GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, NOVEMBER 17, 2023
LEAD EDITOR: JEFF WILLIAMS

- **US Money-Market funds assets reached all-time high** (link)
- **Italian spreads narrow ahead of Moody's review** (link)
- **Analysts expect firm demand for Euro area government bonds in 2024** (link)
- **Gilt yields sharply lower after disappointing retail sales data** (link)
- **Contango in copper futures at its widest since at least 1994** (link)
- **China reportedly told some big banks to cap interest rates on interbank funding** (link)

Mature Markets | Emerging Markets | Market Tables

Weak economic data sends yields lower and stocks higher

Equities are rallying today as yesterday's weaker than expected US jobs report, as well as increasing optimism of slowing inflation, are driving sovereign bond yields lower. In what is often an overlooked data release, yesterday's weekly employment report showed continuing jobless claims rising to its highest level since 2021. Treasury yields fell sharply on the release. This morning, the US 10-year treasury yield is down to 4.41%, it's lowest level since September, and 60 bp lower than the high reached in October. The decline in bond yields is being aided by continuing optimism of slowing inflation. While the price of Brent oil is up somewhat this morning it fell nearly 4% yesterday to its lowest level since June. Yesterday, during the company's earnings call, the CEO of Walmart warned of potential deflation in coming months, at least for some product categories. Emerging market currencies are generally stronger this morning on the improving risk sentiment and weakening dollar.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
11/17/23 8:14 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4508	0.1	4	3	14	17
Eurostoxx 50		4336	0.8	3	4	12	14
Nikkei 225		33585	0.5	3	7	20	29
MSCI EM		39	-1.0	3	3	3	4
Yields and Spreads					bps		
US 10y Yield		4.40	-3.7	-25	-44	63	52
Germany 10y Yield		2.55	-3.6	-16	-33	53	-2
EMBIG Sovereign Spread		429	1	3	-16	-56	-23
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		48.0	0.1	2	3	-3	-4
Dollar index, (+) = $ appreciation		104.1	-0.2	-2	-2	-2	1
Brent Crude Oil ($/barrel)		78.5	1.4	-4	-13	-13	-9
VIX Index (%, change in pp)		13.9	-0.4	0	-4	-10	-8

