GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MARCH 11, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Credit markets in midst of a global boom** (link)
- **Bank of Japan said to be near ending of yield curve control** (link)
- **Mixed US jobs report raises hopes for a dovish Fed** (link)
- **Survey shows investors are growing more cautious despite market rally** (link)
- **Chinese property developer makes key debt payment** (link)

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Markets cautious ahead of key US inflation data

Stocks in Europe lost ground and US equity index futures were lower as markets prepared for tomorrow's key US CPI report. Currencies and government bond yields held steady. The bull market in global equities has cooled slightly in recent days and investors have been forced to confront the possibility that stubbornly high inflation may prevent the major central banks from delivering as many rate cuts as originally expected. Meanwhile, press reports indicated that the Bank of Japan may be about to end its policy of yield curve control and change to a more hawkish policy stance, making the yen one of the few fast movers among currencies this morning, appreciating to 146.70 versus the dollar from more than 150 just a few days ago. Stocks in China rallied on news that troubled property developer Vanke made an important debt payment.

Key Global Financial Indicators

Last updated: 3/11/24 7:32 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5124	-0.7	0	2	33	7
Eurostoxx 50		4936	-0.5	0	5	17	9
Nikkei 225		38820	-2.2	-3	5	38	16
MSCI EM		41	-0.1	1	3	8	2
Yields and Spreads					bps		
US 10y Yield		4.08	0.4	-13	-10	38	20
Germany 10y Yield		2.27	0.1	-12	-11	-24	24
EMBIG Sovereign Spread		365	-2	-3	-24	-83	-18
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.0	0.1	1	0	-7	-2
Dollar index, (+) = $ appreciation		102.7	0.0	-1	-1	-2	1
Brent Crude Oil ($/barrel)		81.8	-0.4	-1	-1	-1	6
VIX Index (%, change in pp)		15.5	0.8	2	3	-9	3

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

This week is likely to be dominated by US economic data, with CPI, PPI, and retail sales all due for release. Fed Chair Powell's testimony last week raised hopes that the Fed will deliver its first rate cut in June, but strong data could complicate the picture. In the euro area, inflation data are due from Germany and France and Italy will report on retail sales. The PBOC could move to adjust its policy rate later this week, but the consensus is for no change. India will release reports on CPI and industrial production and the UK is due to report on employment and industrial production as well. The EU finance ministers are due to meet in Brussels tomorrow.

Mature Markets

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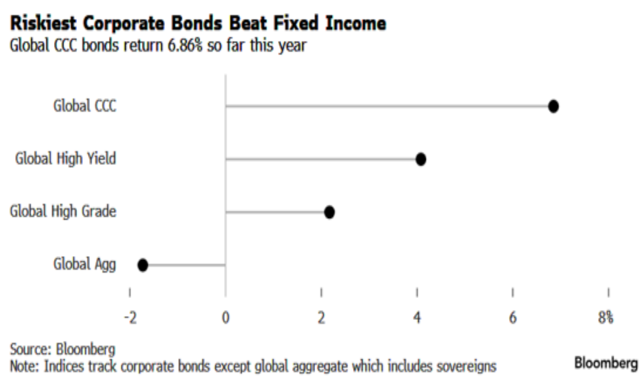
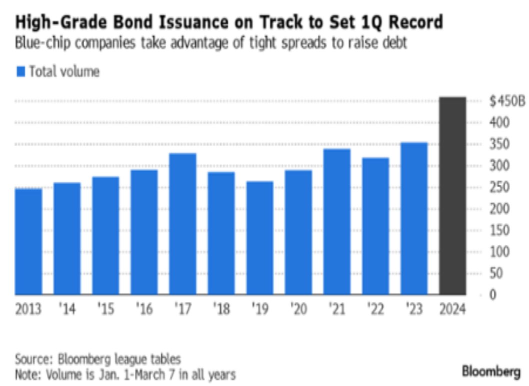
Global Credit Markets

