GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 9, 2024

LEAD EDITOR: BENJAMIN MOSK

- **Czech koruna sharply weaker after larger than expected rate cut** (link)
- **US tech-stock market cap share surpasses its 2000 high** (link)
- **New Zealand rate hike expectations grow, with inflation not seen to be under control yet** (link)
- **Peru's central bank lowered its policy rate from 6.50% to 6.25%** (link)
- **Türkiye issues first Eurobond since May 2023** (link)
- **Many Asian markets closed for Lunar New Year holidays (**link**)**
- **Special Feature: Emerging Market and Frontier Market Issuance (attached)**

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New day, new shot at 5000

The S&P 500 index briefly crossed the 5000-mark yesterday, and with futures pricing pointing to a higher opening, the psychological level may be crossed once again today. Markets awaited the US CPI revisions for its CPI inflation, as an upward surprise could have spoiled the planned party. Global government bond yields increased across the board today, albeit marginally. US Treasury yields traded 2–4 bps higher this morning in anticipation of the aforementioned CPI data, but dropped after the release, which did not contain any unwelcome surprises. While US commercial real estate (CRE) exposures remain a concern, broader market sentiment has not been affected. At this point, the focus is on a handful of US and foreign banks with exceptionally large exposures. According to Bloomberg, citing "people familiar with the matter," the European Central Bank has signaled to lenders that they may face higher capital requirements if CRE risk is not handled properly. A few European banks, notably Deutsche Pfandbriefbank AG, reached headlines due to their larger exposures to US CRE. Market contacts suggest that CRE exposures are manageable for most European banks, and not a systemic issue.

Key Global Financial Indicators

Last updated: 2/9/24 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4998	0.1	2	5	22	5
Eurostoxx 50		4717	0.1	1	6	11	4
Nikkei 225		36897	0.1	2	4	33	10
MSCI EM		39	-0.6	2	1	-3	-2
Yields and Spreads				bps			
US 10y Yield		4.17	1.9	15	16	52	29
Germany 10y Yield		2.36	0.5	12	17	6	34
EMBIG Sovereign Spread		389	0	-11	-21	-51	6
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.8	0.0	-1	-2	-7	-3
Dollar index, (+) = $ appreciation		104.2	0.0	0	2	1	3
Brent Crude Oil ($/barrel)		81.5	-0.2	5	5	-4	6
VIX Index (%, change in pp)		12.9	0.1	-1	0	-8	0

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

Mature Markets

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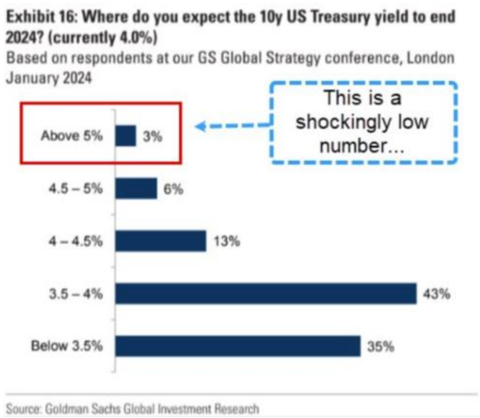
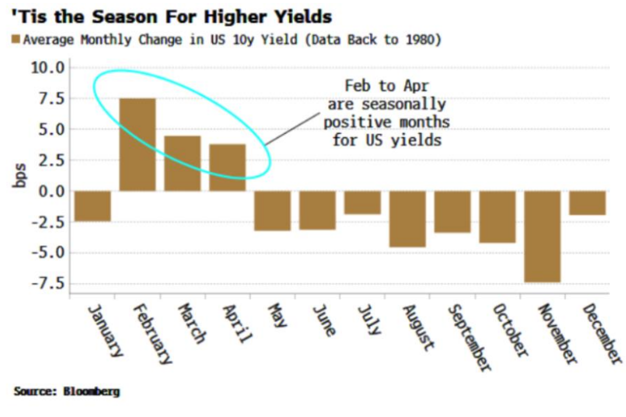
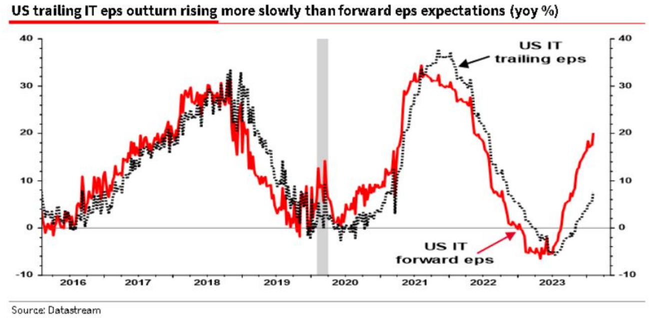
United States

