GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MAY 10, 2024

LEAD EDITOR: JOHANNES S. KRAMER

- **Three drivers of structural demand may outweigh the higher Treasury bill supply** (link)
- **ABS market for digital infrastructure is poised for significant growth** (link)
- **Upbeat activity data in the UK lifts the FTSE 100 while odds for a cut in June increase** (link)
- **Potential rumors of dividend tax exemption propel Hong Kong's stock market** (link)
- **Pace of easing expected to slow in Hungary as headline inflation edges higher in April** (link)
- **Peru's central bank cut the policy rate as expected, bringing it to a two-year low** (link)

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A slew of Fed speakers meets UK recovery

Preliminary data suggests that the UK has recovered from a recession. Flash estimates for first-quarter GDP have beat consensus expectations and March industrial production similarly exceeded expectations, boosting UK stock markets. Conversely, the Bank of England's decision to maintain rates unchanged yesterday is met with increasing odds of a rate cut in June, which has supported Gilts. In the US, several Fed officials, including Bowman, Barr, Logan, Kashkari, and Goolsbee, are scheduled to make public appearances today. Economic data to be released includes the University of Michigan indicator, with market attention focused on inflation expectations after stock markets and Treasuries gained yesterday on softer labor market data and better than expected demand in 30-year Treasury bond auction. In Peru, the central bank has lowered its policy rate to a two-year low amid the region's lowest inflation. In Poland, market focus remains on the central bank's press conference following yesterday's decision to keep policy rates unchanged. Fitch and S&P will release updated sovereign credit ratings for Poland later today.

Key Global Financial Indicators

Last updated: 5/10/24 8:50 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5214	0.5	3	1	26	9
Eurostoxx 50		5092	0.7	3	2	18	13
Nikkei 225		38229	0.4	0	-3	30	14
MSCI EM		42	0.3	1	3	8	5
Yields and Spreads					bps		
US 10y Yield		4.48	3.1	-2	-6	104	61
Germany 10y Yield		2.50	0.6	1	7	21	48
EMBIG Sovereign Spread		370	1	-9	40	-113	-13
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	0.1	0	0	-8	-3
Dollar index, (+) = $ appreciation		105.3	0.1	0	0	4	4
Brent Crude Oil ($/barrel)		84.3	0.5	2	-7	10	9
VIX Index (%, change in pp)		12.8	0.1	-1	-3	-4	0

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

Yesterday, both stock markets and Treasuries gained on softer labor market data. Treasury yields edged down, initially starting with a decline in 2y yields (-2bps) to 4.82% on expectations that a cooling labor market might require more Fed accommodation, while longer-term yields followed through after decent demand in a 30y auction, exemplified with the decline in 10y yields (-4bps) to 4.45%.

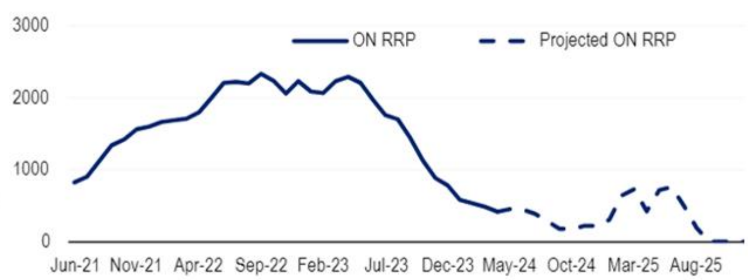
Three drivers of structural demand may outweigh the higher Treasury bill supply. To recall, Treasury announced last week to meet its increased funding needs through further issuance of bills. Even though such shift is bringing the share of bills relative to total Treasury debt outstanding beyond the recommended 15−20% share of the Treasury Borrowing Advisory Committee, Bank of America market contacts outline three structural drivers that in their view spur an increased structural demand for bills that could outweigh the additional supply (left chart). First, they expect a continuation of flows into money market funds (MMFs), in conjunction with the shift from institutional prime to government only fund types (as outlined yesterday). Second, they point at a recent publication from the Brookings institute authored by former Fed governors Stein and Tarullo that indicates building momentum for a proposal to tweak bank liquidity risk management rules this year, which could compel banks to gradually pull their high-quality liquid assets holdings towards bills. Third, they expect the Fed to start reinvesting prepayments in its mortgage-backed security holdings in bills. Bank of America analysts anticipate those additional demand drivers to outweigh the additional bill supply, making the case for bills to yield less than overnight rates by year end, so that MMFs could flock back into the Fed's overnight reverse repo facility, whose take-up could rise by the end of the year (right chart).

