GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

**MONDAY, MAY 13, 2024**

**LEAD EDITOR: SANJAY HAZARIKA**

- **Investors think inflation is the biggest risk for US markets** (link)
- **China to sell first batch of ultra long sovereign bonds this week** (link)
- **US corporate bond market under scrutiny as economy shows signs of slowing down** (link)
- **Bank of Japan reduces bond purchases for the first time since December** (link)
- **Italian government bonds see weaker retail demand** (link)
- **Chilean peso gains for four weeks** (link)

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## Markets await key US inflation data

**Most global markets are lower as investors stay cautious ahead of this week's key US inflation data.** However, US equity index futures are making modest gains. Analysts expect US CPI to come down slightly, although PPI is expected to present a more mixed picture. The Fed Funds futures market expects the first Fed rate cut to come in November, although it assigns a 77% chance of a move at the September meeting. Meanwhile, US and euro area government bond yields are lower in early morning trading. In other news, the US administration is expected to announce more tariffs on China, while the Chinese authorities announced the sale of ultra long sovereign bonds that are expected to support local markets. Stronger than expected jobs data in Canada raised questions about how quickly the Bank of Canada can cut its policy rate.

**Key Global Financial Indicators**

| Last updated: 5/13/24 7:43 AM | Level | | Change from Market Close | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | | % | | % |
| S&P 500 | | 5223 | 0.2 | 2 | 2 | 27 | 9 |
| Eurostoxx 50 | | 5077 | -0.2 | 2 | 2 | 18 | 12 |
| Nikkei 225 | | 38179 | -0.1 | 0 | -3 | 30 | 14 |
| MSCI EM | | 43 | 0.2 | 0 | 5 | 10 | 6 |
| **Yields and Spreads** | | | | | bps | | |
| US 10y Yield | | 4.48 | -1.2 | 0 | -4 | 102 | 61 |
| Germany 10y Yield | | 2.50 | -1.6 | 3 | 14 | 23 | 48 |
| EMBIG Sovereign Spread | | 367 | -3 | -7 | 45 | -122 | -16 |
| **FX / Commodities / Volatility** | | | | | % | | |
| EM FX vs. USD, (+) = appreciation | | 46.8 | 0.2 | 0 | 1 | -8 | -3 |
| Dollar index, (+) = $ appreciation | | 105.2 | -0.1 | 0 | -1 | 2 | 4 |
| Brent Crude Oil ($/barrel) | | 83.3 | 0.6 | 0 | -8 | 12 | 8 |
| VIX Index (%, change in pp) | | 13.3 | 0.8 | 0 | -4 | -4 | 1 |

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

**US inflation data will be the main focus for markets this week, with PPI out tomorrow and CPI out on Wednesday.** Data on retail sales and the housing market could also move markets. In the euro area, data on euro area GDP, CPI, and the German ZEW business confidence survey will be among the highlights. China reports on retail sales and industrial production, while the UK will report on unemployment. Japan is scheduled to release GDP data. The PBOC has its policy meeting on Wednesday and the central bank of the Philippines is due to meet on Thursday. Both are expected to stay on hold for now, but some analysts expect a rate cut in China in June.

## Mature Markets

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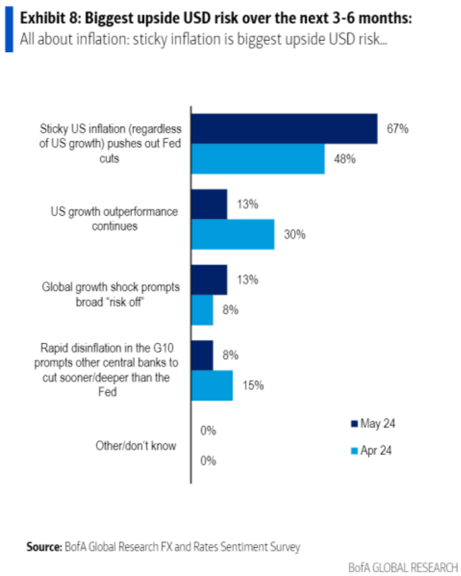
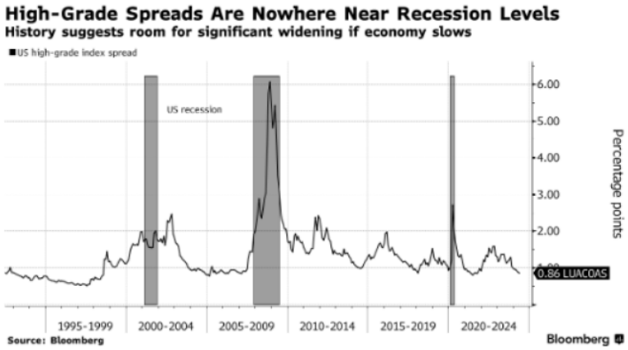
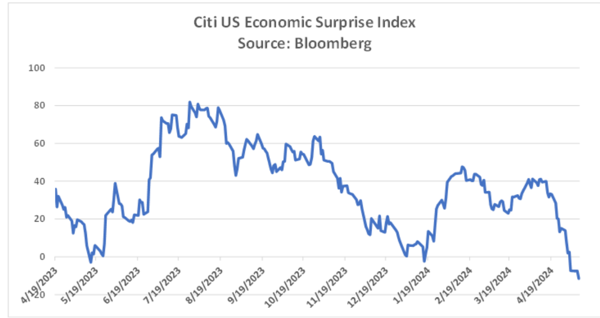
### United States

