GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MAY 17, 2024
LEAD EDITOR: JOHANNES S. KRAMER

- **Dow Jones Industrial Average surpasses its all-time high on record since 1896** (link)
- **In April, US Corporate bond funds see outflows, particularly in investment grade credit** (link)
- **Bank of Japan kept the pace of Japanese government bond buying unchanged today** (link)
- **Angola expected to hike policy rate by 100bps to 20% later today** (link)
- **Chilean stocks are at all-time highs as copper and the peso extend their rally** (link)
- **China continues to ease policy measures to support the property market** (link)

Mature Markets | Emerging Markets | Market Tables

Fed officials call for patience and need more data

A polarized market makes it difficult to reconcile differing views from risk assets and rates. Risk assets remain bullish, driven by growth and exuberant sentiment. US equity markets are flat in pre-market trading today, following a four-week winning streak for the S&P 500, the longest since February. In contrast, rates markets are adjusting due to concerns over persistent inflation and prolonged higher rates. Fed officials require more data to confirm slowing inflation, affecting short-term Treasury yields, which rebounded to pre-inflation data levels earlier this week. NY Fed President Williams stated he does not expect to gain confidence soon. Richmond Fed President Barkin mentioned the need for more time, patience, and optimism to achieve the inflation target, as demand needs to further cool. Cleveland Fed President Mester echoed this, supporting a longer restrictive stance to clarify the inflation path. Abroad, statements of ECB's Board Member Schnabel mirrored those remarks, warranting caution against imminent cuts on the risk of easing prematurely. The Bank of Japan kept its bond-buying pace unchanged amid Yen recovery, and the Central Bank of Uruguay maintained its monetary policy rate.

Key Global Financial Indicators

Last updated: 5/17/24 8:29 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5297	-0.2	2	5	27	11.05
Eurostoxx 50		5054	-0.4	-1	3	17	12
Nikkei 225		38787	-0.3	1	5	26	16
MSCI EM		44	0.2	3	10	11	8
Yields and Spreads					bps		
US 10y Yield		4.39	1.9	-10	-19	83	52
Germany 10y Yield		2.51	4.5	-1	4	17	48
EMBIG Sovereign Spread		363	-6	-7	15	-125	-20
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.1	0.0	1	2	-7	-2
Dollar index, (+) = $ appreciation		104.7	0.3	-1	-1	2	3
Brent Crude Oil ($/barrel)		83.3	0.0	1	-5	8	8
VIX Index (%, change in pp)		12.3	-0.1	0	-6	-5	0

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

Mature Markets

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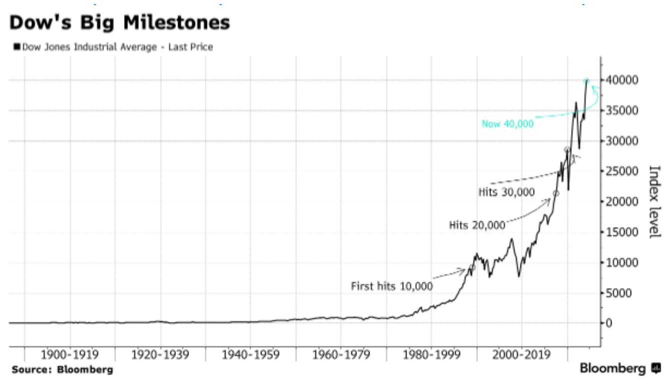
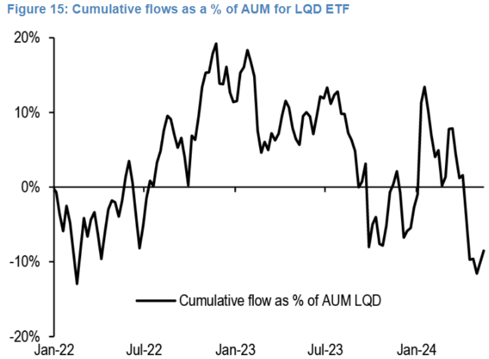
United States



