GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JANUARY 10, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Fed likely to end Bank Term Funding Program** (link)
- **US equities yet to recover from 2022 selloff** (link)
- **Technical measures support bullish case for US equities** (link)
- **Energy prices expected to remain near current levels** (link)
- **Emerging market corporate bond default rate declines** (link)

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Markets lower ahead of key US inflation data

Most equity markets were lower as investors stayed on the sidelines ahead of tomorrow's crucial US CPI report. US equity index futures were mixed, and Treasury yields were down as the 10-year Treasury yield fell back below 4%. The market is worried that stronger than expected US inflation could prompt the Fed to delay rate cuts and trigger losses in risk assets. However, Japan's Nikkei index was the notable exception to the equity trend as it went up by 2% to mark a new 34-year high. Many observers expect the Nikkei to surpass the all-time high seen in 1989, ending one of the longest equity market declines in history. Meanwhile, new attacks in the Red Sea kept tensions high and led to another day of gains for oil prices. Earnings season is due to begin this week, with the big US banks scheduled to lead the way. JP Morgan is expected to announce record profits for the previous quarter.

Key Global Financial Indicators

Last updated: 1/10/24 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4757	-0.1	0	3	21	0
Eurostoxx 50		4462	-0.1	0	-1	10	-1
Nikkei 225		34442	2.0	3	5	30	3
MSCI EM		39	-1.4	-2	0	-4	-3
Yields and Spreads					bps		
US 10y Yield		3.99	-2.5	7	-24	37	11
Germany 10y Yield		2.17	-1.6	15	-10	-14	15
EMBIG Sovereign Spread		411	1	23	15	-53	28
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.7	0.1	0	0	-6	-1
Dollar index, (+) = $ appreciation		102.5	-0.1	0	-1	-1	1
Brent Crude Oil ($/barrel)		78.5	1.2	0	4	-2	2
VIX Index (%, change in pp)		12.9	0.1	-1	1	-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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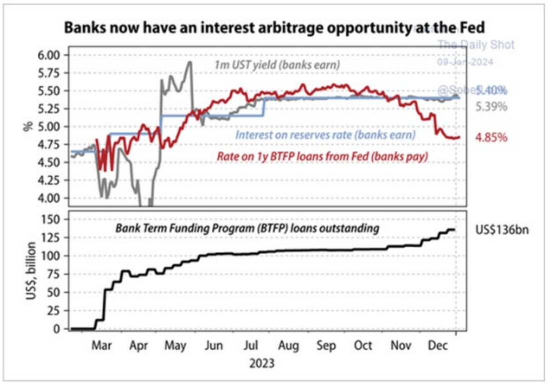
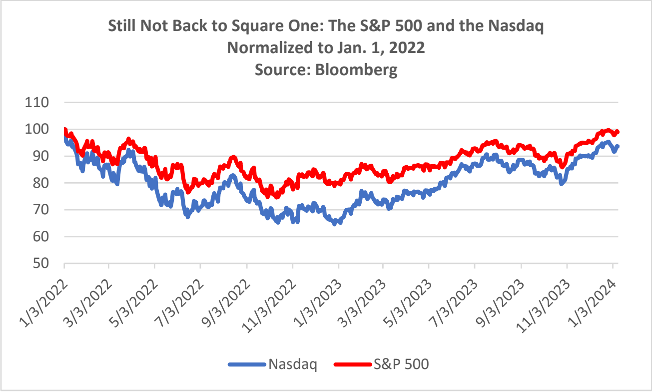
United States



