GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JULY 8, 2024

LEAD EDITOR: JEFF WILLIAMS

- **US payroll report sends yields lower** (link)
- **OAT-Bund spread edges lower in France** (link)
- **UK assets show limited reaction to Labour's victory** (link)
- **Central bank of Israel is expected to keep its benchmark rate at 4.5%** (link)
- **PBC will add temporary repos and reverse repos to its open market operations** (link)
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Markets breathe a sigh of relief on France election outcome

The results of the weekend election in France have helped calm markets. Despite the fact that no party garnered enough seats to form a government on its own, the victory of the left leaning coalition helped ease investor fears. Some also see the somewhat inconclusive outcome as a positive as it limits the ability of any one party from implementing significant legislation. Across the Atlantic, however, political worries continue to build as division has grown in the democratic party, with some congressional democrats reportedly calling for President Biden to step aside as the nominee. On net, risk sentiment is modestly positive so far on the day, with equities higher in Europe while futures on the S&P 500 are little changed. US treasury yields are modestly higher today following a sharp decline on Friday following June's nonfarm payroll report which showed an uptick in the unemployment as well as meaningful downward revisions to previous months reported job creation.

Key Global Financial Indicators

Last updated: 7/8/24 8:38 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5567	0.5	2	4	27	16.72
Eurostoxx 50		4994	0.3	1	-1	18	10
Nikkei 225		40781	-0.3	3	5	26	22
MSCI EM		44	0.4	3	4	11	9
Yields and Spreads				bps			
US 10y Yield		4.29	1.4	-17	-14	23	41
Germany 10y Yield		2.56	0.2	-5	-6	-8	53
EMBIG Sovereign Spread		392	-3	1	1	-30	8
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.1	0.0	0	0	-5	-4
Dollar index, (+) = $ appreciation		104.9	0.0	-1	0	3	3
Brent Crude Oil ($/barrel)		86.1	-0.5	-1	8	10	12
VIX Index (%, change in pp)		12.6	0.2	0	0	-2	0

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

Mature Markets

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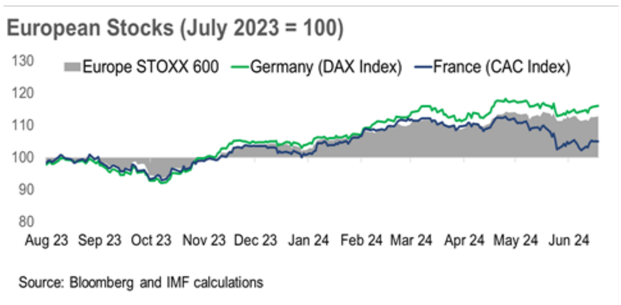
United States

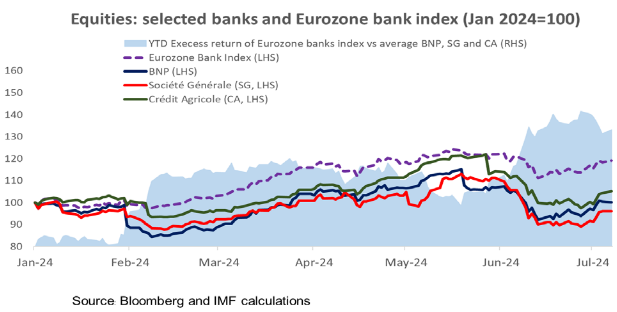
Friday's US nonfarm payroll report increased dovish expectations for the Fed for the remainder of the year. While the headline June data showed more jobs created than expected, the unemployment rate ticked higher to 4.1% (from 4.0% previously and consensus). In addition, there were significant downward revisions to prior months data. Treasury yields fell on the release, with the 2-year yield declining 10bp while the S&P 500 rose 0.5%. The market pricing for the year-end Fed funds rate fell 3 bp, to now price in 2 full cuts for the year.