Supply and demand estimates for bills through fiscal year 2025

	Bill Demand ($bn) Low End	Bill Demand ($bn) High End
MMF Inflows	200	250
MMF Liquidity Rule Change	125	225
Fed MBS to Bills	0	240
Total	325	715
Bill Supply ($bn)	157	
Demand / Supply Ratio	2.07	4.55

Source: Bank of America

Take-up in Fed ON-RRP facility projection
(USD bn)

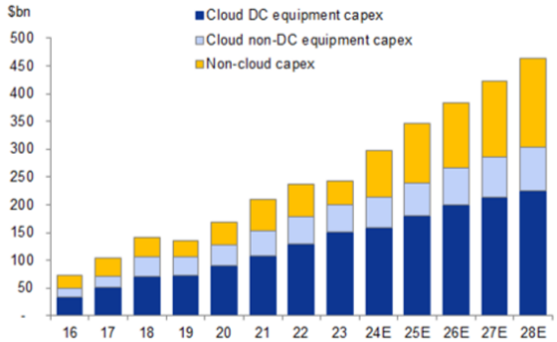


Source: Bank of America

The ABS market for digital infrastructure is poised for significant growth in the coming years, according to GS equity strategists. They identify digital infrastructure as the next focal point of thematic investments following the initial focus on chip-making for the artificial intelligence theme. Capital expenditures (capex) in data centers alone are projected to reach $450 billion within five years (left chart). With increasing financing requirements, digital asset securitization is seen as a promising financing channel. Notably, digital infrastructure asset back security (ABS) issuance totaled $10 billion in 2023 and $4 billion year-to-date. The securitization of digital infrastructure began in 2010 with structured financing backed by cell tower lease payments, while ABS issuance for data centers and network infrastructure commenced three years ago, quickly surpassing that of cell towers (right chart).

Expected data center capex growth could go hand in hand with significant financial needs

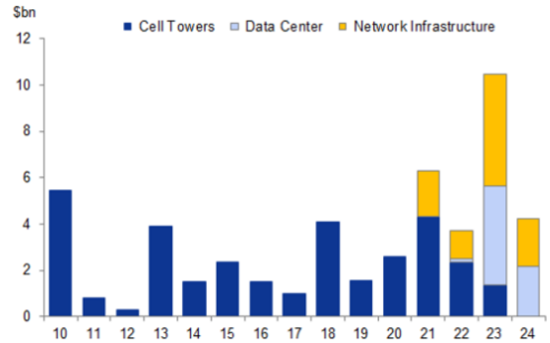
Total capex estimates with projections ($ in billion)



Source: Goldman Sachs

Digital infrastructure ABSs are backed by cell towers, data centers & network infrastructure

Issuance of digital infrastructure ABS over time ($ in billion)



Source: Goldman Sachs

Euro area

Euro area stock markets extend their gains while currency and bond markets are little changed. The Stoxx 600 gained (+0.9%) driven by strength in the energy sector and regional strength in Scandinavia while the left-party regional and federal governments in Spain vows to block BBVA's hostile bid for Banco Santander we outlined yesterday on concerns about potential layoffs. Bund yields declined at the 10y point (-3bps) while the 10y yield spread of Italian government bonds over bunds only slightly narrowed (-1bps) to 133bps.

