GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MAY 6, 2024

LEAD EDITOR: BENJAMIN MOSK

- **Sweden's central bank expected to kick off with first rate cut this week** (link)
- **Tight US credit spreads are seen to be supported by fundamentals—for now** (link)
- **Chinese equities gained on improving market sentiment** (link)
- **Emerging Market bond fund outflows decreased last week** (link)
- **Special Feature: EM Local Currency Bond Holdings Monitor** (attached)

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Global equities continue to recover on improved risk sentiment

Higher-for-longer fears moderated last week as Friday's weak US jobs report was seen to support the dovish post-FOMC sentiment. Last Friday, US equities advanced by 1.2% after non-farm payrolls came in lower than expected, and unemployment for April turned out higher (3.9% versus 3.8% expected). Last week, the number of priced 2024 FOMC rate cuts increased from 1.3 to 1.8. These moves stand in contrast with this year's repricing towards a higher-for-longer scenario. The turnaround—for now—supported risk sentiment globally. Today, equities advanced in Europe (+0.6%) and China (+2.0%), whereby the latter received support from growth-supportive signals form the April Politburo. US equities are set to open higher today as well, with S&P futures up 0.3%. US economic data flows will be light this week, but today, investors will keep an eye on the Fed's Senior Loan Officer Opinion Survey (SLOOS). The survey is expected to show that banks are still tightening lending standards—this would provide support to the more dovish sentiment. Elsewhere, Türkiye received a rating upgrade from S&P last Friday (from B to B+), following an earlier upgrade by Fitch. Analysts believe that inflation in Türkiye has peaked. Oil prices rebounded from last week's declines (Brent futures up 0.9%), with rising geopolitical concerns and reports of Saudi Arabia's price hikes for customers in Asia. Focus also remains on the yen, which weakened by 0.5% today; some market participants think that the yen could re-test the 160 level versus the US dollar.

Key Global Financial Indicators

Last updated: 5/6/24 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5128	1.3	1	-1	24	8
Eurostoxx 50		4963	0.8	0	-1	14	10
Nikkei 225		38236	-0.1	-1	-3	31	14
MSCI EM		42	0.9	3	3	8	6
Yields and Spreads				bps			
US 10y Yield		4.49	-2.2	-13	9	105	61
Germany 10y Yield		2.46	-3.7	-7	6	17	44
EMBIG Sovereign Spread		374	-4	33	35	-117	-9
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.8	0.1	1	0	-8	-3
Dollar index, (+) = $ appreciation		105.0	0.0	-1	1	4	4
Brent Crude Oil ($/barrel)		83.7	0.9	-5	-8	11	9
VIX Index (%, change in pp)		13.8	0.3	-1	-2	-3	1

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

In the week ahead, investors will monitor a number of central bank policy rate decisions. Central banks of the UK, Poland, Mexico, Australia, and Malaysia are expected to maintain their current policy rates. Rate cuts are anticipated to moderate in Brazil and are set to begin in Sweden. The central bank of Peru is also expected to cut its policy rate. Investors will scrutinize the European Central Bank's account of its April meeting for clues about the timing and number of cuts, with the first one widely expected in June. Additionally, investors will receive updates on price developments in Latin America (Mexico, Chile, Colombia, Brazil), Southeast Asia (Philippines), and Europe (EU, Germany, Spain, among others), as well as wage data from Japan. Economic activity data will be released for the UK, Indonesia, and the Philippines (GDP), while India will provide production data. In the US, the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS) will shed light on credit standards, and consumer sentiment surveys will reveal the impact of persistent inflation and cooling labor markets on consumers