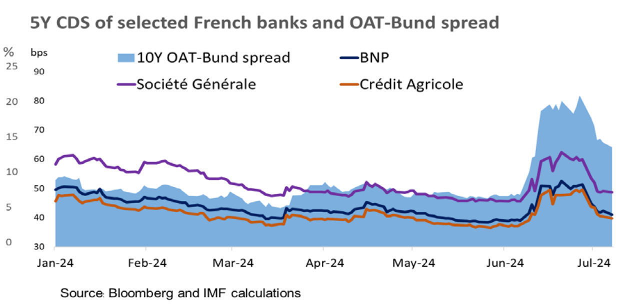
Europe

European equities edged higher this morning as markets appeared to digest the unexpected results of the second round of the parliamentary elections in France. **The Stoxx 600 index was higher by 0.4%, led by gains in the banking and health care sectors. Equities gained also in France (CAC 40 index +0.2%), where volatility eased while still at high levels.**

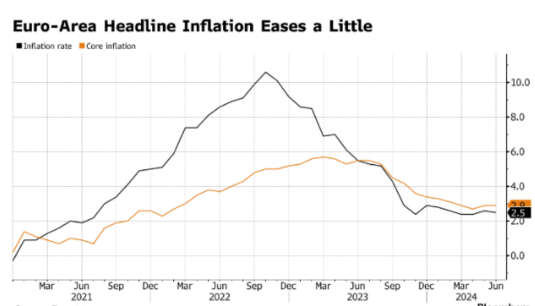


The banking sector outperformed today (+0.8%), also in France, where the CDS spreads of French banks also edged lower.





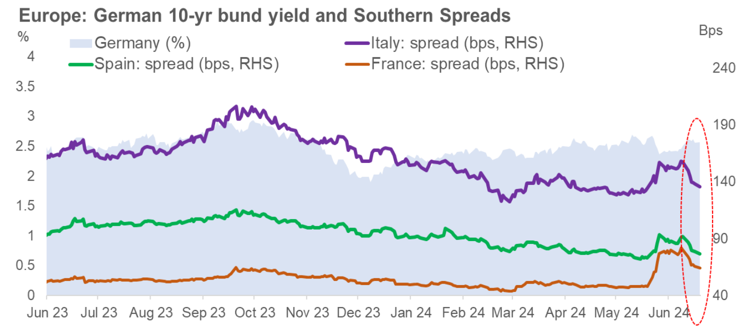
ECB's June MPC minutes released last week showed that not all GC members were in favor of a rate cut (Holzmann dissented as he believed the data did not support a cut yet). Rabobank highlights how uncertainty on persistence of services inflation should keep the ECB cautious on future rate cuts. President Lagarde warned last Friday that the ECB needs to " remain vigilant and we have to be confident that inflation is continuously down and that the data that we receive on wages, on profit, on activity, reinforce our confidence that we are on a path to win the fight", highlighting focus on growth in services



prices (4.1%y/y in June). Preliminary figures showed that CPI inflation eased marginally in the eurozone in June to 2.5%y/y from 2.6% in May, although core inflation remain at 2.9% y/y as in May, slightly surprising to the upside (est. 2.8%). Analysts at HSBC continue to expect two more rate cuts in 2024 (in September and December) under the condition that services prices show a more convincing downward trajectory.

The euro was marginally weaker against the dollar this morning (-0.1%), trading at around 1.08/$. Yields on European government bonds were little changed, with the 10y Bund yield at 2.57%.

