GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MARCH 22, 2024
LEAD EDITOR: JEFF WILLIAMS

- **Previous easing cycles in US suggest the curve may steepen** (link)
- **Markets bring forward UK rate cut expectations following yesterday's BoE decision** (link)
- **Mexico cut rates for the first time since 2021, but does not commit to further cuts** (link)
- **China's currency experienced the largest daily depreciation in three months** (link)
- **Central Bank of Türkiye surprises with 500bp rate hike** (link)
- **Paraguay cut rates by 25 bp to 6%, and signals more easing to follow** (link)

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Quiet end to an eventful week

In contrast to the flurry of central bank driven moves earlier in the week, markets are set to close on a relatively quiet tone today. With Switzerland becoming the first G-10 central bank to cut its policy rate, and Mexico yesterday becoming the latest major emerging market central bank to embark on an easing cycle, global equities are wrapping up what has been an overall strong week. The S&P 500 is up 2.5% on the week while European equities are about 1% higher. This morning, European equities and US equity futures are little changed. Despite the Fed's dovish tilt on Wednesday, the dollar is set to have one of its best weeks in months, in part as the SNB's surprise cut has boosted expectations that other advanced economy central banks may begin their easing cycle even ahead of the US. The dollar is stronger today, with the overall index rising 0.4%, following a 0.6% gain yesterday. Today's move is also driven by a perceived willingness by Chinese authorities to allow the RMB to weaken. The onshore renminbi experienced its largest one day drop in three months. The overall dollar strength has led to weakness among most emerging market currencies despite this week's improved risk appetite. JP Morgan's EM FX index is about 1% lower on the week with the Chilean peso (-3.8%) leading the losses.

Key Global Financial Indicators

Last updated: 3/22/24 8:16 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5242	0.3	2	3	33	10
Eurostoxx 50		5018	-0.7	1	3	20	11
Nikkei 225		40888	0.2	5	5	49	22
MSCI EM		41	0.1	0	1	8	2
Yields and Spreads			bps				
US 10y Yield		4.22	-4.9	-9	-10	78	34
Germany 10y Yield		2.34	-6.2	-10	-10	2	32
EMBIG Sovereign Spread		343	-11	-11	-36	-150	-41
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	-0.4	-1	-1	-8	-4
Dollar index, (+) = $ appreciation		104.4	0.3	1	0	2	3
Brent Crude Oil ($/barrel)		85.9	0.2	1	3	12	12
VIX Index (%, change in pp)		13.1	0.2	-1	-1	-9	1

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

Mature Markets back to top

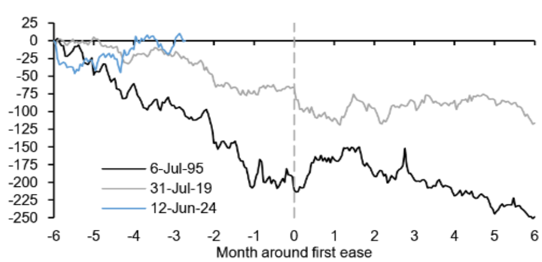
United States

In the US, equity markets staged a broad-based rally. The S&P 500 closed at another record high of 5241 (up 0.3%), despite some correction in key mega-cap stocks. Market commentary is attributing this to optimism regarding a soft landing for the economy. Equity volatility (VIX) declined further to 13. The treasury curve flattened post the PMI release. While yields on longer-term bonds remained relatively stable, the shorter end of the curve rose slightly (4bp for the 2yr). Also, the US treasury auctioned $16 bn of 10-yr TIPS yesterday, which was met with slower-than expected demand and was priced around 12bp higher than January's auction. The US dollar depreciated against major currencies.

