GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, NOVEMBER 3, 2023

LEAD EDITOR: BENJAMIN MOSK

- **Global markets rallied with “the Fed is done” view spreading** (link)
- **US excess savings are largely exhausted** (link)
- **Inflation in Türkiye surprises to the downside** (link)
- **Emerging market bond issuance decreased to $4.8bn during the week of Nov 2** (link)
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Markets eyeing to see if rate hike chapter can be closed

Pricing of interest rate swaps and futures suggests that, seen through the lens of markets, the Fed, the Bank of England (BoE) and the European Central Bank (ECB) might be “done” with rate hikes. Additional rate hikes are not entirely priced out for the Fed and the BoE, but the “Fed is done” narrative gained more traction after Wednesday’s FOMC meeting. The rise of term premia, which saw an acceleration in October, also seems to have come to a halt. The lower-than-expected increase in coupon auction sizes as presented in the US Treasury’s refunding announcement last Wednesday may have contributed to solidify a below -5% trading range for the 10-year Treasury yield (now at 4.65%)—for the time being at least. In this context, some analysts consider the bond market to become increasingly attractive, or less unattractive, compared to alternatives such as cash. Markets remain vigilant with regard to data that could disprove the current “Fed is done” narrative. Today’s non-farm payroll and unemployment data provided a test for the current narrative, but with a lower-than-expected change in non-farm payrolls and a higher-than-expected unemployment rate for October, that test seems to have been passed. Treasury yields declined after the release, and equity futures were higher (S&P 500 futures +0.2%).

Key Global Financial Indicators

Last updated: 11/3/23 8:50 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4318	1.9	4	2	16	12
Eurostoxx 50		4182	0.1	4	2	16	10
Nikkei 225		31950	1.1	4	2	15	22
MSCI EM		38	1.8	3	1	9	-1
Yields and Spreads				bps			
US 10y Yield		4.54	-9.5	-30	-26	39	66
Germany 10y Yield		2.66	-4.6	-18	-31	41	9
EMBIG Sovereign Spread		428	-14	-22	-5	-105	-24
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.6	0.5	2	3	-3	-5
Dollar index, (+) = $ appreciation		105.4	-0.7	-1	-1	-7	2
Brent Crude Oil ($/barrel)		87.7	0.8	-3	-4	-7	2
VIX Index (%, change in pp)		15.4	0.1	-6	-4	-10	-6

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

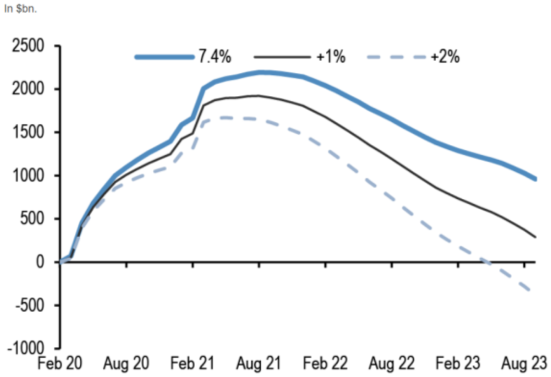
Equities have continued to gain for the fourth day after yesterday's FOMC announcement as a growing number of investors see that the Fed may be done with rate hikes. The VIX volatility index declined to below 16, and high-yield corporate bond spreads narrowed by nearly 30bps. The "Fed is done" view is supported by initial jobless claims released Thursday morning; the apparent increase in continuing claims versus virtually no increase in initial claims suggests it's harder for people to find a new job. Labor productivity (Q3) gained the most over the last three years, also helping to alleviate the inflationary pressure of recent wage growth. Elsewhere, corporate earnings have been broadly solid so far, in line with the strong Q3 GDP growth.

The US Treasury yield curve twisted, with 10-years down 7bps while 2-years up 4bps, reflecting less inflationary uncertainty and lower probability of rate cuts. Nevertheless, some analysts warned that views and leveraged positions are apt to change quite quickly, cautioning against prematurely declaring that the phase of rising long-term rates is over. This morning, October jobs report came in weaker than expected (150k versus 180k consensus) with a two-month net revision down by 101k. Hourly wages were lower than expected (0.2 %mom versus 0.3% consensus), and the unemployment rate was higher at 3.9% (3.8% consensus). Participation rate declined to 62.7%, the first decline since October 2022. In financial markets, the initial reaction to the data was for lower yields and a weaker dollar: 10-year yields were down 9bps, and the dollar weakened by 0.5% against the euro. Equities are higher: S&P500 futures were up 0.2%.