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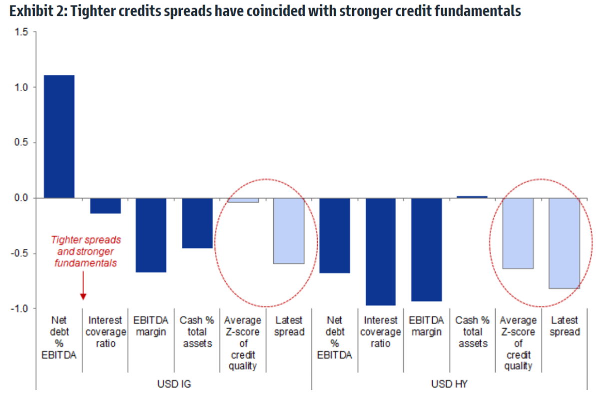
United States

Credit spreads remain tight on improved credit fundamentals, attractive yields and strong growth. USD spreads have been approaching their tightest levels in two decades despite restrictive monetary policy, higher funding costs for corporate borrowers, and elevated inflation impacting corporate profitability. In 2024, the gap between investment-grade (IG) spreads and short-term policy outlook has widened further. Nevertheless, market analysts argue that tight spreads are aligned with macro and credit fundamentals. IG markets have seen higher profitability and liquidity offsetting increased leverage, while high-yield (HY) markets show improvements in net leverage, debt servicing capacity, and profitability. At the macro level spread tightening is seen to be supported by higher yields and strong company growth, which has also bolstered equity market returns. Looking forward, re-pricing risks remain. Persistent inflation and prolonged higher interest rates may create vulnerabilities not fully reflected in current valuations. However, the dovish approach of the Fed on further rate hikes possibly makes a sudden re-pricing a more distant possibility.

Figure 12: HG spreads have de-linked from near term rate expectations

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

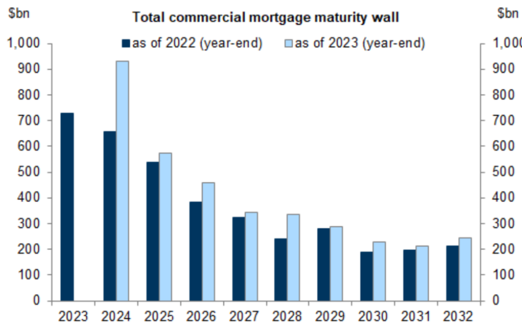
Exhibit 2: Tighter credits spreads have coincided with stronger credit fundamentals



Source: FactSet, ICE-BAML, Goldman Sachs Global Investment Research

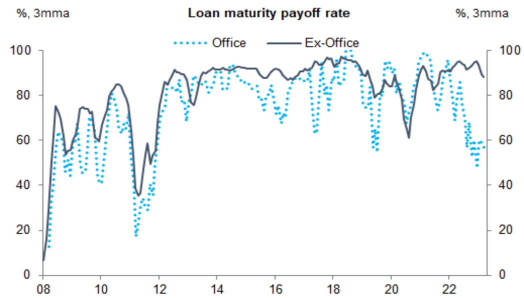
Refinancing activity in the commercial real estate (CRE) sector continues. With credit spreads remaining tight, performing assets continue to receive reasonable loan extensions and credit availability is expected to continue for viable CRE assets, despite widespread concerns around a pullback in bank lending. Market analysts view the current environment as an opportunity for both commercial mortgage-backed securities (CMBS) and private capital to step in. For instance, single-asset, single-borrower CMBS loans, which focus on one large loan for a specific commercial property, have experienced significant refinancing activity, especially from private equity-sponsored real estate. However, the office sector remains vulnerable, with office prices expected to decline further before investor interest picks up. So far, substantial debt extensions and modifications, particularly for office loans, have helped mitigate immediate risks related to upcoming debt maturity dates.

