GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JUNE 24, 2024
LEAD EDITOR: BENJAMIN MOSK

- **Japanese yen remains under pressure despite verbal warnings** (link)
- **Onshore FX trading disruptions occurred as Chinese renminbi trades near its weak limit** (link)
- **Rates volatility rises as investors tune in on US election risks** (link)
- **Poor rewards for S&P500 companies with earnings beats** (link)
- **Mexican peso seen as more attractive for carry trades after decline in implied volatility** (link)
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Risk-on sentiment in Europe with inflation data ahead and elections in focus

Markets focus on upcoming elections and inflation data, at the start of a week with relatively light economic and central bank news flows. Friday's US PCE inflation reading is expected to provide further insights into the Fed's rate path, and several euro area countries will also see CPI inflation prints later this week. Contacts expect that there will be some focus this week on the first US presidential debate. Today, markets in Europe showed a risk-on sentiment with equities advancing (+0.4%) and rates little changed, despite a disappointing German Ifo business climate index print for June. The automobile sector outperformed (+2.4%) on news that the EU and China intend to have talks about tariffs on electrical vehicles. While the upcoming French elections also remain in focus, the spread between French and German government bond yields declined (-3 bps) and remains in the 75–80 bps range at the 10-year point; before the announcement of the snap elections, this spread was around 30 bps tighter. This weekend, ECB board member Schnabel said that the "last mile of disinflation" is proving bumpy, and that with the threat of new price shocks, the ECB hasn't pre-committed to a fixed rate path, staying data dependent.

Key Global Financial Indicators

Last updated: 6/24/24 8:31 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5465	-0.2	1	3	26	14.57
Eurostoxx 50		4949	0.9	1	-2	16	9
Nikkei 225		38805	0.5	2	0	18	16
MSCI EM		43	-0.4	1	-1	9	6
Yields and Spreads					bps		
US 10y Yield		4.27	1.0	-2	-20	53	39
Germany 10y Yield		2.43	1.7	2	-15	8	41
EMBIG Sovereign Spread		395	0	0	31	-53	11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.1	0.1	0	-2	-7	-4
Dollar index, (+) = $ appreciation		105.6	-0.2	0	1	3	4
Brent Crude Oil ($/barrel)		85.5	0.2	1	4	16	11
VIX Index (%, change in pp)		13.7	0.5	1	2	0	1

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

In the week ahead, investors will focus on the May core PCE inflation reading in the US, which is expected to provide further insights into inflation developments. Consumer confidence and initial jobless claims releases this week provide a gauge of the current state of the US economy. Outside the US, the spotlight will be on central bank decisions. Central banks in Sweden, Turkey, Mexico, and the Philippines are expected to keep rates on hold, while the central banks of the Czech Republic and Colombia are expected to ease. Additionally, updates on inflation will become available in major EU economies, as well as in Canada, Brazil, Singapore, Australia, and Tokyo.