**Inflation is the biggest risk to US markets, according to the latest investor survey from Bank of America.** If realized, higher inflation is likely to result in further delays in Fed rate cuts and a stronger dollar, both of which are expected to be negative for US markets. However, somewhat paradoxically, the survey also showed that being long US interest rates was the highest conviction trade for half of the respondents. Bullishness on the US bond market is at its highest level this year. The benchmark 10-year Treasury yield hit its 2024 peak at 4.7% on April 25, but a dovish FOMC meeting and a weaker than expected jobs report prompted a minor rally, with the yield falling below 4.5% last week. However, stronger than expected inflation expectations in the University of Michigan consumer survey pushed yields higher on Friday. This week's CPI and PPI data could have a big impact on markets if they diverge significantly from expectations.




**Corporate credit spreads are under scrutiny as the US economy has begun to show signs of slowing down.** The widely followed Citi US Economic Surprise Index is back in negative territory, indicating that the latest data releases have been weaker than market forecasts. That is worrying many fixed income investors, as investment grade (IG) credit spreads as measured by the Bloomberg High Grade Corporate Index remain close to all-time lows. The Covid outbreak saw spreads jump up to 275 bps compared to the current level below 90 bps. The global financial crisis saw spreads cross the 600 bps mark. In contrast to this pessimistic view, the corporate bond market has been "on fire" in the words of a market contact, with record volumes of bonds being sold so far this year. The volume of new deals in recent weeks has been especially strong as corporate treasurers work to strengthen their balance sheets ahead of a potential slowdown in the economy.

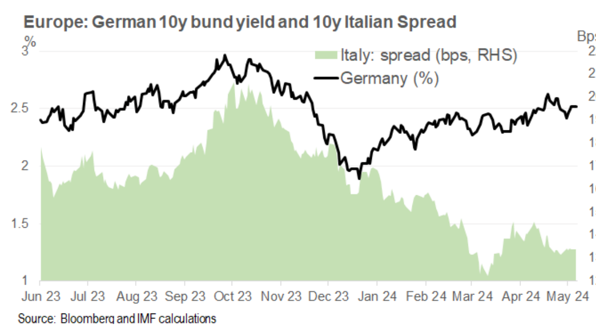


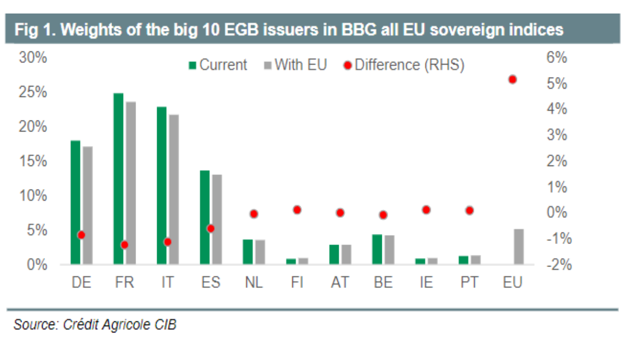

**Euro Area**

**European equities were broadly flat this morning ahead of key US inflation data due later this week**. The STOXX 600 index was little changed in early morning trading having advanced 2.5% last week and registering one of its best weekly returns. Elsewhere, 10y bund yields were unchanged to trade at around 2.51%, while the euro was marginally stronger against the dollar (+0.1%) trading at around 1.0784.

