GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MARCH 27, 2024
LEAD EDITOR: JEFF WILLIAMS

- **Yen depreciates to its weakest level since 1990** (link)
- **Riksbank opens door for May rate cut** (link)
- **Leveraged loans outperform bonds as investors search for yields** (link)
- **Capital market activity slows for real estate investment trusts** (link)
- **Hungarian forint strengthens after central bank slows rate cut pace** (link)
- **Nigeria hikes policy rate by 200bp** (link)

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Yen hits multi decade lows as markets watch for possible intervention

This morning, the yen fell as low as 151.97 versus the dollar, its weakest level since 1990 before bouncing back to approach 151. Officials continue to indicate that they are prepared to act against moves they see as excessive. Some analysts believe that intervention could begin should the currency weaken below 152 or if implied volatility increases substantially. In Sweden, the Riksbank suggested a rate cut could come as soon as its May meeting, ahead of when the ECB is expected to first cut. The krone only declined modestly on the news as anticipation had been building for a dovish message from the central bank. This morning, US equity futures are slightly in positive territory ahead of the market opening, after a late day fall in stocks yesterday more than erased earlier gains. Analysts believe that pressure on equities could continue through the week on quarter and month-end rebalancing flows, given the recent robust performance of equity markets. This pressure could be compounded by reduced liquidity heading into what is a holiday weekend for many global markets, including US equities .

Key Global Financial Indicators

Last updated: 3/27/24 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5204	-0.3	0	2	31	9
Eurostoxx 50		5086	0.4	2	4	22	12
Nikkei 225		40763	0.9	2	4	48	22
MSCI EM		41	-0.1	1	1	6	2
Yields and Spreads					bps		
US 10y Yield		4.22	-1.6	-6	-9	69	34
Germany 10y Yield		2.30	-5.4	-14	-17	7	27
EMBIG Sovereign Spread		344	1	-11	-23	-159	-39
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.6	0.1	-1	0	-8	-3
Dollar index, (+) = $ appreciation		104.4	0.1	1	1	2	3
Brent Crude Oil ($/barrel)		85.9	-0.5	0	3	10	11
VIX Index (%, change in pp)		13.1	-0.2	0	0	-8	1

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

Mature Markets

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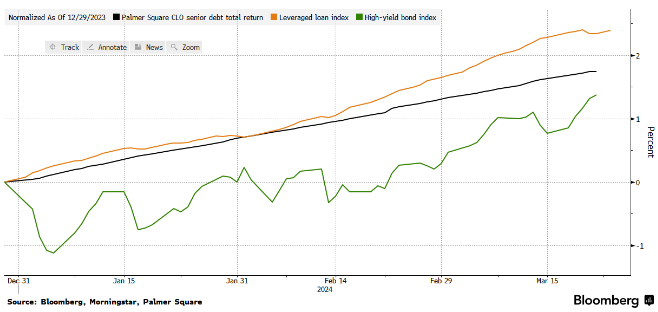
United States

Sales of collateralized loan obligations have been increasing, supported by strong US economic data, helping support prices for leveraged loans. Uncertainty around the Fed's forthcoming rate cuts has also supported leveraged loans, and floating-rate debt in general, which have outperformed bonds to start the year. Credit investors are increasing demand in part due to their search for yields as well as the belief that CLOs will continue to perform well even in the event of a slowdown in the US economy. According to Bloomberg, part of the attractiveness stems from the loans' seniority, as well as the diversification benefits of pooling debt and minimizing single-name default risk. Nevertheless, supply of new floating-rate corporate debt is limited by sluggish merger and acquisition activity, and most recent issuance of leveraged loans was used for repricing already existing deals. Analysts suggest that the shortage of leveraged loans to repackage could limit CLO formation and such a demand/supply imbalance is expected to keep upwards pressure on prices.

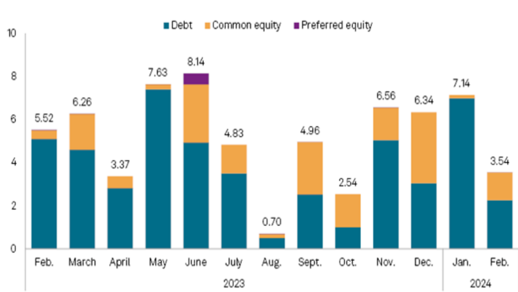
Leveraged loans outperform bonds



Capital market activity slows for real estate investment trusts. The amount of capital raised in February was $3.54 bn, 35.8% lower than the same figure last year and about 50% of the $7.14 bn raised in January, according to the latest S&P Global Market Intelligence data. Of the total, $1.28 billion came from common equity offers, with the majority coming from debt offerings. By property sector, retail REITs accounted for the greatest percentage of total capital raised year to date, with $3 billion, 12.2% less than the capital raised in the first two months of 2023.

