GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JUNE 6, 2024

LEAD EDITOR: FABIO CORTES

- **ECB eases 25 bps, as expected** (link)
- **European Stoxx 600 index reaches new record high** (link)
- **US labor market reflects a better supply and demand balance** (link)
- **Long-end JGB yields drop after strong auction** (link)
- **Indian equities gain as Modi secures coalition support to form a new government** (link)
- **Mexican peso recovers but uncertainty remains elevated** (link)
- **Zloty weaker after Poland keeps policy rate unchanged at 5.75%** (link)

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The ECB cuts 25 bps as expected but raises its inflation forecasts

Euro-area sovereign bond yields rose and the euro strengthened after the ECB cut interest rates by 25 bps, as widely expected, but did not pre-commit to any particular rate path and raised its inflation forecasts in 2024 and 2025. This decision follows the central bank of Canada, which also eased rates by 25 bps yesterday, as expected. Prior to the decision, European equities had surged to a new record, with the technology sector outperforming. US equity futures also edged higher, indicating another all-time peak for the S&P 500 index. In pre-market trading, shares in Nvidia gained another 2%, having surpassed $3 tn in market capitalization yesterday. In fixed income, Treasury yields rose moderately after having fallen by about 20 bps since the beginning of June. In Japan, long-end JGB yields fell sharply (30-year, -10 bps) amid strong demand for a 30-year auction. In emerging markets, the Mexican peso recovered, and Indian equities gained as PM Modi secured coalition support to form a new government.

Key Global Financial Indicators

Last updated: 6/6/24 8:33 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5354	1.2	2	3	25	12.25
Eurostoxx 50		5067	0.6	2	2	18	12
Nikkei 225		38704	0.6	2	0	21	16
MSCI EM		42	1.6	0	0	6	5
Yields and Spreads			bps				
US 10y Yield		4.29	1.5	-26	-20	63	41
Germany 10y Yield		2.56	4.7	-9	9	19	54
EMBIG Sovereign Spread		391	2	23	16	-73	8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.5	-0.1	0	-1	-7	-3
Dollar index, (+) = $ appreciation		104.2	0.0	0	-1	0	3
Brent Crude Oil ($/barrel)		79.2	0.9	-3	-5	4	3
VIX Index (%, change in pp)		12.7	0.1	-2	-1	-1	0

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

Mature Markets

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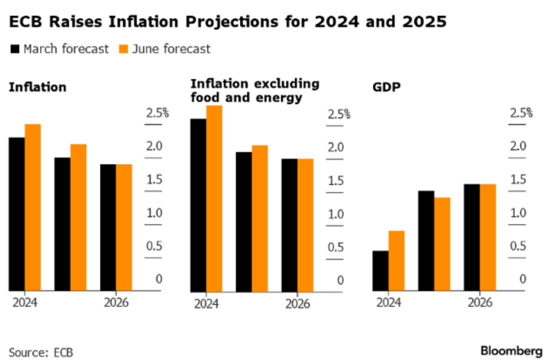
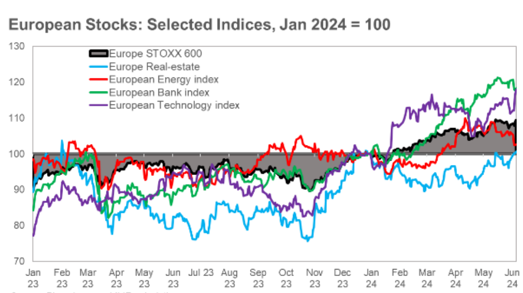
Euro-area

The ECB cut interest rates by 25 bps, as widely expected, taking the deposit facility rate to 3.75%, with the Governing Council (GC) not pre-committing to a particular rate path. The accompanying statement noted that "it is now appropriate to moderate the degree of monetary policy restriction". The latest **staff projections for both headline and core inflation were revised upwards for 2024 and 2025**, with headline inflation forecast at 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026 (compared with the March projections of 2.3%, 2.0% and 1.9%). The statement also noted that the GC will continue to follow a data-dependent and meeting-by-meeting approach, and that the GC "is not pre-committing to a particular rate path." Government bonds yields added to earlier moves higher, with 10-year bund yields (+5 bps) trading at around 2.56% after the announcement, while the euro strengthened (+0.2% to the dollar at 1.0887). In the statement, the GC also confirmed that it will reduce the ECB's PEPP portfolio over 2H 2024, by €7.5 bn per month on average. Focus now shifts to the press conference, due later today.

