



- Growing US budget deficit attracts greater scrutiny ([link](#))
- Liquidity in US Treasury market is deteriorating ([link](#))
- US corporate credit profile remains strong ([link](#))
- Markets in India and Mexico stabilize after election surprises ([link](#))
- Senegal raises \$750 million in successful eurobond issuance ([link](#))

[Mature Markets](#)



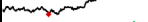




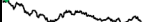


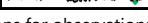
[Emerging Markets](#)

[Market Tables](#)

Global markets stage cautious recovery

US equity index futures were up and euro area stocks posted gains after two days of losses. Government bond yields and currencies held steady as equity markets unwound some of the large post-election losses seen in India and Mexico on Tuesday. Investor sentiment appears to have turned cautiously optimistic. Focus is shifting to Friday's US jobs report, with investors hoping that it will provide clearer indications about the health of the US economy and future Fed interest rate policy. This morning's ADP jobs indicator was weaker than expected at 152K jobs created versus the 175K forecast, but this measure's correlation with the nonfarm payrolls report is quite low. Meanwhile, the ECB is expected to deliver its first rate cut of the current cycle during tomorrow's meeting, while investors disagree on whether the Bank of Canada will deliver its first rate cut later today.

Key Global Financial Indicators

Last updated: 6/5/24 7:39 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5291	0.2	0	3	24	10.93
Eurostoxx 50		5011	1.2	1	2	17	11
Nikkei 225		38490	-0.9	0	1	18	15
MSCI EM		42	-1.4	-3	-2	5	4
Yields and Spreads			bps				
US 10y Yield		4.34	1.2	-27	-17	65	46
Germany 10y Yield		2.53	-0.6	-16	3	15	50
EMBIG Sovereign Spread		388	5	14	14	-75	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.5	0.0	-1	-1	-7	-3
Dollar index, (+) = \$ appreciation		104.4	0.2	-1	-1	0	3
Brent Crude Oil (\$/barrel)		77.7	0.3	-7	-6	1	1
VIX Index (% change in pp)		13.0	-0.2	-1	-1	-2	1

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

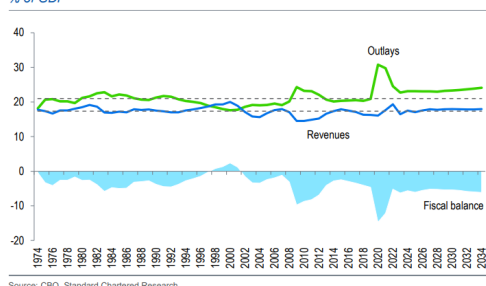
Mature Markets

[back to top](#)

United States

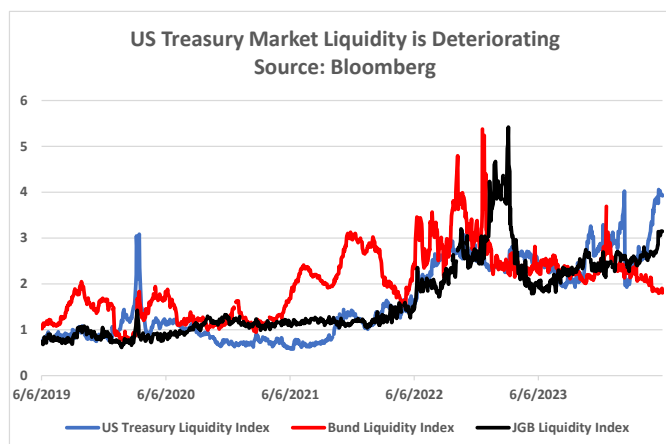
The growing size of US government debt is becoming a key focus for global investors. So far, the surging US budget deficit has gone largely unpunished by markets, but some analysts worry that the situation could change quite soon. The Congressional Budget Office (CBO) predicts that annual deficits will remain in the 5–6% range for the next ten years, and that interest costs could account for 65% of the deficit by 2034. In 2023, US debt/GDP rose to 97% from 79% in 2019, compared to just 35% pre-GFC. A larger than expected refunding announcement triggered a major selloff in the Treasury market last summer as yields reached the highest levels since 2007. Although yields are lower today, there is growing concern that markets will find it difficult to absorb the very large supply of longer maturity notes and bonds that the US Treasury is scheduled to sell over the course of the year. The benchmark 10-year yield hit 4.60% last week, not far from the 2024 high of 4.70% and the post-GFC high of 5% seen last October.

