GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MAY 2, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **Investors believe Japanese authorities intervened in currency markets again** (link)
- **Markets are pricing in one full rate cut by November following the FOMC meeting** (link)
- **Treasury QRA left auction sizes mostly unchanged, while also announcing buybacks** (link)
- **Brazilian real underperformed in April, the worst performing major EM currency** (link)
- **Swiss franc gained after inflation surprised on the upside** (link)

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Markets digest FOMC meeting while yen rollercoaster continues

Advanced economy bond yields continued to decline following the Federal Reserve meeting yesterday. European bond yields were lower and Treasury yields extended their decline on Thursday, while most EM Asia currencies climbed. **The yen rallied as much as 3% to 153.3 per dollar late Wednesday before retreating to 156.2 this morning, and then strengthening again to just below 155 in volatile trading.** Though unconfirmed, media reports suggested the authorities intervened in the currency market for the second time in the last week. The market reaction to the FOMC meeting was largely dovish, as Chair Powell appeared to dismiss the possibility of a rate hike, which investors had been increasingly considering, despite a "lack of further progress" towards the inflation objective. Futures markets are now pricing in one full rate cut by November. Global equities were mixed this morning, with Hong Kong stocks up over 2%, while Europe was down slightly on net following a holiday yesterday. US futures were modestly higher. Initial jobless claims were broadly in line with expectations at 208k ahead of tomorrow's nonfarm payrolls report.

Key Global Financial Indicators

Last updated: 5/2/24 8:17 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5018	-0.3	-1	-4	22	5
Eurostoxx 50		4904	-0.4	-1	-3	14	8
Nikkei 225		38236	-0.1	-1	-3	31	14
MSCI EM		41	0.1	1	-1	6	2
Yields and Spreads					bps		
US 10y Yield		4.60	-2.5	-10	25	118	72
Germany 10y Yield		2.54	-4.7	-9	14	28	51
EMBIG Sovereign Spread		379	7	38	45	-94	-4
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.5	0.3	0	0	-8	-3
Dollar index, (+) = $ appreciation		105.7	0.0	0	1	4	4
Brent Crude Oil ($/barrel)		84.4	1.1	-5	-5	12	10
VIX Index (%, change in pp)		15.1	-0.3	0	0	-3	3

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

Markets were volatile on Wednesday, with the S&P500 falling 0.3% and the Treasury curve shifting lower by 4–8 bps. Following the FOMC meeting, stocks erased early losses and were up over 1% intraday before declining again. Treasuries rallied throughout the day, with 2y yields ending the afternoon 7 bps lower near 4.96%. The dollar index declined slightly.

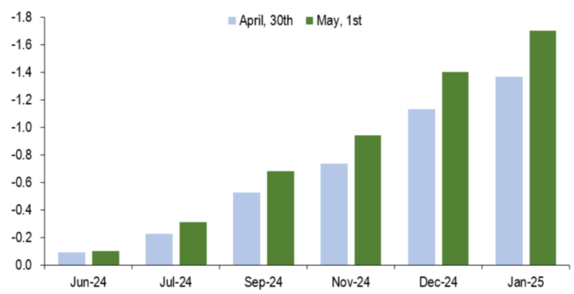
The Federal Reserve left rates unchanged as expected and avoided a hawkish pivot during the press conference. At Wednesday's FOMC meeting, the Fed left the policy rate unchanged at 5.25–5.5% but decreased the pace of quantitative tightening by lowering the cap for the runoff of Treasuries from the balance sheet to $25 bn (vs $30 bn expected). Most notably, Chair Powell pushed back on potential rate hikes, even as he acknowledged "a lack of further progress" towards the inflation objective amid resilient growth. He also described policy as restrictive, pointing to declines in job openings and hiring rates, as well as anchored inflation expectations. Conversely, Powell's comments seemed to lean towards holding off on any rate cuts in the near term. All in all, **markets are back to pricing in one full rate cut by November**, and 35 bps for the year (compared to 28 bps before the meeting).