Thursday saw the Dow Jones Industrial Average surpassing an all-time high of 40,000 points. Markets closed slightly below the watermark, which the trading session surpassed for the first time on historical record since the index creation in 1896. From a daily perspective the Dow Jones (-0.01%) and the S&P 500 (-0.2%) slightly contracted on reported profit taking. Notably, stockbrokers have increased earnings forecasts for the current quarter at the swiftest pace in two years, while some market contacts warrant caution of resurging animal spirits. Treasury yields closed higher, led by the front end, with 2y Treasuries up (+7bps) to 4.78%, retracing to levels last seen before the CPI release on Wednesday. The dollar strengthened today, regaining against the yen (+0.3%) to ¥155.8/$ and the euro (+0.2%) to $1.08/€.

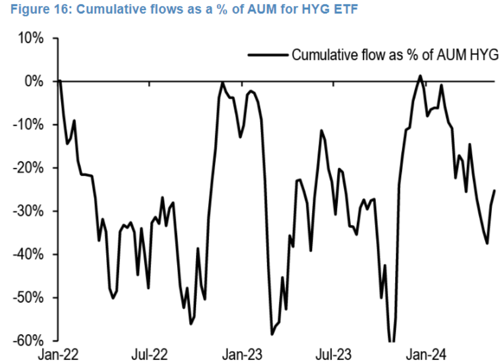
Corporate bond funds saw outflows in the month of April. Particularly two major credit ETFs—LQD for US investment-grade (IG) credit and HYG for US high-yield (HY) credit—faced sharp outflows. Outflows relative to fund volumes appear more pronounced for IG credit as the LQD flows show, which declined to the previous trough seen in 2022 (left chart). JP Morgan analysts note that this could reflect increasing investor apprehension on IG credit, given that a comparatively long duration of 8.5 years exposes this market segment to the possibility of widening credit spreads in tandem with rising Treasury yields if inflation stays above the Fed's' comfort zone over the coming months. Investment-grade corporate bond spreads are currently near the post-GFC low as demand still exceeds supply as end investors for the time being continue to focus on attractive coupon levels as opposed to compressed credit spreads. Outflows in HY credit have been shallower (right chart), as their lower duration of 3.5 years for the time being seems to offer more comfort, even if a credit deterioration in HY credit on the face of a higher-for-longer rate environment could eventually also prompt rising credit spreads on the back of higher spread volatility and increasing default rates.

Figure 15: Cumulative flows as a % of AUM for LQD ETF



Source: Bloomberg Finance L.P., J.P. Morgan.

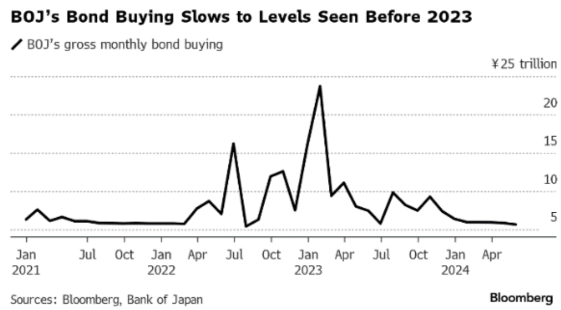
Figure 16: Cumulative flows as a % of AUM for HYG ETF



Source: Bloomberg Finance L.P., J.P. Morgan.

