GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JANUARY 17, 2024

LEAD EDITOR: FABIO CORTES

- **Real yields continue to drive US Treasury markets** (link)
- **December UK CPI data surprises to the upside** (link)
- **South Korea officials outline policy changes to bolster the country's stock market** (link)
- **China's Q4 GDP misses analyst expectations despite exceeding official target** (link)
- **Bank Indonesia keeps policy rate unchanged at 6%, as expected** (link)
- **The Chilean peso continues to underperform** (link)
- **Rate hikes expected after Nigeria's inflation reaches multi-decade high** (link)

Mature Markets | Emerging Markets | Market Tables

Markets retreat on adjusted rate cut bets

Global equities sold off as the tug-of-war between policy makers and markets on rate cut expectations raged on. Advanced economy bond yields rose as central bank officials continued their pushback against market bets for interest rate cuts. ECB's Lagarde and Knot warned that aggressive bets on cuts are not helping policymakers in their efforts to contain inflation. This followed comments on Tuesday from Fed's Waller, who urged cautioned on the pace of easing. The probability of a Fed rate cut in March dropped to 60% this morning from almost 80% last Friday, while bets on the timing of the ECB's first 25 bps cut were pushed back to June, from April. Also, markets in the UK reassessed the extent and timing of expected policy easing following a higher-than-expected CPI print this morning. In emerging markets, Chinese equities underperformed as China's Q4 GDP undershot expectations.

Key Global Financial Indicators

Last updated: 1/17/24 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4766	-0.4	0	1	19	0
Eurostoxx 50		4402	-1.0	-1	-3	5	-3
Nikkei 225		35478	-0.4	3	8	32	6
MSCI EM		38	-2.4	-3	-4	-7	-5
Yields and Spreads					bps		
US 10y Yield		4.08	2.3	5	17	53	20
Germany 10y Yield		2.29	3.5	8	28	20	27
EMBIG Sovereign Spread		395	-4	-16	7	-56	12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.3	-0.2	-1	-1	-7	-2
Dollar index, (+) = $ appreciation		103.4	0.1	1	1	1	2
Brent Crude Oil ($/barrel)		77.0	-1.7	0	1	-10	0
VIX Index (%, change in pp)		14.5	0.7	2	2	-5	2

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

Mature Markets

back to top

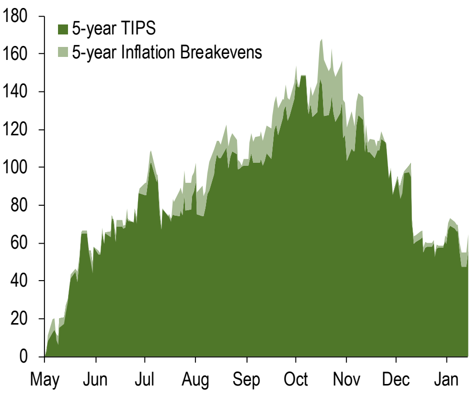
United States

The tug-of-war between policy makers and markets on rate cut expectations continued yesterday. Fed's governor Waller remarked that the pace of easing should be "methodical and careful". The governor pointed towards the need for weakening labor markets and economic activity to justify the rapid easing cycle priced in by markets. The comments drove US Treasury yields higher, with 10-year yields up +12 bps and the yield curve steepening.

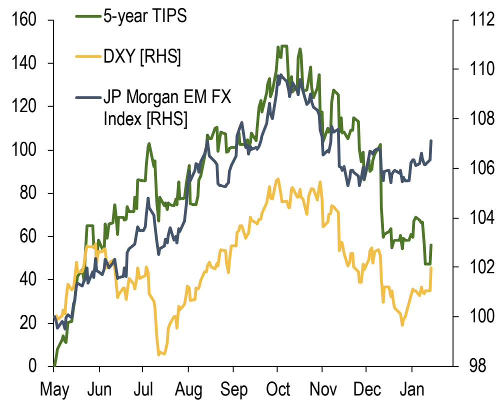
This morning, **retail sales came in above expectations** (+0.6%, +0.4% exp). US Treasury yields rose modestly across the curve immediately following the release.

