GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MAY 7, 2024

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- **Marginally more US banks reported stricter credit standards in Q1 2024** (link)
- **Reserve Bank of Australia kept its policy rate unchanged at 4.35% as expected** (link)
- **Japanese yen depreciates following US calls for caution on FX interventions** (link)
- **Polish zloty rangebound ahead of Thursday's MPC meeting** (link)
- **Demand for weather derivatives surges on the back of rising climate volatility** (link)

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Markets maintain positive sentiment, unphased by geopolitical developments

Most global equity markets maintained a positive momentum as higher-for-longer fears abate. Yesterday, US equities gained around +1%, and today European (+0.7%) and Japanese (+1.6%) equities followed suit. Today, however, US equities are set to open neutrally with S&P futures effectively flat. Global bond yields declined today in most jurisdictions, led by the UK, where gilt yields fell by up to 8 bps in the long end of the curve. The central bank of Australia (RBA) kept its policy rate unchanged. Comments by Governor Bullock were seen to argue against additional hikes, but also limiting the scope for any 2024 rate cuts. Overall, the market interpreted the decisions as slightly dovish, with yields falling afterwards. The Fed's latest Senior Loan Officer Opinion Survey (SLOOS) showed yesterday that banks tightened lending standards overall in April, lending support to the view that the current policy stance remains restrictive and is thereby seen to be consistent with the recent revival of hopes for (faster) rate cuts. Fast-moving geopolitical developments around the conflict in the middle east left markets relatively unphased. Bloomberg thinks that the outcome of the current negotiation process, which seems to have stalled, would likely have limited impact on the global economy either way. Its model of oil-price drivers suggests the geopolitical risk premium already fell from $12 a barrel shortly after the October 7 attacks to $1.5 a barrel last week. Today, the active Brent futures contract traded below $84, while last week, it reached close to $90.

Key Global Financial Indicators

Last updated: 5/7/24 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5181	1.0	1	0	25	9
Eurostoxx 50		4975	0.4	1	-1	15	10
Nikkei 225		38835	1.6	3	-1	34	16
MSCI EM		43	0.1	2	3	8	6
Yields and Spreads					bps		
US 10y Yield		4.47	-1.4	-21	7	104	59
Germany 10y Yield		2.45	-2.1	-14	5	16	42
EMBIG Sovereign Spread		372	-2	32	42	-116	-11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	0.0	1	0	-8	-3
Dollar index, (+) = $ appreciation		105.2	0.1	-1	1	4	4
Brent Crude Oil ($/barrel)		83.1	-0.3	-5	-9	10	8
VIX Index (%, change in pp)		13.6	0.1	-2	-2	-4	1

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

Mature Markets

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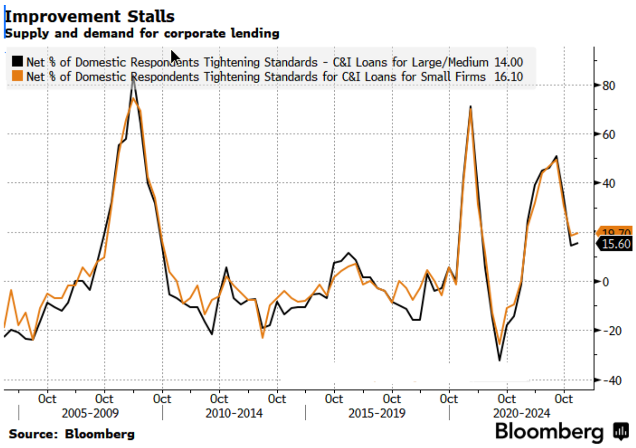
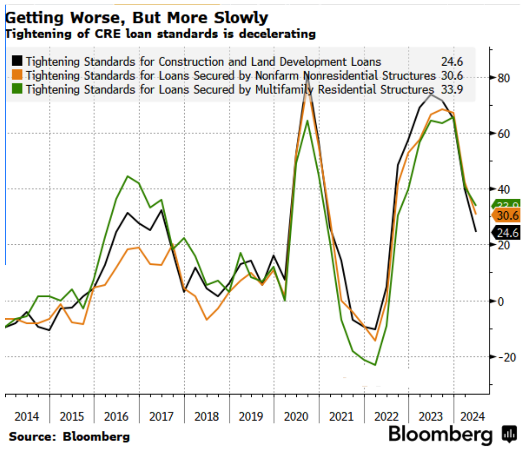
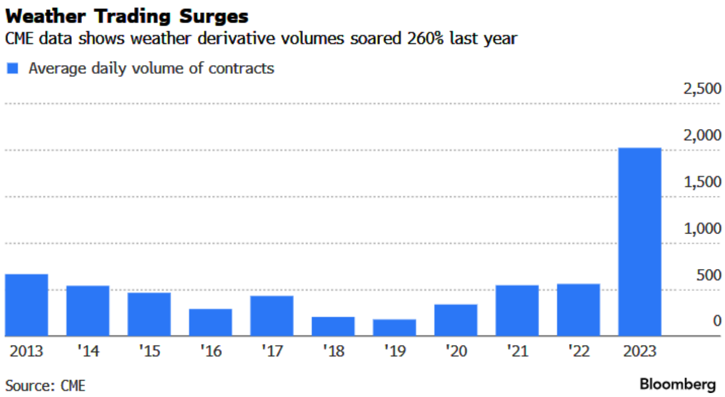
United States