United Kingdom

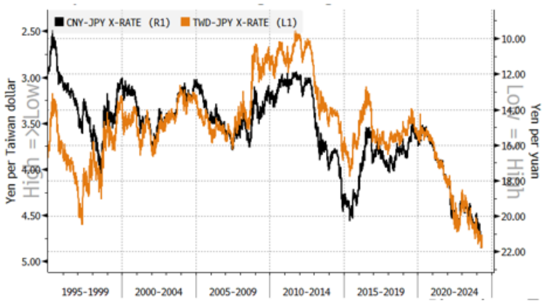
Today's upbeat GDP and industrial production prints are lifting UK stock markets. The FTSE 100 extends its gains (+0.8%). For Q1 2024, preliminary GDP data printed at +0.2% y/y (exp. 0% from -0.2%), confirming that the UK exited the recession. Industrial production grew in March by +0.5%y/y (exp. +0.3% from revised 1%). Despite that Bank of England (BoE) Governor Bailey yesterday downplayed the effect of stronger activity data, JP Morgan analysts are noting that the positive growth surprise might reduce some of the urgency to lower rates as early as June. Nevertheless, following yesterday's BoE decision to keep rates unchanged, the priced odds for a -25 bps rate cut at the June meeting increased from 46% two days ago to 60%, paving the way for gilt yields to shift down (-3bps) parallely. The Pound sterling remained flat at $1.25/£.

Japan

Japanese stock markets slightly gained while the JGB yield curve steepened. Household spending continued to decline, falling -1.2% y/y in March (exp. -2.3% from -0.5). March balance of payments data shows that Japanese investors bought US sovereign bonds for a fourth straight month, indicating no rush to repatriate bond investments abroad following the Bank of Japan's exit from the negative interest rate policy. Japanese equities gained (NIKKEI: +0.4%). Long-end JGB yields were mixed (10-year: -0.2 bp; 30-year: +1.6 bps) after a 30-year debt auction saw tepid demand.

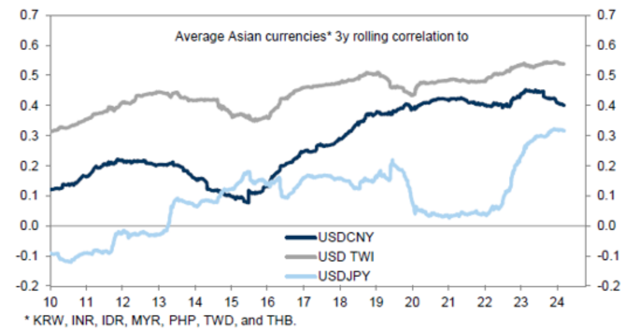
The yen continues to depreciate. On the day, the currency fell (-0.1%) to ¥155.7/$ while Finance Minister Suzuki issued another verbal warning that so far helped the currency to remain below yesterday's session lows of ¥156.95/$. The gravity pull that a weaker yen exerts on regional peers (left chart) prompts market contacts to become increasingly wary of political tensions. In the region, the average correlation of Asian currencies to the yen markedly increased since 2022 (right chart). Conversely, market contacts perceive that the weaker yen might have eroded the export competitiveness of Japan's close neighbors.

The Yen slumped to multi-decade low against CNY and TWD …



Source: Bloomberg

… while average correlation of Asian currencies to Yen markedly increased in the last two years.



Source: Goldman Sachs

Emerging Markets

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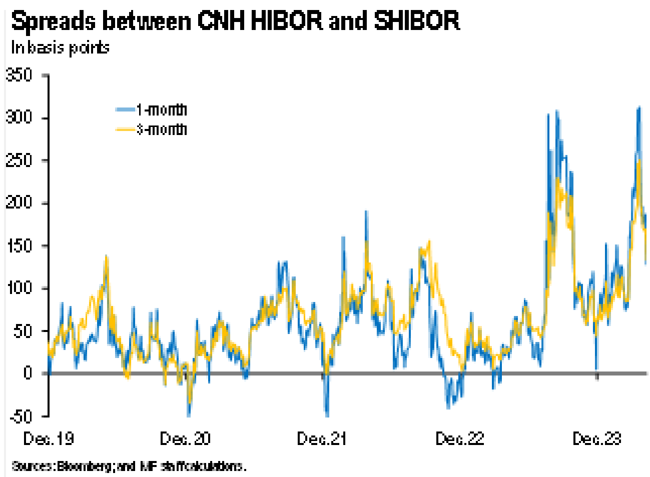
This morning, EMEA equities mostly gained while currencies lacked clear trend. Stock markets in South Africa (+0.9%) and Türkiye (+0.6%) outperformed, while equities in Poland (-0.2%) underperformed. The Polish zloty fractionally depreciated (-0.1%) against the euro to trade at 4.29/€ this morning after the National Bank of Poland kept rates on hold yesterday at 5.75%, in line with expectations. Investor attention now turns to today's press conference. Separately, according to Bloomberg, Fitch and S&P are expected to release their sovereign credit rating review of Poland after market close today. The country is currently rated A- with both credit rating agencies seeing a stable outlook. In South Africa, the rand appreciated (+0.2%) against the dollar at 18.44/$ on firmer precious metal prices.