Real yields have continued to dictate US Treasury markets as investors try to gauge the timing of the cutting cycle. With two weeks until the Fed's next meeting, investors continue to closely follow commentary from policy makers. Movement in nominal yields has continued to be largely driven by higher rates in the TIPS market as breakevens have been fairly muted despite volatility in oil markets. The recent uptick in real yields has allowed the US dollar to pare back some of its losses since yields tumbled back at the end of last year. The dollar's appreciated strongly against major currencies yesterday (+0.9%).

Cumulative change in 5-year TIPS and inflation breakevens since the May Fed Meeting
Basis points



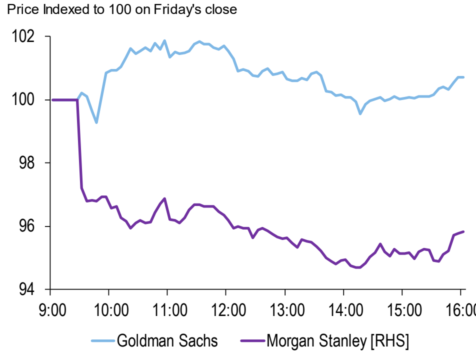
Cumulative change in 5-year TIPS, DXY and EM FX since the May Fed Meeting
Basis points, Indexed to 100 on May 3rd



Source: Bloomberg, J.P. Morgan, IMF Staff Analysis.
Note: JP Morgan EM FX Index has been inverted for consistency with DXY.

Morgan Stanley's share price took a hit (-4.2%) yesterday as the bank saw lower pre-tax margins on its wealth management unit. The earnings announcement was Ted Pick's first as the bank's new CEO. The headline earning-per-share disappointed relative consensus expectations (+$0.85, +$1.01 exp.) The bank also announced it expects to see its pre-tax margin for its wealth management unit to be in the mid-20 percents in the near-term. The bank's wealth management unit has been favored by investors for its stable source of growth for the business. CEO Pick re-iterated the importance of the unit and predicted that its pre-tax margin will hit its long-term target of 30%. The performance of the stock stood in contrast to its competitor **Goldman Sachs** (+0.7%), which also released net revenues outperforming analysts' expectations yesterday. The revenue for the bank's equity trading & sales division was able to beat expectations despite sluggish capital markets activity.

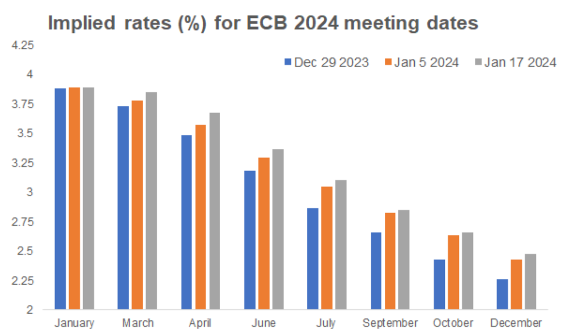
Morgan Stanley's earnings disappoint following Q4-2023 earnings
Price Indexed to 100 on Friday's close



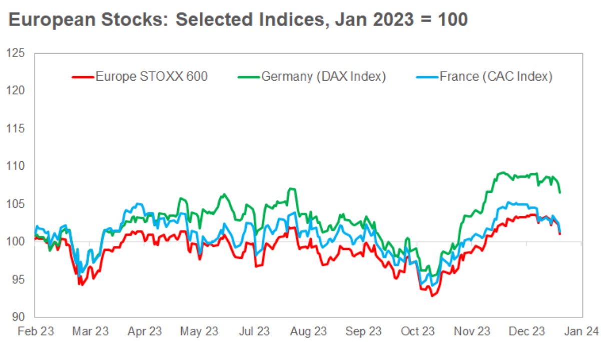
Source: Bloomberg, IMF Staff Analysis

Euro Area

European equities traded lower this morning with all sectors in the red and stocks in the real estate and retail sector underperforming. The euro was unchanged against the dollar, trading at around 1.087. **Euro area sovereign yields were higher with the 10-year bund yield (+2 bps) trading at 2.28%.** Softer than expected data out of China, combined with comments from ECB President Lagarde that market optimism on the outlook for interest rates is a "distraction" added to the risk off tone. Speaking in an interview with Bloomberg TV at Davos, **ECB President Lagarde remarked that she thinks it "likely" that the ECB will cut rates in the summer but cautioned that there remains a high level of uncertainty** given that some indicators of inflation were not at levels consistent with the ECB's 2% target. **Markets responded by adjusting the extent of rate cuts expected by year end from 160 bps at the end of last year to 140 bps today with** bets on the timing of the ECB's first 25 bps cut were pushed back to June, from April.



