GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, FEBRUARY 21, 2024

LEAD EDITOR: JEFF WILLIAMS

- **Large cash allocations could partially flow into risk assets later in the year** (link)
- **US CRE elevates concerns of a systemic credit event** (link)
- **Analysts and markets expect UK election to take place in Q4** (link)
- **Bank Indonesia kept the policy rate unchanged at 6.0% as expected** (link)
- **South African rand marginally weaker ahead of budget** (link)
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Waiting to see where the chips fall

Global equity markets are mixed weaker this morning as anticipation centers on the release of earnings from NVIDIA, scheduled for after the market close today. The company, considered a bellwether for the development of AI, has been the best performing stock in the S&P 500 so far this year even after declining in recent days. The company is trading lower in pre-market trading this morning. US equity futures overall are negative ahead of the market open. Meanwhile, Chinese equities gained on optimism from further policy support measures, as well as a crackdown on trading by quant funds, which helped to reduce concerns about short selling. European equities are net positive, but financials are in the red on disappointing earnings news this morning, especially from HSBC, who saw a significant drop in profit thanks in large part to a $3bn charge on its holdings of a Chinese bank.

Key Global Financial Indicators

Last updated: 2/21/24 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4976	-0.6	-1	3	24	4
Eurostoxx 50		4778	0.4	1	7	12	6
Nikkei 225		38262	-0.3	1	5	41	14
MSCI EM		40	0.1	1	5	2	0
Yields and Spreads					bps		
US 10y Yield		4.26	-1.4	1	14	31	38
Germany 10y Yield		2.39	1.6	5	5	-14	37
EMBIG Sovereign Spread		382	0	-4	-17	-72	-1
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.9	-0.1	0	-1	-7	-3
Dollar index, (+) = $ appreciation		104.1	0.0	-1	1	0	3
Brent Crude Oil ($/barrel)		82.2	-0.2	1	5	-1	7
VIX Index (%, change in pp)		16.0	0.6	0	3	-7	4

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

Mature Markets

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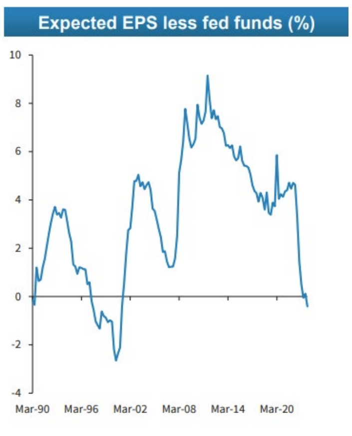
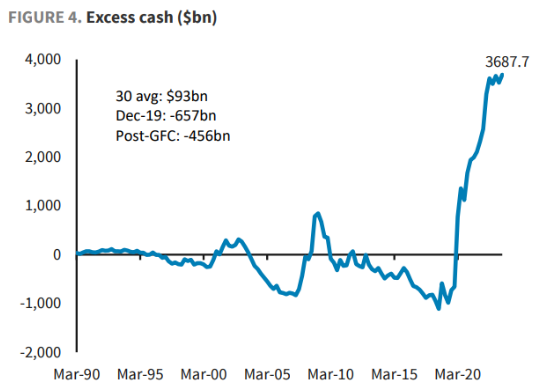
United States

Surge in cash allocations will partially flow into risk assets. Cash returns are at their highest since 2007, following the Fed's aggressive rate path, making cash relatively attractive compared to, for example, expected earnings in the stock market. As a result, cash allocations among households and non-financial businesses since COVID have reached levels well beyond long-term averages. As expectations for Fed cuts are being pushed back, a lot more can accumulate according to analysts, if flows from institutional investors follow the pick-up already observed in retail flows. Eventually, this cash, currently in Money Market Funds and deposits, could potentially flow into risk assets over the next year, with the prospect of lower cash returns due to potential Fed rate cuts and an investor shift towards holding duration. If cash allocations revert to their 30-year average, up to $3.7 trillion could be ready for redeployment. However, a more realistic estimate, according to Barclays and JP Morgan research, is around $400–600 billion. The implications of this move on financial stability are not clear.

