GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JULY 1, 2024

LEAD EDITOR: SANJAY HAZARIKA

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- **French markets gain and spreads tighten after election** (link)
- **US stocks end quarter near record amidst rising fears of a selloff** (link)
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Global markets start new month with a rally

Equity markets in Europe started the new month with a rally as investors were relieved that the far right did not do as well as feared in the first round of the French elections. The euro appreciated, although local interest rates continued to climb. US equity index futures were slightly higher and stocks in Asia also posted gains. However, sentiment remained cautious at the start of a potentially eventful week with the UK election on Thursday, the US jobs report on Friday and the final round of the French election on Sunday. Meanwhile, the election situation in the US has become more volatile and questions about potential Fed policy actions continue to dominate investor thinking. Stocks in South Africa were close to a record high on the news that a more business friendly unity government is to take office.

Key Global Financial Indicators

Last updated: 7/1/24 7:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5460	-0.4	0	3	23	14.48
Eurostoxx 50		4941	1.0	0	-1	12	9
Nikkei 225		39631	0.1	2	3	19	18
MSCI EM		43	0.2	0	2	8	6
Yields and Spreads				bps			
US 10y Yield		4.41	1.0	17	-9	57	53
Germany 10y Yield		2.57	6.6	15	-10	17	54
EMBIG Sovereign Spread		391	-4	-4	16	-51	8
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		45.9	-0.1	-1	-2	-7	-5
Dollar index, (+) = $ appreciation		105.7	-0.2	0	1	3	4
Brent Crude Oil ($/barrel)		85.5	0.6	-1	5	14	11
VIX Index (%, change in pp)		12.9	0.5	0	0	-1	0

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

Markets are in the process of analyzing the impact of the first round of the French elections, with the final round scheduled for July 7. The UK election will be held on July 4. The highlight of this week's data calendar will be Friday's US jobs report, with the consensus forecast predicting that 190K jobs will be added and that the unemployment rate will remain at 4%. US ISM PMIs and durable goods reports could also move markets. The euro area is scheduled to release a number of important reports on inflation and employment. PMI data are due in Japan and the UK, while China reports on inflation. The central bank of Poland is expected to stay on hold at 5.75% this week.

Global Markets in H1 2024

With the first half of 2024 in the books, global markets present a mixed picture. Global interest rates are generally higher but interest rates in China have fallen due to the weakness of the economy. US stocks have continued the major rally that began back in October, while US interest rates have not retested the post-GFC highs seen last year. Japanese markets have attracted a lot of attention as the Yen hits its weakest level against the dollar since 1986 even as JGB yields experienced a historic increase. The weakness in the yuan is also an important trend. The surprise election in France resulted in euro area stocks giving up much of their gains for the year, with the French CAC-40 index actually turning negative for 2024 (as of the Friday close). Latin American stocks were among the biggest losers among emerging markets (EMs) due to political worries and fiscal concerns, while stocks in Asia generally did well. However, the persistently strong dollar is starting to worry many EM investors.

Selected Market Moves in 2024: 4 p.m. June 28, 2024

Source: Bloomberg

US 10yr Treasury Yield	+56 bps
German 10yr Bund Yield	+50 bps
Japan 10yr JGB Yield	+45bps
China 10yr Government Bond Yield	-35 bps
JPY	-12.3% vs. USD
EUR	-3% vs. USD
CNH	-2.4% vs. USD
Brent Oil	+12.1%
S&P 500	+14.5%
Euro Stoxx 600	+5.8% (local currency terms)
China CSI 300	+0.9% (local currency terms)
MSCI Emerging Markets Index	+5.6% (dollar terms)

