GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MAY 14, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **PPI in US comes in higher than expectations but revisions reduce the impact** (link)
- **Inflation expectations play greater role in US bond market than in previous years** (link)
- **China to respond to US tariffs** (link)
- **Corporations in US deliver the most positive earnings surprises in five years** (link)
- **Japan's Finance Minister issues statement in support of currency** (link)
- **Severe flooding in Brazil raises fiscal risks** (link)

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High US PPI report keeps inflation in the spotlight

April US PPI came in higher than forecasts, pushing Treasury yields higher, but downward revisions to March muted the impact. The focus is now squarely on tomorrow's CPI report. Core annualized US CPI for April is expected to fall to 3.6% from 3.8% in March. Meanwhile, China is expected to respond to new tariffs from the US administration on a range of imports, including electric vehicles and battery technology. In other news, the latest investor poll from Bank of America found that 78% think a recession is unlikely over the next 12 months, according to Bloomberg. In Europe, the Stoxx 600 equity index is within striking distance of a new record high, while the DAX index in Germany has already set a new record this month. In Japan, the Finance Minister announced that measures would be taken in cooperation with the central bank to stabilize the currency. The yield on the 20-year Japanese Government Bond rose to its highest level since 2013 on worries that the Bank of Japan might reduce bond purchases to prop up the currency.

Key Global Financial Indicators

Last updated: 5/14/24 7:55 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5221	0.0	1	2	27	9
Eurostoxx 50		5076	-0.1	1	2	18	12
Nikkei 225		38356	0.5	-1	-2	29	15
MSCI EM		43	0.8	1	6	11	6
Yields and Spreads					bps		
US 10y Yield		4.48	-1.0	2	-4	101	60
Germany 10y Yield		2.52	1.2	10	16	25	50
EMBIG Sovereign Spread		367	0	-5	30	-117	-16
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	0.0	0	1	-8	-3
Dollar index, (+) = $ appreciation		105.2	0.0	0	-1	2	4
Brent Crude Oil ($/barrel)		83.2	-0.2	0	-8	12	8
VIX Index (%, change in pp)		13.8	0.2	1	-3	-3	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

The latest US PPI data for April came in above forecasts. However, the numbers of March were revised significantly lower, limiting the impact on markets. Treasury yields did increase by a few basis points, but US equity index futures remained positive.

US APRIL PPI Report

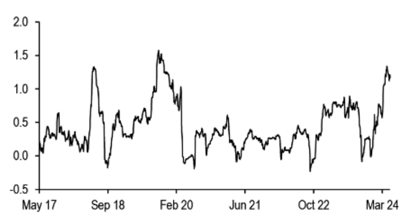
Source: Bloomberg

Variable	Consensus Forecast	Actual Result
Headline PPI month-on-month	**+0.3%**	**+0.5%**
Core PPI mom	**+0.2%**	**+0.5%**
Headline PPI year-on-year	**+2.2%**	**+2.2%**
Core PPI yoy	**+2.3%**	**+2.4%**

Treasuries and other US bond markets are becoming more sensitive to inflation expectations, to a much higher degree than the past. JP Morgan analysts find that the co-movement of weekly changes in Treasury yields and weekly changes in two-year maturity inflation swaps is near historic highs. A negative surprise in this week's US inflation prints therefore could trigger a major selloff in US bond markets. Investors are nervous because Treasury yields have risen steadily since 2023's year-end rally, with the benchmark 10-year yield hitting its 2024 high of 4.71% on April 25 before falling back towards 4.5%. The broader financial markets were hit hard last year when the 10-year yield hit a post-GFC high of 5% last October. Analysts also have an eye on the upcoming election, as history shows that interest rate volatility moves higher going into the election before subsiding later.