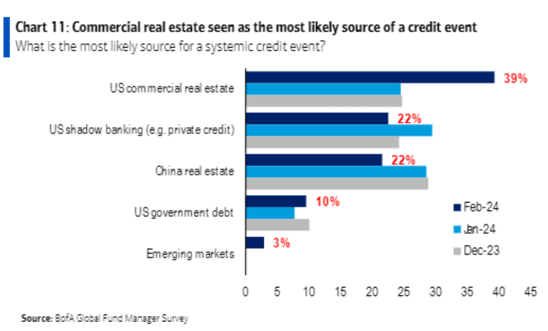


Source: Bloomberg, Federal Reserve, Barclays Research

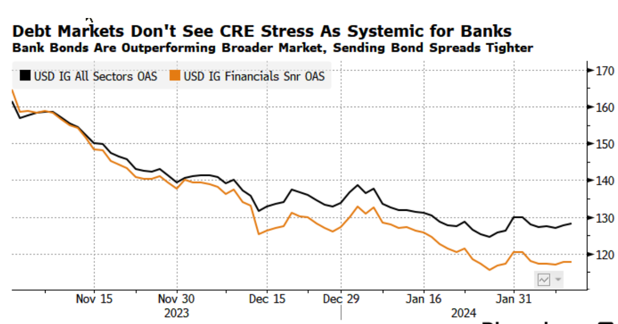


Note: Assuming balances revert to their 30y average allocation.
Source: Federal Reserve, Barclays Research

US CRE elevates concerns of a systemic credit event. Concerns over a systemic credit event have grown considerably in the last month to become the third-largest tail risk, according to a Bank of America survey,surpassed only by inflation and geopolitics. The unease is particularly pronounced in US and Chinese real estate markets, with 40% of fund managers identifying US commercial real estate (CRE) as the most probable credit event source, and 22% viewing Chinese real estate as the largest threat. With nearly 20% of US commercial and multifamily real estate debt needing refinancing or sales this year, and rates likely to remain higher for longer, smaller US banks with significant CRE exposures are at risk of distress and default. Despite this, credit markets remain relatively sanguine, as indicated by narrowing risk premiums on bank bonds compared to the broader market.

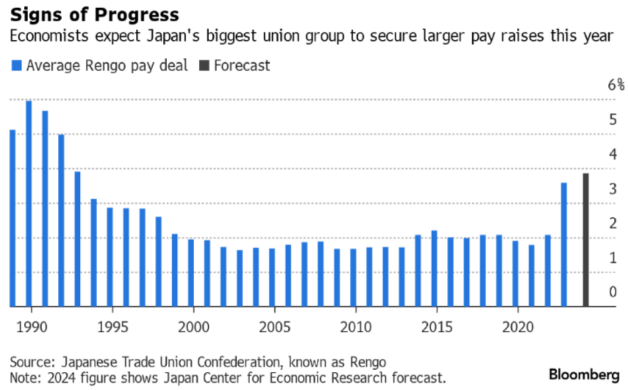


Source: BofA Global Fund Manager Survey



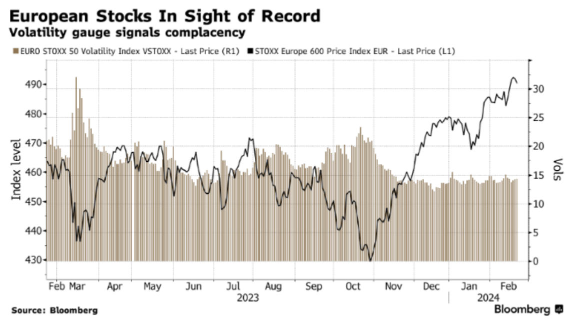
Source: Bloomberg

Japan



The government downgraded its assessment of the economy for the first time in three months. The cabinet's report said that the economy is recovering at a moderate pace, but some parts of the economy are showing sluggishness particularly in private consumption and manufacturing activity. **Early signs suggested that firms may increase wages by bigger margins this year than last year.** Some major automakers already signed off on the wage demand of their workers' unions. For example, Honda will raise wages by 5.6% and pay a bonus equal to 7.1 months of salary. Wage negotiations so far show a pattern of larger wage increases across a wider part of the economy. Japanese equities declined (NIKKEI: -0.3%), following the tech-led retreat of US stocks yesterday. The yen depreciated (-0.1%), while long-end JGB yields fell (10-year: -0.8 bp; 30-year: -1.9 bp).