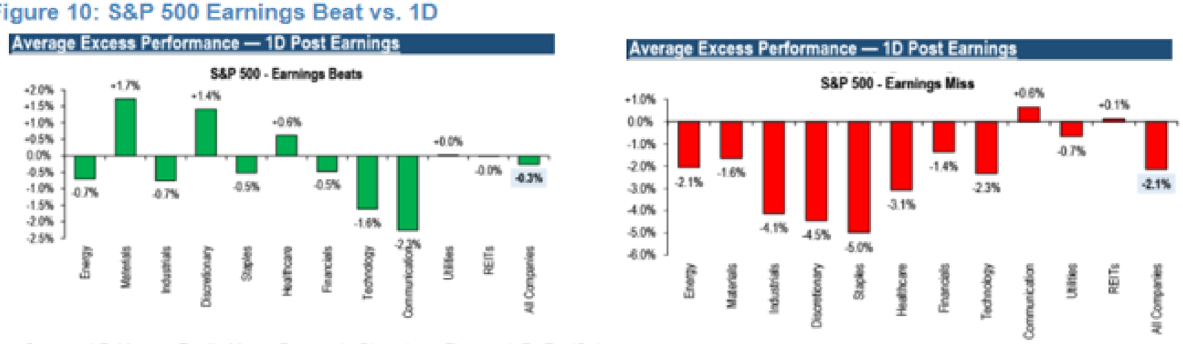
Mature Markets

United States

Rewards have been poor for S&P500 companies that beat earnings expectations. With most S&P 500 companies having reported earnings for Q1, a notable 76% of S&P500 companies beat earning expectations. The number is above the average beat of the past four quarters (at 73%). The Magnificent 7 companies, supported by ongoing AI progress, were again at the spotlight of positive earnings surprises, posting much larger surprises compared to the remaining S&P500 companies. The broader technology sector remains the most cash rich, although cash positions continued to dwindle down across sectors. Nevertheless, beating estimates did not translate into equity price rewards, with the market near all-time highs. Companies with positive surprises were down 0.3% one day post-earnings on average, while those who missed their estimates underperformed on average by a much larger 2.1% on the following day.

S&P 500 Post-Reporting Performance

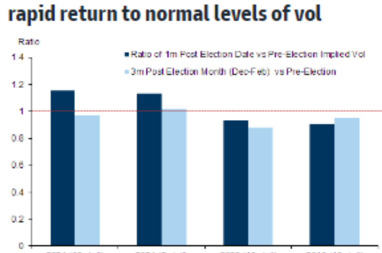
Figure 10: S&P 500 Earnings Beat vs. 1D



Source: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P., FactSet

US elections are coming into investor focus. Investors are monitoring US election risks as the first Presidential debate approaches on June 27. According to analysts at Goldman Sachs, this year's implied rates volatility around the election period has surged earlier and more significantly compared to previous election cycles, as the market starts to zoom in on election implications for fiscal policy and the debt trajectory. Despite this anticipation, markets are still pricing in a relatively sharp decline in rates volatility immediately after the election. This contrasts with historical patterns, where volatility often persisted beyond the election itself—a scenario that could repeat if there is a change in the Presidential party.

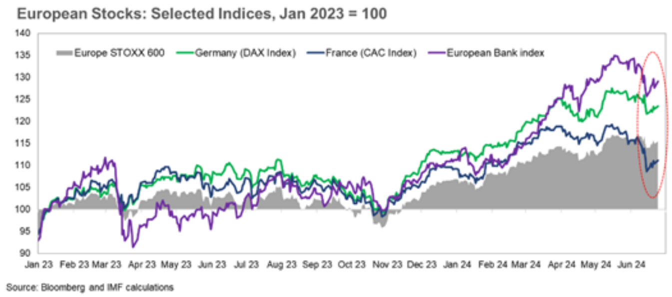
Exhibit 2 : Election uncertainty is currently elevated compared to prior elections, while markets are also pricing a fairly rapid return to normal levels of vol



