GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

**THURSDAY, JANUARY 18, 2024**

**LEAD EDITOR: SANJAY HAZARIKA**

- **Markets expect inflation to decline in EU and US** (link)
- **Hopes for a March Fed rate cut are fading fast** (link)
- **Focus shifts to potential end of Fed Quantitative Tightening (QT)** (link)
- **Survey finds demand for credit in UK set to increase** (link)
- **Chinese investors surge into Japanese equities** (link)
- **Chile offers its first dollar bond of the year** (link)

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## Markets catch a bid as sentiment improves

**Global equity markets finally caught a bid after several days of losses.** Europe's benchmark Stoxx 600 index gained 0.5% after losing 2% earlier in the week, and S&P 500 and Nasdaq futures showed signs of strength after multiple negative sessions. Taiwan POC's TSMC, the world's largest chip maker, issued positive guidance, boosting technology stocks. Shares in China were up 1.4% on rumors that official players had intervened to support the market, although the Shanghai CSI 300 is still down almost 5% for the year and Hong Kong SAR's Hang Seng Equity Index is down nearly 10%, the worst performers among the world's major equity markets. Meanwhile, government bond yields in the US and euro area held steady after several days of rising rates. At least for now, investors appear to have come to terms with the possibility that the Fed and ECB may not cut rates as aggressively as initially hoped. In other news, the US faces another partial government shutdown tomorrow if lawmakers fail to reach a budget deal, although the latest news headlines indicated that an agreement was close.

**Key Global Financial Indicators**

| Last updated: 1/18/24 8:05 AM | Level | | Change from Market Close | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | % | | | % |
| S&P 500 | | 4739 | -0.6 | 0 | 0 | 21 | -1 |
| Eurostoxx 50 | | 4445 | 0.9 | 0 | -2 | 6 | -2 |
| Nikkei 225 | | 35466 | 0.0 | 1 | 7 | 34 | 6 |
| MSCI EM | | 38 | -1.5 | -3 | -6 | -8 | -6 |
| **Yields and Spreads** | | | | bps | | | |
| US 10y Yield | | 4.09 | -1.4 | 12 | 16 | 72 | 21 |
| Germany 10y Yield | | 2.31 | -0.3 | 8 | 23 | 29 | 29 |
| EMBIG Sovereign Spread | | 399 | 4 | -3 | 11 | -48 | 16 |
| **FX / Commodities / Volatility** | | | | % | | | |
| EM FX vs. USD, (+) = appreciation | | 47.4 | 0.1 | -1 | -1 | -7 | -2 |
| Dollar index, (+) = $ appreciation | | 103.4 | -0.1 | 1 | 1 | 1 | 2 |
| Brent Crude Oil ($/barrel) | | 77.8 | -0.1 | 0 | 0 | -8 | 1 |
| VIX Index (%, change in pp) | | 14.3 | -0.5 | 2 | 2 | -6 | 2 |

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

## Mature Markets

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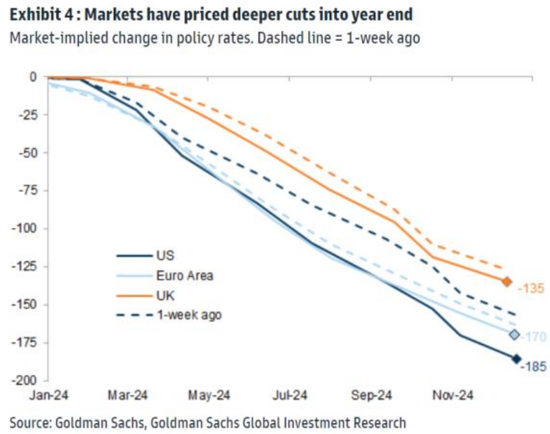
### Global Markets

**Pricing in the inflation swaps markets indicates that investors are highly confident that inflation will decline.** Options on five-year inflation swaps show that markets think the chance of five-year inflation being more than 3% is close to zero in the euro and well below 10% in the US. This is partly why markets expect more rate cuts than they did before. One important reason for the confidence on the inflation front is that energy prices have been contained over the past few months. Research by Goldman indicates that oil prices and inflation markets are highly correlated, and oil futures markets show that oil is not expected to make significant price gains this year. Brent oil futures for December 2024 settlement are trading at $75 compared to today's spot level of $77.80.