Investor survey: no one expects US Yields above 5% by the end of 2024. Only 3% of investors at Goldman Sachs Global Strategy conference in London believe the UST 10-year will close 2024 above 5%, while less than ten percent expect it to be above 4.5%. From a seasonal perspective, data since 1980 shows that February to April are the only months that saw average positive moves in yields. Currently, implied futures curve is showing the FFR to reach 4.2%, suggesting room for upwards surprises that could lead to a re-pricing of risky assets.





The US tech-stock market cap share surpasses its 2000 high. The technology sector now represents above one third of total US market cap, above its previous peak in 2000. This is even without accounting for Amazon, META, Alphabet and Tesla which are not technically in the tech sector (included as “internet” stocks). Despite positive momentum in EPS, Société Générale analysts highlight that forward expectations are outpacing growth in trailing earnings, especially since the beginning of 2023. Interestingly, cumulative global sector fund inflows show IT taking over 95% of total inflows into equities since February 2023.



Euro Area

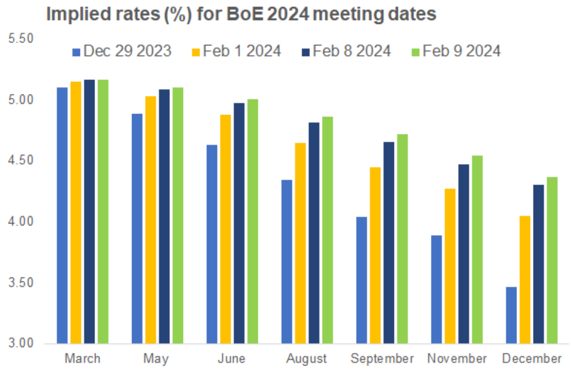
European equities were marginally higher with the Stoxx 600 index up +0.1%, while banking sector stocks were down (-0.5%). The euro was weaker (-0.1%) against the dollar trading at around 1.077. Euro area sovereign bond yields continue to trade in a narrow range with the 10-year bund yield trading at 2.35% and the spread of 10-year Italian government bonds over bunds marginally wider at 157bps.

ECB Governing Council member Kazaks said investor expectations for a rate cut in spring are overly optimistic, saying that the ECB should “wait until the inflation story is over” before lowering rates. Elsewhere, ECB chief economist Lane said policymakers need more assurance that inflation is returning to target to lower rates. Markets have been adjusting rate cut expectations and now expect a total of 117bps of rate cuts in 2024, down from 140bps at the time of the January ECB policy meeting.

United Kingdom

UK equities opened broadly unchanged, and the pound was weaker (-0.1%) against the dollar at 1.26. Gilt yields were higher (+1bps) with the 10Y gilt trading at 4.05% this morning. Elsewhere, in the UK, Barclays bank announced that it will pay £600mn to acquire Tesco's retail banking unit as it seeks to establish a greater foothold in retail banking. Shares in Barclays were little changed on the news.

