GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 22, 2024

LEAD EDITOR: FABIO CORTES

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Markets rally on Nvidia's strong earnings results

Global equities gained on increasing optimism following Nvidia's strong results yesterday. US equity futures signaled a positive opening in pre-market trading, with Nasdaq futures up 2%. Shares in Nvidia rallied as much as 15% in pre-market trading after results showed strong demand for artificial intelligence computing hardware. The company, which is close to overtaking Alphabet in market value, has been the largest driver of US stock market gains this year. Elsewhere, Japanese stocks reclaimed their 1989 historical peak and European equities also gained led by the outperformance of tech stocks, with the Euro Stoxx 50 index reaching a 23-year high. In fixed income, advanced economy sovereign bond yields were little changed and credit spreads continued to tighten. In emerging markets, Chinese equities extended their recent gains and most currencies strengthened as the dollar index weakened for the third consecutive trading day.

Key Global Financial Indicators

Last updated: 2/22/24 8:06 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4982	0.1	1	3	25	4
Eurostoxx 50		4847	1.5	2	8	14	7
Nikkei 225		39099	2.2	2	7	44	17
MSCI EM		40	0.2	3	6	3	0
Yields and Spreads					bps		
US 10y Yield		4.33	1.6	10	23	42	46
Germany 10y Yield		2.46	0.7	10	17	-6	43
EMBIG Sovereign Spread		378	-4	-11	-21	-75	-5
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	0.0	0	-1	-7	-3
Dollar index, (+) = $ appreciation		103.8	-0.2	-1	0	-1	2
Brent Crude Oil ($/barrel)		82.8	-0.2	0	3	3	8
VIX Index (%, change in pp)		14.2	-1.1	0	1	-8	2

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

Mature Markets

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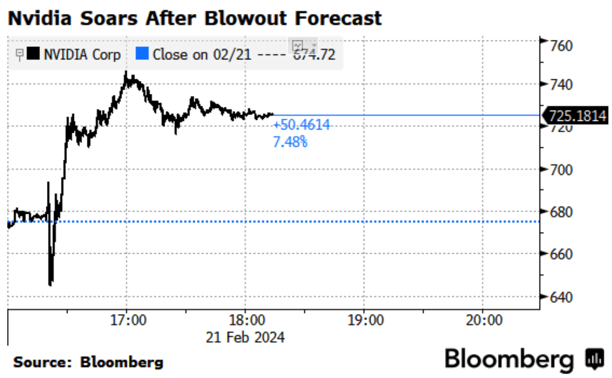
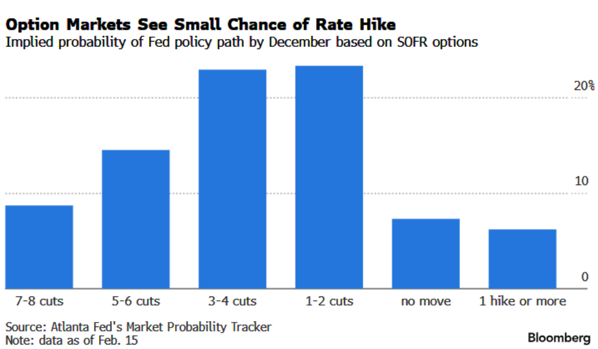
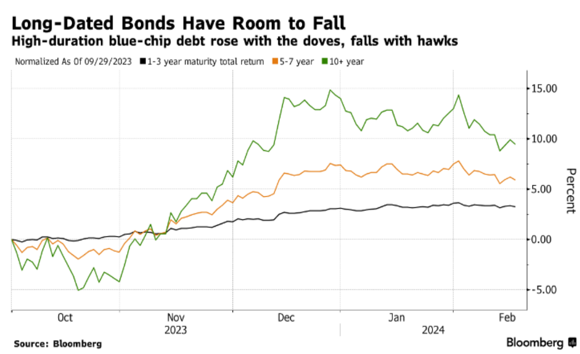
United States