Exhibit 1: The amount of debt maturing in 2024 has grown by $270 billion over the past year
Total principal balance of commercial mortgages due by maturity year, as of 2023 year-end vs. 2022 year-end (one year prior)



Source: Mortgage Bankers Association, Goldman Sachs Global Investment Research

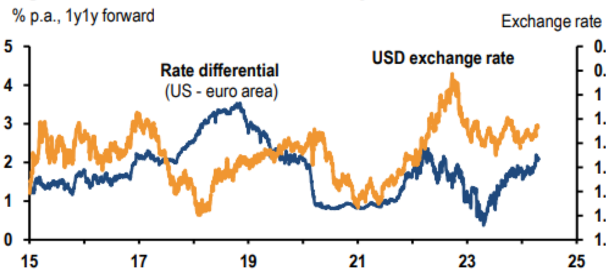
Exhibit 2: Within the CMBS market, modifications have been much more prevalent for office properties vs. non-office real estate
The rate of maturing conduit CMBS loans fully paying off principal at maturity, split between office and non-office collateral. We note that the payoff rates for loans in other types of CMBS, such as SA/SB CMBS and CRE CLOs, are significantly lower due to common built-in extension options for these loans



Source: Trepp, Goldman Sachs Global Investment Research

Europe

Figure 3: Euro area and US forward money market rates

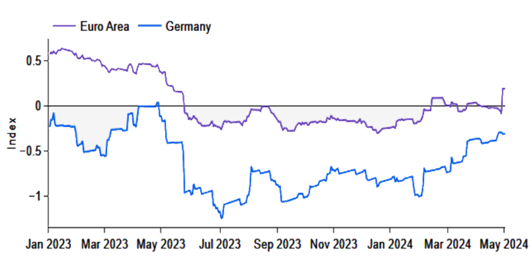


Source: J.P. Morgan

European equities were higher with the Stoxx 600 Europe index rising by 0.6%. The slowdown in the US jobs report Friday improved global investors' risk sentiment. The euro gained (+0.1%) against the dollar, trading at 1.077/$. According to analysts, divergences in the policy rate outlook have recently contributed to the euro's weakness, but recent improvements in euro area growth data should support it. Meanwhile, euro area government bond yields were lower today with the 10-year German bund yield trading (-4.7bps) at 2.45%. UK markets were closed for a holiday.

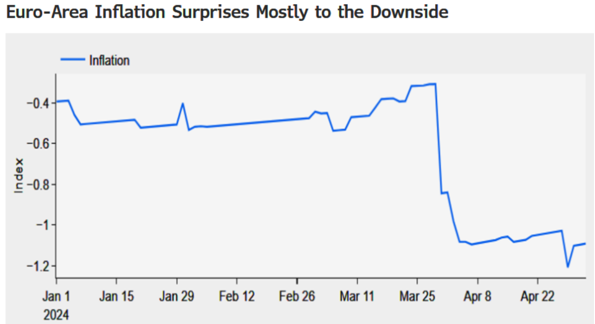
Cautious easing starts in Western Europe, with Sweden's central bank expected to cut its policy rate on Wednesday. The majority of analysts, albeit a small margin, expect the Riksbank (central bank of Sweden) to follow the SNB (Swiss central bank) to enter an easing cycle on Wednesday. For Sweden, while weak growth and a sharp fall in inflation prints justify rate cut forecasts, the slide in the Swedish krona could reduce the likelihood of a rate cut. Other Western European central banks are also on track to ease, but the risks are tilted in the direction of fewer cuts for this year. In the euro area, the recent positive growth surprise may not derail ECB cuts, and inflation surprises have mostly been to the downside this year. A June rate cut looks likely unless wage growth accelerates, services inflation picks up, oil prices rise, or the euro declines significantly. Some analysts have pared back the expected rate cuts for the year in light of improved growth prospects and upside inflation risks.

Euro-Area Growth Surprise Index at its Highest Since Last May



Source: Bloomberg Economics. For more details, visit BECO MODELS <GO>, and launch 'Surprises'.

Euro-Area Inflation Surprises Mostly to the Downside



Source: Bloomberg Economics

United Kingdom

The Bank of England will likely leave its policy rate unchanged on Thursday. Investors' focus is on any signals on the timing of the first rate cut and MPC's updated macro projections. Currently, the base case for markets is a 25bps cut in August, with a second move by December. Mixed messages from policymakers suggest a significant division within the board. Crucially, Governor Bailey acknowledged progress on disinflation but remained cautious with low energy inflation but still high underlying price pressures, saying that inflation remained too imbalanced and that this imbalance is "coming down gradually." According to JP Morgan analysts, stubbornly high services inflation would need to decline to within 2–3% range from its current 6% to meet the inflation target.