France



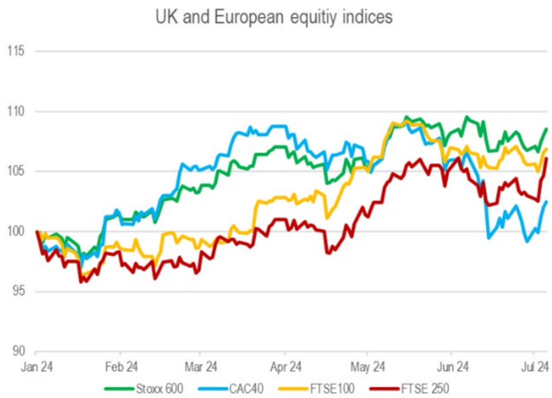
Source: Bloomberg and IMF calculations

In the second round of the elections in France, the left-wing bloc Nouveau Front Populaire (NFP) obtained 182 out of the 577 seats in Parliament, and the centre bloc led by President Macron's Ensemble party won 168 seats, while the far-right led by the Rassemblement National (RN) took 143 seats, significantly less than expected from past weeks' polls, with the Les Républicains (LR), the traditional right, wining 46 seats. Current Prime Minister Gabriel Attal has announced his resignation today, but he could remain in office until a new prime minister can be appointed. As no group reached the absolute majority, **Crédit Agricole sees uncertainty as extremely high** in France and expect this to remain so in the medium term. ING also notes that instability may last In France until June 2025, since the President cannot call for new elections before then, and stresses that, even if the scenario of an extreme right-wing government did not materialize, the NFP's radical program created instability in financial markets when announced (even if not possible to be fully implemented given clear limitations in support in the Parliament). ING points out that France faces major socio-economic challenges requiring timely reforms supported by a broad coalition of parties and that failure to achieve those could lead to permanent instability. Analysts at Rabobank also believe that the French Parliament is likely heading to a period of policy paralysis, although Macron's party's better-than-expected performance leaves the door open to a possible government formed between Ensemble and the more moderate elements of NFP, that would be welcomed by the market. **Rabobank expects the OAT-Bund spread to remain elevated compared to the period prior to Macron's election announcement, at around 60–70bp**. **Today the 10y OAT-Bund spread edged lower to 64 bp, from 66 bp last Friday, with the 10Y BTP-Bund spread also down to 135bp** (138 bp on Friday).

United Kingdom

UK assets showed limited reaction to Labour's victory. The UK's 2024 general election results were broadly in line with expectations with the Labour Party gaining a majority of around 168 seats. While the Labour party's lead is not as large as pre-election polls had suggested, ING analysts note that this makes no difference from a policy perspective. BofA analysts highlight that while the election outcome likely provides political stability and a possible supply boost, fiscal challenges remain. Since the election result last Friday, the pound has strengthened against the dollar and is up (+0.5%) to trade at 1.2819 this morning, while trading little changed against the euro. The FTSE 100 is around 0.2% lower relative to last Thursday's close, while the FTSE 250 (with a higher proportion of domestically focused UK companies) is up close to 1% since last Thursday. Elsewhere, UK 10y gilts yields are marginally higher this morning (+2bp) in line with global peers.

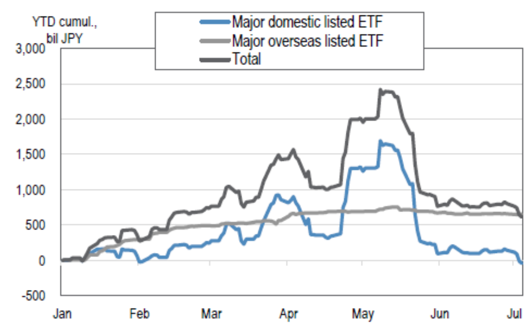
Relatedly, the FTSE 100 and the FTSE 250 outperformed most euro-area bourses in Q2 according to Bloomberg analysts, with strategists partly attributing the outperformance to safe-haven flows against a backdrop of election risk elsewhere. The analysts argue that a possible favorable policy environment, together with potential interest rate cuts alongside attractive valuations can provide further support to UK equities.



Japan

Japanese equities closed lower after briefly touching a record high in a choppy trading session (Nikkei 225: -0.3%). Investors have recently become more interested in Japanese equities, with the outflow of funds from major ETFs halting. JP Morgan analysts note the recent rally of Japanese stocks has been broad-based, spanning from semiconductor industry to financials, wholesale, autos and machinery, and partly attribute the rally to progress in corporates' efforts to improve capital efficiency in response to governance reform. With earning per share forecast revisions having turned upward, JP Morgan analysts expect the correlation between yen weakness and stock market gains to return. On the data front, **May wage data showed that Japanese workers' base salaries rose the most since 1993** (+2.5% y/y), which fueled more bets on a rate hike by the Bank of Japan. OIS implied rates indicate that the chance of a rate hike in July increased to 58.3% from 49.8% last Friday. **The yen depreciated** (-0.1%).