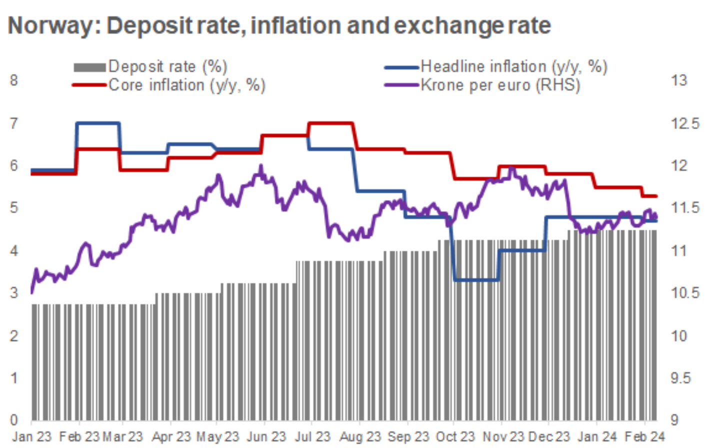
Markets have pared back expectations of rate cuts from the Bank of England. Following speeches by external MPC members Catherine Mann and Jonathan Haskell, Bloomberg data shows that markets are now pricing in less than 75bps of rate cuts in 2024—less than half of what was priced in at the end of last year, when around 150bps of easing was priced. Investor focus will be on January inflation data due for release next week where expectations are for headline CPI to tick up to 4.2% y/y from 4.0% y/y in the prior month. The first interest rate cut is no longer fully priced by June (now only 17bps of cuts priced in).



Source: Bloomberg and IMF calculations

Norway

January inflation data showed core inflation fell to 5.3% y/y, the lowest since September 2022 and in line with analyst expectations. Analysts at JP Morgan note that while the latest inflation data is below the Norges Bank's December forecast, they expect the Committee will likely wait for additional data such as upcoming wage negotiations before drawing any conclusions. They expect the Norges Bank to start easing rates in June, with a total of three cuts expected in 2024. The Norwegian krone was little changed following the release trading at 11.45/€.



Source: Bloomberg and IMF calculations

Japan

Japanese equities (Nikkei) gained +0.1% and briefly touched 34-year high early Friday. Bank of Japan (BOJ) Governor Ueda echoed recent statements by other BoJ officials and said in a parliament response that accommodative financial conditions will persist even if negative interest rate ends. The Yen depreciated slightly -0.1% versus the US dollar to its weakest level since November; Finance Minister Suzuki said the government is closely monitoring developments in the FX market. 10-year government bond yields increased by +2bps to 0.72%.

New Zealand

Rate hike expectations of New Zealand's central bank (RBNZ) grew after the bank ANZ became the first major institution to forecast a 25bps hike in each of February and April's meetings as inflation is not yet under control. They previously expected no change in rates until a cut in August. ANZ said a series of 'small but unwelcomed surprises' since November meeting warranted further rate hikes, citing slightly higher non-tradable inflation and more resilient than expected labor market. Investors are pricing in a 44% chance of a rate hike at the February meeting. By May, a rate hike is fully priced in. Meanwhile, Westpac believes expectations of another hike is overdone and instead expects rate pause until 2025 to squeeze out sticky inflation. The New Zealand dollar appreciated by +0.8%, and 10-year government bond yields rose +8.8bps to 4.81%. Equities fell by -0.1%.

Emerging Markets

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EMEA equity markets were mixed. Equities in Türkiye (+0.7%) and Nigeria (+0.6%) outperformed while those in Bulgaria (-0.4%) were trading lower. CEE currencies were mostly stronger against the euro. The Polish zloty closed 0.4% stronger against the euro yesterday and appreciated further this morning (+0.2% to 4.32/€) after the central bank governor Glapinski yesterday indicated that he expects rates to remain unchanged until end-2024.

Mainland China, Indonesia, South Korea, Taiwan POC, Philippines, and Vietnam were fully closed for Lunar New Year holidays. Hong Kong SAR and Singapore closed early. Asian equities declined -0.2% on net. Hong Kong SAR (-0.8%). Chinese credit data for January came in significantly stronger than expected, with both New Yuan Loans and aggregate financing beating expectations by a large margin. Singapore (-0.2%) fell, while India gained (+0.3%). Asian currencies and 10Y bond yields were little changed. **Thai baht** depreciated -0.2%. Bank of Thailand (BOT) Assistant Governor Piti acknowledged recent weak data and stated that if growth weakens there is a need to recalibrate stance in an interview. People's Bank of China (PBoC) projected a modest rebound in consumer prices in a quarterly policy report released late Thursday.