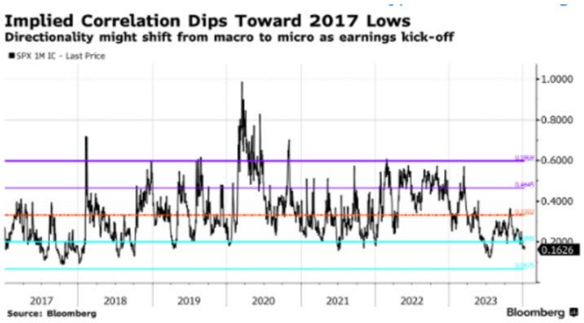
Source: Gavekal Research

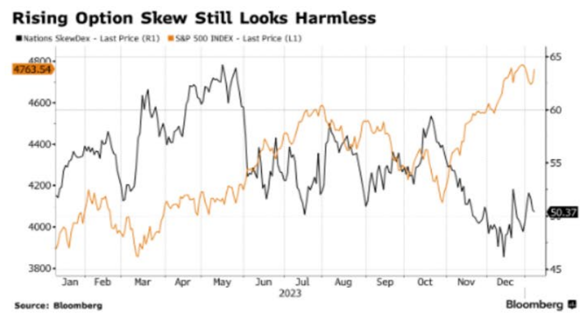
Fed Vice Chair Barr signaled that the Fed is unlikely to extend the Bank Term Funding Program (BTFP), an emergency loan program introduced last year during the regional banking crisis. The headline drew widespread attention as the usage of the BTFP has increased to an all-time high of $141, according to Bloomberg. Banks are able to arbitrage the facility to earn an excess spread by borrowing at a lower rate from the BTFP (currently one-month Overnight Index Swap+10 bps, or 4.93%) and earning a higher rate from interest on excess reserves (IOER, currently 5.4%) held at the Fed, or by buying T-Bills that that yield 5.5% or more. The program is set to expire on March 11. Several contacts noted that the termination of the BTFP was inevitable as the Fed could not continue to allow banks to benefit from a facility that was intended as an emergency measure. Concerns about deposit flight and mark-to-market losses on bank Treasury holdings have subsided.

Equity markets in the US have still not recovered from the 2022 selloff. Although the S&P 500 gained more than 24% in 2023, it is still below the level it had reached on January 1, 2022. The technology-heavy Nasdaq has done even worse. Despite rallying over 43% in 2023, it is still more than 6% below the level it had reached on January 1, 2022. As a result, optimistic analysts argue that earnings will be robust this year and that the large cap US equity indexes are well positioned to set new records. Others are much more cautious, pointing to expensive valuations and the risk that interest rates could begin to rise again, especially if inflation reignites and the Fed is forced to postpone rate hikes or even hike further. The consensus forecast is for a modest 5–10% gain for the S&P 500 in 2024, and for corporate earnings to do better than last year.



Technical signals in US equities indicate that markets could rally, according to analysts. One measure, the implied correlation between individual stocks in the S&P 500, is back down to levels last seen in 2017. Very low correlation between the stocks is viewed as a bullish signal, while very high correlation is viewed as bearish. Put options skew for the S&P 500, the difference between the volatilities of put options on the S&P 500 at different strike prices, is quite low, despite rising slightly this year. This indicates that there is a limited appetite for hedging against market declines, another potentially bullish signal. However, recent market moves do not support the bullish case, as the S&P 500 has declined during four of the last six trading sessions.



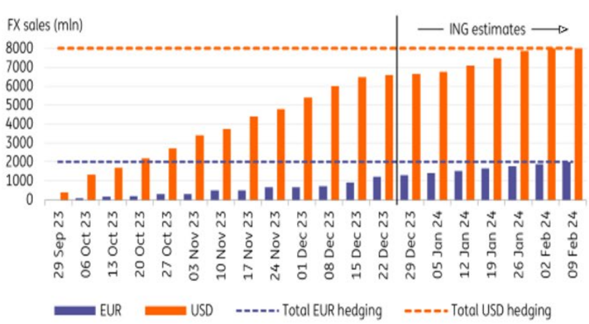


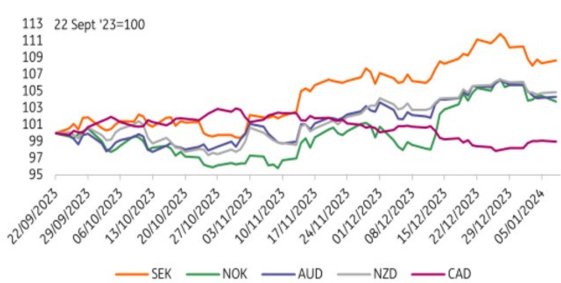
Euro Area

European equities were mostly trading flat this morning while banking sector stocks were a touch lower. The euro was stronger (+0.2%) against the dollar, trading at around 1.094. **Euro area sovereign yields were lower with the 10y bund yield (-2.5 bps) trading at 2.16%.** Elsewhere, European natural gas prices spiked (+3.1%) in early trading following further attacks on vessels in the Red Sea but have since reversed and are trading lower (-0.7%) at €30/MwH. **Bloomberg reports that more than €45.7 bn of debt was issued yesterday, with record breaking demand for government bond sales**. Analysts at JP Morgan note that investors sitting on large cash balances are rushing to buy up government bonds in order to lock in higher yields before central banks start easing policy later this year. Whilst January is typically a busy month for bond issuance, HSBC note that they are seeing larger order books and larger deal sizes so far this year. According to data from Bloomberg, **over the coming weeks, governments including the US, UK and eurozone will sell a net $2.1trn of new bonds to finance 2024 spending plans, marking a 7% increase on a year ago.**