A slightly higher number of US banks strengthened their credit standards in the first quarter of 2024, according to a Federal Reserve survey. Specifically, the net percent of banks that reported tighter conditions for commercial and industrial loans for mid-sized and large businesses rose to 15.6%, up from 14.5% in the previous quarter. This number has been positive since 2022 but has been declining in recent surveys. The latest uptick breaks this trend, but contacts see it in line with the reported weakness of the US economy in the first quarter. Indeed, the primary reason cited by most banks for this tightening remains the worsening economic outlook. Additionally, the survey included a special section on commercial real estate lending, which showed tightening across all types of lending, although a smaller share of banks reported tightening standards for commercial real estate (CRE) loans.



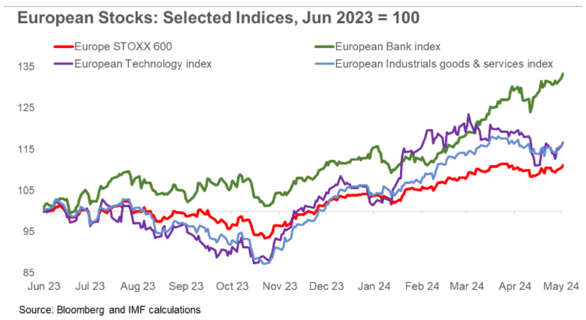


Demand for weather derivatives has surged against the backdrop of rising climate volatility. According to the CME Group, average trading volumes for listed weather derivative products increased by more than 260% in 2023. The number of outstanding contracts is currently 48% higher than a year ago. The rise for weather derivatives is stronger compared to the more well-known catastrophe bonds. The latter focus on extreme events, while weather derivatives offer protection from less severe but more common weather threats. The surge in demand is driven by corporations that are increasingly concerned of their exposure to weather-related risks and others that are responding to investor and consumer pressures, as well as regulatory pressures. Regulators in many jurisdictions are now requiring companies to quantify the threat posed by weather to their business. In the US, the Securities and Exchange Commission (SEC) finalized rules in March mandating that companies publish information about climate-related risks and mitigation steps. However, the SEC's plans remain a subject of intense debate, with legal challenges from groups questioning its authority and others arguing that the rules don't go far enough.