Figure 1: US fiscal deficit is likely to widen further over the next 10 years
% of GDP



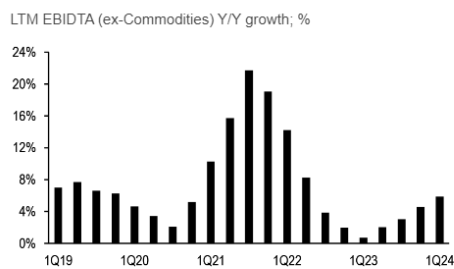
Source: CBO, Standard Chartered Research

Liquidity conditions in the US Treasury market are getting worse. Bloomberg's indexes of government bond liquidity show that Treasuries have grown less liquid this year compared to German bunds. The relevant index for Japanese Government Bonds (JGBs) is also deteriorated but not as severely as the US Treasury market. The latest Treasury auctions were very weak and met tepid demand from investors. Buy side contacts report that dealers are less willing to accommodate larger Treasury trades, although dealer contacts denied this. Foreign demand for Treasuries has also declined, with the usual strong bid from Japanese investors weakening as JGB yields have risen. However, conditions in the Treasury market have improved a little over the past few days due to benign inflation data and a series of weaker than expected economic indicators. The 10-year Treasury yield declined from 4.60% last week to 4.33% yesterday and markets are once again pricing in a full Fed rate hike at the November 7 FOMC meeting. Investors are looking to Friday's US jobs report for more clues about the future path of US interest rates.



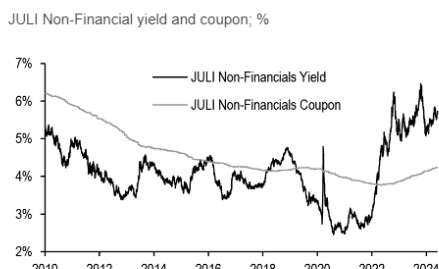
The credit profile of US investment grade (IG) corporations remains strong. Although leverage and interest coverage measures are rising, they are moving from very a very low base that gives these companies a substantial cushion against any potential future challenges. On an even more positive note, earnings outside the commodity sector are “accelerating,” according to JP Morgan analysts, and rising industrial metal prices could boost the earnings of the hitherto lagging commodity sector as well. Companies will face rising funding costs in the future—JP Morgan’s JULI liquid IG bond index average coupon is still 132 bps below the current level of yields—but company treasurers have done a good job of locking in cheap funding in previous years. The analysts estimate that just 10% of IG debt is due before the end of 2025.

Figure 7: EBITDA growth ex-Commodities is accelerating



Source: J.P. Morgan

Figure 8: The JULI coupon has risen for two years but is still 132bp below yields

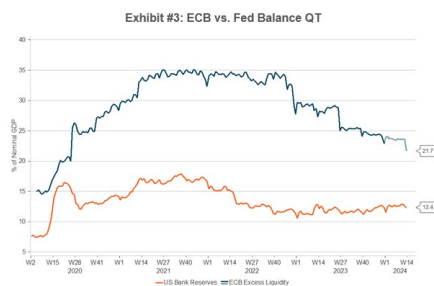


Source: J.P. Morgan

Euro Area

Euro area equity markets were trading higher this morning (Stoxx 600 Index +0.5%), partially reversing yesterday’s declines led by gains in the information technology (+1.6%) and the retail sector (1.5%) on better than expected earnings. On the data front, the May final composite PMI reading for the Eurozone was 52.2, broadly in line with the earlier flash estimate reading of 52.3 (51.7 prior). Elsewhere, May final composite PMI data for France and Germany printed at 48.9 (49.1 flash, 50.5 prior) and 52.4 (52.2 flash, 50.6 prior) respectively. There was limited market reaction to the data. Separately, Bloomberg reports that the **ECB is assessing the region’s banking sector for risks it faces in lending to the private equity industry amidst rising corporate defaults.**