Table 1: Post-Press conference market reaction

	Level			Change	
	13:55	14:25	15:25	1:55pm to 2:25pm	2:25pm to 3:25pm
UST 2-year (%)	5.01	5.01	4.95	-0.4	-5.2
2s10s (bp)	-37.0	-37.0	-33.8	0.0	3.1
TIPS 2-year (%)	2.63	2.61	2.56	-1.7	-5.1
S&P 500	5024.7	5030.6	5083.3	0.1	1.0
VIX	15.8	15.6	14.6	-0.2	-1.0
IG CDX (bp)	53.9	53.4	52.2	-0.5	-1.2
HY CDX (bp)	357.8	354.0	349.4	-3.7	-4.7
EM CDX (bp)	177.0	176.5	173.5	-0.5	-3.1
Dollar index	106.2	106.2	106.0	-0.1	-0.2
EM index	46.2	46.2	46.3	-0.1	0.0
EUR/USD	1.0675	1.0686	1.0707	-0.1	-0.2
USD/JPY	157.6	157.5	157.4	-0.1	-0.1
GBP/USD	1.2488	1.2497	1.2516	-0.1	-0.2

Notes: Changes for rates and spreads in bps and for Equities and FX in %
For FX, +ve change denotes stronger dollar
Source: Bloomberg; IMF staff

Number of 25bps cuts priced in
(negative sign implies a rate cut)



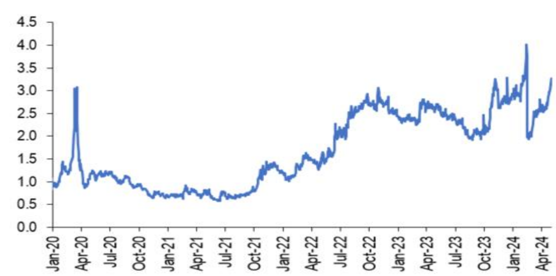
The Treasury Department left coupon auction sizes broadly unchanged in its Quarterly Refunding Announcement (QRA). The QRA did slightly raise the size of TIPS (inflation-protected securities) auctions to maintain their share of total outstanding debt, as previously signaled. In contrast, the Treasury expects T-bill auctions to increase through May to meet liquidity requirements, while they should be returned to "at or near the highs from February and March" by July. The authorities also reintroduced the buyback program after two decades with the objective of "liquidity support". Under the program, the Treasury Department will buy back its securities on a regular basis with a cap of $2 bn and $500 mn per week for nominal coupon bonds and TIPS respectively. Each operation will be limited to a maximum of 20 securities. Most analysts expect the program to have a limited impact on markets, in part because it's smaller than initially expected.

Coupon auction sizes, QRA estimates and market projections (bn. USD)

	Nominals								TIPS				FRNs		Total
	2y	3y	5y	7y	10y	20y	30y	Total	5y	10y	30y	Total	2y	Total	
Feb-24	63	54	64	42	42	16	25	**306**	0	0	9	**9**	28	**28**	**343**
Mar-24	66	56	67	43	39	13	22	**306**	0	16	0	**16**	28	**28**	**350**
Apr-24	69	58	70	44	39	13	22	**315**	23	0	0	**23**	30	**30**	**368**
May-24	69	58	70	44	42	16	25	**324**	0	16	0	**16**	28	**28**	**368**
Jun-24	69	58	70	44	39	13	22	**315**	21	0	0	**21**	28	**28**	**364**
Jul-24	69	58	70	44	39	13	22	**315**	0	19	0	**19**	30	**30**	**364**
Aug-24	69	58	70	44	42	16	25	**324**	0	0	8	**8**	28	**28**	**360**
Sep-24	69	58	70	44	39	13	22	**315**	0	17	0	**17**	28	**28**	**360**
Oct-24	69	58	70	44	39	13	22	**315**	24	0	0	**24**	30	**30**	**369**
Nov-24	69	58	70	44	42	16	25	**324**	0	17	0	**17**	28	**28**	**369**
Dec-24	69	58	70	44	39	13	22	**315**	22	0	0	**22**	28	**28**	**365**
Jan-25	69	58	70	44	39	13	22	**315**	0	20	0	**20**	30	**30**	**365**

