GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 29, 2023

LEAD EDITOR: BENJAMIN MOSK

- **Euro area sovereign bond yields continue ease as markets await tomorrow's CPI print** (link)
- **UK mortgage approvals surprise to the upside** (link)
- **Split views on US stocks while implied volatility falls to lowest level since January 2020** (link)
- **Reserve Bank of New Zealand and Bank of Thailand stayed pat as expected** (link)
- **EM bond issuance only $5.5bn last week, 34% lower than the week before** (link)

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November rally regains some strength as global bond yields fall

European equities increased by 0.5% today, and US stocks are set to open higher with S&P futures up 0.5%. Germany's preliminary November CPI inflation came in lower than expected at 2.3% y/y versus 2.5% expected, ahead of tomorrow's preliminary CPI print for the euro area. Month-to-date, US and European equities have gained 8.6% and 7.6% respectively, as bonds rallied as well, with 10-year government bond yields falling by 65 bps (US) and 36 bps (Germany) month-to-date. The start of this week saw some weakness in this month's equity rally, among broad expectations of a slowdown or slump. Yesterday, a speech by Fed board member Waller, called "Something Appears to Be Giving," was seen as a dovish signal, as he said that he is increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%. A Bloomberg article suggests that bets on US rate cuts are increasing, with open interest for a number of September 24 SOFR call options increasing rapidly in the second half of November. The second reading for US Q3 GDP came in higher than expected (5.2% annualized q/q vs. 5.0% expected), but this news was partially offset by weaker-than-expected personal consumption and core PCE. The Fed will release its Beige Book later today. Oil prices increased today with the WTI active futures contract up 1.4%, with OPEC+ expected to meet on Thursday.

Key Global Financial Indicators

Last updated: 11/29/23 8:40 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4555	0.1	0	11	15	19
Eurostoxx 50		4372	0.5	0	9	11	15
Nikkei 225		33321	-0.3	0	8	19	28
MSCI EM		40	0.8	0	9	3	5
Yields and Spreads					bps		
US 10y Yield		4.28	-3.5	-12	-55	54	41
Germany 10y Yield		2.45	-4.5	-11	-39	52	-13
EMBIG Sovereign Spread		420	4	3	-27	-55	-32
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		48.2	-0.1	0	3	-4	-3
Dollar index, (+) = $ appreciation		102.8	0.1	-1	-4	-4	-1
Brent Crude Oil ($/barrel)		83.0	1.4	1	-8	0	-3
VIX Index (%, change in pp)		12.7	-0.1	-1	-9	-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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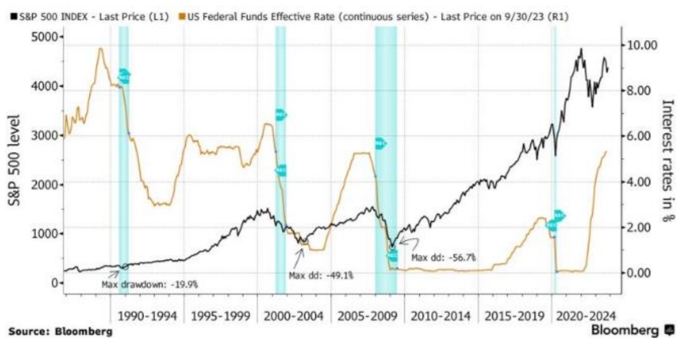
United States

Analysts remain split on stocks. While consumers' appetite during the holidays might keep a floor under equities for some time (Black Friday e-commerce spending was up 7.5% year-on-year last week), analysts remain split on stocks. Recently, Deutsche Bank predicted that the S&P will rise to a record 5,100 by the end of the next year, which is about 12% higher than its current levels. Besides market expectations for no-more-interest-rate-hikes, the biggest tailwind has come from almost $200 billion increase in central bank reserves over the last month, according to the analysts, saying that this could be—in part—due to the Treasury's choice to use bills to fund a large portion of the budget deficit. While a recession is what ultimately will be important for stocks, some strategists believe stocks will have to fall first as higher rates continue to affect profitability and the wider economy. During previous tightening episodes over the last 30- years, it took an average of 11 months for equities to tumble from their highs when interest rates peaked. During those periods, stocks plummeted around 33% from peak to through, with an average recovery of around 480 trading days.

