GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MAY 23, 2024

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- **NVIDIA's quarterly results sooth risk-on sentiment that Fed minutes dented before** (link)
- **Bank of Japan left the amount of bond purchases unchanged** (link)
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NVIDIA's strong AI-driven revenue momentum soothes risk sentiment

Yesterday, the Treasury curve flattened, driven by rising short-term yields on hawkish Fed minutes. The minutes showed that some Fed officials stated "*a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate*." This suggests that the Federal Open Market Committee in its entirety might be more hawkish than what Chair Powell conveyed at the press conference. But after market close, NVIDIA reported its financial results for the first quarter, beating median consensus expectations for earnings for a sixth consecutive time on a continuation of AI related revenue growth that has brought its market share in the data center computer market above 80%. The impetus of it permeated to technology sectors worldwide, lifting European and Asian markets today. While the Bank of Japan kept its bond purchases unchanged, it did little to soothe JGBs that continue to yield above 1% at the 10y maturity point, a level previously seen at the onset of Abenomics in 2012. Wage growth accelerated in the euro area for the first quarter, but the market pricing for an ECB rate cut in June remains well anchored, reflective of wage growth empirically lagging inflation. Later today, the central banks of Türkiye and Egypt convene for meetings with consensus expectations for unchanged policy rates.

Key Global Financial Indicators

Last updated: 5/23/24 8:30 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5307	-0.3	0	5	28	11.26
Eurostoxx 50		5056	0.6	0	1	16	12
Nikkei 225		39103	1.3	0	2	27	17
MSCI EM		43	-0.3	-1	7	12	7
Yields and Spreads				bps			
US 10y Yield		4.41	-1.0	4	-19	72	53
Germany 10y Yield		2.54	0.9	8	4	7	52
EMBIG Sovereign Spread		367	3	-1	28	-113	-16
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.1	0.1	0	2	-6	-2
Dollar index, (+) = $ appreciation		104.7	-0.2	0	-1	1	3
Brent Crude Oil ($/barrel)		82.6	0.8	-1	-7	7	7
VIX Index (%, change in pp)		11.6	-0.7	-1	-4	-7	-1

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

Mature Markets

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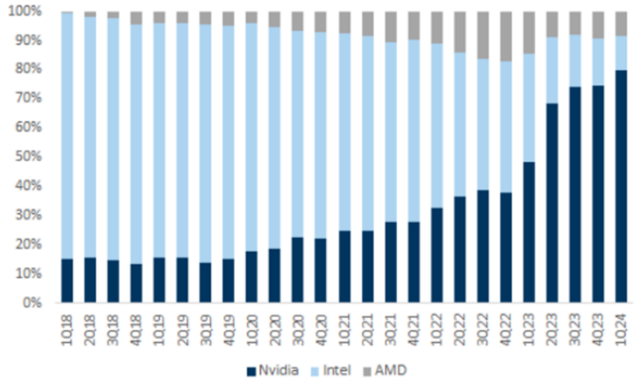
United States

Nvidia's share of the Data Center Computer market has grown from 15% five years ago to 80% today



Source: Goldman Sachs

NVIDIA's quarterly results soothed risk-on sentiment that got dented on hawkish Fed minutes. The S&P 500 closed the day lower (-0.3%) on the publication of the Fed meeting minutes, which validated that the committee leaned hawkish during its deliberations on May 1. After market close, chipmaker NVIDIA announced its results for the first quarter, with earnings per share surprising median consensus expectations by 8.4%, an upside surprise for the sixth consecutive time thanks to AI related revenue growing by 27% q/q. The stock rallied (+7%) in after-market trading, illustrating better improved investor confidence in the broader AI theme. Among other major events yesterday was a 20y Treasury bond auction, which closed at the when-issued yield of 4.635%, reflecting the third highest since the tenor was reintroduced in 2020, attracting solid demand from investors while primary dealers only took down with 10% of the issuance share (vs a 12% average during refunding months).