Source: Goldman Sachs Global Investment Research

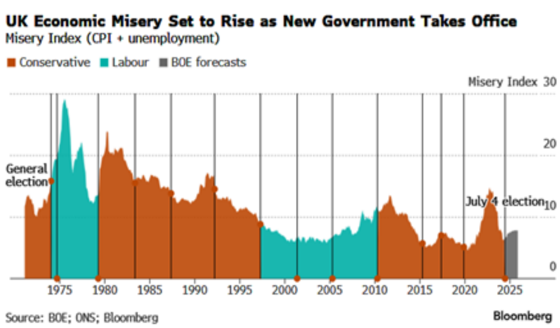
Europe

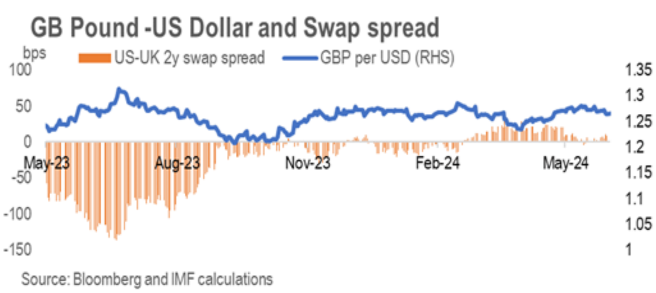
European equities traded higher this morning, with the Stoxx 600 Index edging up +0.4%, led by the auto sector which benefited from news of renewed talks between China and the European Union on tariffs on electric vehicle imports. Equities were particularly strong in Italy (+1.2%). Markets face uncertainty stemming from a series of upcoming elections, starting on Sunday in France. Analysts at Jefferies note that last week, the European Bank Index was up by +2%, outperforming the Stoxx 600 Index (+1%), with Italian banks being among the top performers (Unicredit +5%, Intesa +4%) as Jefferies highlights that the sensitivity of Italian banks' capital to the BTP-Bund spread has declined materially. Analysts at JP Morgan noted that European and US stock markets moved in line last week, as political uncertainty linked to the French elections weighed less on markets, but that volatility in French stocks remains elevated.



United Kingdom

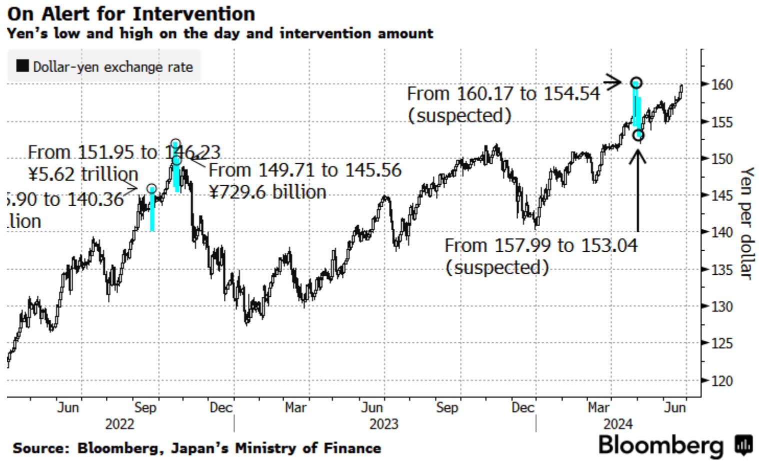
The pound sterling was marginally higher (+0.2%) against the dollar this morning, trading at $1.26/£, after the currency edged lower last week. The UK private sector reported slower growth and stronger pricing pressures last Friday (June 21), with the composite PMI falling to 51.7 in June (consensus est. 53), from 53 in May, flagging risks of economic stagnation. Yet, the stock market traded higher today (FTSE 100 index +0.5%), as last Friday's data showed that May retail sales grew by 2.9%m/m (est. 1.8%m/m), offsetting a revised -1.8% m/m drop in April. UK public debt reached 99.8% of GDP in May, and Martin Weale, former Bank of England's board member, warned that Reform UK's proposed tax cuts (£90bn) and spending plans (£50bn more per year) could weaken the pound and increase government's borrowing costs if adopted. Furthermore, the Misery Index, combining unemployment and inflation impacts, is expected to worsen over the next 18 months, with rising unemployment being the main issue to be tackled by UK's next government following the July 4 general elections.





Japan

Japanese yen remained under pressure despite verbal warnings from Japanese authorities. Japanese yen appreciated slightly, trading tightly around 159.7 yen per dollar, which is near its weakest level in 34 years. Finance Minister Suzuki said that appropriate measures against excessive currency movements will be taken if necessary. A similar verbal intervention was also made by Masato Kanda, the country's top currency official. Traders became cautious about potential FX interventions as Japanese yen traded close to the level that previous (suspected) FX interventions occurred in April-May.