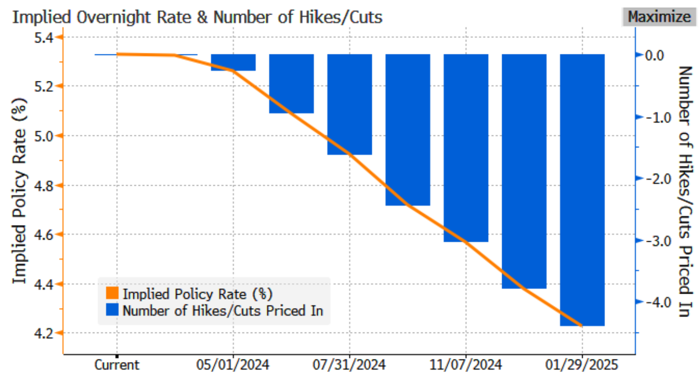
Global credit markets are witnessing a boom, as strong investor demand sends credit spreads lower and enables companies to issue new debt in record volumes. The riskiest segments of the markets such as CCC-rated debt, the high yield (HY) sector more generally, and leveraged loans are delivering the best returns so far this year, ahead of investment grade (IG) bonds. Expectations that the major central banks will begin rate cuts soon and that the global economy will remain healthy have made credit investors more eager to take on more risk. Market optimism is enhanced by the strong equity market, which is at or close to new record highs. The US alone has seen $450 bn of new IG corporate bond issuance already in 2024, a record for this time of the year. Companies in Europe and the Asia-Pacific region are also issuing new debt in large volumes.





United States

The mixed February US jobs report has led the market towards a more optimistic view of future Fed policy. The rise in the unemployment rate to 3.9%, lower than expected average hourly earnings and a significant downward revision to the January jobs report has led interest rate futures market to price in nearly 100 bps of rate hikes by December and to assign a probability of 96% that the Fed will deliver its first rate cut in June. The strong headline number of 275K jobs added relative to the consensus forecast of 200K is being assigned less significance. However, all eyes are on this week's crucial CPI and PPI reports, as an upside surprise could cause investors to change their expectations of what the Fed might do next. Treasury yields have drifted lower over the past few days as the dovish consensus gained ground.

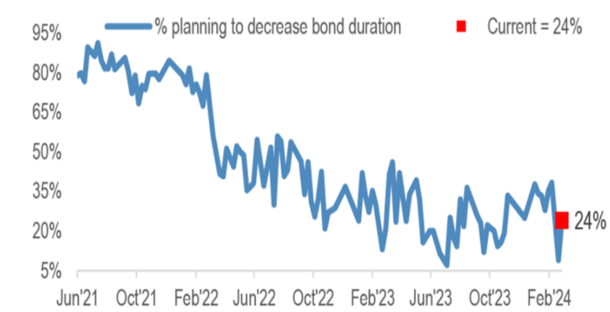


The latest investor survey from JP Morgan shows that investors have turned more cautious despite the strong performance from markets this year. Only 32% plan to increase their equity exposure compared to 50% late last year, and just 24% plan to increase their exposure to interest rate risk (i.e., increase their portfolio duration) compared to 40% earlier in the year. One possible explanation for this caution is continued uncertainty about the future path of US interest rates. 60% of the investors surveyed think that the next CPI report will be higher than expected, opening the door to a more hawkish stance from the Fed. Among other questions, investors are evenly split on whether the BOJ will end its zero interest policy this month, and 52% expect Chinese stocks to resume their downturn. 72% of investors think that Nvidia is either undervalued, correctly valued or slightly overvalued, with just 28% saying it is in a bubble.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

Source: J.P. Morgan.

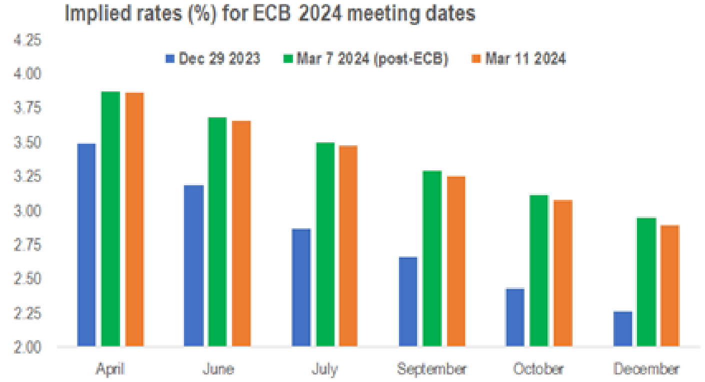
Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



