



- Survey finds investors are very optimistic about markets in 2024 ([link](#))
- US 3mo-10yr curve has been inverted for 15 months ([link](#))
- Global shipping costs up sharply due to Red Sea and Panama Canal disruptions ([link](#))
- China's largest brokerage suspends short selling for mainland customers ([link](#))
- S&P downgrades outlook for Colombia ([link](#))
- Moody's downgrades outlook for Egypt ([link](#))

[Mature Markets](#)






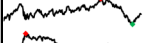




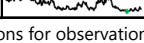
[Emerging Markets](#)

[Market Tables](#)

Markets post modest gains as US averts government shutdown

The US Congress reached a deal to avert a government shutdown and keep funding flowing through early March. Stocks in Europe and US equity index futures were generally higher in early morning trading, with bund and Treasury yields holding steady. Early trends pointed to another positive day for the US technology sector, with gains led by semiconductor companies. Ahead of key central bank meetings, market attention will be focused on ECB President Lagarde's statement later today at Davos, in addition to several Fed speakers in the US. Hawkish rhetoric from Fed and ECB officials in the past few weeks have forced investors to reevaluate their expectations for rapid central bank rate cuts. In other news, Bloomberg reported that regulators in the US plan to introduce a new rule requiring banks to borrow from the Fed's discount window at least once a year to remove the stigma associated with the discount window and ensure banks are prepared if liquidity problems occur.

Key Global Financial Indicators

Last updated: 1/19/24 7:58 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4781	0.9	0	0	23	0
Eurostoxx 50		4461	0.2	0	-2	9	-1
Nikkei 225		35963	1.4	1	8	35	7
MSCI EM		38	0.8	-2	-6	-8	-6
Yields and Spreads			bps				
US 10y Yield		4.14	0.0	20	21	75	26
Germany 10y Yield		2.32	-3.2	13	30	25	29
EMBIG Sovereign Spread		397	-2	-5	12	-51	13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.5	0.2	-1	-1	-7	-1
Dollar index, (+) = \$ appreciation		103.4	-0.1	1	1	1	2
Brent Crude Oil (\$/barrel)		78.9	-0.2	1	0	-8	2
VIX Index (% change in pp)		13.7	-0.5	1	1	-7	1

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

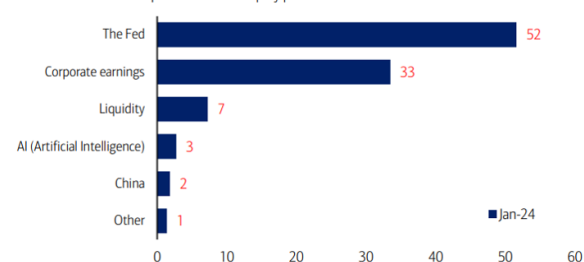
Mature Markets

[back to top](#)

United States

Investors are optimistic across the board according to the latest Fund Manager Survey by the Bank of America. They expect the Fed to be the main driver of both equity and bond prices and are confident that the Fed will deliver multiple rate cuts. Most expect the US economy will experience a soft landing, and that financial market stability risks are receding. Going long the “Magnificent Seven” US technology giants was named as both the “most crowded trade” as well as the best way to benefit from lower interest rates. Investors are particularly bullish on US equities, predicting another year of strong gains and assigning the largest overweight since December 2021. Some contacts think investors are overly optimistic, pointing out that the bullish call of December 2021 was followed by a bear market in 2022. They think expectations of a soft landing are inconsistent with major rate cuts from the Fed, arguing that the Fed would only cut aggressively if the economy was getting weaker. In such an environment, market prospects would be much less rosy.

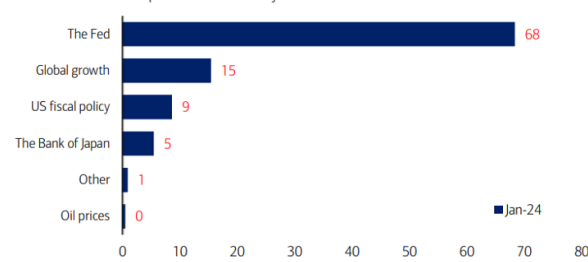
Chart 10: Biggest driver of equity prices in 2024...the Fed
What will be the most important driver of equity prices in 2024?



