GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JUNE 13, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Global equity markets at or near record levels** (link)
- **US PPI inflation lower than expected** (link)
- **FOMC has limited impact on markets despite apparent hawkish shift** (link)
- **US corporate credit spreads tighten significantly** (link)
- **Foreigners increase purchases of Japanese bonds as rates rise** (link)
- **EU bonds underperform on MSCI index exclusion** (link)

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Markets grapple with multiple uncertainties

Stocks in Europe are down quite significantly on worries about France and other local matters, but US equity index futures are indicating a third consecutive day of record highs for the S&P 500 and the Nasdaq. Optimism about US technology stocks remains buoyant as Apple retook its position as the world's largest corporation. The prices of China's electric vehicle makers are up on speculation that new euro area tariffs will not deter sales due to the high profit margins already built into the vehicles. Treasuries are rallying following yesterday's positive CPI report and today's lower than expected PPI data, but yields in the euro area are higher and French and Spanish spreads to bunds are on the rise again. Investors were disappointed that MSCI decided not to include EU bonds in its government bond indexes.

Key Global Financial Indicators

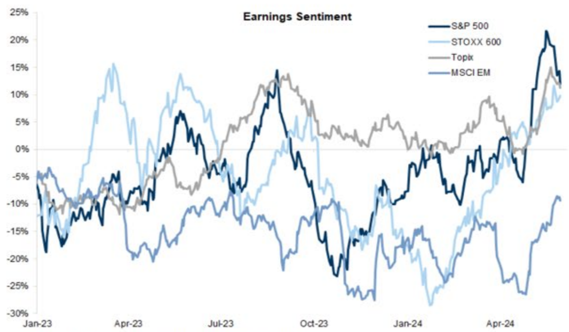
Last updated: 6/13/24 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5421	0.9	1	4	24	13.65
Eurostoxx 50		4986	-1.0	-2	-2	15	10
Nikkei 225		38720	-0.4	0	1	16	16
MSCI EM		42	1.0	0	-1	5	5
Yields and Spreads					bps		
US 10y Yield		4.31	-0.4	3	-17	50	43
Germany 10y Yield		2.54	1.2	-1	3	12	52
EMBIG Sovereign Spread		385	-5	-6	18	-69	2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.1	0.1	-1	-2	-7	-4
Dollar index, (+) = $ appreciation		105.0	0.3	1	0	2	4
Brent Crude Oil ($/barrel)		82.0	-0.8	3	-2	10	6
VIX Index (%, change in pp)		12.2	0.2	0	-1	-2	0

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

Global Equity Markets

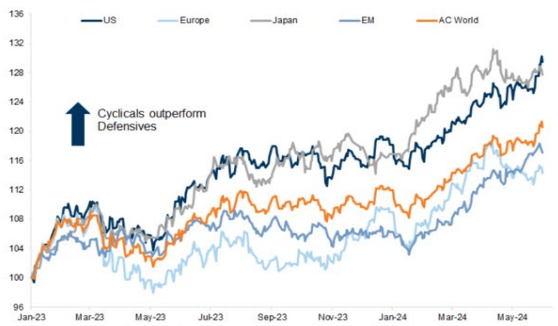
Many global equity markets are at or close to all-time highs. The rally is occurring across the board, in the US, Japan, Europe and emerging markets. The global economy has done better than expected and even though growth is expected to slow down going forward, most expect the world economy will do well enough to enable companies to deliver good results. The much stronger than expected Q1 earnings reports have made investors more optimistic, and forecasts for the future are being steadily upgraded. Expectations that interest have peaked in most countries is another boost for markets, a view reinforced by the first ECB and Bank of Canada rate cuts that came last week and the earlier cuts from the Swiss National Bank and Sweden's Riksbank. However, rising valuations make the equity market more vulnerable to negative surprises. Cyclical stocks have done better than defensive stocks so far but an expected slowdown in the economy could quickly reverse that trend, as could higher than expected interest rates.

Exhibit 1: Rising earnings sentiment have been a supporting factor
Earnings Sentiment: (nb upgrades - nb downgrades) / nb estimates over the past month



Source: FactSet, STOXX, Goldman Sachs Global Investment Research

Exhibit 2: Growth optimism has boosted the relative performance of Cyclicals versus Defensives
MSCI Indices relative price return (USD)



For details on the construction of the indices, please see: Cyclicals vs. Defensives: A global implementation
Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Mature Markets

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United States

The US PPI inflation report was much better than expected, in keeping with yesterday's lower than expected CPI data. Treasuries extended their early morning gains, the dollar depreciated and US equity index futures rose further immediately following the data.