Excess savings in the household and corporate sectors have largely been exhausted. Excess household savings is typically measured in a nominal terms, but the measurement can be sensitive to what pre-pandemic trend assumptions are used to estimate the amount of savings that are in 'excess' of a normal or desired level of saving. To address the issue, JPM analysts take the average personal savings rate as a share of disposable income in 2019 as a proxy for desired savings and calculate the accumulated excess savings from early 2020 onwards. They also calculated how this proxy is affected by variations to the threshold for the desired savings level, showing these savings have largely been exhausted. In the corporate sector, the cash holdings estimated by multiplying cash and short-term investments per share with the index divisor in both nominal terms and real terms suggest that, in nominal terms, around half of the excess cash has been unwound. While in real terms, it has almost normalized to its pre-pandemic trend.

Figure 4: Cumulative US excess household savings at different thresholds of desired savings

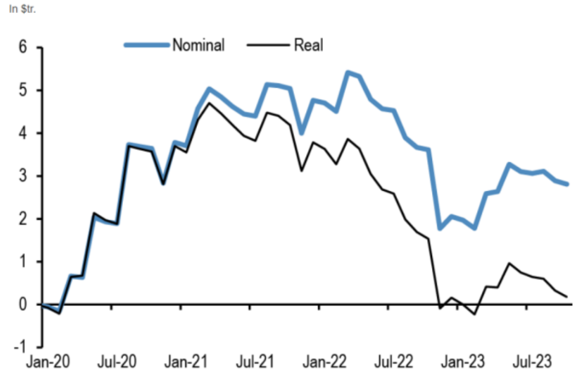
In $bn.



Source : Bloomberg Finance L.P., J.P. Morgan.

Figure 6: Nominal and real cumulative excess cash and short-term investments held by companies in the MSCI AC World index relative to trend

In $tr.

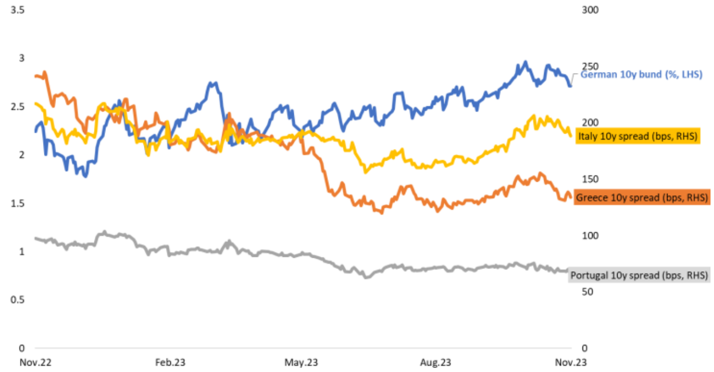


Source : Bloomberg Finance L.P., J.P. Morgan.

Euro Area

This morning, the Euro Stoxx 600 and Euro Stoxx 50 paired previous gains as traders awaited the release of US employment data—and reacted positively to the data release. In the early London trading hours, several European stock indices continued yesterday's rally, including the Netherlands, Finland, Belgium, Spain. The euro continued to appreciate against the USD (+0.20%) partially supported by widespread dollar-weakening after the Federal Reserve's decision to hold rates on Wednesday. European long-maturity sovereign bond yields extended their mid-week plunge. Spreads for Greece, Portugal and Italy (10-year) over the German bund fell by between 1.2 and 2.4bps from previous close.

German 10y bund yield and 10y Italian Greece and Portuguese spread

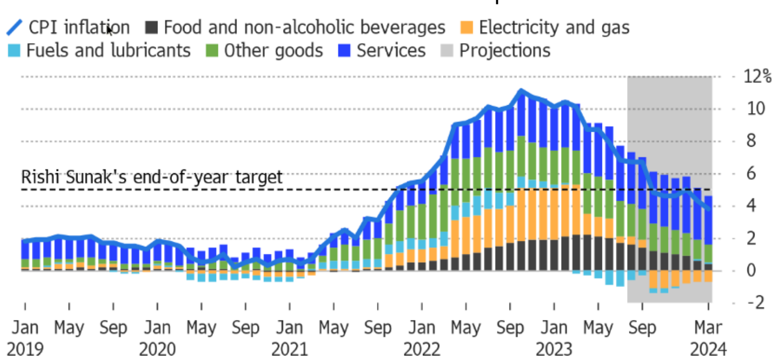


United Kingdom

Yesterday, the Bank of England (BoE) voted 6–3 to keep rates unchanged at 5.25% for a second meeting in a row. After the decision, traders fully priced-in at least one 25bps cut by September 2024, as Governor Bailey confirmed it is "*much too early to think about rate cuts*". An additional rate hike is not entirely priced out, at a market implied probability of 33%. The pound extended yesterday's gains versus the US dollar (+0.115%).