Asian equities advanced while currencies remained range bound. Stock markets gained on net (+1.1%), led by Hong Kong's (+2.3%), Taiwan's (+0.7%) and Korea's (+0.6%). Most currencies remained flat, except for the Thai baht which extended yesterday's gains (+0.7%). Long-end government bond yields declined, with 10-year yields falling in Singapore (-5.3 bps) and Taiwan Province of China (-2.9 bps), following the decline in US treasury yields.

Yesterday, Latin American equity and currency markets traded in divergent directions. Stock markets gained in Mexico (+1.3%) and Peru (+0.8%), while Brazil's equity market declined (-1.0%). Currencies appreciated in Colombia (+1.3%), Peru (+0.9%) and Mexico (+0.6%), while the Brazilian real depreciated (-1.0%).

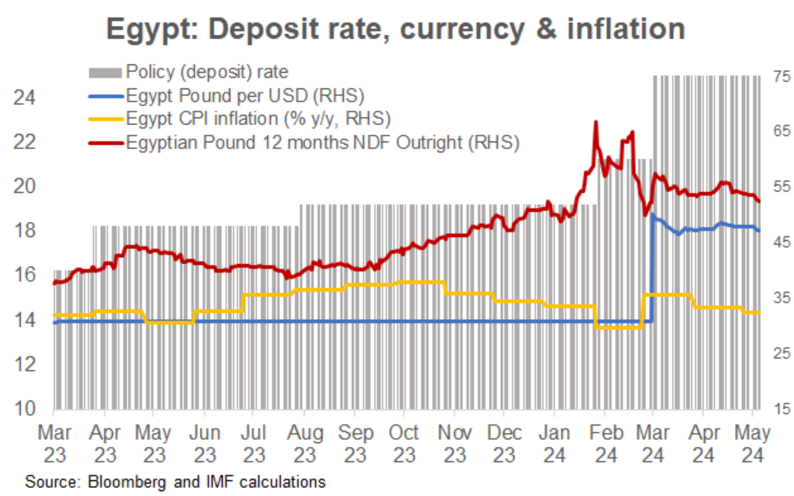
China

Rumors of Hong Kong stocks becoming potentially exempted from dividend tax are driving the Chinese stock markets. Following news reports, Chinese authorities may consider exempting individual investors from paying taxes on dividend payments of Hong Kong stocks bought via bond connect for which the current tax rate amounts to 20%. Hong Kong SAR-listed Chinese equities rose (+2.4%), while Onshore Chinese equities (based on CSI 300) remained flat. In money markets, the spread between CNH HIBOR and SHIBOR fixings has declined to 128 bps from a peak of 300 bps in mid-April (see chart)., which shows that offshore CNH liquidity conditions have markedly eased. Rumors that US authorities are supposedly imposing tariffs has so far little impact on the yuan, which only fractionally depreciated (-0.1%) to 7.22 per dollar.



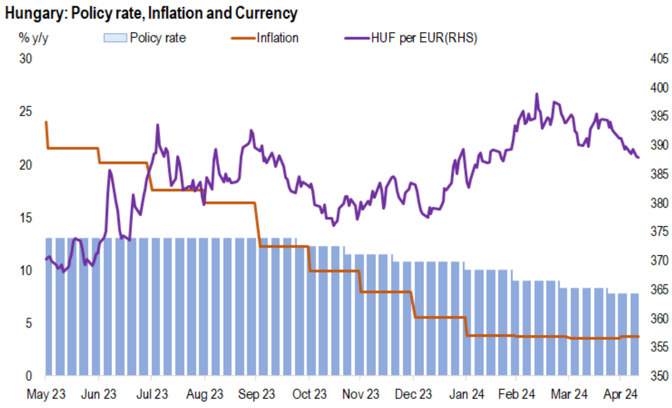
Egypt

Headline inflation eases for a second consecutive month in April. Data released yesterday showed headline inflation slowed to 32.5% y/y in April (from 33.3%), while annual core inflation slowed further to 31.8% y/y from 33.7% y/y in the prior month. Backed by restrictive monetary policy, improving supply chains and an effective appreciation of the currency in the parallel market, analysts at Goldman Sachs see inflation approaching 22% by the end of this year. They expect the Central Bank of Egypt to continue with its "orthodox monetary policy stance" and anticipate that easing inflation could allow policymakers to adjust rates down to 21% from 27.25% by the end of 2024 and to 9% by the end of 2025.



