GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 14, 2023
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- **US inflation data were better than expected** (link)
- **Debt service costs in US approach $1tn per year** (link)
- **Weakening US economy could boost demand for Treasuries** (link)
- **Measures to restrain short selling of equities in China take hold** (link)
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Markets buoyed by better than expected US inflation data

Markets in Europe were higher and US equity futures posted gains as key US inflation data came in better than expected. US Treasury yields were sharply lower and the dollar depreciated. However, sentiment remains fragile ahead of a potential US government shutdown, while much attention was focused on the Japanese yen which weakened close to 152 yesterday, prompting warnings from the authorities that they were prepared to step in to support the currency if needed. In China, equity margin balances increased significantly two weeks after the government imposed measures to restrain short selling. Meanwhile, the governor of the central bank of Mexico ruled out a rate cut this year, strengthening the currency which has already gained 11% against the dollar so far in 2023. The pound appreciated after the latest UK labor market data came in stronger than expected.

Key Global Financial Indicators

Last updated: 11/14/23 7:53 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4412	-0.1	1	2	11	15
Eurostoxx 50		4245	0.3	2	3	9	12
Nikkei 225		32696	0.3	1	1	17	25
MSCI EM		38	0.0	-1	1	1	1
Yields and Spreads				bps			
US 10y Yield		4.63	-1.4	6	1	77	75
Germany 10y Yield		2.71	0.0	6	-2	57	14
EMBIG Sovereign Spread		434	4	12	-16	-77	-18
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.3	0.3	-1	2	-5	-5
Dollar index, (+) = $ appreciation		105.5	-0.1	0	-1	-1	2
Brent Crude Oil ($/barrel)		82.3	-0.2	1	-9	-12	-4
VIX Index (%, change in pp)		14.8	0.0	0	-5	-9	-7

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

Mature Markets

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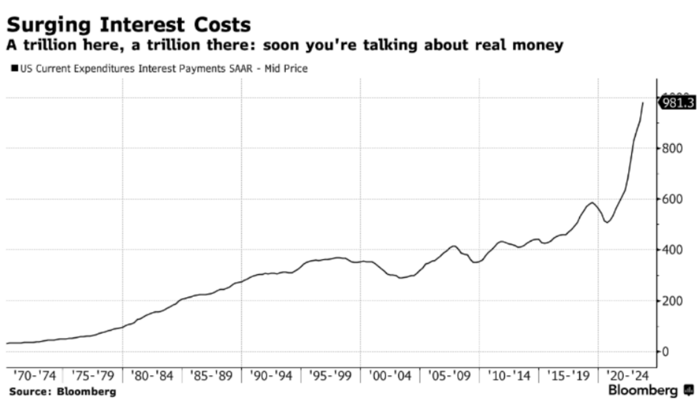
United States

The latest US CPI data came in lower than expected, sparking a major rally in Treasuries. The 10-year yield fell more than 10 bps on the news. The two-year fell below 4.9% for the first time in a week. US equity index futures were higher and the dollar depreciated.

