GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 28, 2023

LEAD EDITOR: SANJAY HAZARIKA

- **US Treasury faces refunding challenges** (link)
- **Rising US bankruptcies could push VIX and credit spreads higher from current lows** (link)
- **China presses banks to increase lending** (link)
- **ECB could end PEPP reinvestments earlier than expected** (link)
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Markets remain wary ahead of key US inflation data

Stocks in Europe were down for a second day and US equity index futures pointed to another negative opening ahead of key inflation data releases in the US later this week. Government bond yields were slightly higher after a rally yesterday, while the dollar depreciated. Hopes that the major central banks are done with rate hikes and that the US will avoid a recession had led to rallies in stock and bond markets, but analysts caution that the optimism may be overdone in the face of heightened uncertainties about geopolitics and the global economy. Worries about US government debt levels are another potential threat to markets. Oil prices are slightly higher in the runup to this week's OPEC+ meeting. However, the VIX index of US equity market volatility has fallen to pre-pandemic levels, suggesting that investors remain sanguine, at least for the rest of the year.

Key Global Financial Indicators

Last updated: 11/28/23 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4550	-0.2	1	11	15	19
Eurostoxx 50		4336	-0.4	0	8	10	14
Nikkei 225		33408	-0.1	0	8	19	28
MSCI EM		39	-0.4	0	8	5	4
Yields and Spreads					bps		
US 10y Yield		4.41	2.3	2	-42	73	54
Germany 10y Yield		2.56	1.3	-1	-27	57	-1
EMBIG Sovereign Spread		416	5	-8	-31	-63	-36
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		48.0	-0.1	0	3	-4	-4
Dollar index, (+) = $ appreciation		103.2	0.0	0	-3	-3	0
Brent Crude Oil ($/barrel)		80.7	0.9	-2	-11	-3	-6
VIX Index (%, change in pp)		12.8	0.1	-1	-8	-9	-9

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

Mature Markets

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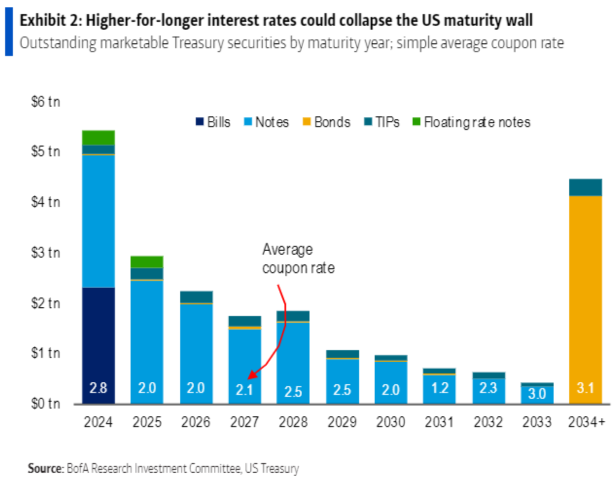
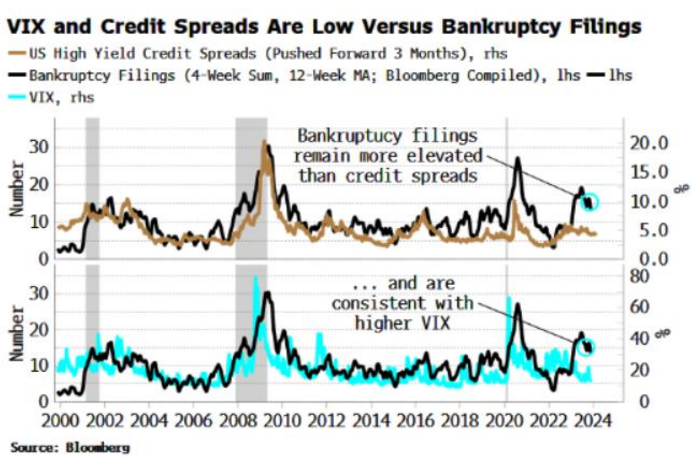
United States

The US Treasury faces over $5 tn in debt repayments in 2024, raising worries about future funding costs and even debt sustainability. The US is scheduled to pay over $1 tn in interest expense in 2023, crossing that psychologically important threshold for the first time in history. Much of US government debt is short maturity T-Bills and Treasury notes that have to be refinanced very frequently, making the US government vulnerable to spikes in funding costs. With the yield curve still inverted, rolling over short term debt is very expensive. Bank of America predicts that the interest expense of the national debt could hit $ 1.1 tn next year. Its analysts forecast a period of stubbornly high interest rates that will persist even if the economy slows down.

