GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MARCH 13, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Markets push more central bank rate cuts into 2025** (link)
- **US interest rate derivatives market signals caution** (link)
- **Volume of near term US high yield bond maturities at record high** (link)
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Markets are cautiously optimistic as stocks reach record highs

The S&P 500 index registered its 17th record close of the year yesterday, and the equal weight S&P 500 is not far behind, indicating that US equity market gains have been widespread. This morning, US equity index futures were fractionally higher while stocks in Europe posted larger gains, with the Stoxx 600 index also reaching a new record high. Treasury yields are up again after yesterday's stronger than expected US CPI report. China remained in the spotlight as property developer Country Garden missed a bond payment, accentuating investor fears about the prospects for Chinese markets. Stocks in Japan lost ground again ahead of next week's BOJ meeting, when the central bank is expected to announce the end of negative interest rate policy and may terminate yield curve control in favor of monthly JGB purchases. Strong wage gains by labor unions in Japan suggested that deflation may no longer be a problem for the country after decades of slow growth.

Key Global Financial Indicators

Last updated: 3/13/24 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5175	1.1	2	4	34	9
Eurostoxx 50		5015	0.6	2	7	22	11
Nikkei 225		38696	-0.3	-3	3	42	16
MSCI EM		41	1.1	3	6	9	3
Yields and Spreads				bps			
US 10y Yield		4.18	2.7	8	-14	60	30
Germany 10y Yield		2.34	1.0	2	-5	8	32
EMBIG Sovereign Spread		361	-3	-7	-29	-113	-22
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.9	-0.5	0	0	-6	-3
Dollar index, (+) = $ appreciation		102.9	-0.1	-1	-2	-1	1
Brent Crude Oil ($/barrel)		83.0	1.3	0	0	3	8
VIX Index (%, change in pp)		13.8	0.0	-1	-2	-13	1

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

Mature Markets

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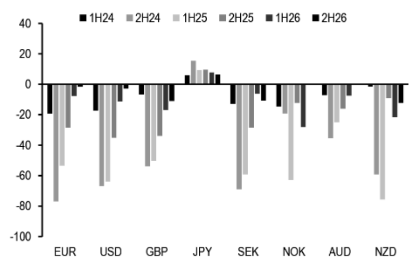
Global Central Banks

Stubbornly high inflation and a surprisingly strong global economy have made investors more bearish about central bank rate cuts. For most advanced economies, markets now expect the majority of the rate cuts to occur after 2024 compared to the end of last year when investors expected rate cuts to be more front loaded. In December, markets expected six rate cuts from the Fed but now the markets are predicting just three rate cuts. The notable exception is the ECB, which is expected to deliver half of its rate cuts (four rate cuts totaling 100 bps) this year. JP Morgan analysts think further rate cuts could be pushed out into H2 2025 or even 2026 if more progress is not made on inflation.

Figure 3: The distribution of easing has shifted from early 2024 to 2H24 and 1H25 broadly in line with our expectation

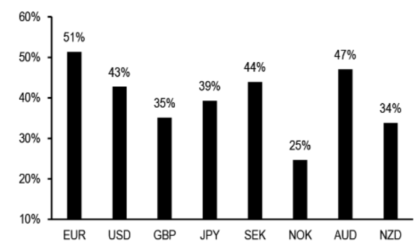
Cumulative change in OIS rate priced in the money market curve for mid-2024, end-2024, mid-2025, end-2025, mid-2026 and end-2026, bp



Source: J.P. Morgan.

Figure 4: Half of the cumulative easing for ECB is expected to take place this year whereas for other central banks most of the easing is expected next year

Cumulative easing priced in by the end of 2024 expressed as fraction of cumulative easing by the end of 2026; %

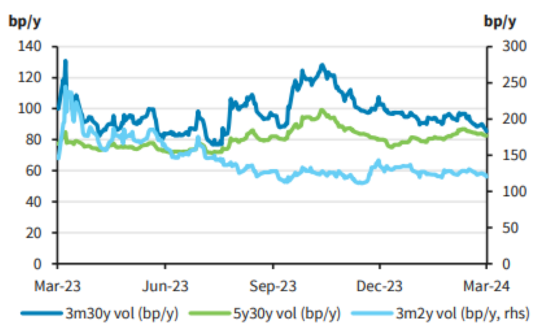


Source: J.P. Morgan.