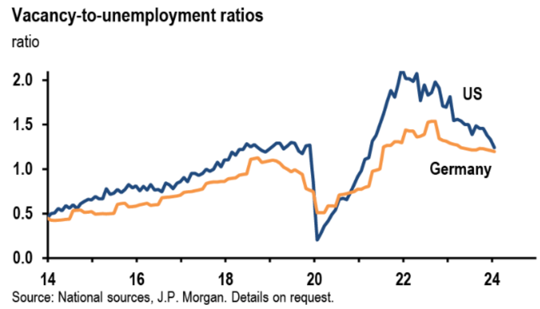


Ahead of the ECB policy decision, European equities reached a fresh record high, supported by technology shares. The Stoxx 600 Index gained a further +0.7% this morning and is now roughly +9.5% higher than at the start of the year. The technology sector (+1.8%) was outperforming this morning, and is roughly +18% higher YTD, with the banking sector also roughly +18% higher YTD (+0.7% higher this morning). Elsewhere, on the banking front, **Greek banks obtained approval from the ECB for their first dividend payments in 16 years**.



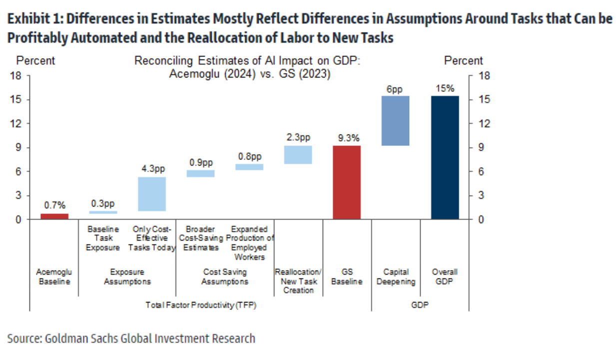
United States

The US labor market reflects a better supply and demand balance. Tightness in the US labor market appears to be easing as Tuesday's JOLTS data showed a larger than expected drop in job openings. The vacancy-to-unemployment ratio in the US has come down significantly since its 2022 highs. While Friday's US Job report for May will provide further insight, the market has become more confident that a September rate cut could be in the books. The 10-year Treasury yield has fallen by about 20 bps since the beginning of June, while **the implied probability in Fed fund futures for a September hike has grown by almost 20 percentage points to 65% yesterday.**



This morning, initial **jobless claims for the week ending June 1st came in above expectations at 229k** (Est. 220k, Prior 221k) while continuing jobless claims at 1,792k were also slightly higher than expected (1,790k). Markets were little changed after the release.

Analysts forecast a 15% upside to GDP from AI. Goldman Sachs (GS) analysts forecast a 15% increase in productivity and GDP from AI in stark contrast to Dr. Acemoglu's 0.7% baseline estimate. The largest deltas are coming from discrepant views on the share of tasks that are currently cost-effective to automate, the potential upside from the re-allocation of labor, and the capital deepening that should mirror the total factor productivity boost. AI-driven sentiment has been a driver of the equity market year-to-date, especially AI infrastructure stocks like NVIDA (+147% year-to-date). But analysts worry that the market could face a sharp correction if spillovers to EPS in other sectors fails to materialize as the current valuation of 22x forward P/E ratio appears stretched compared to the 10-year historical average of 19.5x.