Euro Area

European equities opened lower with the STOXX 600 index down (-0.3%) this morning led by losses in the information technology (-2.0%) and materials (-0.9%) sectors. The euro was broadly unchanged against the dollar trading at around 1.0940. **Euro area sovereign bond yields were also unchanged with the 10y bund yield trading at around 2.26%.** Elsewhere, BTPs continue to rally, with spreads over 10Y bunds tightening to 132bps. Following elections over the weekend, Portugal's government bond spread over the 10Y bunds was unchanged at 65bps this morning. **The ECB is expected to announce the review of its operational framework review on Wednesday**. Contacts expect the "equilibrium" size of the ECB's balance sheet to be in the region of €4–4.5trn, which means excess reserves of around €1–1.5trn in the steady state. There is much speculation as to whether the minimum reserve requirement for banks will be adjusted. **While the ECB may have signposted June for the start of policy easing, contacts note there is uncertainty around the likely pace of cuts.** Analysts at Goldman Sachs note that recent commentary from ECB policymakers suggests that there is broad agreement that 25bps moves are more likely than 50bp increments, but that there is little agreement on quarterly versus meeting-by-meeting adjustments. **Markets are currently pricing in around 100bps of easing for 2024 with the first full rate cut fully priced in for June, broadly unchanged since last week's meeting.**

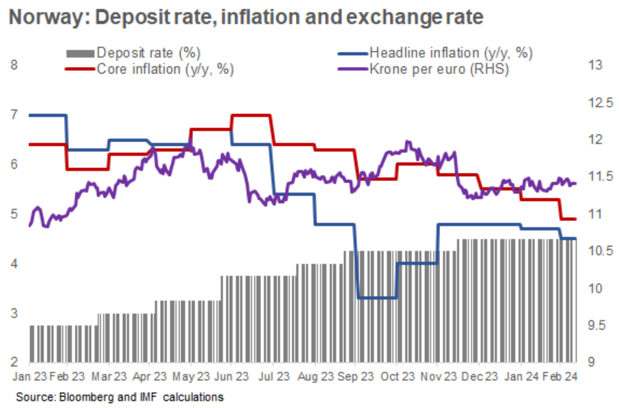
Implied rates (%) for ECB 2024 meeting dates



Source: Bloomberg and IMF calculations

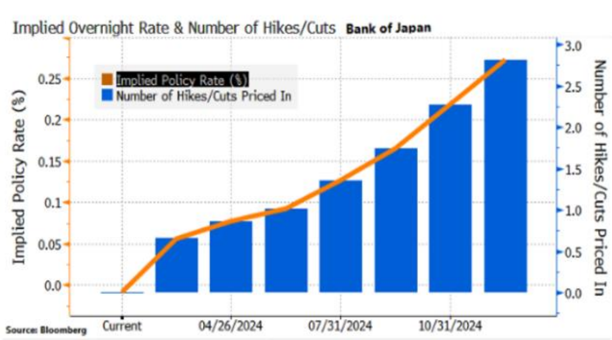
Norway

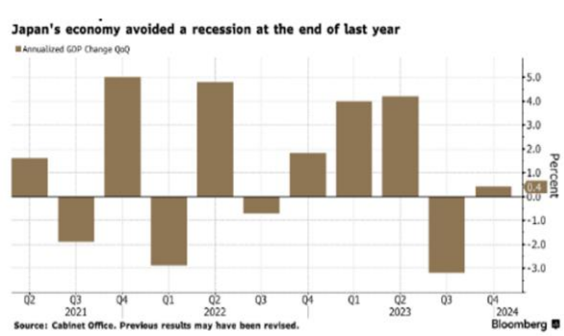
February core inflation rate slows more than expected. The core inflation rate fell to 4.9%y/y in February, coming in below consensus expectations of 5.3% and the Norges Bank's own forecast of 5.5% (5.3% prior) on lower food prices. Analysts at JP Morgan believe today's data "is welcome news and supportive of their view that core and domestic inflation have downside risks to the Norges Bank's forecast." They expect policymakers to start easing in June, sooner that the autumn timeframe that the central bank has suggested and expect a total of three rate cuts in 2024, less than the ECB, Fed and the Riksbank. The krone traded slightly lower following the release, down 0.1% at 11.42/€. Markets are now pricing in a 49% chance of a rate cut at the June meeting and an 80% chance of a cut by August.