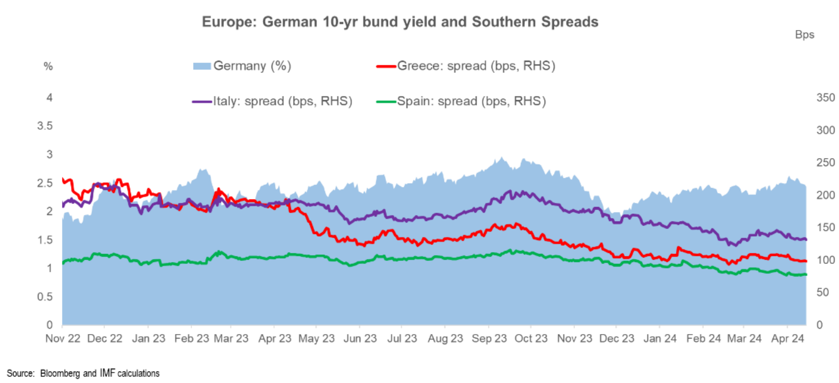


Europe

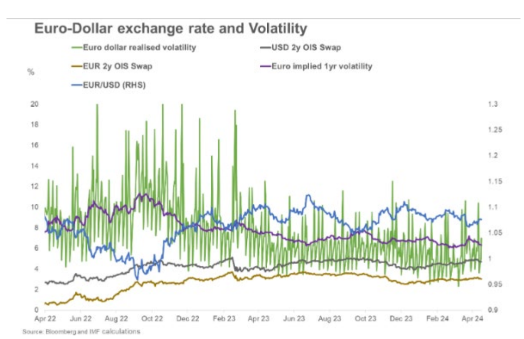
European equities traded higher today with the Stoxx 600 Europe index rising by +0.7%. The stock market performed particularly well in Italy (+1.0%) and Ireland (+1.0%), with equities in the green (+0.6%) also in Germany where today's data showed however that industrial manufacturing orders unexpectedly dropped in March (-0.4% m/m, from +0.2%m/m in February and against a median estimate of +0.4%), highlighting persistent weakness in a sector that is key for Germany's economy. As about a half of Stoxx 600 companies released their Q1 results so far, analysts at ING highlight 56% of them have reported positive earnings surprises, in particular in the banking sector which led the performance of the index.



The euro was marginally lower against the dollar today (-0.1%), trading at 1.07/$, while euro area government bond yields have continued to decrease across all tenors and spreads against the 10y Bund have further eased. Since the beginning of May, the yield curve has shifted down in Germany by about 14 bps and the 10y Bund-BTP spread has reduced by 4 bps to 130 bps.



Markets moved to (nearly) fully price-in 75 bps of total interest rate cuts in the euro area by the end of 2024, and price -44 bps of easing in the US by the end of 2024. Analysts at ING see declining interest rates in the US and in Europe, and lower currency volatility, as largely due to Friday's benign US jobs release and still expect the euro to stay at 1.08 in the medium-term.



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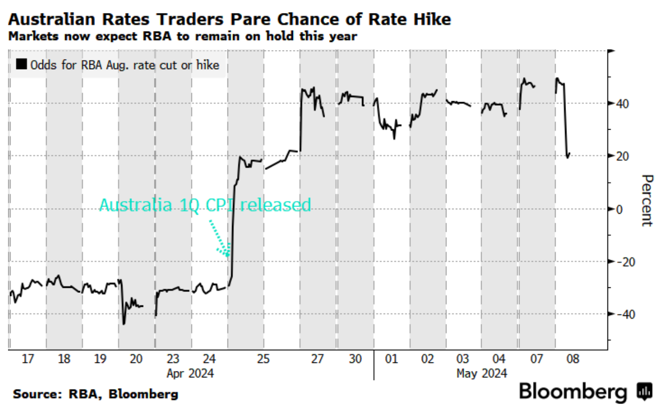
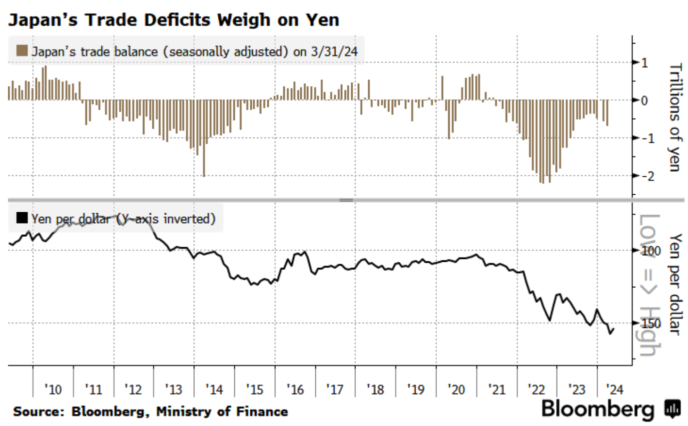
Australia

The Reserve Bank of Australia (RBA) kept the policy rate unchanged at 4.35% as expected. While holding the policy rate for a fourth straight meeting, the RBA raised its near-term inflation forecasts. Both headline and core inflation exceeded expectations in the first three months of the year and remain above the RBA's 2–3% target. The RBA indicated that it will be some time before inflation is sustainably in the target range, highlighting that service inflation has peaked but remains high and that labor markets are still tight, with wage growth at around the peak. Meanwhile, the RBA downgraded growth forecasts to 1.3% for this year (from 1.5%), driven by weak demand from households. Prior to the policy meeting, markets priced for an almost event chance of a 25 bps rate hike by August given the strong inflation data in recent months. However, the RBA's decision to maintain its neutral stance disappointed the hawks, leading markets to reduce the expectation for a rate hike to a one-in-five chance. Australian dollar depreciated (-0.4%); equities gained (+1.4%); government bond yields fell (1-year: -9.7 bps; 10-year: -7.4 bps).