Japan

Long-end JGB yields declined (10-year: -5.4 bps; 30-year: -10.0 bps) after the 30-year auction saw solid demand. Analysts noted that a high level of JGB yields—i.e., above 2% for the 30-year tenor—and the prospect for lower US interest rates supported JGB demand at the auction. The 10-year JGB yield traded at 0.956% and the 30-year yield at 2.083%. Separately, **governor Ueda reiterated that it is appropriate to reduce JGB purchases in the process of exiting from large-scale monetary policy easing.** In response to the same parliamentary inquiry, he said that the Bank of Japan (BOJ) will proceed cautiously on interest rates as there are uncertainties over measuring the neutral interest rate. Meanwhile, Toyoaki Nakamura, a leading dovish BOJ board member, said that he is not confident that wage increases will be sustainable and that it is appropriate to maintain the current monetary policy settings. The Japanese yen was little changed to the dollar Japanese equities gained (NIKKEI: +0.6%).

United Kingdom

Companies' wage growth expectations for the year ahead eased, according to May's Decision Maker Panel (DMP) survey. The DMP survey showed an easing in the expected year-ahead wage growth (by

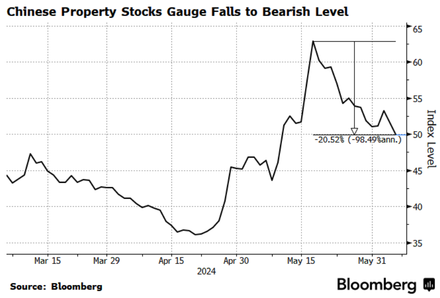
0.3ppts to 4.5%) on a 3-month moving-average basis. The survey also **showed that inflation expectations for the year ahead remained unchanged at 2.9%y/y** (against expectations to ease marginally to 2.8%). Bloomberg analysts argued that the data release could be a source of reassurance for the BoE that underlying inflationary pressures continue to ease, while Morgan Stanley analysts also noted that today's data showed that the UK economy seems to be remaining on a disinflationary trajectory. **Separately, UK construction PMI surprised on the upside in May,** increasing to 54.7 (versus expected 52.5 from 53.0). **Markets are now pricing in roughly 40 bps of BoE rate cuts in 2024** (compared to 37 bps yesterday), with roughly 18 bps of easing priced in by September (compared to 17 bps yesterday). **The pound was little changed against the dollar (trading at around 1.28) and 10-year gilt yields were marginally lower.**

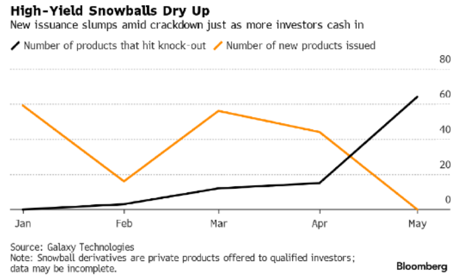
Emerging Markets back to top

Asian equities advanced led by tech stocks, and Asian currencies were mixed. The Thai baht (+0.4%) and Philippine peso (+0.3%) appreciated, while Bangladesh taka depreciated (-0.4%). **Government bond yields declined**, with 10-year yields falling in Singapore (-5 bps) and the Philippines (-5 bps). In **Indonesia**, labor unions led the demonstrations to oppose the government's latest regulation requiring workers to put 3% of their salary to a state-run fund to finance public housing. The Indonesian rupiah appreciated (+0.2%). **EMEA equities and currencies were mixed today.** In CEE, equities traded higher in Czechia (+0.4%) and Hungary (0.8%) but fell in Russia (-0.9%), while CEE currencies were mostly weaker against the euro. The South African rand continued to weaken against the dollar (-0.2%). In **Serbia**, **its $1.5 bn inaugural sustainable bond generated strong investor demand,** with orders exceeding $6.5 bn. The large investors' interest helped narrow the final issue spread to 200 bps from initial price talks of around 240 bps. Demand was buoyed by positive investor sentiment, driven by Serbia's improving economy and the potential for a rating upgrade into investment grade. In **Latam**, **markets were mixed yesterday**. In currencies, the Mexican peso (+1.9%) outperformed. In equities, Mexican equities rebounded but Brazilian equities declined after industrial production showed a more-than-expected contraction in April. Local currency government bond yields broadly fell, with Mexico leading the rally and its benchmark 10-year yield declining -13 bps.