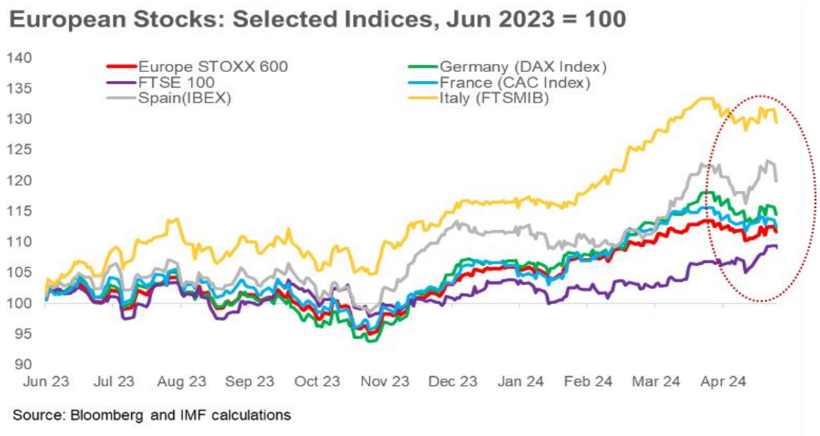
Source: Bloomberg; Glodmansachs Global Investment Research

GSec liquidity index is at its higest level since Feb.
(Index, higher implies tighter conditions)



Europe

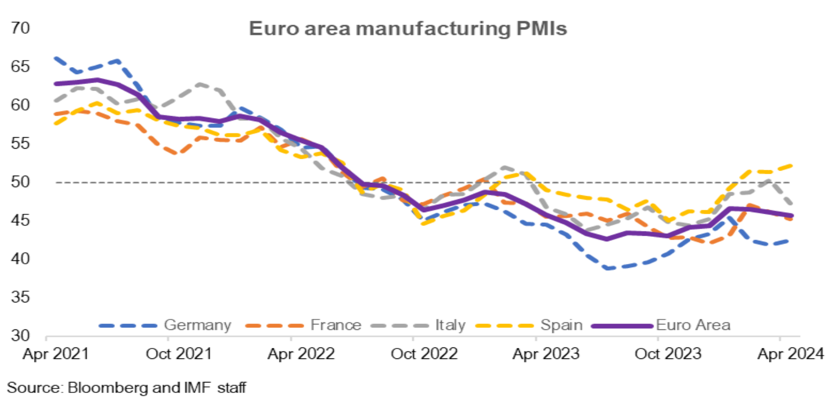
European equities were trading marginally lower this morning (Stoxx 600 -0.1%) with modest gains in Italy (+0.2%), Spain (+0.2%), and Germany (+0.1%) offset by losses in French indices (-0.8%). **Euro area government bond yields edged lower this morning**, with yields across the curve 4–5 bps lower in major economies.



The euro fell slightly this morning to 1.07 against the dollar, retracing yesterday's gains. ING analysts see euro dollar parity as somewhat less likely given their view that the odds of a divergent policy path between the ECB and the Fed have declined following the Fed meeting yesterday. They expect the euro to stabilize near 1.08 in the medium term, especially as inflationary pressures from energy prices recede amid relative calm in the Middle East.

ECB Governing Council member Pablo Hernandez de Cos stated yesterday that "All in all, we are increasingly confident that we are on the right track to achieve our 2% inflation target relatively soon." He added that while the "disinflationary process is fairly advanced" it is "yet to be completed." Market pricing of ECB rate cuts was little changed today, with a 92% probability of a 25 bp cut in June. Nevertheless, some analysts still see risks tilted towards no rate cut in June due to sticky services inflation (3.7% y/y in April) and point to Q1 wage growth data to be published at the end of May as pivotal for ECB's decision.