US PPI Inflation Report
Source: Bloomberg

Variable	Consensus Forecast	Actual Number
Headline PPI month-on-month	+0.1%	-0.2%
Core PPI mom	+0.3%	0%
Headline PPI year-on-year	+2.5%	+2.2%
Core PPI yoy	+2.5%	+2.3%

The FOMC rate decision and press conference had limited impact on markets, despite an apparently hawkish shift in interest rate forecasts. The median FOMC dot plot of future rate expectations now forecasts just one rate cut in 2024 compared to a median of three rate cuts in March, but markets retained most of their gains from the morning rally sparked by the lower-than-expected CPI report. The Fed Funds Futures market is predicting 1 ¾ rate cuts by the end of the year, compared to less than 1.5 cuts on June 1st. However, Treasury yields went up by 4–6 bps during and after the press conference as investors absorbed the more hawkish implications of Fed Chair Powell's remarks. Both the S&P 500 and the Nasdaq closed at record highs for a second day in a row.

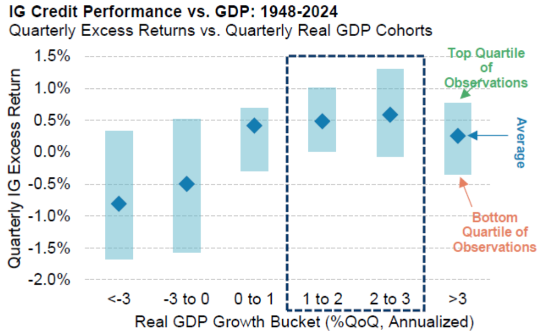
	Level		Change
	1:55 PM	2:25 PM	1:55PM to 2:25PM
UST 2-year (%)	4.69	4.71	2.1
2s10s (bp)	-43.3	-43.9	-0.5
TIPS 2-year (%)	2.71	2.72	1.4
S&P 500	5433.3	5430.4	-0.1
VIX	12.4	12.4	0.0
IG CDX (bp)	49.2	49.2	0.0
HY CDX (bp)	328.8	328.6	-0.2
EM CDX (bp)	164.9	165.1	0.2
Dollar index	104.4	104.5	0.1
EM index	46.2	46.2	0.1
EUR/USD	1.0839	1.0828	0.1
USD/JPY	155.9	156.3	0.2
GBP/USD	1.2837	1.2824	0.1

Notes: Changes for rates and spreads in bps and for Equities and FX in %.
For FX, +ve change denotes stronger dollar

Source: Bloomberg

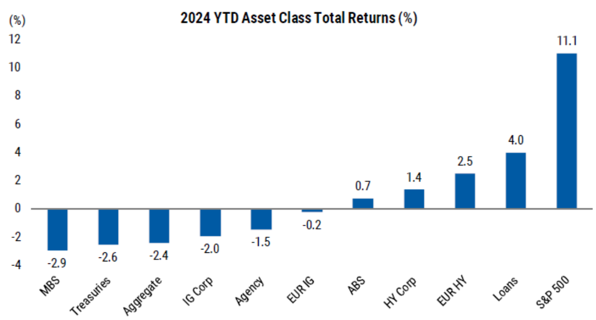
Corporate bonds saw their spreads tightening to their lowest levels since 2021 for both investment grade (IG) and high yield (HY) companies. However, absolute returns were negative for IG bonds due to the rise in interest rates. Bond issued by lower rated companies delivered the best results as their fixed higher coupons or floating coupons make them less sensitive to interest rate risk. US corporate bond markets saw large inflows as investors sought to benefit from the highest absolute yields seen in many years. Strong corporate earnings and optimism about the economy should continue to support the market. History shows that corporate bonds deliver the best results when the US economy has moderate growth in the 1–2% range.