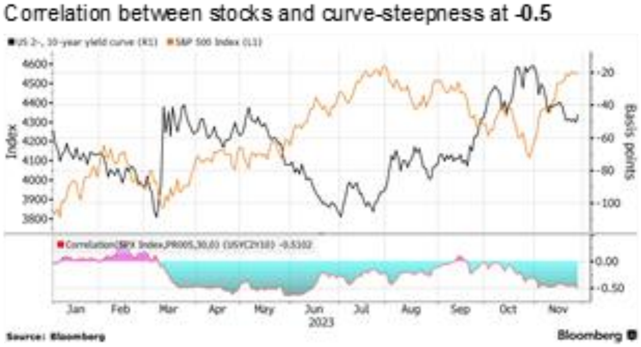
Hiking cycle might take time to hit stocks



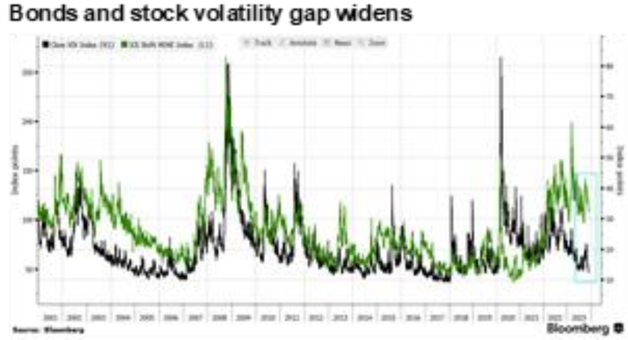
The correlation between stock returns and curve-steepness is the most negative since June. The S&P 500's slowdown at the start of the week coincided with a re-steepening of the US yield curve, causing the correlation to reach its lowest level since June (-0.5). According to a Bloomberg article, this may point to fading momentum in November's stock market rally.

The VIX Index reached its lowest level since January 2020, pointing to market optimism. 60% of participants in this week's MLIV Pulse survey conducted by Bloomberg said they anticipate that equities would yield higher returns than bonds over the next month, with the recent significant decline in volatility presenting opportunities for hedging, according to Goldman Sachs. The drop in the VIX has increased the gap to rates volatility further.

Correlation between stocks and curve-steepness at -0.5



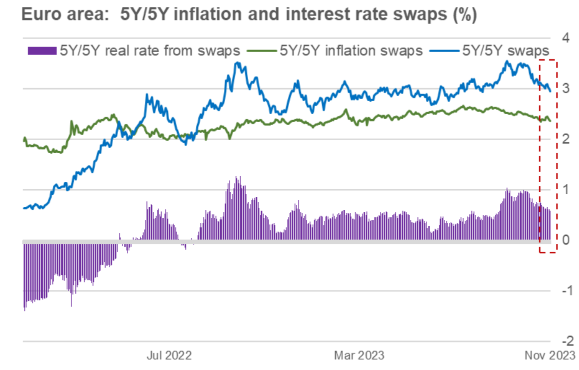
Bonds and stock volatility gap widens



Euro Area

European equities were mostly higher with the Stoxx 600 equity index up 0.5%, snapping a two-day losing streak. The euro was marginally weaker against the dollar this morning (-0.1% to €1.098/$) after surpassing €1.10/$ intraday yesterday for the first time since August. On the data front, the eurozone economic sentiment indicator was marginally higher than expected in November (increasing slightly to 93.8 versus expected 93.6 from 93.5).