Figure 3: Major ETF flows for Japanese stocks

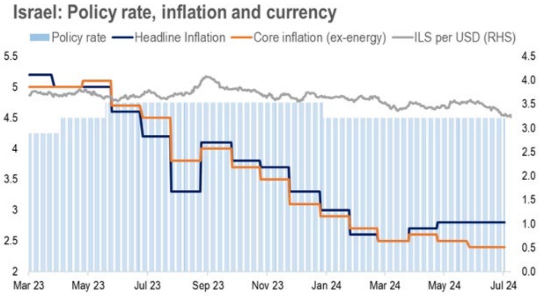


Source: Bloomberg Finance L.P., J.P. Morgan

Isreal

The shekel was little changed this morning against the dollar ahead of the decision later in the day of the central bank of Israel (BoI), which is expected to keep its benchmark rate at 4.5%. In May, CPI inflation remained unchanged at 2.8%y/y (vs consensus 3.2%), while easing on a monthly basis to 0.2%m/m (vs est. 0.5%), from 0.8% in April. Analysts at JP Morgan expect the BoI to continue avoiding rate cuts in July given the geopolitical situation but see inflation as losing momentum later in the year and believe that, if the military campaign gradually eases, two 25bp rate cuts would be possible by the end of the year, with the first cut at the MPC meeting in early October. Goldman Sachs also maintains a dovish view on Israel's inflation in the medium-term and expects the BoI to start easing rates from Q3 at a 25bp pace per quarter accompanied by reduction of the shekel's volatility. The Israeli shekel has appreciated against the dollar by 2.2% QTD.

Israel: Policy rate, inflation and currency



Source: Bloomberg and IMF calculations

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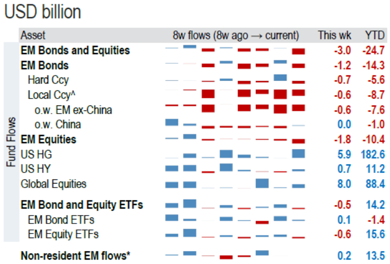
Equities in Asia were mixed (EM Asia: +0.5%), with Taiwanese stocks outperforming, led by semiconductors. Asian currencies traded in a tight range. The Indonesian Rupiah appreciated (+0.1%), benefiting from a pullback in the US dollar. Long-end government bond yields mostly declined along with some consolidation in US yields. **EMEA equities mostly traded higher this morning,** while currencies were mixed. Equities outperformed in Türkiye (+0.7%) and Czechia (+0.2%), while CEE3 currencies were trading mixed against the euro in early morning trades. According to Bloomberg, the Hungarian forint was around 0.5% weaker against the euro this morning after the government announced a new tax of 0.45% on foreign exchange transactions as well as raising tax rates on other financial transactions including cash withdrawals. Elsewhere, Bloomberg reports that the official creditor committee has approved Ghana's restructuring deal with its eurobond holders to renegotiate $13bn of debt. According to Bloomberg data, the yield on Ghana's dollar bonds maturing in 2032 was around 2bp lower this morning to trade at 20.31%.**Most Latam currencies initially responded favorably to cooling US data on Friday morning but ended the day flat.** The Brazilian real (+0.4%) and Colombian peso (+0.2%) appreciated while the Chilean peso (-0.2%) and Mexican peso depreciated. Stocks in Peru (+0.2%) and Brazil (+0.1%) saw modest increases, while stocks fell in Chile (-0.8%), Mexico (-0.6%), and Colombia. Itau Asset Management ($18bn AUM), led by a former Brazil central bank director, recently opened a long position on the US dollar against the Mexican peso on expectations of a dovish Banxico amid ongoing political uncertainties.

EM Fund Flows

Weekly flows into EM bond funds turned negative (-$1.2bn, from +$843mn), as equity outflows accelerated (-1.8bn, from -$681mn) for the week ending July 5th. Within bonds, flows turned negative in hard currency funds (-$692mn, from +1.7bn), while local currency outflows continued for their 13th consecutive week (-$553mn, from -$834mn). ETF bond fund inflows fell to +$106mn (from +$401mn), and non-ETF bond funds saw outflows of $1.4bn (from +$441mn). Within equities, both ETF (-$592mn) and non-ETF (-$1.2bn) funds faced outflows. YTD, EM bond and equity flows are down -$14.3bn and -$10.4bn, respectively.

Figure 1: Weekly cross-asset flows

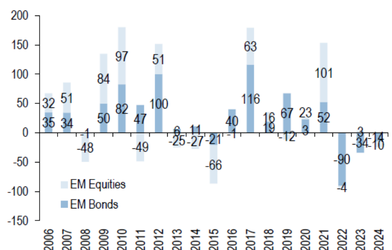
USD billion



Fund Flows – Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-3.0	-24.7
EM Bonds		-1.2	-14.3
Hard Ccy		-0.7	-5.6
Local Ccy^		-0.6	-8.7
o.w. EM ex-China		-0.6	-7.6
o.w. China		0.0	-1.0
EM Equities		-1.8	-10.4
US HG		5.9	182.6
US HY		0.7	11.2
Global Equities		8.0	88.4
EM Bond and Equity ETFs		-0.5	14.2
EM Bond ETFs		0.1	-1.4
EM Equity ETFs		-0.6	15.6
Non-resident EM flows*		0.2	13.5