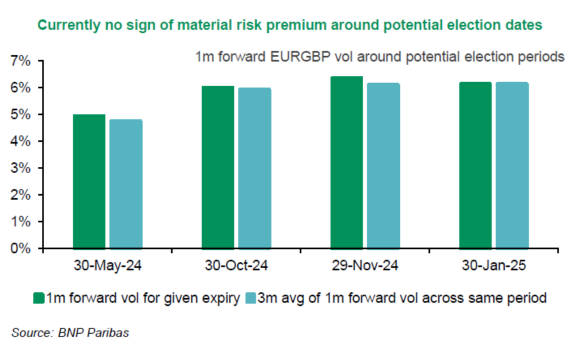
Euro Area



European equities were mostly trading lower this morning (STOXX 600 -0.1%) amid disappointing earnings reports. The banking sector was 0.7% lower. While the Stoxx 600 also closed 0.1% lower yesterday, it remains close to its January 2022 peak. **Euro area sovereign bond yields were little changed this morning with the 10y bund yield trading at around 2.38%.** The euro was marginally weaker (-0.1%) against the dollar, trading at around 1.080.

United Kingdom

UK equities were trading lower (FTSE 100 -0.8%) with HSBC shares down as much as 8% after HSBC Holdings Plc reported an 80% decline in Q4 profit. 10y UK gilt yields were marginally higher trading at 4.05%, after easing yesterday (10y -7bp) as markets saw higher odds of a BoE rate cut in June following comments from BoE governor Bailey. Bailey noted that there is no need for "inflation to come back to target before we cut interest rates. I must be very clear on that, that's not necessary." He also added that he was "comfortable with a profile that has cuts in it". Markets are pricing in roughly 16bp of rate cuts by June and 73bp of rate cuts by end-2024. **On the data front, average pay settlements declined to 5.1% in January (from 6%) according to XpertHR data.** While current data for January is based on a small proportion of the overall expected sample, JP Morgan analysts think the data highlights upside risks to the BoE's central forecasts. The pound was little changed against the dollar in early morning trade.



FX forward volatility has started to discount event risk ahead of the next UK general election, with the market discounting the largest risk premium for November 2024. With the Spring Budget confirmed for March 6, PM Sunak has said that his "working assumption" is for the election to take place in H2 2024. Several analysts see an election in Autumn (i.e., October/November) as most likely. BNP Paribas analysts highlight that while there is no indication currently of material risk premium around possible election dates, FX forward volatility indicates that an election in Q4 is the most likely. Separately, public sector net borrowing excluding banking groups came in at -£16.7bn in January (versus expected -£18.4bn). Also, ahead of the March 6 budget, the Resolution Foundation released a report indicating that UK Chancellor Hunt has £23bn of fiscal headroom for stimulus.

Emerging Markets back to top

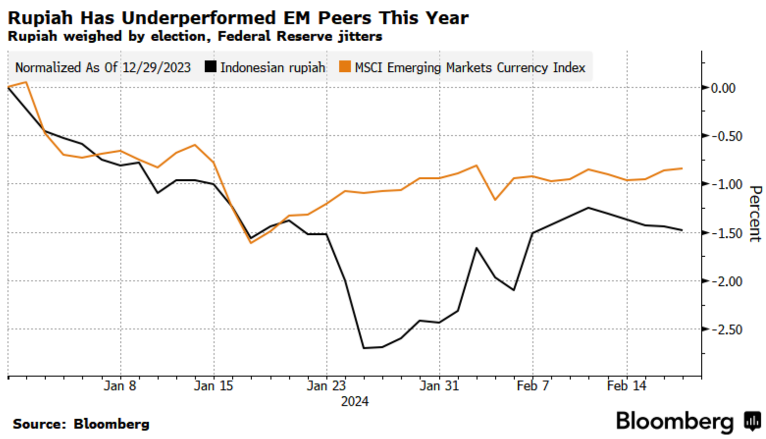
Asian equities were mixed today, gaining 0.5% on net. Share prices rose in Hong Kong SAR (+1.6%) and China (CSI 300: +1.3%), while Singaporean (-0.7%) and Indonesian (-0.6%) equities declined. Asian currencies appreciated, led by the Thai baht (+0.6%). Long-end government bond yields dropped, with 10-year yields falling in India (-4 bp) and Thailand (-4 bp). In Thailand, Governor Sethaput said that the Bank of Thailand sees no need for an out-of-cycle policy meeting to cut interest rates. He reiterated that the economic problems that the country is facing cannot be solved by easing monetary policy. **EMEA equity markets were mixed while currencies were mostly trading marginally weaker against the dollar.** Equities in Russia (-1.9%) and Serbia (-1.2%) underperformed while those in Czechia (+0.7%) gained. Equities in South Africa were marginally lower (-0.1%) and the South African rand was marginally weaker against the dollar (-0.2% to R18.94/$) ahead of the budget announcement later today. CEE currencies were little changed against the euro. **Latin American assets were relatively mixed yesterday.** After underperforming Monday, Colombia's COLCAP Index (+2.1%) recovered some of its losses. Equities in Brazil (+0.7%) also gained, but stocks in Argentina (-1.2%), Chile (-0.5%), and Mexico (-0.5%) experienced losses. Currencies in Brazil (+0.7%), Chile (+0.4%), and Peru (+0.4%) appreciated, while the Colombian (-0.2%) and Mexican (-0.1%) pesos depreciated.