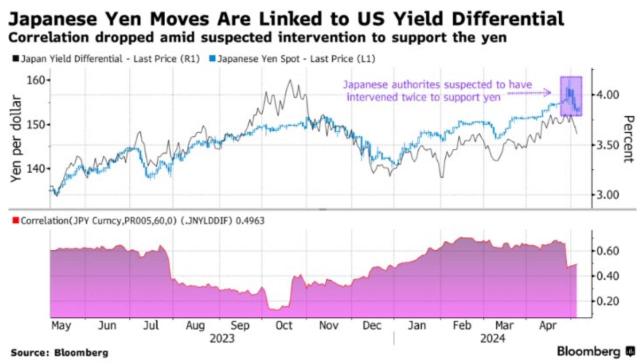
Table 1: A short history of CPI inflation targetting
%

	CPI	Wedge[1]	Core		
			Total	Goods	Services
Pre-pandemic	2.2	0.4	1.9	0.0	3.2
2004-2007	2.2	0.7	1.5	-1.5	3.6
2008-2013	3.1	0.8	2.3	0.5	3.5
2014-2019	1.4	-0.2	1.7	0.5	2.5
Post-pandemic					
2020-2023	5.1	0.8	4.3	3.8	4.5
Latest	3.2	-1.0	4.2	1.5	6.0
Simulation	2.0	0.1	1.9	0.8	2.5
Weight	1.00	0.22	0.78	0.29	0.49

Source: J.P. Morgan. 1. %-pt gap between headline and core inflation

Japan

The Japanese yen depreciated today, unwinding last Friday's strengthening. Today, the Japanese yen depreciated to 153.7 yen per dollar (-0.5%) as markets returned focus on the outlook for Japan's interest rates. Market participants saw interest rate differentials as the key factor underpinning the weakness of Japanese yen. Last week, Japanese yen appreciated sharply potentially due to two rounds of suspected FX interventions by Japanese authorities. Bloomberg estimated that the interventions in late April and early May were in the magnitude of $59bn. Last Friday, Japanese yen also appreciated following weaker-than-expected US jobs data. Japan's markets were closed today for a public holiday.



Emerging Markets

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EMEA equities advanced on the back of post-FOMC and post-US jobs improvements in global risk sentiment. Polish equities outperformed (+1.5), followed by Czech markets (+1.0%). Most currencies appreciated modestly versus the US dollar, led by South African Rand (+0.6%). The shekel depreciated by around 1% after news flows around a possible upcoming offensive, and Israel's equity market showed declines.

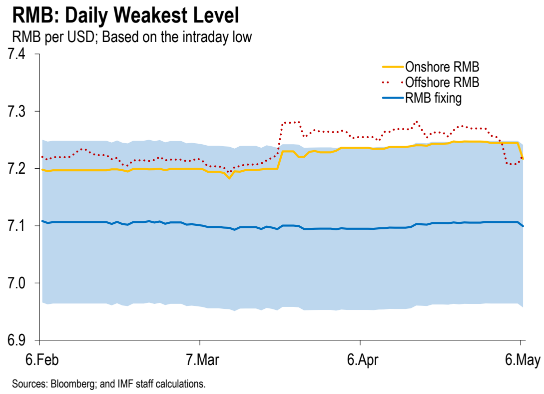
Asian markets advanced today on improving market sentiment. One major driver was a revival of market speculation for US interest rate cuts. Another was optimism in China's onshore markets following the growth-supportive signal from the April Politburo meeting. Asian equities gained, up 1.1% on net, led by Chinese (CSI 300: +2.0%), Hong Kong (+1.5%) and Taiwanese (+0.9%) stocks. Asian currencies were mixed. Chinese yuan (+0.4%) and Indonesian rupiah (+0.4%) appreciated, while Singaporean dollar (-0.1%) and Hong Kong dollar (-0.1%) depreciated. Long-end government bond yields declined, with 10-year yields falling in Indonesia (-25.4 bps), the Philippines (-11.1 bps) and Singapore (-10.0 bps).