Nvidia beat expectations yesterday, renewing optimism on the stock market rally. Nvidia, dubbed "the most important stock on earth" by Goldman Sachs trading desk and a top-performing stock in the S&P 500 year-to-date, reported robust results after the market closed yesterday. This closely watched earnings release brought relief to investors who view Nvidia's performance as a gauge for broader market sentiment. Before the release, US equity markets were under pressure due to investor concerns about overvalued artificial intelligence (AI) sector stocks and the sustainability of their ongoing rally. However, the strong results confirmed the narrative of a robust AI sector. According to some analysts, this bodes well not only for Nvidia and the tech sector but also for productivity trends in the broader economy. US stock futures rose following the report after markets closed.



Investor uncertainty is rising about the potential US rate path, fueled by last week's high CPI number in the US. Late last week, former US treasury secretary Lawrence Summers' saw a chance of an additional Fed hike. This speculation is reflected in options markets that are pricing a small chance of a rate hike. Concerns about inflation and the future rate path may have dampened investor's appetite for the 20-year Treasury bond, which tailed yesterday. Analysts also expressed concerns that if rates rise, duration-exposed assets like long-dated blue-chip corporate bonds could suffer compared to shorter-dated notes. The Fed minutes released yesterday indicated that the FOMC does not foresee rate hikes as "rates have likely peaked for this tightening cycle". However, the threshold for cuts appears high and policy will be guided by incoming data. Even if rate hikes remain a very remote possibility, a return to a "higher for longer" rates regime seems more plausible to a growing minority of market participants.





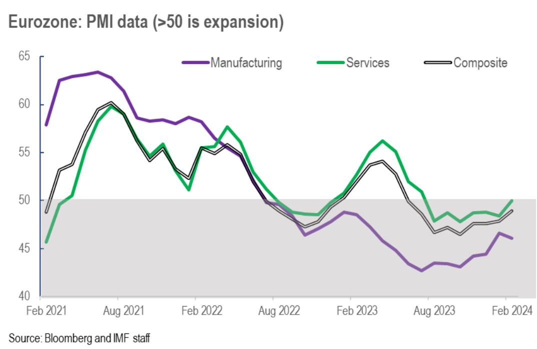
This morning, **US jobless claims were lower than expected.** Weekly jobless claims declined by almost 12k, the lowest level in a month and well below market expectations for a slight increase (201k, vs an expectation of 216k from a revised previous 213k). Continuing claims also declined slightly below expectations. US Treasury yields were modestly higher immediately after the release.

Euro-area

European equities gained this morning (STOXX 600 +0.8%) with the technology sector outperforming (+2.8%), now up roughly 12% YTD**.** European stocks indices were trading at record highs with the Euro Stoxx 50 index trading at a 23-year high. **The euro was trading stronger against the dollar** (+0.3%, trading at around 1.085).

Euro area sovereign bond yields were little changed this morning with the 10-year bund yield trading at around 2.45%. Yesterday, ECB Governing Council member Wunsch said that "it may be too early to get our hopes up", adding that "one should not discard a scenario in which monetary policy stays tight for longer than currently expected, with more pronounced risks to financial stability". Against this backdrop market scaled back expectations for an ECB rate cuts, with the odds of a rate cut in April decreasing yesterday to 35% and further declining today to 29%. Markets are pricing in about 100 bps of ECB rate cuts in 2024.

February euro area flash PMI data surprised on the upside with the composite index increasing to an 8-month high driven by a notable rebound in services, while manufacturing disappointed. The eurozone composite index increased to 48.9 (versus expected 48.4 from 47.9), with the services index increasing to 50.0 (versus expected 48.8 from 48.4) while the manufacturing index unexpectedly declined (46.1 versus expected 47.0 from 46.6). **HSBC analysts commented that the data indicates that the eurozone is past the worst but highlighted that the outlook remains mixed across counties**. **The composite PMI in Germany disappointed** falling further into contractionary territory (46.1 versus expected 47.5 from 47.0) with a notable decline in the manufacturing index. **In France, composite PMI surprised on the upside reaching the highest level since May 2023** (47.7 versus expected 45.0 from 44.6) with both services and manufacturing surprising on the upside. **ING analysts noted that the survey still paints a worrisome picture for the ECB regarding inflation**, as services businesses indicate faster increasing prices against a backdrop of higher input costs.