The Monetary Policy Committee (MPC) sees inflation to return to its target by 2025 as second round effects in domestic prices and wages which are expected to take longer to unwind, as well upside risks to inflation from energy prices. The current guidance echoed the previous call for policy to be "sufficiently restrictive for sufficiently long" to get inflation back to the BoE target. "The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures," the MPC said in its statement yesterday.

UK CPI-inflation and its components

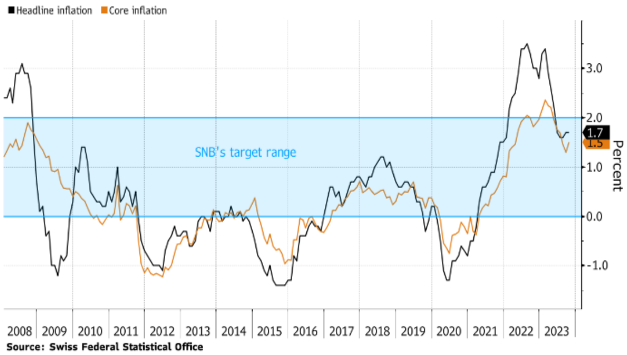


Source: Bloomberg, Department for Energy Security and Net Zero, Office for National Statistics, Bank of England

Switzerland

Swiss inflation holds at 1.7% y/y (exp. 1.7%, prior 1.7) in October. Core CPI inflation jumped to 1.5% from 1.3% (exp 1.4%). According to SNB, inflation might reach 2.2% by mid-2024. Analysts remain split on whether the SNB would keep rates steady in December or decide to hike again, after unexpectedly pausing in September. Separate data released on Thursday revealed PMI manufacturing down to 40 (exp. 45, prior 44.9) and consumer confidence falling in q4 to -40 (exp. -25, prior -27).

Swiss inflation remains with SNB's target range



Emerging Markets

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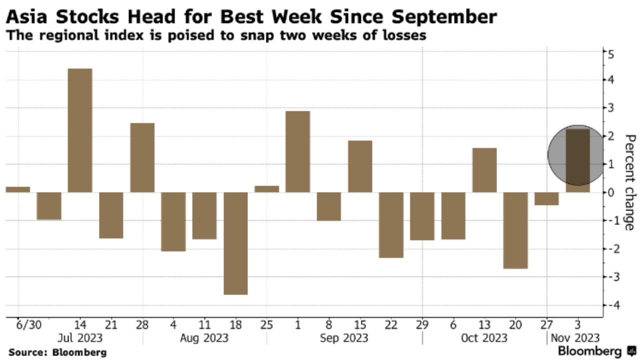
EMEA equities were mixed with Türkiye (-0.45%) and Czech Republic (-0.23%) lagging. Yesterday, the Czech National Bank left policy rate unchanged at 7% (exp. 6.75%). Elsewhere, stocks in South Africa (+0.5%), U.A.E. (+0.32%) and Saudi Arabia (+0.34%) recorded some gains. Major currencies continued to appreciate against the dollar, with the exception of the Turkish lira (-0.2%) and South African rand (-0.1%).

Asian equities rallied by +1.8% on aggregate. Hong Kong SAR outperformed +2.5%, all sectors rose driven by commerce and industry stocks. The South Korea government is reportedly seeking a ban on stock short-selling, with its final plan to be drawn up before November 21, according to local media. Asian currencies appreciated versus the US dollar. The South Korea won strengthened +1.6%, boosted by stabilization in the yen and expectations for policy rate cuts to be pushed out given strong GDP and inflation outcomes. The Philippine peso (+1.1%) and Indonesian rupiah (+0.8%). 10-year sovereign bond yields broadly declined, Singapore (-7bps), Australia (-6.7bps) and South Korea (-5.4bps).