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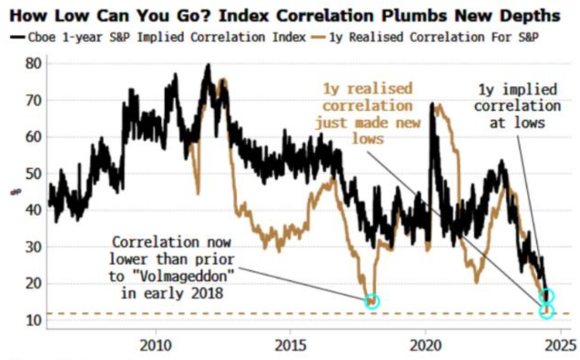
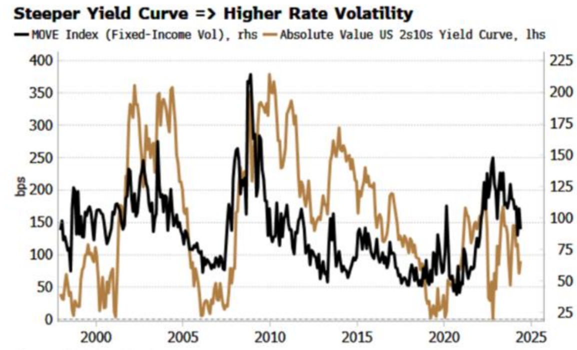
United States

With the S&P 500 ending H1 2024 close to an all-time high, some investors are getting worried that a major selloff could lie ahead. Corporate earnings will have to be very strong in Q3 to justify current equity valuations, and a number of technical indicators provide warning signs. The correlation between the price movements of stocks in the S&P 500 is at a historic low, which some investors interpret as a sign that volatility is likely to increase sharply in the future because periods of low correlation tend to be followed by a large increase in volatility, a negative development for markets. Interest rate volatility is also relatively low while the yield curve inversion (2yr versus 10yr) has held steady near 40 bps for some time. The fear is that interest rate volatility could also increase sharply, which tends to be associated with a steepening yield curve and potential trouble for risk assets such as equities. Other investors are more optimistic, predicting that rates are likely to remain stable as the economy slows and progress is made on inflation.



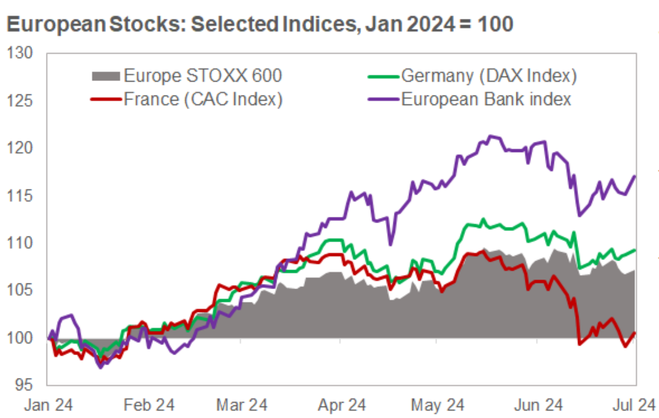
Source: Bloomberg; Macrobond



Source: Bloomberg; Macrobond

Euro Area

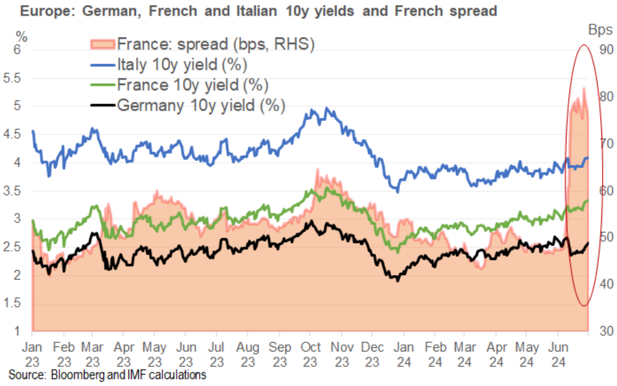
European equities gained with French equities outperforming, and the euro strengthened in the aftermath of the first round of the French elections, but contacts note that the outlook remains uncertain. The Stoxx 600 index was up roughly 0.5% this morning with the banking sector (+1.9%) outperforming, led by gains in Banca Monte Dei Paschi Siena (+5.8%) and Société Générale (+5%). French equities rallied in early morning trade (+2.8%) but some gains were retraced in later trade, with the CAC-40 index up roughly 1.5% by mid-morning. The CAC-40 index is now roughly 0.7% stronger than at the start of the year and is back on positive territory after ending June in the red. **The euro strengthened against the dollar (+0.3%), to trade at around €1.076/$) with ING analysts noting that the currency seems to be shedding some political risk premium.** The analysts think that a tightening in the French-German spreads could support the euro, but they are not convinced that the euro would be able to erase the political risk premium entirely this summer.