The release of the Fed's May meeting minutes prompted a correction of short-dated Treasury yields. The minutes revealed that Fed officials had a live debate on the degree to which the monetary policy stance is restrictive, with some committee members being open to the idea of further tightening if needed. Market contacts at BMO downplay the additional information content revealed by the minutes, noting that the meeting discussion did not yet have the April inflation datapoint, which they thought pointed out at a less dire threat of sticky inflation, supporting their constructive views on Treasuries. This is at odds with Nomura market contacts, who have delayed their call for the first Fed rate cut from July to September on more hawkish Fed commentary as of recent, which suggests the need for more data before the central bank can start cutting rates. Others also noted that the hawkish tone of the minutes was to be expected, as Fed officials both after the Chair Powell's Fed press conference and the release of April inflation data leaned more hawkish, suggesting that the Federal Open Market Committee in its entirety might be more hawkish than Chair Powell conveyed at the press conference. On the day, 2y Treasury yields rose (+4bps) to 4.87% while 10y yields remained flat at 4.42%. Priced probabilities for rate cuts remained unchanged for a cumulative amount of -40bps.

Japan

Bolstered confidence in the AI theme from the US lifted the Technology sector and the Nikkei 225. Japanese equities rose (+1.3%) following the upbeat earnings from NVIDIA, which lifted technology stocks, especially semiconductor-related companies. Better PMI data further helped to brighten the sentiment as May flash PMI data shows that factory activities expanded for the first time in one year. The manufacturing PMI printed for May at 50.5 (from 49.6). The services PMI printed at 53.6 (from 54.3), indicating a solid, albeit slower expansion in services sector. Taken together, these two components bring the composite PMI to a nine-month high of 52.4 (from 52.3). Weekly data from the Ministry of Finance show foreign buying of Japanese equities in the week ended on 17 May had slowed to 248 bn yen (US$1.6 bn) from a weekly average of 1,700 bn yen (US$10.9 bn) in the first half of April.

The Bank of Japan (BoJ) left bond purchases unchanged today, but 10y JGBs remain above 1%. The central bank left the amount of bond purchase unchanged in its regular debt operation today, after a surprising reduction on 13 May, which had intensified market speculation on further rate hikes from the BoJ in coming months. This did little to appease bond market dynamics as 10y JGBs only fractionally declined (-1bps) while remaining above the 1% mark, which they surpassed yesterday for the first time since the onset of Abenomics in 2012. While uncertainty remains on the BoJ's pace of monetary policy normalization, weak results of a 40y bond auction earlier during the week prompted a selloff in longer-dated JGB yields prompting the yield curve steepening. The Japanese yen remained flat at ¥156.71/$.

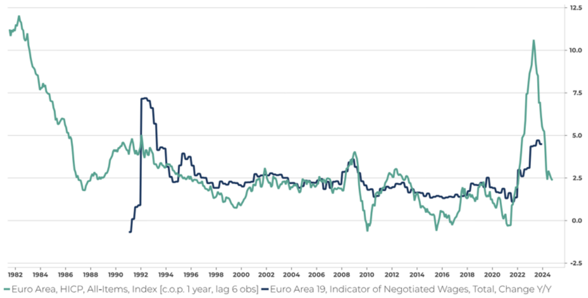
Euro Area

European equities opened higher on the back of strong US tech-sector earnings. The STOXX 600 index slightly gained (+0.2%) in early morning trading led by gains in the information technology (+1.8%) and industrials (+0.8%) sectors. In rates, 10y bund yields remained flat at 2.54% while the euro appreciated against the dollar (+0.2%) to $1.0842/€.

Preliminary May eurozone composite PMI data accelerated, printing above expectations. The preliminary May eurozone composite PMI printed at 52.3 (exp. 52.0 from 51.7). In addition, the accompanying press release stated that "*the pace of output price inflation (…) softened in May and was the weakest since November 2023*". In the price action following the release, 2y bund yields climbed (+5bps) to 3.06%, reaching levels last seen in November 2023, while retracing subsequently to 3.03%. Market contacts at ING view today's data suggesting that "*economic momentum is continuing in the second quarter*", noting that "*for the ECB, it will have come as a relief that inflation softened in May.*"