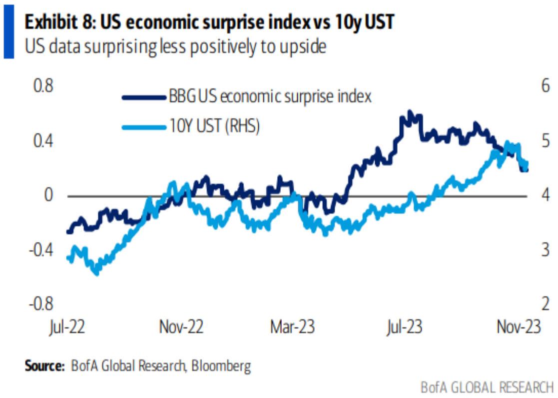
US CPI Data
Source: Bloomberg

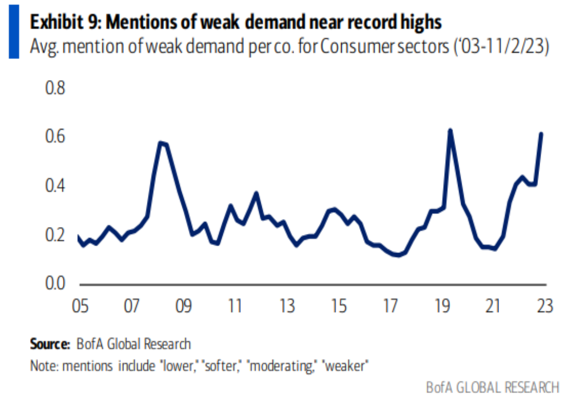
Economic Data Report	Consensus Forecast	Actual Data
CPI month-on-month	0.1%	0%
Core CPI mom	0.3%	0.2%
CPI annualized	3.3%	3.2%
Core CPI annualized	4.1%	4%

US annual debt service costs are approaching $1 tn per year, raising fears about debt sustainability in the future. The surge in Treasury supply has added to the worries. The Treasury announcement that more debt issuance would be at shorter maturities did provide some reassurance to investors, but if interest rates move decisively higher above current levels, then worries about debt sustainability will become even more acute. Moody's has changed its outlook on the US to negative from stable. It is the only major rating agency to retain a AAA rating after Fitch downgraded the US to AA+ in August at the height of the latest debt ceiling crisis. S&P downgraded the US during the 2011 debt ceiling crisis. Moody's expects debt service as percentage of GDP to rise to 4.5% by 2033 from 1.9% in 2022. Moody's expects debt service as percentage of GDP to rise to 4.5% by 2033 from 1.9% in 2022. The overall debt is expected to rise to 120% of GDP by 2033 from 96% in 2022.

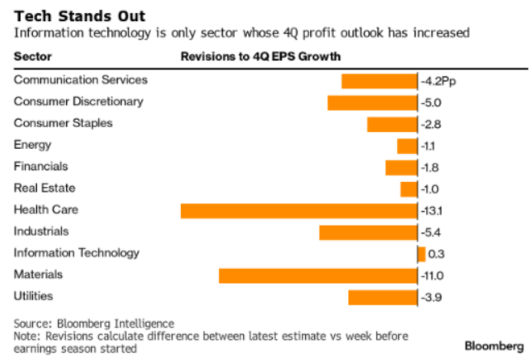


The demand for Treasuries could increase as the US economy shows more signs of weakness. The Bloomberg Economic Surprise Index has trended lower as data reports have started to show less robustness even as Treasury yields have fallen back from the highs reached last month. Earnings reports of companies in the consumer sector feature more mentions of "weak demand," according to analysis by Bank of America. Despite last week's poorly received 30-year Treasury bond auction, bond funds continue to see healthy inflows from investors. The Fed Funds futures market expects the first Fed rate cut to come in June or July of 2024. As a result, Bank of America thinks that the demand for Treasuries is likely to increase, provided there are no unpleasant surprises on the inflation front that force the Fed to keep the policy rate higher for longer.



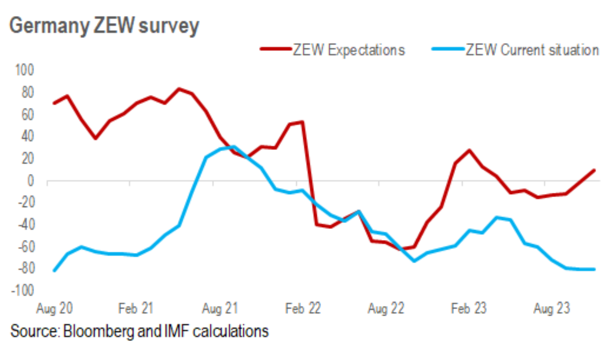


The technology sector in the S&P 500 is the only sector where the earnings outlook has improved, based on the latest earnings reports for Q3 2023. Despite disappointments from Apple and Alphabet, the sector as whole is expected to do very well. All other sectors within the index have seen expectations for earnings growth marked down across the board. The earnings per share of the technology sector is expected to grow by over 17% in Q4, according to analyst forecasts. Market participants are looking forward to the latest earnings report from Nvidia, the biggest beneficiary of the AI boom, due on November 21. The technology sector has led the way in the year's equity rally, with the so-called Magnificent Seven technology companies seeing their shares make major gains.