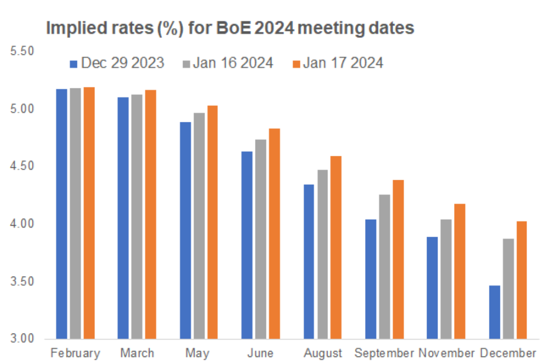
Source: Bloomberg and IMF calculations



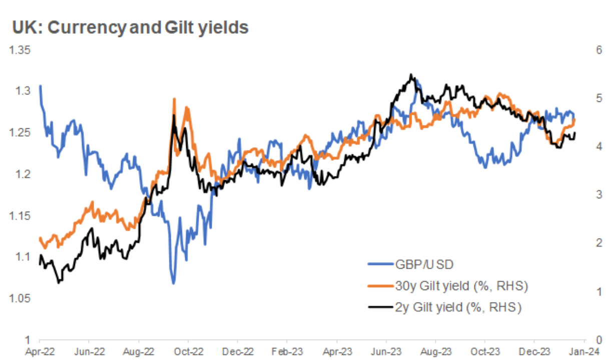
Source: Bloomberg and IMF calculations

United Kingdom

The pound was stronger against the dollar (+0.3%) and gilt yields were higher (10-year gilt +10 bps to 3.90%) following the release of December CPI data which showed that inflation ticked up for the first time in ten months. CPI inflation climbed to 4% y/y in December, up from 3.9% in the prior month and ahead of consensus expectations for a slight fall to 3.8%. Core CPI was flat at 5.1% y/y but also higher-than expected. Following the release, 2-year gilt yields rose as much as 15 bps to 4.32% as market pricing for BoE rate cuts were pared back. Markets are now pricing in around 115 bps of easing this year compared to around 130 bps yesterday. **Analysts at ING believe that expectations for a rate cut in May seem premature and instead they call for the first rate cut in August** with a further 100 bps of easing for the year. Similarly, HSBC believe that the BoE will take a few more months before moving to ease policy and have also penciled in the first rate cut for August.



Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Japan

Japan's equities declined -0.3%. Households' inflation expectations fell but remained elevated in the near term, as the median forecast for inflation one-year ahead fell to 8% from 10% in October, according to Bank of Japan (BOJ)'s latest quarterly sentiment report. Meanwhile, economists unanimously expect BOJ to retain its negative interest rate next week, a dovish shift from December's poll, Bloomberg reported. Separately, 25 mn tourists visited Japan in 2023 (2022: 3.8 mn), the largest number since 2019 aided by a weak yen, the National Tourism Organization reported. The **Yen weakened (-0.4%), 10-year JGB yields rose +1.6bps.**

South Korea

South Korea officials have outlined policy changes to bolster the country's stock market. The Financial Services Commission said the nation is considering measures to boost the price of stocks trading below book value. Some of the measures include increased tax benefits for individual savings accounts, better protection of minority shareholders, more transparency in dividend payouts, further improvements in short-selling systems to prevent wrongdoing and illegal trade, among others**.** Meanwhile, Samsung was dethroned as the world's top phone maker in 2023 by Apple, the first time since 2010, Bloomberg reported. The South Korean won (-0.9%) underperformed regional peers today.