Japan

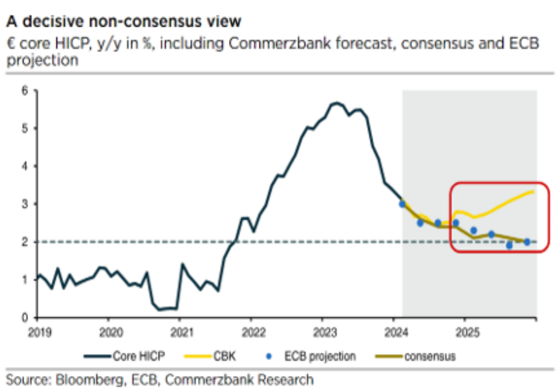
The Bank of Japan (BOJ) kept bond buying unchanged at regular operations, after surprise cut on Monday. The BOJ purchased ¥375bn ($2.4bn) of 1–3Y tenors, ¥425bn ($2.7bn) of 3–5Y, ¥425bn ($2.7bn) of 5–10Y and ¥75bn ($0.5bn). Market contacts see unchanged purchase amounts consistent with the recovery of the yen, which recovered (+4.1%) from its trough on April 29 up to ¥153.64/$ yesterday, while having retraced some gains yesterday and today (-1.5%), currently trading at ¥155.89/$. Separately, former BOJ's chief economist, Sekine, opined on Bloomberg that the BOJ may raise rates as soon as June with a tightening cycle of up to three hikes if the backdrop is sufficiently favorable for the central bank. JGB 10y yields rose (+2.1bps) to 0.95% and stock markets slightly gained (+0.3%).



Europe

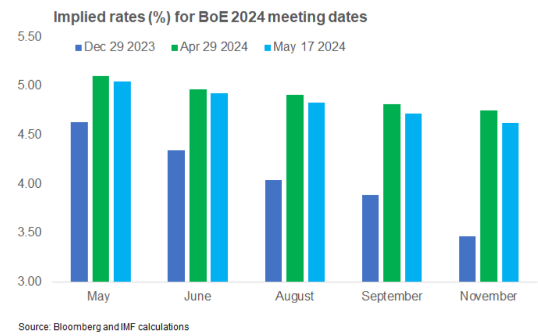
European equities opened lower this morning as markets reassess central bank easing expectations. The STOXX 600 index was lower (-0.3%) in early morning trading led by declines in the utilities (-0.9%) and industrial (-0.9%) sectors. In rates, 10y bund yields climbed up for a second consecutive day (+3bps) to 2.49% while the euro depreciated against the dollar (-0.2%) to $1.0842/€. A number of sovereign credit rating reviews are due to be published after the market close, including Spain (Fitch A-/stable), Portugal (Moody's A3/stable) and Ireland (S&P, AA/stable).

Final euro area inflation data confirms deceleration seen in the flash release. Final inflation data printed confirmed the flash estimates for April with headline CPI printing at 2.4% y/y and core inflation at 2.7% y/y. Commerzbank analysts see the validation of April inflation data affirming the dovish members in the ECB's Governing Council of the merits of a June rate cut, which is a view at odds with Axa analysts who see growing intellectual contagion of the Fed's higher-for-longer stance into other parts of the world, consistent with ECB's Executive Board member Schnabel, who warranted caution against imminent cuts on the risk of easing prematurely. A rate cut in June remains well supported by market pricing with 96% odds (from 96.6% yesterday) while the cumulative amount of easing for this year is priced for -68bps (from -72bps yesterday). Contrary to consensus views but in line with concerns from Schnabel, Commerzbank analysts expect inflation in the euro area to reaccelerate to above target levels (left chart) as structural drivers of inflation could reassert themselves, including higher wages and recovering demand, which in turn could allow companies to pass on higher prices. Consistent with their expectation of higher inflation, they expect 10Y bund yields close to 3% at the end of next year (right chart).



United Kingdom

The April service inflation dataprint will be crucial for the Bank of England's (BoE) first rate cut. Morgan Stanley analysts reiterate their expectation of a first rate cut from the BoE in June, albeit next week's April inflation data moderates their conviction as they expect this release to be the most volatile and hard-to-forecast print of the year. If data outturns are in line with the BoE's latest projections, the analysts expect policymakers to begin easing in June, which they perceive could be consistent with Chief Economist Pill's recent remarks at the last press conference, consistent also with comments by external monetary policy committee member Greene. Though, an upside surprise to service inflation data could undermine the possibility of a June cut and even spark market participants calling into question the possibility of a rate cut at the following August meeting. Current market pricing assigns a 62% probability to a June rate cut with a cumulative amount of -58bps easing for 2024. This morning 10Y gilts were trading higher (+3bps) at 4.10% while the pound was a touch weaker (-0.1%) to trade at 1.27 against the dollar.



