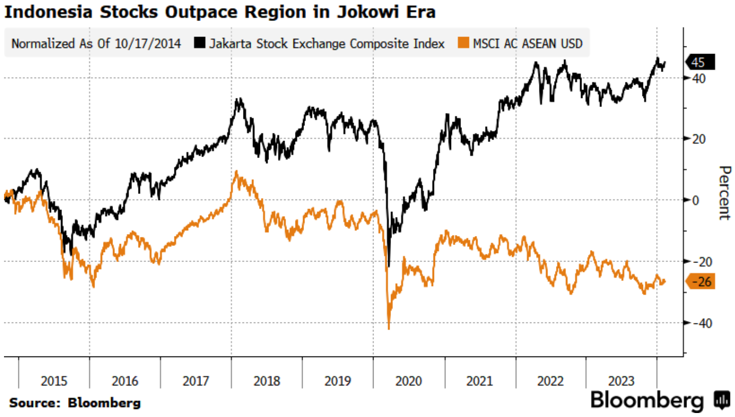


Predicted returns based on FX return sensitivities to SPX Index, US 10y real yields, oil and copper prices.

Source: Goldman Sachs, Bloomberg, Goldman Sachs Global Investment Research

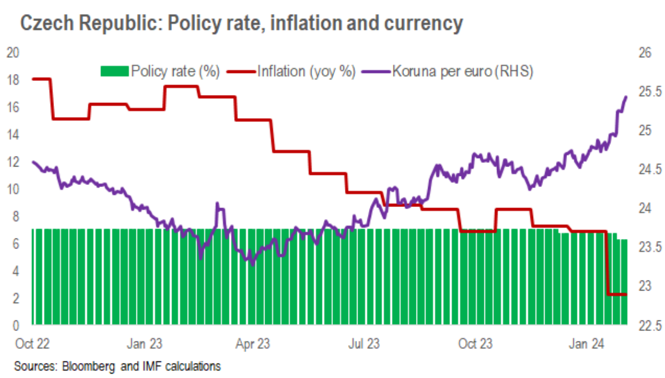
Indonesia

Indonesian equities rallied as a conclusive presidential election outcome reduced political uncertainty. Defense Minister Prabowo Subianto declared victory after securing nearly 60% support in quick counts. A swift victory for Prabowo removed the uncertainty that would arise from a prolonged election, which could affect foreign fund flows. Furthermore, the public sees policy continuity as Prabowo had largely campaigned on a platform of continuity of President Jokowi's policy, which has benefited the Indonesian economy. Indonesian stocks have outperformed other ASEAN markets during President Jokowi's tenure. Today, Indonesian equities gained (+1.3%), while the rupiah depreciated (-0.1%). Long-term government bond yields were little changed.



Czechia

Koruna weakens after January inflation data surprised to the downside with inflation printing at 2.3%y/y (exp 2.9% from 6.9% prior). Commenting after the data release, CNB Deputy Governor Zamrazilova said that "rates will remain elevated until it is clear that inflation will remain at 2%. The development of the exchange rate will also play a role". The koruna was weaker (-0.1%) against the euro following the release and is around 2.9% weaker against the euro since the start of the year.



Hungary

Minutes from the January MPC meeting released yesterday afternoon showed that the committee voted 7–2 in favor of a 75bp cut, with 2 members (Kovacs and Patai) preferring a larger 100bp cut. Contacts noted that this was the first time the minutes showed dissenting votes since 2016. The Hungarian forint traded lower yesterday morning following weaker-than-expected preliminary Q4 GDP data and fell further on the release of the minutes to trade at 389.45/€. The currency is trading broadly unchanged this morning at 389.1/€. Elsewhere, Bloomberg reports that Hungary's Debt Management Agency is planning to auction HUF52bn ($143mn) in local currency bonds and bills today.