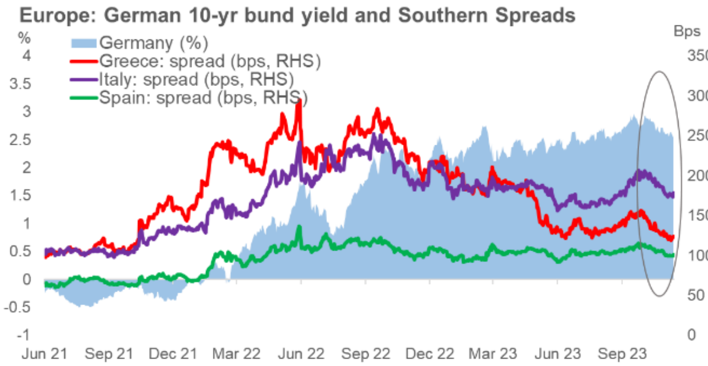


Bankruptcy filings are on the rise in the US, raising the risk of a more adverse environment for markets in the months ahead. Funding costs for companies are higher and banks are making larger provisions for credit losses. After 2023's strong performance, many analysts think markets could face more challenging conditions in 2024. Rising bankruptcy rates are historically associated with wider credit spreads and a higher VIX. The VIX has fallen back to pre-pandemic levels and credit spreads remain at historically tight levels, for both investment grade and high yield bonds. As the economy slows, both the VIX and credit spreads are likely to rise, causing risk assets to face increasing headwinds. However, other analysts are more optimistic, predicting that a soft landing or continued economic strength could result in another year of gains for markets.



Euro Area

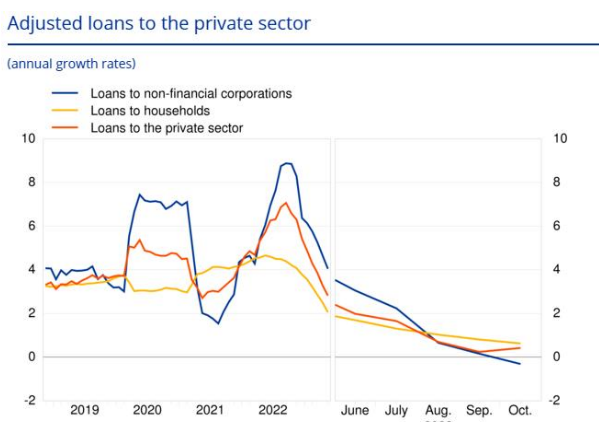
European equities were mostly lower with the Stoxx 600 equity index -0.6% lower, adding to yesterday's decline. The euro was little changed against the dollar this morning (trading at around €1.095/$). Sovereign yields were marginally higher this morning after declining roughly 10bps yesterday, with contacts pointing to hopes that preliminary November inflation data from the euro area due later this week would show easing price pressures.



Source: Bloomberg and IMF calculations

Lower sovereign yields and narrower spreads together with ECB commentary reinforce expectations that the ECB could end PEPP reinvestments. While the ECB has indicated that the Pandemic Emergency Purchase Program (PEPP) will be in the reinvestment phase until at least the end of 2024, some ECB officials have indicated a preference to consider ending PEPP reinvestments earlier. Contacts note that comments from ECB President Lagarde yesterday, that the governing council could possibly discuss and consider the PEPP reinvestment horizon in the "not-too-distant future," further fueled expectations for an earlier end. Moreover, contacts think that lower yields and spreads could enable the ECB to consider such discussions. 10y bund yields are now roughly 26bps lower than at the start of the month, while the spread with 10y Italian yields have narrowed by roughly 20bps, even though spreads widened again this morning (+4bps to 177bps).