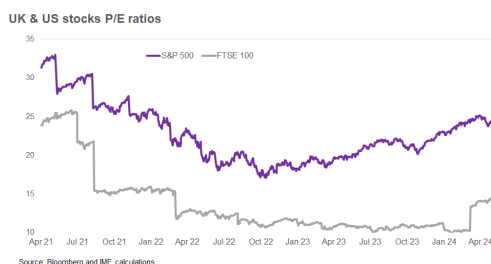
While a 25bps rate cut is widely expected at tomorrow’s ECB meeting, analysts at BNY Mellon expect policymakers to “remain hawkish” on the pace of its balance sheet reduction. The pace of PEPP runoff is expected to be confirmed at €7.5bn per month, before related purchases are altogether stopped at the end of this year. The analysts note that in the case of the Fed, officials have been discussing moderating the pace of balance sheet reduction, while the BOE is seeing increased usage of its short-term liquidity operations to supply reserves to the financial system. Given this, BNY Mellon argue that the ECB might need to revisit how it approaches quantitative tightening. This morning, **markets are fully pricing in a 25bps rate cut at tomorrow’s meeting, with a total of 64 bps of easing priced in for 2024.**



Source: Macrobond, BNY Mellon

United Kingdom

Activist investors are urging UK companies to shift listings to the US. According to Bloomberg, several activist investors, such as Third Point and Cevian Capital, are pushing UK companies to move their primary listing from London to New York. The firms argue that a US listing offers deeper liquidity and more attractive valuations which helps deliver better returns to investors. According to the Bloomberg report, comparatively lower UK valuations are making UK companies attractive to foreign companies as potential acquisition targets. At the same time, the UK government is looking to simplify listing rules to attract growth companies to list in London, with the Chancellor proposing tax-free savings accounts to support investment in UK companies.



Japan

The Bank of Japan (BOJ) is expected to discuss the tapering of its bond purchases at its policy meeting on June 14. Bloomberg noted that the authorities would act if interest rates saw an unexpected rise, but that the general stance was aimed at reducing central bank intervention. Stocks followed global markets lower but government bond yields softened.

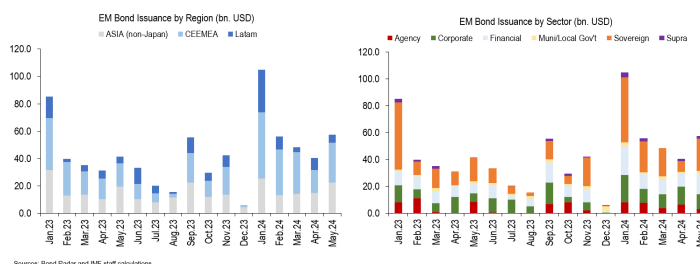
Emerging Markets

[back to top](#)

EMEA equities benefited from today's morning rebound. However, the South African rand weakened again on continued uncertainty about post-election coalition talks. **Most equity markets in Asia posted gains after Tuesday's selloff in the wake of the election results in India and Mexico.** Local currencies were stronger. **Equity markets in Latin America were mixed.** Argentina saw a large decline, but Mexico staged a 3.2% rally after Monday's post-election 6% plunge. Regional currencies were mostly weaker.

