GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 23, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **Bank of Japan leaves policy unchanged, but Ueda's comments seen as fairly hawkish** (link)
- **Corporate credit spreads have tightened close to post-GFC lows** (link)
- **China mulls $278 bn stock market rescue package** (link)
- **Italian – German bond spreads have narrowed to the lowest in more than six months** (link)
- **Euro bank lending standards continue to tighten, albeit at a slower pace** (link)

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Markets choppy as investors digest policy actions and corporate earnings

US and European stock markets lacked clear direction Tuesday morning, while reports of a market stabilization fund bolstered Chinese and Hong Kong listed equities. Most US stocks will report earnings this week and next. The Bank of Japan left policy unchanged, though "higher certainty" around reaching the 2% price target supported the yen and weighed modestly on bonds. US, UK, and German 10y bonds followed suit, with yields up 2–4 bps. Focus turns to the ECB on Thursday and the Federal Reserve next week. The ECB's latest bank survey showed loan standards continued to tighten modestly while loan demand weakened. Elsewhere, EM currencies were mixed as the broad dollar index edged higher. Markets are expecting Côte d'Ivoire's dollar bond issuance to price today, while Brazil issued $4.5 bn in dollar bonds yesterday.

Key Global Financial Indicators

Last updated: 1/23/24 8:24 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4850	0.2	1	2	21	2
Eurostoxx 50		4472	-0.2	1	-1	8	-1
Nikkei 225		36518	-0.1	3	10	34	9
MSCI EM		38	-0.9	-3	-3	-9	-5
Yields and Spreads					bps		
US 10y Yield		4.13	2.1	7	23	62	25
Germany 10y Yield		2.31	2.0	5	33	10	29
EMBIG Sovereign Spread		400	1	1	17	-42	17
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.4	0.0	0	-1	-7	-2
Dollar index, (+) = $ appreciation		103.4	0.1	0	2	1	2
Brent Crude Oil ($/barrel)		79.3	-0.9	1	0	-10	3
VIX Index (%, change in pp)		13.2	0.0	-1	0	-7	1

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

Mature Markets

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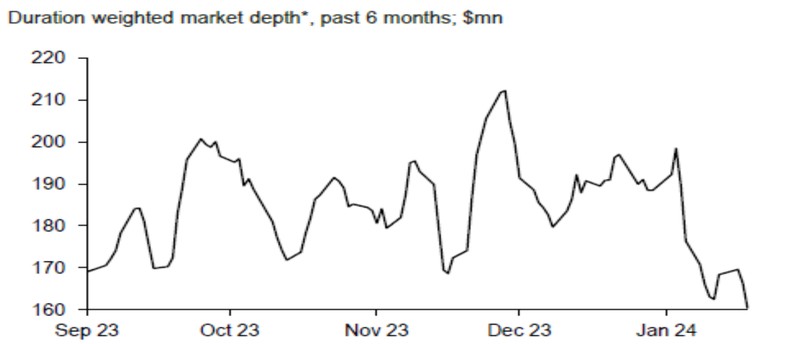
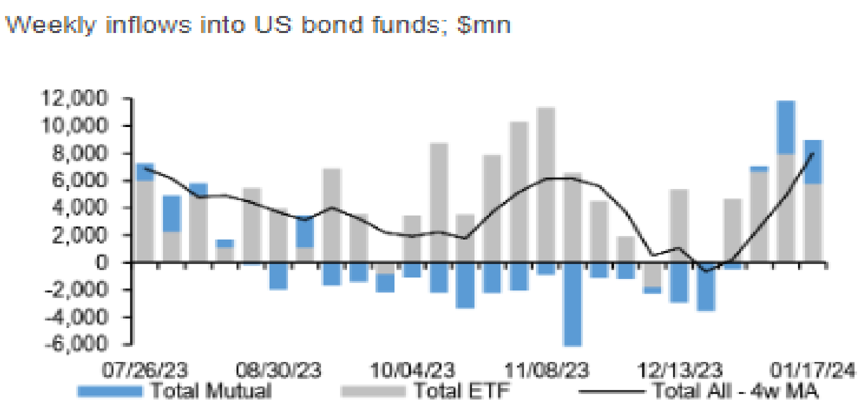
United States