US equity REITs capital-raising activity

(Billions of dollars)



Data compiled March 19, 2024.
Includes capital offerings completed by US equity real estate investment trusts between Feb. 1, 2023, and Feb. 29, 2024, that trade on the Nasdaq, NYSE or NYSE American.
Excludes shelf or exchange offerings or offerings completed solely by secondary shareholders.
Source: S&P Global Market Intelligence.
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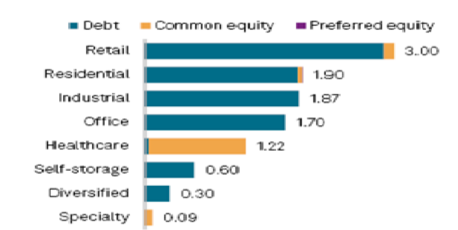
Offering by property sector, 2024 YTD

(Billions of dollars)



Data compiled March 19, 2024.
Includes capital offerings completed by US equity real estate investment trusts from Feb. 1 to Feb. 29 for 2023 and 2024 that trade on the Nasdaq, NYSE or NYSE American.
Retail sector includes regional malls, shopping centers, single tenant, outlet center and other retail; residential sector includes multifamily, single family and manufactured homes; specialty sector includes advertising, casino, communications, datacenter, energy infrastructure, land and timber real estate companies.
Excludes shelf or exchange offerings or offerings completed solely by secondary shareholders.
Source: S&P Global Market Intelligence.
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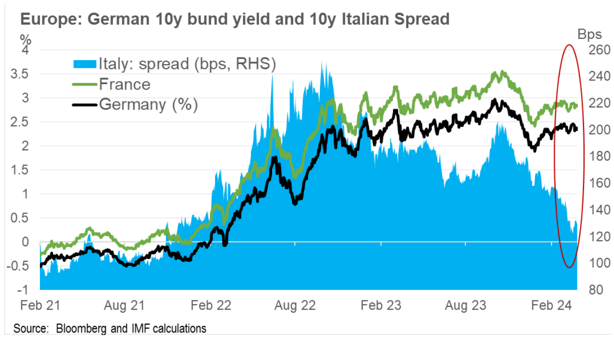
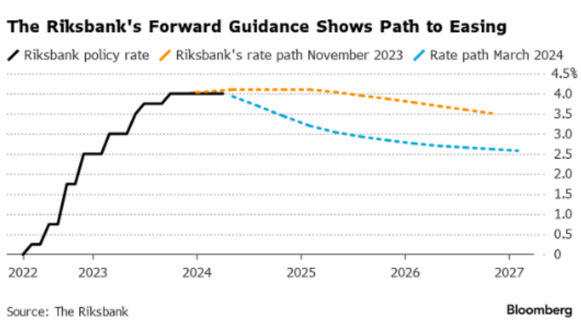
Europe

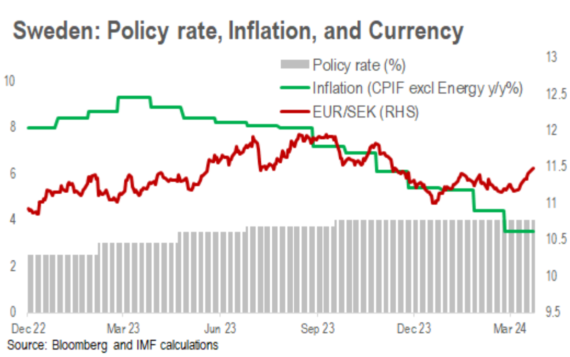
European equities were trading in a tight range with the STOXX 600 index little changed. The euro was little changed against the dollar. **Euro area sovereign yields continued to ease this morning** (10y bund yield -2bp at 2.33%) with preliminary inflation data from Spain showing a slightly lower-than-anticipated acceleration in March. Yesterday, bund yields ended the day marginally lower with contacts pointing to commentary from ECB General Council member Muller, one of the known ECB hawks, who said that “data may confirm inflation trend for ECB’s June meeting”. **Markets are now pricing in 91bp of ECB rate cuts in 2024, with a 25bp rate cut in June fully priced.** 10yr Italian yields ended yesterday 4bp lower seeing spreads narrow to around 130bp, while French 10y yields saw a more modest decrease yesterday (10y -2bp) amid news that France’s budget deficit was larger than expected in 2023. **Separate data releases this morning showed euro area’s economic confidence improving slightly more than expected in March**.