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

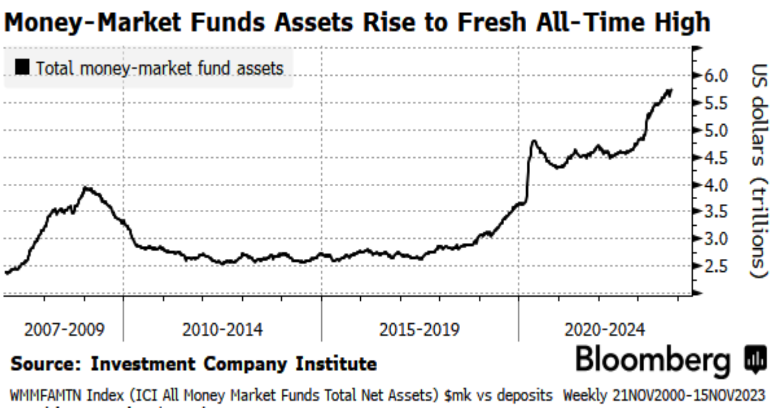
Mature Markets

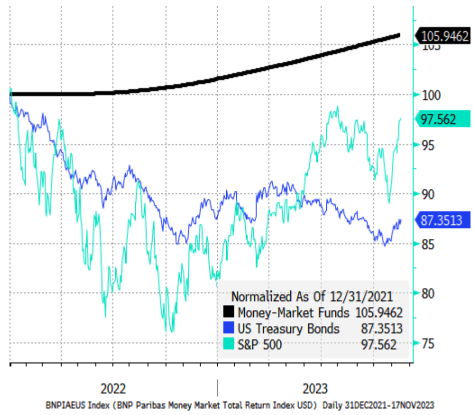
back to top

United States

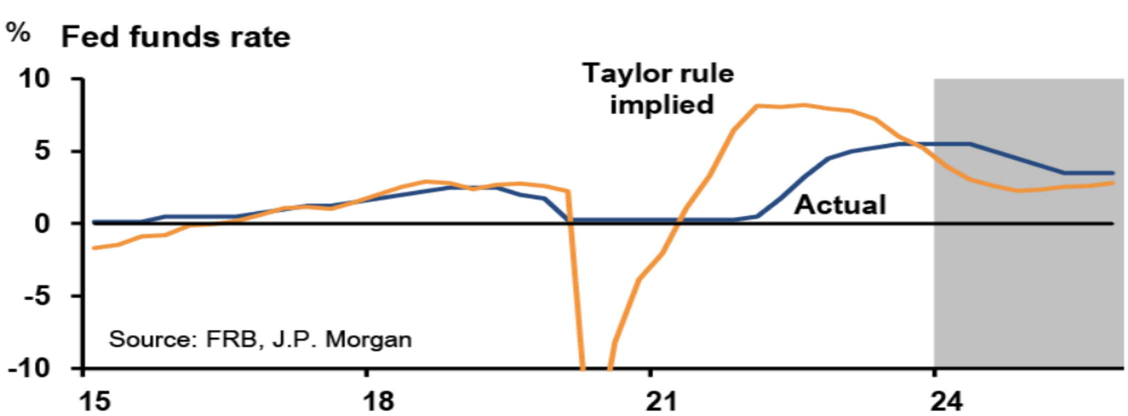
Yesterday, the S&P 500 closed almost unchanged, with Energy underperforming (-2.1%). Equity market sentiment was affected by economic data pointing to a risk of a slowing economy. US Treasury 10Y nominal yield fell by 9 bp, driven by declining real yields—half of the drop happened immediately after the US data release in the morning. The US dollar remained virtually unchanged.

US Money-Market funds (MMFs) assets reached all-time high, as shown in the latest release of fund flows data (left chart below)**.** The allocation to MMFs is supported by the current high short-term rate amid negative performance of fixed-rate bonds and volatile equities (right chart with total return performance since the beginning of 2022). As the Fed policy rate is assumed to be declining going forward, the sentiment for bond exposure improves and it may shift asset allocation towards longer-duration instruments.





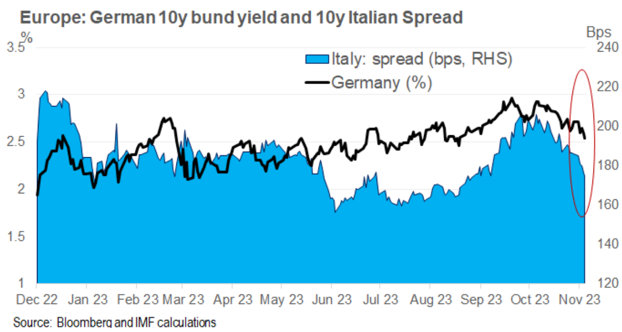
J.P. Morgan analysts suggest that the Taylor rule-implied policy rate has fallen below the actual policy rate. In the last several months, various economists were suggesting that the Fed's monetary stance wasn't restrictive enough as the rule-implied rate was several percentage points above the Fed rate. However, declining inflation rates (both realized and projected) and elevated risks of economic slowdown are contributing to the decline in the current and future rule-implied rates. JPM analysts argue that once inflation falls below 3%, the Fed may reduce the importance of pushing inflation strictly to the 2% target and instead may restore balance between its inflation and employment mandates—which is reflected in the convergence of the projected policy and rule-implied rates (chart's grey area). Their justification for the 3% level is that inflation below that is expected to be tolerated by the public after 2 years of very high inflation.



Euro Area

European equities are up (Stoxx 600 equity index up 1%) with all sectors trading in the green. The stock 600 equity index is now roughly 2.7% higher than at the end of last week. Sovereign bond yields were lower this morning (10y bund -3bp) and the euro was marginally stronger (+0.1%).