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Chart 11: Biggest driver of bond yields in 2024...the Fed
What will be the most important driver of bond yields in 2024?



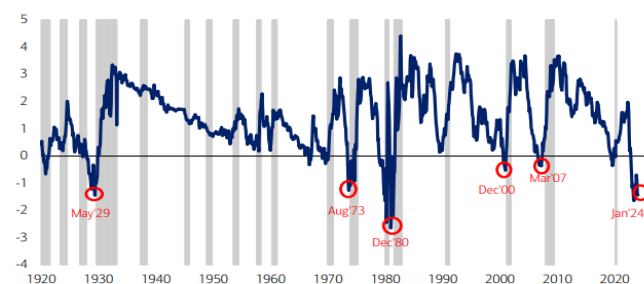
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

The US yield spread between three-month T-Bills and the 10-year Treasury has been inverted for 15 months.

Over the past century, the US has experienced a recession each time the spread has turned negative. The longest the US has gone without an inversion being followed by a recession is 22 months. The 2022 Covid recession was preceded by a curve inversion that lasted just six months. The spread currently stands at -124 bps and was as low as -190 bps in May last year. As discussed above, investors think the Fed will engineer a soft landing and the Bloomberg Economics consensus forecast for US GDP in 2024 is 1.3%. If a recession were to occur, investors could face heavy losses.

Chart 15: July
US 3m10s yield curve vs recession

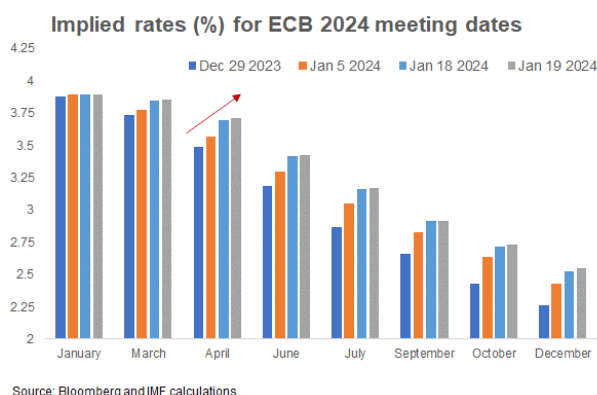


Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

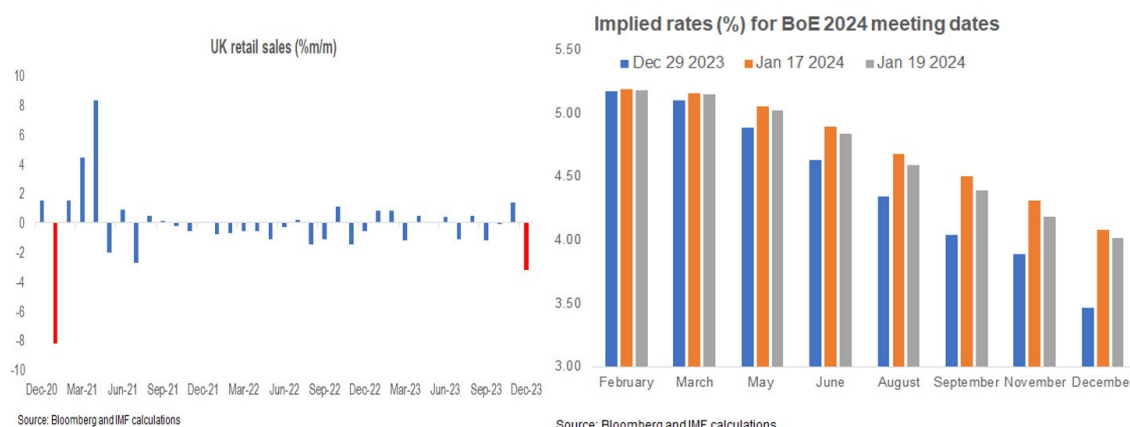
Euro Area

European equities were trading higher on the open this morning (+0.3%), with all sectors up on the day, led by gains in the consumer staples and energy sectors. The euro was broadly flat against the dollar trading at around 1.087. **Euro area sovereign yields were lower with the 10y bund yield (-3bps) trading at 2.32%.** JPM analyst commentary on the ECB's December meeting minutes which were published yesterday noted that [the minutes] were “less hawkish than the meeting suggested, and that the ECB was firmly on hold and in data-watching mode.” Expectations are that policy rates will be unchanged at next week's meeting. Recent comments by policymakers looking to push back on market expectations around the timing and extent of ECB rate cuts has seen an April rate cut, which had previously been fully priced in, has less conviction with markets assigning around a 56% chance of an April cut.