Treasury market liquidity has deteriorated amid renewed volatility in the policy outlook. Markets have significantly pared back expectations for policy rate cuts on the back of stronger data and hawkish commentary by Fed officials. Futures markets are now pricing less than a 50% probability of a rate cut in March, and about six cuts in total in 2024. Meanwhile, market liquidity, as measured by the duration weighted market depth, has deteriorated to the lowest level in 6 months, according to JPMorgan analysis. As markets await the FOMC meeting next week and digest the influx of corporate earnings, lower market liquidity suggests any meaningful surprise could lead to a large reaction in interest rates.



Source: J.P. Morgan., BrokerTec
* Market depth is the size of the top 3 bids and offers by queue position, averaged between 8:30 - 10:30am daily. Duration weighted market depth refers to the weighted sum of market depth in 2s, 5s, 10s, and 30s using weights of 0.25, 0.5, 1 and 2, respectively

Corporate credit spreads have tightened close to post-GFC lows, supported by strong demand. Credit spreads on the Bloomberg aggregate and high yield corporate index have narrowed to 40 bps and 338 bps respectively, levels that are only 9 bps and 60 bps above the lowest levels in the post-GFC period. Spread compression has occurred despite the backdrop of large issuance volumes that have already surpassed the seasonal average. Strong demand has been reflected in robust fund inflows as yields remain attractive, and growing ETF trading is reportedly contributing to greater liquidity and tighter spreads.



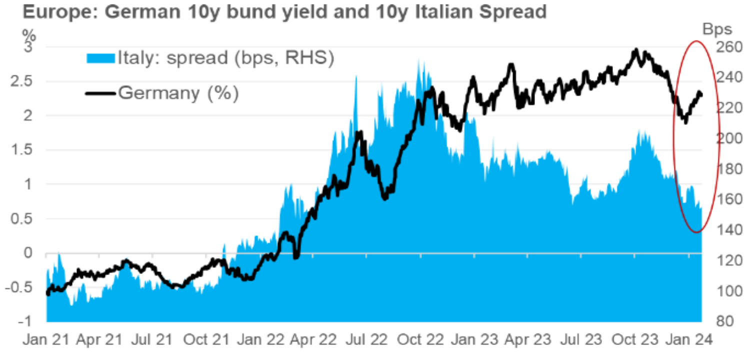
Source: EPFR, J.P, Morgan

Europe

European equities were trading slightly lower this morning (Stoxx 600 Index -0.2%) with the basic resources sector (+1.6%) outperforming. Equity strategists expect that meagre economic and earnings growth will limit gains on the Stoxx 600 Index in 2024. A Bloomberg survey of 18 equity strategists showed a wide range of forecasts, with an average forecast for the Stoxx 600 index to end 2024 at roughly the same level it closed at last Friday. **The euro was marginally weaker against the dollar** (-0.1% at 1.087). **Euro area sovereign yields were higher this morning (10y bund yield +2 bps at 2.30%)**, largely retracing yesterday's decline.

The spread between 10y Italian and German sovereign bond yields has narrowed nearly 50 bps since October. The spread is currently at around 156 bps, down from 200 bps in October 2023 and 175 bps in mid-December 2023. Market contacts attribute the narrowing to the relatively dovish PEPP tapering announced by the ECB in December (which ensures reinvestment flexibility until end-2024), and dovish market expectations for ECB rate cuts (markets are currently pricing in 45 bps of ECB rate cuts by June). Contacts also note that there is no obvious catalyst for a selloff, especially given the recent round of rating agency reviews. HSBC analysts, however, caution that spreads could come under pressure by the autumn as the end of the ECB's PEPP reinvestment approaches.