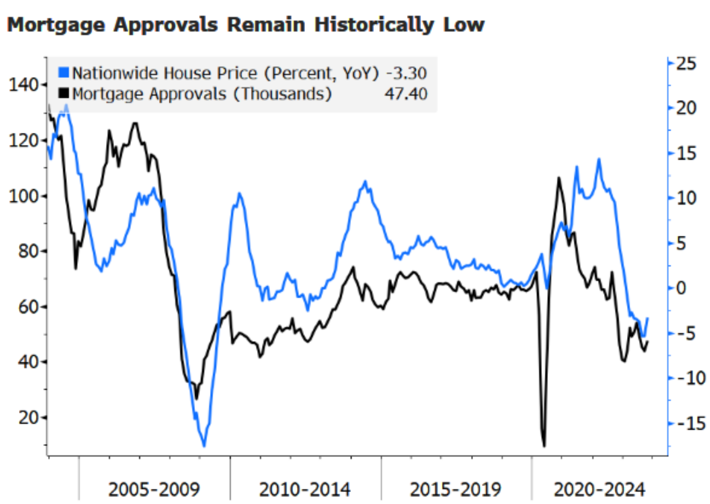
Sovereign yields continued to ease this morning (10-year Bund -5bps to 2.44%) after regional inflation prints from Germany showed easing price pressures and preliminary inflation from Spain surprised to the downside. Sovereign yields have eased over the past two days and 10-year Bund yields are now back at levels last seen at the end of July. Ahead of the euro area preliminary inflation print tomorrow, regional inflation prints in Germany showed softening price pressures and preliminary inflation in Spain surprised on the downside. Germany's preliminary November CPI print is due later today. Data released this morning also showed the preliminary EU harmonized measure of Spanish headline inflation surprising on the downside in November (+3.2%y/y versus expected 3.7% from 3.5%), while core inflation eased more than expected (+4.5%y/y versus expected 5.0% from 5.2%). Longer-term market-based inflation expectations (5y5y inflation linked swaps) have eased somewhat and are back below 2.4% Markets remain focused on the euro-area wide inflation print tomorrow.



Source: Bloomberg and IMF calculations

United Kingdom

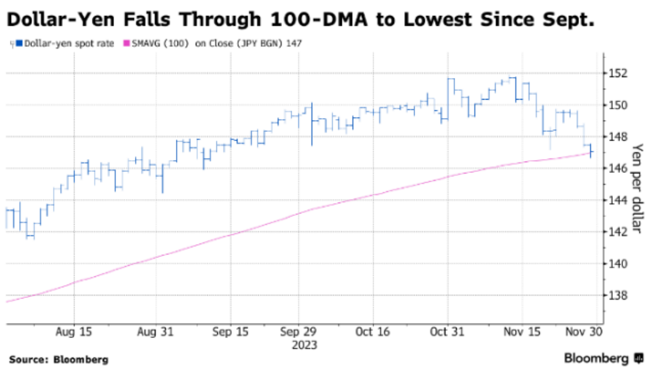
UK mortgage approvals for October surprised to the upside, increasing to around 47 400 (versus expected 46 000 from a revised 45 300). Bloomberg analysts argue that the rebound hints at easing housing market stress as loan deals have become slightly cheaper. Nevertheless, mortgage approvals remain below its long-term trend, and analysts expect that mortgage costs will remain a major headwind for house prices. The pound was trading weaker against the dollar (-0.1% to 1.27) while 10-year gilt yields eased (-5bps to 4.12%) in line with global trends.



Source: Bloomberg Economics, Nationwide

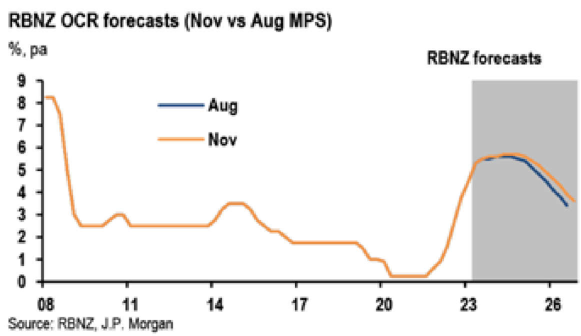
Japan

Bank of Japan (BoJ) Board Member Adachi said it is hard to end negative rates before a wage-inflation cycle takes place. He added that the wage hike trend will only be clearer in April, the start of a new fiscal year, although real wages need not be positive for an exit. 10-year bond yields declined -9bps. Japan's equities declined by -0.5%, weighed by banks stocks. During November, the yen appreciated versus the US dollar by 2.65% month-to-date, but weakened marginally today.