China

Chinese equities gained, driven by optimism on policy support measures. Onshore (CSI 300: + 1.3%) and Hong Kong-SAR listed (+2.2%) Chinese stocks advanced, outperforming other regional peers following the tech-led retreat of US stocks yesterday. Market sentiment improved on signs that banks started ramping up their lending to property developers under the 'whitelist' mechanism. Furthermore, a fresh crackdown on trading by quant funds helped reduce concerns about short selling. Both Shanghai and Shenzhen exchanges froze the accounts of a major quant hedge fund for three days after the asset manager dumped $360 bn in shares within a minute on Monday, noting that the fund's selling orders constituted abnormal trading behavior and disrupted market functioning. RMB appreciated slightly to 7.19 yuan per dollar. The People's Bank of China (PBC) continued setting a stronger-than-expected daily RMB fixing; today's deviation from market consensus narrowed to 860 pips. The PBC also continued withdrawing liquidity in an amount of 347 bn yuan ($48 bn) after the Lunar New Year holiday. The key interbank rate (DR007) edged up to 1.83%, slightly above the policy rate at 1.80%. Short-end CGB yields declined (1-year: -6 bp).

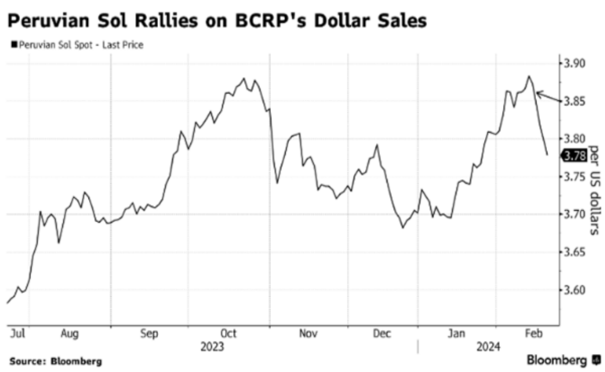
Indonesia

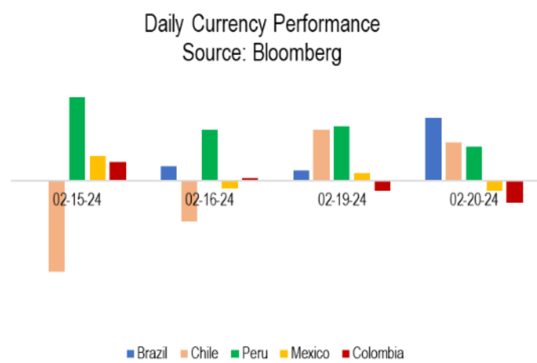
Bank Indonesia kept the policy rate unchanged at 6.0% as expected. Bank Indonesia reiterated that it would be on an extended pause to support the currency. Governor Perry Warjiyo said that the hold decision was consistent with the objective to ensure exchange rate stability and maintain inflation within the 1.5%-3.5% target. Analysts note that the Indonesian rupiah has been volatile due to political uncertainty around Indonesia's presidential election and foreign fund flows driven by evolving market expectations on US monetary policy; though, the former risk has subsided after a decisive election outcome. The rupiah appreciated (+0.2%), similar to regional trends. Long-end government yields dropped (10-year: -1 bp). Indonesian equities declined (-0.6%).