Figure 2: EM bond and equity fund flows

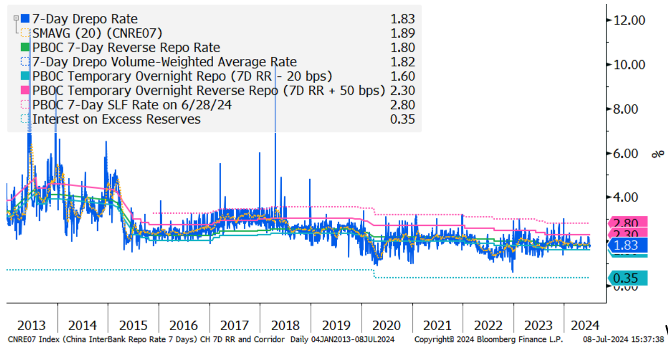
USD billion



*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.

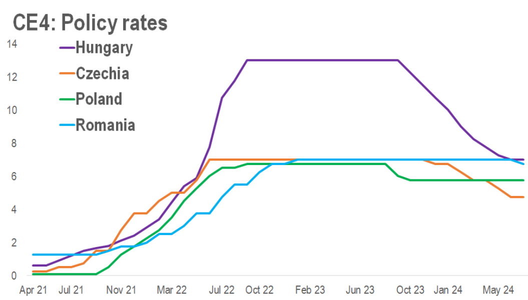
China

The People's Bank of China (PBC) will add temporary repos and reverse repos to its open market operations to improve liquidity management. According to PBC's announcement, the interest rates for such operations will be the 7-day reverse repo rate minus 20bp and plus 50bp, respectively, with an overnight tenor. Analysts believe the move echoes PBC Governor Pan's remarks last month that the 7-day reverse repo rate serves the function as the main policy rate, allows PBC to have greater control over short-term rates, and paves the way for a new interest rate corridor which will narrow the interest rate range to 1.6–2.3% from the previous 0.35–2.8% capped by the Interest Rate on Excess Reserves and MLF rate. Market participants also note the asymmetry of overnight lending and borrowing rates is reasonable given significant liquidity pressure at quarter end. **Long-end CGB yields rose for two trading days in a row** (10-year: +2 bp, 30-year: +2 bp) after PBC reportedly entered agreements with multiple major banks to borrow hundreds of billions of yuan worth of CGBs. **Chinese equities declined** (CSI 300: -0.9%), and **RMB depreciated** (-0.1%).



Romania

The central bank of Romania starts easing cycle as inflation slows significantly. Last week the central bank of Romania cut its benchmark policy interest rate by 25bp to 6.75% as expected, after having left policy rates unchanged since January 2023. Goldman Sachs analysts highlight that while inflation in Romania had been relatively stickier than in other CEE4 economies, headline inflation had eased significantly over the past three months. While the central bank did not provide updated policy guidance, Goldman Sachs analysts forecast Romania's key policy rate at 6.5% by end-2024. The analysts argue that prospects of a steeper rate cutting cycle—amid positive inflation developments—is being eroded by hawkish external interest rate developments in for example the Fed and the ECB and also geopolitical developments.



Source: Bloomberg and IMF calculations

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), 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), Francesco de Rossi (Senior Financial Sector Expert-London Representative), 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.

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Global Financial Indicators

7/8/24 8:38 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5571	0.5	2	4	27	17
Europe		4994	0.3	1	-1	18	10
Japan		40781	-0.3	3	5	26	22
China		3402	-0.9	-2	-5	-11	-1
Asia Ex Japan		74	0.2	3	4	12	11
Emerging Markets		44	0.4	3	4	11	9
Interest Rates					basis points		
US 10y Yield		4.29	1.4	-17	-14	23	41
Germany 10y Yield		2.56	0.2	-5	-6	-8	53
Japan 10y Yield		1.10	1.6	3	12	67	48
UK 10y Yield		4.12	-0.4	-16	-14	-53	58
Credit Spreads					basis points		
US Investment Grade		125	-0.8	-1	5	-24	-9
US High Yield		359	-1.1	2	8	-73	-26
Exchange Rates					%		
USD/Majors		104.85	0.0	-1	0	3	3
EUR/USD		1.08	0.0	1	1	-1	-2
USD/JPY		160.8	0.0	0	2	14	14
EM/USD		46.1	0.0	0	0	-5	-4
Commodities					%		
Brent Crude Oil ($/barrel)		86.1	-0.5	-1	9	16	13
Industrials Metals (index)		155	0.0	3	1	10	9
Agriculture (index)		58	-1.0	1	-4	-13	-8
Implied Volatility					%		
VIX Index (%, change in pp)		12.6	0.2	0.2	0.4	-2.2	0.2
Global FX Volatility		7.2	0.1	-0.3	0.1	-1.0	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		104	-2.0	-14	-1	-30	0
Italy		136	-2.0	-14	2	-36	-32
Portugal		60	-1.6	-9	-1	-14	-4
Spain		77	-1.7	-10	4	-28	-20