New Zealand

New Zealand's central bank (RBNZ) kept its official cash rate (OCR) unchanged at 5.5% as expected. However, RBNZ forecasts the OCR to reach 5.7% in 2024 (previous: 5.6%) and stated that higher than expected net immigration has put upward pressure on rents and construction costs. Governor Orr flagged concerns that inflation remained outside the RBNZ's target range for too long and revealed that a rate hike was discussed. JP Morgan noted that RBNZ was still projecting a high-hold scenario with slight near-term bias for another hike, and a rate cut is not fully priced until 2Q25. The New Zealand dollar appreciated by +0.4%**,** gaining as much as +1% after the decision.



Emerging Markets

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EMEA markets were mixed. Egyptian (-1.3%) and Polish equities (-1.2%) saw the largest losses, while equities in Romania (+0.8%) outperformed. CEE currencies were weakening against the euro, with the Polish zloty underperforming (-0.5% to 4.34/€). Contacts are focused on the decision and press conference of the Czech National Bank's board later this afternoon following its financial stability meeting. Elsewhere on the central banking front, Mauritius' MPC yesterday unanimously voted to keep the key policy rate unchanged at 4.5%. Absa analysts expect the rate to remain unchanged throughout next year.

Asian equities were mixed, -0.2% on net. Hong Kong SAR dropped -2.1%, as Meituan, a Chinese top food-delivery platform operator, slumped 12% on soft 4Q guidance. Indian and Singapore equities gained

+0.9%. Asian currencies appreciated. Taiwanese dollar (+0.7%), Malaysian ringgit and South Korean won (+0.4%) led the gains. 10-year bond yields broadly declined, e.g., Thailand (-12bps). **Thailand's central bank (BoT) kept its benchmark interest rate unchanged at 2.5% as expected**, ending a run of eighth consecutive increases. Assistant Governor Disyatat added that rate will probably remain at current level for a while. BoT's 2023 growth forecast was lowered to +2.4% (previous: 2.8%), 2024 growth was lowered to 3.2% or 3.8% (accounting for government stimulus scheme), from 4.4%. Australia's CPI inflation was weaker than expected, moderating to 4.9% (consensus: 5.2%, previous: 5.6%) in October.

Latin American equities saw small positive returns. Stocks gained in Brazil (0.64%), Mexico (0.27%), Chile (0.33%) and Peru (0.82%). Currencies appreciated versus the US dollar for Brazil (0.56%), Colombia (0.42%) and Chile (0.32%). Brazil's consumer prices rose 4.84% from a year earlier and monthly inflation hit 0.33%.

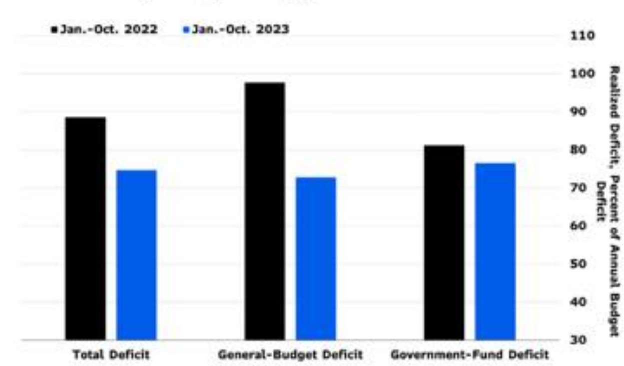
China

China's government spending has lagged so far in 2023 compared to 2022. Only 75% of the 7.7tn yuan ($1.1tn) initially budgeted for 2023 deficit spending had been used through October, lower than 88.6% spent for the same period in 2022.

