GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 25, 2023

LEAD EDITOR: BENJAMIN MOSK

- **Investors are keenly awaiting more big-tech earnings after mixed results, hedge risks** (link)
- **China raised its 2023 budget deficit to 3.8% of GDP, approved 1tn yuan debt issuance** (link)
- **China's Country Garden is deemed in default on its dollar debt** (link)
- **Hungarian forint weakens after Hungary cuts its base rate by 75bps** (link)
- **S&P Global Ratings yesterday lowered Israel's credit outlook to negative** (link)

Mature Markets | Emerging Markets | Market Tables

Big-tech earnings take center stage as Treasury markets seek direction

Highly anticipated big-tech earnings results showed a mixed picture. Tuesday after market close, Alphabet and Microsoft released their earnings results, while Meta's results will be presented today, followed by Amazon on Thursday. Results so far were mixed, and the Nasdaq is set to open lower with futures trading at -0.5%. Technology stocks have been responsible for the lion-share of US stock index advances this year, and now face investor scrutiny on whether strong expectations are backed by results. In the meantime, sovereign yields in the US as well as in the euro area have traded sideways and slightly up after their sudden reversal last Monday. On Monday morning, the 10-year Treasury yield briefly breached the 5% level, but then declined sharply during a volatile trading session. On Tuesday, the S&P US purchasing managers' index came in somewhat higher than expected, and investors may seek further direction in tomorrow's US GDP print for Q3.

Key Global Financial Indicators

Last updated: 10/25/23 8:28 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4248	0.7	-3	-2	10	11
Eurostoxx 50		4073	0.2	-1	-2	14	7
Nikkei 225		31270	0.7	-2	-3	14	20
MSCI EM		37	1.3	-2	-3	9	-2
Yields and Spreads				bps			
US 10y Yield		4.86	4.1	-5	33	76	99
Germany 10y Yield		2.85	2.2	-8	5	68	28
EMBIG Sovereign Spread		447	-12	5	25	-121	-5
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.7	-0.1	1	-1	-4	-6
Dollar index, (+) = $ appreciation		106.4	0.1	0	0	-4	3
Brent Crude Oil ($/barrel)		88.4	0.3	-3	-5	-5	3
VIX Index (%, change in pp)		18.9	0.0	0	2	-10	-3

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

Mature Markets

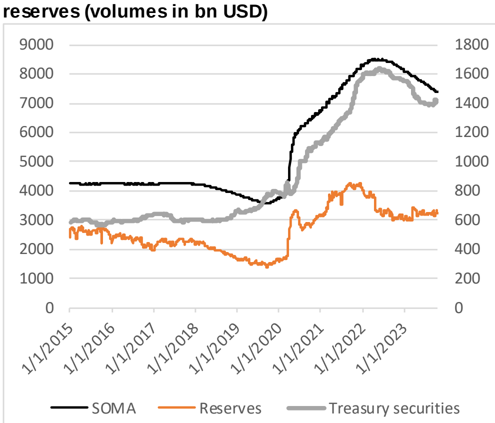
back to top

United States

Investors are keenly awaiting more upcoming big-tech earnings releases, yet hedge risks. Post market-close on Tuesday Microsoft's Q1 results exceeded expectations due to its robust cloud business, pushing shares up 5%. However, Alphabet's shares fell nearly 7% as its cloud business fell short of estimates. The market is awaiting upcoming results from Meta and Amazon. The five largest tech companies in the S&P 500 Index have driven the much of the index's 10% gain this year with additional contributions from Tesla and Meta. Bloomberg projected Q3 profit growth of 34% for the tech giants, comparted to a 5% decline for other companies in the index. Alphabet's share price drop heightens investor anxiety. Apple and Nvidia (reporting in November) have seen over 10% declines from recent peaks as investor scrutiny increases. The options market shows investors leaning towards protection from potential share-price drops, with an increase in the cost of puts relative to calls for megacap tech shares.