Sweden

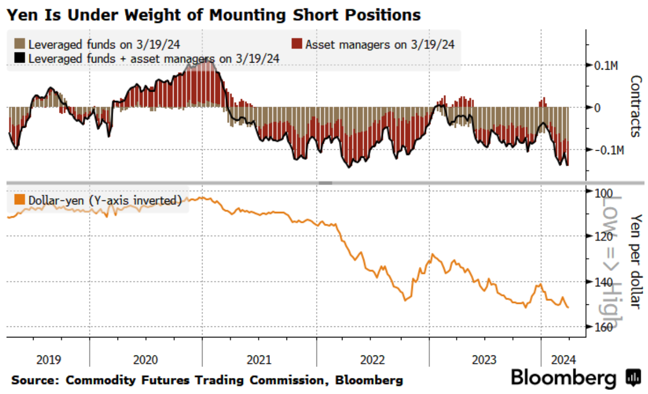
The Swedish krone weakened marginally after the Riksbank left rates unchanged as expected but signaled that rates could be eased as early as in May. The Riksbank left the policy rate unchanged at 4%, but noted in the statement that “it is likely that the policy rate can be cut in May or June if inflation prospects remain favorable.” ING analysts highlight that the Riksbank’s latest rate projections show a high probability of a rate cut in Q2, and 2–3 cuts overall in 2024, which analysts argue did not constitute a dovish surprise by itself considering market expectations on monetary easing. The Swedish krone was marginally weaker this morning (-0.1%), trading at the weakest level in four months. Yesterday Bloomberg analysts highlighted that the market was positioned for a dovish policy decision, even though a poll by SEB AB has showed that Swedish fixed income investors do not see a central bank rate cut in May as a very likely scenario. Money markets are now pricing in 21bp of rate cuts in May (compared to around 17bp yesterday and 15bp last week).





Japan

The yen depreciated to 151.7 yen per dollar (-0.1%). In the morning trading session, the currency depreciated to its weakest level since 1990, nearly touching the 152 yen per dollar mark. The depreciation pressure increased after Naoki Tamura—Bank of Japan (BOJ) board member who is perceived to be the most hawkish—reiterated the BOJ’s stance that financial conditions will remain accommodative. He also indicated that the policy normalization should be slow but steady, suggesting further rate hikes but at a slow pace. The yen recovered some ground after Finance Minister Suzuki ramped up his verbal warning about potential FX interventions. Markets still expect interest rate differentials between Japan and other advanced economies to remain wide. Hedge funds and asset managers held a near-record level of bearish positions against the yen according to data from the Commodity Futures Trading Commission. **Japanese equities gained** (NIKKEI: +0.9%), benefiting from the weak Japanese yen. Long-end JGB yields declined (10-year: -1.5 bp; 30-year: -2.4 bp), following the decline in US treasury yields. **Japanese financial institutions are poised to reduce their holding of stocks.** For decades, a network of cross-shareholding has existed as banks helped firms overcome business difficulties and expand globally. Now, expecations are growing for a rapid selling of these equity stakes. The financial regulator has pressed insuers to cut their holdings, and it is expected that banks will likely follow.



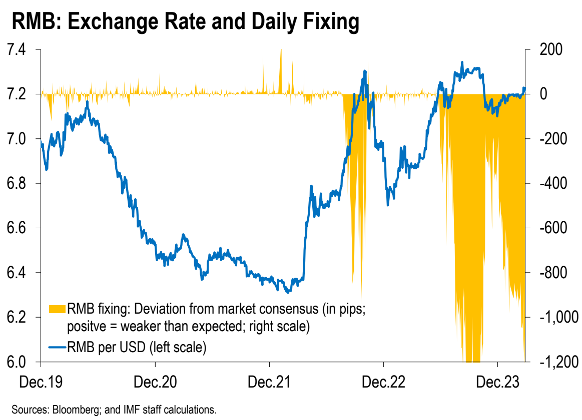
Emerging Markets [back to top]