A historical comparison shows scope for yields to fall and for the curve to steepen. Yesterday, the yield curve reversed some of the steepening it achieved after Wednesday's FOMC announcement, ignoring the dovish signal communicated by some key central banks in advanced markets. Yields on 2yr treasuries rose by 4bp while the longer end of the curve held its ground. Market analysts believe that, although a dovish Fed has strengthened the possibility of a rate cut on June 12, mixed macroeconomic data will keep this easing cycle shallow. Assuming the 2024 easing cycle to start on June 12, analysts at JP Morgan undertook an event study on trends in 5yr yields and the 5s/30s slope during similar shallow cycles of 1995 and 2019. These trends are studied over the 6 months preceding and following the date of the first rate cut in these cycles. Furthermore, the report notes that the current macroeconomic backdrop—higher economic growth facilitating higher neutral rates—is more like that of the 1995 easing cycle. The study reveals that the decline in yields in the current cycle (Figure 1 below) has been less than the historical average of 125bp. For the curve slope, at the start of the current cycle, the 5s/30s curve traced the 1995 trend, but subsequently diverged. Hence, if the pattern from the 1995 cycle holds, there is significant room for the curve to steepen in the current cycle.

Figure 1: Treasury yields declined sizably prior to the onset of the shallow 1995 and 2019 easing cycles...

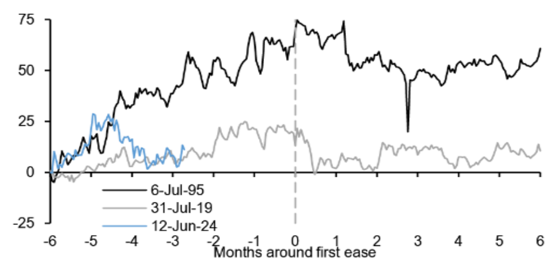
Cumulative change in 5-year Treasury yields in the months around the first ease in a shallow Fed easing cycle*; bp



Source: J.P. Morgan
*Dates used: 7/6/1995, 7/31/2019, 6/12/2024

Figure 2: ...and the curve steepening was more pronounced in 1995 than 2019

Cumulative change in 5s/30s Treasury curve in the months around the first ease in a shallow Fed easing cycle*; bp

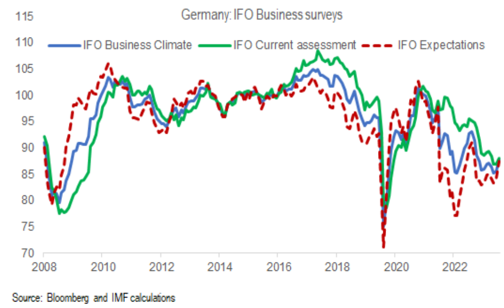


Source: J.P. Morgan
*Dates used: 7/6/1995, 7/31/2019, 6/12/2024

Gold price outlook seen positive despite the rally. Since mid-February, gold prices have experienced a significant uptick, climbing 10% due to escalating geopolitical tensions, acquisitions by central banks, and notably, the Federal Reserve's anticipation of three interest rate reductions in 2024 despite sticky inflation and mixed macroeconomic data. Generally, gold benefits from lower interest rates. Although there was a minor dip in prices yesterday, they continue to hover around the record highs of $2200 per ounce. According to media reports, the holdings of the world's largest gold ETF backed by physical gold have been rising for the last four days, and now stand at approximately 27 Troy ounces. Market analysts believe, given the Fed's stance, the short-term outlook for gold prices is optimistic.