95 Chinese cities have lowered the floor on commercial individual mortgage rates for first-time home buyers, the People's Bank of China (PBoC) stated. In addition, 24 others have abolished the floor as of the end of September amid efforts to help bring down borrowing costs for home buyers and boost the real estate market, local media reported.

The PBoC may conduct another large medium-term lending facility (MLF) net injection in December to support the government bond issuance, according to Standard Chartered. The central bank has already conducted an outsized MLF net injection in mid-November, to "appropriately supply medium- and long-term base money." The PBoC's base money increased by 1.8tn yuan (+5.3%) y/y as of October, while its total assets rose by 3.4tn yuan (+8.6%) y/y. With the RRR rate approaching historical lows and one more cut possible by end-2023, analysts project the PBoC will increasingly rely on expanding its balance sheet to inject ample liquidity via MLF and various structural re-lending tools. Chinese equities declined by -0.9%. Renminbi appreciated slightly amid its strongest fixing since June.

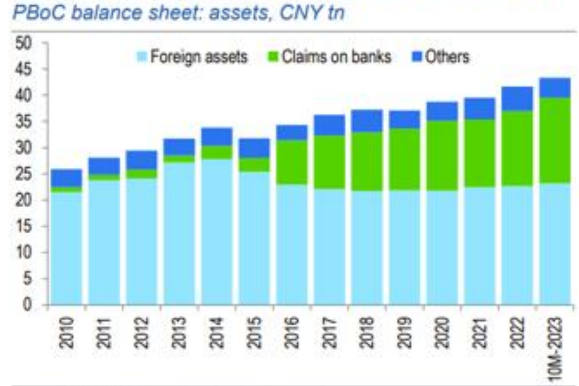
Government Spending Has Lagged So Far in 2023