**Domestic retail demand for Italian government bonds (BTPs) weakened significantly.** According to Bloomberg data, the recent round of BTP Valore issuance closed last week with €11.2bn of sales, significantly below the €18bn raised via the last two rounds of issuance. Rabobank analysts note that non-resident investors will be needed to keep spreads stable. **This morning, 10-year BTP spreads over 10-year bunds were broadly unchanged at 134bps. Year-to-date, BTP spreads are around 34bps tighter.**



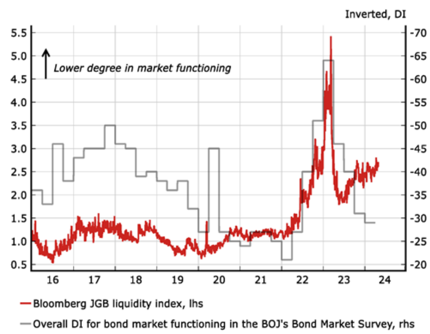

Elsewhere, **Credit Agricole analysts note that consultations on the inclusion of EU bonds in sovereign bond indices could act as a medium-term headwind for regular European Government Bond (EGB) spreads**. Index providers MSCI and ICE have opened discussions on the possible inclusion of EU bonds into their respective sovereign bond indices, which the analysts note could result in investors reducing positions in EGBs to make room for the expected 5.2% weight that EU bonds would likely receive. According to Credit Agricole's analysis, French and Italian government bonds would likely be the most impacted.



### Japan

**The Bank of Japan (BOJ) reduced its bond purchases for the first time since December.** Purchases of JGBs in the five and ten-year maturity range will be cut by ¥50 bn to ¥425 bn. Some market participants saw this move as BOJ's response to recent yen's depreciation, noting that BOJ board members flagged the need to reduce bond buying during April's policy meeting. The 30-year JGB yield hit 2.11%, the highest level since 2011.

**BOJ's bond market survey in early June could be key for QT decision at the June meeting**




Source: Bloomberg, Macrobond, Nomura

## Emerging Markets

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**EMEA equities were mixed while currencies were stronger.** The rand appreciated against the dollar following reports that foreigners bought $724 mn of South African government bonds in expectation of a market-friendly outcome in the South African elections. **Stocks in Asia gained 0.4% although local currencies were weaker.** South Korea's financial regulators unveiled measures to support an "orderly soft landing" for real estate project-finance debt. The central banks of Malaysia and South Korea renewed their $2.3 bn swap line for another three years. **Market performance across Latam varied on Friday.** Stocks in Chile and Colombia experienced gains, while Mexican and Ecuadoran stocks declined.

### Emerging Market Fund Flows

**Outflows from emerging market bond funds persisted for the fourth consecutive week, totaling -$883mn.** Outflows strengthened in both hard currency funds (-$329mn, from -$83mn) and local currency funds (-$554mn, from -$254mn). On the upside, local bond funds saw non-resident inflows into India at +$244mn. Bond ETFs saw inflows at +$344mn (from -$275mn), while non-ETF bond outflows accelerated to -$1.2bn (from -$81mn).

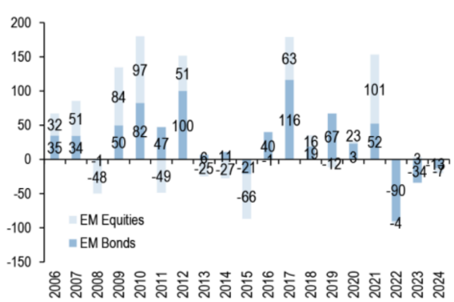
**Figure 1: Weekly cross-asset flows**

USD billion

| | Asset | 8w flows (8w ago → current) | This wk | YTD |
|---|---|---|---|---|
| Fund Flows | **EM Bonds and Equities** | | -0.6 | -19.8 |
| | **EM Bonds** | | -0.9 | -12.6 |
| | Hard Ccy | | -0.3 | -6.5 |
| | Local Ccy^ | | -0.6 | -6.1 |
| | o.w. EM ex-China | | -0.6 | -5.1 |
| | o.w. China | | 0.0 | -1.0 |
| | **EM Equities** | | 0.3 | -7.2 |
| | US HG | | 2.7 | 139.1 |
| | US HY | | 3.4 | 5.3 |
| | Global Equities | | 7.7 | 61.4 |
| | **EM Bond and Equity ETFs** | | 1.6 | 8.1 |
| | EM Bond ETFs | | 0.3 | -2.9 |
| | EM Equity ETFs | | 1.3 | 11.0 |
| | **Non-resident EM flows*** | | 2.0 | 7.7 |

