GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 9, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Markets optimistic about advanced economy rate cuts** (link)
- **Survey shows investors are ambivalent about US markets in 2024** (link)
- **Japanese equities reach 34-year high** (link)
- **China indicates that more easing is possible** (link)
- **US pension funds load up on Treasury strips on hopes of lower interest rates** (link)
- **Special Feature: EM Capital Flows Monitor** (attached)

Mature Markets | Emerging Markets | Market Tables

Markets cautious ahead of key US inflation data

Stock markets were lower in most countries ahead of key US CPI and PPI data due later in the week. Higher oil prices also weighed on sentiment. Japan was the outlier as the stock market reached a 34-year high, although it still remains significantly below the level reached in 1989. Investors are reacting to a surge in new bond supply, including more than €43 bn in corporate bond sales scheduled for the euro area today. The market has already absorbed $75 bn in US corporate bond issuance and more than $30 bn of emerging market bond sales. Bond issuers are racing to lock in lower funding costs ahead of expectations that interest rates could move higher. Government bond yields were also higher as markets also took in large bond sales from Italy, Belgium and the UK, and investors are preparing for 10 and 30-year Treasury auctions in the US in the coming days.

Key Global Financial Indicators

Last updated: 1/9/24 7:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4764	1.4	0	3	22	0
Eurostoxx 50		4464	-0.5	-1	-1	10	-1
Nikkei 225		33763	1.2	0	5	29	1
MSCI EM		40	0.3	-2	1	-2	-2
Yields and Spreads				bps			
US 10y Yield		4.03	0.2	10	-19	50	15
Germany 10y Yield		2.19	5.4	12	-9	-4	17
EMBIG Sovereign Spread		410	8	27	14	-58	27
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.8	-0.1	0	0	-6	-1
Dollar index, (+) = $ appreciation		102.4	0.2	0	-2	-1	1
Brent Crude Oil ($/barrel)		77.9	2.3	3	3	-2	1
VIX Index (%, change in pp)		13.3	0.2	0	1	-9	1

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

Mature Markets

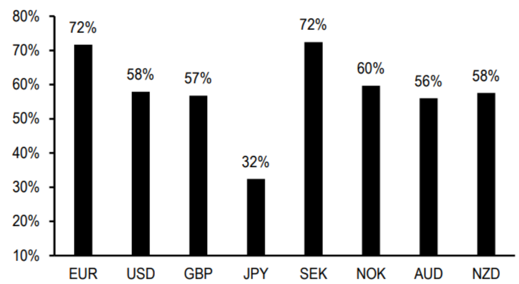
back to top

Advanced Economy Central Banks

Current market pricing forecasts that advanced economy (AE) central banks will deliver most of the rate cuts of the coming easing cycle in 2024. This effect is most pronounced for the ECB and the Swedish Riksbank, which are expected to deliver 72% of their rate cuts in 2024. In contrast, the Fed is expected to have a longer rate cut cycle and is expected to deliver just 58% of its rate cuts in 2024. JP Morgan analysts think the market is too optimistic, predicting that persistently high inflation in the early part of this year will cause central banks to become more cautious. Price action in the new year supports their thesis, as AE government bond yields have risen sharply in the first few trading days.

Figure 4: Most of the easing is expected to be delivered in 2024 as market is expecting a quite fast convergence to the inflation target…

Ratio of the expected change by the end of 2024 vs. the change by the end of 2026; %



Source: J.P. Morgan

Figure 5: …however, we believe that risks are biased for a slower decline. We project Developed Markets and global core inflation to settle around 3% in 1H24 due to transitory goods deflation and limited service disinflation on labor cost and solid sectoral demand growth

Average core CPI in 2017-2019, 2021-2022, 1H23 and forecast for 2H23 and 1H24; %change, saar

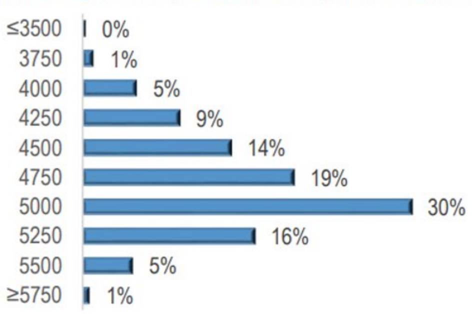
	2017-19	2021-22	1H23	2H23	1H24
Global ex China & Turkey	1.9	4.7	5.0	3.3	3.1
DM	1.5	4.4	5.0	3.0	3.0
US	2.1	5.5	4.8	3.1	2.9
Euro area	1.1	3.8	5.0	2.7	3.0
UK	2.0	5.1	7.7	3.6	3.8
Japan	−0.2	−0.6	5.2	2.3	3.2