The summary of the Bank of Japan (BOJ)'s June policy meeting signaled that a rate hike in July is possible. BOJ board members discussed the case for a rate hike as upside risks to inflation become more noticeable. Market participants saw a greater chance for a rate hike at the July policy meeting, which the BOJ will also provide more details on the JGB purchase reduction. The 1-year OIS rate edged up to 0.25% (+0.3 bp). Long-end JGB yields increased, with 10-year yield touching 0.986% (+1.8 bps) and 30-year yield reaching 2.166% (+3.0 bps). Japanese equities gained (NIKKEI: +0.5%).

Emerging Markets back to top

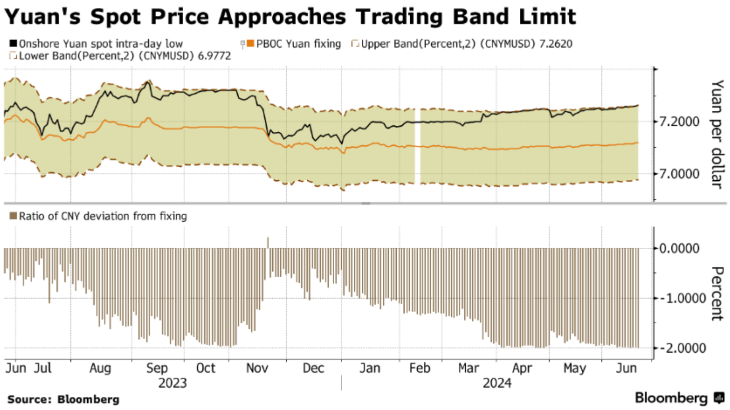
EMEA equities were mostly trading higher this morning and CEE currencies were stronger against the euro. Equities in Poland (+1.2%) and South Africa (+0.8%) were outperforming while those in Türkiye were underperforming (-0.2%). CEE3 currencies were trading firmer against the euro, while the South African rand was trading weaker (-0.9%) against the dollar at 18.13/$ in early morning trade ahead of the expected announcement of President Ramaphosa's cabinet. Elsewhere, Bloomberg reports that Ghana has agreed a deal to restructure $13bn of its international debt. According to Bloomberg the deal includes a 37% haircut on principal payments and maturity extensions and follows a similar recent deal between Zambia and its bondholders. Bloomberg also reported that according to an anonymous source, Ethiopia's official creditors are ready to extend a June 30 deadline for the country to reach a deal with the IMF on a new program.

Asian equities generally declined, falling 1.0% on net, led by Taiwan POC (-1.9%), Korean (-0.5%) and Chinese mainland (CSI 300: -0.5%) equities. Meanwhile, share prices increased in the Philippines (+1.9%). Asian currencies were mixed. The Indonesian rupiah appreciated (+0.3%), while Bangladesh taka depreciated (-0.3%). Long-end government bond yields were also mixed, with 10-year yields rising in Taiwan Province of China (+4.4 bps) while falling in Indonesia (-3.2 bps) and Thailand (-2.2 bps). In Singapore, headline CPI inflation increased to 3.1% y/y in May, and core CPI inflation stayed at 3.1%, in line with expectations. The Singaporean dollar appreciated (+0.1%).

Latin American assets performed mixed last Friday. Stocks declined in Mexico (-1.0%), Colombia (-0.8%) and Chile (1.5%), while Brazil's equity market rose by 0.7%. Currencies appreciated in Brazil (+0.3%), Mexico (+1.4%) and Colombia (+0.7%), while the Chilean peso weakened 0.9% against the US dollar.