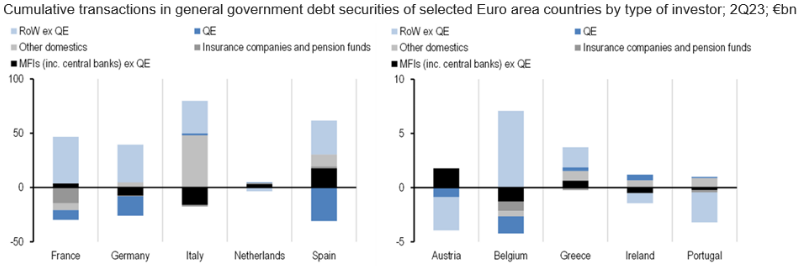
The spread between Italian and German 10y sovereign bond yields narrowed (-1bp to 175bp) ahead of the scheduled ratings review by Moody's later today. Moody's rating of Italy is borderline investment grade, one notch below that of Fitch and S&P, with a negative outlook. Contacts see a potential downgrade today as a low-probability but high-impact event, with ING analysts arguing for example that a downgrade is unlikely as the rating agency would not want to be regarded as initiating turmoil in European government bond markets.



Analysts see firm demand for Euro area government bonds (EGBs) in 2024. JPMorgan analysts took stock of how demand for EGBs across different types of investors has changed after quantitative easing (QE) ended and since quantitative tightening (QT) started. Analysts highlight that domestic investors were the main buyers in the Euro area periphery since mid-2022 (i.e., post-QE), while foreign investors were the main buyers in core markets. Since Q2 2023 (i.e., since ECB QT), these trends have continued but foreign investors have also become net buyers in southern countries. Analysts estimate that demand for EGCs would remain firm next year given the attractive level of yields/spreads, the focus on end-of-cycle themes and also because a cumulative underinvestment in EGBs since 2015.

Figure 11: During 2Q23 (period of partial APP QT), investor behaviour has continued to be broadly similar to that observed over the post-QE period. Foreign investors have also increased their buying in some peripheral countries (e.g. Italy, Spain, Greece) counterbalancing ECB QT

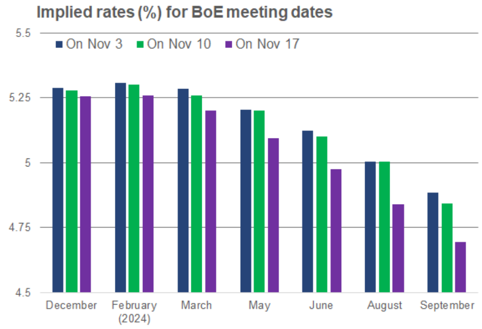
Cumulative transactions in general government debt securities of selected Euro area countries by type of investor; 2Q23; €bn



Source : ECB, J. P. Morgan.

United Kingdom

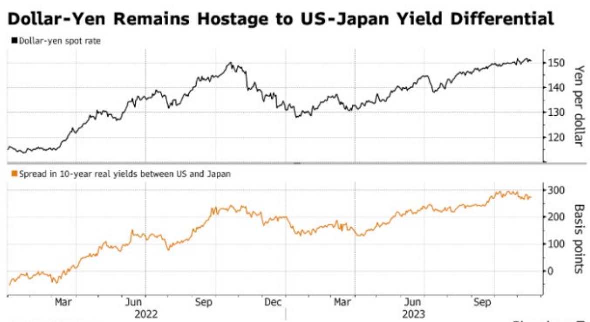
Gilt yields were sharply lower after retail sales disappointed in October, reinforcing hopes for BoE rate cuts. Retail sales excluding auto fuel fell 0.1%m/m in October (versus expected +0.5% from -1.3%). Over the past few weeks markets have added to bets that the BoE would cut interest rates quicker, while some BoE policymaker commentary reinforced the view that rates will remain high for long. For example, MPC member Mann noted little scope to cut rates and MPC member Greene commented that structural changed in the economy implies that interest rates would have to stay restrictive for longer. Markets are pricing in the first BoE rate but by mid-2024 with 50bp of cuts priced in by September. 10y gilt yields were 7bp lower this morning, trading at around 4.08%.