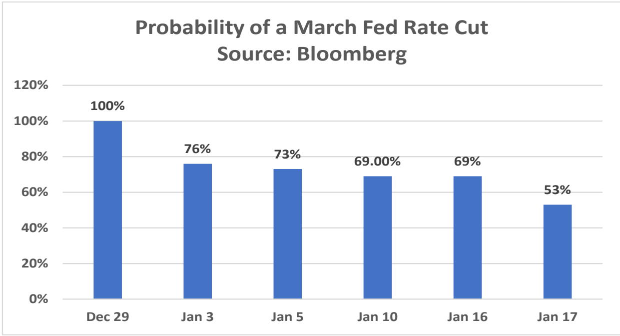

### United States

**The latest data on the US housing market were stronger than forecasts, yet another sign after robust jobs and retail sales reports that the economy is doing better than expected.** Jobless claims were lower than expected. 10-year Treasuries gave up their early morning gains in response to the news and the dollar strengthened.

**US Economic Data on Housing 8.30 am**

**Source: Bloomberg**

| Variable | Consensus Forecast | Actual Number |
|---|---|---|
| **Housing Starts** | **1425K** | **1460K** |
| **Building Permits** | **1477K** | **1495K** |
| **Housing Starts month-on-month** | **-8.7%** | **-4.3%** |
| **Building permits mom** | **+0.7%** | **+1.9%** |




**Strong economic data and hawkish comments from policymakers have forced the market to readjust its expectations for a rate cut at the March 20 FOMC meeting.** What was seen as a virtual certainty at the end of last year is now viewed as little more than a coin toss. Multiple Fed speakers have gone out of their way to emphasize that early rate cuts were unlikely due to the underlying strength of the US economy. Treasury yields have risen steadily in the first two weeks of the year as hopes of a March rate cut have faded, with the two-year yield up almost 12 bps and the 10-year yield up by 22 bps since the end of December. Equities have also struggled as a result, with all the major indexes in the red. One beneficiary is the US dollar, which has begun 2024 with a flying start, defying widespread predictions that it would weaken again this year.

**Most analysts expect the Fed to slow down and eventually end its Quantitative Tightening (QT) bond sales in the next few months.** Bank of America expects the process to begin in March and conclude in July, after which the Fed will not sell any more of its bond portfolio during the current interest rate cycle. Moving forward, the Fed will re-invest the paydowns from its mortgage-backed securities (MBS) portfolio into US Treasuries. The paydowns will come from prepayments and maturities from the MBS. The analysts estimate that the Fed will need to re-invest about $15 bn of paydowns per month in US Treasuries, which will help support the market and enhance liquidity, especially for off-the-run bonds. The paydowns and Treasury purchases are expected to be larger in the beginning, before settling down to the $15 bn monthly pace.

**Exhibit 2: BofA base case QT path following recent Fed communications ($bn)**

Fed is expected to reduce UST cap $15b/m starting in Mar & end QT in Jul '24

| QT Pace | Jan '24 | Mar '24 | May '24 | Jun '24 | Jul '24 | Sep '24 |
|---|---|---|---|---|---|---|
| UST Cap | 60 | 45 | 30 | 15 | 0 | 0 |
| MBS Cap | 35 | 35 | 35 | 35 | 35 | 35 |
| MBS Reinvest to USTs | 0 | 0 | 0 | 0 | 35 | 35 |

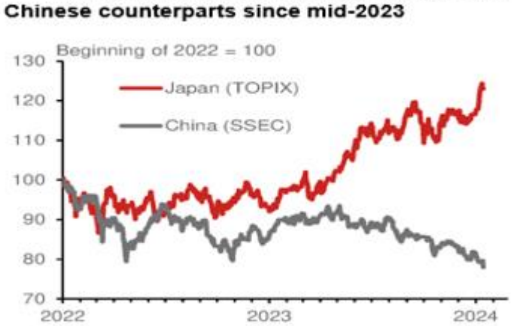
**Source:** BofA Global Research

BofA GLOBAL RESEARCH

**Japan**

**Foreign investors bought a net ¥956bn ($6.5bn) of Japanese stocks last week, the largest volume of purchases since early June.** Separately, Nomura noted that since the beginning of the year, a large amount of money has been flowing into Japanese equity ETFs trading in China, relative to historical averages. These ETFs are now trading at nearly ten percent above their net asset values (NAVs). The significant interest of Chinese investors in Japanese equities can be attributed to the recent high returns of Japanese equities, and the prevailing pessimistic views on the China's economy. Meanwhile, the gap between the market capitalization of Mainland Chinese stocks and Japanese shares has shrunk to $2.6tn, the least since July 2020, Bloomberg estimated. Meanwhile, JGB yields are tracking US Treasuries.