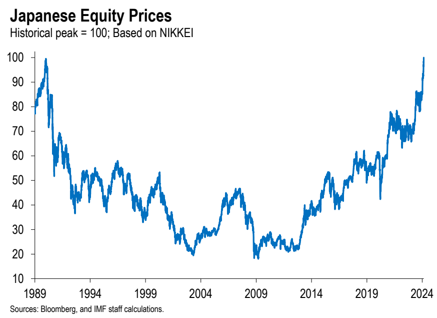


United Kingdom

UK flash composite PMI data surprised marginally on the upside in February, increasing to a nine-month high of 53.3 (versus expectations to remain unchanged at 52.9). Services PMI remained unchanged at 54.3 (versus expected decline to 54.1), while manufacturing PMI disappointed (increasing to 47.1 versus expected 47.5 from 47.0). Morgan Stanley analysts highlighted that inflationary details in the survey would likely not be encouraging for the BoE, as the pace of price increases appear sticky. HSBC analysts think today's PMI data indicates that modest growth with resume in Q1, and also highlight that the increase in both input and output prices, against a backdrop of strengthening demand, could mean that the BoE would be in no hurry to cut interest rates. **Market expectations for BoE rate cuts in 2024 were little changed**, with markets still pricing in roughly 68 bps of rate cuts by December and the first rate cut fully priced by August. Gilt yields were little changed (10y gilt trading at around 4.09%) while the pound strengthened against the dollar (+0.3% at 1.268), in line with global trends.

Japan

Japanese equities reclaimed a historical peak after gaining 2.2% today. The NIKKEI index surged to 39,157, surpassing its previous height in 1989. The **PMI composite weakened to 50.3 in February** from 51.5 in January, with manufacturing PMI falling to 47.2 and services PMI dropping to 52.5. Manufacturing PMI fell to the lowest level in more than three years, providing the latest signs of weakness in the manufacturing sector after the economy unexpectedly slipped into a recession. Meanwhile, **Governor Ueda signaled continuing confidence over the prospect for achieving stable inflation.** He expected that a virtuous economy cycle will strengthen, with signs that businesses become more active when deciding wages amid tighter labor market conditions. The Japanese yen appreciated (+0.1%) on the back of broad-based dollar weakening. JGB yields were mixed (1-year: +2.2 bps; 10-year: -0.6 bp).



Korea

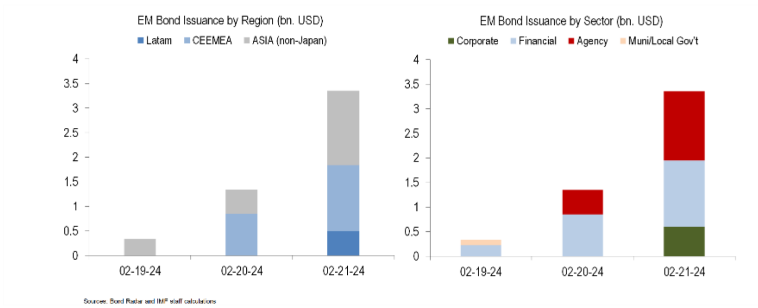
The Bank of Korea (BOK) kept its policy rate at 3.5%, as expected. Governor Rhee continued to push back against speculation of an early interest rate cut, noting that a rate cut in the first half of the year is unlikely. He stated that the direction of interest rate policy will become clear only when inflation is firmly on a projected downward trend. The BOK kept its headline inflation forecast unchanged at 2.6% for 2024 while lowering its core inflation forecast to 2.2%. The economy was expected to grow 2.1%. At the same time, Governor Rhee revealed that one policy board member saw the possibility of monetary policy easing in the next three months. The board member's openness to an early rate cut prompted a decline in government bond yields (3-year: -6 bps; 10-year: -5.0 bps). Meanwhile, the Korean won appreciated (+0.5%), and equities gained (+0.4%).