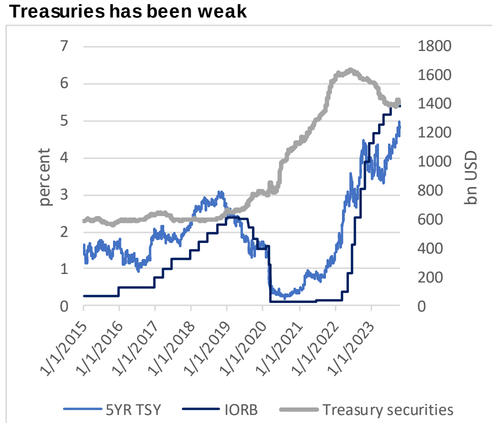
US banks have shed Treasuries over Reserves over the past year. Some market analysts consider that the recent rise in Treasury yields partially reflects a shift of Treasury demand away from price-insensitive investors. The Federal Reserve is given as a prime example of such an investor, as it absorbed significant volumes of Treasuries during the period of quantitative easing (QE) and the reverse during quantitative tightening (QT). The US banking sector provides another example. Following the pandemic crisis, banks have accumulated large Treasury holdings and started to shed them in the current hiking cycle. While doing so, banks preserved Reserves. This contrasts with the previous hiking cycle, when banks held on to Treasuries, but Reserves declined. Morgan Stanley analysts have noted that in this aggressive hiking cycle, Reserves, which are zero-duration assets, yield more than the 5-year Treasury yield. This negative carry has led to a decrease in bank demand for US Treasuries relative to Reserves.

While banks shed Treasury holdings, they preserved reserves (volumes in bn USD)



Source: Federal Reserve, Bloomberg and IMF Calculations

With Reserve returns higher than Treasuries, demand for Treasuries has been weak



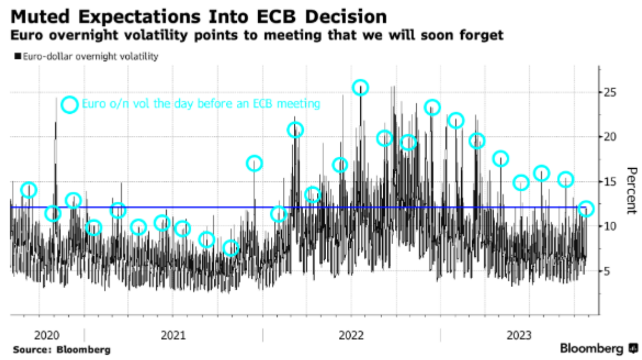
Source: Federal Reserve, Bloombeerg and IMF Calculations

Canada

The Bank of Canada (BoC) is expected to keep its policy rate on hold at 5% at its monetary policy decisions later today. Analysts expect the BoC to remain on hold for the remainder of the year.