Hungary

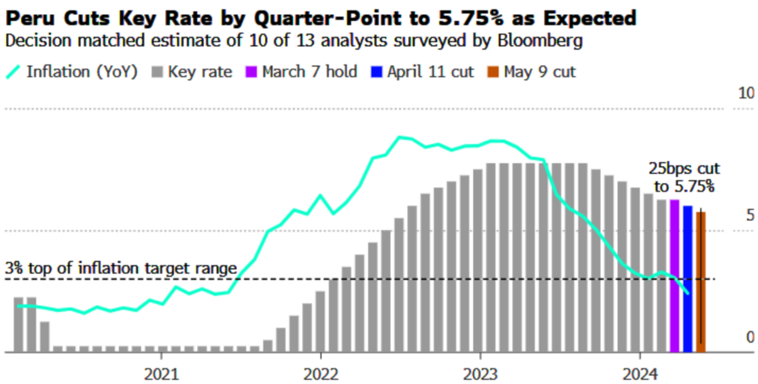
Higher April headline inflation prints could slow the pace of the rate cutting cycle. April headline inflation printed 3.7% y/y (exp. 3.7% from 3.6%). The Hungarian forint showed little reaction to the data release, trading unchanged at 388/€ in early morning trade. Meanwhile, JP Morgan market contacts note that stronger services inflation lifts their estimate of core inflation to 4.1% y/y. According to them, recent data outturns combined with uncertainty over the Fed's path for monetary policy could make it prudent for the NBH to slow the pace of easing. As a result, they expect National Bank of Hungary (NBH) to slow the cadence of cuts to -25bps at its meeting on May 21 and expect fewer rate cuts this year with the policy rate expected to settle at 6.25% by year-end (vs 6% prior). Nevertheless, considerering the recent forint strength against the Euro -appreciating by + 2.5% since mid-March-, also a -50bps rate cut might not be ruled out at the May meeting.



Source: Bloomberg and IMF calculations

Peru

As expected, Peru's central bank cut its reference rate. The central bank has cut its policy rate for an eighth time in its current easing cycle, lowering its policy rate by -25 bps to 5.75%. This decision brings the policy rate to a two-year low as inflation returned to target for the first time since 2021. Peru's lowest inflation in Latin America allows policymakers to shift focus on stimulating an economy that faced a recession last year due to political turmoil and severe weather. Headline inflation slowed to 2.4% y/y in April and Peru's central bank expects consumer price growth to continue decelerating towards the midpoint of the 1−3% target range in coming months.



Source: National statistics agency, central bank, Bloomberg

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Global Financial Indicators

5/10/24 8:51 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5219	0.5	2	1	26	9
Europe		5092	0.7	3	2	18	13
Japan		38229	0.4	0	-3	30	14
China		3666	0.0	2	5	-7	7
Asia Ex Japan		71	0.5	1	4	7	6
Emerging Markets		42	0.3	1	3	8	5
Interest Rates					basis points		
US 10y Yield		4.48	3.1	-2	-6	104	61
Germany 10y Yield		2.50	0.6	1	7	21	48
Japan 10y Yield		0.91	-0.6	1	11	49	30
UK 10y Yield		4.14	-0.4	-8	-1	34	60
Credit Spreads					basis points		
US Investment Grade		117	-0.8	0	0	-53	-17
US High Yield		341	-2.3	4	1	-166	-44
Exchange Rates					%		
USD/Majors		105.31	0.1	0	0	4	4
EUR/USD		1.08	-0.1	0	0	-2	-2
USD/JPY		155.9	0.2	2	2	16	11
EM/USD		46.8	0.1	0	0	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		84.3	0.5	2	-6	15	10
Industrials Metals (index)		158	0.4	1	5	6	11
Agriculture (index)		60	0.4	0	1	-10	-4
Implied Volatility					%		
VIX Index (%, change in pp)		12.8	0.1	-0.7	-3.0	-4.2	0.3
Global FX Volatility		7.2	0.0	-0.2	0.3	-1.7	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		102	-2.2	4	1	-77	-1
Italy		133	-1.2	1	-4	-58	-35
Portugal		64	-1.4	0	-3	-19	1
Spain		79	-0.2	2	-2	-29	-18