Source: Ministry of Finance, Bloomberg Economics

PBoC's balance sheet has expanded tangibly

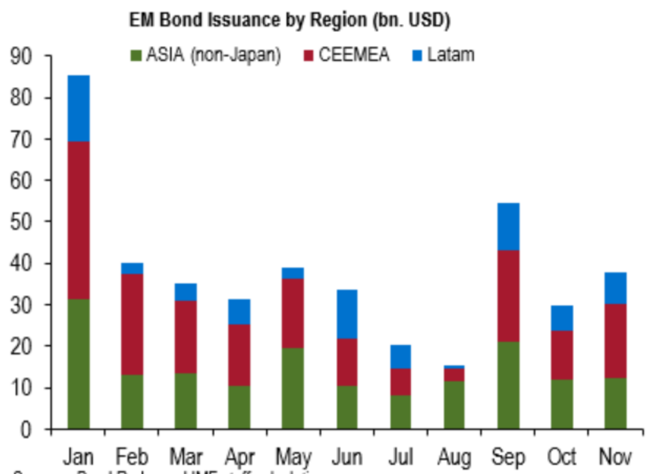
PBoC balance sheet: assets, CNY tn

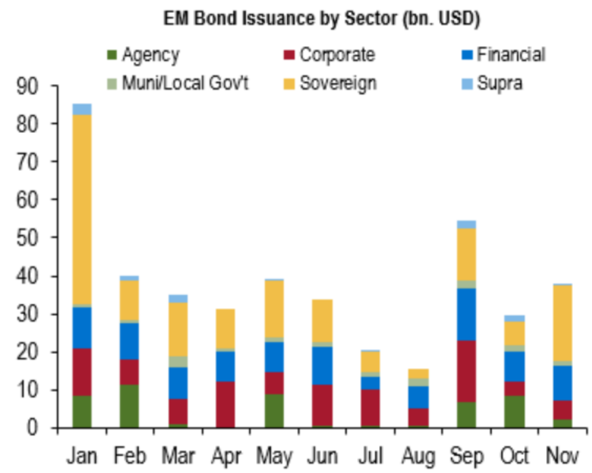


Source: CEIC, PBoC, Standard Chartered Research

EM Bond Issuance

EM bond issuance amounted to only $5.5bn last week as the holiday season arrived, 34% lower than the week before, among which $1.4bn sovereign bond, $3.8bn corporate/financial bond and $344mn local government bond. The China Construction Bank and Poland, Huatai and Abu Dhabi Commercial Bank are among the largest issuers with issuance of $1.4bn, $1.3bn, $800mn and $750mn, respectively. Most new issuances are fixed-rate bonds with maturity varying from 1 year to perpetual. All new issuances were hard currency bonds. The weighted average yield is 5.41%. $3.6bn of the new issuances are investment grade bonds and $300mn are high-yield bonds. YTD total issuance now stands at $421.7 bn.

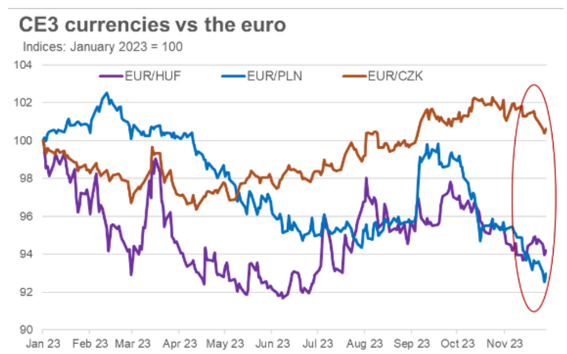




Sources: Bond Radar and IMF staff calculations

Central Eastern Europe

Currencies in central Europe have rallied over the past month, with the Polish zloty outperforming. Since the start of the month the Polish zloty has strengthened by roughly 2.7% against the euro (to around 4.34/€) while the Hungarian forint is 1.2% stronger (at 378.15/€) and the Czech krona has strengthened by 1.1% (to 24.3/€). The respective currencies also strengthened yesterday as the EUR/USD reached 1.10 intraday. While CEE currencies were trading weaker against the euro this morning, ING analysts see gains in the Polish zloty as longer-term in nature and expect further appreciation. As regards the Czech krone, analysts expect markets to step up rate cut bets for the central bank and as such expect the currency to weaken. As regards the Hungarian forint analysts highlight that rates still point to a weaker currency, while the strength of the euro vs the dollar provides support to the forint.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

11/29/23 8:41 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4555	0.1	0	11	15	19
Europe		4372	0.5	0	9	11	15
Japan		33321	-0.3	0	8	19	28
China		3488	-0.9	-2	-2	-9	-10
Asia Ex Japan		66	0.7	-1	7	2	2
Emerging Markets		40	0.8	0	9	3	5
Interest Rates					basis points		
US 10y Yield		4.28	-3.5	-12	-55	54	41
Germany 10y Yield		2.45	-4.5	-11	-39	52	-13
Japan 10y Yield		0.67	-8.6	-5	-21	42	25
UK 10y Yield		4.12	-4.4	-4	-43	102	45
Credit Spreads					basis points		
US Investment Grade		143	0.7	-3	-19	-19	-16
US High Yield		428	4.4	-1	-49	-46	-52
Exchange Rates					%		
USD/Majors		102.82	0.1	-1	-4	-4	-1
EUR/USD		1.10	-0.1	1	3	6	3
USD/JPY		147.7	0.1	-1	-1	7	13
EM/USD		48.2	-0.1	0	3	-4	-3
Commodities					%		
Brent Crude Oil ($/barrel)		83.0	1.6	1	-7	3	2
Industrials Metals (index)		139	0.1	-1	1	-12	-16
Agriculture (index)		65	0.1	-2	0	-3	-5
Implied Volatility					%		
VIX Index (%, change in pp)		12.7	-0.1	-0.7	-8.6	-9.2	-9.0
Global FX Volatility		7.4	0.0	-0.1	-0.6	-4.1	-3.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		121	-2.7	-1	-13	-103	-84
Italy		175	-1.2	-1	-23	-15	-40
Portugal		67	-0.7	1	-6	-25	-34
Spain		100	-0.7	0	-10	1	-10