Asian stock markets were mixed, falling 0.7% on net. Hong Kong (-1.4%) and Chinese (CSI 300: 1.2%) equities declined, while share prices increased in India (+0.8%) and Singapore (+0.5%). Asian currencies depreciated, led by the Korean won (-0.7%), Indonesian rupiah (-0.4%) and Thai baht (-0.4%). Long-end government bond yields were mixed, with 10-year yields rising in Indonesia (+3bp) while falling in Korea (-3bp) and India (-2bp). In Thailand, the government reassessed the funding option for its $14 bn cash handout plan. Government bond yields fell (10-year: -1bp). **EMEA equities are higher**, with strong performance in Czechia (+1%), while currencies were mixed. CEE currencies were mostly marginally weaker against the euro, except for the Hungarian forint that has gained for two consecutive days after the central bank reduced the pace of rate cuts to 75bp yesterday. Separately, Poland's ruling coalition kicked-off a probe of central bank chief Adam Glapinski on Tuesday. The zloty — which just hit a four-year high against the euro — traded little changed this morning as traders saw little if any near-term policy fallout from the inquiry. The Turkish lira traded roughly 0.6% weaker against the dollar since last week despite the 500bp surprise rate hike on 21 March. The volatility of the lira has jumped to 13.5% ahead of next Sunday's municipal elections. Elsewhere, the South African rand was stronger (+0.3%) against the dollar ahead of the policy decision later today, with consensus expecting the central bank to keep rates unchanged. **Latin American stocks and currencies were mixed Tuesday.** Stocks gained in Mexico (+1.2%), Chile (+0.4%), and Argentina (+0.2%), but lost in Colombia (-0.9%). The Colombian peso (+1.0%) outperformed, followed by the Mexican peso (+0.2%), while other regional currencies depreciated against the dollar.

China

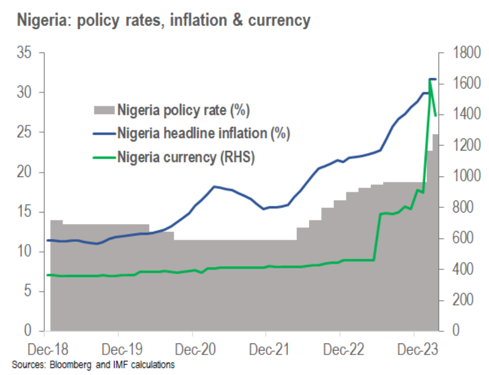
Chinese equities retreated, with tech firms accounting for most of the losses. Share prices fell 1.2% in the onshore markets (based on CSI 300) and 1.7% in the Hong Kong market. The decline in tech stocks mirrored yesterday's fall in US tech stocks. Furthermore, sentiment weakened as Alibaba called off its plan to list its logistics arm in Hong Kong SAR, with the IPO deal estimated to be more than $1 bn. **Industrial**

profits ytd increased 10.2% y/y in February, compared with a decline by 2.3% in the entire year of 2023. Analysts noted that positive industrial profits were attributed to solid manufacturing activity, a low base effect, and growth-supportive measures. **RMB depreciated to 7.23 yuan per dollar (-0.2%)**. The People's Bank of China (PBC) set the daily RMB fixing at 7.095 yuan per dollar, stronger than expected, with the deviation from market consensus widening to 1,276 pips. The PBC continued injecting liquidity, today in an amount of 247 bn yuan ($34.2 bn), as quarter-end funding pressures increased. The key interbank repo rate (DR007) edged up to 2.02% (+3.9 bps), above the policy rate at 1.80%. Spreads of money market rates also widened though still at relatively low levels.