Emerging Markets back to top

Most Asian equities gained today, led by stocks in Hong Kong SAR (+1.1), Taiwan POC (+0.9%) and China (CSI 300: +0.9%) equities. Meanwhile, share prices dropped in Malaysia (-0.5%) and India (-0.4%). **Asian currencies appreciated**, on the back of broad-based USD weakening. Long-end government bond yields were mixed. **In Hong Kong SAR,** CPI inflation moderated to 1.7% y/y in January (consensus: +2.1%). **EMEA equity markets were mostly higher while currencies were mostly stronger against the dollar.** Equities in Serbia (-0.8%) were underperforming while those in Poland (+1.0%) outperformed. On the central bank front, **Rwanda left its policy rate unchanged**, as expected. **In South Africa**, analysts remain negative on domestic markets with the 2024 budget seen to leave structural issues unresolved**.** Analysts also expect that the announcement of lower 2024 issuance needs could support South African government bonds in the near term but think the market will remain under pressure in the long term unless structural reforms are introduced. South African government bond yields retraced part of the intraday moves but still ended the day lower (10-year, -11 bps at 11.54%) yesterday, and were little changed this morning. **Latin American currencies mostly depreciated against the dollar and equities were mixed yesterday.** Chile (-0.8%) led the currency retreat, followed by Peru (-0.4%), while the Mexican peso (+0.1%) appreciated. Stocks in Colombia (+1.9%) outperformed while Argentina (-1.9%) and Chile (-1.5%) experienced notable losses. In **Colombia**, the yield curve shifted upwards following a UBS analyst downgrade citing a deterioration of their fiscal outlook. Bond yields increased in a range from 4–11 bps across the curve. The downgrade proceeds yesterday's January industrial confidence coming in higher and retail confidence coming in lower than the December print. **Guatemala's central bank kept its leading interest rate constant** at 5% yesterday after markets closed.

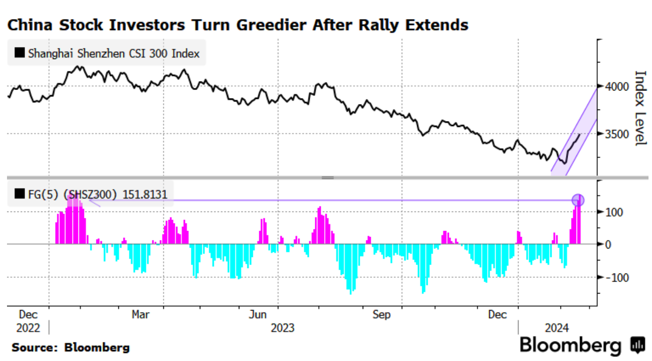
Daily EM Bond Issuance

Daily EM bond issuance rebounded after slow start to the week. Volumes Wednesday totaled $3.4 bn, greater than the combined values for Monday and Tuesday. Regionally, Asia made up most of the issuance (45%), with $1.4 bn from Hong Kong. The two bonds from Hong Kong were equivalent to the entire agency series (right chart), which was 42% of the sectoral total. All the bonds issued yesterday had fixed coupon payments, with maturities ranging from 2-10 years.



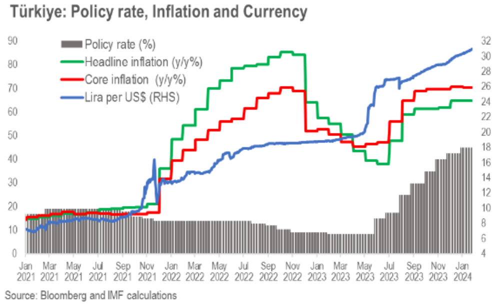
China

Onshore Chinese equities extended their advance into the eight consecutive trading session (CSI 300: +0.9%). Market sentiment improved after the recent introduction of policy support measures, including an unexpected reduction of the 5-year loan prime rate by 25 bps and signs of increased bank lending to property developers under the 'whitelist' mechanism. Analysts also viewed that the latest clampdown on quant trading may have put a floor to the stock market rout and contributed to a technical rebound. **China is drafting a law to promote the development of the private sector economy.** The law will focus on the core concerns of private enterprises, including protecting their property rights, guaranteeing the interest of entrepreneurs, and managing missed payments for small firms. The law also aims to ensure that policy implementation is stable and consistent, create competitive neutrality between state-owned and private enterprises, and promote innovation. The RMB appreciated slightly to 7.19 yuan per dollar. CGB yields declined modestly (1-year: -0.5 bp; 10-year: -1.3 bps).