Emerging Markets

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EMEA currencies depreciated while stock markets lacked trend. Equities gained in Czechia (+0,4%) but lost in Poland (-0.4%) and in Hungary (-1%) where OTP bank's share (-1%)—which is hit by sanctions from the National Bank of Hungary—dragged down the broader stock market. CEE currencies remained stable against the euro. In Türkiye, equities outperformed (+2%) while the lira was stable against the dollar, trading at 32.27/$. The stock market went down (-0.5%) in South Africa, concluding the week with a +0.8% gain, while the rand also weakened (-0.5%) today to trade at 18.28/$.

Asian currencies depreciated while stock markets diverged. Among currencies, the South Korean won led the losses (-0.7%), followed by Philippine peso and Taiwanese dollar (-0.3%). In equity markets, mainland China's (+1%) and Hong Kong SAR's (+0.9%) led the gains, bolstered by new property-related measures by Chinese authorities while South Korea's (-1%) and Australia's (-0.9%) declined. In terms of primary market issuance, Indonesia sold ¥200bn ($1.3bn) of notes in a multi-part deal, reflecting its biggest Samurai Bond so far. China issued a first tranche of a 1tn yuan ($138bn) ultra long special sovereign bond, of which 40bn yuan ($5.5bn) of special sovereign bonds were sold at an average yield of 2.57% with demand surpassing the amount on offer by a factor of four, in line with trends seen for past auctions of regular 30y bonds, allowing Chinese government bond markets to smoothly absorb the issuance supply.

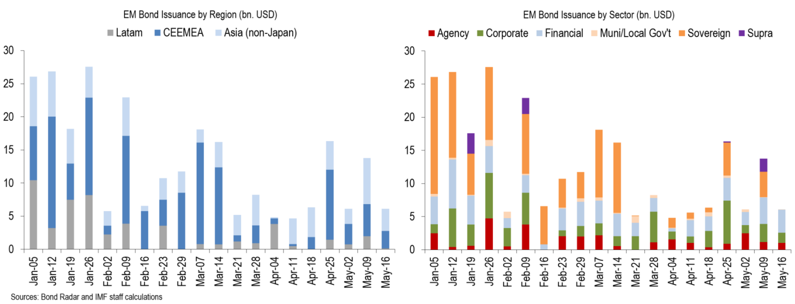
Yesterday, Latin America's currency and stock markets traded on country specific trends. In currency markets, the Chilean peso gained most (+0.7%) surpassing the CLP 900/$ threshold, emerging as a top-performing currency this month (+6.9%)**.** The Colombian peso also rose (+0.6%), whereas the Mexican peso (-0.3%) and the Brazilian real (-0.3%) lagged. Market contacts attribute the decline of the latter to concerns over political interference in Petrobras following executive dismissals that the GMM highlighted yesterday. Stock markets gained in Colombia (+0.8%), Mexico (+0.1%), and Brazil (+0.2%) while stocks in Ecuador (-1.4%) and Chile (-0.9%), experienced declines, the latter following a day of record highs. Uruguay maintained its monetary policy rate at 8.5%, as expected.