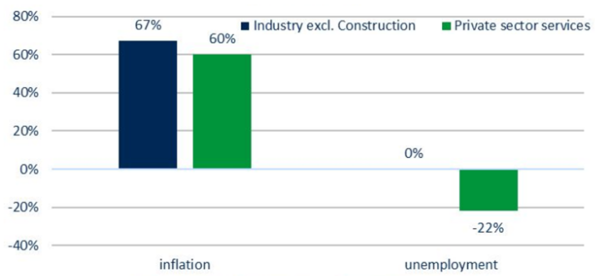
Negotiated wages for Q1 accelerated, consistent with past inflation empirically driving wage growth. Wages increased in Q1 by 4.7% y/y (from 4.5%). Morgan Stanley market contacts perceive that the uptick in wages will not "*stand in the way*" of the well-telegraphed June rate cut by the ECB but note that today's data supports their view "*of a cautious approach to the cutting cycle and see the next cut to only follow in September*". Similarly, analysts at HSBC remarked "*with concerns on possible second round effects on wages fading but not completely gone, it seems likely the ECB will move cautiously in its rates cutting cycle"*. This seems consistent with the empirical observation that wage growth dynamics lag inflation (left chart) while it is rising inflation that is impacting wages, particularly for industry professions (right chart). This morning, market pricing suggests around -61bps of easing from the ECB in 2024, down from around -72bps of easing expected last week, while the June rate cut remains close to fully priced in.

Wages trail Euro area inflation by more than 6 months…



Source: Macrobond

… while rising inflation impacts wages, particularly for industry wages.



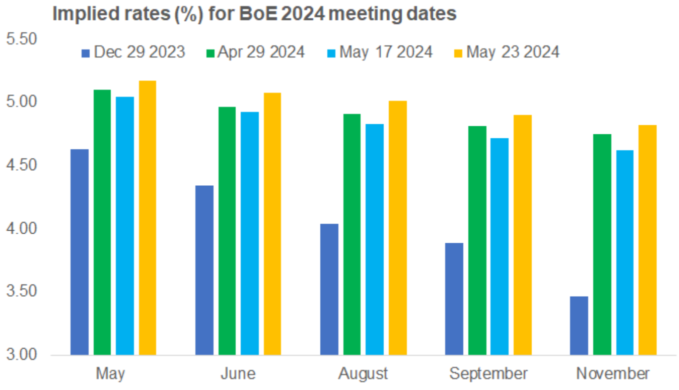
Source: Barings

Note: Chart showing inflation and unemployment impact on wages (elasticities) based on Bernanke & Blanchard (2023).

United Kingdom

UK preliminary May composite PMI data misses expectations. The preliminary May composite PMI printed below at 52.8 (exp. 54.0 from 54.1), suggesting that the UK's economic recovery lost steam in May. However, the manufacturing output index showed a solid turnout, printing at 51.3 (exp. 49.5 from 49.1). Gilt

10y yields climbed (+3bps) to 4.26%, while the initial reaction quickly retraced with 10y gilt yields stabilizing at 4.22%. Following this morning's data release as well as yesterday's announcement of a general election being called in July, markets have scaled back expectations of BoE rate cuts and are now pricing in around -37bps of easing in 2024, compared to around -40bps priced in yesterday, with the timing of the first rate cut pushed out to November. The pound fractionally depreciated (-0.1%) to £1.2709.