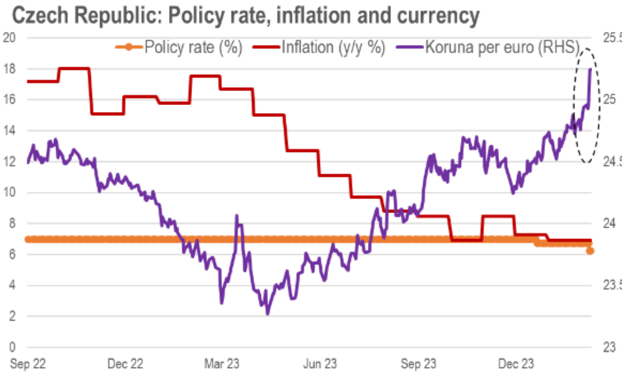
Fitch Ratings said in a statement that vulnerability to adverse developments in US commercial real estate (CRE) is low among their rated Asia-Pacific (APAC) banks. Exposures to US property, including CRE, are generally less than 2% of lending where publicly disclosed. Fitch believes local CRE developments have a greater impact than US CRE exposures.

Latin American equity markets traded in negative territory on Thursday. Stocks lost in Brazil (-1.3%), Mexico (-1.6%) and Colombia (-1.4%). Currencies depreciated in Brazil (-0.5%), Chile (-1.2%), Mexico (-0.6%) and Peru (-0.5%) against the US dollar.

Bond issuance activity in Emerging Markets was muted on Thursday, with only $614mn bonds were priced.

Czech Republic

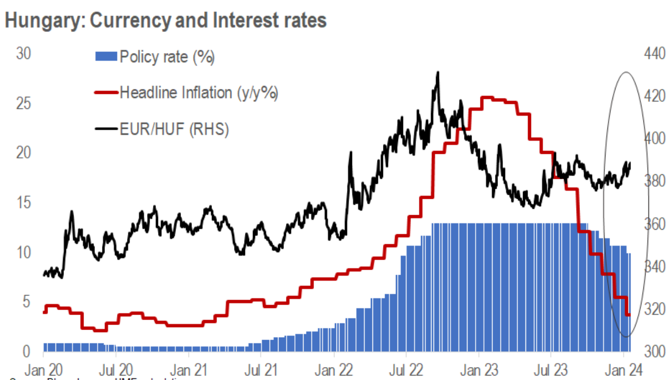
The Czech koruna weakened sharply yesterday after the Czech National Bank (CNB) cut its policy rate by a larger-than-expected 50bps to 6.25%. A 25bps rate cut was expected. With the central bank stepping up the pace of easing, contacts highlight the dovishness of the decision and the press conference: 6 out of 7 MPC members had voted in favor of a 50bps rate cut and one member preferred an even larger 75bps rate cut. The statement pointed to weak growth dynamics and noted the significant decline in inflation since late-2022. Several analysts expect at least another 50bps rate cut at the next policy meeting in March, with some contacts seeing a very low probability of a larger move given the CNB's stress on cautious easing. The Czech koruna closed 1.1% weaker against the euro yesterday.



Sources: Bloomberg and IMF calculations

Hungary

Headline inflation dropped sharply to +3.8%y/y in January (versus expected 4.3% from 5.5%) entering into the central bank's inflation tolerance band for the first time since March 2021. The central bank has a medium-term inflation target at 3%, with a ±1 percentage point tolerance band. Analysts highlight that the inflation print will likely result in pressure on the central bank to cut rates at a faster pace, but argue that policymakers will continue to take currency developments into consideration. At the latest policy meeting the central bank delivered a smaller-than-expected 75bps rate cut to take the policy rate to 10%, and Raiffeisen analysts forecast the policy rate at 6–7% at end-Q2, and at 5.5% at end-2024. The Hungarian forint weakened somewhat after the data release this morning but retraced moves in later trade. The forint is now roughly 1.4% weaker against the euro YTD.