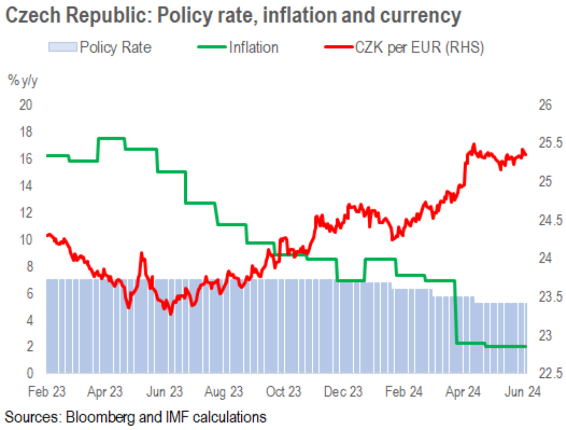
China

Onshore FX trading disruptions occurred as renminbi (RMB) stayed near the weak limit of the allowed trading range set for the daily fixing. Overnight swaps reportedly have not traded since last Tuesday, as the implied yuan price that they would settle at would fall outside the allowed trading range. These swaps are typically used by banks and corporates that look to settle currency transactions earlier than the industry standard of two days. A similar FX trading disruption also occurred briefly in April. The RMB was little changed, trading at around 7.26 yuan per dollar. The People's Bank of China (PBoC) continued weakening the daily RMB fixing, setting it at 7.12 yuan per dollar, resulting in a large deviation from market consensus at 1,426 pips. State-owned banks reportedly were seen selling dollars in the onshore market to support RMB. Chinese equities declined (CSI 300: -0.5%).



China reportedly has expanded support to local government financing vehicles (LGFVs) in Weifang in Shandon province. Banks were instructed earlier this month to provide additional support, including in the form of loan refinancing, to LGFVs in the city. The support came after LGFVs in Weifang missed a series of debt repayments. Providing support to Weifang means that China has expanded the support to LGFVs beyond the initial list of 12 provinces. Long-end CGB yields declined (10-year: -1.1 bps; 30-year: -1.8 bps). The PBC injected liquidity in an amount of 46 bn yuan ($6.3 bn) as the key interbank repo rate (DR007) rose to 2.01%, above the policy rate at 1.80%.

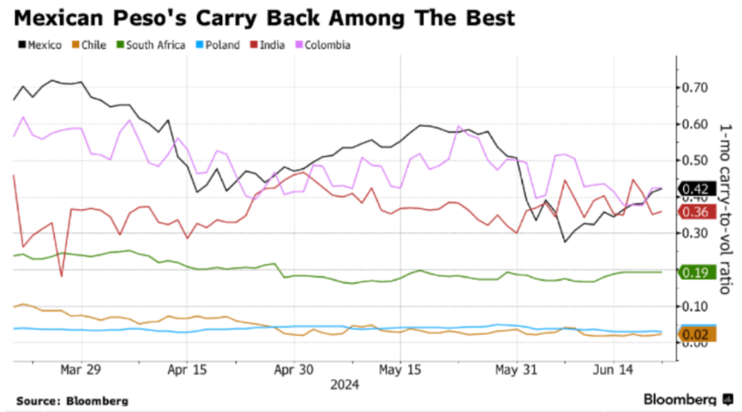
Czech Republic



The Czech National Bank's rate decision seen as a close call. Ahead of Thursday's policy meeting analysts at Goldman Sachs expect the Czech National Bank (CNB) to cut its policy rate by 50bp to 4.75% but note that "it is a close call between a 25bp reduction and a 50bp reduction", as "the CNB's forecasting model places significant weight on the external rate environment, particularly that of the ECB". As markets repriced the rate path for the ECB and the Fed, the CNB also raised its interest rate forecast for the remainder of this year and next as published in the May Spring staff forecasts. The analysts note that guidance from CNB board members has been ambiguous ahead of this week's meeting. However, given more domestic data outturns combined with the lower Euro area rate path GS expect the majority of the board to vote in favor of a 50bp reduction.

Mexico

The Mexican peso is seen as more attractive for carry trades after a decline in implied volatility. The peso has led global currency gains for two consecutive sessions. This follows President-elect Claudia Sheinbaum's appointment of former Foreign Minister Marcelo Ebrard to lead the Economy Ministry. Traders welcomed this decision. As a result, one-month peso volatility dropped to nearly 13% from 19.5% in two weeks. This improves the risk-reward ratio for carry traders. Carry traders will favor the Mexican peso as long as Mexico's political environment remains stable.