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

Emerging Market Financial Indicators

Last updated: 11/29/2023 8:17 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		7.13	0.1	0.5	3	0	-3		2.7	-0.5	1	-2	-42	-36
Indonesia		15395	0.3	1.2	3	2	1		6.6	-8.8	-5	-62	-36	-33
India		83	0.0	0.0	0	-2	-1		7.5	-7.0	-9	-30	11.5	1
Philippines		55	0.1	0.2	3	2	1		5.9	0.0	0	4	-18	-8
Thailand		35	0.4	1.1	3	2	-1		2.9	-7.5	-4	-40	42	29
Malaysia		4.65	0.4	0.5	2	-3	-5		3.8	-2.0	-2	-30	-28	-21
Argentina		360	-0.1	-1.0	-3	-54	-51		98.9	-216.1	-1143	-846	295	1074
Brazil		4.90	-0.6	0.2	3	8	8		10.8	-9.8	-25	-108	-199	-174
Chile		867	0.2	0.9	5	4	-2		5.0	-6.0	-19	-101	-30	-30
Colombia		3956	0.0	2.9	3	22	23		8.1	0.0	-8	-109	-206	-170
Mexico		17.19	-0.3	0.1	5	12	13		8.8	-0.5	-19	-87	11	8
Peru		3.7	-0.1	0.3	3	3	2		7.2	-0.6	17	-45	-50	-73
Uruguay		39	-0.2	0.2	2	1	2		9.5	-4.7	3	-35	-129	-114
Hungary		344	-0.2	1.8	5	14	9		6.6	-16.0	-30	-97	-142	-300
Poland		3.95	-0.5	1.5	6	15	11		4.8	-7.7	2	-20	-108	-133
Romania		4.5	-0.1	0.8	3	5	2		6.8	-4.7	-1	-2	-94	-85
Russia		88.7	0.2	-0.3	4	-31	-16							
South Africa		18.5	0.5	2.0	2	-8	-8		9.2	-6.0	-19	-74	28	-1
Turkey		28.91	0.0	-0.2	-2	-36	-35		28.7	-55.0	-149	-74	1790	1887
US (DXY; 5y UST)		103	0.1	-0.7	-4	-4	-1		4.24	-3.8	-19	-52	31	23

	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		3488	-0.9	-2	-2	-9	-10		165	equesting	-7	-39	-12
Indonesia		7036	-0.1	2	4	0	3		121	-1	-10	-43	-19
India		66902	1.1	1	5	7	10		125	2	-11	-19	-17
Philippines		6265	-0.7	1	5	-8	-5		103	4	-6	-24	6
Thailand		1388	-1.0	-2	0	-15	-17		0	0	0	0	0
Malaysia		1446	-0.1	-1	0	-2	-3		88	-1	-7	-11	-12
Argentina		773420	-8.3	-2	18	360	283		2062	equesting	-500	equesting	-143
Brazil		126538	0.6	1	12	14	15		221	equesting	-2	-59	-53
Chile		5777	0.3	0	4	10	10		131	-5	-15	-23	-1
Colombia		1128	0.0	0	3	-10	-12		310	-9	-34	-98	-62
Mexico		52359	0.3	0	7	4	8		360	2	-13	-37	-21
Peru		22061	0.8	-1	1	0	3		151	-5	-11	-31	-29
Hungary		57307	0.4	1	2	25	31		183	0	-20	-43	-39
Poland		74156	-1.0	-1	5	33	29		114	5	-2	79	41
Romania		14811	0.7	1	4	26	27		219	4	0	-58	-37
South Africa		75358	-0.4	1	9	3	3		357	13	-37	-6	-10
Turkey		8022	-0.6	0	4	62	46		370	17	-24	-98	-70
Ukraine		507	0.0	0	0	-2	-2		3750	102	103	82	-329
EM total		40	-0.4	0	9	3	5		380	1	-28	-14	4

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

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