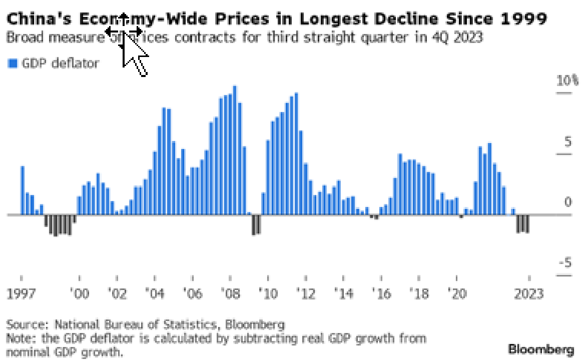
Emerging Markets

back to top

Asian equities continued to sell off. Hong Kong SAR (-3.8%) and Mainland China (-2.2%) led the decline as China's Q4 GDP undershot expectations. **Asian currencies depreciated** and **10-year bond yields broadly followed US treasury yields higher**. China's government bonds bucked trend and fell -1.3bps. **EMEA equity markets were mixed this morning with equities in Poland and South Africa the biggest underperformers (both -1.4%). Currency markets were weaker while local currency bond yields were a touch higher.** On the data front, **South African monthly retail sales data for November came in weaker than expected registering an increase of 0.4% m/m versus 1.1% m/m expected.** Separately, comments by South African central bank governor Lesetja Kganyago ruling out the prospect of rate cuts while inflation remains persistent saw the rand depreciate by 0.3% to the dollar to 19.03, its weakest level since December 13. **Latin American currencies depreciated with the rest of emerging markets and most regional equities retreated yesterday.** The Mexican peso (-1.9%) led the decline, followed by the Chilean peso (-1.5%) and the Brazilian real (-1.3%). Argentine equities advanced (+1.9%) while the rest of the region closed in the red, with notable losses in Brazil (-1.7%).

China

China's Q4 GDP missed estimates at +5.2% y/y (consensus: +5.3%, previous: +4.9%) despite exceeding the official annual growth target of +5.0% in 2023. Analysts highlighted deflationary concerns as the GDP deflator declined (-1.5%) for the third straight quarter in Q4. December's new home prices logged the steepest decline (-0.4% m/m) since 2015, while retail sales moderated to +7.4% y/y (previous: +10.1%). Industrial production (+6.8% y/y) and fixed assets investment (+3% y/y) climbed slightly in December from +6.6% and +2.9% respectively. The youth unemployment rate (14.9%) was published for the first time since June 2023 (21.3%), with a new methodology excluding students. Focus now turns to how policymakers will keep momentum going in 2024. The **Chinese government will implement further measures in 2024 to ensure a stable economic performance,** the National Bureau of Statistics said in a press briefing**.** Premier Li Qiang reiterated China's pledge to improve the environment for foreign firms. On Tuesday, state media cited analysts and signaled the possibility of modest cuts to policy rates and reserve requirement ratio in Q1 by the People's Bank of China. **Chinese equities plunged -2.2%, while the renminbi and 10-year bond yields were little changed.** China's local 'junk' bond spreads narrowed to around 98 bps, their tightest level since 2007, amid government measures to clean up bad debts, according to Bloomberg calculations.

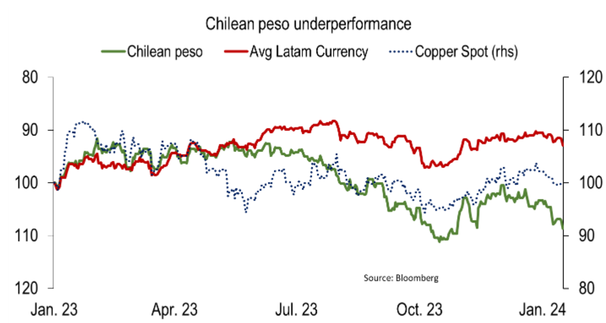


Indonesia

Indonesia's central bank (BI) kept its benchmark interest rate unchanged at 6%, as expected ahead of next month's presidential election. BI said in a press briefing that it would remain patient in easing monetary policy, would like to see firmer gains in rupiah before easing, and would continue with the Indonesian rupiah stabilization measures. BI sees the current account deficit between 0.1–0.9% of GDP and CPI within 1.5–3.5% target in 2024.