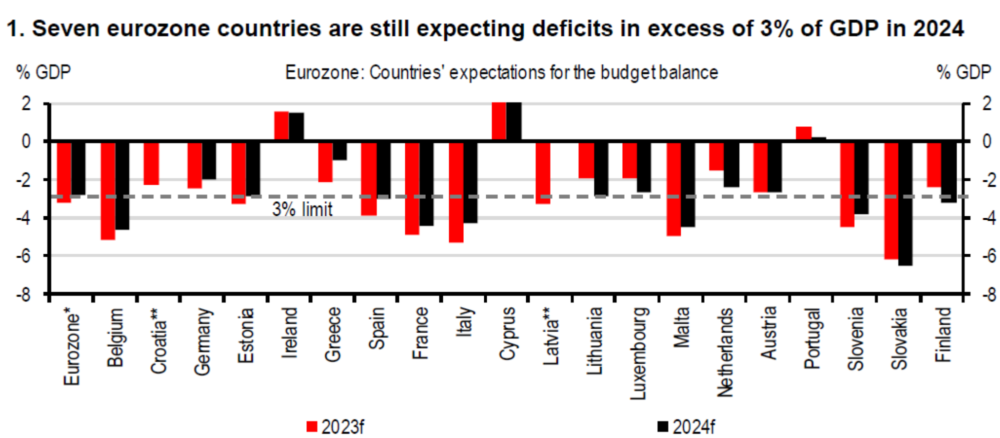
Euro Area

European equities were mixed with the Stoxx 600 equity index down 0.2% and sovereign yields edged higher (10-year bund +3 bps to 2.86%). On the data front Germany's Ifo index surprised to the upside in October. Separately, data released this morning showed that euro area bank lending remained weak in September. The growth rate of loans to non-financial corporates fell to 0.2%y/y (from 0.7%).



The euro continued to weaken (-0.2% to 1.057/$), after closing 0.8% weaker yesterday with the dollar sharply stronger after PMI data added to evidence of US economic outperformance. US PMI data released yesterday surprised on the upside, while composite PMI data in euro came in lower than expected, with both services and manufacturing declining. Ahead of the ECB decision tomorrow, Bloomberg analysts highlight that euro overnight volatility is at a relatively low level compared to past ECB meetings, suggesting that euro option traders to not expect any surprises from the ECB meeting. The euro overnight volatility now is at its lowest level on the day prior to an ECB policy meeting since February 2022.

Budgetary plans from euro area countries could contribute to the ECB maintaining a hawkish bias in the near term, with risks of possible further rate hikes in 2024. Based on countries' draft budgetary plans**,** HSBC analysts estimate that that fiscal consolidation next year will amount to at most 0.4% of GDP, falling short of the 0.8% of GDP fiscal consolidation that the ECB factored into its September forecast. Analysts also highlight that concerns around the ability of the market to absorb high issuance needs for some countries could persist. Moreover, HSBC analysts note that at least seven countries should, in theory, go under the EU Excessive Deficit Procedure (EDP) in spring 2024. If there is no agreement on new fiscal rules by December, countries could escape an EDP, but analysts caution that countries might face market pressure. ECB's President Lagarde earlier this week reportedly said that a delay in an agreement on how to interpret the EU's Stability and Growth Pact risks adding pressure for further monetary policy moves.



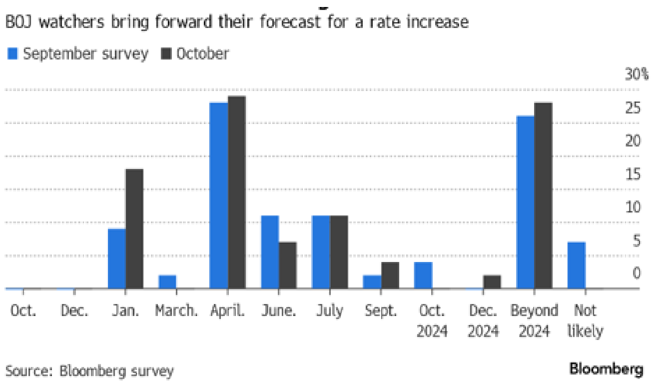
Source: Draft Budgetary Plans (DBPs) by the countries, HSBC.
* HSBC calculations based on the aggregation of the available DBPs to date. ** 2024 not available.