United States

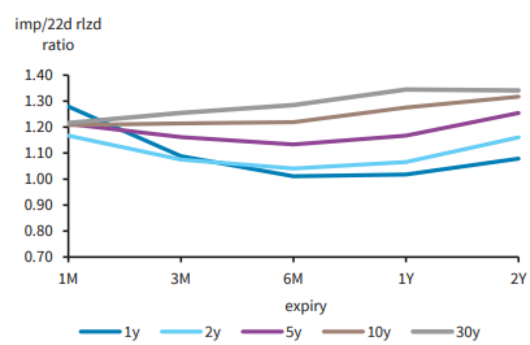
Volatility in the swaptions market (swaptions are options on interest rate swaps) has been subdued for short maturity options, but the ratio of implied volatility to realized volatility remains high for longer maturity options. Shorter maturity volatility has fallen because key elements of market uncertainty have been resolved due to the resolution of the debt ceiling and the Treasury's decision to sell fewer longer maturity notes and bonds than originally expected. However, longer maturity volatility remains elevated, and investors are paying up for protection against interest rate risk in the longer run. Uncertainty about inflation and the pace and timing of Fed rate cuts have added a note of caution to fixed income markets. Although Treasuries have traded in a fairly narrow range this year, investors worry about another surge in yields as was seen last year.

FIGURE 1. **Implied volatility in short expiries has fallen sharply**



Source: Barclays Research

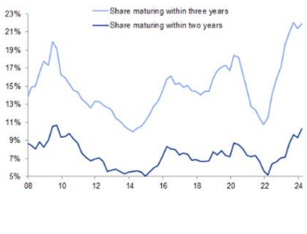
FIGURE 2. **Implied/realized vol ratios are elevated across the vol surface**



Source: Barclays Research

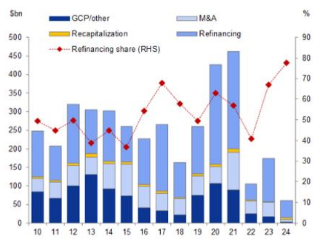
The volume of high yield (HY) bonds maturing in the next three years is at all-time highs. Goldman points out that the proportion of bonds maturing next year is 10%, compared to 7% on a historical basis. The analysts think that HY borrowers will successfully negotiate the upcoming maturity wall, as net new supply of HY bonds is expected to be low and most of the maturities are likely to be refinanced. Investors tend to be more comfortable with refinanced debt compared to bonds issued by companies that are new to the market or have been out of the market for some time. In addition, excluding the post-GFC period, HY funding costs are only slightly above long run averages. With credit spreads narrowing, borrowing costs for most HY companies remain manageable.

Exhibit 1 : The HY near-term maturity wall has likely peaked
Notional share of USD HY bonds set to mature within the next two and three years



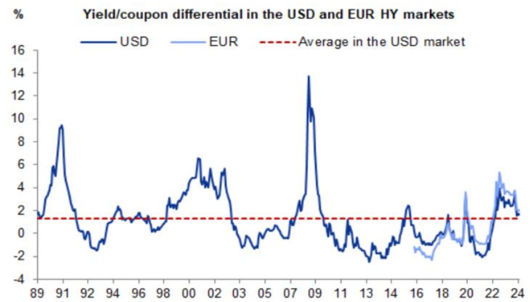
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2 : A record share of HY issuance has been earmarked for refinancing year to date
Annual USD HY primary market issuance broken out by primary use of proceeds



Source: Dealogic, Goldman Sachs Global Investment Research

Exhibit 3 : Excluding the post-global financial crisis period, the yield/coupon differential in the USD HY market is now only slightly above the long-run average
The long-run average for the USD market excludes recessions