Source: J.P. Morgan

United States

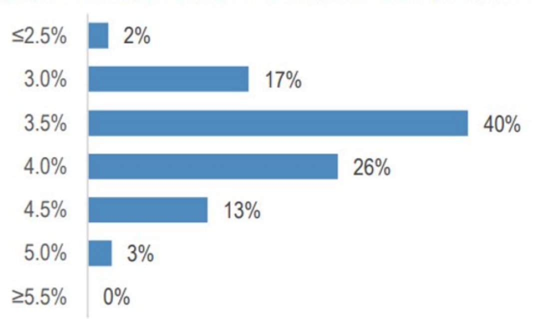
Investors are ambivalent about markets in 2024. The latest Bank of America Fund Manager Survey found that investors are evenly split on where they expect the S&P 500 to end the year (the index was at 4741 at close of business yesterday). Of those polled, 48% thought the index would be at or below year-end levels, while 52% thought it would end at 5000 or higher. In addition, just 47% said they would increase their exposure this year, compared to more than 70% in 2022. Just 38% of investors said they would add to their interest rate exposure in 2024. However, nearly all 60% of investors expect the 10-year US Treasury yield to end 2024 below the current level near 4%.

Figure 4: What is your 2024 year-end price target for the S&P 500?



Source: J.P. Morgan.

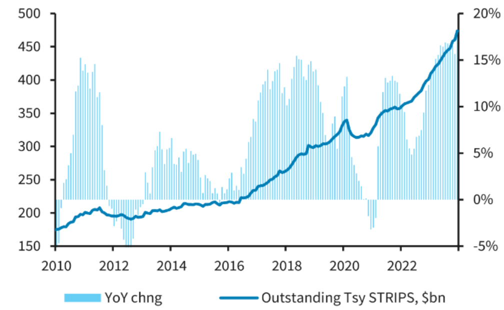
Figure 7: What is your 2024 year-end target for US 10-year yields?



Source: J.P. Morgan.

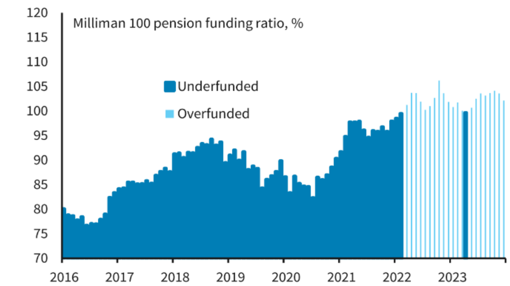
Pension fund demand for Treasury strips took the volume of these securities outstanding to a record high of $474 bn, according to analysis by Barclays. December saw a record volume of $13.4 bn of stripping activity. Treasury strips involve separating the maturity payments and coupons of a Treasury note or bond and selling them separately. Investors with very long-time horizons such as pension funds are active buyers of strips because a stripped instrument component can have a much higher duration (sensitivity to interest rates) than the original security. Strips also help pension funds to match their liabilities more effectively. Strip activity usually increases when investors expect interest rates to fall, as happened last November and December. The equity rally over the period provided room for pension funds to acquire more duration. The latest pension data show that US pension funds remain overfunded.

Figure 3. STRIPS outstanding universe increased further to $474bn



Source: US Treasury, Barclays Research

Figure 4. Milliman pension funding ratios edged lower but remain over-funded in December