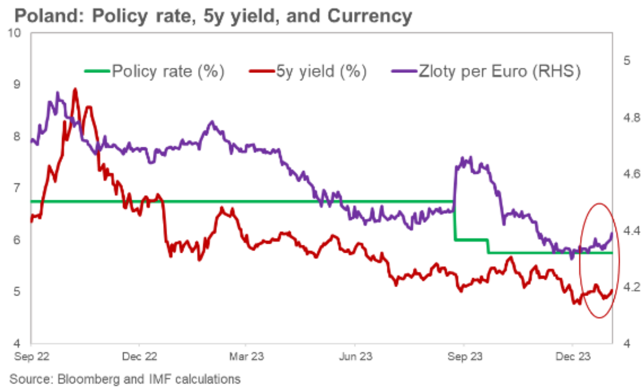
Chile

The Chilean peso is one of the worst performing EM currencies year-to-date. The peso has fallen to its weakest level since October, down almost 5% since the start of the new year. Copper spot prices have performed somewhat better, 2.1% lower so far this year. Chile has led Latin America in rate cuts thus far, with an additional 75 bps cut expected later this month. The central bank survey of economists revealed that inflation expectations, both headline and core, have fallen back down to the 3% target. With more caution regarding US rate cuts, downward pressure is added to the peso, due to the potential growing rate differential.



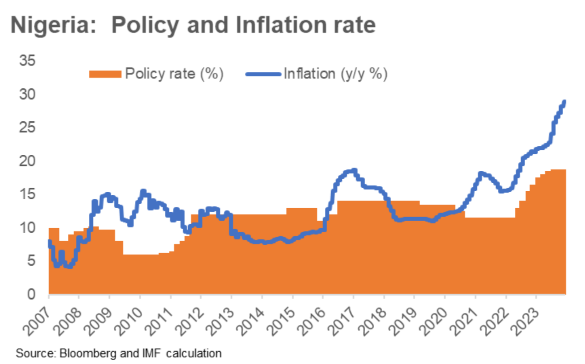
Poland

Officials from the central bank of Poland have pushed back against comments from an MPC member that monetary policy tightening could involve quantitative tightening, according to a Bloomberg article. The article notes a central bank spokesperson and MPC member Kotecki has pushed back on speculation that the central bank could start selling bonds. This follows after MPC member Dabrowski commented last week that policy may need to be tightened further either by hiking interest rates or by starting to unload government bonds bought during the pandemic. Yields on Polish 5-year government bonds have increased by roughly 15 bps since last Thursday and are currently trading at around 5.03%.



Nigeria

A high December inflation print has ignited rate hike expectations. Data released yesterday showed headline inflation increasing to 28.9% y/y in December (marginally higher than the expected 28.8% from 28.2%), the highest level since July 1996, according to ICBC analysts. The analysts also highlighted that headline inflation is pressured by higher food prices, together with the continued currency depreciation. This is likely to put pressure on monetary policy makers to keep high interest rates in H1 2024, with analysts expecting the central bank to hike its key rate by at least 150 bps at the scheduled policy meeting later this month. This would be in line with recent comments from the governor, that signaled his intention to further tighten policy in H1 2024. At the last policy meeting that took place in July 2023, the central bank increased its main lending rate by 25 bps to 18.75%.



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Global Financial Indicators

	Level		Change				
1/17/24 8:05 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4759	-0.4	0	1	19	0
Europe		4402	-1.0	-1	-3	5	-3
Japan		35478	-0.4	3	8	32	6
China		3229	-2.2	-1	-3	-22	-6
Asia Ex Japan		63	-2.6	-3	-5	-10	-6
Emerging Markets		38	-2.4	-3	-4	-7	-5
Interest Rates					basis points		
US 10y Yield		4.08	2.3	5	17	53	20
Germany 10y Yield		2.29	3.5	8	28	20	27
Japan 10y Yield		0.62	1.7	3	-8	9	0
UK 10y Yield		3.93	13.0	11	24	60	39
Credit Spreads					basis points		
US Investment Grade		131	-0.2	-1	-2	-19	-3
US High Yield		393	-4.6	4	-3	-45	7
Exchange Rates					%		
USD/Majors		103.41	0.1	1	1	1	2
EUR/USD		1.09	0.0	-1	0	1	-2
USD/JPY		147.8	0.4	1	3	15	5
EM/USD		47.3	-0.2	-1	-1	-7	-2
Commodities					%		
Brent Crude Oil ($/barrel)		77.0	-1.7	0	0	-5	0
Industrials Metals (index)		135	-0.9	-1	-3	-22	-5
Agriculture (index)		60	-0.5	-2	-6	-12	-4
Implied Volatility					%		
VIX Index (%, change in pp)		14.5	0.7	1.7	2.2	-4.9	2.1
Global FX Volatility		7.7	0.0	-0.2	-0.4	-2.7	-0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		108	-0.1	-2	-8	-96	4
Italy		159	2.0	-4	-11	-21	-8
Portugal		83	1.2				
Spain		93	0.7	-4	-5	-5	-4