Source: Bloomberg and IMF calculations

Emerging Markets

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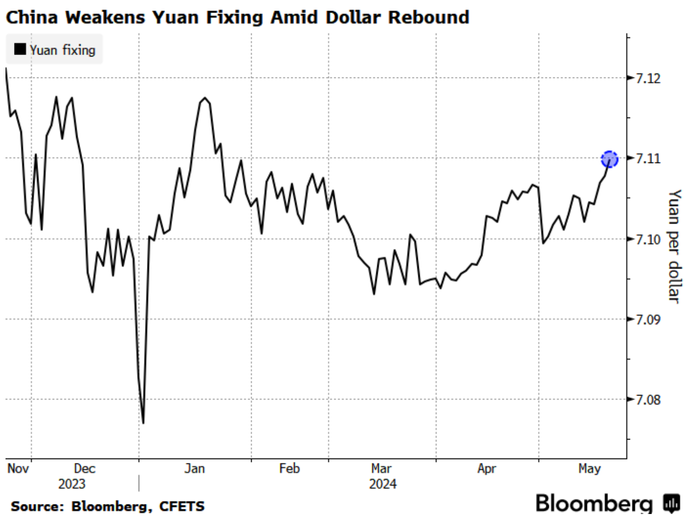
EMEA equities posted mixed results while currencies were mostly trading weaker. Stock markets gained in Hungary (+0.4%) while declining in Saudi Arabia (-1.0%). In the CEE region, currencies marginally weakened against the euro. The South African rand depreciated against the dollar (-0.7%) to 18.39/$. The Turkish lira remained flat at 32.21/$ ahead of the monetary policy meeting later today where median consensus expectations are for an unchanged policy rate at 50%. Median consensus expectations similarly anticipate the Central Bank of Egypt to maintain the policy rate of 27.25% at its meeting later today.

Asian currencies traded in a tight range while equity markets fractionally declined on net. Among currencies, only the Malaysian ringgit (-0.3%) and Thai baht (-0.2%) showed more notable gyrations in an otherwise calm market. On net, Asian equities slightly retraced (-0.2%) with declines driven by losses of Hong Kong's (-1.7%) and China's (-1.2%) stock markets. India's stock markets outperformed (+1.2%), on upbeat PMI data that indicates sustained momentum of private sector growth for the month of May with manufacturing PMIs printing at 58.4 (from 58.8), services at 61.4 (from 60.8) and the composite at 61.7 (from 61.5). Asides, the Reserve Bank of India also announced to pay a record dividend of 2.11 trillion rupees (US$25.3 billion) to the government, which can help improving India's fiscal position. Singapore's government maintained its growth forecast for this year in a range of 1% to 3%, after confirming the final reading of Q1 GDP growth at +2.7% y/y (exp. 2.5% from 2.2%). Singapore's headline and core CPI inflation remained flat in April at 2.7% y/y and 3.1% y/y respectively, in line with market consensus.

China

Equity markets remain apprehensive to ongoing issues in the property sector. A Bloomberg report outlines further efforts by Chinese banks to support the government's recent housing rescue package. Major Chinese banks reportedly instructed their local branches to extend loans to state-owned enterprises to purchase unsold homes. Equity markets slid (CSI 300: -1.2%, HKSAR-listed: -1.7%) while 10y Chinese government bond yields declined slightly (-0.7 bps) to 2.31%.

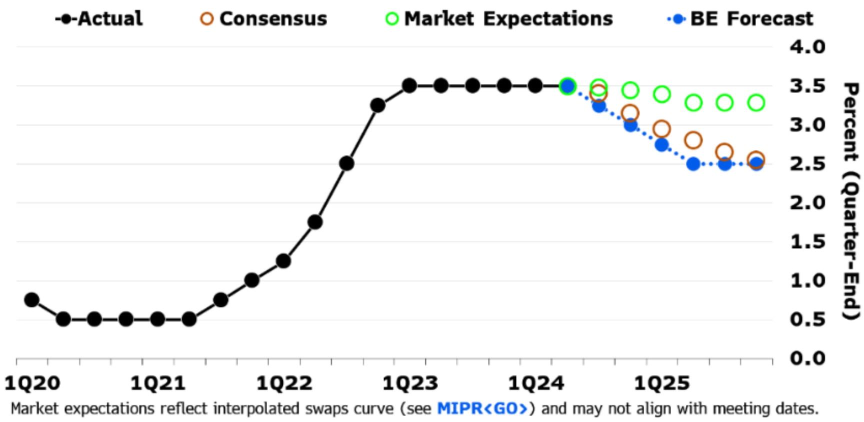
The People's Bank of China (PBC) set the RMB fixing to the weakest level since January. The PBC set the fixing at 7.1098/$, indicating that the authorities may allow more room for RMB to depreciate against the US dollar. The move came as bets increased that the US dollar will stay strong for longer, which was reinforced by the hawkish Fed minutes released yesterday, showing several Fed officials were open to interest hikes, if necessary. Seasonal factors such as dividend payments by overseas listed Chinese companies in Q2 and Q3 could also add additional pressures to RMB. Market contacts note that the RMB fixing remained 1,364 pips stronger than market consensus, clearly expressing PBC's intention to stabilize RMB and limit its downside. The RMB depreciated (-0.1%) to 7.2406/$.