Figure 3: The sensitivity of yield levels to short term inflation expectations is near a historic high

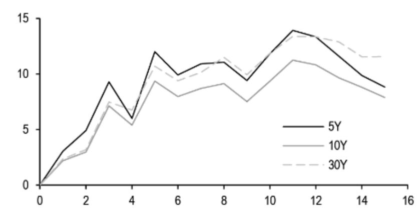
Rolling 3M beta between weekly changes in the 10Y UST yield and weekly changes in the 2Y inflation swap yield; unitless ratio



Source: J.P. Morgan

Figure 4: Cumulative election premia in the 2020 cycle reached a peak when about 10-12 post-election business days were incorporated into 6M expiry options' lives

Cumulative election premia* in 6Mx5Y, 6Mx10Y, and 6Mx30Y swaptions calculated for 2020 election-impacted business days**, # days

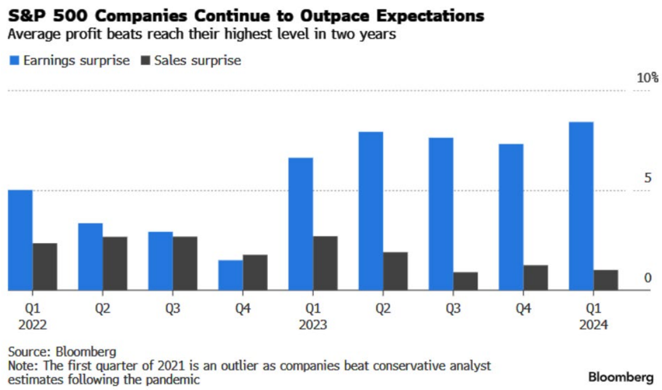


Source: J.P. Morgan

*See footnote in *Interest Rate Derivatives* Figure 5 for details on our method for calculating election premia

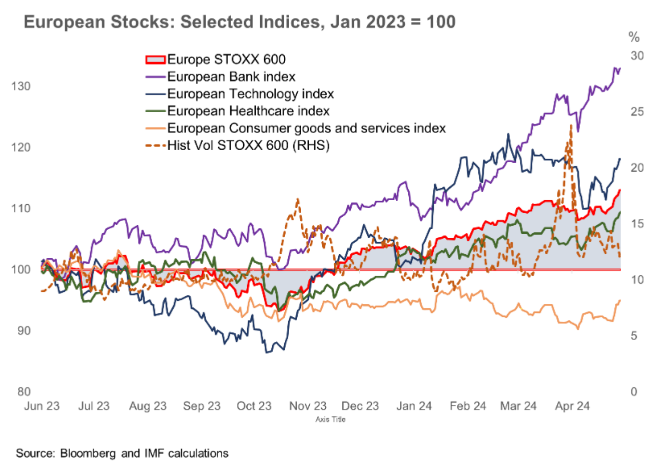
** Election-impacted business days are defined as the number of business days where 6M expiry swaptions expire after the Presidential election

US corporations had another very strong quarter in Q1 2024, with S&P 500 companies providing the most positive earnings surprises in two years. Of the 459 companies in the index that have released earnings reports, 79% have beaten analyst expectations, according to Bloomberg. On average, earnings were 8.4% higher than expected. Companies have cut costs and boosted their cash holdings by issuing bonds at a record pace this year, making analysts more confident that US corporations can have another strong year. Profit levels are high and company management teams appear to be very optimistic, with very few mentions of recession in the various earnings calls and statements.