**Figure 2: EM bond and equity fund flows**

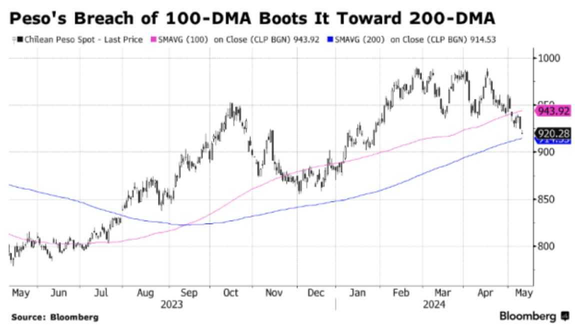
USD billion




*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

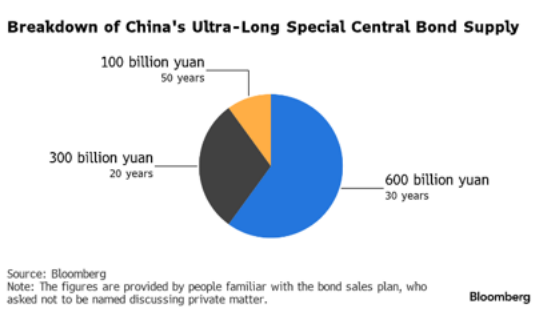
**Chile**

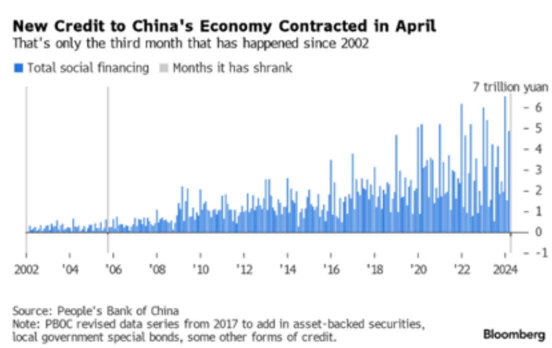
**The Chilean peso has been steadily approaching its 200-day moving average (MA) level after four weeks of gains (+4.5%).** On Friday May 3, the peso's appreciation pushed it through its 100-day MA, a key technical gauge for the currency, reaching 939.25 CLP per USD, and it has since risen +1.4%, nearing it's 200-day MA level. Recent strong performance is contradictory to widespread bearish sentiment following 175 bps of rate cuts this year. Copper's rally over the past month (+7%) and a widening trade surplus of $1.9 bn USD in April, gives traders confidence about Chile. However, caution is still warranted as economists expect an additional 50bps cut at the next central bank meeting on May 23.




**China**

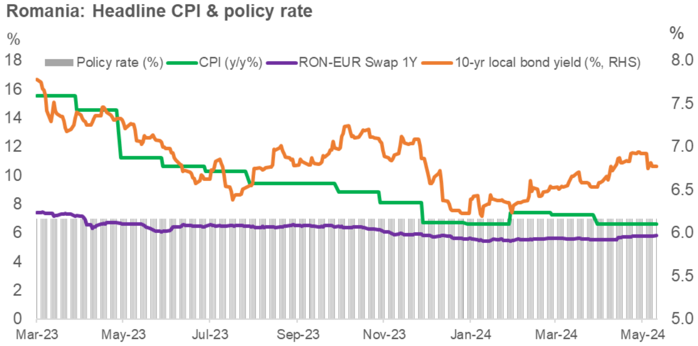
**China's Finance Ministry says it will start the sale of the first batch of its 1tn yuan ($138bn) of ultra-long special sovereign bonds on Friday.** The central government will begin by issuing 30-year bonds, with 20-year and 50-year tenors to be offered from May 24 and June 14 respectively, Bloomberg reported. Auctions will continue until a final sale of 30-year notes in November. Breakdown of total issuance are reportedly 300bn yuan of 20-year bonds, 600bn yuan of 30-year notes and 100bn yuan in the 50-year tenor, Bloomberg sources noted. ANZ expects bond sales to bolster China's GDP growth by 1 percentage point and the timing of bond issuance is likely intended to offset the impact of US tariffs against Chinese goods. Separately, US will reportedly quadruple tariffs on Chinese electric vehicles and sharply raise levies for other key industries this week. Meanwhile, new aggregate social financing declined in April to 12.73tn yuan ($1.8tn) year to date. This was the first credit decline since 2005, weighing on the growth outlook. Separately, China's CPI inflation remained soft +0.3% yoy (consensus: +0.1%, previous: +0.1%) in April and PPI continued to contract -2.5% yoy (previous: -2.8%).