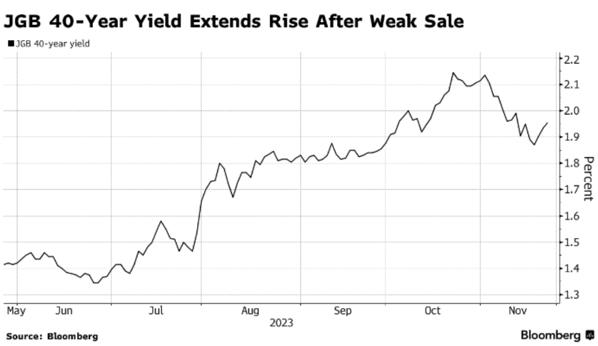
The October bank lending survey showed loan growth to both corporates and households continuing to weaken. Data released by the ECB this morning showed the growth rate in adjusted loans to non-financial corporates falling to -0.3%y/y (from +0.2% in September), while adjusted loans to households eased to 0.6%y/y (from 0.8%). The annual growth rate of the broad monetary aggregate M3 was -1.0% in October, (from -1.2% in September), and the narrower monetary aggregate M1 was -10.0% (from -9.9%). ING analysts highlight an increasing divergence between countries, with negative bank lending growth in Southern economies while the main Northern economies see growth or stagnation.

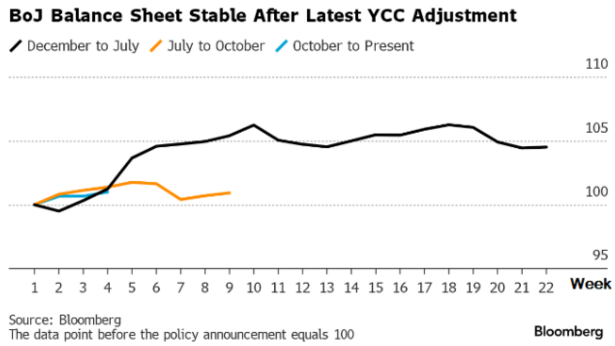


Source: ECB

Japan

Japan's equities declined -0.2%. Japanese Economy Minister Nishimura said the government supports small firms' efforts to pass on increasing costs to customers. This will allow them to raise wages and beat labor shortages. Separately, the **Bank of Japan (BOJ)'s balance sheet expansion decelerated after the decision add flexibility to yield curve control (YCC) framework in October compared to earlier YCC tweaks** (Dec 2022 and July 2023), Bloomberg estimated. Relatedly, BOJ's semi-annual financial statement for H1 FY23 showed an increase in unrealized losses on BOJ's bond portfolio holdings to -¥10.5tn (-$71 bn) at end September, the largest loss since FY2004.





Emerging Markets

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EMEA equity markets were mixed while currencies were mostly weakening. Equities in Hungary (+1.0%) were up while those in Egypt (-1.9%) underperformed. **Asian equities were mixed,** up +0.4% on net. Taiwan POC (+1.2%) and South Korea (+1.1%) led the gains, bolstered by the electronics sector. **Latin American markets were mixed.** Stocks lost ground in Mexico (-1.4%), but Argentina's equity market declined by more than 8% after surging more than 40% last week.

Emerging Market Bond and Equity Flows

Emerging Markets bond funds saw small inflows (+$193mn, from -$1.5bn). Inflows were led by hard currency funds (+$345mn, from -$1.3bn). Local currency funds outflows increased slightly (-$152mn, from -$113mn). Across regional funds, there were outflows from Asia ex-Japan (-$638mn), while Latam (+$218mn), and EMEA (+$9mn) saw inflows. The year-to-date flows currently stand at -$30.9bn and +$5.5bn for bonds and equities, respectively.