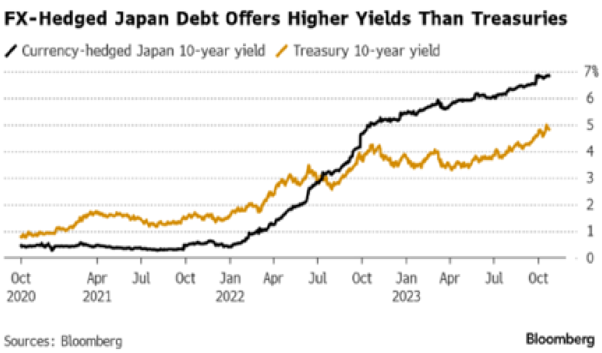
Israel

S&P Global Ratings yesterday lowered Israel's credit outlook to negative, citing risks that the Israeli-Hamas conflict could spread and have a more pronounced impact on Israels economy. This follows a decision by Moody's Investor Service last week to place Israel's credit rating on review for downgrade, and Fitch Ratings placing Israel's foreign- and local-currency issuer default ratings on negative watch. The Israeli Shekel continued to weaken against the dollar this morning (-0.1% to 4.064), and is now roughly 5.5% weaker than at the start of the month.

Japan

Analysts expect the accommodative monetary stance to remain intact at next week's Bank of Japan (BoJ) meeting. Only 18% of Bloomberg survey respondents expect the BoJ to adjust or scrap YCC in the upcoming meeting. However, a BoJ's rate hike is seen coming earlier, with 70% predicting a change in policy settings by April, a jump from 58% in September's survey. Meanwhile, BOJ officials are closely monitoring bond yield movements up till the last minute before its policy meeting next week and see possibility of adjusting the ceiling for 10-year bond yields among other options, Bloomberg reported. 10-year bond yields rose slightly +0.6bps. Some market participants noted US Treasuries look not as attractive on a currency-hedged basis, and global funds may be waiting for the right time to buy given a possible BoJ policy tweak. Japanese equities extended gains today by +0.6% with most sectors advancing.





Emerging Markets

back to top

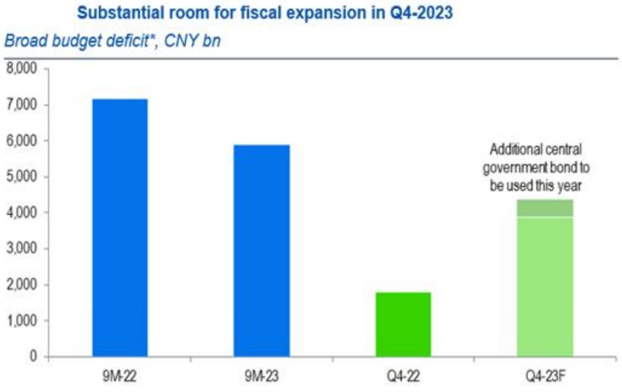
EMEA equities were mixed while currencies were mostly weaker. Equities in Egypt (+2.9%) and the U.A.E. (+2.3%) outperformed, while those in Türkiye (-0.8%) and South Africa (-0.6%) declined. The South African rand depreciated (-0.5% to 19.14/$) with contacts pointing to concerns that China's stimulus would not be enough to boost China's economy and also concerns ahead of South Africa's budget statement next week. The Hungarian forint continued to depreciate against the euro (-7% to 385.80) in the aftermath of the monetary policy meeting yesterday. **Asian equities were mixed, little changed on net.** Thailand gained +1.2%, followed by China and Hong Kong SAR (+0.5%) as both announced further measures to support economies. India (-1%) and South Korea (-0.9%) saw losses. **Australia**'s September CPI's inflation surprised on the upside, reached +5.6% y/y (consensus: 5.3%, previous: 5.2%). This raised expectations of a possible rate hike in November. **Hong Kong SAR announced a slew of measures to revive the city's property market and protect its national security.** Property purchase tax for foreigners will be cut to 15% (previous: 30%), while for city residents buying a second home tax will be cut for to 7.5% (previous: 15%). Hong Kong SAR equities gained +0.5%. **Currencies in Chile (+0.6%), Brazil (+0.4%), and Colombia (+0.3%) were among the best performers for EMs on Tuesday.** The Chilean peso is extending a two-day rally after traders raised MP rate forecasts, and rising copper prices (+1.4%) spurred peso demand. A stronger greenback was tough enough to bring down the Mexican peso (-0.6%). Equities in Latam mainly ended Tuesday in positive territory, especially in Brazil (+0.9%), Chile (+1%), and Mexico (+0.2. Paraguay cuts its key monetary policy rate to 25bps to 7.75%.