**Romania**

**The leu was stable this morning at 4.97/€ ahead of a central bank meeting where the policy rate is expected to be lowered by 25bps to 6.75% later this morning**, although analysts at JP. Morgan see this as a close call. The policy rate has been held at 7.0% for more than a year, while inflation has declined to 6.6% yoy in March, although it remains outside the central bank's target range (2.5%, +/- 1%). ING notes that, while a rate cut to 6.75% seemed a done deal just a few weeks ago, cautiousness has emerged because of the recent developments in the US inflation picture and strong consumption growth amid robust wage gains in Romania.



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

| 5/13/24 7:44 AM | Level: Last 12m | Level: Latest | Change: 1 Day | Change: 7 Days | Change: 30 Days | Change: 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % |
| United States | | 5223 | 0.2 | 2 | 2 | 27 | 9 |
| Europe | | 5077 | -0.2 | 2 | 2 | 18 | 12 |
| Japan | | 38179 | -0.1 | 0 | -3 | 30 | 14 |
| China | | 3665 | 0.0 | 0 | 5 | -7 | 7 |
| Asia Ex Japan | | 71 | 0.5 | 0 | 6 | 9 | 7 |
| Emerging Markets | | 43 | 0.2 | 0 | 5 | 10 | 6 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 4.48 | -1.2 | 0 | -4 | 102 | 61 |
| Germany 10y Yield | | 2.50 | -1.6 | 3 | 14 | 23 | 48 |
| Japan 10y Yield | | 0.94 | 2.5 | 4 | 8 | 55 | 32 |
| UK 10y Yield | | 4.15 | -1.7 | -7 | 1 | 37 | 61 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 117 | -0.2 | 0 | 0 | -53 | -16 |
| US High Yield | | 342 | -1.5 | 5 | 2 | -165 | -43 |
| **Exchange Rates** | | | | | % | | |
| USD/Majors | | 105.23 | -0.1 | 0 | -1 | 2 | 4 |
| EUR/USD | | 1.08 | 0.2 | 0 | 2 | -1 | -2 |
| USD/JPY | | 155.9 | 0.0 | 1 | 1 | 14 | 11 |
| EM/USD | | 46.8 | 0.2 | 0 | 1 | -8 | -3 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 83.3 | 0.6 | 0 | -7 | 17 | 9 |
| Industrials Metals (index) | | 159 | 0.7 | 1 | 6 | 9 | 12 |
| Agriculture (index) | | 61 | -0.1 | 0 | 2 | -9 | -3 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 13.3 | 0.8 | -0.2 | -4.0 | -3.7 | 0.9 |
| Global FX Volatility | | 7.2 | 0.1 | -0.1 | -0.3 | -1.8 | -1.0 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 104 | 0.4 | 5 | -4 | -71 | 0 |
| Italy | | 135 | 0.8 | 1 | -5 | -56 | -33 |
| Portugal | | 65 | 0.1 | 0 | -5 | -18 | 1 |
| Spain | | 79 | -0.1 | 1 | -3 | -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: 5/13/2024 7:46 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 | -0.4 | 0 | -4 | -2 | | 2.3 | -5.3 | -10 | -7 | -67 | -27 |
| Indonesia | | 16081 | -0.2 | -0.3 | -1 | -8 | -4 | | 7.0 | 2.0 | 9 | 33 | 59 | 51 |
| India | | 84 | 0.0 | 0.0 | 0 | -1 | 0 | | 7.5 | 0.0 | 6 | 8 | 30.0 | 28 |
| Philippines | | 58 | -0.8 | -1.1 | -2 | -3 | -4 | | 5.6 | -5.0 | -3 | 15 | -25 | 0 |