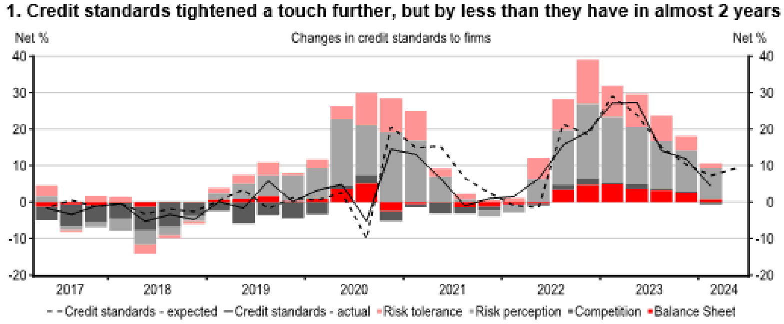
Europe: German 10y bund yield and 10y Italian Spread



Source: Bloomberg and IMF calculations

The latest ECB bank lending survey showed lending standards continue to tighten (at a slower pace) alongside reduced loan demand. The January 2024 survey showed a "moderate net further tightening" in credit standards for loans to both firms and households in Q4 2024. Banks also reported that demand for loans by firms and households continued to decrease significantly, but less so than seen previously. For the first time since early 2022, expectations are for a small net increase in demand for loans by firms and consumer housing in Q1 2024, while respondents still expect credit standards to tighten further. Always looking for the silver lining, ING analysts argued that while lending survey signals a bleak investment outlook, it does strengthen the case for ECB rate cuts.

1. Credit standards tightened a touch further, but by less than they have in almost 2 years



Source: ECB BLS, Macrobond, HSBC

Japan

Bank of Japan left policy unchanged, but markets interpreted Governor Ueda's comments as hawkish. While the BOJ cut the FY2024 core CPI forecast to +2.4% (previous: +2.8%), as widely expected, Governor Ueda stated during the press conference that the BOJ has increased certainty of reaching its 2% price target. Nonetheless, Ueda said it is difficult to say how close BOJ is to an exit and added that hiking rates before achieving the inflation target raises the risks of deflation. Analysts see an increasing chance of a rate hike in April, with all eyes on the outcome of spring wage negotiations. Nomura expects JPY to start trading strongly again into the March/April meeting; in the near term, however, the market's focus should return to foreign central bank events, limiting any near-term JPY strength. Japanese equities declined -0.1% amid profit taking after BOJ's decision. **Japanese yen appreciated +0.4%, while 10Y bond yields rose slightly**.

Emerging Markets

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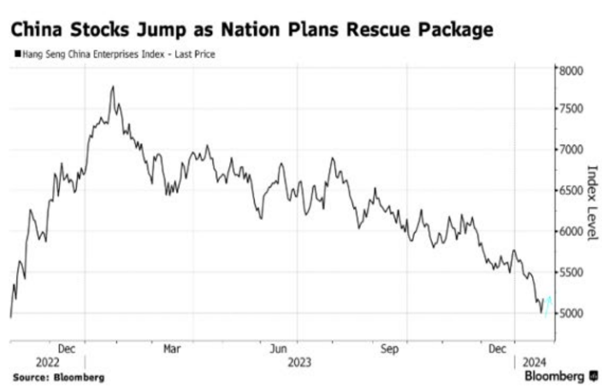
EMEA equity markets were mostly trading higher this morning, with Türkiye (+1.3%) and South Africa (+1.2%) outperforming, while Hungary (-0.9%) declined on the news that the EU may toughen its stance due to a conflict on the €50bn support package for Ukraine. **Asian equities were mixed and rose +0.5% on net as Hong Kong SAR (+2.6%) rebounded following reports of a China stock rescue plan**. India declined for the second day (-1.5%) following a holiday, with bank stocks lagging. Nevertheless, India overtook Hong Kong SAR as the world's fourth-largest stock market this week, with market capitalization of $4.3 tn. In Latin America, equities fell in Mexico (-1.3%), Brazil (-0.8%), and Colombia (-0.3%), while Chile (+1.3%) outperformed on rising copper prices. **The Brazilian real fell 1.3% on fiscal concerns following the announcement of large-scale industrial support program.**