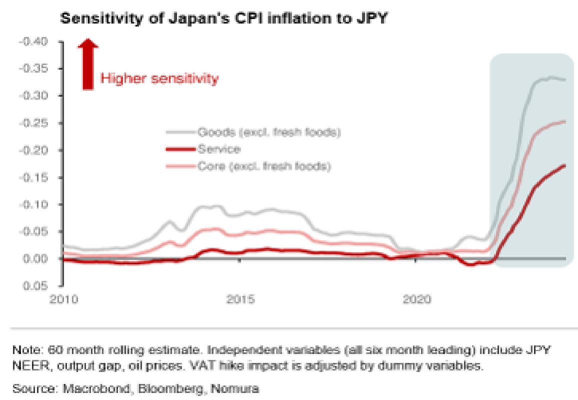
Final euro area manufacturing PMI for April (45.7) came in marginally higher than the preliminary estimate (45.6), although remained lower than March. This was also the case for France, where the final April PMI was 45.3, against a preliminary figure of 44.9. Data released today showed that the April PMI for Spain surprised on the upside at 52.2 (vs 51.4 expected) and disappointed in Italy at 47.3 (vs 50.4).



Japan

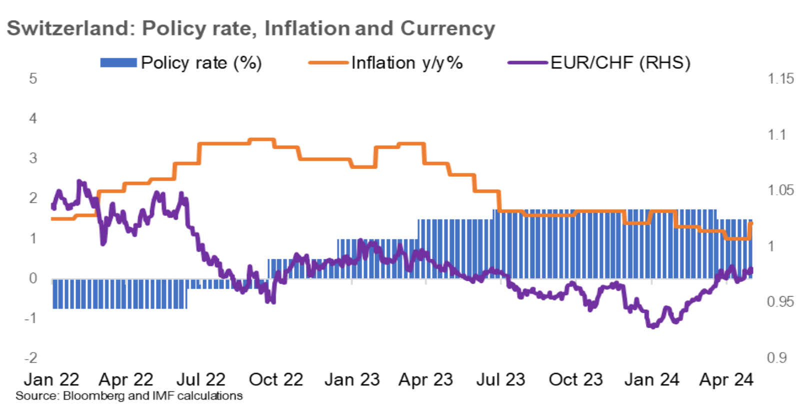
Investors believe Japanese authorities intervened in currency markets for the second time in the last week. Market participants speculated that authorities might have intervened after the yen appreciated +3% within minutes to 153.3 against the dollar late Wednesday (eastern time). **The yen retreated again on Thursday, falling as much as 1.1% before stabilizing at just under 155 yen per dollar.** Japan Vice Minister for International Affairs Kanda declined to reveal if authorities intervened in the currency market. FX reserves data for April will be disclosed at the end of May. Separately, Japan's consumer confidence unexpectedly slipped to 38.3 in April (consensus: 39.8, previous: 39.5).

The Bank of Japan (BOJ) released minutes from its meeting in March, when the BOJ moved to a less accommodative monetary policy setting. Nomura noted that the Board discussed the high uncertainty around the effects of unconventional monetary policy on foreign exchange rates. Meanwhile, one of the members **speculated about potential changes to monetary policy transmission** given the changes in exchange rates and stock prices since the large-scale monetary easing seen in recent years.



Switzerland

The Swiss franc gained (+0.4%) against the euro after inflation surprised on the upside. Headline inflation increased to 1.4% y/y (1.1% expected) from 1% in March. Core inflation also surprised on the upside, increasing to 1.2% y/y (vs 0.9%) from 1% in March. SNB President Thomas Jordan reportedly warned last week that new price shocks could hit "at any time" given heightened global uncertainty. The franc has depreciated by 4.8% against the euro since the beginning of the year. Still, ING analysts see limited space for the currency to rally given the interest rate differential (CHF short-term swap rates are just above 1%) and see the franc moving to 0.98 in the medium-term, possibly reaching parity with the euro at the end of 2024 on the assumption that the SNB will prove dovish.