Japan

Japanese yen depreciated following US calls for caution on FX interventions. US Treasury Secretary Yellen said that the US authorities expect FX interventions to be rare and consultation to take place. Meanwhile, Masato Kanda, Japan's top currency official, declined to comment on Yellen's remarks but said that if the market is functioning properly there would be no need for the government to intervene. Today, Japanese yen depreciated to 154.4 yen per dollar (-0.3%), and markets are eyeing depreciation that would take Japanese yen back to 160 yen per dollar amid the perception that Japan become more cautious about FX interventions. Analysts noted that beside the interest rate differentials, Japan's trade deficit due to its reliance on energy imports also weighs on the currency. Japanese equities advanced (NIKKEI: +1.6%) after a long weekend, supported by optimism that the Federal Reserve may start cutting interest rates earlier. Long-end JGB yields fell (10-year: -2.8 bps; 30-year: -0.8 bp).



Emerging Markets

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EMEA equities were mostly higher while currencies were mixed. Equities in Czechia (+0.6%) and Poland (+0.4%) outperformed, while equities in Türkiye (-0.5%) declined. On Friday, after market close, S&P upgraded Türkiye's long-term foreign currency debt rating to B+ from B. The Turkish lira was broadly unchanged this morning to trade at 32.3/$. CEE currencies were mostly weaker against the euro. March retail sales data surprised on the upside and rose by 4.2%y/y in Hungary (0.8% exp, 1.1% prior). 10y Hungarian government bond yields declined by as much as 15bps to 6.63% following the data release. Meanwhile, March industrial production data for Czechia showed industrial production declining by 11.1%y/y (-8.4% exp, +1.5% prior). Separately, data from the Czech National Bank showed that the central bank sold an equivalent of €300mn of returns on its FX reserves in March, the same amount as in the prior month. Officials said the operations should not materially affect the Czech koruna's exchange rate. This morning, the Czech koruna was trading weaker (-0.1%) against the euro at 25.02/€.

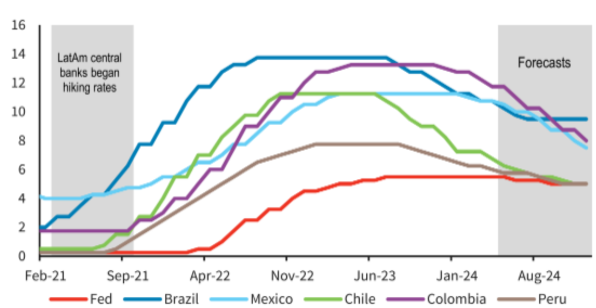
Asian equities did not have a clear direction, gaining 0.4% on net. Korean equities (+2.2%) led the gains in several Asian markets, while share prices fell in Hong Kong SAR (-0.5%) and India (-0.5%). Chinese equities were little changed (based on CSI 300). Hong Kong stocks declined, snapping a 10-day rally which was the longest streak since 2019, amid some concern that the recent gains were overdone. Most Asian currencies depreciated, most of which traded in a tight range. One exception was Sri Lankan rupee, which depreciated (-0.5%). Long-end government bond yields declined, with 10-year yields falling in Korea (-8.0 bps) and India (-4.5 bps), following the decline in US treasury yields. Some global fund managers viewed that Asian and European equities offer good investment opportunities given their attractive valuations and crowded positioning in US equities. In Thailand, the new finance minister urged the central bank to support government policy. His comment came after the ruling party chief said that the central bank's autonomy posed an obstacle to reviving Thailand's economy. In the Philippines, CPI inflation edged up to 3.8% y/y in April, lower than expected (consensus: +4.1%).

Latin American assets performed mixed. Stocks declined in Colombia (-0.4%) and Chile (-1.0%), while Peru's equity market rose by 1.0%. Currencies appreciated in Mexico (+0.6%), Colombia (+0.4%), and Chile (+0.9%) against the US dollar.