Historically, credit does best under "modestly positive" growth



Source: Bloomberg, Morgan Stanley Research

Leveraged credit has outperformed in fixed income

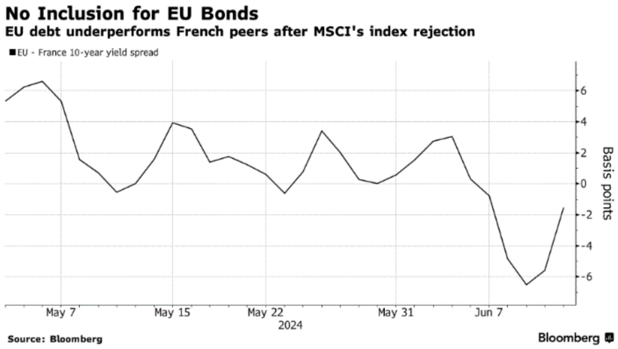


Source: Bloomberg, Morgan Stanley Research

Euro Area

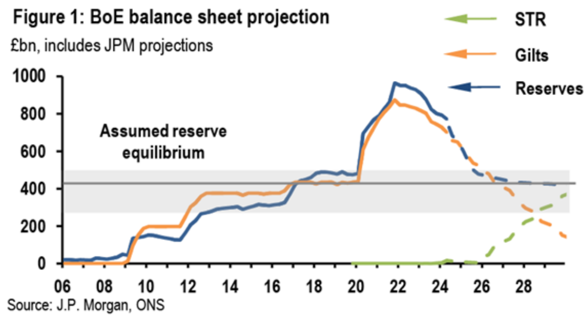
This morning European equities were lower while sovereign yields edged higher. The French-German 10y spread was wider this morning (+3bps) at 64bps, and the Italian-German 10y spread (+4bps) was at 143bps. On the data front, **euro area industrial production data disappointed in April** (-3.0% versus expected -2.0% from a revised -1.2%). In other news, ECB Governing Council member Nagel commented that core inflation remains very sticky. Markets have increased ECB rate cut expectations slightly, with 36bps of easing priced in for 2024, compared to around 33bps priced in on Tuesday.

EU debt underperformed French peers after MSCI yesterday announced that EU debt would not be included in the MSCI bond indices. The index compiler MSCI said it "has observed a bifurcation of opinion within the investment community regarding the inclusion of EU bonds in the government bond suite of indexes". A re-evaluation of the EU's eligibility would take place next year. Currently EU debt is treated as a supranational rather than a sovereign issuer, one of the key reasons cited by the EU that EU borrowing costs are higher relative to similarly rated governments. According to Bloomberg, the yield on 10y EU notes opened 6bps higher this morning at 3.15%, a larger move than local sovereigns. Analysts worry that other index providers may also reject EU bonds.



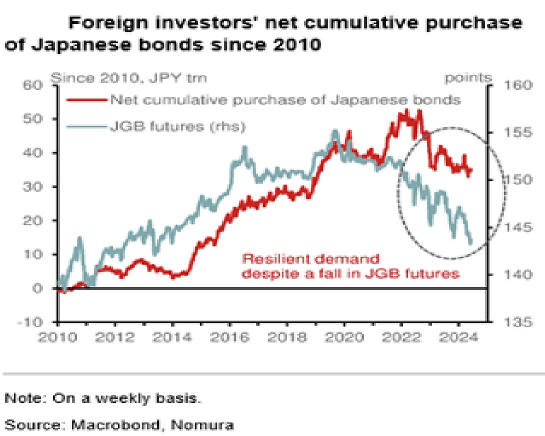
United Kingdom

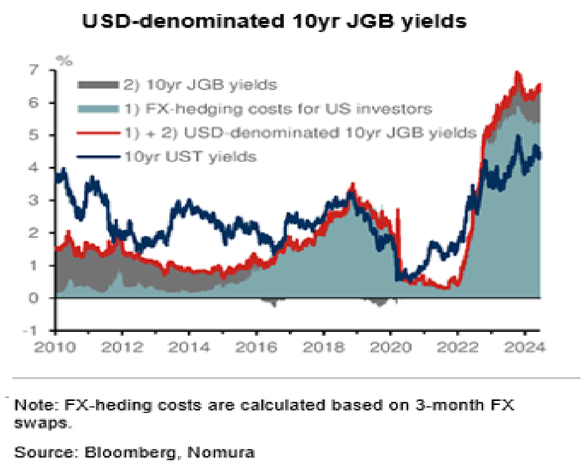
Banks borrowed a record £19.6bn from the BoE's Short-Term Repo facility in a weekly operation, according to data released today. This marks the eighth straight week of higher usage, up from £19.1bn last week. Noting the BoE's pushback against suggestions by some analysts that the higher usage could signal that the current level of reserves could be close to the equilibrium, JP Morgan analysts expect that the STR usage will increase even more over time. The analysts note that this would substitute for the unwinding of gilts on the BoE's balance sheet and also keep reserves close to their equilibrium.