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

Emerging Market Financial Indicators

Last updated: 7/8/2024 8:39 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	0.0	0	-1	-2		2.2	3.5	3	2	-48	-29
Indonesia		16258	0.1	0.4	0	-6	-5		7.0	-3.5	-4	13	79	55
India		84	0.0	-0.1	0	-1	0		7.2	-5.0	-8	-6	(24.8)	3
Philippines		59	0.0	0.2	0	-5	-5		5.4	19.8	12	-9	-70	-20
Thailand		36	0.1	0.8	1	-4	-6		2.7	-2.0	-7	-16	-10	-3
Malaysia		4.71	0.0	0.2	0	-1	-2		3.9	-0.1	-1	0	-5	13
Argentina		916	-0.2	-0.5	-2	-72	-12		46.9	-41.2	274	639	-4447	-3950
Brazil		5.48	-0.3	3.3	-2	-11	-11		11.9	-2.8	-41	-9	113	154
Chile		937	0.0	0.9	-2	-13	-6		5.4	0.0	-1	16	33	49
Colombia		4084	0.2	1.6	-4	1	-5		8.4	0.0	10	22	99	79
Mexico		18.03	0.4	1.9	1	-5	-6		9.5	-0.5	-4	-19	120	103
Peru		3.8	0.1	1.3	-1	-4	-2		7.0	-0.2	-6	4	24	36
Uruguay		40	0.1	-1.0	-3	-6	-3		9.6	-3.3	-3	39	3	9
Hungary		364	-0.5	1.0	0	-5	-5		6.6	-3.0	-3	1	-48	80
Poland		3.94	0.3	2.0	2	2	0		5.3	0.0	5	1	23	82
Romania		4.6	0.0	1.0	1	-2	-2		6.5	-5.3	-13	-9	-6	33
Russia		88.1	-0.2	-1.4	1	3	2							
South Africa		18.1	0.4	1.4	3	4	1		9.1	0.0	-11	-45	-68	2
Türkiye		32.72	-0.3	-0.2	-1	-20	-10		27.3	0.0	-82	-62	1044	56
US (DXY; 5y UST)		105	0.0	-1.0	0	3	3		4.24	1.8	-18	-22	-12	40

	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		3402	-0.9	-2	-5	-11	-1		142	3	7	-38	-16
Indonesia		7251	0.0	2	5	8	0		110	10	6	-14	14
India		79960	0.0	1	4	22	11		100	0	7	-29	-16
Philippines		6529	0.6	2	0	2	1		92	9	-1	-5	12
Thailand		1323	0.8	2	-1	-11	-7		0	0	0	0	0
Malaysia		1611	0.0	1	0	17	11		82	-6	4	-8	-3
Argentina		1629030	1.0	1	7	285	75		1412	-50	-124	-562	-501
Brazil		126267	0.1	2	5	6	-6		228	0	3	-14	13
Chile		6484	-0.8	1	-2	9	5		120	3	-4	-2	-5
Colombia		1384	-0.1	0	-2	22	16		306	0	-8	-57	35
Mexico		52333	-0.6	0	-1	-3	-9		309	-7	2	-54	-25
Peru		30095	0.2	1	1	34	16		144	4	-8	-7	0
Hungary		71059	-1.5	-2	2	42	17		154	7	-1	-45	5
Poland		87487	0.2	-1	3	30	12		107	12	4	-19	10
Romania		18456	0.1	2	2	46	20		191	4	0	-23	-9
South Africa		80773	0.0	1	5	8	5		306	-5	-43	-92	-2
Türkiye		10934	0.8	6	8	77	46		282	-7	-11	-197	-32
EM total		44	0.6	3	4	11	9		401	-3	15	22	55

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

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