China

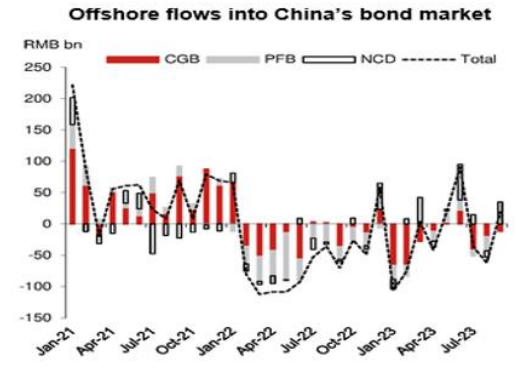
China's National People's Congress standing committee revised the 2023 annual budget deficit upwards to 3.8% of GDP from 3% previously. The revision implies an additional 1tn yuan ($137bn) of debt issuance in Q4 2023. Analysts noted that it was rare for China to adjust the budget mid-year, and that the government probably no longer binds itself to the 3% deficit ceiling. Market participants thought the growth impact will be modest this year, but the 2024 growth target is likely to be set near 5%. The forthcoming issuance of government bonds could exert upward pressure on yields in the short term. Some analysts expect People's Bank of China to cut reserve requirement ratio by 50bps in 4Q to boost liquidity and accommodate the additional debt supply. Equities rose +0.5% bolstered by the fiscal support package.

Country Garden is deemed in default on its dollar bond. A notice to holders from trustee Citicorp International stated Country Garden's failure to pay interest on the note within a grace period "constitutes an event of default," Bloomberg wrote. The builder has reportedly hired advisers to review its capital structure. The discussion to determine if CDS should be triggers is expected on Wednesday at noon London time.

O**ffshore bond flows turned positive in September**. Foreign investors net bought +18.9bn yuan (+$2.6bn) of China bonds last month, after selling of -62.1bn yuan in August. Most of the inflows towards short-term instruments, e.g., negotiable certificates of deposits (NCDs) rather than high-grade bonds, Nomura noted.



* Based on our calculation following widely accepted fiscal accounting, covering general public and government funds budget; 2022 numbers are based on actual implementation; Source: CEIC, MoF, Standard Chartered Research

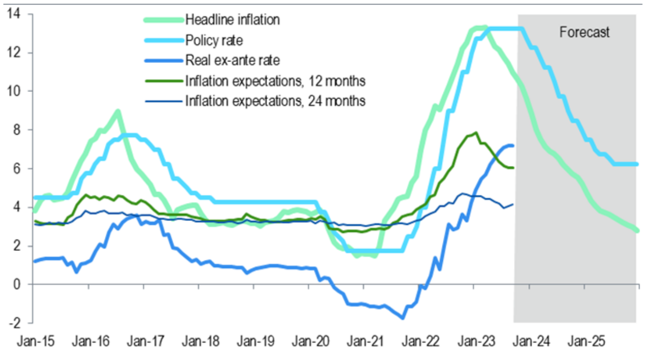


Source: CEIC, Bloomberg, Nomura

Colombia

The central bank of Colombia is expected to keep its policy steady at 13.25% at its monetary policy meeting next Tuesday according to analysts at Standard Chartered. Previously estimating that the central bank would initiate its first 50bps cut after several holds, analysts now expect the Banco de la República (BanRep) to hold again given inflation is still elevated at 11% y/y. The tradeoff of holding rates is slowing growth in an environment where economic activity fell to 0.2% y/y (from 1.2%) according to a report last week. Potential rising food and energy prices along with sticky services inflation, could keep falling inflation expectations elevated. Looking forward, market analysts expect a 50bps rate cut in December and further cuts into mid-2024.