China

Chinese authorities are reportedly seeking to create a 2 tn yuan ($278 bn) stock market stabilization fund. The funds would come primarily from offshore accounts of Chinese state-owned enterprises and would be used to buy shares onshore through the Hong Kong exchange link. At least 300 bn yuan ($42 bn) of local funds would also be earmarked to invest in onshore shares through China Securities Finance Corp. or Central Huijin Investment Ltd. The authorities have reportedly contemplated the formation of a state-backed stabilization fund since October, but Bloomberg reported an elevated urgency this week to stem the intensifying selloff and reassure the large base of retail investors. Chinese and Hong Kong Indices are down 5.8% and 9.9% YTD respectively, and 22.7% and 30.3% over the last year. Aberdeen analysts noted that using offshore funds to buy yuan and onshore A-shares would support both the yuan and stock market. Renminbi appreciated (+0.3%). Separately, several major provinces set a growth target of 5% for 2024.



Brazil

Brazil sold $4.5 bn in international dollar bonds, with maturities in 2034 and 2054, for its second issuance in the last 3 months. Brazil (BB rated) became the first high yield issuer in January, as demand for emerging market bonds has been high, with nearly $40 bn month to date. The bonds priced with coupons at 6.125% and 7.125% respectively, while the yield on the existing 2033 USD bond averaged 6.18% over the last week.

Nigeria

Analysts expect the Central Bank of Nigeria to hike raise interest rates by 300–500 bps at the upcoming February meeting. Nigeria last hiked rates in July 2023 by 25 bps, however inflation has continued to increase since then (28.9% y/y in December). The naira has remained under pressure losing around 50% of its value against the dollar since the authorities relaxed foreign exchange rules last June. Standard Chartered Bank (SCB) analysts expects that rate hikes will be frontloaded at the February meeting. For 2024, SCB have penciled in a total of 550 bps of tightening with some easing expected from September onwards.

Thailand

Thailand's 2023 GDP growth slowed to +1.8% (2022: +2.6%), primarily due to contraction in manufacturing sector. The authorities downgraded the 2024 GDP growth forecast to +2.8% (previous: +3.2%). Governor Sethaput commented in an interview that despite slower 2024 growth outlook, monetary policy settings are neutral. **The baht was little changed on net, while stocks edged lower.**

Türkiye

Analysts at JP Morgan have placed Turkish banks on negative catalyst watch ahead of the Q4 2023 earnings season citing worsening core operating trends driven by **higher-than-expected margin pressures and rising risk provisions**. The analysts also note the strong relative year-to-date performance of the Turkish banking sector (+7%) compared to CEEMEA financials which are flat YTD leaves them more exposed to a reversal.

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 (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior 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), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior 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.

Global Financial Indicators

1/23/24 7:48 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4850	0.2	1	2	21	2
Europe		4470	-0.2	1	-1	8	-1
Japan		36518	-0.1	3	10	34	9
China		3232	0.4	-2	-3	-23	-6
Asia Ex Japan		62	-1.1	-3	-4	-13	-6
Emerging Markets		38	-0.9	-3	-3	-9	-5
Interest Rates					basis points		
US 10y Yield		4.13	2.5	7	24	62	25
Germany 10y Yield		2.31	2.3	6	33	11	29
Japan 10y Yield		0.67	1.3	7	5	28	6
UK 10y Yield		3.95	4.1	15	44	59	41
Credit Spreads					basis points		
US Investment Grade		127	-0.4	-4	-9	-21	-6
US High Yield		387	-3.8	-10	2	-66	2
Exchange Rates					%		
USD/Majors		103.46	0.1	0	2	1	2
EUR/USD		1.09	-0.2	0	-1	0	-2
USD/JPY		148.0	-0.1	1	4	13	5
EM/USD		47.3	-0.2	0	-1	-7	-2
Commodities					%		
Brent Crude Oil ($/barrel)		79.4	-0.8	1	1	-4	3
Industrials Metals (index)		136	1.0	0	-4	-23	-5
Agriculture (index)		61	0.0	1	-2	-8	-2
Implied Volatility					%		
VIX Index (%, change in pp)		13.2	0.0	-0.6	0.2	-6.6	0.8
Global FX Volatility		7.5	0.0	-0.2	-0.5	-2.7	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	1.9	-2	1	-95	2
Italy		156	0.8	-1	-2	-26	-12
Portugal		84	-0.2	2	29	-4	21
Spain		91	-0.1	-1	-1	-5	-6