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

Emerging Market Financial Indicators

Last updated: 5/10/2024 8:51 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	-0.1	0.2	0	-4	-2		2.3	-0.5	-6	-3	-65	-22
Indonesia		16045	0.0	1.3	-1	-8	-4		7.0	4.4	-28	31	48	49
India		83	0.0	-0.1	0	-2	0		7.5	-3.0	2	18	25.6	28
Philippines		57	-0.1	-0.1	-2	-3	-4		5.7	2.5	-8	25	-20	5
Thailand		37	0.6	0.2	-1	-8	-7		2.8	-3.8	2	9	25	15
Malaysia		4.74	0.0	0.0	0	-6	-3		3.9	-1.5	-2	3	20	19
Argentina		882	-0.1	-0.5	-2	-74	-8		39.0	-5.8	18	-693	-5837	-4737
Brazil		5.14	0.1	-1.3	-1	-4	-5		11.8	1.3	29	37	-53	140
Chile		923	0.2	1.7	3	-15	-5		5.1	0.0	-8	-25	-8	22
Colombia		3899	0.0	0.2	-3	17	-1		8.3	3.8	-8	-39	-51	63
Mexico		16.75	0.2	1.3	-2	5	1		9.2	-0.9	1	-15	91	72
Peru		3.7	0.9	1.1	0	0	0		7.1	0.3	2	-23		46
Uruguay		39	-0.3	-0.8	0	1	1		9.1	-2.6	1	13	-85	-38
Hungary		360	0.0	0.6	1	-7	-4		6.6	0.0	-12	-11	-126	81
Poland		3.99	-0.4	0.7	-1	3	-1		5.1	0.7	-16	-11	-10	66
Romania		4.6	-0.1	0.0	0	-3	-2		6.6	1.1	-8	16	-54	35
Russia		92.6	0.0	-1.2	1	-18	-3							
South Africa		18.4	0.3	0.4	2	2	0		9.8	-2.8	-10	-11	17	69
Türkiye		32.22	0.1	0.4	0	-39	-8		27.2	-36.0	-176	0	1446	40
US (DXY; 5y UST)		105	0.1	0.3	0	4	4		4.50	2.6	0	-11	111	65

	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		3666	0.0	2	5	-7	7		140	1	-8	-58	-18
Indonesia		7089	0.0	-2	-3	5	-3		101	-3	3	-41	5
India		72664	0.4	-2	-2	17	1		94	-6	-12	-67	-22
Philippines		6512	-0.5	-2	-2	-1	1		90	0	5	-27	10
Thailand		1372	0.2	1	-2	-12	-3		0	0	0	0	0
Malaysia		1601	0.0	1	3	12	10		80	-3	-1	-22	-5
Argentina		1434922	-1.1	5	16	362	54		1268	27	31	-1260	-645
Brazil		128188	-1.0	1	0	19	-4		212	3	2	-62	-3
Chile		6630	-0.2	1	-1	19	7		116	-4	1	-16	-9
Colombia		1387	0.2	0	-1	20	16		290	-10	12	-132	19
Mexico		57846	1.3	2	2	4	1		294	-15	-8	-108	-40
Peru		29599	0.8	2	6	35	14		140	-7	2	-41	-4
Hungary		69426	0.6	2	3	50	15		152	-4	3	-63	3
Poland		86883	-0.6	3	3	37	11		98	1	7	-31	1
Romania		17283	0.2	1	0	42	12		183	-6	7	-69	-18
South Africa		78561	1.3	3	4	1	2		326	-15	-12	-101	18
Türkiye		10316	0.5	0	5	130	38		277	-5	-3	-246	-37
EM total		42	0.7	1	3	8	5		328	-6	49	-89	-18

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

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