Sweden

Analysts at ING expect the Riksbank to end its FX reserve hedging program by early February. The Riksbank has reported FX sales worth $6.6 bn and €1.2 bn as of December 22, 2023. The program size is $8 bn and €2 bn. Based on the remaining sales and the average pace of sales to date, ING estimates that the dollar sales will end by the end of this month with euro sales continuing for a couple of weeks longer. **The analysts note that once the FX sales end, there is a risk that the Swedish krona will underperform peers.** The Riksbank began the FX sales to limit losses on its FX reserve, but analysts note that the interventions have in fact served to strengthen the krona. Analysts argue that this may suggest that the Riksbank has a target for the krona which it could achieve by restarting the program if necessary.

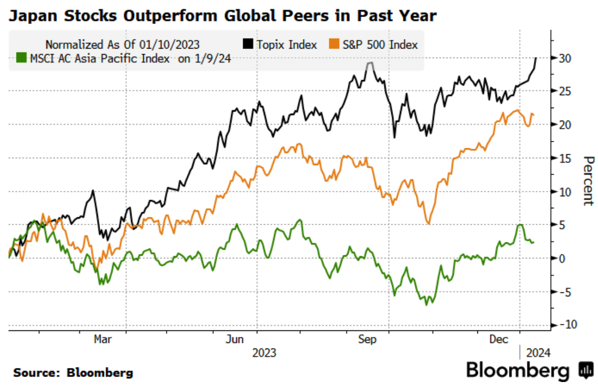




Japan

Japanese equities extended their gains, reaching a new 34-year high (NIKKEI: +2.0%). Continued Yen depreciation is expected to boost corporate earnings. Meanwhile, wage data showed a sharp slowdown in wage growth, which helps strengthen the case for the Bank of Japan to maintain monetary policy easing.

Labor cash earnings increased 0.2% y/y in November, lower than expected (consensus: +1.5%), and declined 3.0% y/y in real term (consensus: -2.0%). Long-end JGB yields fell (10-year: -0.6 bp; 30-year: -1.6 bps), with the 10-year yield at 0.579%.



Commodity Markets

Oil and gas prices are expected to remain contained in 2024, according to multiple forecasters. Morgan Stanley is fairly typical in predicting that Brent crude spot prices will trade in the $80s this year before sinking into the $70s by early 2025. For crude oil, non-OPEC supply is expected to increase more than global demand, leading to rising inventories even if there are more OPEC production cuts. For Asian natural gas, December saw the largest supply on record and significant new supply is expected to come on stream this year, keeping prices low. For US and European natural gas, demand is expected to be relatively weak, keeping a lid on prices.

Emerging Markets

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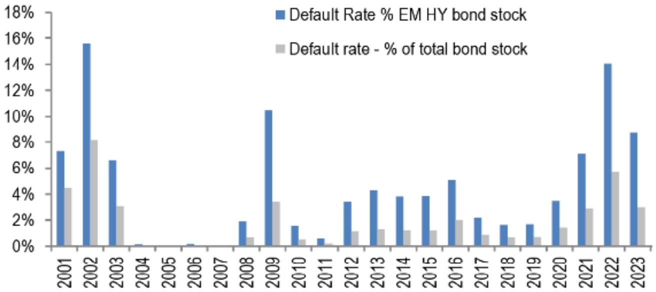
EMEA equity and currency markets were mixed while local currency bond yields were mostly lower. The Hungarian equity market was outperforming (+1.2%) while equities in Nigeria (-1.5%) saw the largest losses. On the data front, Ghana's inflation continued to ease in December, with headline CPI falling by more than expected (23.2%y/y versus expected 24.2% from 26.4%). **Asian equities declined, down 0.7%, led by Philippine (-1.1%), Malaysian (-0.8%) and Korean (-0.8%) equities.** Asian currencies were weaker. **Latam currencies also depreciated against the US Dollar.** The Colombian Peso and Chilean Peso led losses, weakening by -1.6% and -1.4% respectively due to expectations of further rate cuts this year.