Euro Area

The euro strengthened slightly against the dollar after the expectations component of the German ZEW business sentiment survey surprised to the upside in November. The expectations component jumped into positive territory (9.8 versus expected 5.0 from -1.1), while the current situation component improved by less than expected (-79.8 versus expected -77.0 from -79.9). Some contacts noted little surprise regarding today's data—arguing that survey responses continue to reflect a view that the current situation is very unfavorable compared to historical assessments, and thus a significant further deterioration is not expected. **European equities were little changed ahead of the US CPI print due later today, with the Stoxx 600 equity index up 0.1%.** Sovereign bond yields were also little changed with the 10y bund yield trading at around 2.7%.

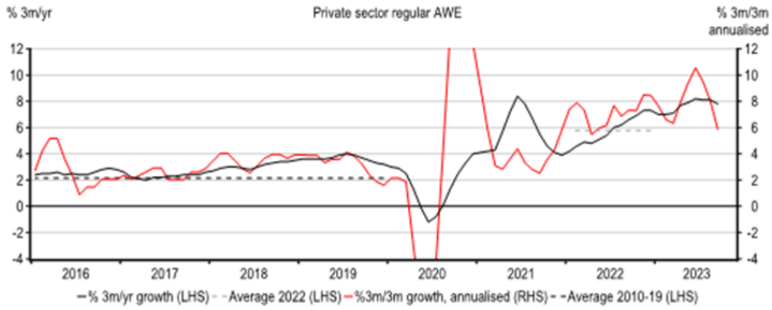


United Kingdom

The pound was marginally stronger after better than expected labor market data. Weekly earnings excluding bonus payments eased to 7.7%3 y/y in September, in line with expectations, from a revised 7.9%, while stronger-than-expected bonus payments drove an upside surprise in headline UK pay growth (7.9% versus expected 7.3% from 8.2%). The annual growth in private sector regular pay eased from 8.1% to 7.8% while annualized growth fell sharply from 8% to 5.8%. HSBC analysts sees today's data as reinforcing the view that labor market disinflation is happening very gradually, and as such continue to expect the first

BoE rate cut to only take place in early 2025. Morgan Stanley analysts, however, continue to see labor market surveys showing greater weakness, and argue that this could see the BoE start to cut rates as early as May 2024. Contacts are now focused on the October inflation data, due tomorrow.

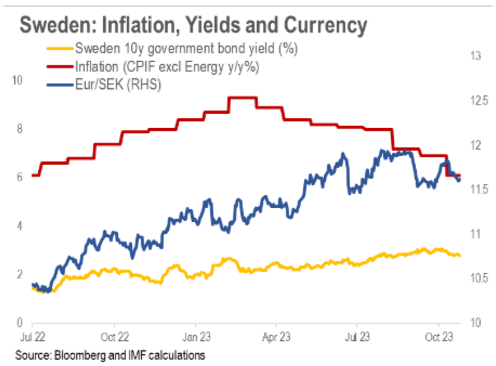
1. Private sector regular pay growth is probably off its peak, but it's still running hot