Latin American assets saw positive performance on Friday after data suggested the US labor market is cooling**.** Stocks rose in Brazil (+1.1%), Mexico (+0.8%), Colombia (+0.5%) and Chile (+0.9%). Currencies appreciated in Brazil (+0.8%) and Chile (+0.8%) against the US dollar.

China

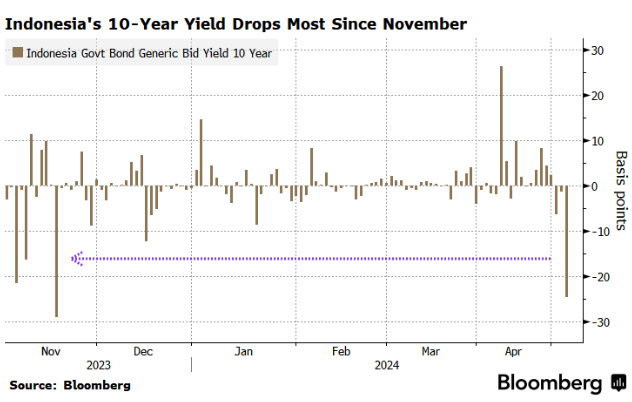
Chinese equities gained on improving market sentiment (CSI 300: +2.0%). The April Politburo meeting sent growth-supportive signals (the meeting statement came out after market closing on April 30), which in turn reignited market optimism. Onshore Chinese equities climbed to catch up with the gains of offshore Chinese shares after the holiday (since May 1). Caixin services PMI moderated slightly to 52.5 in April, in line with expectations. As a result, Caixin PMI composite edged up to 52.8. The manufacturing component, which was released last week, improved to 51.4. RMB appreciated to 7.21 yuan per dollar (+0.4%). The appreciation was bolstered by the People's Bank of China set the daily RMB fixing at 7.099 yuan per dollar, a notably stronger level than last week. RMB was also supported by risk-on sentiment underpinned by the onshore stock market gain. The key interbank repo rate (DR007) dropped to 1.88% (-23 bps) as month-end funding pressures eased. Meanwhile, CGB yields were mixed (1-year: +7.4 bps; 10-year: -0.2 bp).

The Politburo meeting highlighted the need to reduce housing inventory. This was the first time that the government mentioned housing destocking since April 2015. Views on the policy intention varied. Some believed that the "digesting housing inventory" only refers to existing homes in the secondary market rather than unsold properties in the hand of property developers. Markets also focused on the commodity housing trade-in scheme. Particularly, households can place a deposit at a property developer to indicate an intention of buying a new house, and a property agency will help facilitate the sale of the old house. If the old property is successfully sold within a timeframe, the new house transaction will be completed as agreed; otherwise, the deposit can be returned. Shanghai become the second tier-1 city, following Shenzhen, to join the housing trade-in scheme. However, some analysts viewed that the scheme may not have a large impact on the housing market.



Indonesia

Government bond yields fell the most since last November, driven by a revival of market speculation for early US interest rate cuts. Government bond yields declined across the curve (1-year: -20.5 bps; 10-year: -25.4 bps). Over the last month, Indonesian bonds were among the worst performers in Asia on the back of market repricing for high-for-longer US interest rates and escalating geopolitical tensions in the Middle East. However, the decline in US treasury yields after weaker-than-expected US jobs data last Friday improved market sentiment toward Indonesian assets. Indonesian rupiah also appreciated (+0.4%), outperforming other regional currencies. Indonesian equities gained (+0.4%). The economy contracted 0.8% q/q in 2024Q1, slightly better than expectations (consensus: -0.9%), supported by holiday festivities and government cash handouts. On the y/y basis, real GDP grew 5.1%.