| Thailand | | 37 | -0.1 | -0.1 | 0 | -8 | -7 | | 2.8 | 0.0 | 2 | -6 | 20 | 15 |
| Malaysia | | 4.73 | 0.2 | 0.2 | 1 | -5 | -3 | | 3.9 | 0.6 | 2 | 2 | 28 | 20 |
| Argentina | | 883 | 0.0 | -0.4 | -2 | -74 | -8 | | 39.1 | 5.9 | 18 | -696 | -5920 | -4731 |
| Brazil | | 5.16 | -0.3 | -1.6 | -2 | -4 | -6 | | 11.8 | 6.6 | 35 | 42 | -47 | 145 |
| Chile | | 927 | -0.2 | 1.3 | 3 | -15 | -5 | | 5.2 | 10.5 | 3 | -15 | 3 | 32 |
| Colombia | | 3890 | 0.2 | 0.6 | -2 | 17 | 0 | | 8.4 | -0.5 | 14 | -37 | -11 | 73 |
| Mexico | | 16.74 | 0.2 | 0.8 | 0 | 4 | 1 | | 9.3 | 0.0 | 15 | -19 | 107 | 86 |
| Peru | | 3.7 | -0.7 | 0.2 | 0 | -1 | 0 | | 7.1 | -1.7 | 0 | -35 | -7 | 44 |
| Uruguay | | 39 | -0.1 | -0.9 | 0 | 1 | 1 | | 9.2 | 1.8 | 3 | 14 | -83 | -37 |
| Hungary | | 359 | 0.3 | 0.5 | 3 | -5 | -3 | | 6.6 | 1.0 | -13 | -41 | -119 | 80 |
| Poland | | 3.97 | 0.6 | 0.7 | 2 | 4 | -1 | | 5.2 | 4.8 | -12 | -27 | -8 | 70 |
| Romania | | 4.6 | 0.1 | 0.1 | 2 | -2 | -2 | | 6.6 | 0.0 | -8 | 12 | -54 | 35 |
| Russia | | 91.6 | 1.2 | -0.3 | 2 | -13 | -2 | | | | | | | |
| South Africa | | 18.4 | 0.4 | 0.6 | 3 | 4 | 0 | | 9.8 | -3.0 | -4 | -36 | 8 | 68 |
| Türkiye | | 32.21 | 0.3 | 0.1 | 1 | -39 | -8 | | 27.4 | 12.0 | -159 | 20 | 1300 | 60 |
| US (DXY; 5y UST) | | 105 | -0.1 | 0.2 | -1 | 2 | 4 | | 4.50 | -1.6 | 1 | -6 | 105 | 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 | | 3665 | 0.0 | 0 | 5 | -7 | 7 | | 140 | -1 | -3 | -61 | -18 |
| Indonesia | | 7099 | 0.1 | 0 | -3 | 6 | -2 | | 94 | -11 | 11 | -56 | -2 |
| India | | 72776 | 0.2 | -2 | -2 | 17 | 1 | | 93 | -7 | -10 | -70 | -23 |
| Philippines | | 6604 | 1.4 | -1 | -1 | 0 | 2 | | 83 | -8 | 13 | -43 | 3 |
| Thailand | | 1373 | 0.0 | 0 | -2 | -12 | -3 | | 0 | 0 | 0 | 0 | 0 |
| Malaysia | | 1603 | 0.1 | 0 | 3 | 13 | 10 | | 79 | -4 | 1 | -23 | -6 |
| Argentina | | 1407511 | -1.9 | -3 | 13 | 338 | 51 | | 1276 | 29 | -4 | -1236 | -637 |
| Brazil | | 127600 | -0.5 | -1 | 1 | 18 | -5 | | 213 | 6 | 8 | -64 | -2 |
| Chile | | 6640 | 0.2 | 1 | 1 | 19 | 7 | | 116 | -4 | 6 | -18 | -9 |
| Colombia | | 1390 | 0.2 | 0 | 0 | 20 | 16 | | 288 | -6 | 12 | -132 | 17 |
| Mexico | | 57718 | -0.2 | 1 | 2 | 5 | 1 | | 295 | -10 | -9 | -110 | -39 |
| Peru | | 30024 | 1.4 | 4 | 9 | 39 | 16 | | 141 | -4 | 4 | -41 | -3 |
| Hungary | | 68971 | -0.3 | 1 | 2 | 50 | 14 | | 145 | -10 | 8 | -75 | -4 |
| Poland | | 86828 | 0.4 | 0 | 5 | 36 | 11 | | 94 | -4 | 11 | -41 | -3 |
| Romania | | 17322 | 0.2 | 1 | 3 | 44 | 13 | | 177 | -9 | 11 | -79 | -23 |
| South Africa | | 78598 | 0.2 | 2 | 4 | 0 | 2 | | 326 | -4 | -8 | -117 | 18 |
| Türkiye | | 10182 | -0.4 | -1 | 4 | 112 | 36 | | 274 | -7 | 8 | -241 | -40 |
| EM total | | 43 | 0.5 | 0 | 5 | 10 | 6 | | 326 | -3 | 51 | -96 | -20 |

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

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