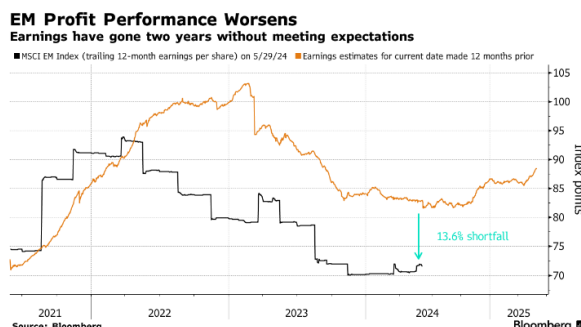
Emerging Market Bond Issuance

Emerging market (EM) bond issuance moderated to \$15.3 billion for the week ending May 31, down from \$18.4 billion the previous week, according to Bond Radar. Issuance was primarily led by sovereigns (\$7.1 billion), followed by the financial sector (\$3.5 billion) and non-financial corporates (\$3.5 billion). Regionally, CEEMEA saw the highest volume at \$8.1 billion, driven by Saudi Arabia's \$5 billion sukuk issuances across three tranches. This brought Saudi Arabia's total international debt sales for the year to \$17 billion, making it the largest EM sovereign issuer year-to-date. Issuances from other regions include \$4.0 billion from Asia ex-Japan and \$3.2 billion from LATAM. Overall, total EM international bond issuance reached \$307 billion YTD, surpassing the \$233 billion recorded during the same period in 2023.



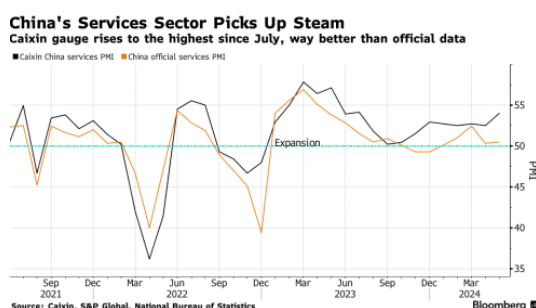
Emerging Market Equities

Enthusiasm for EM equities could wane if earnings continue to disappoint. According to a Bloomberg analysis, nearly half of the companies in the MSCI EM index that have reported quarterly results have missed consensus estimates. Additionally, average earnings have declined by 10% compared to the same period last year. A Julius Baer analyst attributed the disappointment to China's "*weak earnings momentum*" and "*erosion in margins*" due to higher wage expenses in Brazil, Colombia, Mexico, and India. This marks the eighth consecutive quarter that companies in the index have missed consensus estimates. In terms of price action, the index gained 15% from January 17 to May 20 but then lost 4.8% through May 31 as sentiment weakened.



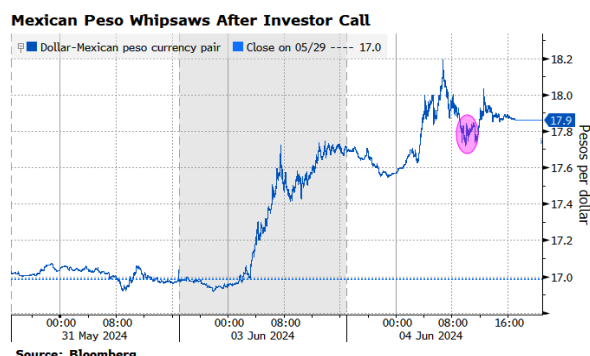
China

Caixin services PMI unexpectedly rose to a nine-month high. Caixin services PMI printed at 54.0 in May, well ahead of the consensus forecast of 52.5. Separately, Chinese developers scaled back land purchase at a faster rate, amid the prolonged property market downturn. In May, land acquisitions by the top 100 developers plunged by 74% y/y. Government data show that it would take more than two years for the top 100 cities to clear inventories at the current pace of housing sales. The currency depreciated and stocks were lower.



Mexico

Markets stabilized somewhat after the Finance Minister held an investor call earlier Tuesday to calm markets after the day's heavy losses. The Finance Minister assured investors of Mexico's commitment to reduce its deficit and respect the central bank's autonomy. He also added that the government would seek to ensure "macroeconomic stability and fiscal prudence, and the feasibility of our fiscal targets" as priorities. However, some participant in the call noted that the minister did not address concerns about some proposed congressional reforms that are market unfriendly, which the ruling coalition is seeking to implement. Market contacts have differing view on the recent market rout. Morgan Stanley analyst downgraded its positive view on Mexican equities to "equal weight" from "overweight" while Macquarie analyst suggests that the peso decline is "overdone" and "when the dust settles," it will lead to a "period of outperformance."