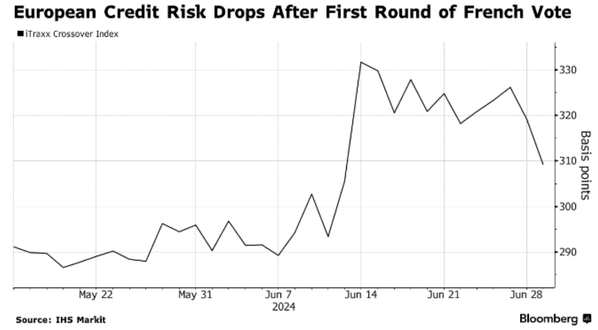
Source: Bloomberg and IMF calculations

Source: Bloomberg and IMF calculations

The 10y French-German spread narrowed (-5bps) to 75bps as German yields increased, while credit risk gauges eased back to levels last seen in June. Preliminary results from the first round of the French parliamentary elections were close to pre-vote polls, with the far-right Rally National (RN) projected at roughly 33%, the leftist New Popular Front at 28% and the centrist alliance at 21%. The RN did not do as well as expected, reassuring investors, at least for now. Other European government bond spreads over German bonds also narrowed, with the Italian-German 10y spread (-7bps) trading at about 150bps. Bloomberg reported that **this morning the IHS Markit's iTraxx set of credit indices reflected a lowering of credit risk to levels last seen in mid-June**. Overall, contacts caution that the situation remains fluid, with ING analysts noting that the big risk event is the second round of the vote scheduled for this coming Sunday.



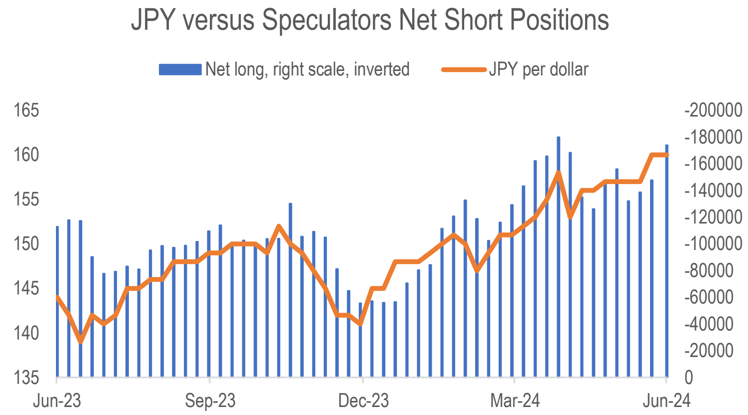
Source: Bloomberg and IMF calculations



Ahead of the preliminary euro area inflation report tomorrow, regional inflation data from Germany this morning pointed to easing inflation in June. The June German flash inflation print is due later today (EU harmonized measure expected to ease to 2.5% y/y from 2.8% y/y). For tomorrow's euro area flash print, the consensus expects headline inflation to ease to 2.5% y/y in June (from 2.6%). Bund yields were nevertheless increasing across the curve this morning, with analysts noting that traders are likely more focused on political developments in France. Bloomberg analysts highlight that **ECB rate-cut bets were scaled back as safe-haven demand was unwound after the first round of the French elections pointed to no single party winning an absolute majority**. Markets are currently pricing in roughly 40bps of ECB easing this year, compared to roughly 44bps last Friday.

Japan

JPY short positions increased again. Speculators' short positions in JPY, proxied by CFTC non-commercial futures positions, increased last week, approaching its all-time high. The yen weakened to 161 per dollar last week for the first time since 1986, increasing speculation that the authorities will intervene in the market. Japan's Ministry of Finance confirmed that it did not spend any reserve on FX intervention between May 30 and June 26.



Source: Bloomberg

Emerging Markets

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EMEA equities joined the global rally. Local currencies appreciated. **Most markets in Asia were also higher, and stocks in India celebrated the national team's cricket World Cup victory with another strong performance.** Local currencies held steady. **Markets in Latin America were mostly higher on Friday.** However, Brazil sold off due to negative data on the primary deficit and jobs.