Emerging Markets

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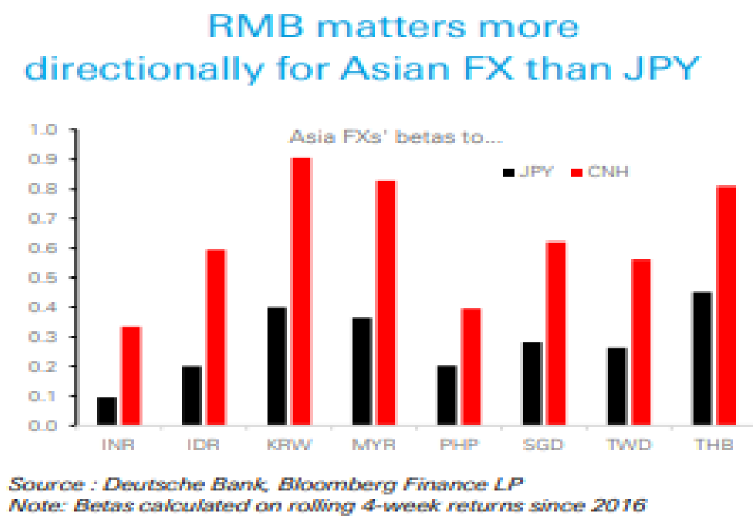
EMEA equities were mostly higher while currencies were mixed. Equities in Türkiye outperformed (+1.2%) reaching a fresh record high, while the lira gained against the dollar (+0.3%), with analysts pointing to broad dollar weakness and buy recommendations from strategists**.** Türkiye's manufacturing PMI eased to 49.3 in April (from 50). CEE currencies were mixed against the euro, with the Czech koruna marginally weaker ahead of the national bank's policy decision later today where consensus expects a 50 bp cut**.** While the Hungarian forint is roughly 1.6% weaker against the euro YTD, contacts note that more hawkish rhetoric from the central bank has supported the currency recently. **In Latin America, major markets were closed on Wednesday. Moody's raised its sovereign outlook on Brazil to Positive, while affirming the rating at Ba2 (BB).** The agency cited ongoing fiscal and debt concerns as weights on the rating.

Asian equities were mixed and rose +0.7% on net. Indonesian stocks fell 1.9%, weighed down by financials. **Hong Kong equities rallied +2.5%, led by Chinese technology firms**, after China's Politburo vowed to step up policy support in recent days. Hong Kong's Q1 GDP advance estimate beat expectations +2.7% y/y (consensus: +0.8%, previous: +4.3%). CPI inflation for April slowed in South Korea to +2.9% y/y (consensus: +3%, previous: +3.1%), but was little changed in Indonesia at 3% (consensus: +3.1%, previously +3.05%). **Asian currencies appreciated and 10y bond yields declined** after the FOMC meeting. Historically, Asian currencies have been more sensitive to directional movements in Chinese renminbi than the Japanese yen, according to Deutsche Bank analysis. The South Korean won, Malaysian ringgit, and Thai baht have the highest betas.



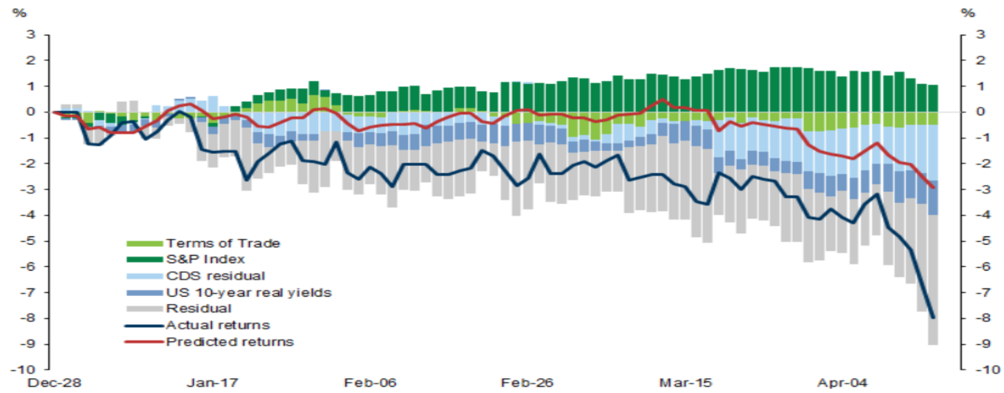
China

Mainland China closed for Labor Day holiday.

Brazil

The Brazilian real has underperformed over the last month (-2.6%), making it the worst performing major emerging market currency. Most EM currencies weakened by 1–2% in April, with the South African rand and Chilean peso among the few that appreciated. The weaker real has come despite higher oil prices, as the terms of trade have been hampered by softer soybean and iron ore prices. Goldman Sachs analysts highlighted that idiosyncratic risk may have increased since mid-March (proxied by a residual from modeling the CDS spread), alongside heightened sensitivity to the rise in the real US Treasury yields. Moreover, since the beginning of the year, **the currency has fallen further than model-implied estimates would suggest**.