Senegal

Senegal reportedly raises \$750mn in a new Eurobond issuance. Senegal became the fourth nation in the sub-Saharan African (SSA) region to tap international capital markets this year, raising \$750mn of debt sold in two tranches of \$500mn and \$250mn at a coupon rate of 7.75%, according to Bloomberg reports. The notes will mature in 2031. Bloomberg notes that against a backdrop of growing confidence in Senegal's new government, the debt sale created significant investor interest. While several African sovereigns were priced out of the international capital market over the past two years, the Ivory Coast became the first country from the SSA region to return to the market in 2024, followed by Benin and Kenya. JPMorgan analysts recently noted **expectations for that a further decline in borrowing costs and an environment with low volatility could see more African sovereigns access markets, especially those with yield levels close to 10% or lower.** The analysts noted that over the past year, a shift in global sentiment together with positive idiosyncratic developments have seen African sovereigns leading the overall EM spread tightening. Even though the past month has seen some underperformance, the EMBIGD Africa spread has tightened by more than 125bps so far in 2024, outperforming other regions.

Figure 2: African sovereigns have led the overall EM outperformance over the past year
LHS: EMBIGD Africa STW, EMBIGD STW (bp); RHS: EMBIGD Africa STW - EMBIGD STW (bp)

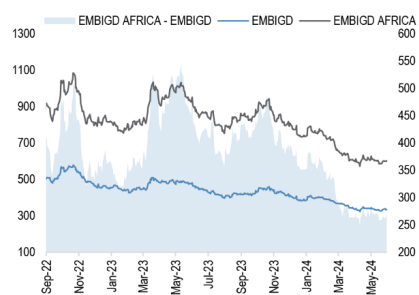
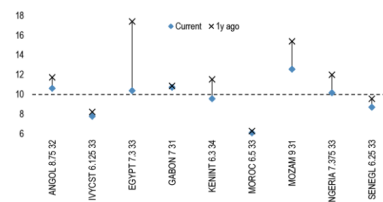


Figure 11: Most Africa sovereigns approaching yields consistent with market access following a challenging two years

Yield to maturity (%) of Africa sovereigns 10y bonds current and 1y ago



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 (Senior 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.

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Global Financial Indicators

6/5/24 7:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5291	0.2	0	3	24	11
Europe		5011	1.2	1	2	17	11
Japan		38490	-0.9	0	1	18	15
China		3595	-0.6	-1	-2	-6	5
Asia Ex Japan		70	-1.3	-3	-1	5	5
Emerging Markets		42	-1.4	-3	-2	5	4
Interest Rates			basis points				
US 10y Yield		4.34	1.2	-27	-17	65	46
Germany 10y Yield		2.53	-0.6	-16	3	15	50
Japan 10y Yield		1.02	-1.3	-7	12	58	40
UK 10y Yield		4.20	2.5	-20	-2	-1	67
Credit Spreads			basis points				
US Investment Grade		118	1.7	2	1	-42	-16
US High Yield		356	4.3	14	19	-116	-29
Exchange Rates			%				
USD/Majors		104.37	0.2	-1	-1	0	3
EUR/USD		1.09	-0.1	1	1	1	-2
USD/JPY		156.2	0.8	-1	1	12	11
EM/USD		46.5	0.0	-1	-1	-7	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		77.7	0.3	-7	-6	7	2
Industrials Metals (index)		157	-1.2	-6	0	10	10
Agriculture (index)		60	-0.2	-3	0	-8	-4
Implied Volatility			%				
VIX Index (%, change in pp)		13.0	-0.2	-1.3	-0.5	-1.8	0.5
Global FX Volatility		7.1	0.0	0.1	-0.2	-1.4	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	-2.3	1	5	-33	0
Italy		132	-2.0	-1	0	-44	-36
Portugal		60	-0.6	-1	-4	-8	-3
Spain		74	-0.5	-1	-3	-26	-23