EM fund flows

EM Fund flows turned positive in the last week of June rising to $0.2 bn from -$1.2 bn in the week before**.** This was driven solely by the $1.7 bn inflows into hard currency bond funds, marking the largest such inflows since Jan 2023. On the other hand, outflows from local currency bond funds hit -0.8 bn (compared to -$0.4 bn in the previous week). Similarly, equity funds experienced larger outflows as they rose from -$0.4 bn in the week before to -$0.7 bn. However, EM Asia equity funds continued to attract incremental investments. With this, the YTD EM fund flows stood a $21.7 bn as of June 28th.

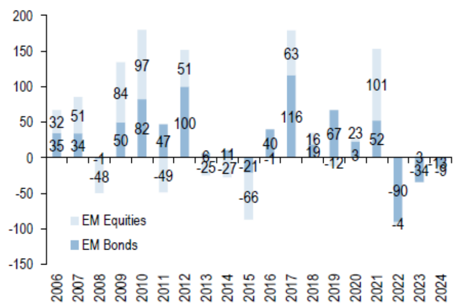
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		0.2	-21.7
	EM Bonds		0.8	-13.0
	Hard Ccy		1.7	-5.0
	Local Ccy^		-0.8	-8.1
	o.w. EM ex-China		-0.8	-7.0
	o.w. China		0.0	-1.1
	EM Equities		-0.7	-8.6
	US HG		0.7	176.7
	US HY		-0.4	10.5
	Global Equities		1.6	80.4
	EM Bond and Equity ETFs		1.5	15.0
	EM Bond ETFs		0.4	-1.5
	EM Equity ETFs		1.1	16.5
	Non-resident EM flows*		-0.2	12.8

Figure 2: EM bond and equity fund flows

USD billion



*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.

CEE 4

Today's data on June manufacturing PMI disappointed across CEE countries, printing mostly below the 50 threshold (which marks economic contraction) and declining from May. Still, **the Hungarian forint and Polish zloty gained this morning against the euro, with the forint trading at 393.79/€ (+0.3%) and the zloty at 4.29//€**, after the weekend's elections in France showed Marine Le Pen's party performing slightly worse than anticipated by last week's polls. Yet, today's June manufacturing PMI printed below expectations in Hungary (49.4 in June, vs. the forecast of 51.6, and down from 51.8 in May), and only marginally above consensus in Poland (45 in June, vs. est. 44.9, from 45 in May). June manufacturing PMI was weaker than expected in Romania as well (50 vs. 52). **The Czech koruna was little changed against the euro, trading at 25.03/€.**

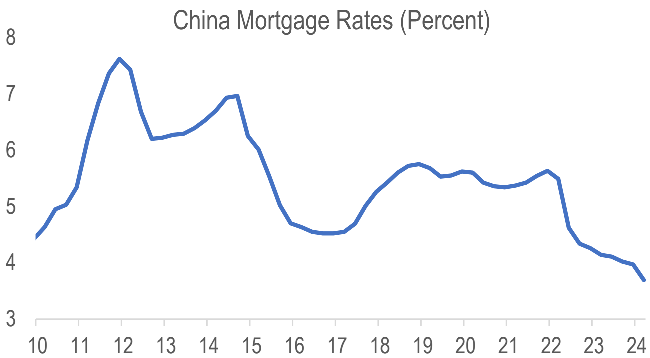
Source: Bloomberg and IMF calculations

Source: Bloomberg and IMF calculations

China

Mortgage rates fell to a record low after most cities implemented the housing market support policies announced by the central government in May. Reportedly, the mortgage interest rate for personal housing loans dropped to a historical low of 3.62% in May, down 53bps over the previous year. All cities except

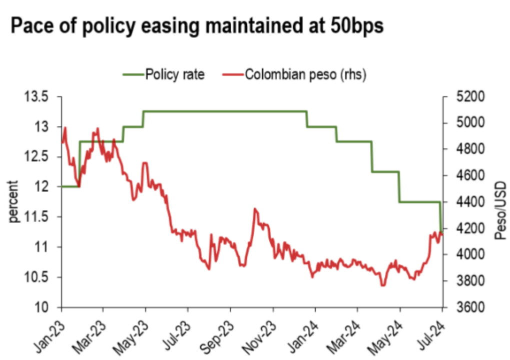
Beijing, Shanghai, and Shenzhen have removed the mortgage rate floor. Investors are still determining whether the policy measures will be sufficient to revive the housing market, as the central bank has provided limited funding so far and several cities have been slow to introduce all the changes.