Peru

The Peruvian sol extends gains amid central bank intervention. According to Bloomberg analysts, traders have witnessed larger than normal currency interventions from Peru's central bank over the past few trading days, such as FX swaps and selling dollars in the spot market. Since market close last Wednesday, the sol is the best performing emerging market currency, up 2.4%. Additionally, the sol has outperformed other Latin American currencies three out of the last four sessions. Analysts believe the purpose of the intervention is to fight against speculative positioning.

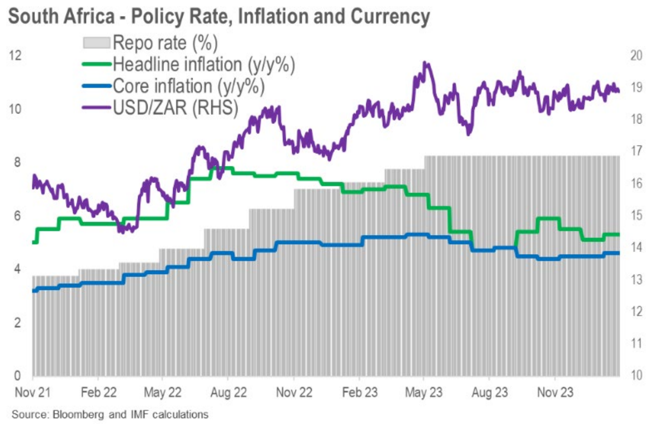




South Africa

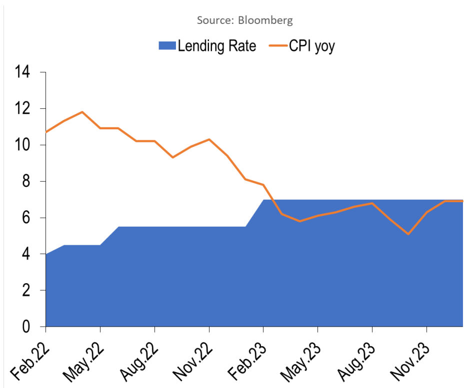
The rand was marginally weaker ahead of South Africa's pre-election annual budget, set to be delivered later today, with contacts noting a sizeable event risk for the currency. South Africa's Finance Minister Enoch Godongwana is set to share the budget today, ahead of elections set to take place on May 29. ING analysts note that the focus for FX markets will likely be on whether the South African Reserve Bank's contingency fund would be used for government spending plans. **In the meantime data released this morning showed headline inflation accelerating by less than expected in January, while core inflation surprised on the upside.** The January inflation print showed headline inflation accelerating to

5.3%y/y (versus expected 5.4% from 5.1%) while core inflation accelerated to 4.6%y/y (versus expectations to remain unchanged at 4.5%). **The rand pared early morning gains after the data release (-0.2%) to trade at around R18.93 against the dollar**, roughly 3% weaker than at the start of the year.



Jamaica

Jamaica's central bank left its lending rate unchanged at 7%. The lending rate has been kept constant since February 2023, as y/y inflation remains below the central bank's target of 7.5–9.5%. Inflation has been steadily approaching the target since its trough in October, currently sitting at 6.9% yoy.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior 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), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior 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.

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Global Financial Indicators

2/21/24 8:03 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4964	-0.6	0	3	24	4
Europe		4778	0.4	1	7	12	6
Japan		38262	-0.3	1	5	41	14
China		3457	1.3	4	7	-16	1
Asia Ex Japan		66	0.1	0	4	-2	-1
Emerging Markets		40	0.1	1	5	2	0
Interest Rates			basis points				
US 10y Yield		4.26	-1.4	1	14	31	38
Germany 10y Yield		2.39	1.6	5	5	-14	37
Japan 10y Yield		0.73	-0.8	-3	6	22	11
UK 10y Yield		4.06	2.1	2	13	45	53
Credit Spreads			basis points				
US Investment Grade		123	-1.8	-3	-5	-22	-11
US High Yield		375	2.2	0	-16	-92	-10
Exchange Rates			%				
USD/Majors		104.11	0.0	-1	1	0	3
EUR/USD		1.08	0.0	1	-1	1	-2
USD/JPY		150.0	0.0	0	1	11	6
EM/USD		46.9	-0.1	0	-1	-7	-3
Commodities			%				
Brent Crude Oil ($/barrel)		82.2	-0.2	1	5	5	7
Industrials Metals (index)		137	1.4	3	2	-19	-4
Agriculture (index)		59	-0.5	-2	-3	-16	-6
Implied Volatility			%				
VIX Index (%, change in pp)		16.0	0.6	0.1	2.7	-6.9	3.5
Global FX Volatility		6.8	0.0	-0.5	-0.8	-3.4	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		108	0.4	-4	6	-82	5
Italy		148	-0.7	-4	-6	-46	-20
Portugal		75	-0.3	-4	-8	-15	12
Spain		91	0.5	-2	1	-8	-5