EM Bond Issuance

EM bond issuance reached $6.11 bn this week, bringing YTD issuance at $262 bn. Notable issuance includes $1.8 bn from China, followed by $1.51 bn from Türkiye, and $1.17 bn from Singapore. By sector, financials led with 57%, followed by corporates at 25%, and agencies at 17%. Within financials, the

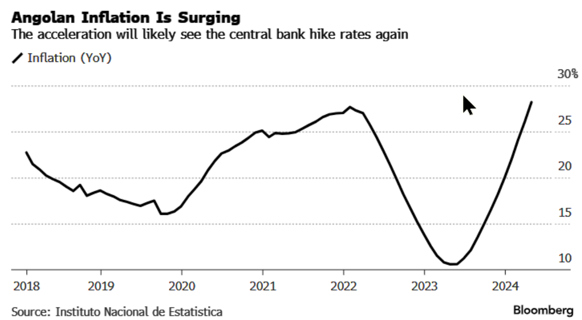
Industrial and Commercial Bank of China issued $1.74 bn in CNH, EUR, and USD denominated bonds all maturing in May 2027. Month-to-date, EM issuance has reached $21.23 bn so far, compared to $37.83 bn issued in April.

Largest Issuers: China and Financial Sector



Angola

Ahead of the central bank decision the Kwanza depreciated. April consumer prices released on Monday confirmed that headline inflation reached 28.2% y/y, above the central bank's 19% target for 2024. Hence, the expectation is for the central bank to hike its policy rate by +100bps to 20% in efforts to curb inflation, which proved persistently high. Over the last 12 months, the kwanza remarkably depreciated against the dollar (-37%) following the decision of the government last year to stop defending the currency. Ahead of the central bank's decision imminent later today, the kwanza weakened against the dollar (-1.0%) trading at 857.26/$.

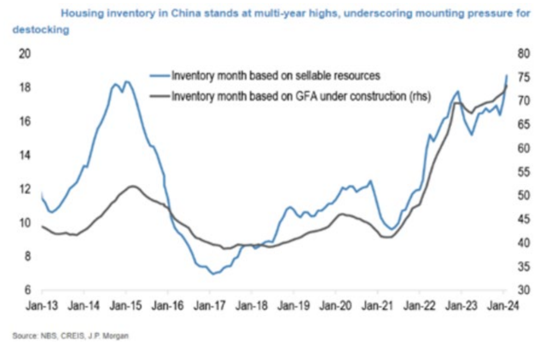


Chile

Stocks hover near an all-time high, bolstered by a strengthening economy and rising copper prices. The IPSA stock index closed at 6,651 (-0.9%) after reaching a record 6,728 on Tuesday and an intraday peak on Wednesday. Year-to-date, Chile's stock market outperformed (+7.32%) Mexico's (+0.13%) and Brazil's (-4.4%). The Chilean peso gained on the day (+0.7%) as copper rally extends (+2%) making it so far one of the best performing currencies of the year.

China

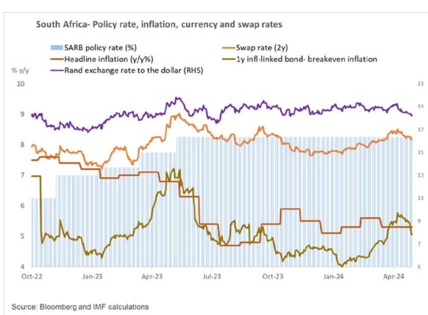
China's stock markets rose on mixed economic data. Equities rose in mainland China (+1.0%) and Hong Kong (+1.1%). The urban unemployment rate for April fell to 5% (exp. 5.2% from 5.2%) and industrial production beat expectations at 6.7% y/y (exp. 5.5% from 4.5%). Retail sales and fixed assets investment slowed to 2.3% y/y (exp. 3.7% from 3.1%) and 4.2% y/y (exp. 4.6% from 4.2%), respectively. Property investment remained in contraction at -9.8% y/y (exp. -9.6% from -9.5%). Both new and second-hand home prices extended slide by -0.6% m/m (from -0.3%) and -0.9%m/m (from -0.5%), respectively. Both onshore and offshore renminbi depreciated -0.1%.