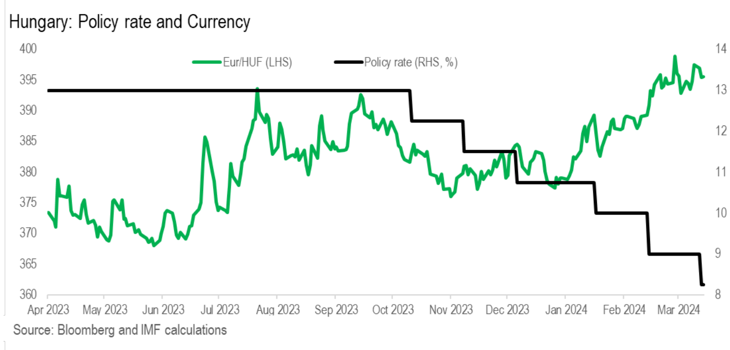
Nigeria

The Central Bank of Nigeria raised interest rates by 200bp to 24.75%. Consensus expectations had been for a smaller 125bp rate hike, although some contacts had anticipated a larger 400bp rate hike. The cash reserve ratio (CRR) was left unchanged at 45%, while the CRR for merchant banks was raised to 14% from 10%. **The asymmetric corridor was also narrowed back to pre-February meeting levels** at +100/-300 bp (from +100/-700), delivering a total of 600bp in effective tightening at this meeting. Governor Cardoso explained that the rate hike was necessary to tame inflation, which reached 31.7%y/y in February and to ensure the FX market remains open and transparent. **JP Morgan analysts expect that the policy rate will now be on hold for the remainder for the year as policymakers will want to assess the impact of recent actions on headline inflation.** The analysts expect headline inflation will reach 34%y/y in the coming months before decelerating toward 29%y/y by end-2024 and note that the naira has seen some appreciation in both official and parallel markets, which should improve FX liquidity and garner more foreign portfolio inflows.



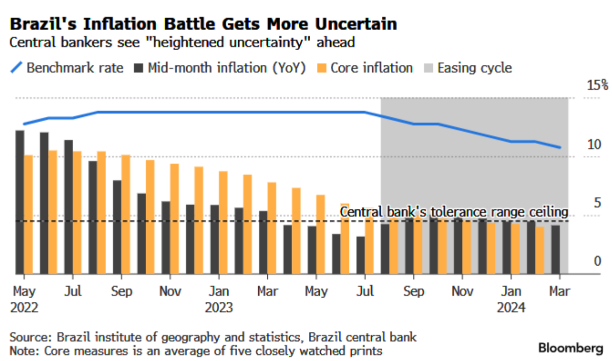
Hungary

The Hungarian forint gained after the National Bank of Hungary yesterday slowed the pace of rate cut to 75bp, from 100bp in February, taking the rate to 8.25% in line with expectations. The forint appreciated (+0.4%) against the euro yesterday and was stronger (+0.2%) this morning, although still weaker (-0.5%) than a month ago. Yesterday's decision was unanimous and communication signaled a move to a more hawkish stance, as NBH Deputy Governor Virag talked of a "new phase" of slower rate adjustments in Q2 2024 citing risks from the weaker forint and the need to remain vigilant on inflation. The NBH expects inflation to further slow, but noted a possible temporary rise around mid-year due to base effects. Looking ahead, Deputy Governor Virag confirmed expectations that NBH will reduce the rate to the 6.5%-7% range by the end of June were realistic. JP Morgan continues to think the NBH will slow the pace of rate cuts to 50bp in April and that policy rate will reach 5.5% at the end of 2024, but sees the possibility of a 25bp cut if the forint continues to weaken. ING expects another 75bp cut in April, but also notes the possibility of a 50bp cut instead, and expects the policy rate in the range of 6% -6.5% by year-end.



Brazil

Brazil's central bank reveals increased uncertainty in the disinflation process. The central bank's meeting minutes reveal that resilience from the US economy, and the speed of disinflation in both domestic and international markets, did not change their baseline scenario but has been incorporated as a source of uncertainty. The minutes highlight that policy makers discussed greater monetary flexibility in the future, indicating a 50 bp cut at the next meeting—which was changed from a likely 50 bp cuts at the next two meetings. Additionally, some policy makers argued that if future uncertainty remains high, then a slower pace of rate cuts might be appropriate. Policy makers emphasized that the change in signal should not be interpreted as a change to their baseline. Brazilian rates increased across the curve following the release.



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Global Financial Indicators

3/27/24 8:07 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		5211	-0.3	0	3	31	9
Europe		5086	0.4	2	4	22	12
Japan		40763	0.9	2	4	48	22
China		3503	-1.2	-2	2	-12	2
Asia Ex Japan		68	-0.1	0	1	2	1
Emerging Markets		41	-0.1	1	1	6	2
Interest Rates					basis points		
US 10y Yield		4.22	-1.6	-6	-9	69	34
Germany 10y Yield		2.30	-5.4	-14	-17	7	27
Japan 10y Yield		0.73	-1.4	-2	3	41	11
UK 10y Yield		3.93	-4.4	-9	-27	56	39
Credit Spreads					basis points		
US Investment Grade		121	-0.1	1	-4	-50	-13
US High Yield		351	2.2	2	-11	-175	-34
Exchange Rates					%		
USD/Majors		104.40	0.1	1	1	2	3
EUR/USD		1.08	-0.1	-1	0	0	-2
USD/JPY		151.2	-0.2	0	0	15	7
EM/USD		46.6	0.1	-1	0	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		85.9	-0.5	0	4	15	12
Industrials Metals (index)		138	-0.7	-2	1	-13	-3
Agriculture (index)		59	-0.6	-1	1	-11	-5
Implied Volatility					%		
VIX Index (%, change in pp)		13.1	-0.2	0.0	-0.4	-7.5	0.6
Global FX Volatility		6.5	0.0	-0.1	0.0	-4.3	-1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	2.8	6	1	-82	2
Italy		132	1.3	3	-12	-52	-36
Portugal		68	0.3	3	-5	-19	4
Spain		84	0.6	2	-5	-20	-13