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)						
1/17/2024	Level		Change (in %)					Level		Change (in basis points)				
8:02 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		7.20	-0.1	-0.3	-1	-6	-1		2.5	-2.5	2	-10	-67	-2
Indonesia		15643	-0.3	-0.5	-1	-3	-2		6.7	3.6	-2	14	-5	23
India		83	-0.1	-0.1	0	-2	0		7.2	3.0	-2	12	(22.0)	2
Philippines		56	-0.1	0.7	0	-2	-1		5.6	-2.5	12	-10	-37	0
Thailand		36	-0.3	-1.2	-1	-7	-4		2.8	3.0	8	3	23	8
Malaysia		4.72	-0.5	-1.6	0	-8	-3		3.8	1.2	2	8	-15	9
Argentina		818	-0.1	-0.5	-2	-78	-1		81.3	-126.0	16	-290	-273	-504
Brazil		4.94	-0.2	-0.9	-1	3	-2		10.7	-3.6	4	7	-179	33
Chile		928	-0.3	-1.2	-6	-12	-5		4.9	0.5	-4	6	-26	-1
Colombia		3954	-0.3	-0.5	0	20	-2		7.6	1.5	-6	-35	-192	-8
Mexico		17.30	-0.5	-1.9	-1	8	-2		8.5	-2.0	-6	-9	27	7
Peru		3.7	-0.7	-0.3	0	3	0		6.6	0.4	######	-17	-145	-8
Uruguay		39	-0.1	0.3	0	1	-1		9.2	-1.3	-33	-37	-133	-33
Hungary		350	-0.4	-1.6	0	5	-1		5.8	9.0	-3	-23	-189	-1
Poland		4.05	-0.2	-2.3	-2	8	-3		4.6	0.3	10	32	-74	11
Romania		4.6	0.0	-1.0	-1	0	-2		6.2	-0.9	-2	-6	-108	3
Russia		88.5	-0.2	1.3	2	-22	1							
South Africa		19.1	-0.5	-1.9	-2	-11	-4		9.2	4.5	18	36	44	11
Turkey		30.14	-0.1	-0.6	-4	-38	-2		27.3	13.0	82	162	1707	52
US (DXY; 5y UST)		103	0.1	0.8	1	1	2		3.98	4.6	1	7	36	13

	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		3229	-2.2	-1	-3	-22	-6		162	1	6	-23	4
Indonesia		7201	-0.6	0	1	6	-1		105	-13	2	-63	9
India		71501	-2.2	0	0	17	-1		126	-2	15	-24	10
Philippines		6573	-1.0	0	1	-7	2		89	-11	5	-45	9
Thailand		1381	-1.5	-2	-1	-18	-2		0	0	0	0	0
Malaysia		1491	-0.2	0	2	0	3		92	-2	11	-11	7
Argentina		1057770	1.9	0	14	306	14		1925	-163	68	-76	12
Brazil		129294	-1.7	-1	-1	16	-4		204	-17	-11	-69	-11
Chile		5969	-0.4	-1	-3	15	-4		128	-9	0	-18	3
Colombia		1293	-0.3	0	11	-3	8		291	-20	-3	-82	20
Mexico		55125	-0.7	0	-4	4	-4		334	-12	-9	-29	0
Peru		26173	0.7	1	6	15	1		147	-14	-2	-41	3
Hungary		63163	-0.2	1	5	36	4		159	-8	4	-82	10
Poland		74064	-1.2	-4	-5	21	-6		98	-8	-1	1	1
Romania		15646	-0.9	0	2	31	2		201	-18	-6	-67	0
South Africa		72135	-1.2	-2	-4	-9	-6		334	-8	11	-27	26
Turkey		8026	-0.1	2	0	51	7		347	-7	35	-152	33
Ukraine		507	0.0	0	0	0	0		3976	-214	98	-190	-28
EM total		38	-1.7	-3	-4	-7	-5		357	-17	7	-20	11

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

back to top