China

Real estate equities have fallen by 20% from a mid-May high, according to a Bloomberg Intelligence gauge. Markets became skeptic about the usefulness of policy measures announced on May 17 in terms of reviving home-buying demand and addressing a housing inventory issue. Contacts noted that equity investors are still waiting for a clearer sign for the recovery of the property market. Some property developer equities faced large selloffs today (Sunac: -12%; Shimao: -8%). Chinese equities declined marginally (CSI 300: -0.1%). The RMB was stable at 7.25 yuan per dollar. Today, the People's Bank of China (PBC) weakened the daily RMB fixing slightly to 7.111 yuan per dollar, with a still a sizeable deviation from market consensus by 1,326 pips. The PBC also unwound its month-end liquidity injection, withdrawing liquidity in an amount of 258 bn yuan ($35.6 bn). The key interbank repo rate (DR007) stayed at 1.79%, near the policy rate at 1.8%. Separately, **a large number of so-called snowball products saw payouts triggered by gains in the underlying indices in May.** Based on their structure, investors would get the investment back plus a coupon payment. This is a reversal from earlier this year, when the underlying indices fell enough to induce capital losses for most snowball products. However, the number of new snowball product sales is near zero as regulations have been tightened, including a cap on securities firms' net exposure to snowball products and other derivatives and a higher investment threshold at 10 mn yuan ($1.4 mn) -a tenfold increase.





India

Indian equities gained 0.6% as PM Modi secured coalition support. PM Modi is on track for a third term in power after two key allies pledged their support to form a new government. While his Bharatiya Janata Party (BJP) lost its outright majority, the BJP-led National Democratic Alliance coalition still secured the majority in the lower house of parliament. Markets continue to closely assess the impact of a narrower election victory in the government’s policy mix. Some analysts noted that a weaker mandate may prompt the new administration to ramp up spending on welfare and development to bolster more electoral support. Markets expect the Reserve Bank of India (RBI) to keep interest rates on hold as the election outcome may lead to fiscal expansion. Today, the Indian rupee depreciated (-0.1%) and long-end government bond yields fell (10-year: -2 bps).

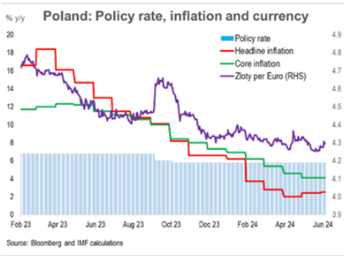
Mexico

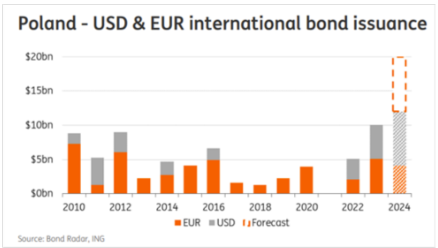
The Mexican peso appreciated by 1.9% yesterday but uncertainty remains elevated. After a sharp depreciation following the elections, the peso rebounded, outperforming major EM peers on Wednesday. Deutsche Bank analysts suggested that while domestic policies may include some market-unfriendly reforms, there will be enough pragmatism to preserve the country’s credit ratings and contain currency depreciation. High local rates and near-shoring economic activities are also expected to support a sound balance of payments. However, uncertainty remains elevated despite the peso’s recovery, with implied option volatility high, and hedging costs having escalated. The one-month 25-delta risk reversal rose to as high as 4.3% on Tuesday, levels not seen since March 2022, before moderating to 3.85% on Wednesday (left chart). The heavy positioning ahead of the elections might have also contributed to the recent volatility (right chart)