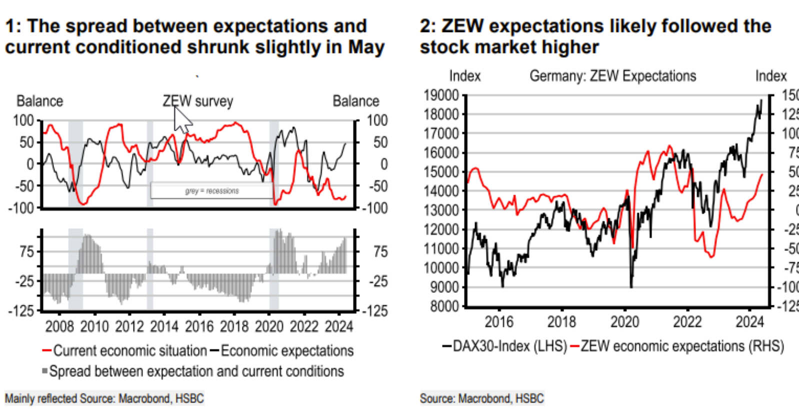


Euro Area

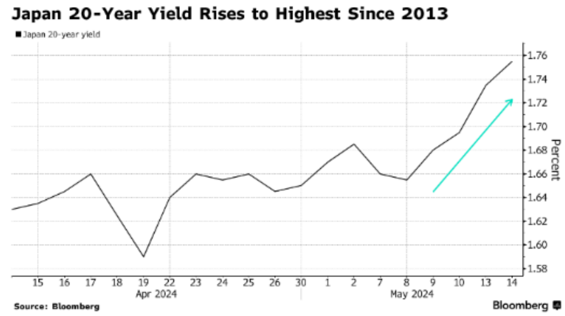
European equities traded were little changed ahead of key US inflation data. On the European banking landscape, Banco de Sabadell has temporarily suspended its share buyback to resist to BBVA's hostile takeover bid, as requested by the Spanish market regulator; the share price of Sabadell dropped by 1%. The euro held steady at 1.08 versus the dollar.



In Germany, today's ZEW business survey indicated that investor expectations rose more than expected. Analysts at HSBC read this print as consistent with the surge in the stock market, as the DAX index reached a new all-time high in May. ING expects the German GDP to improve in the second half of 2024 and is forecasting a 25bps rate cut from the ECB in June, from 4% to 3.75%.



Japan



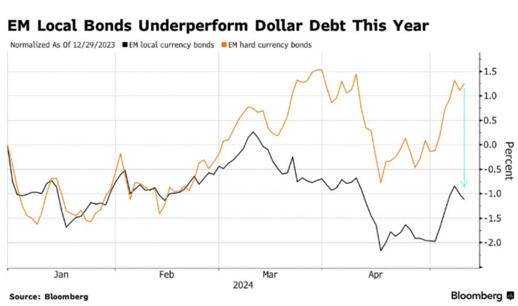
Minister of Finance Suzuki said the government is monitoring the yen closely and will take all possible measures to stabilize the currency in cooperation with the Bank of Japan (BOJ). Separately, **Japan will craft a national strategy to embed decarbonization goals into its industrial policy to be realized by 2040**. The strategy is to be prepared by March 2025. Japan currently plans to cut emissions by 46% from 2013 levels by 2030, and to achieve carbon neutrality by 2050. Meanwhile, the national strategic energy plan aims for renewables to account for 36 to 38% of the power mix by 2030, while nuclear is set at 20 to 22% and fossil fuels at 41%. In other news, the 20-year government bond yield rose by 3bps and reached 1.77%, the highest level since 2013. The five-year bond auction saw tepid investor demand, amid concerns that the BOJ will cut the purchase amount again. The BOJ's next bond-purchase operation is on Friday.

Emerging Markets back to top

In EMEA, stocks rallied in Egypt and South Africa while falling in the Czech Republic. The forint hit a three-month high on hawkish comments by a central bank official. In Romania, inflation fell to a two-year low. **Asian equities were mixed (+0.2% on net).** Taiwan POC (+0.6%) and India (+0.5%) gained but China and Hong Kong SAR declined with Chinese developer shares falling as much as -3.5% on news about a US dollar bond default by Agile Group. **Malaysia's** central bank (BNM) Deputy Governor Adnan said in an interview that BNM will not use interest rate as a tool to support the ringgit; monetary policy will be determined by the growth and inflation outlook. **Latin American stocks were up on Monday.** The Chilean peso appreciated on news that China will make a $138 bn investment to develop local infrastructure. Press reports indicated that the IMF would disburse a further $800 mn to Argentina after program conditions were met.

EM Local Currency Bonds

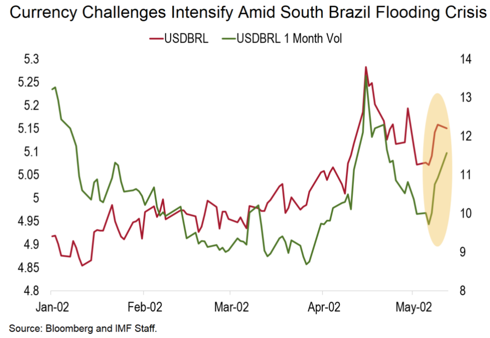
EM local currency bonds have faced turbulence due to higher US interest rates and a strengthening dollar. YTD, a Bloomberg index tracking local currency sovereigns has declined by 1.1%, in stark contrast to a comparable index of hard currency blended debt, which is up 1.2%. Some analysts expect EM central banks to postpone their own easing cycles to further attract investment, prioritizing capital inflows over price stability objectives.