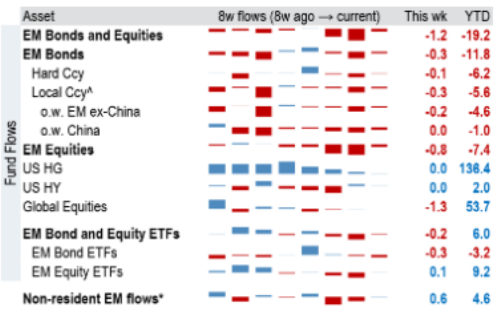


Emerging Market Bond and Equity Flows

Emerging Market bond fund outflows sharply decreased (-$337mn, from -$1.6bn) in the last week of coverage. Outflows declined in both hard currency funds (-$83mn, from -$682mn) and local currency funds (-$254mn, from -$885mn). Bond ETFs outflows increased (-$257mn, from -$130mn) while non-ETFs outflows decreased (-$81mn, from -$1.4nn). EM equity funds outflows eased (-$844mn, from -$3.5bn). Equity ETFs turned to inflows (+$68mn, from -$1.8bn) and non-ETFs outflows decreased (-$912n, from -$1.7bn). Across regional funds, there were outflows in Asia ex-Japan (-$101mn) and Latam (-$195mn) while inflows in EMEA (+$64mn). The year-to-date flows currently stand at -$11.8bn and -$7.4bn for bonds and equities, respectively.

Figure 1: Weekly cross-asset flows

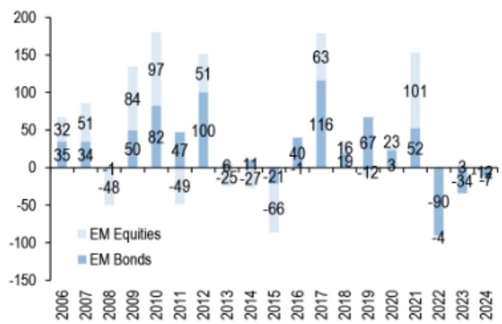
USD billion



Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-1.2	-19.2
EM Bonds		-0.3	-11.8
Hard Ccy		-0.1	-6.2
Local Ccy^		-0.3	-5.6
o.w. EM ex-China		-0.2	-4.6
o.w. China		0.0	-1.0
EM Equities		-0.8	-7.4
US HG		0.0	136.4
US HY		0.0	2.0
Global Equities		-1.3	53.7
EM Bond and Equity ETFs		-0.2	6.0
EM Bond ETFs		-0.3	-3.2
EM Equity ETFs		0.1	9.2
Non-resident EM flows*		0.6	4.6

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.

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.

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Global Financial Indicators

	Level		Change				
5/6/24 8:15 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5128	1.3	1	-1	24	8
Europe		4963	0.8	0	-1	14	10
Japan		38236	-0.1	-1	-3	31	14
China		3658	1.5	4	3	-9	7
Asia Ex Japan		71	0.8	4	4	6	6
Emerging Markets		42	0.9	3	3	8	6
Interest Rates			basis points				
US 10y Yield		4.49	-2.2	-13	9	105	61
Germany 10y Yield		2.46	-3.7	-7	6	17	44
Japan 10y Yield		0.90	0.0	1	11	48	29
UK 10y Yield		4.22	-6.4	-10	17	53	69
Credit Spreads			basis points				
US Investment Grade		116	-0.8	-2	-3	-51	-18
US High Yield		338	1.2	-7	-10	-166	-47
Exchange Rates			%				
USD/Majors		105.04	0.0	-1	1	4	4
EUR/USD		1.08	0.1	0	-1	-2	-2
USD/JPY		153.8	0.5	-2	1	14	9
EM/USD		46.8	0.1	1	0	-8	-3
Commodities			%				
Brent Crude Oil ($/barrel)		83.7	0.9	-4	-7	17	9
Industrials Metals (index)		158	0.6	-1	7	3	11
Agriculture (index)		60	-0.4	-1	-1	-12	-5
Implied Volatility			%				
VIX Index (%, change in pp)		13.8	0.3	-0.9	-2.2	-3.4	1.4
Global FX Volatility		7.4	0.1	-0.1	0.7	-1.7	-0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		98	0.2	-2	-6	-76	-5
Italy		132	-0.2	-1	-10	-59	-36
Portugal		63	-0.4	1	-4	-22	0
Spain		77	0.2	0	-6	-31	-20