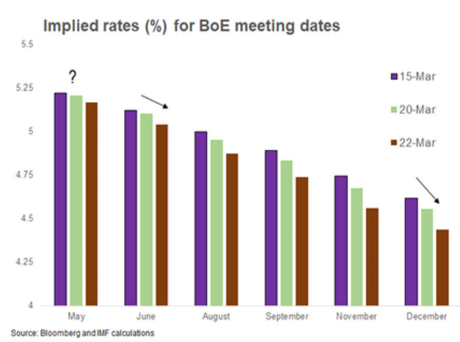
Euro Area

European equities were trading higher this morning. The STOXX 600 index was up 0.1%, with banking sector stocks up a further 0.2% and 11.2% higher year-to-date. A relatively quiet day on the data front with Germany's March Ifo expectations index showing an improvement to 87.5 (84.7 exp, 84.4 prior) and the Ifo business climate index also registering an improvement to 87.8 (86.0 exp, 85.7 prior). There was little immediate reaction to the data release. Elsewhere, contacts note that remarks from President Lagarde at the ECB Watchers conference confirm that policymakers remain data-dependent and need further confidence that inflation is easing towards target in a sustainable manner before any easing in policy can occur. Of particular importance will be data on wages, corporate profits and productivity. While contacts expect the ECB to deliver its first rate cut in June, fewer expect policymakers to deliver back-to-back rate cuts, with most expecting the ECB to instead cut at every forecast meeting. Market pricing for rate cuts in 2024 has remained relatively stable with around 92bp of easing priced in for 2024, and around 22bp of rate cuts priced in for June. This morning ECB Governing Council member Nagel said that "a move in June is a higher probability than April" and that he sees an "increased probability of a rate cut before the summer break'. The euro was trading weaker (-0.4%) against the dollar while euro area sovereign bond yields eased with the 10y bund yield (-3bp) trading at around 2.37%. Elsewhere, 10Y Italian BTP spreads over 10Y German bunds widened a touch (+3bp) to 129bp.

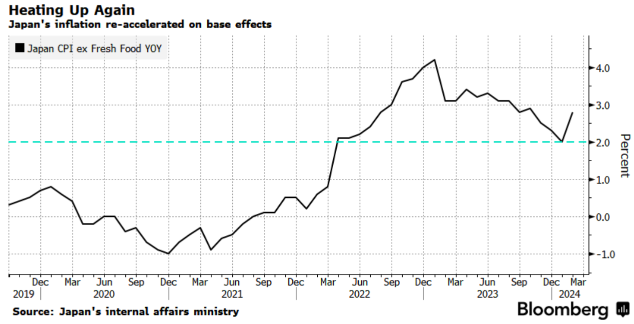


United Kingdom

Following yesterday's BoE decision, markets have brought rate cut expectations forward. The probability of a first rate cut by the BoE in June has increased to 80% from around 50% a week ago. As widely expected, the BoE kept its policy rate unchanged at 5.25%, but for the first time since September 2021 there were no votes for a hike, a slightly more dovish outcome than expected. Guidance was little changed with contacts highlighting some dovish-leaning additions, particularly the indication that the stance of monetary policy could remain restrictive even if the Bank Rate were to be reduced. The market increased rate cut expectations for the year, with a total of 80bp of easing now priced over the course of 2024, up from around 64bp last week. Several analysts see risks of earlier rate cuts, but most have left baseline expectations for when the first-rate cut would happen unchanged, ranging from May to August. **The pound continued to trade weaker against the dollar (-0.6%) this morning and 10Y gilt yields declined (-4bp) to 3.95**%. UK equities opened higher (+0.8%) with the FTSE 100 index 0.1% below its 52-week high.