Japan

The Bank of Japan (BOJ) is reportedly considering scrapping its yield curve control (YCC) program and shift focus on JGB purchase size, Jiji Press wrote on Saturday. BOJ plans to buy just under ¥6tn ($41bn) of bonds a month, around the current level for the time being, and could end negative interest rates as early as March. Expectations for monetary policy tightening were also supported by an upward revision to Q4 GDP to an annualized +0.4% q/q SA (previous: -0.4%) on strong capital expenditure, averting a technical recession. **Japanese equities slumped -2.2% and the yen appreciated +0.2%** as bets for a BOJ rate hike gained momentum. **10Y bond yields added +2.5bps.** Volatile overnight indexed swaps at one point showed a 74% chance of a rate hike by March on Monday, before falling to 66%.





Emerging Markets

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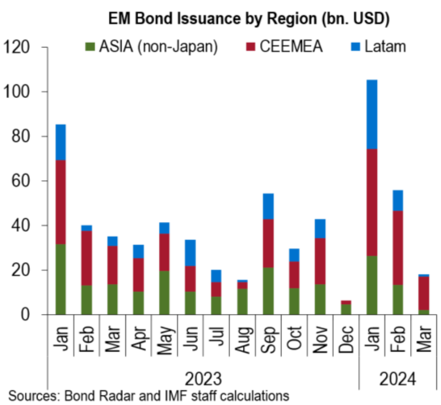
Asian equities were mixed, and little changed on net. Hong Kong SAR (+1.4%) and China (+1.3%) led the gains, after troubled Chinese developer Vanke made a debt payment. Australia (-1.8%) and Philippine (-1%) declined. **Thailand's** Securities and Exchange Commission plans to speed up a law amendment, which will allow authorities to file charges against individuals and firms for illegal short selling. **South Korea**

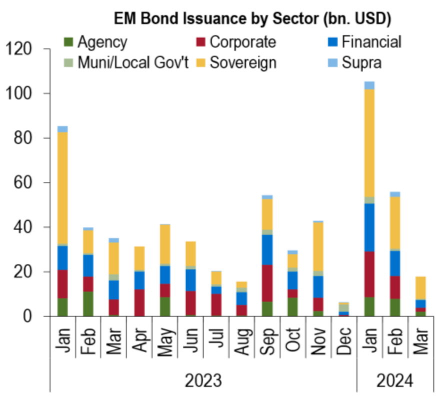
is reportedly mulling bans to prevent banks from selling high-risk products to retail investors, after a probe found poor regulatory compliance and misrepresentation of risky China-linked structured products. **Markets in Latin America were mixed, with equities generally lower and currencies stronger.** Brazil's Ibovespa index fell by 1% on Friday, primarily influenced by a lower-than-expected dividend announcement from the state owned oil company Petrobras which ignited concerns over potential government interference in the country's major firms. Inflation in Chile came in much higher than expected at 0.6%.

Emerging Market Bond Issuance

The first week of March saw bond issuance of $18.0bn bond issuance, 34% higher than the week before, of which $10.2bn was sovereign bonds, $5.1bn was corporate/financial bonds, $2.2bn was agency bonds and $469mn was local government bonds. Israel, Poland's state-owned development bank (BGK), Croatia and Al Rajhi Bank are among the largest issuers with issuances of $7.8bn, $2.2bn, $1.6bn and $1bn, respectively. Most new issuances were fixed-rate bonds with maturity varying from 2 years to 30 years. 99% of the new issuances are hard currency bonds. The weighted average yield was 5.35%. $15.8bn of the new issuances were investment-grade bonds and $1.4 bn were high-yield bonds. YTD total hard currency and local currency issuance now stands at $179.5bn.