Emerging Market Bond and Equity Flows

Emerging Markets bond funds outflows fell to -$831mn this week (from -$1.5bn). Outflows came evenly across hard currency (at -$426mn this week, from -$866mn) and local currency funds (at -$405mn, from -$650mn) This is local currency funds' 11th week of outflows in a row. Bond ETFs turned to outflows (-$270mn, from +$80mn) and non-ETFs outflows decreased (-$561mn, from -$1.6bn). EM equity funds outflows increased (at -$369mn, from -$119mn), led by equity non-ETFs outflows (-$954mn, from +$455mn). Equity ETFs turned to inflows (+$585mn, from -$574mn). Across regional funds, there were inflows in Asia ex-Japan (+$366mbn) while outflows in Latam (-$202mn) and EMEA (-$72mn). The year-to-date flows currently stand at -$13.9bn and -$7.9bn for bonds and equities, respectively.

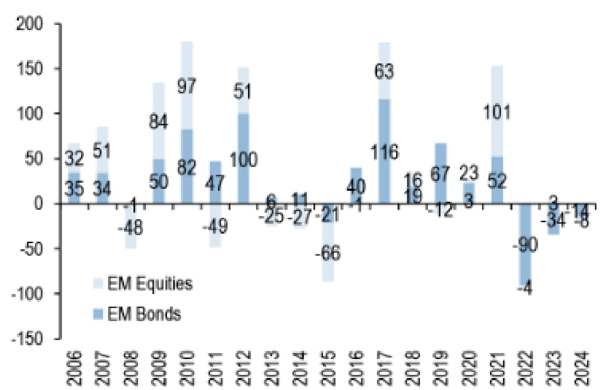
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-1.2	-21.8
	EM Bonds		-0.8	-13.9
	Hard Ccy		-0.4	-6.6
	Local Ccy^		-0.4	-7.3
	o.w. EM ex-China		-0.4	-6.3
	o.w. China		0.0	-1.0
	EM Equities		-0.4	-7.9
	US HG		1.4	176.0
	US HY		-0.1	10.9
	Global Equities		18.7	78.9
	EM Bond and Equity ETFs		0.3	13.4
	EM Bond ETFs		-0.3	-1.9
	EM Equity ETFs		0.6	15.3
	Non-resident EM flows*		6.9	16.8

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.

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

	Level		Change				
6/24/24 8:31 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5465	-0.2	1	3	26	15
Europe		4949	0.9	1	-2	16	9
Japan		38805	0.5	2	0	18	16
China		3477	-0.5	-2	-3	-10	1
Asia Ex Japan		72	-0.6	1	0	10	8
Emerging Markets		43	-0.4	1	-1	9	6
Interest Rates					basis points		
US 10y Yield		4.27	1.0	-2	-20	53	39
Germany 10y Yield		2.43	1.7	2	-15	8	41
Japan 10y Yield		1.00	2.1	6	-1	63	38
UK 10y Yield		4.09	0.5	-3	-17	-23	55
Credit Spreads					basis points		
US Investment Grade		128	0.5	1	11	-28	-6
US High Yield		363	0.7	-7	22	-96	-22
Exchange Rates					%		
USD/Majors		105.55	-0.2	0	1	3	4
EUR/USD		1.07	0.3	0	-1	-2	-3
USD/JPY		159.5	-0.2	1	2	11	13
EM/USD		46.1	0.1	0	-2	-7	-4
Commodities					%		
Brent Crude Oil ($/barrel)		85.5	0.2	1	4	19	12
Industrials Metals (index)		150	-0.2	0	-8	5	5
Agriculture (index)		58	0.4	-2	-7	-17	-7
Implied Volatility					%		
VIX Index (%, change in pp)		13.7	0.5	1.1	1.8	0.3	1.3
Global FX Volatility		7.6	0.1	0.1	0.8	-0.6	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		120	-3.2	-5	18	-5	16
Italy		150	-3.4	-3	19	-13	-18
Portugal		71	-3.8	-5	7	2	7
Spain		84	-3.4	-6	8	-12	-13