Emerging Market Corporates

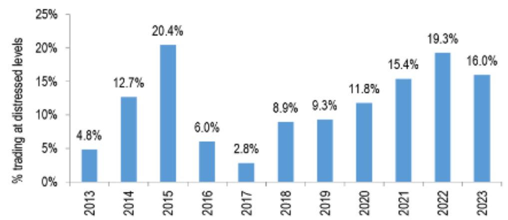
The EM High Yield (HY) corporate default rate declined in 2023. The global EM corporate HY bond market default rate improved to 8.7% in 2023 from 14.2% a year prior, according to a J.P. Morgan report**.** There were 37 distinct external corporate bond defaults and distressed exchanges, cumulatively amounting to $58 bn last year. Notably, the Chinese property sector was the largest contributor, constituting 41% of 2023's default volume ($24.5 bn). Russian corporates in technical defaults also remained significant at 36% ($20.8 bn). Regionally, Latin America stood out at 18% ($10.5 bn), with Brazil contributing 10% ($5.7 bn) of default volume. Other countries with over $1 bn in defaults and distressed exchanges were India (Vedanta's distressed exchange) and Jamaica (Digicel's restructuring). Distressed trading volume, based on a spread-to-worst of HY bonds trading in excess of 1,000 bps, declined to 16% of the market, at the end of 2023 from 19.3% a year prior.

EM corporate default rates as % of HY and total bond stock



Source: J.P. Morgan. Default rates are par weighted and based on HY bond stock at prior year-end, ex. defaulted bonds. Inclusive of distressed exchanges but excluding 100%-owned quasi-sovereign defaults.

Distressed trading ratio based on spread-to-worst (STW) >1,000 bps

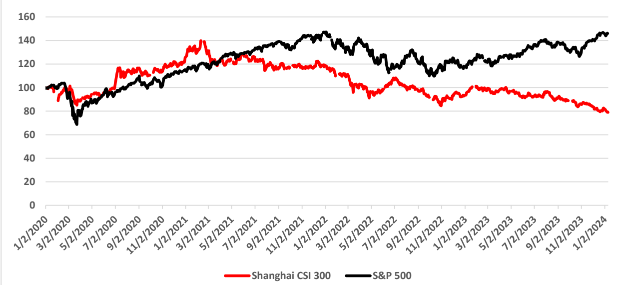


Source : J.P. Morgan. Based on EM HY corporate bonds and excludes defaulted bonds. 2020 and thereafter is ex-100% quasis. 2023 as of December 29, 2023.

China

Chinese equities declined (the Shanghai CSI 300 lost 0.5%), along with regional peers. Analysts noted that China's stock markets suffered from a lack of positive drivers as macro policy support appeared to keep falling short of market expectations. RMB was little changed at 7.17 yuan per dollar. The People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected; today's deviation amounted to 570 pips, the largest since mid-December. Analysts noted that China's deflation risk (and thus further monetary policy easing) and the US dollar's strengthening are the main forces behind depreciation pressure on the RMB.

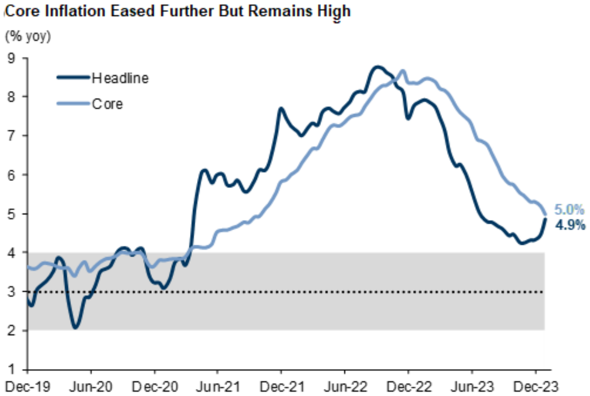
Going Nowhere: The CSI 300
Normalized to January 2, 2020
Source: Bloomberg