Source: Bloomberg and IMF calculations

Japan

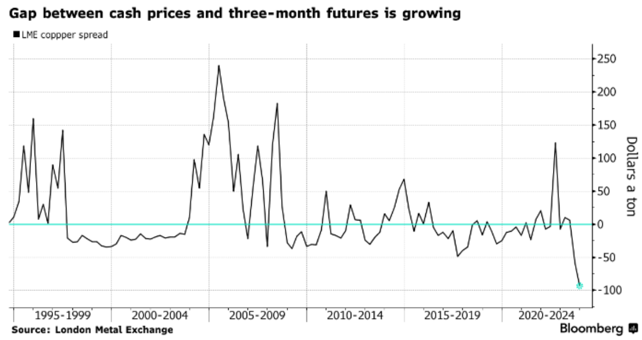
Prime Minister Kishida met with China President Xi in San Francisco. He said that they should work together to create brighter ties between both nations and urged China to remove the ban on Japan's seafood imports. Separately, **Bank of Japan (BOJ) Governor Ueda said that a weak yen is not necessarily negative for the economy in parliament.** He stated that it boosts inbound spending and global corporate profits. He also added that Japan's economy will be positively impacted if US rate cuts come with a soft landing. Meanwhile, Warren Buffet's Berkshire Hathaway, one of the largest overseas issuers of yen debt, sold ¥122bn ($0.8bn) yen bonds at lower costs in its second Japan deal in 2023, Bloomberg reported. Speculation is that the firm may invest more into Japan's equities. **Equities gained 1%. The yen appreciated 0.9%, 10Y bond yields declined 3bp.**



Source: Bloomberg

Commodities

The contango in the copper futures curve rose to its widest level since 1994. The spread between the 3-month futures price and the spot price surged to $100 per ton on the London Metal Exchange (LME), marking the widest differential since the 1990s. This significant contango suggests a potential oversupply relative to immediate demand, leading to a discount for spot delivery. Market observers are closely monitoring whether this contango trend will persist and further intensify, as it could be indicative of a considerable surplus. This short-term surplus, however, stands in stark contrast to the long-term structural outlook, where numerous analysts foresee a potential scarcity driven by increasing demand for copper in power grids and electric vehicles. Despite this, sentiment for 2024 remains mixed, with some anticipating a growing surplus resulting from the establishment of new smelters in China. Interestingly, even with the widening contango, copper prices have exhibited resilience, closing at its highest price since September.



Emerging Markets back to top

Asian equities declined (-0.5%) on net. Hong Kong SAR led the losses (-2%), weighed by a slump in Alibaba's stock (-10%), after it scrapped a cloud business spin-off amid a US chip export ban. Meanwhile, the Philippines (+0.3%) and Taiwan (+0.2%) gained. **Asian currencies appreciated.** The Thai baht outperformed (+1.1%), partly due to **the** government's plan to spread out 500bn baht ($14bn) borrowing over two to three years to finance its cash handout program. The Taiwanese dollar (+0.5%) and Indonesian rupiah (+0.3%) appreciated. 10Y bond yields declined, following US Treasuries lower after US jobless claims rose more than expected. **Singapore**'s October non-oil domestic exports contracted less than expected at -3.4%y/y (consensus: -6%, previous: -13.2%) offering optimism on the external demand outlook. **Malaysia**'s 3Q GDP was unchanged at +3.3%y/y relative to preliminary estimate and accelerated from 2.9% in 2Q. Growth was boosted by the domestic demand and services sector. Bank Negara Malaysia (BNM) Governor Abdul Rasheed later stated that BNM expects GDP to be about 4% in 2023 and 4−5% in 2024. BNM expects inflation to be 2.5−3% in 2023 and 2.1−3.6% in 2024. **EMEA markets are mixed.** Equities in Namibia (+0.9%) were outperforming while those in Hungary (-0.7%) declined. South Africa was a notable exception (-1%). **A staff-level agreement was reached between the IMF and Kenyan authorities**, following the 6th review of the Extended Fund Facility and Extended Credit Facility (EFF/ECF) arrangements and the 1st review under the Resilience and Sustainability Facility (RSF). Yields on Kenya's 2024 Eurobond fell by roughly 55bp to around 15.2% yesterday. **LatAm currencies and equities were mixed Thursday while local bonds broadly rallied**. The Colombian peso continued its underperformance, further depreciating 1.7% against the dollar over speculation that looser policies may be implemented to boost growth. The Chilean peso continued its outperformance, appreciating +0.7%. Regional equities traded mixed, but overall, the MSCI Latin America index marginally extended gains by 0.5%, on track for the biggest monthly gains this year.