United Kingdom

The pound was trading weaker against the dollar (-0.2%) at 1.27 and gilt yields were lower (10Y gilt -4ps to 3.89%) this morning following weaker than expected retail sales data for December. UK equities however opened in the green (+0.6%), outperforming European peers. While some of the decline in the December data has been attributed to Christmas-related shopping being more frontloaded, analysts at HSBC note that today's data adds to concerns that the UK economy likely ended 2023 in recession. Elsewhere, analysts at ING remarked that whilst today's data was a negative surprise, policymakers at the BoE will be more focused on developments in services inflation and wage growth in determining the timing of any easing in policy rates.



Japan

Japan's equities rose +0.7%, led by chip-linked shares. Japan announced that public pension payments will increase by +2.7% in 2024, the second consecutive year of increase and higher than in 2023. Separately, Japan's GPIF announced plans to use more derivative hedging during portfolio rebalancing. Starting from the next financial year that begins in April, Government Pension Investment Fund will start using bond futures in foreign markets and currency forwards in addition to stock futures, noting that agile rebalancing is important to deal with rising market volatility. Separately, Japan's December's CPI inflation slowed to +2.6% (previous: +2.8%), supporting expectations that the BOJ will stay on hold next week. Nomura's survey of investors found that when the BOJ changes its policy rate, just ending NIRP is expected to lead to a 1–3% appreciation of the yen while short-term policy rate hikes beyond above 0% are expected to lead to a 5% appreciation. 10Y bond yields rose +4bps, a very large move by Japanese standards.

Pensions Versus Inflation

Japan CPI ex fresh food Pension growth for those 67 and under
Pension growth for those 68 and over



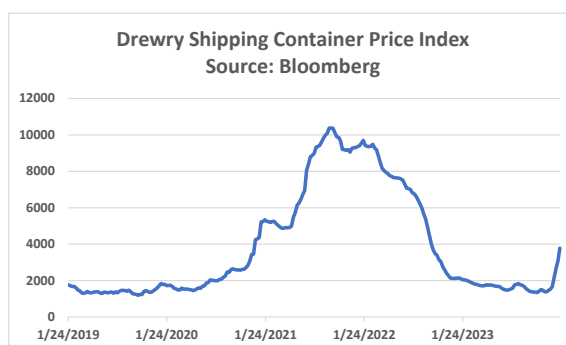
Nearly half of the respondents expect a 5%+ fall in USD/JPY, when the BOJ raises its policy rate into positive territory

How do you expect USD/JPY to perform in a change in each of the following BOJ policies? (Lower: JPY appreciation, higher: JPY depreciation)

All respondents	Just ending NIRP	Rate hikes beyond 0%
Lower by 5% or more	7%	47%
Lower by 3-5%	19%	25%
Lower by 1-3%	46%	22%
Lower by 0-1%	25%	2%
Higher	2%	0%
No view	2%	3%

Global Shipping Costs

Shipping costs for merchant vessels have risen sharply in recent weeks, although they remain well below pandemic levels. Disruptions to shipping in both the Red Sea and the Panama canal has forced container ships and tankers to take much longer routes. The attacks on shipping in the Red Sea and drought conditions in Panama have sharply reduced shipping volumes. According to Bloomberg, “nearly two-thirds” of normal traffic in the Suez Canal have been diverted to longer routes, such as the one around the Cape of Good Hope in South Africa. Some analysts are worried that renewed supply disruptions could rekindle the goods inflation seen during the pandemic.