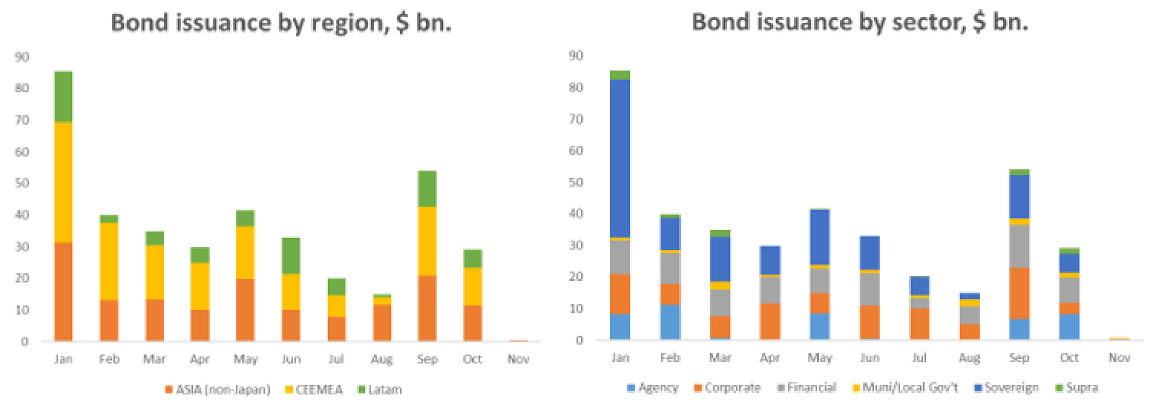
India issued a debut 50-year bond. The government sold 100 bn rupees ($1.2 bn) of the 2073 bond with a firm demand and at a cutoff yield of 7.46%. Recently, the central banks stated that plans to add such a long bond were in response to growing interest from insurance and pension funds for ultra-long papers. Singapore passed Significant Investments Review Bill, which allows government to review ownership or control transactions in sectors critical to national interests and which will be implemented in 2024.



Latam markets rallied for the second consecutive day. Equities traded higher across the region with Argentina outperforming (+6.1%) for the second day, followed by Chile (+1.0%) and Colombia (+0.8%), while lower in Peru (-0.1%). The Peruvian sol led the appreciation (1.8%), together with the Mexico peso and Colombian peso both appreciated by 1.4%. Markets were closed in Brazil on Thursday.

Emerging Market Bond Issuance

Emerging market bond issuance decreased to $4.8bn during the week ending on Nov 2 (compared with $7.3bn one week ago) and YTD issuance was $383.2bn. Non-Japan Asia accounted for 54.4% of the issuance this week, followed by Latam countries (26.8%). Korea, Mexico, and Turkey were the top three issuers among others. Bonds were almost evenly issued by corporates (43.6%) and financial issuers (41.3%), and the rest by sovereigns (14.6%) and local governments (0.5%). Investment grade issuance accounted for 78.4% of total issuance.

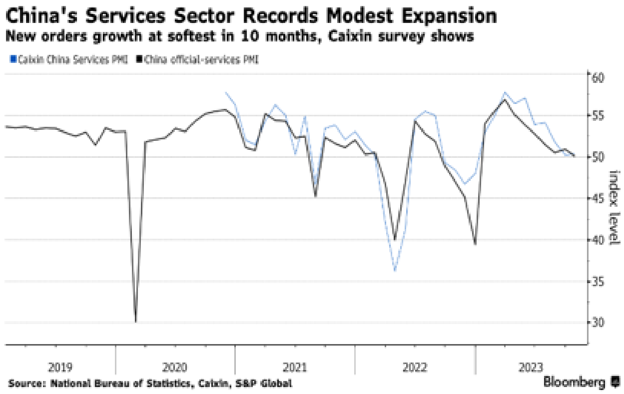


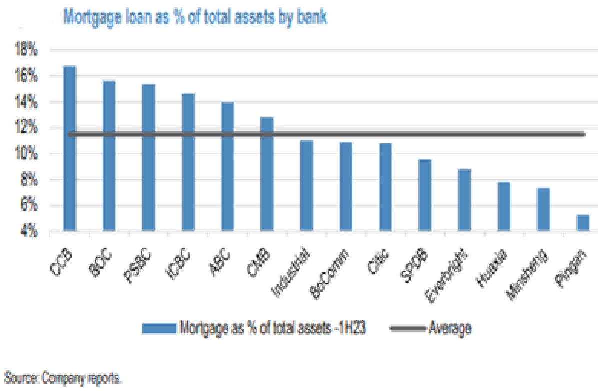
Source: Bond Radar and IMF staff calculations

China

Chinese equities gained (CSI +0.8%). China's Caixin services PMI rose marginally to 50.4 in October (consensus: 51, previous: 50.2). New orders rose at the softest pace in 10 months. Expectations regarding the year-ahead outlook for activity also fell to the lowest level since early 2020, amid sluggish market conditions, the statement reported.