Brazil

Tomorrow, the central bank of Brazil is expected to cut its policy rate by 25 bps, as LATAM central banks are seen to have become more cautious. A 25 bps cut would be a "slowdown" of the easing cycle, as previous rate cuts were sized to 50 bps. Barclays still sees scope for a 50 bps rate cut. More broadly, the analysts note that a year-to-date tightening in global financial conditions has not been enough to stop the easing cycles in Latam, but that it has turned central banks more cautious. Barclays does acknowledge that a weaker real, combined with rising domestic inflation expectations make a slowdown more likely. They still expect the central bank of Peru to move ahead with a 25 bps cut on Thursday but foresee a "hold" for Banxico (Mexico)—this would mean that the central bank would pause at an early stage of the easing cycle.

Figure 1. Rate cuts continue but turn more cautious (%)

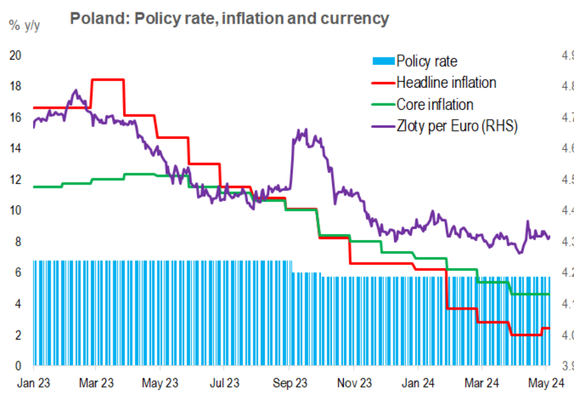


China

Onshore Chinese equities were little changed today (based on CSI 300). Markets closely watched President Xi's visit to Europe. President Xi told French President Macron that China and France should uphold mutual benefits and jointly oppose decoupling during his visit to France. He also said that the war in Ukraine could only be resolved through negotiations and warned against using the war as a tool to criticize China. Separately, some analysts viewed that global funds' underweight position in Chinese equities may have reached a bottom. There is a growing view that the worse may be over for Chinese equities as cheap valuations and Beijing's supportive policy stance started drawing foreign funds back to China. However, Hong Kong SAR-listed Chinese equities declined (-0.7%) as markets became concerned that the recent gains were overdone. Shenzhen, one of the four top-tier cities, eased home-buying restrictions in an attempt to generate additional housing demand. After the recent relaxation, people can purchase homes immediately after they get hukou (registration) rather than paying income tax and contributing to social security for three years first. Analysts expected that other major cities may soon follow suit. RMB depreciated to 7.21 yuan per dollar (-0.1%) as the People's Bank of China (PBoC) set the daily RMB fixing slightly weaker than yesterday. The PBoC also withdrew liquidity in an amount of 438 bn yuan ($60.7 bn). The key interbank repo rate (DR007) edged down to 1.85%, still slightly above the policy rate at 1.80% as month-end funding pressures eased.

Poland

Polish zloty rangebound ahead of Thursday's MPC meeting. Consensus expectations are that the National Bank of Poland will leave rates on hold at 5.75% at its meeting on Thursday. Analysts at Goldman Sachs cite the relatively hawkish communication from the MPC including Governor Glapinski's remarks at the April press conference where he stated that he expects rates to remain unchanged throughout 2024, and in line with consensus, they expect policy rates to remain unchanged at this week's meeting. Meanwhile, analysts at ING expect Governor Glapinski to point to uncertainties around draft legislation which proposes a partial freeze on household energy prices as well as rising headline inflation as the main factors for keeping rates unchanged. ING's baseline scenario assumes rates on hold for the remainder of this year. This morning, the Polish zloty was broadly unchanged against the euro at 4.31/€.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

5/7/24 8:13 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5176	1.0	3	-1	25	9
Europe		4975	0.4	1	-1	15	10
Japan		38835	1.6	3	-1	34	16
China		3659	0.0	4	3	-10	7
Asia Ex Japan		71	0.1	3	4	6	6
Emerging Markets		43	0.1	2	3	8	6
Interest Rates					basis points		
US 10y Yield		4.47	-1.4	-21	7	104	59
Germany 10y Yield		2.45	-2.1	-14	5	16	42
Japan 10y Yield		0.87	-2.8	-1	8	45	26
UK 10y Yield		4.15	-7.0	-19	9	37	62
Credit Spreads					basis points		
US Investment Grade		116	0.0	-1	-4	-51	-18
US High Yield		337	1.0	-10	-12	-167	-48
Exchange Rates					%		
USD/Majors		105.21	0.1	-1	1	4	4
EUR/USD		1.08	0.0	1	-1	-2	-2
USD/JPY		154.6	0.4	-2	2	14	10
EM/USD		46.8	0.0	1	0	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		83.1	-0.3	-4	-8	16	9
Industrials Metals (index)		157	-0.4	-1	6	3	10
Agriculture (index)		61	-0.5	3	1	-11	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.6	0.1	-2.1	-2.5	-3.6	1.1
Global FX Volatility		7.2	0.0	-0.3	0.5	-1.9	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		100	0.5	0	-5	-75	-4
Italy		134	0.1	0	-8	-56	-34
Portugal		65	0.2	2	-3	-20	2
Spain		79	0.3	2	-5	-30	-18