Source: Macrobond, ONS, HSBC calculations

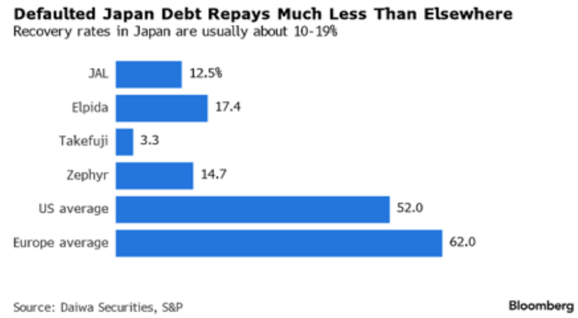
Sweden

Bond yields ease after the October inflation print surprised on the downside. Core CPIF inflation eased to 6.1% y/y (versus expected 6.3% from 6.9%), while CPIF increased to 4.2%y/y (versus expected 4.4% from 4.0%). JPMorgan analysts see today's inflation report, together with a stronger-than-expected krona and subdued growth indicators, as supportive of their out-of-consensus view that the Riksbank would not hike rates at the upcoming policy meeting next week. Nevertheless, most other analysts see next week's policy decision as a close call, as the Riksbank Board is expected to remain concerned about the exchange rate. Markets scaled back Riksbank hiking expectations slightly, with the odds of a 25 bps hike seen at around 50%, and bond yields eased after the data release (10y -5 bps to 2.78%).



Japan

Japan's Finance Minister Suzuki warned of appropriate measures by the government against currency moves after yen weakened to 151.9 overnight, the weakest level since Oct 2022. The yen was little changed on Tuesday, amid an abrupt reversal during New York Monday hours. Market participants attributed the sharp reversal to options positioning rather than intervention by authorities, Bloomberg reported. Meanwhile, Bank of Japan (BOJ) Deputy Governor Uchida said markets are focused on interest rate differentials, amid prolonged monetary tightening by the Fed, which has driven yen weakness. Separately, **Japan Securities Dealers Association is reportedly working to improve protection of investors in Japanese bonds**. While defaults are rare in Japan, they typically result in bondholders recovering only 10−19% of their funds, that compares with around 52% in the US and 62% for bonds and loans in Europe, Bloomberg wrote. The Association started monthly meetings with experts to increase use of covenants for Japanese corporate bonds. **Equities rose +0.4%,** led by gains in financials sector. Japan's biggest banks unveiled plans to boost shareholder returns after posting bumper profits.



Emerging Markets

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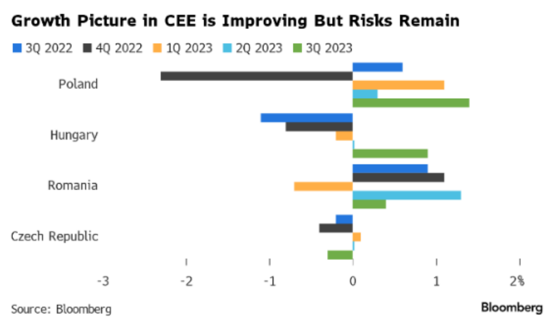
Asian equities gained +0.2% on net while most currencies weakened. **Indonesia's government bonds are set for monthly foreign inflows (a net of +$0.6 bn as of November 10) for the first time since July, Bloomberg estimated.** India's CPI inflation slowed but stood above expectations to 4.9% y/y (consensus: 4.8%, previous: 5%). **The Mexican peso continued its outperformance, marginally strengthening +0.22% against the US Dollar while the Chilean peso underperformed, depreciating -1.1% against the US Dollar.** Market commentaries cited lower liquidity, less attractive yields, and the outlook for lesser central bank intervention as headwinds to Chilean assets. On the issuance front, after much anticipation, Brazil government finally issued its inaugural sustainable bond ($2bn size, 7-year maturity, yield at 6.5%). **EMEA markets were up.**

Central Eastern Europe

The most recent growth estimates show continued growth divergence across Central Eastern Europe. Preliminary data released this morning showed GDP in Hungary surprising on the upside in Q3 (+0.9% q/q versus expected +0.5% from an upwardly revised 0%). Data from Poland disappointed but showed the best performance among peers, with preliminary GDP accelerating to +1.4% (versus expected +1.9% from an upwardly revised +0.3%). Romania's preliminary GDP data showed a slowdown in line with expectations (+0.4%q/q from a downwardly revised 1.3%). The flash estimate for the Czech Republic's Q2 GDP, released at the end of last month, also disappointed with growth contracting by -0.3%q/q (versus expected 0%).