Japan



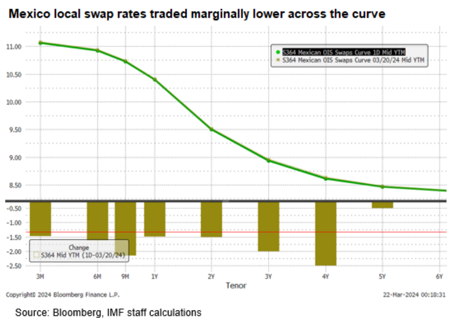
Accelerating inflation keeps markets focused on the Bank of Japan (BOJ)'s monetary policy outlook. CPI Inflation accelerated to 2.8% y/y in February, up from 2.2% in January, higher than expected (consensus: +2.9%). Core CPI inflation (excluding fresh food) also increased to 2.8% y/y from 2.0%. It marked the 23rd straight month that core CPI inflation stayed at or above the BOJ's target. Analysts noted inflation is picking up despite pockets of weak consumer demand, with household consumption falling over the past year. Wage growth has become a key force that drives inflation. While markets still do not expect the BOJ to hike interest rates sharply over the next year, with the 1-year OIS rate up 0.1% to 0.19%, expectations for quicker rate hikes beyond the 1-year horizon are building, with the 2-year OIS rate rising to 0.6% (+6.5 bp). Long-end JGB yields did not move much (10-year: +0.2 bp; 30-year: +0.1 bp) as Governor Ueda said that the BOJ's stance is to let markets decide long-end bond yields. The yen appreciated to 151.5 yen per dollar (+0.1%). Finance Minister Suzuki continued with his verbal warning, saying that Japanese authorities continue monitoring the currency market with a high sense of urgency. Japanese equities gained (NIKKEI: +0.2%).

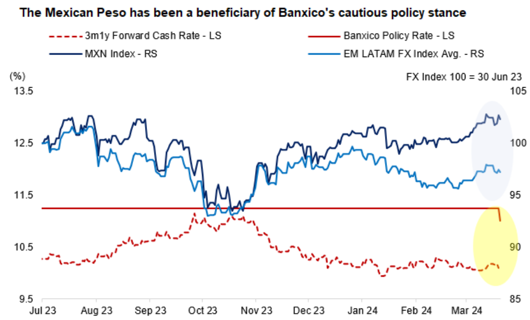
Emerging Markets back to top

Most Asian stock markets declined, falling 1.6% on net, led by Hong Kong (-2.2%) and Chinese (CSI 300: -1.0%) stocks. Meanwhile, share prices rose in India (+0.2%). The decline in Chinese equities dampened market sentiment across the region. Asian currencies depreciated, led by the Korean won (-1.2%), Thai baht (-1.0%) and Indonesian rupiah (-0.8%) amid a broad-based strengthening of USD. The rapid depreciation of RMB (-0.4%) was seen as another factor that put downward pressures on Asian currencies. Long-end government bond yields were mixed, with 10-year yields rising in Taiwan Province of China (+13.0 bp) while falling in Korea (-4.6 bp). **EMEA equities were mostly higher, while currencies were weaker**. Equities outperformed in South Africa (+1.2%), Türkiye (+0.7%) and Czechia (+0.9%) but underperformed in Hungary (-0.3%). CEE currencies were mostly weaker, while the Turkish lira was little changed this morning holding onto yesterday's gains (+1%) following an unexpected rate increase. The ruble weakened (-1.7%), after the central bank of Russia left its key rate unchanged at 16.0%, as expected. Elsewhere, Senegal's presidential election is scheduled for this weekend. **LatAm assets were mixed Thursday as markets digested a multitude of global central bank actions.** Currencies largely weakened against the dollar, with the Chilean peso underperforming, depreciating 0.6%. The CLP's low carry and high volatility, alongside earlier dovish central bank official's comments, are said to have weighed on market sentiment. Local currency government bond yields were also varied. The Brazil yield curve shifted higher following the hawkish tilt to the central bank's action, with its benchmark 10-year yield rising 10bp while Mexico's benchmark 10-year yield declined 5 bp following its first rate cut in over 3 years. Regional equities were mixed, but broadly unchanged, with the MSCI Latin America index trading marginally weaker (-0.1%) for the day. Argentina's MERVAL index continued to outperform, rising 3.4% on the day, to post its fifth consecutive day of gains.