Figure 1: Weekly cross-asset flows

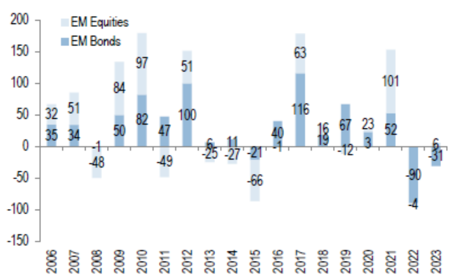
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.1	-25.4
EM Bonds		0.2	-30.9
Hard Ccy		0.3	-23.4
Local Ccy^		-0.2	-7.6
o.w. EM ex-China		-0.1	-2.5
o.w. China		-0.1	-6.2
EM Equities		-0.3	5.5
US HG		4.0	248.2
US HY		1.1	-0.8
Global Equities		10.8	-46.4
EM Bond and Equity ETFs		2.2	31.5
EM Bond ETFs		0.6	-3.1
EM Equity ETFs		1.6	34.6
Non-resident EM flows*		5.7	27.6

Fund Flows

Figure 2: EM bond and equity fund flows

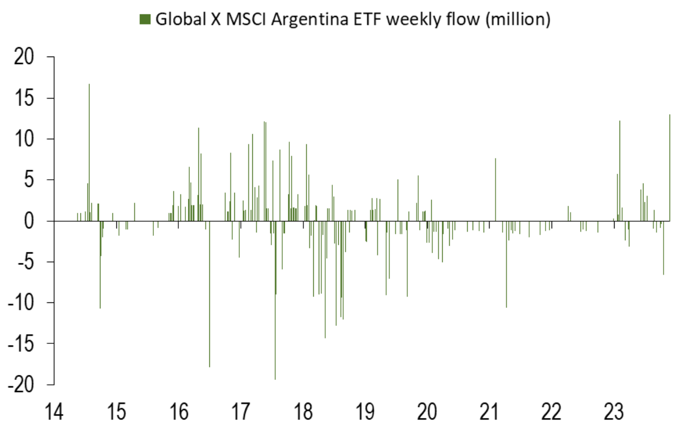
USD billion



*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.

Argentina

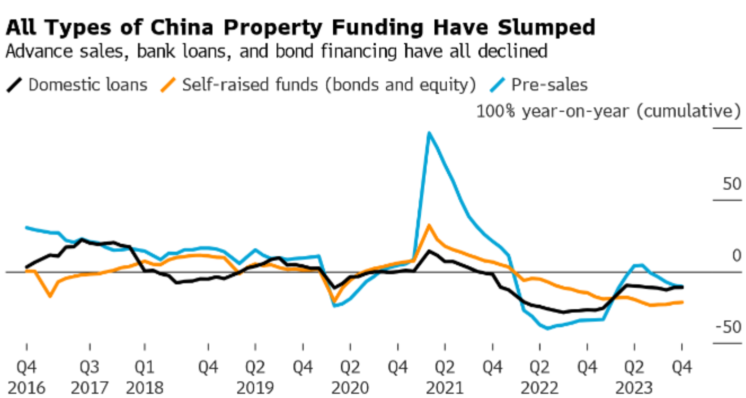
The Global X MSCI Argentina ETF (ARGT) saw its largest weekly inflow in nine years. The $78 million ETF attracted $13 million last week following Javier Milei's election as the next president of Argentina. This marks the second-highest weekly influx since the fund's inception in 2011, trailing only behind the $16.7 million inflow observed in mid-2014. Milei's shift to a more moderate stance before his upcoming inauguration fueled confidence, leading to a record high close for ARGT on Friday, with a year-to-date gain exceeding 44%. The surge suggests optimism among investors regarding potential pragmatic approaches and deviation from controversial proposals by the incoming administration.