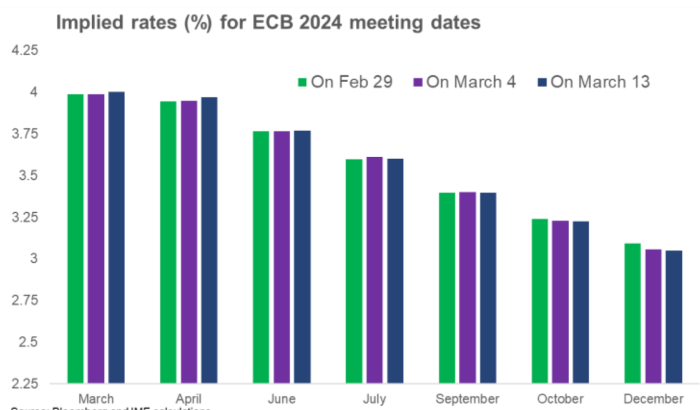


Source: Bloomberg, iBoxx, Goldman Sachs Global Investment Research

Euro Area

European equities were mostly trading higher this morning with the STOXX 600 index (+0.2%) trading at a new record high. The retail sector (+2.7%) was outperforming and the banking sector was also in the green (+0.7%). **Euro area sovereign bond yields were edging lower with the 10y bund yield (-2bps) trading at around 2.31%,** retracing some of yesterday's moves higher in the aftermath of the US inflation data release. The euro was slightly weaker against the dollar at 1.0942. On the data front, eurozone **industrial production for January disappointed** (-6.7 y/y versus expected -3.0% from +0.2% the previous month). **Contacts are focused on the ECB's operational framework review, with expectations for an announcement later today.**

Markets remain confident of an ECB rate cut by June following the most recent ECB commentary. ECB Governing council (GC) member Villeroy said the ECB is in broad agreement to start easing rates in spring, with a rate cut in June more likely than April, in line with recent commentary from other GC members including GC member Holzmann. GC member Kazaks also commented in a blog post that the ECB's decision to cut rates could be made within the next few meetings. After the ECB monetary policy meeting last week, contacts had also remarked that ECB President Lagarde appeared to be hinting at June for the first rate cut. This is in line with market expectations, **with 23bps of easing priced in by June and around 96bps of easing priced in for 2024.**



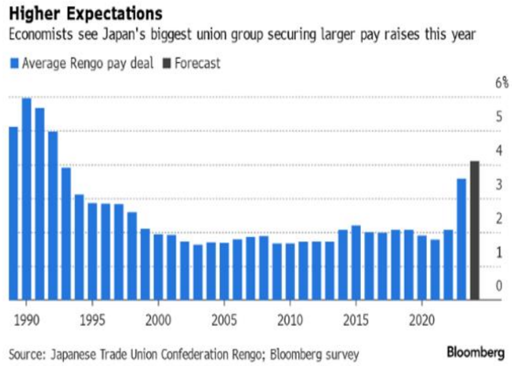
Source: Bloomberg and IMF calculations

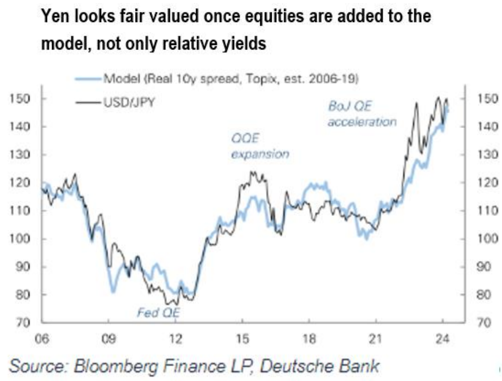
United Kingdom

The pound and gilts were little changed after data showed UK GDP rebounded in January. Monthly GDP increased by +0.2%m/m as expected (from -0.1% in December). While noting that monthly GDP data is volatile, contacts highlight that today's data reinforces expectations that the economy would expand gradually in Q1, thus ending the mild technical recession of last year. Separately, yesterday **BoE governor Bailey said that the UK economy was close to or at full employment** and added that there is limited evidence that higher unemployment is required to curb inflation, while MPC member Mann said that services inflation would need to ease at a much faster pace to be consistent with the BoE's inflation target. Ahead of the BoE's upcoming meeting next week, contacts are now focused on next week's inflation print. Market pricing was little changed, with roughly 73bps of rate cuts for 2024.

Japan

Japanese equities declined -0.3%. Toyota share dropped -0.9% after it agreed to labor union's demands **for salary and bonuses increases in full for the fourth straight year. Exact figures for the compensation hike** were undisclosed, but reportedly they were at the highest level ever. Separately, the Japanese Association of Metal, Machinery and Manufacturing Workers said 60 affiliated unions secured an average pay increment of 5.3% (2023: 3.6%). Meanwhile, Japan's chief economist at the Cabinet Office stated in an interview that the government needs to see more data before officially announcing an end to deflation. He noted, however, progress in the economy and cited expectations for strong pay hikes from ongoing labor negotiations.