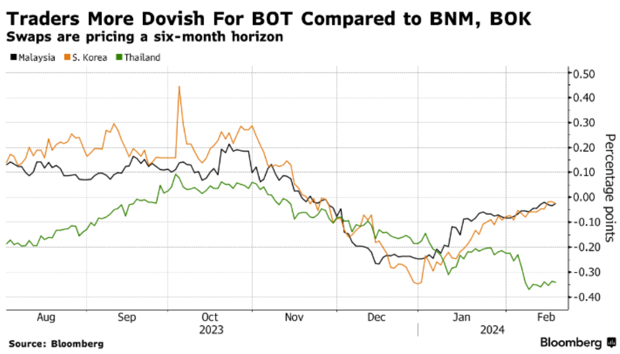
Türkiye

The lira was little changed after the central bank left the one-week repo rate unchanged at 45%, as expected. This was the first hold after policy rates have increased since May. It was the first MPC meeting under the new governor, and the accompanying statement noted that "the current policy rate will be maintained until there is a significant decline in the underlying trend of monthly inflation". The statement also noted that policy could be tightened in the case of a significant and persistent deterioration in the inflation outlook is anticipated. **The Turkish lira was little changed immediately after the policy announcement, trading at around 31 to the dollar, roughly 4.7% weaker year-to-date.**



Thailand

Prime Minister Srettha reiterated his call for the Bank of Thailand (BOT)'s rate cuts to support the economy. He said that the is room for monetary policy easing and that negative inflation is evidence of weak business and consumption activity. Markets now expect that the policy dispute between the government and the central bank will result in monetary policy easing at the next BOT's policy meeting. OIS rates already price in policy rate cuts, with 6-month OIS rate at 2.32% against the policy rate at 2.50%. The Thai baht appreciated (+0.1%), but the magnitude was smaller than regional currencies. Thai equities gained (+0.4%). Long-end government bond yields increased (10-year: +2 bps).



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Global Financial Indicators

2/22/24 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5036	0.1	1	4	26	6
Europe		4847	1.5	2	8	14	7
Japan		39099	2.2	2	7	44	17
China		3487	0.9	4	8	-15	2
Asia Ex Japan		66	0.3	3	6	-1	-1
Emerging Markets		40	0.2	3	6	3	0
Interest Rates					basis points		
US 10y Yield		4.33	1.6	10	23	42	46
Germany 10y Yield		2.46	0.7	10	17	-6	43
Japan 10y Yield		0.72	-0.6	-1	6	21	11
UK 10y Yield		4.11	1.1	6	21	51	58
Credit Spreads					basis points		
US Investment Grade		121	-0.4	-3	-6	-25	-13
US High Yield		365	-5.3	-7	-22	-96	-20
Exchange Rates					%		
USD/Majors		103.77	-0.2	-1	0	-1	2
EUR/USD		1.08	0.2	1	0	2	-2
USD/JPY		150.4	0.1	0	2	12	7
EM/USD		46.8	0.0	0	-1	-7	-3
Commodities					%		
Brent Crude Oil ($/barrel)		82.8	-0.2	0	4	8	8
Industrials Metals (index)		137	0.4	3	2	-17	-4
Agriculture (index)		59	0.1	-1	-4	-16	-6
Implied Volatility					%		
VIX Index (%, change in pp)		14.2	-1.1	-0.2	1.0	-8.1	1.8
Global FX Volatility		6.7	0.0	-0.4	-0.7	-3.5	-1.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	-3.0	-5	2	-85	2
Italy		149	-1.2	-1	-6	-45	-19
Portugal		75	-0.8	-2	-10	-15	11
Spain		91	-1.0	-1	-1	-8	-6