Source: Bloomberg and IMF calculations

Türkiye

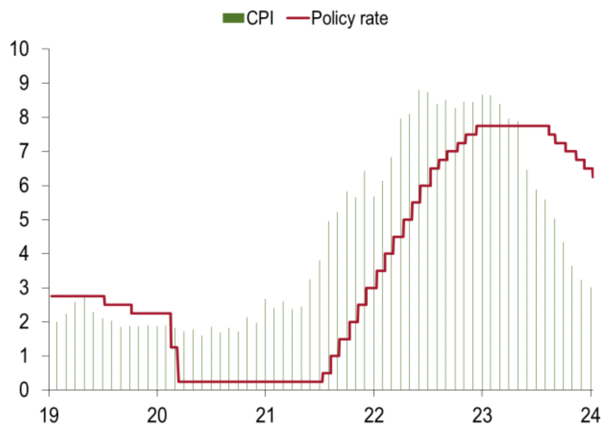
Türkiye issued its first eurobond since the May 2023 presidential elections, selling $3bn 10y notes. The yield was 7.875%, lower than the initial guidance of around 8.375%. This follows after Türkiye's sovereign wealth fund, TWF, saw strong demand earlier this week when it sold $500mn 5y Eurobonds, at a yield of 8.375%, according to the FT. The government is aiming to raise roughly $10bn in the international markets in 2024, according to Bloomberg. Bloomberg analysts also see the Eurobond issuance as a signal that investor confidence is showing a tentative improvement. Equities in Türkiye (+0.7%) continued to gain this morning and are now roughly 20% higher than at the start of the year, while the lira was weaker against the dollar (-0.3% to 30.68/$), roughly 3.8% weaker YTD.

Mexico

Banxico, the central bank of Mexico, held its policy rate at 11.25% for the seventh time as expected. The central bank was seen to modify its forward guidance, and some analysts now believe that a rate cut could be on the table for its March meeting, despite the central bank raising its inflation forecast for the first three quarters of this year. Yesterday, the Mexican peso depreciated by around 0.6% versus the US dollar.

Peru

Peru's central bank lowered its policy rate from 6.50% to 6.25%, as anticipated by the market. The central bank cut the interest rate to the lowest level since August 2022. The central bank started with its first rate cut in September 2023, and has now cut 6 times 25 bps in total. The central bank stated that inflation is projected to continue its downward trend and risks associated with El Nino have fallen. The annual inflation rate dropped to 3.02% last month, slightly above the central bank's 3% target. Peru's economy contracted 0.4% last year. Economic activity and domestic demand are still below government and central bank projection and in line with an economy in recession.



Source: Bloomberg and IMF staff

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Global Financial Indicators

2/9/24 8:13 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4998	0.1	2	5	22	5
Europe		4717	0.1	1	6	11	4
Japan		36897	0.1	2	4	33	10
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		65	-0.5	2	1	-7	-3
Emerging Markets		39	-0.6	2	1	-3	-2
Interest Rates					basis points		
US 10y Yield		4.17	1.9	15	16	52	29
Germany 10y Yield		2.36	0.5	12	17	6	34
Japan 10y Yield		0.73	2.1	5	14	23	11
UK 10y Yield		4.06	0.4	14	27	76	52
Credit Spreads					basis points		
US Investment Grade		128	0.7	-2	-6	-12	-6
US High Yield		377	-3.4	-15	-17	-51	-8
Exchange Rates					%		
USD/Majors		104.18	0.0	0	2	1	3
EUR/USD		1.08	-0.1	0	-1	0	-2
USD/JPY		149.5	0.1	1	3	14	6
EM/USD		46.8	0.0	-1	-2	-7	-3
Commodities					%		
Brent Crude Oil ($/barrel)		81.5	-0.2	5	5	3	6
Industrials Metals (index)		133	-0.2	-3	-3	-22	-7
Agriculture (index)		60	-0.2	-1	-2	-13	-3
Implied Volatility					%		
VIX Index (%, change in pp)		12.9	0.1	-1.0	0.1	-7.9	0.4
Global FX Volatility		7.5	0.0	-0.2	-0.4	-2.9	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		115	-0.3	8	2	-71	11
Italy		158	0.1	0	-8	-24	-10
Portugal		81	0.3	1	17	-3	18
Spain		99	5.9	6	1	5	2