Emerging Markets

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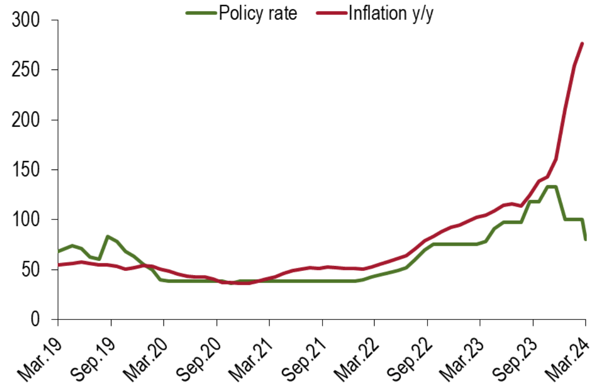
EMEA markets were mixed. Equities outperformed in Czechia (+0.4%) and Poland (+0.3%) but underperformed in Türkiye (-1.3%). **The Turkish lira was broadly unchanged** (to trade at 32.0/$). Bank of America analysts believe that March inflation expectations data due later this month will be important for the Central Bank of Türkiye, and now see a 300–500bps rate hike as a possibility in April. **Asian equities declined -0.3% on net.** Vietnam (+2.1%) outperformed as all sectors gained, led by IT stocks. **India** dropped (-1.8%) amid profit taking by investors particularly on mid and small cap segments after recent warning of possible regulatory action targeting overheated stocks in those sectors, Bloomberg reported. India's regulators reported a jump in foreign flows to India's derivatives. **Latin American assets were mixed.**

Argentina

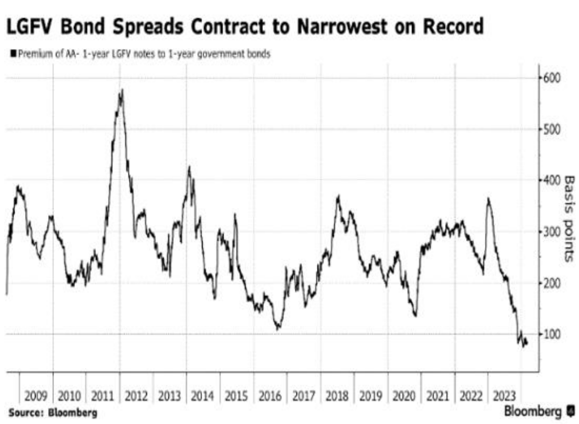
Argentina's central bank unexpectedly reduced its benchmark interest rate from 100% to 80%, despite facing an annual inflation rate exceeding 250%. This decision was influenced by the anticipation of a decrease in monthly inflation rates and the strengthening of the peso against the US dollar, as well as the central bank's success in rebuilding reserves. This policy shift occurs amidst Argentina's engaging in a significant peso debt swap, aiming to alleviate immediate debt pressures by extending maturities. Argentina's equity market rose 7.2% during the day.

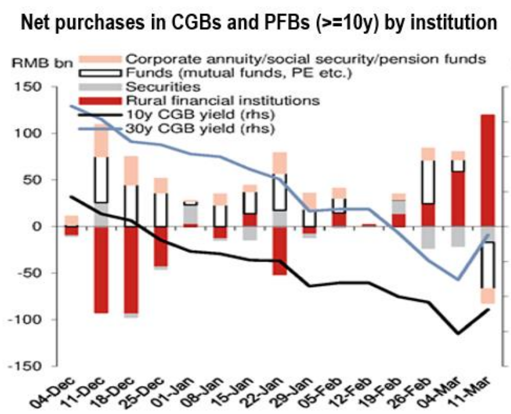


Source: Bloomberg and IMF staff

China

Chinese equities declined (CSI -0.7%). Country Garden shares fell -4.9%, while its dollar bonds traded at distressed level around 8 cents on the dollar, as the developer missed a yuan bond payment for first time. Separately, **China plans to build the world's largest freeport in Hainan by 2025**, with funding mainly from local government bond sales at home and abroad, MNI reported. Authorities are closely monitoring funds usage as risk management is being prioritized over boosting GDP growth. Meanwhile, **local government financing vehicles (LGFV) bond spreads narrowed to below 100bps,** amidst strong demand for LGFV bonds. Average coupon yield dropped to 2.75% in March, a record low. Investors seems to believe that regional governments will do whatever it takes to prevent bond default, Bloomberg reported.