Korea

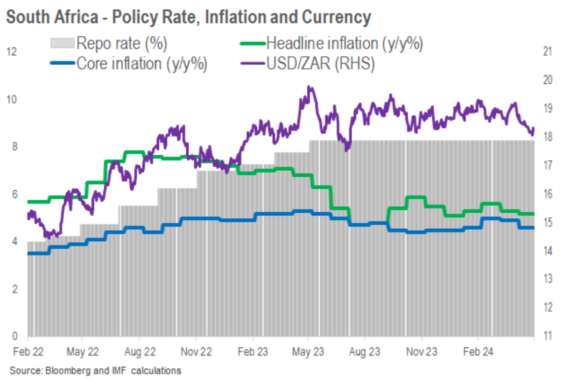
Korea's government announced a 26trn won (US$19bn) package to support the chip industry. The policy package includes a 17trn won financial support program through state-backed development banks and a 1trn won fund aimed to support equipment maker and fabless companies following a Reuters report. Korea's 10y government bond yields declined (-1.6 bps) to 3.47% while Korean equities and the won remained flat with the latter at ₩1362/$.

The Bank of Korea (BoK) kept the policy rate unchanged. It maintained a 3.50% in line with median consensus expectations. The BoK revised up its GDP growth projection for 2024 to 2.5% (from 2.1%), reflecting stronger-than-expected Q1 GDP, while downgrading 2025 growth forecast to 2.1% (from 2.3%). While the BoK has not changed its CPI projections, which are for 2.6% for 2024 and 2.1% for 2025, the central bank warranted caution on upside risks to inflation due to an improvement in economic growth and pass-through of heightened currency volatility. Market contacts perceive that the BoK will maintain its current stance for longer until inflation will converge to the 2% target, in line with the BoKs guidance that "*there is more uncertainty around the timing of a rate cut*".



South Africa

Earlier this week the rand reached its strongest level since July 2023. Market contacts attribute the strength of the rand (left chart) to hopes of a market-friendly election outcome. This is consistent with a recent Bloomberg survey, over 90% of participants anticipate a rally in South African assets if the outcome of the upcoming elections results in continuity or more market friendly policies (right chart). The survey further indicates that South Africa is currently regarded as a more favorable investment destination than Egypt and Nigeria. This morning the rand weakened against the dollar (-0.7%) to 18.39/$.



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Global Financial Indicators

5/23/24 8:31 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5341	-0.3	1	5	29	12
Europe		5056	0.6	0	1	16	12
Japan		39103	1.3	0	2	27	17
China		3642	-1.2	0	3	-6	6
Asia Ex Japan		72	-0.1	-1	8	11	9
Emerging Markets		43	-0.3	-1	7	12	7
Interest Rates					basis points		
US 10y Yield		4.41	-1.0	4	-19	72	53
Germany 10y Yield		2.54	0.9	8	4	7	52
Japan 10y Yield		1.00	-0.7	8	11	60	39
UK 10y Yield		4.20	-2.8	13	-4	5	67
Credit Spreads					basis points		
US Investment Grade		117	0.2	0	-4	-50	-17
US High Yield		343	-1.0	1	-10	-151	-42
Exchange Rates					%		
USD/Majors		104.68	-0.2	0	-1	1	3
EUR/USD		1.09	0.3	0	1	1	-2
USD/JPY		156.6	-0.1	1	1	13	11
EM/USD		47.1	0.1	0	2	-6	-2
Commodities					%		
Brent Crude Oil ($/barrel)		82.6	0.8	-1	-6	13	8
Industrials Metals (index)		164	-0.9	0	5	15	15
Agriculture (index)		62	0.3	4	4	-4	0
Implied Volatility					%		
VIX Index (%, change in pp)		11.6	-0.7	-0.8	-4.1	-6.9	-0.8
Global FX Volatility		6.8	0.0	-0.1	-0.4	-1.9	-1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		99	-0.1	-2	-6	-42	-5
Italy		128	-1.5	-3	-7	-58	-40
Portugal		62	-1.0	0	-1	-16	-1
Spain		75	-1.1	-1	-2	-30	-22