Source: Milliman, Barclays Research

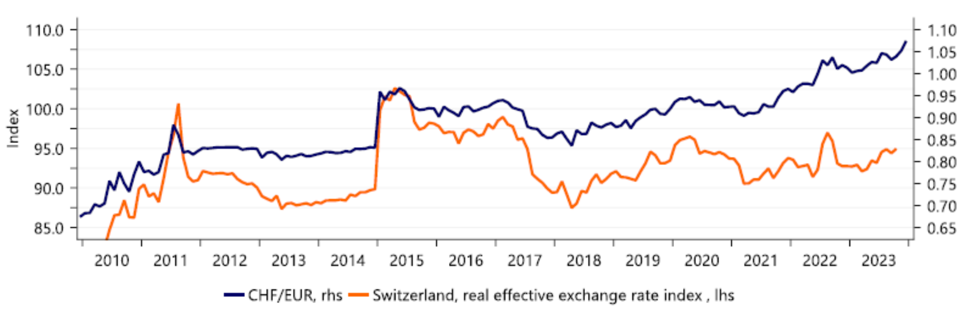
Euro Area

European equities were mostly trading lower, with the Stoxx 600 equity index trading in the red (-0.3%). The energy sector (+0.7%) was outperforming, retracing yesterday's losses**.** The euro was marginally weaker (-0.2%) against the dollar at around 1.093**.** Euro area sovereign yields continue to edge higher with the 10y bund yield (+5bps) trading at 2.18%. **ECB Governing Council member Vujcic said that the ECB is unlikely to lower rates before summer**. On the data front German industrial production data for November disappointed (-4.0% y/y vs expected -4.8% from -3.4%). This follows after factory orders for November came in weaker-than-expected yesterday. In a separate release eurozone unemployment fell to a new low of 6.4% in November (versus expectations to remain unchanged at 6.5%).

Switzerland

Analysts argue that currency strength could see the Swiss National Bank (SNB) bring forward rate cuts. The Swiss franc is roughly 6% stronger against the euro than a year ago and reached recent highs against both the dollar and the euro towards the end of last year. Even though data released yesterday showed a modest upside surprise in Switzerland's December inflation data, Rabobank analysts highlight that persistent currency strength together with slowing demand could put too much downward pressure on inflation. They also highlight that the money market is pricing in roughly 35 bps of SNB rate cuts on a six-month view, which is significantly less than the rate cuts priced in for the ECB.

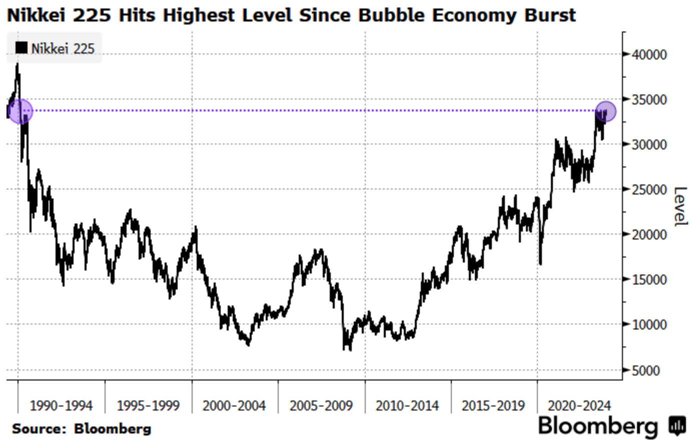
Figure 1: CHF vs. EUR and Switzerland's effective exchange rate



Source: Macrobond

Japan

Japanese equities rose (NIKKEI: +1.2%), reaching a 34-year high. The rise in Japanese equities outperformed Asian peers following a tech-led US rally. **The Bank of Japan (BOJ)'s estimate showed that the output gap has been negative since 2020Q2.** Furthermore, the output gap widened in 2023Q3. The finding supported the BOJ's stance to maintain policy easing. **Household spending declined 2.9% y/y in November,** more than expected (consensus: -2.5%). Meanwhile, Tokyo CPI inflation (a leading indicator for the country's price indicators) decelerated in December. Headline inflation was at 2.4% y/y (consensus: 2.5%), while core inflation (excluding fresh food and energy) was at 3.5% y/y (consensus: 3.5%).



Emerging Markets

back to top

EMEA equity markets were mixed again this morning, while currencies were slightly weaker against their reference currencies and local currency sovereign debt yields were a touch lower. On the data front, flash industrial production data for November in Hungary showed a larger than expected decline (-5.6% y/y versus -1.2% y/y expected) marking the 11th consecutive month of falling output. **Most Asian equities declined, down 0.6% on net, led by Indonesian (-1.1%) and Korean (-0.3%) equities.** The decline of Korean equities was led by Samsung which reported a 35% decline in operating profit in 2023Q4, making the operating profit for the entire 2023 the lowest level in 15 years. The result highlighted the sluggish demand for smartphones and memory chips. **Latam currencies and equities broadly rallied while local yields marginally retreated as risk appetite returned.** However, the Chilean Peso bucked the trend, weakening -1.6% against the US Dollar after the release of a weaker-than-expected inflation print.