China's new risk-weights for banks likely to provide capital savings. New rules issued by National Administration of Financial Regulation allow for more differentiated risk weights for banks and will be effective from 2024 with a transitional period of 2 years. The changes will result in an average 25% cut in risk weightings assigned to mortgage loans at first-tier banks, with assets more than 500bn yuan ($68bn), according to Bloomberg. Some analysts believe this will free up around 1tn yuan ($140 bn) in capital and banks, with higher mortgage exposure, will see more capital savings. Meanwhile, China's G-SIB banks have made good progress in meeting TLAC requirements in 2023, J.P. Morgan estimated. G-SIBs are required to increase total loss absorption capital (TLAC) to 16% of risk weighted assets by January 2025. Meaningful progress so far, and possibly lower required TLAC issuance amount due to new regulation will likely remove overhang for the credit market, analysts wrote. People's Bank of China withdrew a net -456bn yuan (-$62 bn) in open market operations on Friday.

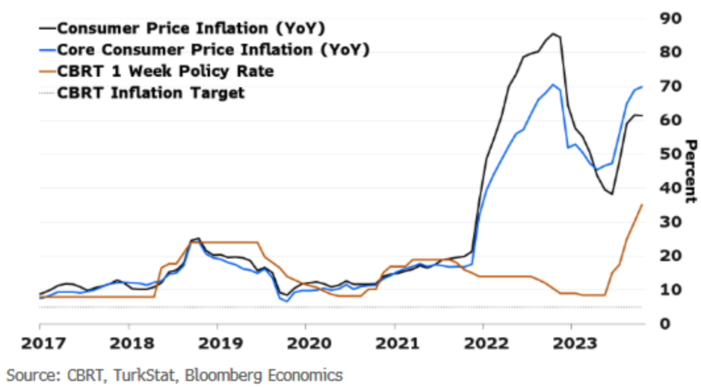




Türkiye

Türkiye's October inflation rate (y/y) surprised to the downside; while the inflation rate (y/y) declined slightly for the first time since June, it remains high. In October, consumer prices rose 61.36% y/y (exp. 62.5%, prior 61.53%). Month-on-month inflation was 3.43% (exp. 4.13%, prior 4.75%), continuing its downward trend since August. The Central Bank of the Republic of Türkiye (CBRT) updated the bank's projections for inflation in 2023 and 2024, stating that a deceleration won't start until the second half of 2024: CBRT sees inflation to reach 65% at end-2023 and peak next May at a level as high as 75%, before slowing to 36% in 2024. Some analysts read this as a signal that tighter policy might be on the horizon and expect CBRT to increase its key policy rate to 40% by next year. Governor Erkan listed the stabilization of domestic demand and increased demand for the lira among the factors which are expected to put a cap on prices. After the data release, the lira saw little changes.

Turkish inflation surprises downward



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Global Financial Indicators

11/3/23 8:50 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4322	1.9	5	2	16	13
Europe		4182	0.1	4	2	16	10
Japan		31950	1.1	4	2	15	22
China		3584	0.8	1	-3	-5	-7
Asia Ex Japan		63	1.6	3	0	11	-3
Emerging Markets		38	1.8	3	1	9	-1
Interest Rates			basis points				
US 10y Yield		4.54	-9.5	-30	-26	39	66
Germany 10y Yield		2.66	-4.6	-18	-31	41	9
Japan 10y Yield		0.93	0.0	5	16	67	50
UK 10y Yield		4.32	-3.8	-22	-27	80	65
Credit Spreads			basis points				
US Investment Grade		158	0.9	-5	2	-21	-1
US High Yield		450	7.8	-27	-2	-30	-30
Exchange Rates			%				
USD/Majors		105.42	-0.7	-1	-1	-7	2
EUR/USD		1.07	0.9	1	2	10	0
USD/JPY		149.3	-0.8	0	0	1	14
EM/USD		47.6	0.5	2	3	-3	-5
Commodities			%				
Brent Crude Oil ($/barrel)		87.7	1.0	-2	-2	5	8
Industrials Metals (index)		139	0.9	1	0	-4	-16
Agriculture (index)		65	0.7	0	2	-5	-5
Implied Volatility			%				
VIX Index (%, change in pp)		15.4	0.1	-5.9	-4.4	-9.9	-6.3
Global FX Volatility		7.7	0.0	-0.2	-0.8	-4.2	-3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		132	-6.1	-2	-19	-111	-73
Italy		187	-4.8	-11	-10	-31	-28
Portugal		67	-1.6	-6	-7	-31	-35
Spain		104	-1.5	-6	-6	-4	-6