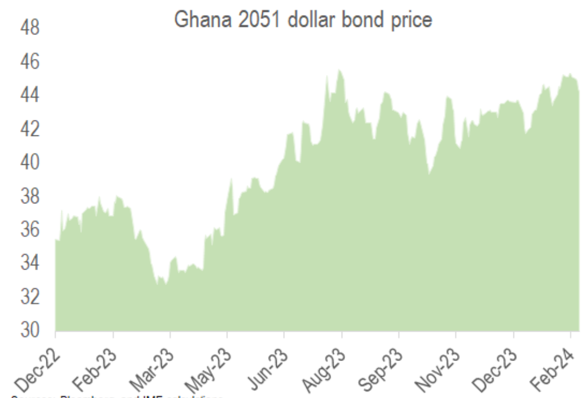
Kenya

Kenya raised KES241bn ($1.58bn equivalent) in an infrastructure bond, according to Bloomberg. The sale was oversubscribed with the central bank accepting three times what it had originally planned to raise with significant interest from both domestic and foreign investors. According to the Central Bank of Kenya, the weighted average yield on the 8.5y securities was 18.46%. With redemptions of KES70.49bn (c.$459m), total new borrowing from this auction comes to KES170.47bn (c.$1.11bn). Contacts estimate that this auction has seen the government raising KES315.77bn (c.$2.06bn), or 66.5% of its net domestic borrowing target. **Inflows from the sale of the bond have further buoyed the currency with the shilling strengthening for the seventh consecutive day against the dollar to trade at KES146.1/$ having**

gained 4.3% in early trading this morning. Bloomberg reports that the Central Bank of Kenya may have intervened to stabilize the currency given the sharp rally.

Ghana

Ghana's Eurobond price fall on news of a cabinet reshuffle. Yesterday, the Ghanaian President replaced finance minister Ken Ofori-Atta with Mohammed Amin Adam with immediate effect. Mr. Ofori-Atta had led recent negotiations with international creditors to restructure Ghana's debt as well as securing a $3bn loan from the IMF. Ghana's 2051 dollar bonds fell sharply on the news, declining 1.3% to trade at 44.24 cents on the dollar reflecting concerns over whether the government will be able to meet its end-of March deadline for striking a debt restructuring deal with commercial creditors. The new finance minister has pledged to continue with the reforms and remarked that the government will move "very fast" to conclude negotiations with the World Bank for funding under its Development Policy Operation plan.

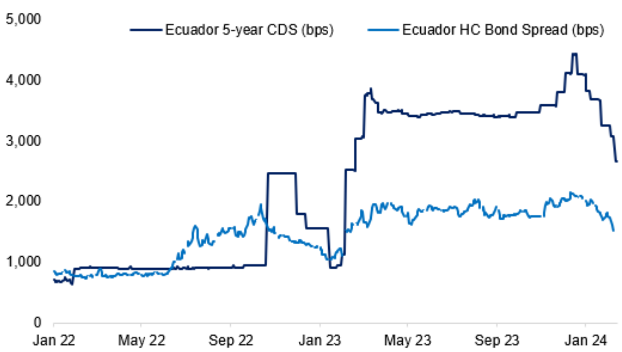


Sources: Bloomberg and IMF calculations

Ecuador

Recent tax reforms, including VAT increase, could ease funding stresses for Ecuador. According to Fitch, the "full impact" of the latest tax reform passed by decree on February 9 will also depend on whether they help secure a new IMF program that reduces external financing risks. The measures, including the raise in VAT and capital outflow tax, and introduction of temporary tax measures for banks, cooperatives, and firms, are estimated to yield USD825 million net revenue increase in 2024. Fitch estimates its deficit to narrow to 2.3% of GDP in 2024 after the latest reforms but still faces a funding gap of about USD2.5 billion this year. Fitch expects Ecuador to raise USD7.7 billion of its USD10.2 billion financing needs from multilateral and domestic market borrowing. Post-2024 financing needs is also expected to stay high, and deficits to widen. However, Fitch cautioned that obtaining multi-year external financing remains uncertain and it is "unclear" if a new program would support external market access.

Ecuador spreads remain elevated despite recent tightening



Source: Bloomberg, JP Morgan, IMF Staff Calculations

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Global Financial Indicators

2/15/24 8:07 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4997	1.0	0	4	20	5
Europe		4748	0.8	1	7	11	5
Japan		38158	1.2	6	7	38	14
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		65	1.6	0	1	-5	-2
Emerging Markets		40	1.4	0	1	-1	-1
Interest Rates					basis points		
US 10y Yield		4.23	-2.7	7	29	42	35
Germany 10y Yield		2.32	-1.7	-3	9	-16	30
Japan 10y Yield		0.73	-2.2	3	16	22	12
UK 10y Yield		4.02	-2.6	-3	22	53	48
Credit Spreads					basis points		
US Investment Grade		126	-0.1	-2	-5	-15	-8
US High Yield		377	1.6	0	-20	-60	-8
Exchange Rates					%		
USD/Majors		104.56	-0.2	0	2	1	3
EUR/USD		1.07	0.2	0	-2	1	-3
USD/JPY		150.1	-0.3	1	3	12	6
EM/USD		46.8	-0.1	0	-2	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		81.3	-0.4	0	4	2	6
Industrials Metals (index)		134	0.5	1	-2	-17	-6
Agriculture (index)		59	-0.3	-2	-2	-15	-5
Implied Volatility					%		
VIX Index (%, change in pp)		14.3	-0.1	1.5	1.6	-3.9	1.9
Global FX Volatility		7.2	0.0	-0.2	-0.3	-3.1	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		110	-2.3	-6	2	-68	6
Italy		151	-0.9	-7	-7	-35	-17
Portugal		77	-1.6	-4	18	-11	14
Spain		92	-1.0	-1	0	-4	-5