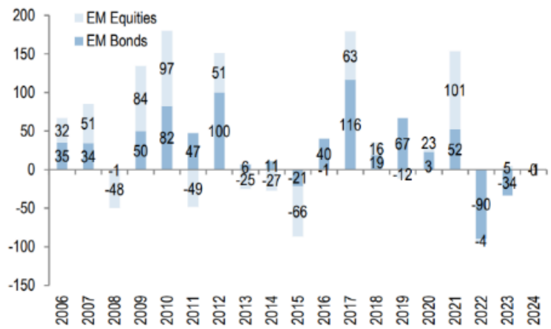
EM Fund Flows

EM bond funds recorded outflows for the first week of 2024, while EM equities received inflows. EM bond funds' outflows accelerated (-$568mn), led by EM hard currency funds outflows (-$512mn) while outflows slowed for local currency funds (-$56mn). Both ETFs and Non-ETFs outflows accelerated (-$481mn and -$87mn, respectively). In contrast, EM equity funds experienced inflows (+$293mn), driven by large ETF inflows (+$1.1bn), which offset non-ETF outflows (-$807mn). Among regional equity funds, inflows were notable for Asia ex-Japan (+$395mn), while Latam (-$111mn) experienced outflows. Reflecting on the full year of 2023, EM bonds recorded outflows of -$33.7bn while EM equities saw marginal inflows of +$5.0bn, marking an improvement from a challenging 2022.

Weekly cross-asset flows

USD billion

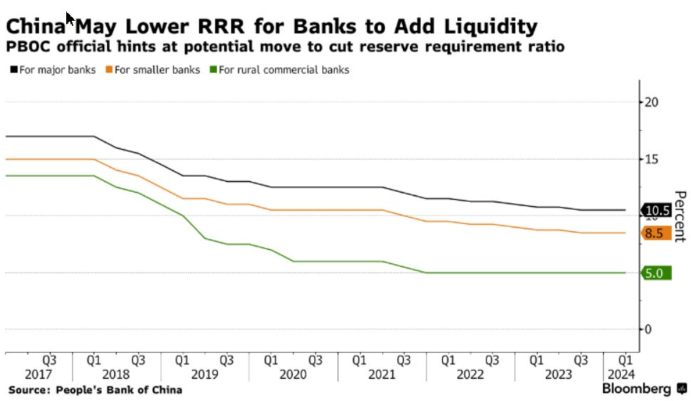
	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-0.3	-0.3
	EM Bonds		-0.6	-0.6
	Hard Ccy		-0.5	-0.5
	Local Ccy^		-0.1	-0.1
	o.w. EM ex-China		0.0	0.0
	o.w. China		0.0	0.0
	EM Equities		0.3	0.3
	US HG		5.3	5.3
	US HY		-0.9	-0.9
	Global Equities		4.5	4.5
	EM Bond and Equity ETFs		0.6	0.6
	EM Bond ETFs		-0.5	-0.5
	EM Equity ETFs		1.1	1.1
	Non-resident EM flows*		3.5	2.8



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

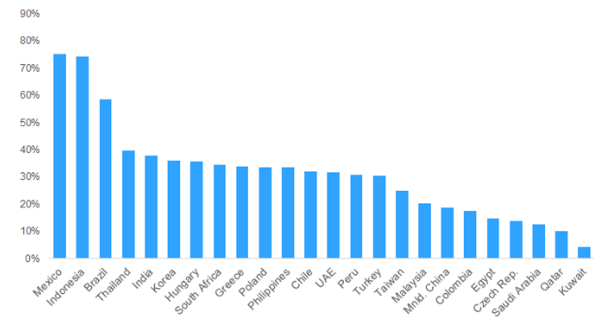
China

The People's Bank of China (PBOC) indicated that it is prepared to use a variety of tools to provide support for the economy, including lowering reserve ratios. According to his newspaper interview, Zou Lan (Head of Monetary Policy Department) said that the PBOC will strengthen its counter-cyclical and cross-cycle policy adjustments to create favorable financial conditions for China's economic growth, flagging lower reserve ratios as a potential measure. However, the PBOC statement barely lifted sentiment in China's stock markets as investors remained concerned about the economic recovery and renewed policy uncertainty. Onshore Chinese equities were little changed after a week of declines (CSI 300: +0.2%); Hong Kong SAR-listed equities declined (-0.6%).