Mexico

Mexico cut its policy rate but did not signal imminent future cuts. Banxico cut its policy rate by 25 bp to 11%, as anticipated by 26 out of 29 analysts surveyed by Bloomberg. The decision was split, with one member voting to leave the rate unchanged, while the other four voted to cut. Critically, Banxico's forward guidance was data-dependent and largely open-ended. Banxico noted that future decisions will depend on the progress in the inflation outlook, leaving open the possibility for a pause in monetary easing in the near future. The cautious stance was also reflected in the inflation outlook, which did not materially change from the previous meeting and cautioned that the balance of risks over the forecast horizon “remains biased to the upside”. Market reaction was largely uneventful, with swap rates ending the day marginally lower while the peso trimmed an earlier loss following the central bank’s announcement.

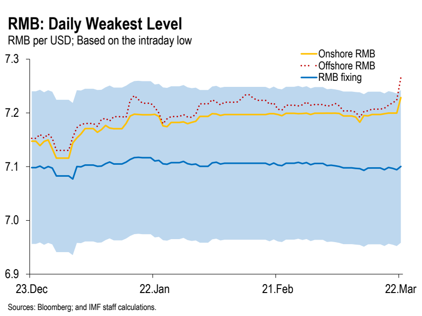


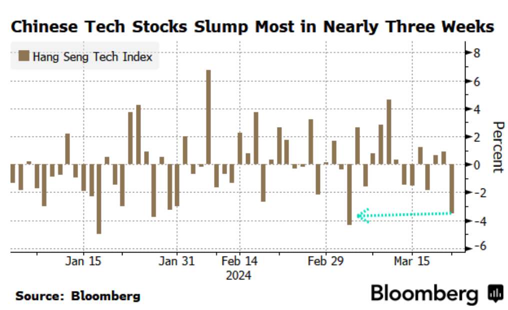


China

The onshore RMB depreciated 0.4% to 7.23 yuan per dollar, the largest daily depreciation in about three months. The RMB breached the 7.20 yuan per dollar line that the People’s Bank of China (PBC) appeared to have defended for months, prompting markets to believe that the PBC may become more willing to see a weaker currency to support the sluggish economic recovery. The PBC continued setting the daily RMB fixing stronger than expected. Today’s fixing was at 7.10 yuan per dollar, the weakest level since early March, with the deviation from market consensus widening to 1,098 pips. Some market participants saw today’s RMB fixing as a sign that the PBC would allow the currency to weaken. The onshore RMB traded very close to the weak side of the band determined by the daily fixing. Meanwhile, offshore RMB depreciated 0.6% to 7.27 yuan per dollar. Long-end CGB yields increased (10-year: +2 bp).

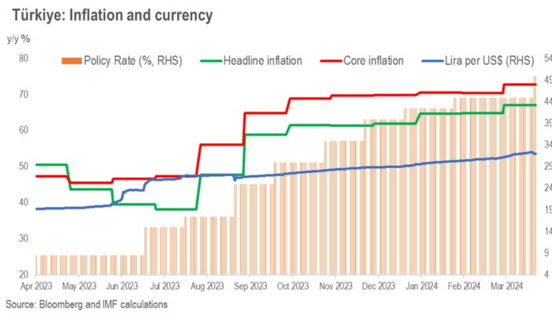
Chinese equities declined (CSI 300: -1.0%; Hong Kong SAR-listed: -2.2%), led by tech stocks (-3.5%). The rebound in Chinese equities since early February seems to have run out of steam. Investors are looking for strong corporate performance, but a raft of disappointing earnings lowered expectations for a more sustained market recovery. Analysts note that investors are concerned about corporate performance across sectors, from electric car makers to financial institutions, while concerns about property developers linger. One main worry is around the financial condition of Vanke, a quasi-state-owned enterprise. Separately, Chinese authorities are scrutinizing the PwC’s role in China Evergrande’ financial fraud case.