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

Emerging Market Financial Indicators

Last updated: 5/7/2024 8:14 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		7.22	-0.1	0.3	0	-4	-2		2.3	-6.5	-7	-5	-71	-23
Indonesia		16049	-0.1	1.3	-1	-8	-4		6.9	2.6	-32	27	48	44
India		84	0.0	-0.1	0	-2	0		7.5	1.9	-10	10	22.2	24
Philippines		57	0.0	0.9	-1	-3	-3		5.6	-2.5	-10	20	-27	1
Thailand		37	-0.3	0.4	-1	-8	-7		2.8	1.3	-8	22	27	14
Malaysia		4.74	0.0	0.7	0	-6	-3		3.9	-1.7	-8	3	18	16
Argentina		880	-0.2	-0.4	-2	-74	-8		38.9	5.8	-171	-894	-5738	-4743
Brazil		5.07	0.1	2.4	-1	-1	-4		11.7	15.4	-17	37	-65	131
Chile		931	0.9	1.2	1	-14	-6		5.1	0.0	-22	-15	-10	23
Colombia		3896	0.4	-0.8	-3	16	-1		8.2	0.0	-24	-10	-57	60
Mexico		16.87	0.1	1.6	-3	6	1		9.2	-0.5	-41	2	80	71
Peru		3.7	-0.1	0.1	-1	-1	-1		7.1	0.1	-19	-8	#VALUE!	42
Uruguay		38	-0.8	-0.5	1	1	1		9.1	0.3	5	8	-91	-39
Hungary		361	-0.2	1.5	-1	-6	-4		6.6	-13.0	-45	-8	-133	80
Poland		4.01	-0.1	1.4	-2	3	-2		5.1	-5.1	-22	2	-6	67
Romania		4.6	-0.1	0.9	-1	-3	-2		6.6	0.0	2	24	-45	43
Russia		91.2	0.2	2.5	2	-15	-2							
South Africa		18.5	-0.1	1.6	1	-1	-1		9.8	-6.4	-29	-7	46	66
Türkiye		32.27	0.0	0.5	-1	-40	-8		28.7	-24.0	44	177	1592	195
US (DXY; 5y UST)		105	0.2	-1.0	1	4	4		4.48	-0.7	-24	9	107	63

	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		3659	0.0	4	3	-10	7		141	-4	-7	-59	-17
Indonesia		7124	-0.2	0	-2	5	-2		103	-3	13	-43	7
India		73512	-0.5	-2	-2	19	2		99	-1	-7	-65	-17
Philippines		6619	-0.5	-2	-2	0	3		89	-3	12	-30	9
Thailand		1376	0.5	1	0	-12	-3		0	0	0	0	0
Malaysia		1606	0.5	1	3	12	10		81	-2	-1	-23	-4
Argentina		1495827	3.0	17	23	403	61		1234	22	-67	-1355	-679
Brazil		128466	0.0	2	1	22	-4		203	-11	-5	-78	-12
Chile		6497	-1.0	-1	0	19	5		121	2	6	-18	-4
Colombia		1380	-0.4	0	-1	19	15		284	-11	2	-142	13
Mexico		57283	0.3	-1	-1	4	0		304	0	2	-99	-30
Peru		29275	1.0	0	7	32	13		144	-4	6	-41	0
Hungary		68675	0.2	1	3	48	13		154	4	10	-67	5
Poland		86699	0.1	3	4	38	11		98	3	12	-38	1
Romania		17244	0.1	2	1	41	12		185	1	15	-73	-15
South Africa		76893	0.2	1	3	-2	0		330	-4	-8	-102	22
Türkiye		10195	-0.7	1	6	132	36		277	6	-1	-251	-37
EM total		43	-0.3	2	3	8	6		326	41	48	-97	-19

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

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