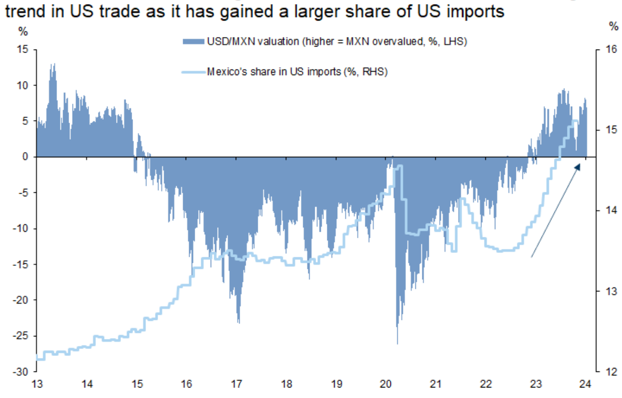


Mexico

Mexican equities have emerged as favored choice among benchmarked investors. A Goldman Sachs analysis on the largest 100 MSCI EM-benchmarked mutual funds' positionings revealed that Mexican equities is the most frequently overweighted market relative to other stocks within the broader index. Mexican corporates, and consequently the Mexican peso, were often cited as being beneficiaries of the "friend-shoring" trend. Anticipation of easier policy rates might have also influenced current overweight positioning, including other Latin American countries such as Brazil. However, with global markets having rallied significantly on the disinflation theme, current positioning, including on some of these larger Latin American markets, could curtail relative outperformance going forward.



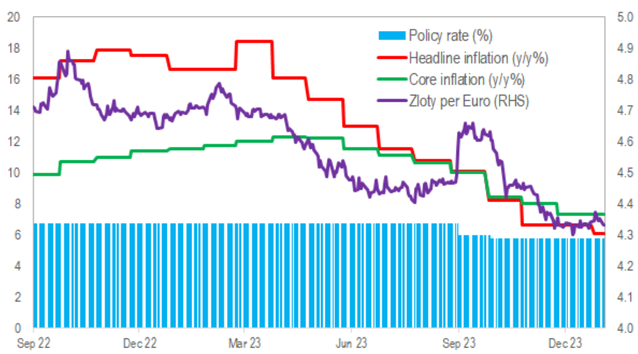
Source: FactSet, Goldman Sachs Global Investment Research



Source: Haver Analytics, Goldman Sachs Global Investment Research

Poland

Ahead of this afternoon's interest rate decision from the National Bank of Poland, the zloty was trading weaker, paring gains from the start of the year. **Expectations are that the Council will keep rates unchanged at 5.75%** for the third month in a row. Despite the recent downside surprise in CPI data for December, **analysts at UniCredit expect the MPC will remain committed to keeping rates on hold until at least March** which they expect will continue to support the currency. Attention is on tomorrow's press conference.



Source: Bloomberg and IMF calculations

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (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 (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.

Global Financial Indicators

1/9/24 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
United States		4764	1.4	0	3	22	0
Europe		4464	-0.5	-1	-1	10	-1
Japan		33763	1.2	0	5	29	1
China		3293	0.2	-3	-3	-18	-4
Asia Ex Japan		65	0.2	-2	1	-6	-2
Emerging Markets		40	0.3	-2	1	-2	-2
Interest Rates				basis points			
US 10y Yield		4.03	0.2	10	-19	50	15
Germany 10y Yield		2.19	5.4	12	-9	-4	17
Japan 10y Yield		0.59	-1.9	-2	-18	9	-2
UK 10y Yield		3.82	4.8	18	-22	29	28
Credit Spreads				basis points			
US Investment Grade		134	-4.1	0	-6	-28	0
US High Yield		394	-9.2	8	-17	-73	8
Exchange Rates				%			
USD/Majors		102.42	0.2	0	-2	-1	1
EUR/USD		1.09	-0.1	0	2	2	-1
USD/JPY		144.0	-0.2	1	-1	9	2
EM/USD		47.8	-0.1	0	0	-6	-1
Commodities				%			
Brent Crude Oil ($/barrel)		77.9	2.3	3	3	1	1
Industrials Metals (index)		137	0.1	-3	1	-18	-4
Agriculture (index)		61	0.4	-1	-4	-8	-2
Implied Volatility				%			
VIX Index (%, change in pp)		13.3	0.2	0.1	0.9	-8.7	0.8
Global FX Volatility		8.0	0.0	-0.2	0.0	-2.7	-0.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		114	-1.8	9	-4	-104	10
Italy		167	-1.6	2	-13	-29	-1
Portugal		64	-0.3	0	-4	-33	1
Spain		97	-1.0	1	-5	-7	0