Japan

The Bank of Japan (BOJ) will opt for a gradual reduction of its government bonds holdings, according to multiple analyst reports. Markets have increasingly begun to price in that the BOJ will start QT in the near term, sending JGB futures prices into a downtrend. However, foreign investors' demand for Japanese bonds remained resilient likely due to the high returns on a dollar-hedged basis. Weekly foreign buying of Japanese bonds rose to $2.6bn as of June 7, rising above the 4-week average of $0.6bn, Bloomberg calculated. Separately, **Japanese investors sold the largest amount of foreign debt since April 2015.** Net sales totaled ¥2.6tn ($16.9bn) for the week through June 7.





Emerging Markets

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EMEA equities were mostly lower. Stocks in Russia were hard hit after new sanctions from the US. **Markets in Asia were higher on net, although China's CSI 300 index fell.** Taiwan POC's central bank (CBC) maintained its policy rate unchanged at 2% but increased banks' reserve requirement ratio by 25bps and tightened some home buying measures, including a lower mortgage cap for second homes in some areas. South Korea's Financial Services Commission extended the ban on short selling until March 31, 2025, when the monitoring system for illegal trades is expected to be in place. **Currencies in Latin America**

were generally weaker despite the rally in the US. Equities were also lower, with investors worried about potential policy changes in countries such as Mexico and Brazil. The latter saw a significant drop in the stock market after President Lula brushed off fiscal concerns in a speech yesterday.

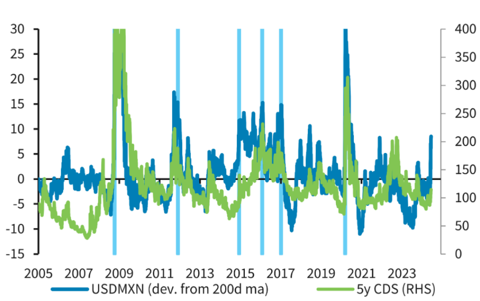
China

Chinese equities were mixed (CSI 300: -0.5%). At a meeting yesterday, **the People's Bank of China (PBOC) urged local SOEs to speed up the sale of unsold houses,** while urging stronger oversight to prevent the accumulation of new hidden local debt. The meeting on Wednesday was reportedly attended by officials from several local governments and major banks, including ICBC and Bank of China. Separately, the **PBOC pledged to strengthen its dual-pillar regulatory framework for monetary and macro-prudential policies,** local media reported. The PBOC will deepen market-oriented reform of interest and exchange rates, while the China Securities Regulatory Commission will speed up the establishment of a comprehensive capital market supervision system.

Mexico

Barclays analysts do not anticipate that Mexico's central bank will intervene to curb volatility until the peso depreciates further. The peso is down -9.5% against the dollar YTD, with one-month volatility at 18%, nearly double it's 50-day moving average. Historical interventions indicate that the authorities prefer to wait before acting, and that their actions are often unexpected. Banxico Governor Rodriguez stated Wednesday that the bank could act if necessary but said that he does not have a fixed exchange rate target.

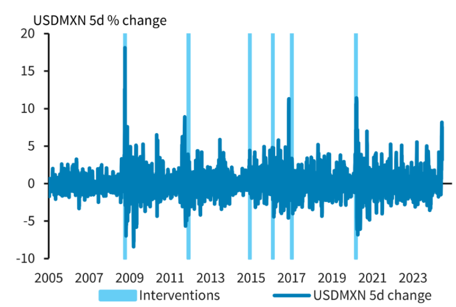
Figure 1. The credit move has been more contained than in FX



Note: Light blue lines refer to intervention dates. For more details see the Appendix.

Source: Bloomberg, Banco de México,Barclays Research

Figure 2. The spike in USDMXN is in line with moves that triggered past interventions

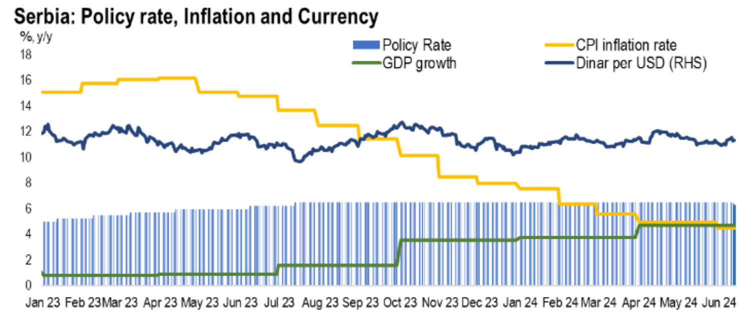


Note: Light blue lines refer to intervention dates. For more details see the Appendix.