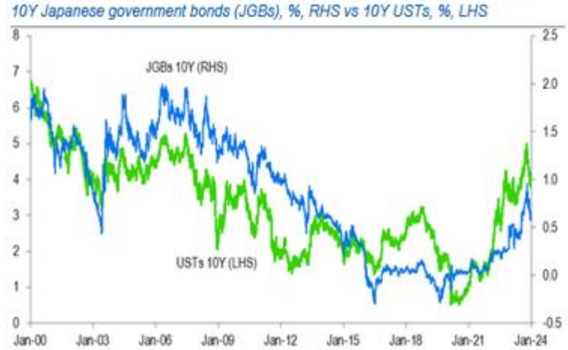
**Japanese equities have been outperforming Chinese counterparts since mid-2023**




Source: Bloomberg, Nomura

**Pressure for higher JGB yields to subside on Fed's dovish pivot**

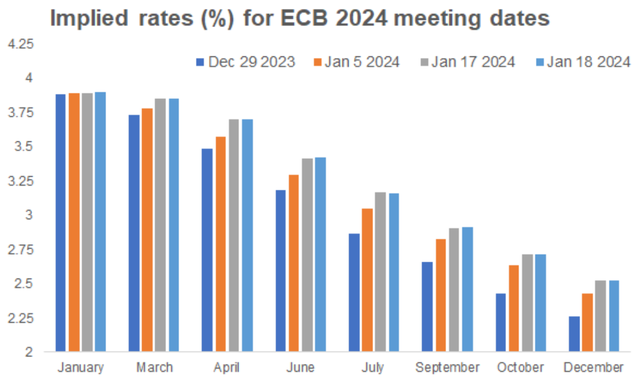
*10Y Japanese government bonds (JGBs), %, RHS vs 10Y USTs, %, LHS*




Source: Bloomberg, Standard Chartered Research

**Euro Area**

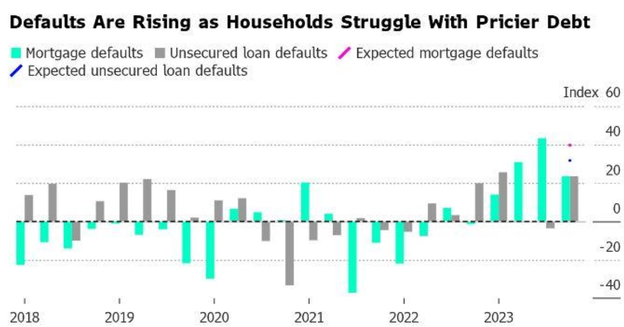
**European equities were trading a touch higher this morning (+0.2%), after having declined by around 2% in the first three days of this week.** Stocks in the consumer discretionary and IT sectors were the outperformers following positive earnings news, with utilities underperforming. The euro was stronger against the dollar (+0.1%), trading at around 1.089. **Euro area sovereign yields were lower with the 10y bund yield (-1bps) trading at 2.3%.** Market commentators think that recent remarks from European policy makers suggesting that a consensus is forming for a June rate cut are helping to steady markets this morning. **Market pricing for rate cuts held steady overnight with expectations of around 140bps of rate cuts by year-end compared to around 160bps priced in at the end of last year.** An April rate cut which had previously been almost fully priced in, has less conviction with markets assigning around a 55% chance of an April cut.




Source: Bloomberg and IMF calculations

**United Kingdom**

**The pound was trading stronger against the dollar (+0.1%) at 1.27 and gilt yields were lower (10-year gilt -5ps to 3.93%) this morning.** UK equities, which were down 1.5% yesterday, led by declines in interest-rate sensitive sectors following a stronger than expected inflation print for December, are trading flat this morning. Separately, Bloomberg reports that the BoE's latest quarterly credit conditions survey showed that banks reported a slowing in demand for secured lending in the final quarter of 2023 but expect a rebound in the first quarter of 2024. According to the survey, default rates on mortgages and unsecured lending ticked up in Q4 and are expected to rise further in Q1 2024 as the impact of higher interest rates is felt by households.