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

Emerging Market Financial Indicators

Last updated: 5/6/2024 8:15 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		7.21	0.5	0.3	0	-4	-1		2.4	-0.5	-6	2	-65	-17
Indonesia		16025	0.4	1.4	-1	-8	-4		6.9	-27.4	-33	24	45	42
India		83	-0.1	0.0	0	-2	0		7.4	-4.1	-11	8	20.3	22
Philippines		57	0.2	0.8	-1	-3	-3		5.7	-9.9	-10	23	-24	3
Thailand		37	0.4	0.5	0	-8	-7		2.8	-1.3	-6	25	25	13
Malaysia		4.74	0.0	0.6	0	-6	-3		3.9	-2.4	-7	5	20	19
Argentina		879	-0.1	-0.5	-2	-74	-8		38.9	5.7	-165	-1084	-5608	-4749
Brazil		5.07	0.8	0.9	-1	-2	-4		11.5	-12.7	-21	22	-78	110
Chile		939	0.7	1.2	2	-14	-6		5.2	-0.4	-17	-9	-4	29
Colombia		3913	-0.2	-0.3	-3	19	-1		8.3	0.0	-12	2	-46	71
Mexico		16.92	0.3	0.5	-4	5	0		9.2	0.0	-35	3	81	72
Peru		3.7	0.2	0.5	-1	0	-1		7.1	-10.0	-27	-6	#VALUE!	44
Uruguay		38	0.3	0.1	1	2	2		9.1	0.3	5	8	-85	-39
Hungary		361	0.2	1.0	-1	-6	-4		6.7	0.0	-32	5	-120	93
Poland		4.01	0.2	0.3	-2	3	-2		5.3	-3.0	-9	14	7	80
Romania		4.6	0.1	0.6	-1	-3	-2		6.6	0.0	3	25	-45	43
Russia		91.2	0.3	2.3	2	-15	-2							
South Africa		18.4	0.6	1.2	1	0	0		9.8	-4.8	-17	1	53	74
Türkiye		32.28	0.2	0.8	-1	-40	-9		28.9	3.0	98	201	1616	219
US (DXY; 5y UST)		105	0.0	-0.5	1	4	4		4.47	-3.2	-18	7	106	62

	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		3658	1.5	4	3	-9	7		141	-3	-7	-60	-17
Indonesia		7136	0.0	1	-2	5	-2		105	0	10	-52	9
India		73896	0.0	0	0	21	2		100	0	-7	-65	-16
Philippines		6652	0.6	0	-1	0	3		91	0	8	-38	11
Thailand		1370	0.0	0	0	-11	-3		0	0	0	0	0
Malaysia		1597	0.5	1	3	12	10		83	0	0	-21	-2
Argentina		1452002	6.0	17	20	389	56		1247	32	-181	-1329	-666
Brazil		128509	1.1	3	1	22	-4		207	-6	-8	-79	-8
Chile		6559	0.9	3	1	20	6		120	1	-1	-22	-5
Colombia		1386	0.5	1	0	19	16		294	-5	8	-133	23
Mexico		57135	0.8	0	-2	4	0		305	1	-2	-95	-29
Peru		28984	-0.2	0	5	31	12		145	-3	4	-40	1
Hungary		68407	0.6	2	3	48	13		155	5	3	-70	6
Poland		85681	1.5	3	3	36	9		98	6	3	-41	1
Romania		17221	0.0	2	1	41	12		186	3	7	-77	-15
South Africa		77244	1.1	2	3	-1	0		330	-8	-19	-100	22
Türkiye		10312	0.3	4	7	134	38		281	5	-9	-241	-33
EM total		42	0.2	3	3	8	6		329	43	38	-96	-16

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

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