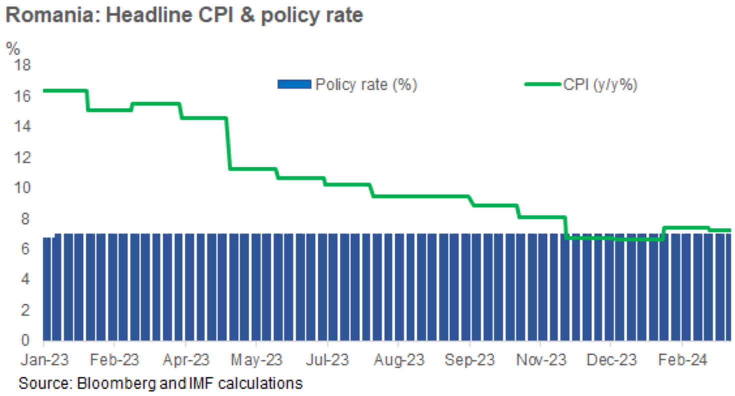




Source: iData, Bloomberg, Nomura institution type

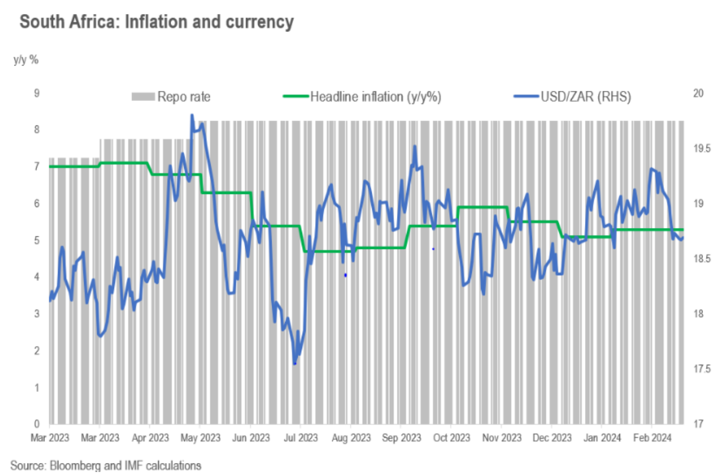
Romania

February headline inflation comes in marginally higher than expected. Data this morning showed that headline inflation rose by 7.2% y/y in February (versus expected 7.1% from 7.4% in January), pointing to continued inflationary pressures. Analysts at Raiffeisen expect the National Bank of Romania (NBR) to start cutting the key policy rate in May when policymakers should have enough evidence that inflation has decreased on a more permanent basis and to a rate below the key policy rate. They expect the NBR to cut rates in 25bps increments at each policy meeting scheduled for this year, starting from May which would take the key rate to 5.75% by year-end, down from the current 7%.



South Africa

South African Reserve Bank (SARB) Governor Kganyago expects rates to remain high. Speaking at the Financial Sector Conduct Authority conference Governor Kganyago said that "high interest rates are necessary to stabilize inflation" and that he expects "interest rates to stay high for longer". **Bank of America analysts think rate cuts will begin in July.** They now expect a total of 100bps of easing, compared to 125bps previously and expect the cuts to take place between 3Q24 and 1Q25. They forecast inflation to be back at 4.5% by year-end 2024 and see the terminal rate at 7.25%. The SARB is less likely to cut before the US Fed due to the a lack of headroom relative to countries such as Brazil or Chile who have large positive real rates and have already started to ease policy rates.



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Global Financial Indicators

3/13/24 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5178	1.1	1	5	34	9
Europe		5015	0.6	2	7	22	11
Japan		38696	-0.3	-3	3	42	16
China		3572	-0.7	1	6	-10	4
Asia Ex Japan		69	1.2	4	7	6	3
Emerging Markets		41	1.1	3	6	9	3
Interest Rates					basis points		
US 10y Yield		4.18	2.7	8	-14	60	30
Germany 10y Yield		2.34	1.0	2	-5	8	32
Japan 10y Yield		0.77	-0.3	5	4	42	15
UK 10y Yield		4.00	5.8	1	-15	63	47
Credit Spreads					basis points		
US Investment Grade		125	-1.3	-5	-3	-36	-9
US High Yield		357	-2.0	-9	-15	-168	-28
Exchange Rates					%		
USD/Majors		102.85	-0.1	-1	-2	-1	1
EUR/USD		1.09	0.1	0	2	2	-1
USD/JPY		148.0	0.2	-1	-2	11	5
EM/USD		46.9	-0.5	0	0	-6	-3
Commodities					%		
Brent Crude Oil ($/barrel)		83.0	1.3	0	1	9	8
Industrials Metals (index)		142	0.4	3	7	-10	0
Agriculture (index)		59	-0.4	3	-1	-11	-5
Implied Volatility					%		
VIX Index (%, change in pp)		13.8	0.0	-0.7	-2.0	-12.7	1.4
Global FX Volatility		6.7	0.0	0.0	-0.6	-4.3	-1.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		96	0.5	-7	-16	-108	-8
Italy		127	-1.3	-6	-28	-66	-41
Portugal		65	-0.3	-2	-16	-29	2
Spain		81	-0.1	-1	-14	-30	-16