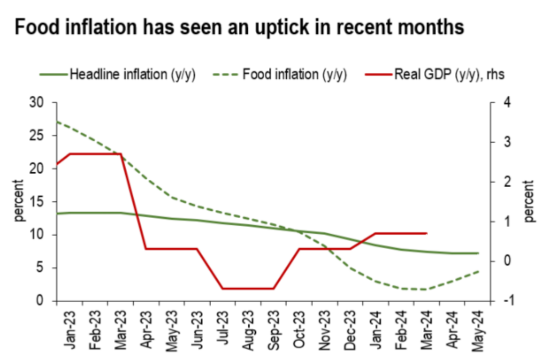


Source: Bloomberg

Colombia

The Central Bank delivered a 50bps rate cut in a 4–2 split vote on Friday. Notably, the two dissenting votes called for a 75 bps cut. Recently, the country has experienced an uptick in food inflation, while the 1Q2024 real GDP growth came in stronger than the Central Bank's estimates. In addition, the Colombian peso has depreciated by ~7.5% since the last policy meeting in April. The central bank acknowledged these factors as driving forces behind its decision to keep the pace of easing at 50bps for this meeting. Furthermore, it signaled caution about the pace of policy easing going forward, especially in the light of the uncertainty over the US Fed's policy rates decisions. The Colombian peso closed the day 0.4% higher.

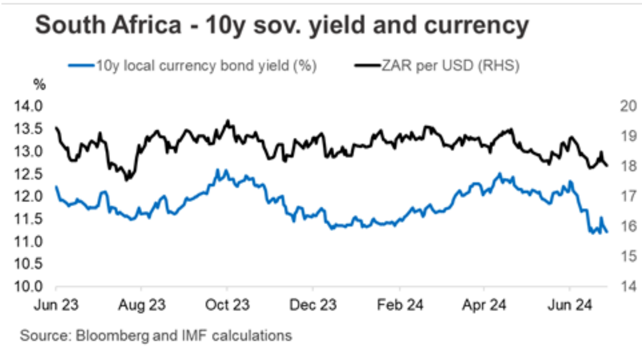




Source: Bloomberg

South Africa

The rand strengthened (+0.8%) against the dollar this morning, trading at ZAR18.05/$. Re-elected President Ramaphosa, leader of the African National Congress (ANC) party, announced a new national unity government resulting from the May 29 elections, with a cabinet including six ministers from the Democratic Alliance party, a former opposition party that is widely viewed as business friendly. According to Bloomberg, foreign investors were net buyers of ZAR 7.bn ($417mn) of South African equities through the 10 business days ending last Friday (June 28), the highest inflows since March 2022. Analysts at Goldman Sachs see upside for reforms from the new government but warn about the potential fragility of the coalition.



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Global Financial Indicators

7/1/24 7:56 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5460	-0.4	0	3	23	14
Europe		4941	1.0	0	-1	12	9
Japan		39631	0.1	2	3	19	18
China		3478	0.5	0	-3	-9	1
Asia Ex Japan		72	0.2	0	3	8	8
Emerging Markets		43	0.2	0	2	8	6
Interest Rates					basis points		
US 10y Yield		4.41	1.0	17	-9	57	53
Germany 10y Yield		2.57	6.6	15	-10	17	54
Japan 10y Yield		1.06	0.4	7	-1	66	45
UK 10y Yield		4.22	4.7	14	-10	-17	68
Credit Spreads					basis points		
US Investment Grade		128	-0.7	0	12	-27	-6
US High Yield		358	-5.8	-5	16	-98	-28
Exchange Rates					%		
USD/Majors		105.67	-0.2	0	1	3	4
EUR/USD		1.07	0.3	0	-1	-2	-3
USD/JPY		161.1	0.1	1	3	11	14
EM/USD		45.9	-0.1	-1	-2	-7	-5
Commodities					%		
Brent Crude Oil ($/barrel)		85.5	0.6	0	6	17	13
Industrials Metals (index)		152	0.6	1	-5	8	7
Agriculture (index)		57	-0.3	-3	-7	-15	-9
Implied Volatility					%		
VIX Index (%, change in pp)		12.9	0.5	-0.4	0.0	-0.7	0.4
Global FX Volatility		7.6	0.0	0.1	0.8	-0.8	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		117	-8.1	-4	15	-11	14
Italy		150	-7.4	-1	18	-18	-18
Portugal		69	-5.9	-4	9	-4	6
Spain		87	-5.4	1	14	-13	-10