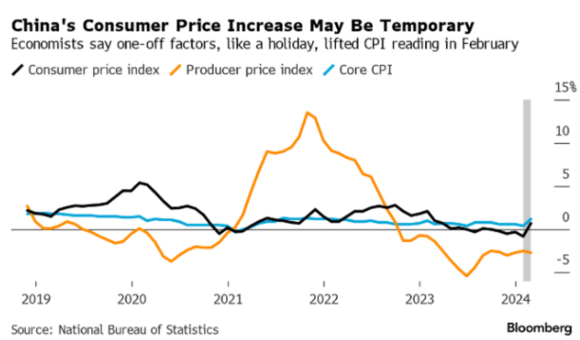
Sources: Bond Radar and IMF staff calculations



China

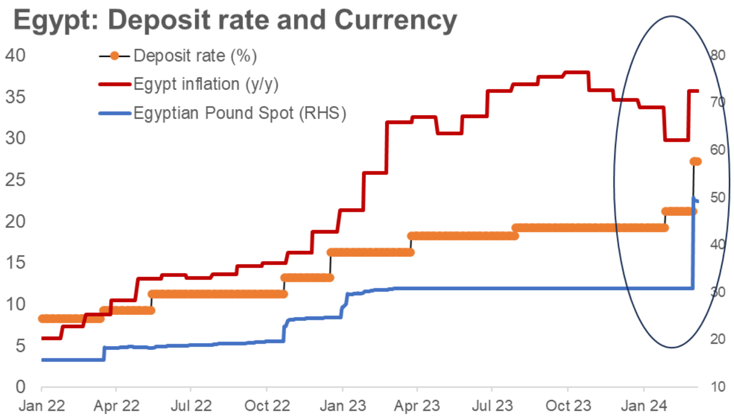
Chinese equities gained (CSI +1.3%). Regulators reportedly asked large banks to provide financing support for Vanke, China's second largest property developer. Vanke shares gained as much as +3.8% in Hong Kong SAR on the news that the developer deposited $0.6bn to repay outstanding principal and interest for a medium-term notes due March 11. Separately, **February's CPI inflation surprised on the upside at +0.7% y/y and turned positive for first time since August** (consensus: +0.3%, previous: -0.8%). Analysts urged caution and attributed the improvement to seasonal effect due to the Lunar New Year holiday. PPI remained in contraction -2.7% y/y (previous: -2.5%) in January.

Sources: Bloomberg and IMF staff calculations



Egypt

Headline inflation unexpectedly accelerated in February. Data released yesterday showed headline inflation accelerating to 35.7% y/y in February, (from 29.8% in January), while media articles show expectations were for inflation to have slowed to 25.1%. The February inflation data covers the period before the central bank's special meeting last week, where it surprised markets with a 600bps rate hike and its decision to allow the currency to float, which saw a roughly 38% devaluation after an investment deal with the UAE worth $35bn. The IMF also announced a staff-level agreement with a program size increased to US$8bn from US3bn previously. Together with a cumulative 800bps rate hikes since the start of 2024, contacts have highlighted last week that these developments are expected to fast-track Egypt's disinflation process. On the currency front, Deutsche bank analysts, **do not expect the currency to weaken significantly past 50 and think that expected inflows could support further retracement**. The Egyptian pound was trading marginally stronger (+0.4%) at around 49.18 this morning.



Source: Bloomberg and IMF calculations

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.

Global Financial Indicators

3/11/24 7:36 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5124	-0.7	0	2	33	7
Europe		4936	-0.5	0	5	17	9
Japan		38820	-2.2	-3	5	38	16
China		3589	1.3	1	7	-10	5
Asia Ex Japan		68	0.1	1	4	5	2
Emerging Markets		41	-0.1	1	3	8	2
Interest Rates					basis points		
US 10y Yield		4.08	0.4	-13	-10	38	20
Germany 10y Yield		2.27	0.1	-12	-11	-24	24
Japan 10y Yield		0.76	2.4	4	3	35	15
UK 10y Yield		3.96	-1.8	-16	-13	32	42
Credit Spreads					basis points		
US Investment Grade		127	-1.1	-2	-1	-20	-7
US High Yield		366	-0.2	-1	-11	-56	-19
Exchange Rates					%		
USD/Majors		102.71	0.0	-1	-1	-2	1
EUR/USD		1.09	0.0	1	2	2	-1
USD/JPY		146.7	-0.3	-3	-2	10	4
EM/USD		47.0	0.1	1	0	-7	-2
Commodities					%		
Brent Crude Oil ($/barrel)		81.8	-0.4	-1	0	5	6
Industrials Metals (index)		140	0.4	2	6	-10	-2
Agriculture (index)		59	-0.3	1	-3	-12	-6
Implied Volatility					%		
VIX Index (%, change in pp)		15.5	0.8	2.0	2.6	-9.3	3.0
Global FX Volatility		6.8	0.1	0.3	-0.5	-3.6	-1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		99	-2.0	-7	-15	-83	-4
Italy		131	-0.1	-10	-27	-50	-36
Portugal		65	-0.1	-5	-17	-22	2
Spain		82	0.6	-5	-17	-22	-15