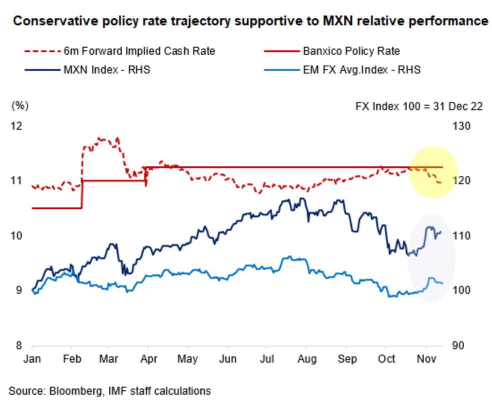


China

China's equity margin balance climbed to the highest since April 2022 while short positions have fallen to the lowest since June 2022, amidst the authorities' efforts to revive the capital market, Bloomberg reports. The latter was curbed by the new rule that hedge funds must hold 100% of value of the transaction in their account for short selling while other investors need to hold 80%, effective two weeks ago. Meanwhile, China's **aggregate financing and new yuan loans growth slowed in October.** Aggregate financing slowed to 1850bn yuan ($254bn) in October from 4123bn yuan previously. Meanwhile new yuan loans growth eased to 738bn yuan ($101bn) in October from 2312bn yuan ($317bn). M2 money supply growth was steady at 10.3% y/y. JP Morgan analysts attributed the soft credit growth to the larger-than-expected deceleration in loans to households and corporates and the unexpected contraction in shadow credit (including trust loans, entrust loans and bank acceptance), despite elevated government bonds issuance. Government bond sales accounted for nearly 85% of the month-on-month credit increase, the highest share since 2018, Bloomberg estimated.

Mexico

Banxico's Governor rules out rate cut in December meeting. In an interview released November 13, Governor Victoria Rodriquez Ceja said that the central bank will reduce its policy rate "gradually", but the first cut will not be happening until next year. Last week, Banxico hinted at the start of an easing cycle when it changed its forward guidance, replacing its hawkish reference of maintaining tight policy rates for an "extended period" to holding them "for some time." The central bank has one more meeting for the year on December 14, before reconvening in early 2024. Despite the dovish tilt last week, the Mexican peso continued to maintain its YTD outperformance against other EM peers.



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Global Financial Indicators

	Level		Change				
11/14/23 7:55 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		4412	-0.1	1	2	11	15
Europe		4245	0.3	2	3	9	12
Japan		32696	0.3	1	1	17	25
China		3582	0.1	-1	-2	-7	-7
Asia Ex Japan		64	0.2	-1	0	2	-1
Emerging Markets		38	0.0	-1	1	1	1
Interest Rates					basis points		
US 10y Yield		4.63	-1.4	6	1	77	75
Germany 10y Yield		2.71	0.0	6	-2	57	14
Japan 10y Yield		0.86	-0.9	-2	10	62	44
UK 10y Yield		4.30	-1.2	3	-8	93	63
Credit Spreads					basis points		
US Investment Grade		154	-1.1	-4	0	-20	-4
US High Yield		432	3.8	4	-25	-61	-48
Exchange Rates					%		
USD/Majors		105.53	-0.1	0	-1	-1	2
EUR/USD		1.07	0.2	0	2	4	0
USD/JPY		151.7	0.0	1	1	8	16
EM/USD		47.3	0.3	-1	2	-5	-5
Commodities					%		
Brent Crude Oil ($/barrel)		82.3	-0.2	1	-8	-1	1
Industrials Metals (index)		138	-0.2	-1	1	-17	-17
Agriculture (index)		66	-0.3	2	3	-2	-3
Implied Volatility					%		
VIX Index (%, change in pp)		14.8	0.0	0.0	-4.5	-8.9	-6.9
Global FX Volatility		7.6	0.0	-0.1	-0.6	-3.9	-3.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		128	1.4	-2	-28	-91	-77
Italy		184	-0.9	-5	-20	-19	-30
Portugal		71	-1.3	-3	-6	-26	-31
Spain		105	-0.1	-1	-9	0	-4