Mexico

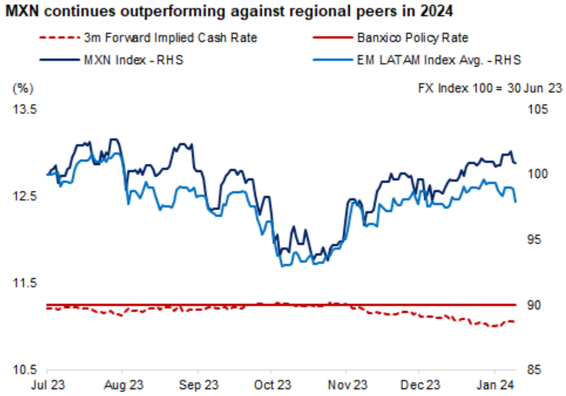
Mexico's December headline inflation print rose more than expected. Headline CPI accelerated to +4.66% y/y in December (consensus was 4.57%), from 4.32% y/y a month prior, while core print came in at 5.09% y/y (consensus was 5.15%). Although some market analysts suggest that the weaker-than-expected core print could open discussion on rate cuts as early as February, others indicated that the upward headline print have eased any urgency for rate cuts. Market pricing continues to remain relatively unchanged, with the three-month implied policy rate suggesting a 25 bps cut and the peso MXN continuing to remain as a YTD outperformer against its regional peers, particularly those who are expected to continue with aggressive rate cuts.

Core Inflation Eased Further But Remains High



Source: INEGI, Haver Analytics, Goldman Sachs Global Investment Research

MXN continues outperforming against regional peers in 2024

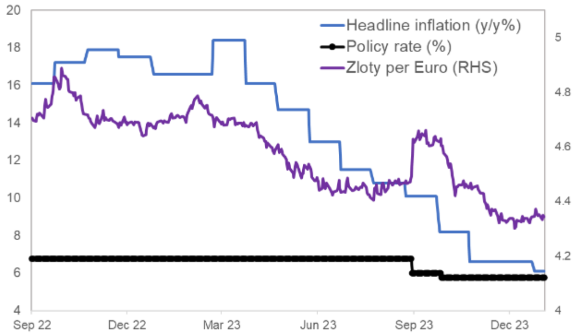


Source: Bloomberg, IMF staff calculations

Poland

The National Bank of Poland (NBP) left its key policy rate unchanged yesterday at 5.75% for the third consecutive policy meeting, as expected. Analysts note that the accompanying statement was little changed compared to the previous statements, while updated figures show weak economic growth and easing inflation driven by a strong zloty. The statement also highlighted uncertainty regarding the impact on the inflation outlook of fiscal and regulatory policy. Governor Glapinski had previously signaled that rates would likely remain unchanged until at least March, and analysts have divided views on the monetary policy path thereafter. JP Morgan analysts, for example, see core inflation remaining above 4% throughout 2024 and only expect two 25 bps rate cuts in Q4 2024, while analysts from Raiffeisen expects the easing cycle to resume in Q3.

Poland: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

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Global Financial Indicators

1/10/24 8:15 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4759	-0.1	1	3	21	0
Europe		4462	-0.1	0	-1	10	-1
Japan		34442	2.0	3	5	30	3
China		3277	-0.5	-3	-4	-18	-4
Asia Ex Japan		64	-1.4	-2	-1	-8	-4
Emerging Markets		39	-1.4	-2	0	-4	-3
Interest Rates					basis points		
US 10y Yield		3.99	-2.5	7	-24	37	11
Germany 10y Yield		2.17	-1.6	15	-10	-14	15
Japan 10y Yield		0.59	-0.5	-3	-18	8	-3
UK 10y Yield		3.77	-0.8	14	-27	22	24
Credit Spreads					basis points		
US Investment Grade		132	-0.2	-6	-7	-25	-2
US High Yield		394	1.8	-10	-17	-59	9
Exchange Rates					%		
USD/Majors		102.51	-0.1	0	-1	-1	1
EUR/USD		1.09	0.2	0	2	2	-1
USD/JPY		145.2	0.5	1	-1	10	3
EM/USD		47.7	0.1	0	0	-6	-1
Commodities					%		
Brent Crude Oil ($/barrel)		78.5	1.2	0	3	2	2
Industrials Metals (index)		137	0.2	-2	1	-19	-4
Agriculture (index)		61	-0.4	-1	-4	-8	-2
Implied Volatility					%		
VIX Index (%, change in pp)		12.9	0.1	-1.2	0.5	-7.7	0.4
Global FX Volatility		7.9	0.0	-0.3	-0.1	-2.8	-0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		111	-2.3	3	-8	-98	7
Italy		163	-3.4	-5	-17	-29	-5
Portugal		62	-1.7	-3	-5	-32	-1
Spain		95	-1.8	-3	-7	-7	-1