Figure 1: Double-digit inflation prints support keeping the policy rate on hold
Inflation and inflation expectations, % y/y; policy rate and real ex-ante rate, %

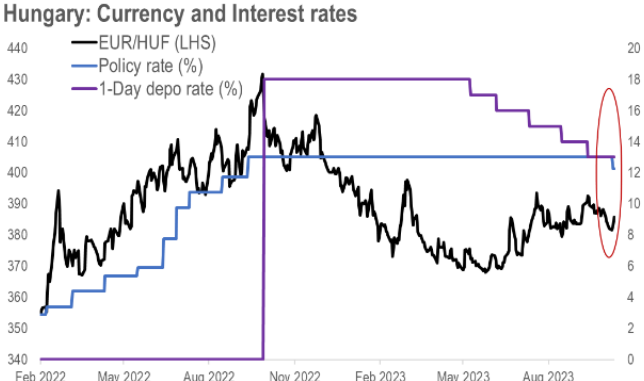


Source: Bloomberg, Standard Chartered Research

Hungary

The Hungarian forint underperformed after the central bank cut its base rate by 75bps to 12.25%. Bloomberg consensus had expected a 50bps base rate cut, although several market participants had anticipated a 75bps cut. The upper and lower bounds of the corridor were also cut by 75bps to 14% and 12% respectively. The policy statement highlighted strong disinflation and a reduction in Hungary's vulnerability, which contacts see as referring to forint strength and an improvement in external balances. Deputy governor Virag said that future decisions will be made on a step-by-step basis, but also signaled that a base rate of 11% by end-2023 was realistic. JP Morgan analysts now expect the central bank to cut the base rate by a further 75bps at the upcoming policy meeting in November, and then scale down the pace of easing to 50bps steps starting in December. The forint snapped a six-day strengthening streak in the aftermath of the decision, closing roughly 0.4% weaker against the euro, and continued to weaken this morning (-0.7% to around 385.79/€). The forint remains roughly 3.6% stronger than at the start of the year.

Hungary: Currency and Interest rates



Source: Bloomberg and IMF calculations

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Global Financial Indicators

10/25/23 8:27 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
United States		4243	0.7	-2	-2	10	10
Europe		4073	0.2	-1	-2	14	7
Japan		31270	0.7	-2	-3	14	20
China		3504	0.5	-3	-5	-4	-9
Asia Ex Japan		63	1.5	-2	-2	13	-3
Emerging Markets		37	1.3	-2	-3	9	-2
Interest Rates				basis points			
US 10y Yield		4.86	4.1	-5	33	76	99
Germany 10y Yield		2.85	2.2	-8	5	68	28
Japan 10y Yield		0.86	0.8	5	12	60	44
UK 10y Yield		4.55	0.8	-11	23	91	88
Credit Spreads				basis points			
US Investment Grade		158	-0.3	0	14	-28	0
US High Yield		463	-0.2	6	41	-31	-17
Exchange Rates				%			
USD/Majors		106.42	0.1	0	0	-4	3
EUR/USD		1.06	-0.2	0	0	6	-1
USD/JPY		149.9	0.0	0	1	1	14
EM/USD		46.7	-0.1	1	-1	-4	-6
Commodities				%			
Brent Crude Oil ($/barrel)		88.4	0.4	-3	-4	8	8
Industrials Metals (index)		137	0.4	1	-2	-5	-17
Agriculture (index)		66	0.2	0	1	-3	-5
Implied Volatility				%			
VIX Index (%, change in pp)		18.9	0.0	-0.3	2.0	-9.5	-2.7
Global FX Volatility		8.1	0.0	0.0	0.1	-4.1	-2.6
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		140	-2.9	-10	-6	-112	-65
Italy		203	3.4	-2	17	-17	-11
Portugal		72	-0.1	-1	-3	-29	-30
Spain		112	1.0	-1	5	4	3