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

Emerging Market Financial Indicators

Last updated: 3/11/2024 7:37 AM	Exchange Rates: Level		Change (in %)					Local Currency Bond Yields (GBI EM): 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		7.19	0.0	0.2	0	-5	-1		2.4	0.5	-2	-5	-80	-17
Indonesia		15590	0.4	0.7	0	-1	-1		6.6	-1.0	0	1	-43	15
India		83	0.0	0.2	0	-1	1		7.2	0.0	-4	-5	(40.9)	-6
Philippines		55	0.4	1.1	1	-1	0		5.5	7.4	7	8	-52	-12
Thailand		35	-0.1	1.0	1	-3	-3		2.5	-2.2	-7	-9	3	-21
Malaysia		4.68	0.0	0.9	2	-4	-2		3.8	-1.0	-3	1	-13	8
Argentina		847	0.0	-0.4	-2	-76	-5		71.2	403.1	135	-422	-1744	-1515
Brazil		4.98	-1.0	-0.6	0	3	-3		10.9	10.8	7	10	-264	46
Chile		961	0.1	1.5	1	-16	-8		5.0	3.3	-18	6	-63	5
Colombia		3904	0.3	1.1	1	22	-1		7.5	0.0	-9	1	-184	-11
Mexico		16.80	0.1	0.9	2	13	1		8.6	0.0	-8	-7	-13	13
Peru		3.7	0.6	2.2	5	3	0		7.0	4.3	12	26	-114	29
Uruguay		39	0.2	0.4	1	1	0		9.0	-1.0	-4	-22	-128	-56
Hungary		361	-0.1	1.1	0	1	-4		5.9	0.0	-12	-12	-229	16
Poland		3.91	0.4	1.7	2	11	1		4.9	3.1	4	5	-34	39
Romania		4.5	0.0	0.9	2	1	-1		6.4	0.4	2	10	-104	15
Russia		90.6	0.5	1.0	1	-17	-1							
South Africa		18.7	0.1	1.8	1	-3	-2		9.4	-1.4	-14	-6	21	24
Türkiye		32.00	-0.2	-1.3	-4	-41	-8		27.8	-24.0	-7	55	1625	108
US (DXY; 5y UST)		103	0.0	-1.1	-1	-2	1		4.06	1.0	-15	-8	9	21

	Equity Markets: Level		Change (in %)					Bond Spreads on USD Debt (EMBIG): 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		3589	1.3	1	7	-10	5		154	7	-6	-11	-4
Indonesia		7382	0.0	1	2	9	2		114	5	5	-31	18
India		73503	-0.8	0	3	24	2		110	13	-5	-30	-6
Philippines		6872	-1.0	-1	1	4	7		97	6	5	-23	17
Thailand		1380	-0.4	1	-1	-14	-3		0	0	0	0	0
Malaysia		1545	0.3	0	2	8	6		88	9	-1	-5	3
Argentina		1002336	0.8	-5	-11	324	8		1693	62	-275	-424	-220
Brazil		127071	-1.0	-2	-1	23	-5		222	10	3	-42	7
Chile		6338	-0.3	0	5	17	2		136	3	0	-3	11
Colombia		1299	-1.1	1	4	9	9		308	7	-13	-91	37
Mexico		54936	-0.2	-1	-4	4	-4		329	5	-3	-50	-5
Peru		28723	-0.7	1	5	33	11		149	5	-4	-35	5
Hungary		65655	-0.7	-1	1	52	8		165	3	-6	-51	16
Poland		79972	-0.3	-2	2	34	2		105	6	-4	47	8
Romania		16314	0.1	1	4	32	6		205	4	7	-35	5
South Africa		73175	-0.7	1	0	-4	-5		348	-5	-2	-9	40
Türkiye		9230	0.8	4	2	71	24		338	13	1	-117	24
Ukraine		507	0.0	0	0	0	0		3635	-241	-599	-1113	-369
EM total		41	0.1	1	3	8	2		319	0	-34	-68	-26

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

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