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

Emerging Market Financial Indicators

Last updated: 3/13/2024 8:05 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		7.19	-0.1	0.1	0	-5	-1		2.4	-1.5	6	-4	-79	-16
Indonesia		15575	0.1	0.8	0	-1	-1		6.6	0.8	-1	-1	-21	15
India		83	-0.1	0.0	0	-1	0		7.2	0.1	-3	-5	(39.8)	-5
Philippines		55	-0.1	0.9	1	-1	0		5.4	-7.4	0	0	-59	-20
Thailand		36	0.2	-0.2	1	-3	-4		2.5	-0.7	-9	-11	1	-24
Malaysia		4.69	-0.2	1.0	2	-4	-2		3.8	2.4	0	3	-5	12
Argentina		845	0.3	0.0	-2	-76	-4		58.8	-864.0	-1124	-1540	-3021	-2756
Brazil		4.97	0.1	-0.4	0	6	-2		10.8	2.0	12	6	-229	44
Chile		955	0.6	3.2	2	-16	-8		5.1	0.0	13	-3	-10	15
Colombia		3923	-0.2	0.6	0	22	-1		7.7	-1.0	13	-2	-170	3
Mexico		16.76	0.2	0.7	3	13	1		8.6	-0.2	2	-20	-10	15
Peru		3.7	0.1	1.7	5	3	1		7.0	0.2	12	30	-85	37
Uruguay		39	0.1	0.7	1	1	0		9.0	1.4	-1	-14	-136	-56
Hungary		363	0.6	-0.4	0	1	-4		6.0	-2.5	2	-13	-221	24
Poland		3.92	0.2	0.7	3	11	0		5.0	9.1	18	11	-23	50
Romania		4.5	0.1	0.4	2	1	-1		6.4	2.7	5	12	-87	18
Russia		91.7	0.0	-1.0	0	-18	-2							
South Africa		18.7	0.0	0.9	2	-2	-2		9.4	-0.2	-4	-3	25	28
Türkiye		32.10	-0.1	-1.0	-4	-41	-8		26.9	-6.0	-98	35	1568	17
US (DXY; 5y UST)		103	-0.1	-0.5	-2	-1	1		4.17	2.6	6	-14	47	33

	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		3572	-0.7	1	6	-10	4		154	0	-7	-17	-4
Indonesia		7421	0.5	2	3	12	2		105	-7	-5	-61	9
India		72762	-1.2	-1	1	26	1		111	2	-4	-42	-5
Philippines		6966	1.2	1	2	9	8		90	-5	-1	-44	10
Thailand		1385	0.4	1	0	-9	-2		0	0	0	0	0
Malaysia		1538	-1.1	0	1	10	6		87	1	-1	-9	2
Argentina		1026837	7.2	3	-9	356	10		1642	23	-395	-655	-271
Brazil		127668	1.2	0	0	24	-5		217	-1	-1	-63	2
Chile		6502	1.3	2	8	22	5		131	-1	-4	-22	6
Colombia		1279	-1.5	-2	3	11	7		302	-6	-16	-120	31
Mexico		54899	-0.3	-1	-4	4	-4		329	2	-7	-67	-5
Peru		28823	-0.4	0	5	33	11		143	-2	-7	-51	-1
Hungary		65922	-0.8	0	2	58	9		159	-2	-13	-77	10
Poland		81796	-0.1	1	5	41	4		102	0	-8	15	5
Romania		16252	0.1	0	4	33	6		198	-6	-2	-59	-3
South Africa		73584	0.1	0	1	-3	-4		348	-8	-10	-46	40
Türkiye		9031	-0.4	3	0	70	21		323	-26	2	-155	9
Ukraine		507	0.0	0	0	0	0		3829	-6	-572	-971	-175
EM total		41	-0.3	3	6	9	3		312	-9	-41	-97	-34

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

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