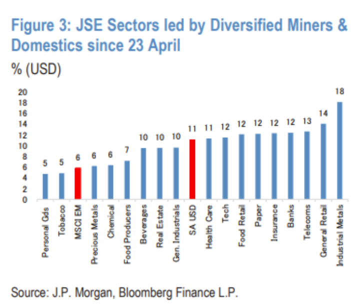


Chinese authorities continued policy easing to support the property market. The People's Bank of China (PBC) repealed the minimum mortgage interest rate and also lowered the minimum down payment ratio for first-time buyers to 15% (from 20%) and for second homes 25% (from 30%). Also, Bloomberg reports that the PBC will establish a nationwide program to provide 300bn yuan ($41.5bn) at a rate of 1.75% for state-owned companies to buy unsold homes, with Chinese Vice Premier He stating local governments are allowed to buy some homes at "*reasonable*" prices and turn them into affordable housing. As another support measure, the individual housing provident fund—a long-term housing savings plan comprising of compulsory monthly deposits by both employers and employees—will also cut its loan rates by 0.25 percentage points to make financing more attractive. Market contacts welcome the additional policy easing. JP Morgan analysts see the absorption of multi-year high housing inventory as instrumental to restore market confidence, estimating the financing need at CNY5tn ($0.7tn) to fully destock.

South Africa

The rand treads water after a three-week rally against the dollar. This morning, the currency slightly depreciated (-0.4%) to trade at 18.27/$. Since the beginning of April, the rand has notably appreciated (+3.3%) against the dollar, and during the same period the stock market also notably gained (+6.1%). In today's news, South Africa's National Treasury stated that preliminary fiscal data indicates a primary budget surplus of +0.4% relative to GDP as of March 2024, with data showing a budget deficit of -4.6% of GDP in 2024, slightly better than the -4.7% of GDP deficit estimated in February by the Treasury. If confirmed, this could be the first time that South Africa achieves a primary budget surplus in 15 years, ahead of elections on May 29, where polls indicate that the ruling African National Congress party might be at risk of losing its majority. Analysts at JP Morgan view equities as having enough headroom to further rally, particularly in the mining, retailers and banking sectors. Goldman Sachs analysts also have a constructive view on the stock market and the rand in the run-up to the elections, but highlight that longstanding concerns on rising debt, low growth and external pressures are likely to persist regardless of the elections' outcome.





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Global Financial Indicators

5/17/24 8:30 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5297	-0.2	2	5	27	11
Europe		5057	-0.3	-1	3	17	12
Japan		38787	-0.3	1	2	29	16
China		3678	1.0	0	3	-7	7
Asia Ex Japan		73	0.4	3	12	11	10
Emerging Markets		44	0.2	3	10	11	8
Interest Rates					basis points		
US 10y Yield		4.39	1.9	-11	-20	82	51
Germany 10y Yield		2.49	2.6	-3	2	15	46
Japan 10y Yield		0.95	2.2	4	7	58	34
UK 10y Yield		4.11	2.6	-6	-16	27	57
Credit Spreads					basis points		
US Investment Grade		117	-1.4	-1	-7	-58	-17
US High Yield		343	-4.4	-1	-24	-171	-43
Exchange Rates					%		
USD/Majors		104.74	0.3	-1	-1	2	3
EUR/USD		1.08	-0.2	1	2	0	-2
USD/JPY		155.8	0.3	0	1	13	10
EM/USD		47.1	0.0	1	2	-7	-2
Commodities					%		
Brent Crude Oil ($/barrel)		83.4	0.2	1	-4	13	9
Industrials Metals (index)		166	1.5	5	8	13	16
Agriculture (index)		60	0.7	-1	2	-7	-3
Implied Volatility					%		
VIX Index (%, change in pp)		12.3	-0.1	-0.2	-5.9	-4.5	-0.1
Global FX Volatility		6.9	0.0	-0.2	-0.8	-1.8	-1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		101	-0.2	-3	-8	-66	-3
Italy		130	-0.2	-4	-15	-55	-38
Portugal		63	0.4	-2	-7	-17	-1
Spain		76	-0.2	-4	-8	-30	-21