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

Emerging Market Financial Indicators

Last updated: 7/1/2024 7:58 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		7.27	0.0	-0.1	0	0	-2		2.2	3.5	0	-4	-51	-32
Indonesia		16321	0.3	0.4	-1	-8	-6		7.1	0.2	-4	15	81	60
India		83	-0.1	0.0	0	-2	0		7.3	2.0	5	-3	(10.7)	11
Philippines		59	-0.1	0.3	0	-6	-6		5.3	-14.9	-12	-21	-52	-32
Thailand		37	0.2	-0.2	0	-5	-7		2.7	3.0	2	-11	-2	4
Malaysia		4.71	0.1	0.0	0	-1	-3		3.9	0.9	2	-2	3	15
Argentina		912	0.0	-0.6	-2	-72	-11		44.1	16.1	0	729	-6028	-4224
Brazil		5.59	-1.7	-2.9	-8	-13	-13		12.3	9.0	29	51	129	190
Chile		941	1.5	-0.1	-5	-15	-6		5.4	0.3	2	10	35	47
Colombia		4149	0.4	-0.1	-7	0	-7		8.3	0.0	8	-12	93	69
Mexico		18.36	-0.2	-2.2	-4	-7	-8		9.4	0.5	2	-8	133	96
Peru		3.8	-0.2	-1.0	-2	-5	-4		7.1	-8.0	-12	-1	16	38
Uruguay		40	-0.2	-0.3	-3	-5	-2		9.6	12.7	27	50	-4	12
Hungary		367	0.5	0.4	-2	-7	-5		6.5	2.0	-1	-6	-42	77
Poland		4.00	0.6	0.0	-2	2	-2		5.2	5.5	7	-5	21	71
Romania		4.6	0.3	0.2	-1	-2	-3		6.7	0.9	0	6	10	45
Russia		87.7	-2.2	0.3	2	2	2							
South Africa		18.1	0.4	-0.1	2	3	1		9.2	-4.5	1	-59	-43	7
Türkiye		32.68	0.3	0.8	-1	-21	-10		28.1	-15.0	-52	51	1126	138
US (DXY; 5y UST)		106	-0.2	0.2	1	3	4		4.38	0.7	13	-12	23	54

	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		3478	0.5	0	-3	-9	1		139	0	-7	-49	-19
Indonesia		7140	1.1	4	2	7	-2		100	-6	5	-41	4
India		79476	0.6	3	7	23	10		100	3	0	-32	-16
Philippines		6399	-0.2	2	-1	-1	-1		83	-7	-1	-32	3
Thailand		1299	-0.1	-1	-3	-14	-8		0	0	0	0	0
Malaysia		1598	0.5	1	0	16	10		88	4	1	-5	3
Argentina		1611295	-1.5	2	-2	278	73		1462	39	56	-631	-451
Brazil		123907	-0.3	2	1	5	-8		228	-6	9	-29	13
Chile		6414	-1.4	-1	-3	11	3		117	-8	-4	-14	-8
Colombia		1381	0.3	1	-1	22	16		306	-18	-13	-73	35
Mexico		52440	0.2	-1	-5	-2	-9		316	3	9	-60	-18
Peru		29896	0.9	0	-1	34	15		140	-10	-21	-27	-4
Hungary		71712	-0.5	2	6	42	18		147	-12	4	-64	-2
Poland		88846	0.3	1	3	32	13		95	-8	-1	-44	-2
Romania		18215	-0.2	0	4	46	19		187	-11	10	-40	-13
South Africa		80330	0.8	0	5	6	4		311	-6	-2	-112	3
Türkiye		10389	-2.4	-4	0	80	39		289	-7	12	-201	-25
EM total		43	0.2	0	2	8	6		403	18	64	17	58

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

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