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

Emerging Market Financial Indicators

Last updated: 2/9/2024 8:13 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.20	0.0	-0.2	-1	-6	-1		2.4	0.0	2	-8	-76	-12
Indonesia		15635	0.6	0.9	-1	-3	-2		6.6	0.1	4	-9	-10	14
India		83	-0.1	-0.1	0	-1	0		7.2	6.0	15	-8	(18.9)	-1
Philippines		56	0.1	0.4	0	-2	-1		5.5	7.5	8	-17	-39	-12
Thailand		36	-0.3	-1.9	-3	-7	-5		2.6	2.8	-12	-17	-8	-13
Malaysia		4.77	0.2	-1.0	-3	-9	-4		3.8	0.1	3	-2	0	7
Argentina		831	-0.1	-0.5	-2	-77	-3		75.4	-40.7	178	-540	-1054	-1093
Brazil		4.99	0.2	-0.3	-2	6	-3		10.8	9.0	17	6	-262	36
Chile		969	-0.4	-2.2	-5	-17	-9		4.9	0.0	8	-5	-45	-2
Colombia		3949	0.3	-1.5	-2	21	-2		7.5	0.0	9	-25	-147	-13
Mexico		17.12	0.2	0.1	-1	10	-1		8.7	0.0	-2	12	15	25
Peru		3.9	-0.5	-1.3	-4	0	-4		6.7	0.5	12	-7	-127	5
Uruguay		39	-0.2	-0.6	0	0	-1		9.2	1.9	-7	-35	-80	-35
Hungary		360	0.0	-1.2	-4	0	-4		6.0	-5.0	9	9	-169	18
Poland		4.01	0.1	-0.2	-1	10	-2		4.8	1.5	18	35	-54	31
Romania		4.6	-0.1	-0.3	-2	-1	-3		6.3	1.0	9	-9	-109	5
Russia		90.9	0.2	-0.2	-1	-20	-2							
South Africa		19.0	-0.3	-0.6	-2	-7	-3		9.3	1.5	17	29	54	21
Türkiye		30.68	-0.2	-0.6	-2	-39	-4		27.3	7.0	-36	56	1586	50
US (DXY; 5y UST)		104	0.0	0.2	2	1	3		4.14	2.1	16	17	28	29

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
								basis points					
China		3365	0.0	5	2	-19	-2		160	-2	-1	-16	2
Indonesia		7235	0.0	0	-1	4	-1		109	-15	-15	-32	13
India		71595	0.2	-1	-1	18	-1		115	-6	-14	-34	-1
Philippines		6850	0.0	3	3	0	6		92	-15	-11	-24	12
Thailand		1388	0.0	0	-2	-17	-2		0	0	0	0	0
Malaysia		1512	0.0	0	2	3	4		89	-2	-4	-10	4
Argentina		1115907	-3.2	-14	5	350	20		1968	8	-84	38	55
Brazil		128217	-1.3	0	-2	19	-4		219	-14	-3	-43	4
Chile		6001	-0.2	0	-2	12	-3		136	-3	-2	-1	11
Colombia		1261	-1.4	-1	-3	1	6		321	0	14	-51	50
Mexico		57762	-1.6	1	5	9	1		332	-3	-17	-26	-2
Peru		27283	0.2	1	6	22	5		153	-1	-8	-32	9
Hungary		65050	0.9	0	5	42	7		171	0	7	-37	22
Poland		78656	-0.1	-1	2	28	0		109	-3	3	30	12
Romania		15690	-0.2	0	1	28	2		199	3	-23	-40	-2
South Africa		73623	-0.1	-1	0	-8	-4		350	-4	13	-12	42
Türkiye		9018	0.8	4	17	100	21		337	-31	-8	-178	23
Ukraine		507	0.0	0	0	0	0		4234	37	56	-18	230
EM total		39	0.2	2	1	-3	-2		353	-9	-18	-25	7

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

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