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

Emerging Market Financial Indicators

Last updated: 5/17/2024 8:32 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	0.0	0	-3	-2		2.3	-2.0	-4	-4	-61	-26
Indonesia		15955	-0.2	0.6	2	-7	-3		6.9	-4.3	-3	2	51	46
India		83	0.2	0.2	0	-1	0		7.4	2.0	-11	-8	24.1	17
Philippines		58	-0.2	-0.3	-1	-2	-4		5.5	-8.6	-16	-6	-36	-11
Thailand		36	-0.2	1.4	2	-5	-6		2.8	0.8	-7	-11	7	8
Malaysia		4.69	-0.1	1.1	2	-3	-2		3.9	1.5	-5	-10	19	14
Argentina		886	-0.1	-0.4	-2	-74	-9		37.2	16.9	-181	-591	-6289	-4918
Brazil		5.13	0.0	0.6	2	-4	-5		11.7	5.2	-12	-4	-24	133
Chile		900	-0.2	2.8	9	-12	-2		5.2	0.0	-8	-33	-12	25
Colombia		3830	-0.2	1.8	2	18	1		8.1	0.0	-31	-74	-49	43
Mexico		16.66	0.2	0.7	2	6	2		9.1	0.7	-18	-29	89	68
Peru		3.7	-0.4	-1.1	1	-1	-1		7.1	0.1	-5	-49	-18	40
Uruguay		39	0.3	-0.3	1	1	0		9.1	0.4	0	21	-74	-39
Hungary		357	-0.3	0.8	3	-4	-3		6.5	6.0	-8	-64	-126	71
Poland		3.93	-0.3	1.6	3	6	0		5.2	0.3	4	-35	-21	69
Romania		4.6	-0.2	0.7	2	0	-2		6.5	1.3	-2	-2	-28	33
Russia		91.1	-0.3	1.7	3	-12	-2							
South Africa		18.3	-0.4	1.0	4	5	1		9.7	2.0	-16	-47	-34	55
Türkiye		32.26	0.1	0.2	1	-39	-8		27.6	-6.0	37	-35	1775	85
US (DXY; 5y UST)		105	0.3	-0.5	-1	2	3		4.41	1.4	-10	-20	83	57

	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		3678	1.0	0	3	-7	7		141	1	-1	-56	-17
Indonesia		7317	1.0	3	3	9	1		94	-7	-4	-47	-2
India		73917	0.3	2	1	20	2		93	-1	-10	-65	-23
Philippines		6619	-0.1	2	3	-1	3		83	-7	-2	-32	3
Thailand		1383	0.4	1	4	-9	-2		0	0	0	0	0
Malaysia		1617	0.3	1	4	13	11		79	-1	-4	-21	-6
Argentina		1481343	0.2	3	26	352	59		1259	-9	-123	-1325	-654
Brazil		128284	0.2	0	3	17	-4		218	6	-2	-53	3
Chile		6651	-0.9	0	3	19	7		115	-1	-1	-17	-10
Colombia		1417	0.8	2	5	25	19		293	3	-4	-124	22
Mexico		57462	0.0	-1	4	4	0		291	-3	-34	-117	-43
Peru		29967	-0.1	1	9	38	15		143	3	-3	-39	-1
Hungary		68361	-0.7	-1	3	49	13		142	-10	-3	-81	-7
Poland		88076	-0.3	2	7	39	12		94	-4	6	-42	-3
Romania		17367	1.0	0	3	42	13		174	-9	-8	-78	-27
South Africa		79282	-0.3	1	9	1	3		317	-9	-41	-136	9
Türkiye		10563	2.4	3	11	127	41		278	1	-11	-338	-36
EM total		44	-0.2	3	10	11	8		324	-4	27	-104	-22

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

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