Source: Bloomberg and IMF staff

China

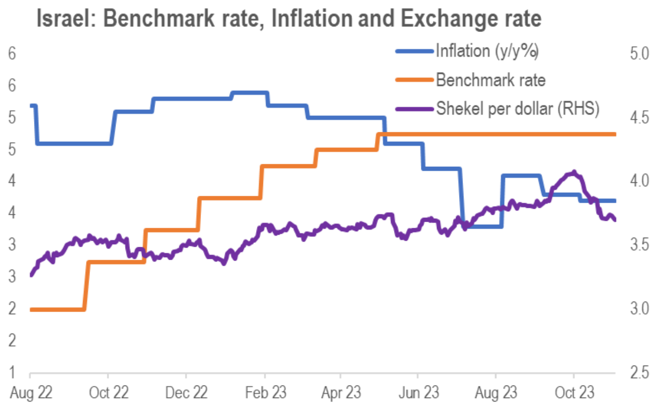
The People's Bank of China (PBOC) pledged to press banks to increase lending and lower their real lending rates. In its Q3 Monetary Policy report the PBOC highlighted the changing structure of lending, with new loans flowing into strategic sectors such as technology and manufacturing. The report noted the slowdown in lending to property and local governments' financing platform. All types of China property funding have slumped, despite government urging the banks to lend more. Meanwhile, **PBOC Governor Pan downplayed concerns over property and local government debt issues** at a conference in Hong Kong SAR. He added that the property market's adjustment is beneficial for the economy in the long run and spillover effects to the financial system are limited. He is confident that China will enjoy healthy and sustainable growth in 2024 and beyond, citing rising sectors like renewable energy. Separately, **Former PBOC Governor Zhou announced that China is nearing completion in the rollout of the Central Bank Digital Currency (CBDC)**, with 90% of retail payments in China already digitized.



Source: China National Bureau of Statistics

Israel

The Bank of Israel (BOI) left rates unchanged at 4.75% yesterday as expected, hinting at possible easing if financial stability risks continue to recede. The policy statement reiterated the BOI's focus on financial stability, and noted that while the risk premium had declined, it still remains at a high level with significant uncertainty as to how the war will develop. JPMorgan analysts see the first rate cut in February but note high odds of a rate cut in January. Goldman Sachs analysts highlight that the BOI had intervened by $8.2bn in the spot market in October, a period when the currency had weakened by roughly 6% against the dollar. Since late October, the Israeli shekel has appreciated by roughly 10%, and while data on FX reserve data would only be available in December, Goldman Sachs analysts in the meantime believe that it is unlikely that the central bank had continued intervening while the currency had strengthened.



Source: Bloomberg and IMF staff calculations

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Global Financial Indicators

11/28/23 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
United States		4546	-0.2	0	10	15	18
Europe		4336	-0.4	0	8	10	14
Japan		33408	-0.1	0	8	19	28
China		3519	0.2	-2	-1	-9	-9
Asia Ex Japan		65	-0.5	0	7	4	1
Emerging Markets		39	-0.4	0	8	5	4
Interest Rates					basis points		
US 10y Yield		4.41	2.3	2	-42	73	54
Germany 10y Yield		2.56	1.3	-1	-27	57	-1
Japan 10y Yield		0.76	-2.0	6	-12	51	34
UK 10y Yield		4.23	1.4	12	-32	110	55
Credit Spreads					basis points		
US Investment Grade		142	-0.2	-4	-20	-15	-16
US High Yield		422	-1.6	-7	-55	-52	-58
Exchange Rates					%		
USD/Majors		103.19	0.0	0	-3	-3	0
EUR/USD		1.10	0.0	0	3	6	2
USD/JPY		148.5	-0.1	0	0	7	13
EM/USD		48.0	-0.1	0	3	-4	-4
Commodities					%		
Brent Crude Oil ($/barrel)		80.7	0.9	-2	-10	1	-1
Industrials Metals (index)		138	0.4	-2	0	-11	-16
Agriculture (index)		65	0.3	-2	-1	-4	-6
Implied Volatility					%		
VIX Index (%, change in pp)		12.8	0.1	-0.6	-8.4	-9.4	-8.8
Global FX Volatility		7.3	0.0	-0.2	-0.6	-4.1	-3.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		123	-0.6	2	-11	-100	-83
Italy		178	4.7	3	-19	-14	-36
Portugal		68	-0.2	3	-5	-25	-34
Spain		101	1.9	2	-8	1	-8