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

Emerging Market Financial Indicators

Last updated: 5/23/2024 8:31 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	0.0	-0.3	0	-3	-2		2.3	-1.0	-4	-3	-57	-28
Indonesia		15993	0.0	0.2	2	-7	-4		6.9	-4.3	-3	2	51	46
India		83	0.0	0.3	0	-1	0		7.4	0.3	4	-14	14.5	19
Philippines		58	-0.1	-1.1	-1	-4	-5		5.6	-2.4	-4	-6	-33	-6
Thailand		37	-0.6	-1.1	1	-5	-7		2.8	-0.3	8	-1	11	15
Malaysia		4.70	-0.1	-0.4	2	-3	-2		3.9	0.2	3	-9	10	15
Argentina		890	-0.1	-0.5	-2	-74	-9		33.7	-76.0	-337	-1169	-7110	-5272
Brazil		5.13	0.4	0.0	0	-3	-5		11.9	2.5	22	32	3	149
Chile		907	0.4	-1.0	5	-11	-3		5.2	0.0	1	-17	-17	25
Colombia		3828	-0.4	-0.1	2	18	1		8.1	0.0	7	-20	-74	50
Mexico		16.63	0.2	0.4	2	8	2		9.2	0.0	8	-20	73	75
Peru		3.7	-0.2	-0.6	-1	-1	-1		7.1	0.6	1	-21	-33	41
Uruguay		38	-0.4	0.9	0	1	1		9.1	0.2	0	15	-85	-39
Hungary		357	0.2	-0.3	3	-2	-3		6.6	3.0	19	-28	-153	84
Poland		3.93	0.4	-0.2	3	6	0		5.2	6.4	5	-14	-27	74
Romania		4.6	0.3	-0.1	1	1	-2		6.5	-0.1	2	0	-32	34
Russia		90.4	-0.3	0.5	3	-11	-1							
South Africa		18.3	-0.4	-0.8	4	5	0		9.6	7.0	0	-44	-51	53
Türkiye		32.20	0.0	0.2	1	-38	-8		27.8	25.0	14	-103	1870	105
US (DXY; 5y UST)		105	-0.2	0.2	-1	1	3		4.45	-1.1	5	-18	71	60

	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		3642	-1.2	0	3	-6	6		140	-2	-3	-55	-18
Indonesia		7222	0.0	1	2	7	-1		93	-13	-8	-47	-3
India		75418	1.6	2	2	22	4		93	-1	-10	-62	-23
Philippines		6660	0.8	0	1	1	3		83	-9	-5	-32	3
Thailand		1368	-0.2	0	0	-11	-3		0	0	0	0	0
Malaysia		1629	0.4	2	4	16	12		77	-3	-6	-22	-8
Argentina		1562849	-1.2	6	25	359	68		1401	161	254	-1191	-512
Brazil		125650	-1.4	-2	0	14	-6		216	-7	1	-45	1
Chile		6738	0.4	0	4	19	9		113	-3	-3	-18	-12
Colombia		1409	-2.2	-1	5	26	18		302	10	2	-104	31
Mexico		56432	-0.6	-2	0	6	-2		292	2	-21	-102	-42
Peru		30072	-2.7	0	8	39	16		148	4	3	-32	4
Hungary		68350	0.6	0	4	47	13		141	-8	-8	-90	-8
Poland		88348	0.0	0	4	35	13		93	-6	0	-37	-4
Romania		17425	-0.4	1	3	42	13		174	-6	-8	-75	-27
South Africa		80011	0.7	1	8	4	4		313	-14	-32	-137	5
Türkiye		10932	0.3	6	13	145	46		278	-8	-4	-374	-36
EM total		43	0.4	-1	7	12	7		331	4	47	-93	-14

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

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