Source: Bloomberg, Banco de México,Barclays Research

Serbia

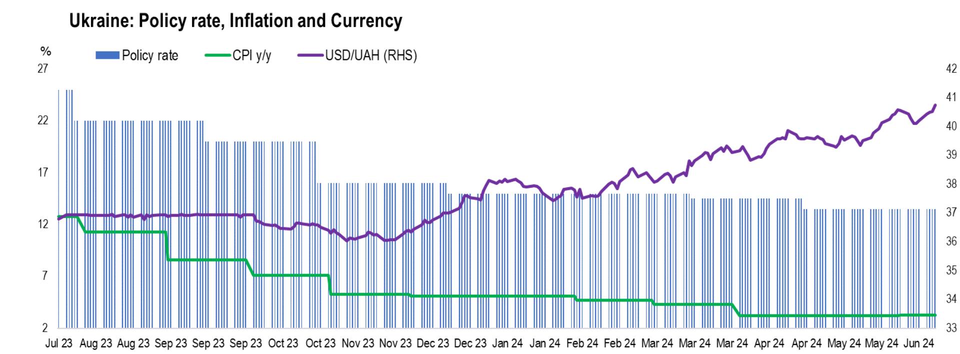
The dinar was little changed (-0.1%) against the dollar, trading at 108.38/$, after the central bank (NBS) cut its policy rate today by 25bps to 6.25%, in line with expectations. Inflation peaked (16.2%y/y) in March 2023 but has since gradually eased falling to 4.5% y/y in May 2024, at the top of the 1.5–4.5% target range of the central bank. Analysts at Bank of America see 100 bps of further rate cuts this year. Unicredit expects the NBS will cut rates down to 5.50% in 2024 and further to 4.50% in 2025, broadly mirroring the ECB's projected easing path. JP Morgan also forecasts the policy rate to decline to 5.50% by year end but warns on the risks to that call as Serbia's strong growth in Q1 2024 (GDP growth of 4.7% y/y) may prompt a more cautious stance from the NBS.



Source: Bloomberg and IMF staff calculations

Ukraine

The hryvnia was weaker (-0.5%) against the dollar, trading at 40.74/$, **as the central bank cut its policy rate by 50bps to 13% today, as expected**. Inflation edged up in May to 3.3% y/y, from 3.2 y/y% in April. Analysts at JP Morgan expect inflation to continue to increase in 2024, reaching 6% by the end of the year, well below the 8.2% expected by the NBU in its April inflation report. The analysts expect further cuts after today, with the policy rate descending to 11.50% by year-end 2024.



Source: Bloomberg and IMF staff calculations

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Global Financial Indicators

	Level		Change				
6/13/24 8:01 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5439	0.9	2	4	24	14
Europe		4986	-1.0	-2	-2	15	10
Japan		38720	-0.4	0	1	16	16
China		3526	-0.5	-2	-4	-9	3
Asia Ex Japan		72	1.2	0	0	5	8
Emerging Markets		42	1.0	0	-1	5	5
Interest Rates					basis points		
US 10y Yield		4.31	-0.4	3	-17	50	43
Germany 10y Yield		2.54	1.2	-1	3	12	52
Japan 10y Yield		0.98	-1.1	1	4	55	36
UK 10y Yield		4.18	4.8	0	0	-26	64
Credit Spreads					basis points		
US Investment Grade		119	-1.5	0	2	-45	-15
US High Yield		348	-6.5	-8	6	-115	-37
Exchange Rates					%		
USD/Majors		104.95	0.3	1	0	2	4
EUR/USD		1.08	-0.3	-1	0	0	-2
USD/JPY		157.2	0.3	1	1	12	11
EM/USD		46.1	0.1	-1	-2	-7	-4
Commodities					%		
Brent Crude Oil ($/barrel)		82.0	-0.8	3	-1	15	8
Industrials Metals (index)		153	-0.9	-3	-4	6	8
Agriculture (index)		60	0.3	-2	-2	-11	-4
Implied Volatility					%		
VIX Index (%, change in pp)		12.2	0.2	-0.3	-1.4	-2.4	-0.2
Global FX Volatility		7.3	0.0	0.3	0.2	-0.8	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		113	2.5	9	8	-16	9
Italy		142	3.2	10	7	-21	-25
Portugal		67	1.7	7	2	0	4
Spain		81	1.9	7	1	-14	-16