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

Emerging Market Financial Indicators

Last updated: 1/10/2024 8:17 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		7.17	0.0	-0.3	0	-5	-1		2.5	-0.9	-4	-15	-63	-4
Indonesia		15570	-0.3	-0.6	0	0	-1		6.7	-0.1	6	12	-12	24
India		83	0.1	0.3	0	-2	0		7.3	-3.0	-1	-12	(6.9)	4
Philippines		56	-0.4	-1.2	-1	-2	-2		5.5	-17.3	0	-40	-54	-13
Thailand		35	-0.2	-1.5	2	-4	-2		2.7	-3.7	-6	-12	13	0
Malaysia		4.64	0.0	-0.2	1	-6	-1		3.8	-0.9	2	8	-13	9
Argentina		815	-0.1	-0.5	-55	-78	-1		81.2	32.2	-392	-1945	-461	-521
Brazil		4.89	0.4	0.6	1	6	-1		10.7	-6.1	16	-29	-192	26
Chile		918	0.3	-3.6	-4	-10	-4		4.9	-3.3	-13	-20	-18	0
Colombia		3954	-0.3	-0.9	1	21	-2		7.8	0.0	-2	-27	-230	12
Mexico		16.99	-0.1	0.2	2	12	0		8.6	0.0	0	-27	42	13
Peru		3.7	-0.3	0.1	2	2	0		6.8	0.1	4	-13	-96	12
Uruguay		39	0.1	-0.5	0	1	-1		9.5	0.0	0	-14	-115	0
Hungary		345	0.5	0.8	3	8	1		5.8	-7.0	-17	-39	-226	2
Poland		3.96	0.4	0.5	2	10	-1		4.4	0.5	-13	-15	-83	-3
Romania		4.5	0.2	0.2	2	1	-1		6.3	-9.1	5	-30	-111	5
Russia		89.5	0.3	2.4	2	-22	0							
South Africa		18.6	0.3	0.5	2	-9	-1		9.0	1.7	-12	-25	30	-7
Turkey		29.97	0.0	-0.7	-3	-37	-1		26.5	-24.0	-119	-71	1785	-30
US (DXY; 5y UST)		102	-0.1	0.0	-1	-1	1		3.94	-3.0	4	-30	21	9

	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		3277	-0.5	-3	-4	-18	-4		161	5	10	-22	3
Indonesia		7227	0.4	-1	2	10	-1		118	19	14	-53	22
India		71658	0.4	0	2	19	-1		128	14	17	-20	12
Philippines		6546	-1.1	1	5	-2	1		100	16	14	-41	20
Thailand		1414	-0.1	-1	2	-16	0		0	0	0	0	0
Malaysia		1487	-0.8	2	3	0	2		94	12	9	-10	9
Argentina		1060581	-4.0	14	13	391	14		2088	144	161	-5	175
Brazil		131455	-0.7	-1	3	19	-2		221	1	7	-64	6
Chile		6094	0.9	-1	2	18	-2		137	7	12	-21	12
Colombia		1294	0.0	6	13	-3	8		311	28	12	-74	40
Mexico		55106	-1.9	-3	1	5	-4		346	1	-13	-38	12
Peru		25806	0.2	0	17	13	-1		161	11	13	-39	17
Hungary		62629	1.1	3	7	36	3		167	16	12	-86	18
Poland		77334	0.1	0	0	25	-1		106	3	7	4	9
Romania		15736	0.8	3	5	29	2		219	13	22	-55	18
South Africa		73418	-0.6	-1	-1	-6	-5		342	29	4	-19	34
Turkey		7787	0.7	5	-2	56	4		354	33	10	-119	40
Ukraine		507	0.0	0	0	-1	0		4190	146	521	5	186
EM total		39	0.1	-2	0	-4	-3		373	21	18	-14	28

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

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