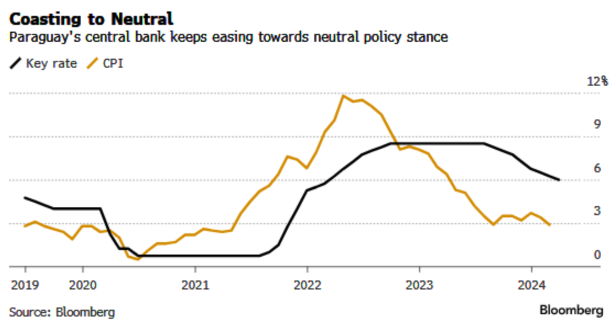
Türkiye

The lira appreciated (+1%) yesterday after the Central Bank of Türkiye (CBRT) unexpectedly hiked rates by 500bp and increased its overnight rate band. The CBRT increased its policy rate by 500bp to 50%, amid deterioration of the inflation outlook on the backdrop of a weaker lira, which is now roughly -7.6% lower versus the USD than at the beginning of the year. Consensus had expected no change in the policy rate. The CBRT also widened the interest rate band to +/-300 bp from +/ 150 bp, which gives the central bank the opportunity to tighten rates further in the coming days (as high as 53%) if it decides to shift all of its funding to the overnight facility, away from the repo window. The lira strengthened after the decision (+1%) and traded stably today. According to Deutsche Bank, who had expected a hike yesterday, lira investors could see a “significant total return performance of up to 10% in the coming months”, with the tightening helping to ease pressure on Türkiye’s foreign reserves. Short-term bond yields moderately adjusted (2y yield decreased by 65bp today) leaving the spread between 3y and 10y bond yields around 15%. BofA analysts think further tightening is unlikely and see the monetary stance now as very restrictive. Deutsche Bank believes the CBRT will cut rates “in a gradual but persistent manner” from late 2024 or from next year.



Paraguay

Paraguay’s central bank cut its policy rate by 25 bp to 6% as anticipated by most economists. The decision marks the eighth consecutive rate cut, whereby policymakers have cut a cumulative 250 bp since August last year. In its statement, the central bank remarked that “the behavior of domestic inflation and expectations make it possible to continue gradually advancing toward a normalization of monetary policy”, although noting the highly uncertain external environment. Market participants view the statement as a signal for further easing. Most analysts, as surveyed by the central bank, are expecting another rate cut for its April meeting. Continued moderation in Paraguay’s inflation, which declined from 2.9% y/y last month from 3.4% y/y in January, might have also amplified market participants’ conviction for further easing.



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Global Financial Indicators

3/22/24 8:16 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5235	0.3	2	3	33	10
Europe		5018	-0.7	1	3	20	11
Japan		40888	0.2	5	5	49	22
China		3545	-1.0	-1	2	-12	3
Asia Ex Japan		68	0.1	0	1	3	2
Emerging Markets		41	0.1	0	1	8	2
Interest Rates			basis points				
US 10y Yield		4.22	-4.9	-9	-10	78	34
Germany 10y Yield		2.34	-6.2	-10	-10	2	32
Japan 10y Yield		0.74	0.0	-5	2	41	13
UK 10y Yield		3.92	-7.2	-18	-18	47	39
Credit Spreads			basis points				
US Investment Grade		119	0.2	-3	-2	-50	-15
US High Yield		346	4.7	-5	-14	-175	-39
Exchange Rates			%				
USD/Majors		104.37	0.3	1	0	2	3
EUR/USD		1.08	-0.3	-1	0	0	-2
USD/JPY		151.3	-0.2	1	0	15	7
EM/USD		46.4	-0.4	-1	-1	-8	-4
Commodities			%				
Brent Crude Oil ($/barrel)		85.9	0.2	1	4	17	12
Industrials Metals (index)		140	-1.0	-2	2	-10	-2
Agriculture (index)		60	-0.5	1	2	-10	-5
Implied Volatility			%				
VIX Index (%, change in pp)		13.1	0.2	-1.3	-1.5	-9.2	0.6
Global FX Volatility		6.4	0.0	0.0	-0.2	-4.1	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	3.9	5	-3	-85	0
Italy		131	3.9	5	-17	-53	-37
Portugal		66	2.5	2	-9	-19	3
Spain		83	2.6	3	-7	-21	-14