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

Emerging Market Financial Indicators

Last updated: 2/21/2024 8:03 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		7.20	0.0	0.0	0	-5	-1		2.4	0.0	-3	-12	-83	-14
Indonesia		15660	-0.2	-0.4	0	-3	-2		6.6	-0.1	-2	0	-10	14
India		83	0.1	0.1	0	0	0		7.2	2.2	3	2	(30.6)	3
Philippines		56	0.0	-0.2	0	-2	-1		5.4	0.0	0	-2	-49	-20
Thailand		36	0.0	0.0	-1	-5	-5		2.5	-4.0	-3	-22	-18	-16
Malaysia		4.80	-0.2	-0.7	-1	-8	-4		3.8	0.5	3	2	-3	12
Argentina		837	-0.1	-0.7	-2	-77	-3		75.8	5.4	154	-520	-1209	-1062
Brazil		4.95	0.1	0.0	1	4	-2		10.8	-3.8	1	-4	-254	39
Chile		963	0.4	0.8	-6	-17	-8		5.0	-3.5	-11	4	-55	6
Colombia		3914	0.0	0.3	0	26	-1		7.5	0.0	-20	6	-232	-15
Mexico		17.01	0.2	1.1	1	8	0		8.8	2.4	-3	9	-6	32
Peru		3.8	0.6	1.9	-1	1	-2		6.7	0.2	-4	3	-124	3
Uruguay		39	0.0	0.0	0	1	-1		9.0	0.0	-7	-26	-76	-50
Hungary		360	0.3	0.5	-2	0	-3		6.0	-5.0	-18	15	-285	19
Poland		4.00	0.3	1.2	0	11	-2		4.8	-5.5	-5	22	-98	34
Romania		4.6	0.2	0.8	-1	0	-2		6.4	0.2	9	8	-109	15
Russia		92.5	0.0	-1.3	-5	-19	-3							
South Africa		19.0	0.0	0.9	1	-5	-3		9.4	-7.0	-2	23	21	29
Türkiye		30.90	-0.2	-0.6	-2	-39	-4		26.4	5.0	-18	-94	1590	-36
US (DXY; 5y UST)		104	-0.1	0.0	1	0	3		4.25	-2.7	-7	20	22	40

	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		3411	1.3	7	4	-18	-1		155	-5	-7	-13	-3
Indonesia		7353	0.0	1	2	7	1		107	-3	2	-32	11
India		73057	-0.6	2	2	20	1		109	-7	-17	-34	-7
Philippines		6855	0.6	0	5	1	6		89	-3	0	-32	9
Thailand		1381	0.9	-1	0	-17	-2		0	0	0	0	0
Malaysia		1556	-0.2	2	5	6	7		83	-6	-9	-16	-2
Argentina		1072261	0.6	-4	-9	331	15		1793	-216	-132	-269	-120
Brazil		129036	0.7	1	1	18	-4		214	-5	10	-50	-1
Chile		6375	-0.5	6	9	20	3		129	-7	1	-2	4
Colombia		1220	2.1	-1	-4	1	2		302	-20	11	-92	31
Mexico		57490	0.6	0	4	7	0		327	-5	-7	-32	-7
Peru		28318	-0.1	2	8	29	9		144	-9	-3	-34	0
Hungary		65930	0.4	2	2	46	9		165	-5	6	-42	16
Poland		81492	0.5	4	9	35	4		101	-9	3	32	4
Romania		15821	0.8	1	1	28	3		199	0	-2	-36	-2
South Africa		72957	0.0	0	0	-9	-5		346	-8	12	-21	38
Türkiye		9339	-0.1	4	17	81	25		315	-17	-32	-195	1
Ukraine		507	0.0	0	0	0	0		4255	-74	279	-210	251
EM total		40	0.5	1	4	1	0		343	-10	-14	-40	-3

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

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