Poland

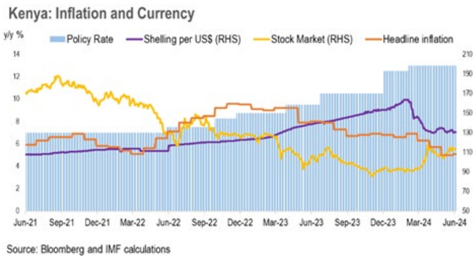
The zloty was weaker (-0.2%) against the euro today, after the central bank of Poland (NBP) kept yesterday its policy rate unchanged at 5.75%, in line with expectations. Goldman Sachs maintains expectations of stable disinflation in the medium term and of a rate cut in early 2025. JP Morgan expects two 25 bps rate cuts already in November and December 2024, while ING foresees no changes to rates in 2024, with reductions only in 2025 leading to a total cut of 75bps next year. Separately, ING notes that, **as fiscal policy is pointing to a higher 2024 deficit (ING est. 5.5% of GDP) than the government's**

projection (5.1% of GDP), and due to high redemptions, the borrowing needs of Poland will increase (by 14% to est. PLN219bn) in 2024. Poland has successfully frontloaded supply, issuing in January and February on average PLN 30bn per month and 20 bn in March and April. However, demand for government bonds has gradually declined, with the bid-to-cover falling from 1.5 in January to 1.1 in May, the lowest among CEE peers. As domestic demand is likely saturated (10y yields on PLN government bonds rose by 38bps YTD to 5.57%), ING expects the country to mainly progress on FX issuances, reaching $20bn for the full 2024 from the $12bn issued so far, with a 50/50 split between euro and dollar-denominated issuances.





Kenya



Kenya's shilling was little changed today to the dollar, after the central bank of Kenya (CBK) kept yesterday its benchmark interest rate unchanged at 13%, in line with consensus. CPI inflation slightly surprised in May, rising to 5.1%y/y from 5% in April (vs est. 4.7%y/y) although remaining near the 5% midpoint of the central bank's target range. The CBK clarified that "The MPC concluded that the current monetary policy stance will ensure that overall inflation remains stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate". JP Morgan analysts had expected a first 100 bps cut yesterday as they saw the rally of the shilling, which has appreciated by 20.5% YTD against the dollar, helping to keep inflation at 5% in 2024. Yesterday **the CBK also narrowed by 100 bps its interest rate corridor to +/-150 bps around the policy rate and reduced the interest rate on the discount window to 300 bps above the 13% policy rate**.

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.

Global Financial Indicators

	Level		Change				
6/6/24 8:32 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5360	1.2	2	3	25	12
Europe		5067	0.6	2	2	18	12
Japan		38704	0.6	2	0	21	16
China		3592	-0.1	0	-2	-5	5
Asia Ex Japan		71	1.8	1	1	6	7
Emerging Markets		42	1.6	0	0	6	5
Interest Rates					basis points		
US 10y Yield		4.29	1.5	-26	-20	63	41
Germany 10y Yield		2.56	4.7	-9	9	19	54
Japan 10y Yield		0.96	-5.3	-10	6	54	35
UK 10y Yield		4.18	-0.8	-17	-5	-3	64
Credit Spreads					basis points		
US Investment Grade		119	-0.4	3	3	-45	-15
US High Yield		356	0.0	6	21	-120	-29
Exchange Rates					%		
USD/Majors		104.23	0.0	0	-1	0	3
EUR/USD		1.09	0.3	1	1	2	-1
USD/JPY		156.0	-0.1	-1	1	12	11
EM/USD		46.5	-0.1	0	-1	-7	-3
Commodities					%		
Brent Crude Oil ($/barrel)		79.2	0.9	-3	-4	9	4
Industrials Metals (index)		158	0.8	-3	0	11	11
Agriculture (index)		61	1.1	-1	-1	-7	-3
Implied Volatility					%		
VIX Index (%, change in pp)		12.7	0.1	-1.8	-0.8	-1.3	0.2
Global FX Volatility		7.0	0.0	0.1	-0.2	-1.4	-1.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		102	-0.9	1	3	-35	-2
Italy		131	0.0	1	-3	-47	-37
Portugal		60	0.1	0	-4	-9	-3
Spain		73	-0.2	0	-5	-27	-24