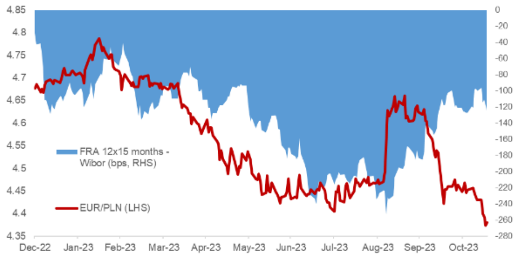
China

Chinese equities declined (-0.1%). President Xi vowed to make it easier for foreign companies to operate in China. He said China aims to create a world-class business environment and will continue to improve mechanisms to protect rights of foreign investors. Separately, **China reportedly told some big banks to cap interest rates on interbank funding** in their bid to keep funding costs stable. At least two national banks were told to offer rates on one-year negotiable certificates of deposits at no higher than 2.6%, Bloomberg reported. **China's holdings of US Treasuries fell to $778.1bn, the lowest since 2009**, extending a two-year downtrend. Meanwhile, China has issued 9.6tn yuan of government bonds so far in 2023, against an estimated annual target of 11.1tn yuan, Bloomberg calculated. **The renminbi was little changed. 10Y bond yields were little changed** but had dipped since October's liquidity squeeze.

Poland

The Polish zloty reached new multi-year highs yesterday and analysts anticipate further strengthening. The zloty appreciated yesterday but then depreciated slightly and was marginally weaker this morning. Contacts note positive sentiment following the election and as well as the change in the central bank's cutting cycle. Looking ahead, ING analysts argue that the zloty could be supported by rates, as analysts think markets are still pricing in too much easing.

Poland: Currency and policy pricing



Source: Bloomberg and IMF calculations

Brazil

Local funds' positioning on bullish BRL bets surged to an all-time high. Investment funds in Brazil have propelled their bullish position on BRL to an unprecedented high, with derivatives exposures reaching nearly $11 billion. This escalating positioning appears to mirror a growing optimism that the US Federal Reserve will adopt a more accommodative stance next year, providing ample room for high-yielding currencies like BRL to stage a rally. Some market commentary suggests that the currency may have also benefited from the recent government's decision to postpone changes to the 2024 fiscal target.

Local Funds Further Add to Their Long BRL Bets

Source: B3 - USD/BRL position through derivatives

BRL at Strongest Level in More than Three Months

Source: Bloomberg

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

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.*

Global Financial Indicators

11/17/23 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4508	0.1	2	3	14	17
Europe		4336	0.8	3	4	12	14
Japan		33585	0.5	3	7	20	29
China		3568	-0.1	-1	2	-6	-8
Asia Ex Japan		65	-1.1	3	2	2	1
Emerging Markets		39	-1.0	3	3	3	4
Interest Rates			basis points				
US 10y Yield		4.40	-3.7	-25	-44	63	52
Germany 10y Yield		2.55	-3.6	-16	-33	53	-2
Japan 10y Yield		0.76	-3.5	-9	-3	51	33
UK 10y Yield		4.07	-8.0	-27	-44	87	40
Credit Spreads			basis points				
US Investment Grade		149	-0.5	-6	-6	-17	-9
US High Yield		437	-0.4	8	-13	-45	-43
Exchange Rates			%				
USD/Majors		104.13	-0.2	-2	-2	-2	1
EUR/USD		1.09	0.2	2	3	5	2
USD/JPY		149.2	-1.0	-2	0	6	14
EM/USD		48.0	0.1	2	3	-3	-4
Commodities			%				
Brent Crude Oil ($/barrel)		78.5	1.4	-4	-11	-3	-3
Industrials Metals (index)		139	0.0	1	2	-12	-16
Agriculture (index)		66	-0.5	0	1	-2	-5
Implied Volatility			%				
VIX Index (%, change in pp)		13.9	-0.4	-0.3	-4.0	-10.0	-7.8
Global FX Volatility		7.3	0.0	-0.3	-0.7	-4.2	-3.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		125	0.0	-2	-23	-102	-81
Italy		175	-1.3	-11	-26	-17	-39
Portugal		64	-0.8	-10	-9	-30	-38
Spain		100	0.0	-6	-12	-1	-9