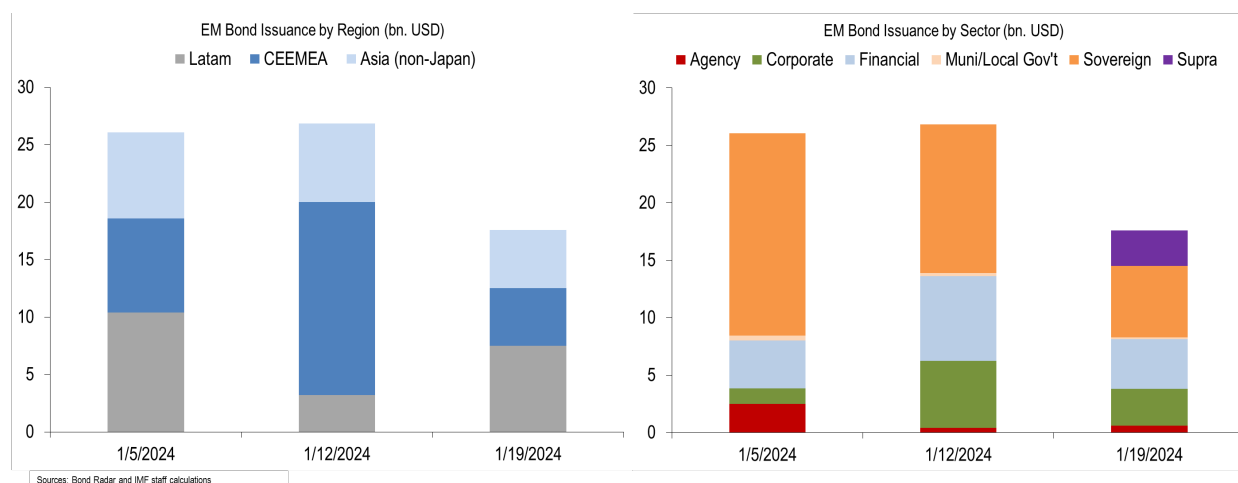
**Emerging Markets**

[back to top](#)

EMEA equity markets were trading higher this morning while currencies were mixed. Equities in Serbia (+1.5%) and Hungary (+1.2%) were outperforming while those in Türkiye (-0.8%) declined. **On the central bank front, Absa analysts expect another 100bps rate hike at the policy meeting in Angola today, to take the policy rate to 19%.** Hungary sold €1.5bn in green Eurobonds at a spread of roughly 160bps over mid swaps, according to a Bloomberg report. Raiffeisen analysts note relatively strong demand, as this was roughly 30bps lower than the initial price target. **Asian equities were mixed, up + 1.1% on net.** Taiwan POC (+2.6%) led the gains, as semiconductor stocks were buoyed by TSMC's strong revenue and capital outlook for 2024. Malaysia's GDP was weaker than expected. **Latin American currencies appreciated while equities were mixed.** S&P lowered its outlook for Colombia (BB+/BB+/Baa2) from stable to negative despite a higher than expected November GDP print.

EM Bond Issuance

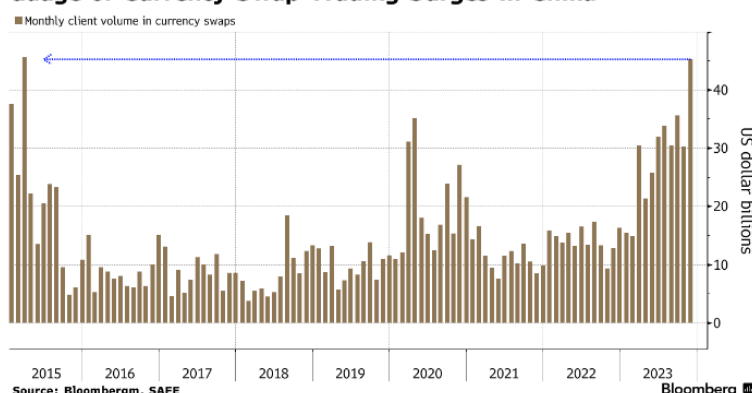
EM bond issuance was at a similar level to last year through the first three weeks of January. EM 2024 total bond issuance came in at \$70.5bn, marginally lower than the \$70.9bn seen over the same time span a year ago. Volumes have reached \$17.6bn so far this week (\$26.8 bn last week), with maturities ranging from 3–15 years. Latam makes up about 43% of the issuance, with the rest split equally between CEEMEA and Asia ex-Japan. Sovereigns dominate the sectoral split, accounting for 35% of the total issuance, with corporate (18.3%), and supra (17.6%) making up the next largest sectors.