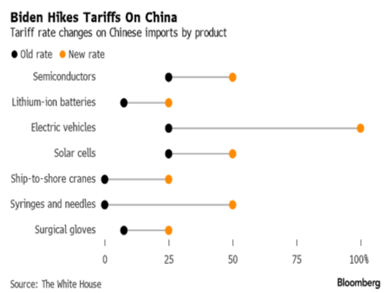
Brazil

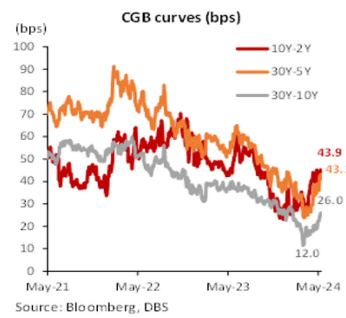
Severe flooding in southern Brazil has heightened concerns of the country's fiscal stability as Finance Minister Fernando Haddad considers suspending payments on existing debt to aid reconstruction. Heavy rainfall has triggered the most severe Brazilian flood in over 80 years, resulting in the loss of over

140 lives, causing widespread landslides and the collapse of a dam. On Saturday $2.3bn USD in emergency spending was announced to deal with the crisis. Although the Brazilian real was slightly stronger on Monday, it was the worst performing EM currency last week (-1.6%) as volatility is rising on concerns of the fiscal impact of the climate event.



China





China vowed to take necessary measures in response to the expected increase in US tariffs. The US has announced new tariffs on $18bn of Chinese imports, such as steel and aluminum, critical minerals, medical products, solar cells, semiconductors, and electric vehicles. Tariffs on electric vehicles will quadruple to 100% in 2024, while other imports saw tariffs doubled or being imposed for the first time. Foreign Ministry spokesman Wang said China opposes unilateral tariff hikes in violation of the World Trade Organization rules and will take all necessary measures to safeguard its rights and interests. Separately, **Chinese developer Agile Group Holdings defaulted for the first time on publicly issued US dollar bonds.** Agile failed to pay interest within a grace period which ended May 13 on $483mn dollar bonds due in 2025 and will engage external advisers to assist in a capital structure and liquidity evaluation, Bloomberg reported. Agile has a presence in more than 200 cities in China and abroad, with total assets of more than 240bn yuan ($33.2bn) at the end of 2023. Agile also provided a business update stating that China's real estate industry continues to experience a downtrend, with sluggish sales in most regions. Its bonds were trading at distressed levels around 9 cents on the dollar, and its shares fell as much as -17%. Investors expect the Chinese government bond (CGB) curve to steepen with accelerating fiscal stimulus and the issuance of ultra-long special sovereign bonds issuance starting this week.