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

Emerging Market Financial Indicators

Last updated: 1/9/2024 8:00 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		7.16	-0.2	-0.3	0	-5	-1		2.5	-3.5	-7	-14	-58	-4
Indonesia		15520	0.0	-0.3	1	0	-1		6.7	1.6	21	12	-18	24
India		83	0.0	0.2	0	-1	0		7.3	-1.1	5	-9	(7.1)	7
Philippines		56	-0.6	-0.6	-1	-2	-1		5.7	-0.1	28	-23	-37	5
Thailand		35	0.0	-1.9	2	-4	-2		2.7	-2.5	-1	-8	19	4
Malaysia		4.64	0.2	-0.8	1	-6	-1		3.8	-1.6	9	9	-14	10
Argentina		814	-0.2	-0.7	-55	-78	-1		80.8	-144.1	-553	-1977	-468	-553
Brazil		4.88	-0.2	0.7	1	8	-1		10.7	5.0	31	-20	-198	35
Chile		911	-0.6	-2.8	-3	-8	-3		5.0	0.0	-1	-13	-14	7
Colombia		3890	-0.2	-0.2	2	25	0		7.8	-1.0	8	-19	-222	20
Mexico		16.86	-0.2	1.0	3	14	1		8.6	0.0	0	-28	47	12
Peru		3.7	0.6	0.2	2	3	0		6.8	-0.7	10	-10	-87	15
Uruguay		39	0.3	-0.3	0	2	-1		9.5	5.6	0	-14	-115	0
Hungary		346	-0.4	0.8	3	7	0		5.9	0.0	-3	-29	-206	12
Poland		3.97	-0.3	0.7	1	10	-1		4.5	-1.8	-13	-11	-61	1
Romania		4.5	-0.1	-0.1	2	1	-1		6.3	0.3	14	-21	-110	14
Russia		89.8	1.4	1.4	1	-23	0							
South Africa		18.7	0.1	-0.4	2	-9	-2		9.1	-3.3	-11	-24	42	-6
Turkey		29.94	-0.1	-0.7	-3	-37	-1		26.7	-47.0	-48	-44	1812	-3
US (DXY; 5y UST)		102	0.2	0.2	-2	-1	1		3.99	-0.2	7	-25	31	14

	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		3293	0.2	-3	-3	-18	-4		161	3	10	-22	3
Indonesia		7200	-1.1	-2	1	9	-1		124	28	20	-50	28
India		71386	0.0	-1	2	19	-1		129	13	18	-17	13
Philippines		6619	0.1	1	6	-2	3		103	23	17	-39	23
Thailand		1415	-0.2	-1	2	-16	0		0	0	0	0	0
Malaysia		1499	0.2	3	4	1	3		93	8	8	-11	8
Argentina		1104913	4.7	19	17	412	19		2052	139	125	-77	139
Brazil		132427	0.3	0	4	21	-1		222	7	8	-61	7
Chile		6054	0.1	-3	1	17	-2		138	13	13	-20	13
Colombia		1295	2.2	8	13	-2	8		307	36	8	-78	36
Mexico		56176	0.0	-2	3	7	-2		349	15	-10	-38	15
Peru		25766	0.2	-1	17	14	-1		161	17	13	-40	17
Hungary		61686	0.5	2	5	35	2		164	15	9	-97	15
Poland		76904	0.0	-1	0	25	-2		106	9	7	3	9
Romania		15617	1.0	2	4	27	2		221	21	24	-74	21
South Africa		74230	0.2	-2	1	-5	-3		337	29	-1	-33	29
Turkey		7751	-0.9	2	-2	50	4		345	31	1	-133	31
Ukraine		507	0.0	0	0	-1	0		4178	174	509	-3	174
EM total		40	-0.9	-2	1	-2	-2		371	26	15	-19	26

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

back to top