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

Emerging Market Financial Indicators

Last updated: 11/17/2023 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	0.4	1.0	1	-1	-4		2.6	-0.5	-1	-12	-42	-42
Indonesia		15493	0.4	1.3	1	1	1		7.0	0.2	15	17	-10	1
India		83	0.0	0.1	0	-2	-1		7.5	-1.0	-9	-23	10.3	1
Philippines		56	0.2	0.5	2	3	0		5.9	-3.6	1	14	-20	-8
Thailand		35	0.6	2.8	4	2	-1		3.0	-2.5	-22	-41	28	35
Malaysia		4.68	0.2	0.6	1	-3	-6		3.8	-1.2	-5	-21	-45	-20
Argentina		354	-0.1	-1.1	-1	-54	-50		110.0	-95.7	-31	491	1524	2175
Brazil		4.88	-0.3	0.6	3	11	8		11.0	-12.6	-34	-96	-229	-161
Chile		879	0.2	3.9	7	5	-3		5.2	1.0	-30	-66	-40	-13
Colombia		4061	0.7	-0.6	3	23	19		8.2	0.0	-25	-124	-207	-160
Mexico		17.20	0.1	2.6	5	13	13		8.8	0.0	-29	-77	6	11
Peru		3.8	-0.1	0.7	2	2	1		7.1	-0.1	-7	-62	-88	-87
Uruguay		40	0.0	0.8	1	1	1		9.6	-0.4	-22	-22	-155	-111
Hungary		347	0.0	1.7	5	14	8		6.8	-4.0	-30	-48	-202	-277
Poland		4.02	0.1	2.9	4	13	9		4.7	-5.1	-20	-26	-166	-142
Romania		4.6	0.2	1.8	3	4	1		6.8	-4.1	17	-3	-119	-85
Russia		89.4	-0.2	3.2	10	-32	-17							
South Africa		18.3	0.2	2.2	3	-5	-7		9.2	2.7	-33	-74	2	4
Turkey		28.70	-0.1	-0.5	-3	-35	-35		30.3	-49.0	-146	259	1841	2042
US (DXY; 5y UST)		104	-0.2	-1.7	-2	-2	1		4.39	-2.5	-29	-48	46	39

	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		3568	-0.1	-1	2	-6	-8		168	4	-5	-44	-9
Indonesia		6978	0.3	2	2	-1	2		127	7	0	-56	-13
India		65795	-0.3	1	1	7	8		127	-2	-13	-23	-15
Philippines		6212	0.3	1	1	-4	-5		104	9	0	-30	7
Thailand		1416	0.0	2	1	-12	-15		0	0	0	0	0
Malaysia		1461	-0.3	1	1	1	-2		90	-3	-6	-12	-10
Argentina		602278	-4.3	-3	-27	288	198		2389	-83	-47	30	184
Brazil		124639	1.2	5	8	14	14		227	0	5	-61	-47
Chile		5731	-0.8	2	-3	11	9		142	-4	-1	-12	10
Colombia		1109	-0.1	0	-1	-14	-14		324	7	-23	-74	-48
Mexico		52469	-0.6	3	6	2	8		369	5	1	-13	-12
Peru		22327	1.3	3	0	2	5		158	-4	0	-23	-22
Hungary		57179	-0.7	-1	0	30	31		194	10	2	-39	-28
Poland		73755	0.0	3	4	35	28		118	10	3	62	45
Romania		14701	0.0	1	4	25	26		223	38	15	-61	-32
South Africa		73826	0.1	3	1	2	1		360	-8	-33	-11	-7
Turkey		7850	0.9	1	-3	74	42		367	-5	-30	-132	-73
Ukraine		507	0.0	0	0	-2	-2		3624	152	-21	-17	-455
EM total		39	0.7	3	3	3	4		394	-1	-10	-10	19

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

back to top