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

Emerging Market Financial Indicators

Last updated: 3/22/2024 8:17 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		7.23	-0.4	-0.4	0	-5	-2			2.4	1.5	4	1	-76	-16
Indonesia		15783	-0.7	-1.2	-1	-3	-2			6.7	3.2	1	9	-24	18
India		83	-0.3	-0.6	-1	-1	0			7.2	4.0	4	2	(26.7)	2
Philippines		56	-0.4	-1.4	-1	-3	-2			5.4	-7.4	-7	0	-51	-20
Thailand		36	-0.1	-1.3	-1	-6	-6			2.5	1.5	4	0	12	-16
Malaysia		4.74	-0.4	-0.6	1	-6	-3			3.8	-0.8	-3	-3	-8	12
Argentina		854	-0.1	-0.5	-2	-76	-5			59.6	235.8	210	-1552	-3084	-2679
Brazil		5.00	-0.4	-0.1	-1	5	-3			11.0	5.5	2	19	-212	65
Chile		981	-0.9	-4.0	0	-18	-10			5.1	0.4	3	5	14	22
Colombia		3902	-0.2	-0.3	1	23	-1			7.8	0.0	2	11	-120	12
Mexico		16.80	-0.4	-0.5	2	11	1			8.7	0.0	-10	1	17	23
Peru		3.7	0.2	0.0	3	2	0			7.0	0.4	5	27	-63	34
Uruguay		38	0.7	1.0	2	2	2			9.0	-1.0	4	-6	-137	-55
Hungary		367	-0.9	-1.6	-2	-3	-5			6.4	7.0	33	44	-182	58
Poland		3.99	-0.6	-1.0	0	8	-1			5.1	6.1	16	38	-22	62
Romania		4.6	-0.4	-0.7	0	-1	-2			6.4	-2.7	-6	9	-87	18
Russia		92.7	-0.9	-0.2	0	-17	-4								
South Africa		19.0	-1.0	-1.3	1	-4	-3			9.6	1.0	8	25	70	53
Türkiye		31.99	0.1	0.4	-4	-40	-8			26.2	-2.0	-76	-29	1403	-51
US (DXY; 5y UST)		104	0.3	0.9	0	2	3			4.21	-4.8	-12	-12	69	36

	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		3545	-1.0	-1	2	-12	3		149	-2	0	-31	-9
Indonesia		7350	0.2	0	1	9	1		97	-2	-5	-56	1
India		72832	0.3	0	0	27	1		108	0	8	-64	-8
Philippines		6882	-1.2	1	0	4	7		82	-2	-3	-46	2
Thailand		1381	-0.5	0	-1	-13	-2		0	0	0	0	0
Malaysia		1542	0.1	-1	0	10	6		85	0	4	-21	0
Argentina		1225494	3.4	18	14	445	32		1453	-175	-333	-902	-460
Brazil		128159	-0.8	0	-2	28	-4		208	-4	-3	-69	-7
Chile		6486	-0.2	0	4	23	5		121	-4	-5	-27	-4
Colombia		1322	1.0	3	3	18	11		281	-11	-22	-144	10
Mexico		56657	0.1	1	-1	8	-1		313	-8	-14	-99	-21
Peru		29649	-0.3	2	4	37	14		135	-5	-7	-56	-9
Hungary		65658	-0.3	1	-1	56	8		149	-1	-10	-95	0
Poland		81557	-0.3	2	-1	43	4		94	-1	1	9	-3
Romania		16769	1.0	3	5	39	9		183	-4	-12	-85	-18
South Africa		73212	1.1	0	0	-1	-5		344	3	7	-64	36
Türkiye		9186	0.5	4	-2	84	23		302	-16	-6	-160	-12
Ukraine		507	0.0	0	0	0	0		3642	-113	-611	-1330	-362
EM total		41	-0.6	0	1	8	2		296	-11	-42	-121	-49

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

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