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

	Level		Change				
5/14/24 7:56 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		5221	0.0	1	2	27	9
Europe		5076	-0.1	1	2	18	12
Japan		38356	0.5	-1	-2	29	15
China		3657	-0.2	0	3	-9	7
Asia Ex Japan		72	0.9	1	7	10	8
Emerging Markets		43	0.8	1	6	11	6
Interest Rates					basis points		
US 10y Yield		4.48	-1.0	2	-4	101	60
Germany 10y Yield		2.52	1.2	10	16	25	50
Japan 10y Yield		0.95	1.6	8	10	56	34
UK 10y Yield		4.17	-0.5	4	3	39	63
Credit Spreads					basis points		
US Investment Grade		118	0.5	2	-2	-52	-16
US High Yield		344	1.9	8	-12	-165	-41
Exchange Rates					%		
USD/Majors		105.21	0.0	0	-1	2	4
EUR/USD		1.08	0.0	0	2	-1	-2
USD/JPY		156.4	0.1	1	1	15	11
EM/USD		46.8	0.0	0	1	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		83.2	-0.2	0	-7	17	9
Industrials Metals (index)		161	0.4	2	7	10	13
Agriculture (index)		61	-0.5	-1	2	-9	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.8	0.2	0.6	-3.5	-3.2	1.4
Global FX Volatility		7.1	0.0	-0.1	-0.4	-1.9	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		104	-1.1	2	-4	-71	0
Italy		135	-0.2	1	-5	-56	-33
Portugal		64	-0.8	-1	-6	-19	1
Spain		79	-0.6	0	-4	-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: 5/14/2024 7:57 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	0.0	-0.2	0	-4	-2		2.3	-0.3	-4	-8	-67	-27
Indonesia		16100	-0.1	-0.3	-2	-8	-4		7.0	4.2	11	38	63	55
India		84	0.0	0.0	0	-1	0		7.5	-2.0	2	6	28.0	26
Philippines		58	0.0	-1.0	-2	-3	-4		5.6	-1.5	-2	14	-26	-1
Thailand		37	0.3	0.5	0	-8	-7		2.9	0.5	2	-5	20	16
Malaysia		4.72	0.3	0.4	1	-5	-3		3.9	-1.5	1	0	26	18
Argentina		884	-0.2	-0.4	-2	-74	-9		38.1	-92.8	-81	-766	-6083	-4824
Brazil		5.15	0.1	-1.5	1	-5	-6		11.8	-1.8	27	10	6	143
Chile		924	0.3	0.7	6	-15	-5		5.3	2.5	20	-10	-1	38
Colombia		3890	0.2	0.6	-2	17	0		8.4	0.0	25	-37	-11	73
Mexico		16.80	0.1	0.6	0	4	1		9.3	0.0	13	-23	103	82
Peru		3.7	-0.3	0.0	0	-2	-1		7.1	-1.9	0	-36	-8	43
Uruguay		39	-0.1	-0.8	1	1	1		9.1	-1.1	1	24	-91	-38
Hungary		358	0.3	1.2	4	-5	-3		6.6	-2.0	15	-43	-121	78
Poland		3.95	0.5	1.4	2	5	0		5.2	2.5	8	-26	-7	71
Romania		4.6	0.1	0.4	2	-1	-2		6.6	-0.3	-8	11	-34	35
Russia		91.3	0.3	0.3	2	-13	-2							
South Africa		18.4	-0.3	0.5	3	3	0		9.8	2.5	4	-35	9	69
Türkiye		32.26	0.1	0.0	1	-39	-8		27.3	-16.0	-119	12	1292	52
US (DXY; 5y UST)		105	0.0	-0.2	-1	2	4		4.49	-1.6	2	-7	104	64

	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		3657	-0.2	0	3	-9	7		140	-1	-4	-60	-18
Indonesia		7084	-0.2	-1	-3	6	-3		98	-5	2	-48	2
India		73105	0.5	-1	0	17	1		93	-6	-10	-68	-23
Philippines		6608	0.1	0	1	1	2		86	-3	4	-34	6
Thailand		1377	0.3	0	-1	-11	-3		0	0	0	0	0
Malaysia		1606	0.2	0	4	13	10		79	-2	0	-24	-6
Argentina		1376939	-2.2	-8	11	328	48		1250	16	-87	-1335	-663
Brazil		128155	0.4	0	2	18	-4		213	10	2	-63	-2
Chile		6695	0.8	1	2	20	8		115	-6	2	-18	-10
Colombia		1390	0.2	1	0	20	16		290	6	3	-131	19
Mexico		57731	0.0	1	2	5	1		297	-7	-19	-109	-37
Peru		29659	-1.2	1	7	38	14		140	-4	0	-42	-4
Hungary		69164	0.4	0	3	50	14		145	-9	2	-72	-4
Poland		87598	0.2	1	6	38	12		95	-3	8	-35	-2
Romania		17247	-0.4	0	2	43	12		178	-8	2	-74	-23
South Africa		78829	0.2	2	5	1	3		323	-7	-26	-135	15
Türkiye		10084	0.3	-2	3	110	35		273	-4	-17	-196	-41
EM total		43	0.0	1	6	11	6		325	-2	37	-93	-21

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

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