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

Emerging Market Financial Indicators

Last updated: 6/5/2024 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M	YTD		
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.25	-0.1	0.0	-1	-2	-2		2.2	-1.4	1	-12	-60	-29		
Indonesia		16287	-0.4	-0.8	-2	-9	-5		6.9	3.5	-3	-26	52	43		
India		83	0.2	0.0	0	-1	0		7.4	-3.0	-6	-8	(8.7)	14		
Philippines		59	-0.1	-0.6	-3	-4	-6		5.6	0.0	6	-8	-37	-5		
Thailand		37	-0.2	0.4	0	-5	-7		2.8	2.0	1	1	23	14		
Malaysia		4.70	0.1	0.1	1	-3	-2		4.0	12.2	10	6	30	27		
Argentina		897	-0.1	-0.4	-2	-73	-10		40.4	6.6	357	153	-6989	-4596		
Brazil		5.27	0.4	-1.2	-4	-6	-8		11.8	-10.7	-19	24	52	141		
Chile		907	-0.4	-1.1	3	-12	-3		5.1	-0.2	-26	-3	-8	21		
Colombia		3935	-1.9	-2.3	-1	9	-2		8.4	0.0	-19	14	-6	74		
Mexico		17.66	1.1	-3.9	-4	-1	-4		9.5	0.0	13	33	107	104		
Peru		3.7	-0.5	0.1	0	-2	-1		7.0	-0.2	-14	-12	-28	32		
Uruguay		39	-0.2	-0.8	-2	0	0		9.2	-0.7	2	3	-85	-37		
Hungary		360	0.3	-0.2	0	-4	-4		6.6	1.0	-23	-13	-126	80		
Poland		3.96	0.0	0.1	1	6	-1		5.2	-3.4	-18	-13	-12	69		
Romania		4.6	-0.1	0.7	1	1	-2		6.6	0.5	2	-1	-18	42		
Russia		88.8	0.1	0.9	3	-9	1									
South Africa		18.9	-1.1	-2.8	-2	2	-3		9.8	6.0	13	1	-16	73		
Türkiye		32.39	0.6	-0.4	0	-34	-9		27.7	7.0	-17	-121	1426	95		
US (DXY; 5y UST)		104	0.2	-0.8	-1	0	3		4.34	-0.5	-29	-16	52	49		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
									basis points						
China		3595	-0.6	-1	-2	-6	5		135	-11	-6	-54	-23		
Indonesia		6948	-2.1	-3	-3	5	-4		101	6	-4	-43	5		
India		74382	3.2	0	1	18	3		90	-10	-10	-52	-26		
Philippines		6441	0.9	0	-3	-1	0		90	6	-1	-23	10		
Thailand		1338	0.1	-2	-2	-12	-5		0	0	0	0	0		
Malaysia		1609	-0.4	0	1	16	11		77	-10	-6	-19	-8		
Argentina		1581164	-4.7	1	9	338	70		1495	89	248	-1070	-418		
Brazil		121802	-0.2	-2	-5	8	-9		221	2	14	-42	6		
Chile		6598	-0.3	-1	1	17	6		122	1	2	-9	-3		
Colombia		1404	0.3	0	1	22	17		311	-8	17	-86	40		
Mexico		53486	3.2	-3	-6	0	-7		308	1	3	-86	-26		
Peru		29511	-1.8	-4	2	35	14		153	-8	8	-20	9		
Hungary		68861	0.7	1	1	43	14		155	12	0	-70	6		
Poland		84924	-0.1	-2	1	29	8		102	6	4	-34	5		
Romania		17858	0.9	1	4	47	16		190	13	4	-53	-10		
South Africa		76849	0.0	-2	1	0	0		340	27	10	-97	32		
Türkiye		10295	-0.7	-2	0	92	38		292	15	11	-237	-22		
EM total		42	1.4	-3	-2	5	4		383	44	54	-24	37		

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

[back to top](#)