China

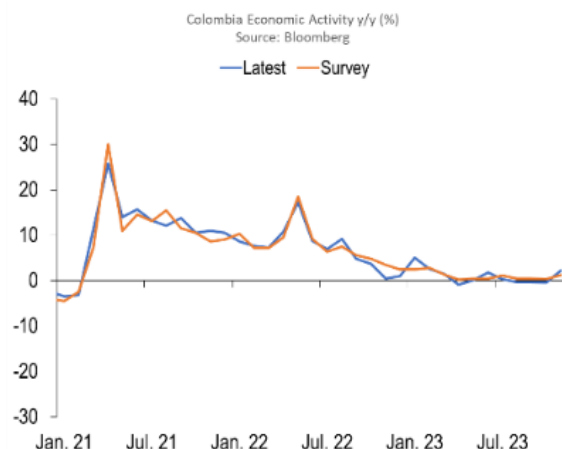
China's largest brokerage Citic Securities reportedly suspended short selling for some clients in mainland markets. State-owned Citic Securities Co. has stopped lending stocks to individual investors and raised the requirements for institutional clients earlier this week after so-called window guidance from regulators amidst the recent sell off, Bloomberg reported. No data is available on how many other brokerages are restricting short sales. The Chinese government has consistently attempted to limit short-selling in times of increased volatility, and had tightened rules on short-selling in October to quell a market rout. In other news, Trading in China's onshore swaps market surged to a 9-year high, Bloomberg reported. Some of the reasons for the turnover surge were strong demand for US dollar and shadow intervention by officials keeping the yuan in check. Separately, Huarong, China's largest state-owned bad debt managers, was downgraded to junk by Moodys, amid concerns about the firm's profitability and asset quality. **Chinese equities declined -0.2%, down -4.7% YTD.**

Gauge of Currency Swap Trading Surges in China



Colombia

S&P Global Ratings lowered Colombia's outlook from stable to negative, despite a higher-than-expected November GDP print. Although the outlook was downgraded, S&P kept Colombia's BB+ rating, which is just one notch below investment grade. S&P stated that the outlook was lowered due to future challenges to GDP growth's and "potentially weak investor confidence." Yesterday morning, November economic activity results came in at 2.3% y/y, above 1.2% expected, from -0.47% in October. The peso (+1.22%) outperformed emerging market currencies while equities experienced losses (-0.6%) after the GDP results.



Egypt

Moody's Investor Services downgraded Egypt's credit outlook to negative from stable, citing higher risks of a weakening credit profile amid challenging macroeconomic and exchange rate rebalancing, despite continued fiscal consolidation efforts and official sector support. The rating agency does not see a near-term debt restructuring in their current baseline expectation but noted that the negative outlook is also based the risk that external support and policy actions could fall short of preventing such an event. Moody's affirmed the Egypt's rating at Caa1 (S&P and Fitch are at B-). Bloomberg reports that the Egyptian pound's parallel rate is roughly 50% weaker than the official rate, with the Egyptian pound this week weakening to 60/\$ on the black market, from around 50 in early December.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief), and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

1/19/24 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4781	0.9	0	0	23	0
Europe		4461	0.2	0	-2	9	-1
Japan		35963	1.4	1	8	35	7
China		3270	-0.2	0	-2	-22	-5
Asia Ex Japan		62	1.0	-2	-6	-11	-6
Emerging Markets		38	0.8	-2	-6	-8	-6
Interest Rates			basis points				
US 10y Yield		4.14	0.0	20	21	75	26
Germany 10y Yield		2.32	-3.2	13	30	25	29
Japan 10y Yield		0.67	1.7	6	4	23	5
UK 10y Yield		3.90	-3.2	11	25	62	36
Credit Spreads			basis points				
US Investment Grade		129	-1.6	-3	-5	-19	-5
US High Yield		395	-2.1	0	2	-53	9
Exchange Rates			%				
USD/Majors		103.39	-0.1	1	1	1	2
EUR/USD		1.09	0.1	-1	-1	0	-1
USD/JPY		148.2	0.0	2	3	15	5
EM/USD		47.5	0.2	-1	-1	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		78.9	-0.2	1	-1	-3	2
Industrials Metals (index)		135	0.5	-1	-4	-24	-5
Agriculture (index)		61	0.6	-1	-5	-10	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.7	-0.5	1.2	1.1	-6.9	1.2
Global FX Volatility		7.7	0.0	0.1	-0.1	-2.7	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	-4.1	-4	-11	-96	-1
Italy		154	-4.0	-1	-8	-17	-14
Portugal		81	-1.7	23	21	-2	18
Spain		90	-1.7	0	-4	-2	-6