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

Emerging Market Financial Indicators

Last updated: 6/6/2024 8:00 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		7.24	0.0	-0.2	0	-2	-2		2.2	-0.9	-1	-13	-58	-30
Indonesia		16263	0.1	0.0	-1	-9	-5		6.9	-0.2	-5	1	56	43
India		83	-0.1	-0.2	0	-1	0		7.3	-5.0	-12	-13	(9.7)	9
Philippines		59	0.3	0.0	-2	-4	-5		5.6	-2.4	-1	-10	-38	-7
Thailand		37	0.2	0.5	1	-5	-6		2.8	-3.0	-5	-2	24	11
Malaysia		4.70	0.1	0.2	1	-2	-2		3.8	-4.0	-6	-7	16	11
Argentina		898	-0.1	-0.5	-2	-73	-10		40.5	6.3	226	160	-7005	-4589
Brazil		5.30	-0.2	-1.8	-4	-7	-8		12.0	8.0	-4	40	72	156
Chile		909	-0.2	0.3	2	-12	-3		5.1	0.0	-23	-1	-4	23
Colombia		3937	0.0	-1.6	-1	9	-2		8.3	0.0	-19	8	-9	67
Mexico		17.57	-0.3	-3.1	-4	-1	-3		9.3	0.0	-5	18	95	89
Peru		3.7	-0.1	0.3	-1	-2	-1		7.0	0.9	-13	-9	-28	33
Uruguay		39	-0.4	-0.9	-2	-1	0		9.2	6.7	6	9	-78	-30
Hungary		360	0.0	0.0	0	-4	-3		6.5	-3.0	-26	-21	-128	72
Poland		3.96	-0.2	-0.1	1	6	-1		5.1	-4.9	-22	-8	-17	65
Romania		4.6	0.0	0.3	1	1	-2		6.6	-0.2	0	-2	-18	42
Russia		89.1	0.0	1.5	3	-8	0							
South Africa		19.0	-0.2	-1.2	-3	1	-3		9.8	-9.5	1	-6	-20	67
Türkiye		32.24	0.1	-0.1	0	-33	-8		27.7	4.0	-32	-120	1336	99
US (DXY; 5y UST)		104	0.1	-0.4	-1	0	3		4.32	2.8	-25	-16	51	47

	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		3592	-0.1	0	-2	-5	5		135	-3	-6	-58	-23
Indonesia		6975	0.4	-1	-2	5	-4		104	15	-1	-45	8
India		75075	0.9	2	2	19	4		93	2	-7	-52	-23
Philippines		6510	1.1	2	-2	-1	1		93	15	2	-27	13
Thailand		1328	-0.7	-2	-3	-13	-6		0	0	0	0	0
Malaysia		1615	0.4	1	1	17	11		78	1	-5	-19	-7
Argentina		1570750	-0.7	0	5	313	69		1536	191	289	-995	-377
Brazil		121407	-0.3	-2	-5	6	-10		225	15	18	-39	10
Chile		6656	0.9	0	2	16	7		124	12	4	-10	-1
Colombia		1406	0.2	1	2	18	18		314	6	20	-70	43
Mexico		54411	1.7	-1	-5	0	-5		307	10	2	-91	-27
Peru		29741	0.8	-2	2	35	15		152	0	7	-26	8
Hungary		69694	1.1	2	2	44	15		155	16	0	-76	6
Poland		85382	0.1	0	-1	28	9		103	14	5	-37	6
Romania		18113	1.2	3	5	49	18		191	21	5	-54	-9
South Africa		77291	0.6	0	1	1	1		349	38	19	-83	41
Türkiye		10394	0.4	-1	1	93	39		293	23	12	-195	-21
EM total		42	0.3	0	0	6	5		385	55	56	-21	40

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

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