Source: Bank of England
Note: A positive balance indicates that lenders, on balance, had or expect more defaults than in the previous quarter

## Emerging Markets

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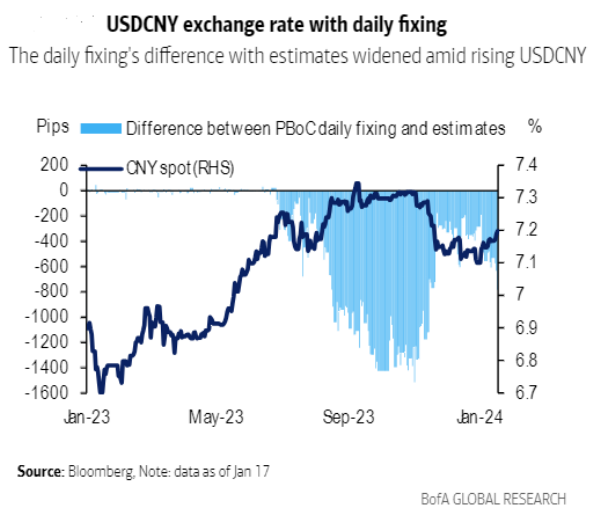
**EMEA equity markets were trading higher this morning with equities in South Africa and Turkey the outperformers (+1% and +0.7% respectively).** Currencies were weaker against the euro and local currency bond yields were also a touch lower on a relatively quiet day in terms of data releases. **Asian equities were mixed, up + 0.4% on net after the recent sell-off.** Mainland China (+1.4%) and Hong Kong SAR (+0.8%) rebounded, while Philippines (-0.9%) declined. Australian stocks extended losses (-0.6%) for a fifth day as **Australia's** employment surprisingly plunged in December -65.1k (consensus: +15k, previous: +72.6k), tumbling the most since 2020. The unemployment rate was unchanged at 3.9%. **Latin American equities followed the global sell-off and currencies were mixed against the dollar.** Argentine equities (+6.28%) bucked the global trend for a second consecutive day, while the rest of the region finished in the red. Chilean equities (-1.15%) underperformed. Bloomberg's hyperinflation model predicts major upside risks to Argentine inflation.

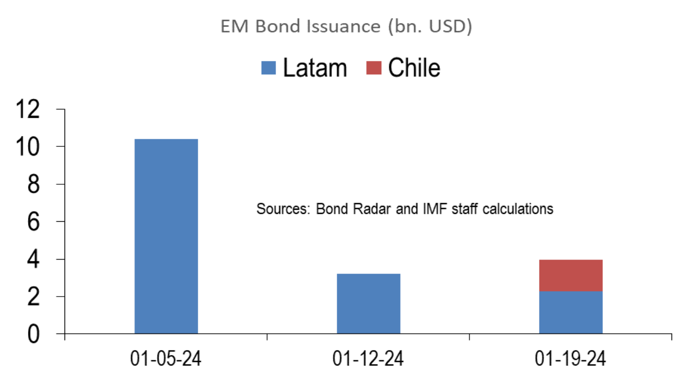
### China

**Chinese equities rebounded +1.4% after an initial slump during Asian morning hours.** A jump in ETF turnover raised speculation that state funds could be behind the reversal, Bloomberg reported. A US Treasury team will meet Chinese counterparts in Beijing on Thursday and Friday as part of "financial working group" talks , the latest signs of an improvement in bilateral relations. The discussions will cover issues such as financial stability and capital markets. **10-year bond yields and the renminbi were little changed.**



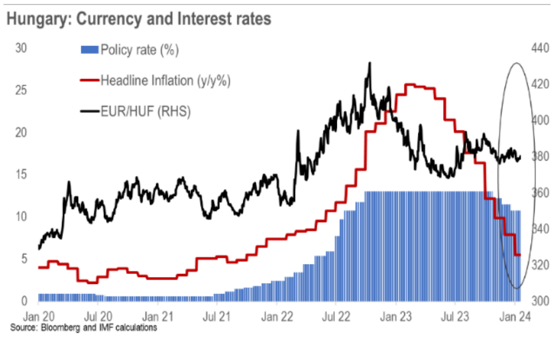

### Chile

**Chile (A/A-/A2) issued its first dollar bonds of 2024.** Chile issued $1.7bn in 5-year notes, with a spread of 85 bps over US Treasuries, a very competitive level. Demand from investors was strong. Meanwhile, the peso (+0.23%) appreciated against the dollar, reversing some early losses in the day, and snapping a 2-day losing streak. Despite the gain, the peso is still the worst performing EM currency YTD, down -4.75%. Chile's bond sale equates to 43% of Latin America's weekly bond issuance as of yesterday, bringing 2024 Latam total volumes to $17.6 bn.