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

Emerging Market Financial Indicators

Last updated: 6/24/2024 8:32 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		7.26	0.0	0.0	0	0	-2		2.2	-0.9	-2	-5	-56	-31
Indonesia		16394	0.3	0.0	-2	-8	-6		7.1	-3.1	-9	18	81	63
India		83	0.1	0.1	0	-2	0		7.3	0.0	2	-8	(11.8)	6
Philippines		59	0.0	-0.3	-1	-5	-6		5.4	1.2	7	-16	-51	-20
Thailand		37	-0.1	0.3	0	-4	-7		2.7	-2.3	-6	-12	-3	2
Malaysia		4.71	0.0	0.2	0	-1	-3		3.9	-0.2	0	-4	3	13
Argentina		906	0.0	-0.4	-2	-72	-11		44.1	2.7	91	972	-6799	-4224
Brazil		5.43	0.3	-1.0	-6	-12	-11		12.0	-11.7	-5	28	88	161
Chile		943	-1.1	-0.8	-6	-15	-7		5.4	8.0	19	23	36	44
Colombia		4146	0.6	-0.2	-8	0	-7		8.3	0.0	-5	-6	69	64
Mexico		18.03	0.4	2.8	-7	-5	-6		9.5	0.6	-25	29	153	105
Peru		3.8	0.1	-0.4	-2	-4	-3		7.2	-1.1	13	8	21	50
Uruguay		40	-0.4	-1.0	-3	-4	-2		9.4	2.3	15	24	-39	-15
Hungary		368	0.7	0.2	-4	-8	-6		6.5	2.0	-3	-31	-65	77
Poland		4.01	1.0	1.1	-2	2	-2		5.1	-3.4	-9	-25	10	67
Romania		4.6	0.3	-0.1	-1	-2	-3		6.7	-2.1	4	11	17	45
Russia		88.3	0.8	0.4	1	-4	1							
South Africa		18.1	-1.0	0.7	2	3	1		9.2	7.5	-23	-59	-48	8
Türkiye		32.89	-0.1	-0.1	-2	-21	-10		28.6	-18.0	3	76	1217	185
US (DXY; 5y UST)		106	-0.2	0.0	1	3	4		4.28	0.5	-2	-25	29	43

	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		3477	-0.5	-2	-3	-10	1		139	1	-2	-46	-19
Indonesia		6889	0.1	1	-5	4	-5		106	-1	12	-37	10
India		77341	0.2	0	3	23	7		97	2	4	-33	-19
Philippines		6272	1.9	-2	-5	-2	-3		90	-3	6	-24	10
Thailand		1317	0.8	2	-3	-13	-7		0	0	0	0	0
Malaysia		1590	0.0	-1	-2	14	9		84	4	7	-8	-1
Argentina		1576462	1.2	2	3	285	70		1423	37	123	-856	-490
Brazil		121341	0.7	1	-2	2	-10		234	1	20	-19	19
Chile		6489	-1.5	0	-4	14	5		125	0	13	-7	0
Colombia		1365	-0.8	-1	-3	20	14		324	-1	28	-47	53
Mexico		52789	-1.0	1	-5	-1	-8		313	-10	26	-65	-21
Peru		29781	-0.3	2	-2	34	15		150	-6	10	-17	6
Hungary		70504	0.2	1	2	40	16		159	-5	19	-60	10
Poland		87525	1.3	3	0	32	12		103	-4	10	-37	6
Romania		18235	0.0	3	3	52	19		198	-6	24	-39	-3
South Africa		80396	0.8	4	2	8	5		317	-6	6	-104	9
Türkiye		10741	-0.3	6	1	92	44		296	-5	18	-194	-18
EM total		43	-0.2	1	-1	9	6		385	0	60	-7	40

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

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