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

Emerging Market Financial Indicators

Last updated: 10/25/2023 8:26 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		7.32	-0.1	0.0	0	-1	-6		2.7	-3.4	-4	-2	-10	-33
Indonesia		15870	-0.1	-0.9	-3	-2	-2		7.2	-1.5	36	48	-43	31
India		83	0.0	0.1	0	-1	-1		7.8	-2.0	0	-3	14.7	31
Philippines		57	-0.2	-0.3	0	3	-2		5.8	2.5	4	0	1	-17
Thailand		36	-0.1	0.3	0	6	-4		3.4	2.0	-4	14	16	77
Malaysia		4.78	0.1	-0.7	-2	-1	-8		4.1	-0.8	5	15	-41	8
Argentina		350	0.0	0.0	0	-56	-49		106.6	20.2	136	-939	1609	1840
Brazil		4.99	0.1	1.4	-1	7	6		11.8	-0.1	-6	7	-16	-78
Chile		924	0.5	2.1	-2	4	-8		6.2	6.0	22	57	-31	88
Colombia		4217	0.2	-0.6	-4	18	15		9.4	0.0	-8	44	-176	-38
Mexico		18.26	0.0	-0.1	-5	9	7		9.6	0.0	-4	24	26	89
Peru		3.9	0.0	-0.3	-2	4	-1		7.7	-1.6	-3	61	-93	-27
Uruguay		40	-0.1	0.0	-4	3	0		9.9	1.2	7	56	-164	-79
Hungary		364	-0.6	0.1	1	14	3		7.6	1.0	18	57	-324	-201
Poland		4.24	-0.6	-0.3	3	13	3		5.1	-5.5	5	25	-225	-108
Romania		4.7	-0.1	0.5	0	5	-2		6.9	-6.7	0	23	-258	-81
Russia		93.4	0.2	4.9	3	-34	-21							
South Africa		19.1	-0.4	-0.7	-2	-5	-11		9.9	1.2	-16	21	29	76
Turkey		28.12	0.0	-0.4	-3	-34	-33		29.1	3.0	-17	292	1808	1927
US (DXY; 5y UST)		106	0.1	-0.1	0	-4	3		4.84	2.2	-9	23	58	84

	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		3504	0.5	-3	-5	-4	-9		169	2	-13	-45	-8
Indonesia		6834	0.4	-1	-1	-3	0		130	8	-5	-83	-10
India		64049	-0.8	-4	-3	8	5		137	1	0	-82	-5
Philippines		6055	0.2	-3	-3	-1	-8		107	8	-4	-74	10
Thailand		1402	0.8	-2	-6	-12	-16		0	0	0	0	0
Malaysia		1443	0.5	0	0	-1	-4		95	0	-2	-29	-5
Argentina		654136	-6.7	-21	19	354	224		2502	120	132	-26	297
Brazil		113762	0.9	-2	-2	-1	4		218	-1	-9	-57	-56
Chile		5558	1.0	-4	-4	8	6		143	1	17	-41	11
Colombia		1106	-0.3	-3	0	-9	-14		342	-2	17	-160	-30
Mexico		48279	0.2	-3	-6	-1	0		367	3	0	-56	-14
Peru		22213	1.2	0	-2	7	4		163	4	9	-53	-17
Hungary		56934	1.6	0	3	40	30		205	16	15	-114	-17
Poland		70299	1.5	0	7	47	22		124	16	-1	41	51
Romania		14193	0.1	0	-2	30	22		219	11	15	-158	-36
South Africa		70454	-0.2	-2	-4	7	-4		393	3	13	-83	26
Turkey		7782	-2.6	-1	-6	96	41		390	-1	7	-181	-50
Ukraine		507	0.0	0	0	-2	-2		3765	98	487	-462	-314
EM total		37	-0.8	-2	-3	9	-2		406	5	21	-59	30

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

back to top