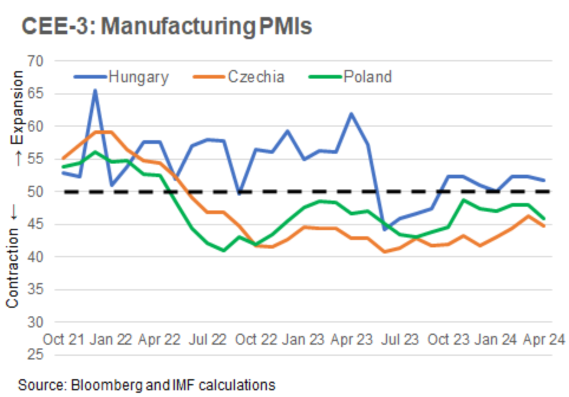
Exhibit 1: While some factors (US rates, country risk, terms of trade) point to BRL depreciation, the currency has still underperformed
Cumulative BRL returns vs USD since Dec 28, 2023

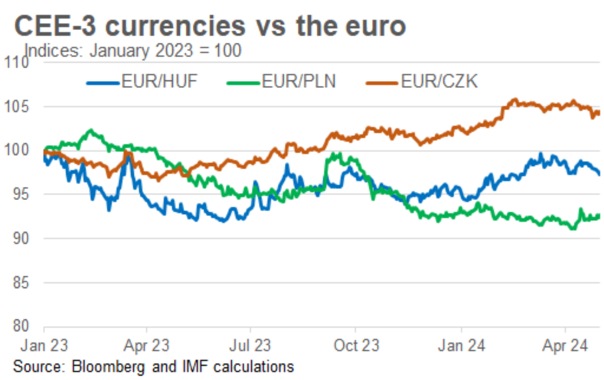


FX sensitivities to each factor estimated between 2014 and 2023
Source: Bloomberg, Goldman Sachs Global Investment Research

Central and Eastern Europe

Manufacturing PMIs declined in April, remaining in expansionary territory in Hungary but slipping further into contractionary territory in Poland and Czechia. Hungary's April manufacturing PMI declined by less than anticipated to 51.8 (versus 51.7 expected from 52.2 previously), while PMI data disappointed in Poland at 45.9 (versus 47.9 expected from 48.0 previously). Czechia's PMI came in at 44.7 (versus 46.7 expected from 46.2). S&P Global noted that Poland's manufacturing PMI has now remained below 50 for 24 consecutive months, and also highlighted a renewed decline in manufacturing input prices. For Czechia, S&P Global noted that inflationary pressures are building while output and new orders contracted at a faster pace. Contacts note that CEE-3 economies remain vulnerable to fiscal challenges, uncertainty about the inflation outlook, sluggish Germany economic growth, higher geopolitical risks.





This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior 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), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior 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