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)						
2/15/2024	Level		Change (in %)					Level		Change (in basis points)				
8:08 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		7.19	0.0	0.0	0	-6	-1		2.4	0.0	0	-11	-75	-12
Indonesia		15623	-0.1	0.1	0	-3	-1		6.6	-1.4	1	-4	-13	15
India		83	0.0	-0.1	0	0	0		7.2	-4.0	8	5	(23.9)	1
Philippines		56	0.2	-0.2	0	-2	-1		5.4	0.1	0	-22	-47	-20
Thailand		36	-0.1	-0.8	-3	-5	-5		2.6	-1.0	6	-13	-18	-10
Malaysia		4.78	0.1	-0.2	-2	-8	-4		3.8	-3.0	1	1	-8	8
Argentina		835	-0.1	-0.5	-2	-77	-3		75.5	124.8	-39	-571	-1264	-1091
Brazil		4.97	0.1	0.5	-2	5	-2		10.8	-3.8	6	25	-257	42
Chile		965	-0.7	0.1	-6	-18	-9		4.9	-6.5	4	5	-54	3
Colombia		3914	0.0	0.9	0	26	-1		7.6	0.0	6	2	-194	-7
Mexico		17.09	0.0	0.3	-1	9	-1		8.8	0.0	9	39	3	33
Peru		3.9	0.2	-0.8	-5	0	-4		6.8	1.0	4	20	-125	8
Uruguay		39	0.1	-0.1	0	0	-1		9.0	-10.5	-16	-21	-70	-53
Hungary		362	0.1	-0.4	-4	-2	-4		6.0	-11.0	4	41	-218	27
Poland		4.04	0.1	-0.7	-1	10	-3		4.8	-4.7	0	27	-67	30
Romania		4.6	0.1	-0.3	-2	-1	-3		6.4	14.2	19	21	-95	23
Russia		92.1	-0.5	-1.0	-5	-19	-3							
South Africa		19.0	0.1	-0.3	-2	-5	-3		9.4	-3.0	5	24	29	25
Türkiye		30.74	0.0	-0.4	-2	-39	-4		26.4	-12.0	-80	-69	1505	-37
US (DXY; 5y UST)		105	-0.2	0.4	2	1	3		4.22	-2.3	10	39	18	37

	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		158	-3	-6	-13	0
Indonesia		7303	1.3	1	1	6	0		111	0	-2	-32	15
India		72050	0.3	1	-1	17	0		112	-3	-16	-33	-4
Philippines		6882	0.4	1	4	1	7		93	0	-2	-24	13
Thailand		1387	0.2	0	-1	-16	-2		0	0	0	0	0
Malaysia		1528	-0.1	1	2	3	5		86	-3	-8	-14	1
Argentina		1105580	-2.0	-12	6	334	19		1959	17	49	-24	46
Brazil		127018	-0.8	-3	-3	16	-5		216	-5	7	-47	1
Chile		6088	1.0	1	2	13	-2		132	-3	-1	-4	7
Colombia		1237	0.1	-2	-5	1	4		310	-8	16	-74	39
Mexico		57248	0.6	-2	3	7	0		334	2	-1	-29	0
Peru		27898	1.6	2	7	27	7		149	-2	-3	-34	5
Hungary		65682	1.0	2	3	42	8		167	-1	1	-44	18
Poland		79207	-0.3	1	5	31	1		105	-2	0	39	8
Romania		15702	0.1	0	-1	27	2		201	6	-7	-41	0
South Africa		73187	0.2	-1	-1	-8	-5		359	13	26	-5	51
Türkiye		9243	1.9	3	15	87	24		324	-19	-20	-197	10
Ukraine		507	0.0	0	0	0	0		4303	94	462	-132	299
EM total		40	0.1	0	1	-1	-1		351	-1	-7	-30	6

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

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