**Hungary**

**Hungary's deputy governor Virag yesterday signaled the possibility of a 100bps rate cut at the upcoming monetary policy meeting on January 30th**. Virag said there were arguments in favor of both a 75bps rate cut or a 100bps rate cut but added that compared to December he sees "more room to move in the direction of 100bp cuts". The central bank has cut interest rates by 75bps at each of its past three monetary policy meetings to take the policy rate to 10.75%. **Goldman Sachs analysts now forecast 100bps of rate cuts at each of the upcoming policy meetings and expect the policy rate to ease to 4.25% by end-2024**. Analysts note that a faster rate cutting cycle is possible as December headline inflation surprised to the downside (5.5% y/y versus expected 5.9%), and the forint has remained relatively stable against the euro since November.

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## Global Financial Indicators

| 1/18/24 8:06 AM | Level | | Change | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | | % | | % |
| United States | | 4761 | -0.6 | 0 | 0 | 21 | 0 |
| Europe | | 4445 | 0.9 | 0 | -2 | 6 | -2 |
| Japan | | 35466 | 0.0 | 1 | 7 | 34 | 6 |
| China | | 3275 | 1.4 | -1 | -2 | -21 | -5 |
| Asia Ex Japan | | 62 | -1.7 | -3 | -6 | -11 | -7 |
| Emerging Markets | | 38 | -1.5 | -3 | -6 | -8 | -6 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 4.09 | -1.4 | 12 | 16 | 72 | 21 |
| Germany 10y Yield | | 2.31 | -0.3 | 8 | 23 | 29 | 29 |
| Japan 10y Yield | | 0.65 | 3.4 | 5 | -3 | 19 | 4 |
| UK 10y Yield | | 3.92 | -6.2 | 8 | 23 | 61 | 39 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 130 | -0.5 | -2 | -4 | -18 | -4 |
| US High Yield | | 398 | 1.4 | 3 | 6 | -49 | 13 |
| **Exchange Rates** | | | | | % | | |
| USD/Majors | | 103.36 | -0.1 | 1 | 1 | 1 | 2 |
| EUR/USD | | 1.09 | -0.1 | -1 | 0 | 1 | -1 |
| USD/JPY | | 148.0 | -0.1 | 2 | 4 | 15 | 5 |
| EM/USD | | 47.4 | 0.1 | -1 | -1 | -7 | -2 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 77.8 | -0.1 | 0 | 0 | -4 | 1 |
| Industrials Metals (index) | | 134 | -0.1 | -2 | -4 | -24 | -6 |
| Agriculture (index) | | 60 | 0.2 | -2 | -6 | -12 | -4 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 14.3 | -0.5 | 1.6 | 1.8 | -6.0 | 1.9 |
| Global FX Volatility | | 7.8 | 0.0 | 0.1 | -0.1 | -2.5 | -0.3 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 106 | -2.9 | -1 | -7 | -91 | 3 |
| Italy | | 158 | -2.5 | 1 | -11 | -16 | -10 |
| Portugal | | 82 | -1.4 | 24 | 20 | -4 | 19 |
| Spain | | 92 | -1.2 | 1 | -5 | -2 | -5 |