5/2/24 8:18 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5036	-0.3	0	-3	22	6
Europe		4904	-0.4	-1	-3	14	8
Japan		38236	-0.1	-1	-3	31	14
China		3604	-0.5	3	0	-11	5
Asia Ex Japan		68	0.0	1	0	4	2
Emerging Markets		41	0.1	1	-1	6	2
Interest Rates					basis points		
US 10y Yield		4.60	-2.5	-10	25	118	72
Germany 10y Yield		2.54	-4.7	-9	14	28	51
Japan 10y Yield		0.90	1.0	0	15	48	29
UK 10y Yield		4.29	-7.4	-7	21	62	76
Credit Spreads					basis points		
US Investment Grade		117	-1.1	-3	-3	-46	-17
US High Yield		350	0.7	-4	-4	-144	-36
Exchange Rates					%		
USD/Majors		105.75	0.0	0	1	4	4
EUR/USD		1.07	-0.1	0	-1	-3	-3
USD/JPY		154.6	0.0	-1	2	13	10
EM/USD		46.5	0.3	0	0	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		84.4	1.1	-4	-4	17	10
Industrials Metals (index)		156	-0.8	-1	10	1	9
Agriculture (index)		59	0.7	-1	0	-10	-5
Implied Volatility					%		
VIX Index (%, change in pp)		15.1	-0.3	-0.3	0.4	-2.7	2.6
Global FX Volatility		7.5	0.0	0.2	0.8	-1.6	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		97	-2.1	-8	-10	-96	-6
Italy		130	-3.3	-10	-14	-61	-38
Portugal		62	-0.6	-4	-8	-22	-1
Spain		76	-0.7	-4	-10	-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: 5/2/2024 8:20 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		7.24	-0.2	0.1	0	-5	-2		2.4	0.0	7	5	-70	-16
Indonesia		16185	0.5	0.0	-2	-9	-5		7.2	-6.3	9	50	66	70
India		83	0.0	-0.2	0	-2	0		7.5	-4.0	-3	29	20.4	30
Philippines		58	0.4	0.4	-2	-4	-4		5.8	0.1	6	33	-23	13
Thailand		37	0.3	0.2	-1	-7	-8		2.8	-7.5	-3	30	21	14
Malaysia		4.75	0.4	0.5	0	-6	-3		4.0	1.6	0	12	26	26
Argentina		877	0.0	-0.5	-2	-75	-8		40.3	0.0	-242	-1244	-5406	-4612
Brazil		5.14	1.0	0.3	-2	-2	-6		11.8	-12.0	-1	51	-70	136
Chile		960	-2.0	-0.6	3	-16	-8		5.3	-2.0	-13	8	19	43
Colombia		3920	-1.4	-0.3	-1	20	-2		8.5	0.0	-16	35	-74	83
Mexico		16.92	0.4	1.7	-2	6	0		9.6	-1.5	9	70	120	110
Peru		3.8	-0.9	-1.6	-1	-2	-2		7.3	0.3	-7	-21	-21	62
Uruguay		38	0.0	0.2	-1	1	2		9.1	0.0	8	11	-88	-41
Hungary		364	0.2	0.7	1	-6	-4		6.9	-10.0	-10	32	-80	115
Poland		4.04	-0.2	-0.6	-2	3	-3		5.3	-5.6	-13	24	3	84
Romania		4.7	-0.1	-0.3	-1	-4	-3		6.7	0.0	13	31	-46	46
Russia		91.9	2.1	0.4	1	-13	-3							
South Africa		18.7	-0.4	2.0	1	-1	-2		10.0	-8.0	-26	18	65	88
Türkiye		32.36	0.4	0.6	-1	-40	-9		28.9	63.0	72	271	1602	214
US (DXY; 5y UST)		106	0.0	0.1	1	4	4		4.62	-3.2	-10	28	117	77

	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		3604	0.0	3	0	-11	5		140	-4	-7	-54	-18
Indonesia		7117	-1.6	-1	-1	4	-2		102	3	14	-39	6
India		74611	0.2	1	1	22	3		100	-2	-6	-59	-16
Philippines		6647	-0.8	1	-3	1	3		89	4	15	-23	9
Thailand		1363	-0.3	0	-1	-11	-4		0	0	0	0	0
Malaysia		1580	0.3	1	3	11	9		85	2	2	-16	0
Argentina		1323586	1.2	6	9	344	42		1229	21	-209	-1454	-684
Brazil		125924	-1.1	1	-1	21	-6		210	-5	1	-58	-5
Chile		6512	-0.6	2	-2	20	5		121	4	1	-11	-4
Colombia		1357	-1.7	1	0	13	14		305	7	14	-112	34
Mexico		56728	-1.9	0	-2	3	-1		310	2	1	-76	-24
Peru		29184	-0.1	4	4	34	12		150	5	11	-22	6
Hungary		68120	0.0	3	4	52	12		155	7	10	-56	6
Poland		84757	0.2	1	2	35	8		96	3	3	-27	-1
Romania		17235	1.0	2	1	40	12		189	8	13	-57	-12
South Africa		76444	0.5	3	3	-2	-1		344	-6	-4	-62	36
Türkiye		10165	1.2	5	11	120	36		283	-2	-9	-209	-31
EM total		41	1.0	1	-1	6	2		334	47	46	-76	-11

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

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