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

Emerging Market Financial Indicators

Last updated: 3/27/2024 8:08 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	-0.2	-0.4	0	-5	-2		2.4	1.1	-1	1	-75	-16
Indonesia		15858	-0.4	-0.9	-1	-4	-3		6.7	4.0	8	15	-5	25
India		83	-0.1	-0.2	-1	-1	0		7.2	-2.9	-7	-3	(25.8)	-3
Philippines		56	0.2	-0.1	0	-3	-1		5.4	0.0	0	0	-51	-20
Thailand		36	-0.2	-1.1	-1	-5	-6		2.5	-0.5	-1	-2	6	-17
Malaysia		4.73	-0.3	0.0	1	-7	-3		3.8	-1.1	-4	-3	-4	11
Argentina		857	-0.1	-0.4	-2	-76	-6		53.8	-60.6	-326	-2031	-3774	-3253
Brazil		4.98	0.1	-0.1	-1	4	-2		11.1	3.1	10	16	-212	66
Chile		980	0.1	-1.2	0	-18	-10		5.2	-0.2	4	1	8	25
Colombia		3857	1.1	0.5	3	21	0		7.8	0.0	-4	2	-94	13
Mexico		16.62	0.1	0.4	3	10	2		8.8	0.0	6	1	27	32
Peru		3.7	-0.3	-0.5	2	1	0		7.3	0.6	30	45	-24	64
Uruguay		38	0.3	2.0	4	3	3		9.0	1.2	0	-6	-116	-55
Hungary		365	0.1	-1.2	-1	-2	-5		6.5	3.0	19	44	-151	70
Poland		3.99	-0.2	-1.0	0	9	-1		5.0	-5.4	3	22	-34	57
Romania		4.6	-0.2	-0.9	0	0	-2		6.4	-0.8	-9	5	-73	18
Russia		92.5	0.0	0.0	-1	-17	-3							
South Africa		18.9	0.2	-1.2	1	-3	-3		9.8	-3.0	12	22	69	64
Türkiye		32.26	-0.2	0.3	-3	-41	-8		26.8	-16.0	-23	-11	1471	2
US (DXY; 5y UST)		104	0.1	1.0	1	2	3		4.21	-1.4	-4	-10	62	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		3503	-1.2	-2	2	-12	2		149	0	-1	-42	-9
Indonesia		7310	-0.8	0	0	8	1		100	-3	-5	-65	4
India		72996	0.7	1	1	27	1		106	-2	7	-69	-10
Philippines		6904	0.1	1	0	5	7		86	-3	0	-54	6
Thailand		1381	0.3	1	-1	-13	-2		0	0	0	0	0
Malaysia		1531	-0.5	0	-1	9	5		84	-2	2	-23	-1
Argentina		1214656	0.1	7	17	420	31		1431	-102	-274	-1125	-482
Brazil		126863	-0.1	-1	-4	27	-5		209	-5	-1	-81	-6
Chile		6520	0.4	0	3	24	5		124	-2	-4	-30	-1
Colombia		1318	-0.9	1	2	18	10		293	-3	-3	-128	22
Mexico		57210	1.2	3	2	8	0		314	-11	-7	-100	-20
Peru		28787	-2.5	-2	1	33	11		139	-3	-4	-59	-5
Hungary		65090	0.1	-1	-1	55	7		151	-3	-10	-90	2
Poland		81509	0.3	2	-2	44	4		97	-1	7	11	0
Romania		16825	0.3	2	6	39	9		183	-5	-12	-79	-18
South Africa		73812	0.3	3	1	-2	-4		356	5	8	-63	48
Türkiye		8825	0.2	-1	-4	77	18		310	-17	6	-164	-4
Ukraine		507	0.0	0	0	0	0		3487	-320	-711	-1423	-517
EM total		41	-0.2	1	1	6	2		298	-10	-29	-130	-47

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