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

Emerging Market Financial Indicators

Last updated: 1/23/2024 7:49 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	0.3	0.2	0	-5	-1		2.5	-1.4	-4	-8	-73	-4
Indonesia		15630	0.0	-0.2	-1	-4	-1		6.6	-0.1	-7	10	-3	12
India		83	-0.1	-0.1	0	-2	0		7.2	-2.9	-1	5	(23.7)	-2
Philippines		56	0.2	-0.6	-1	-3	-1		5.5	0.1	-20	-42	-49	-17
Thailand		36	0.0	-0.9	-3	-8	-4		2.7	-1.5	0	4	25	5
Malaysia		4.73	0.1	-0.7	-2	-9	-3		3.8	-2.6	-3	4	5	5
Argentina		821	-0.2	-0.5	-2	-78	-2		75.1	-586.8	-751	-546	-994	-1129
Brazil		4.97	0.3	-0.9	-2	4	-2		10.8	7.4	26	40	-243	43
Chile		906	0.4	2.1	-2	-10	-3		4.9	1.5	5	10	-23	4
Colombia		3901	0.2	0.1	0	16	-1		7.4	0.0	-11	-22	-245	-20
Mexico		17.26	-0.4	-0.3	-1	9	-2		8.7	-0.5	14	13	41	23
Peru		3.7	0.0	-1.2	-2	4	-1		6.6	-1.6	3	-18	-135	-6
Uruguay		39	0.9	1.4	2	1	1		9.3	-1.2	7	-28	-112	-24
Hungary		355	-0.7	-1.7	-3	2	-2		5.9	12.5	26	16	-184	17
Poland		4.04	-0.7	0.0	-2	7	-3		4.7	7.8	10	36	-59	21
Romania		4.6	-0.2	-0.1	-1	-1	-2		6.3	-1.0	2	4	-98	6
Russia		88.6	-0.6	-0.3	4	-22	1							
South Africa		19.0	0.8	-0.4	-3	-10	-4		9.2	1.5	2	13	39	8
Turkey		30.28	-0.1	-0.6	-3	-38	-2		27.3	-14.0	13	155	1714	52
US (DXY; 5y UST)		103	0.1	0.1	2	1	2		4.05	2.1	12	18	43	20

	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		3232	0.4	-2	-3	-23	-6		162	-2	5	-24	4
Indonesia		7256	0.1	0	0	6	0		111	-2	15	-40	15
India		70371	-1.5	-4	-1	15	-3		126	-2	18	-21	10
Philippines		6622	0.6	0	2	-6	3		94	-1	15	-24	14
Thailand		1357	-1.0	-3	-3	-19	-4		0	0	0	0	0
Malaysia		1496	0.3	0	3	0	3		91	-3	8	-16	6
Argentina		1219960	3.8	17	29	387	31		1950	40	80	66	37
Brazil		126602	-0.8	-4	-5	13	-6		218	9	5	-53	3
Chile		5921	1.3	-1	-4	11	-4		128	-5	3	-11	3
Colombia		1271	-0.3	-2	9	-5	6		312	18	35	-52	41
Mexico		54723	-1.3	-1	-5	1	-5		334	-1	-1	-19	0
Peru		26301	0.1	1	2	14	1		161	9	17	-33	17
Hungary		63399	-2.0	0	5	36	5		167	1	15	-66	18
Poland		74453	-0.7	-1	-5	21	-5		105	0	9	4	8
Romania		15266	-1.5	-3	0	25	-1		215	7	11	-49	14
South Africa		72949	0.8	0	-2	-9	-5		338	5	29	-33	30
Turkey		8047	0.5	0	6	49	8		357	13	48	-157	43
Ukraine		507	0.0	0	0	0	0		4178	337	185	21	174
EM total		38	-0.1	-3	-3	-9	-5		363	4	18	-5	17

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

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