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

Emerging Market Financial Indicators

Last updated: 11/14/2023 7:57 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		7.29	0.0	-0.1	0	-3	-5		2.7	-0.1	-4	-10	-43	-41
Indonesia		15695	0.0	-0.4	0	-1	-1		7.0	9.8	27	17	-12	1
India		83	0.0	-0.1	0	-2	-1		7.6	0.0	1	-12	5.0	10
Philippines		56	0.0	0.2	1	2	-1		5.9	0.1	3	13	-21	-9
Thailand		36	-0.3	-1.4	1	-1	-4		3.2	-4.8	3	-20	39	53
Malaysia		4.72	-0.2	-1.0	0	-3	-7		3.9	1.4	2	-13	-50	-14
Argentina		350	0.0	0.0	0	-54	-49		108.7	-180.5	-55	362	898	2046
Brazil		4.90	0.3	-0.4	3	9	8		11.3	0.6	-33	-61	-152	-127
Chile		919	0.5	-3.5	3	-3	-7		5.4	0.0	-14	-30	7	10
Colombia		4025	0.3	-1.1	5	19	21		8.4	-2.0	11	-84	-198	-137
Mexico		17.56	0.2	-0.5	2	10	11		9.1	-0.5	-6	-37	39	40
Peru		3.8	-0.1	-1.3	1	1	0		7.2	0.3	-5	-45	-51	-77
Uruguay		40	0.1	0.0	0	0	0		9.7	1.2	-15	-9	-141	-97
Hungary		352	0.2	0.4	4	12	6		7.2	-3.0	4	-2	-138	-238
Poland		4.12	0.5	1.1	2	11	6		5.0	-2.3	20	7	-132	-115
Romania		4.6	0.2	0.1	1	2	0		6.7	3.0	5	-14	-145	-96
Russia		90.8	0.9	1.6	7	-33	-18							
South Africa		18.7	0.1	-2.0	0	-8	-9		9.5	-6.5	-7	-47	35	32
Turkey		28.63	-0.1	-0.5	-3	-35	-35		31.6	-10.0	-7	436	1969	2180
US (DXY; 5y UST)		106	-0.1	0.0	-1	-1	2		4.66	-0.6	12	2	67	65

	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		3582	0.1	-1	-2	-7	-7		163	-3	-11	-54	-14
Indonesia		6862	0.3	0	-1	-2	0		124	5	-10	-84	-16
India		64934	0.0	0	-2	5	7		128	-2	-14	-60	-14
Philippines		6111	-0.1	0	-2	-5	-7		101	5	-8	-55	4
Thailand		1386	-0.1	-2	-4	-15	-17		0	0	0	0	0
Malaysia		1452	0.5	-1	1	0	-3		92	-2	-5	-35	-8
Argentina		636964	-3.5	0	-16	317	215		2502	-29	-14	10	297
Brazil		120410	-0.1	2	4	6	10		229	10	7	-75	-45
Chile		5691	1.9	1	-1	7	8		147	4	1	-15	15
Colombia		1103	-0.1	0	-1	-13	-14		320	8	-32	-103	-52
Mexico		51091	-0.3	-1	3	-1	5		371	13	-1	-17	-10
Peru		21534	-1.3	0	-3	-4	1		165	6	3	-19	-15
Hungary		57097	0.0	0	2	29	30		198	12	-1	-58	-24
Poland		72164	1.4	0	8	29	26		114	7	-12	32	41
Romania		14643	0.2	0	3	26	26		204	18	-12	-101	-51
South Africa		72219	0.8	1	-1	-1	-1		386	30	-6	-1	19
Turkey		7578	0.1	-3	-7	66	38		388	24	-13	-136	-52
Ukraine		507	0.0	0	0	-2	-2		3536	109	-114	-629	-543
EM total		38	-0.3	-1	1	1	1		401	12	-9	-24	26

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

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