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

Emerging Market Financial Indicators

Last updated: 2/22/2024 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		7.19	0.0	0.0	0	-4	-1		2.4	-3.0	-5	-14	-87	-17
Indonesia		15590	0.3	0.2	0	-3	-1		6.6	-2.3	-6	-3	-20	9
India		83	0.2	0.2	0	0	0		7.2	1.0	-1	-1	(45.1)	0
Philippines		56	0.4	0.6	1	-1	-1		5.4	0.0	0	-2	-52	-20
Thailand		36	0.0	0.5	-1	-4	-5		2.5	0.5	-6	-22	-18	-16
Malaysia		4.78	0.4	0.1	-1	-7	-4		3.9	1.5	5	7	-3	15
Argentina		838	-0.1	-0.5	-2	-77	-4		75.1	-53.3	-35	-584	-1274	-1127
Brazil		4.93	0.1	0.8	1	5	-2		10.8	-0.3	-8	-5	-255	38
Chile		967	0.3	0.1	-6	-17	-9		5.1	2.0	14	14	-46	16
Colombia		3925	-0.1	-0.2	-1	26	-1		7.6	0.0	13	15	-225	-5
Mexico		17.06	-0.1	-0.1	1	8	-1		8.7	1.5	-3	2	-37	25
Peru		3.8	-0.4	2.1	-1	1	-2		6.7	0.2	-3	9	-122	5
Uruguay		39	0.0	0.3	0	1	-1		9.0	3.8	4	-26	-76	-49
Hungary		357	0.3	1.2	-1	1	-3		6.0	3.5	-6	15	-245	19
Poland		3.98	0.2	1.2	1	13	-1		4.8	-2.5	-1	17	-120	29
Romania		4.6	0.2	0.6	0	1	-2		6.3	-1.9	-14	2	-122	9
Russia		92.5	-0.1	-0.1	-5	-18	-3							
South Africa		19.0	-0.6	-0.5	1	-4	-4		9.4	7.0	8	24	16	31
Türkiye		30.99	0.0	-0.8	-2	-39	-5		26.5	-12.0	15	-87	1596	-21
US (DXY; 5y UST)		104	-0.2	-0.9	0	-1	2		4.33	2.2	11	30	17	48

	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		3487	0.9	4	8	-15	2		149	-9	-13	-17	-9
Indonesia		7340	-0.1	0	1	8	1		102	-9	-9	-46	6
India		73158	0.7	2	2	22	1		100	-12	-27	-43	-16
Philippines		6903	0.1	0	5	3	7		85	-8	-10	-44	5
Thailand		1402	0.6	1	2	-15	-1		0	0	0	0	0
Malaysia		1545	-0.4	1	4	6	6		81	-5	-11	-19	-4
Argentina		1039512	-1.9	-6	-15	325	12		1786	-173	-184	-405	-127
Brazil		130032	0.1	2	3	21	-3		211	-5	3	-54	-4
Chile		6276	-1.5	1	6	19	1		126	-6	-1	-5	1
Colombia		1269	1.9	2	0	7	6		303	-7	-6	-119	32
Mexico		57021	-0.4	0	4	7	-1		327	-7	-8	-37	-7
Peru		28380	0.4	2	8	31	9		142	-7	-13	-38	-2
Hungary		66231	-0.2	1	2	47	9		159	-8	-9	-60	10
Poland		82189	1.0	4	10	40	5		93	-12	-11	21	-4
Romania		16012	0.8	2	3	30	4		195	-5	-19	-55	-6
South Africa		73828	1.1	1	2	-6	-4		337	-22	-1	-48	29
Türkiye		9320	0.1	1	16	84	25		308	-16	-43	-214	-6
Ukraine		507	0.0	0	0	0	0		4253	-50	115	-314	249
EM total		40	0.8	3	6	3	0		338	-13	-24	-54	-7

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

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