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

Emerging Market Financial Indicators

Last updated: 1/19/2024 8:03 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.19	0.1	-0.3	-1	-6	-1		2.5	2.1	3	-10	-71	-2		
Indonesia		15615	0.1	-0.4	-1	-3	-1		6.6	-8.7	-4	12	-1	14		
India		83	0.1	-0.2	0	-2	0		7.2	-1.0	3	10	(12.8)	1		
Philippines		56	-0.2	0.0	0	-2	-1		5.6	17.5	-2	-10	-32	0		
Thailand		35	0.3	-1.5	-2	-7	-3		2.8	1.5	8	5	34	9		
Malaysia		4.72	0.0	-1.5	-1	-9	-3		3.9	3.7	6	13	16	14		
Argentina		819	-0.1	-0.5	-2	-78	-1		80.8	-69.1	-34	-89	-347	-559		
Brazil		4.91	0.4	-1.1	-1	5	-1		10.8	-3.9	19	18	-194	37		
Chile		910	1.1	0.0	-5	-9	-3		4.9	0.0	4	12	-26	1		
Colombia		3931	-0.4	-0.5	0	19	-1		7.6	0.0	2	-17	-208	-8		
Mexico		17.13	0.2	-1.5	0	11	-1		8.7	1.0	28	11	53	22		
Peru		3.7	-0.1	-1.2	0	3	-1		6.7	0.5	17	-12	-134	0		
Uruguay		39	0.0	-0.1	0	0	-1		9.2	2.4	-6	-39	-120	-32		
Hungary		351	0.2	-1.3	0	4	-1		5.8	0.0	22	-10	-162	-1		
Poland		4.01	0.6	-0.7	-2	9	-2		4.6	-4.5	17	41	-50	12		
Romania		4.6	0.1	-0.7	-1	-1	-1		6.3	-1.5	13	-4	-94	9		
Russia		88.3	1.3	0.1	3	-21	1									
South Africa		19.0	-0.3	-1.8	-4	-9	-3		9.2	0.0	12	19	43	7		
Turkey		30.19	-0.2	-0.4	-4	-38	-2		27.4	26.0	60	197	1729	66		
US (DXY; 5y UST)		103	-0.2	1.1	1	1	2		4.04	-1.0	21	10	55	19		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
									basis points						
China		3270	-0.2	0	-2	-22	-5		161	-2	6	-27	3		
Indonesia		7227	-0.4	0	0	5	-1		107	-5	11	-59	11		
India		71683	0.7	-1	1	18	-1		126	0	15	-27	10		
Philippines		6504	-0.1	-2	0	-8	1		91	-3	13	-38	11		
Thailand		1383	0.3	-2	-2	-18	-2		0	0	0	0	0		
Malaysia		1486	0.5	0	2	-1	2		93	1	11	-15	8		
Argentina		1133638	0.8	9	24	382	22		1970	41	120	125	57		
Brazil		127316	-0.9	-3	-3	13	-5		204	-8	-9	-70	-11		
Chile		5880	-0.6	-1	-3	13	-5		127	-4	0	-17	2		
Colombia		1276	-0.6	-1	9	-4	7		301	1	6	-68	30		
Mexico		54708	0.0	-1	-5	2	-5		334	0	-10	-24	0		
Peru		26156	0.4	1	3	14	1		153	-2	6	-42	9		
Hungary		64548	1.5	1	6	38	6		162	-7	11	-80	13		
Poland		74928	0.8	-2	-5	24	-5		100	-8	5	-16	3		
Romania		15590	0.2	-1	0	29	1		208	-7	5	-60	8		
South Africa		72630	0.4	-2	-3	-9	-6		329	-7	10	-34	21		
Turkey		8011	-0.1	0	4	48	7		343	-4	35	-170	29		
Ukraine		507	0.0	0	0	0	0		4078	110	154	-71	74		
EM total		38	0.5	-2	-6	-8	-6		359	-4	12	-13	13		

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

[back to top](#)