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

Emerging Market Financial Indicators

Last updated: 6/13/2024 8:04 AM	Exchange Rates: Level, Last 12m	Exchange Rates: Level, Latest	Change (in %): 1 Day	Change (in %): 7 Days	Change (in %): 30 Days	Change (in %): 12 M	YTD	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points): 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.25	-0.2	-0.1	0	-1	-2		2.2	0.5	0	-3	-48	-30
Indonesia		16270	0.2	0.0	-1	-9	-5		7.0	-3.9	8	0	70	51
India		84	0.0	-0.1	0	-1	0		7.3	-4.1	-5	-24	(15.0)	4
Philippines		59	0.0	0.0	-1	-5	-5		5.5	-0.1	-5	-13	-44	-12
Thailand		37	-0.1	-0.7	0	-6	-7		2.8	-4.0	-3	-7	7	9
Malaysia		4.71	0.2	-0.3	0	-2	-2		3.9	0.7	0	-6	15	14
Argentina		902	0.0	-0.4	-2	-73	-10		45.4	58.1	495	637	-6551	-4094
Brazil		5.39	0.4	-2.5	-4	-10	-10		12.3	6.9	51	49	87	192
Chile		916	0.8	-0.7	1	-12	-4		5.2	0.0	5	-8	20	28
Colombia		4028	-0.9	-2.3	-3	4	-4		8.2	0.0	-2	-19	23	55
Mexico		18.69	0.3	-3.8	-10	-8	-9		10.0	1.0	61	70	162	152
Peru		3.8	0.0	-0.7	-1	-3	-2		7.0	-0.3	4	-6	-13	36
Uruguay		39	-0.2	-0.4	-2	-1	-1		9.2	-0.9	-2	5	-68	-32
Hungary		368	-0.6	-2.7	-2	-7	-6		6.5	7.0	5	-4	-87	76
Poland		4.03	-0.6	-2.5	-2	3	-2		5.2	1.6	1	3	-2	72
Romania		4.6	-0.2	-1.0	0	0	-2		6.6	-8.0	-6	1	-9	36
Russia		88.5	0.6	0.7	4	-5	1							
South Africa		18.4	-0.1	3.1	0	1	0		9.4	-5.0	-39	-40	-44	27
Türkiye		32.30	0.1	-0.2	0	-27	-9		28.6	10.0	87	114	1052	182
US (DXY; 5y UST)		105	0.3	0.8	0	2	4		4.31	-0.7	1	-20	32	46

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %): 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points): 7 Days	30 Days	12 M	YTD
								basis points					
China		3526	-0.5	-2	-4	-9	3		137	2	-3	-51	-21
Indonesia		6832	-0.3	-2	-4	2	-6		101	-3	7	-48	5
India		76811	0.3	2	5	21	6		92	-1	-1	-43	-24
Philippines		6391	-0.3	-1	-3	-1	-1		89	-4	6	-30	9
Thailand		1312	-0.4	-1	-5	-16	-7		0	0	0	0	0
Malaysia		1610	0.1	0	0	16	11		78	0	-1	-17	-7
Argentina		1568096	1.5	0	14	311	69		1489	-47	213	-864	-424
Brazil		119936	-1.4	-1	-6	3	-11		222	-3	9	-32	7
Chile		6535	-0.1	-2	-2	14	5		120	-4	4	-12	-5
Colombia		1381	-0.5	-2	-1	16	16		304	-10	16	-61	33
Mexico		52976	-0.3	-3	-8	-3	-8		315	8	20	-79	-19
Peru		29674	1.0	0	0	33	14		151	-1	10	-22	7
Hungary		70283	0.1	1	2	41	16		149	-6	4	-82	0
Poland		84183	-1.0	-2	-4	28	7		96	-7	2	-43	-1
Romania		17914	0.7	-1	3	49	17		186	-6	9	-60	-15
South Africa		76492	-0.7	-1	-3	-2	-1		314	-35	-12	-82	6
Türkiye		10390	2.2	1	3	91	39		280	-13	6	-210	-34
EM total		42	-0.9	0	-1	5	5		378	-7	53	-18	33

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

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