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

Emerging Market Financial Indicators

Last updated: 11/28/2023 8:04 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		7.15	0.0	-0.2	2	1	-4		2.7	-3.5	3	-2	-39	-36
Indonesia		15436	0.4	0.0	3	2	1		6.7	-3.2	5	-53	-26	-24
India		83	0.0	0.0	0	-2	-1		7.5	-4.1	-3	-22	20.2	9
Philippines		55	0.1	-0.1	3	2	1		5.9	-0.1	0	4	-13	-8
Thailand		35	0.4	0.7	3	2	-1		3.0	-6.5	5	-32	50	37
Malaysia		4.67	0.2	-0.4	2	-4	-6		3.9	0.6	1	-26	-25	-17
Argentina		359	0.0	-0.8	-3	-54	-51		101.1	54.2	-906	-630	535	1290
Brazil		4.89	0.1	0.1	3	10	8		11.0	-0.7	-15	-91	-228	-157
Chile		871	0.1	-0.1	4	5	-2		5.2	-1.5	-4	-89	-18	-18
Colombia		3969	0.1	2.7	3	22	22		8.2	0.0	4	-102	-206	-163
Mexico		17.18	-0.1	0.1	5	12	14		9.0	0.5	0	-71	34	24
Peru		3.7	0.3	0.3	4	3	2		7.2	0.8	15	-48	-57	-75
Uruguay		39	-0.1	-0.3	2	0	2		9.6	1.9	6	-31	-124	-109
Hungary		347	-0.2	0.6	4	13	8		6.8	-7.0	13	-75	-120	-278
Poland		3.97	-0.1	0.9	6	14	10		5.0	-2.0	19	-6	-103	-119
Romania		4.5	-0.1	0.3	3	5	2		6.9	-0.2	5	2	-91	-81
Russia		88.8	0.3	-0.6	4	-31	-16							
South Africa		18.7	-0.2	-0.2	1	-8	-9		9.2	-10.0	4	-68	31	6
Turkey		28.93	-0.1	-0.5	-2	-36	-35		29.3	-20.0	-83	-12	1848	1949
US (DXY; 5y UST)		103	0.0	-0.2	-3	-3	0		4.41	0.1	1	-35	54	41

	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		3519	0.2	-2	-1	-9	-9		163	-1	-9	-43	-14
Indonesia		7041	0.4	1	4	0	3		123	-5	-8	-46	-17
India		66174	0.3	1	4	6	9		123	-1	-13	-25	-19
Philippines		6310	0.6	2	6	-7	-4		102	-4	-7	-27	5
Thailand		1401	0.6	-2	1	-14	-16		0	0	0	0	0
Malaysia		1448	0.0	-1	0	-2	-3		87	0	-8	-16	-13
Argentina		843665	-8.1	31	29	414	317		2014	-239	-548	-402	-191
Brazil		125731	0.2	0	11	16	15		222	-2	-1	-64	-52
Chile		5761	-0.3	-1	3	11	9		134	-4	-12	-26	2
Colombia		1128	-0.7	0	3	-9	-12		314	-8	-30	-92	-58
Mexico		52220	-1.4	-1	7	2	8		361	-2	-12	-35	-20
Peru		21881	-1.3	-2	0	-1	3		153	-4	-9	-33	-27
Hungary		56760	1.6	1	1	25	30		184	-10	-19	-45	-38
Poland		74724	1.0	0	6	34	30		113	0	-3	79	40
Romania		14699	0.2	0	3	27	26		214	-3	-5	-64	-42
South Africa		75362	0.0	1	9	3	3		360	11	-34	-3	-7
Turkey		8113	0.1	1	5	65	47		361	3	-33	-113	-79
Ukraine		507	0.0	0	0	-2	-2		3683	46	36	34	-396
EM total		39	0.4	0	8	5	4		376	-11	-33	-22	0

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

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