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

# Emerging Market Financial Indicators

| Last updated: 1/18/2024 8:09 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 | -0.4 | -1 | -6 | -1 | | 2.5 | -2.1 | -1 | -12 | -74 | -4 |
| Indonesia | | 15624 | 0.1 | -0.5 | -1 | -3 | -1 | | 6.7 | 0.3 | 1 | 19 | -1 | 23 |
| India | | 83 | 0.0 | -0.1 | 0 | -2 | 0 | | 7.2 | 0.1 | 0 | 12 | (18.9) | 2 |
| Philippines | | 56 | 0.1 | 0.3 | 0 | -2 | -1 | | 5.5 | -17.3 | 1 | -28 | -54 | -17 |
| Thailand | | 36 | 0.0 | -1.4 | -2 | -7 | -4 | | 2.8 | -0.5 | 9 | 3 | 26 | 8 |
| Malaysia | | 4.72 | 0.0 | -1.6 | -1 | -9 | -3 | | 3.8 | -1.0 | 4 | 10 | -9 | 11 |
| Argentina | | 819 | -0.1 | -0.5 | -2 | -78 | -1 | | 81.5 | 14.2 | 79 | -276 | -192 | -490 |
| Brazil | | 4.92 | 0.1 | -1.1 | 0 | 5 | -1 | | 10.8 | -5.8 | 11 | 10 | -185 | 36 |
| Chile | | 918 | 0.6 | -0.7 | -5 | -10 | -4 | | 4.9 | -1.3 | -2 | 7 | -21 | 0 |
| Colombia | | 3949 | 0.4 | -0.5 | 0 | 19 | -2 | | 7.6 | 0.0 | 1 | -33 | -198 | -6 |
| Mexico | | 17.18 | 0.1 | -1.6 | 0 | 10 | -1 | | 8.6 | 0.5 | 12 | 1 | 49 | 16 |
| Peru | | 3.7 | -0.6 | -1.2 | 0 | 3 | -1 | | 6.7 | 0.7 | -4 | -14 | -133 | -1 |
| Uruguay | | 39 | -0.1 | 0.0 | 0 | 0 | -1 | | 9.2 | -1.9 | -26 | -39 | -122 | -35 |
| Hungary | | 351 | -0.4 | -1.6 | 0 | 4 | -1 | | 5.8 | -5.0 | 13 | -23 | -152 | -1 |
| Poland | | 4.04 | -0.1 | -1.9 | -2 | 8 | -3 | | 4.6 | -5.5 | 17 | 32 | -46 | 11 |
| Romania | | 4.6 | -0.1 | -1.0 | -1 | 0 | -2 | | 6.3 | 6.9 | 12 | 1 | -99 | 10 |
| Russia | | 89.0 | -0.7 | -0.3 | 1 | -22 | 1 | | | | | | | |
| South Africa | | 18.9 | 0.6 | -1.6 | -2 | -10 | -3 | | 9.2 | -5.8 | 12 | 31 | 50 | 6 |
| Turkey | | 30.15 | -0.1 | -0.4 | -4 | -38 | -2 | | 27.1 | -17.0 | 26 | 170 | 1709 | 39 |
| US (DXY; 5y UST) | | 103 | -0.1 | 1.0 | 1 | 1 | 2 | | 4.00 | -2.5 | 12 | 7 | 56 | 15 |

| | 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 | | 3275 | 1.4 | -1 | -2 | -21 | -5 | | 161 | 0 | 5 | -21 | 3 |
| Indonesia | | 7253 | 0.7 | 0 | 1 | 6 | 0 | | 108 | -3 | 5 | -52 | 12 |
| India | | 71187 | -0.4 | -1 | 0 | 17 | -1 | | 125 | 0 | 14 | -26 | 9 |
| Philippines | | 6511 | -0.9 | -2 | 0 | -8 | 1 | | 92 | 0 | 8 | -33 | 12 |
| Thailand | | 1378 | -0.2 | -2 | -1 | -18 | -3 | | 0 | 0 | 0 | 0 | 0 |
| Malaysia | | 1479 | -0.8 | 0 | 1 | -1 | 2 | | 93 | -1 | 12 | -11 | 8 |
| Argentina | | 1124212 | 6.3 | 5 | 22 | 378 | 21 | | 1956 | -34 | 99 | 64 | 43 |
| Brazil | | 128524 | -0.6 | -2 | -2 | 15 | -4 | | 206 | -8 | -9 | -65 | -9 |
| Chile | | 5939 | -1.2 | -1 | -2 | 14 | -4 | | 130 | -2 | 2 | -14 | 5 |
| Colombia | | 1284 | -0.7 | 0 | 10 | -4 | 7 | | 298 | -5 | 4 | -72 | 27 |
| Mexico | | 54712 | -0.7 | -1 | -5 | 3 | -5 | | 338 | 2 | -5 | -22 | 4 |
| Peru | | 26059 | -0.4 | 1 | 4 | 14 | 0 | | 153 | -3 | 4 | -39 | 9 |
| Hungary | | 63383 | 0.6 | 1 | 5 | 35 | 5 | | 163 | -2 | 8 | -70 | 14 |
| Poland | | 74350 | 1.0 | -2 | -5 | 22 | -5 | | 103 | 0 | 4 | 1 | 6 |
| Romania | | 15551 | -0.1 | -1 | 1 | 29 | 1 | | 210 | -4 | 4 | -52 | 9 |
| South Africa | | 72365 | 0.9 | -2 | -3 | -9 | -6 | | 340 | 7 | 17 | -17 | 32 |
| Turkey | | 8093 | 0.9 | 2 | 4 | 50 | 8 | | 350 | 10 | 38 | -152 | 36 |
| Ukraine | | 507 | 0.0 | 0 | 0 | 0 | 0 | | 4064 | -61 | 186 | -99 | 60 |
| EM total | | 38 | 1.3 | -3 | -6 | -8 | -6 | | 361 | -3 | 12 | -10 | 16 |

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

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