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

Emerging Market Financial Indicators

Last updated: 11/3/2023 8:41 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		7.31	0.0	0.1	0	0	-6		2.7	1.5	-5	-4	-13	-38
Indonesia		15728	0.8	1.3	-1	0	-1		6.9	-21.4	-37	-16	-57	-8
India		83	0.0	0.0	0	0	-1		7.6	-2.1	-15	-20	(4.2)	16
Philippines		56	1.1	1.5	1	5	-1		5.9	2.5	2	10	6	-9
Thailand		36	0.6	1.4	4	6	-3		3.2	-3.0	-8	-14	7	62
Malaysia		4.73	0.5	1.1	0	0	-7		4.0	-2.3	-15	-4	-36	-6
Argentina		350	0.0	0.0	0	-55	-49		109.0	82.2	163	-922	1473	2080
Brazil		4.90	1.1	2.3	5	4	8		11.6	-7.3	-10	-55	-9	-95
Chile		884	0.5	5.5	4	7	-4		5.7	-7.3	-29	-12	-63	41
Colombia		4047	1.5	2.0	3	24	20		8.7	0.0	-54	-87	-290	-111
Mexico		17.39	0.7	4.1	4	13	12		9.5	0.5	-8	-11	19	78
Peru		3.8	1.9	2.6	1	5	1		7.4	-0.4	-33	-8	-87	-61
Uruguay		40	-0.2	-0.4	-3	1	0		9.8	0.1	-6	29	-153	-84
Hungary		356	1.1	2.1	5	17	5		7.0	-24.0	-59	-45	-421	-260
Poland		4.16	0.7	1.7	6	16	5		4.8	-5.0	-23	-19	-263	-135
Romania		4.6	0.7	1.1	2	8	-1		6.7	-8.0	-16	-6	-228	-98
Russia		92.9	0.4	1.5	7	-33	-20							
South Africa		18.3	0.7	3.0	6	1	-7		9.6	-7.0	-33	-55	4	39
Turkey		28.41	-0.2	-0.7	-3	-34	-34		30.3	33.0	84	382	1886	2045
US (DXY; 5y UST)		106	-0.6	-1.0	-1	-7	2		4.52	-11.8	-25	-28	15	51

	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		3584	0.8	1	-3	-5	-7		166	-5	-3	-40	-11
Indonesia		6789	0.6	0	-1	-4	-1		132	-4	9	-65	-8
India		64364	0.4	1	-2	6	6		131	-5	-6	-78	-11
Philippines		5989	0.3	-1	-4	-3	-9		109	-5	10	-43	12
Thailand		1420	1.1	2	-1	-13	-15		0	0	0	0	0
Malaysia		1450	0.7	1	2	1	-3		95	0	-1	-23	-5
Argentina		654095	6.1	-3	17	335	224		2552	18	-46	-28	347
Brazil		115053	1.7	2	0	-2	5		217	-4	-4	-61	-57
Chile		5461	1.0	-1	-4	5	4		144	-1	18	-30	12
Colombia		1098	0.8	0	0	-10	-15		303	-40	-37	-162	-69
Mexico		49788	1.5	2	-3	-2	3		359	-12	-13	-52	-22
Peru		21792	-0.1	-1	-2	4	2		157	-6	2	-44	-23
Hungary		56947	0.7	1	2	36	30		195	-11	-13	-75	-27
Poland		72296	0.6	2	13	42	26		112	-8	-12	57	39
Romania		14485	1.2	2	1	34	24		198	-25	-12	-135	-57
South Africa		72150	1.1	4	2	9	-1		360	-42	-35	-55	-7
Turkey		7623	-0.5	-1	-10	86	38		363	-37	-29	-170	-77
Ukraine		507	0.0	0	0	-2	-2		3423	-352	-44	-1079	-656
EM total		38	1.1	3	1	9	-1		394	-16	-6	-51	18

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

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