GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

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Markets consider ECB hike as dovish

This morning, the ECB hiked its key interest rates by 25 bps. The market implied probability of an ECB rate hike increased from 38% at the start of the week to 67% prior to the announcement. Catalyst for this sharp repricing was a rumor that the ECB will raise its inflation forecast for 2024 from 3% y/y in the June forecast to above 3%. Today's release showed that the inflation forecast for 2024 was adjusted upwards to 3.2% y/y, on the account of higher-than-expected energy prices. The ECB stated that it believes that interest rates have now reached levels that, when maintained for a sufficiently long duration, will make a "substantial contribution to the timely return of inflation to the target". Market reports interpreted this as an "ECB is done hiking" message. Euro area government bond yields fell across the board after the release, and the euro weakened versus the US dollar. Bloomberg writes that currency analysts think that euro weakness will be prolonged, even with this rate hike. Yesterday's highly anticipated US CPI release for August turned out to be a non-event from the markets-perspective. Inflation came in slightly higher than expected, but despite this, Treasury yields declined across the board. Some analysts did marginally increase their core inflation forecast for the year (e.g., by 10 bps).

Key Global Financial Indicators

Last updated: 9/14/23 8:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4467	0.1	0	0	13	16
Eurostoxx 50		4231	0.2	0	-2	19	12
Nikkei 225		33168	1.4	1	3	19	27
MSCI EM		39	-0.1	0	-1	1	3
Yields and Spreads					bps		
US 10y Yield		4.27	2.6	3	8	87	40
Germany 10y Yield		2.60	-4.5	-1	-3	89	3
EMBIG Sovereign Spread		423	1	2	24	-64	-29
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.6	-0.1	1	0	-4	-5
Dollar index, (+) = $ appreciation		104.9	0.2	0	2	-4	1
Brent Crude Oil ($/barrel)		93.3	1.5	4	8	-1	9
VIX Index (%, change in pp)		13.3	-0.2	-1	-2	-13	-8

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

Initial jobless claims came in lower than expected at 220k (225k surveyed) but still above last week's print of 217k (revised), which was a six-month low. Retail sales growth for August came in higher than expected at 0.6% m/m, significantly above Bloomberg's consensus of 0.1%. Treasury yields showed volatility after the release, but after a short-lived spike only a marginal yield-increase in the front end of the curve remained in the thin early morning market.

Event	Reference period	Survey	Actual	Prior
Retail sales advance m/m	Aug.	0.1%	***0.6%***	0.7%
Initial jobless claims	week ending Sep. 9	225k	***220k***	216k (revised 217k)
Continuing claims	week ending Sep. 2	1690k	***1688k***	1679k (revised 1684k)

Source: Bloomberg L.P.

US equities may be overvalued in a higher-for-longer scenario. This year's equity rally, which occurred despite higher real rates and cost of capital, seems to have become "increasingly unsustainable" according to JP Morgan (JPM) analysts. At the current level of rates, P/E ratios are overvalued by 2.7x (or 3.9x if the Covid and dot-com bubbles are removed). Furthermore, the equity risk premium has compressed and is now at the 4th percentile relative to post global financial crisis (GFC) history. Forward multiples would require a 12% earnings growth to return to a normal range; a growth number that seems a "high hurdle for this aging business cycle". Overall, there appears to be multiple warnings signs that a sharp correction might be due as fundamentals seems disconnected from current market pricing.

Figure 5: S&P 500 Implied Equity Risk Premia (ERP)

Data as Sep 8, 2023

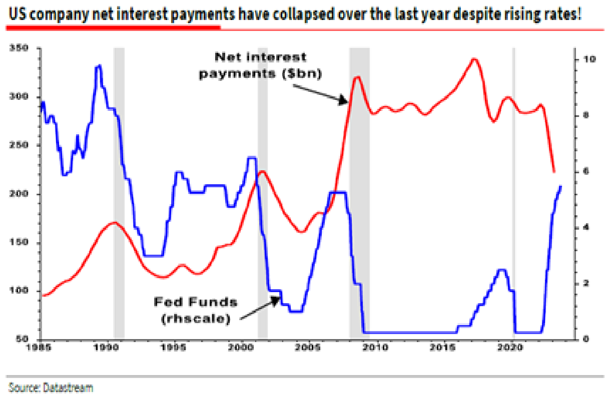
Source: J.P. Morgan Equity Macro Research

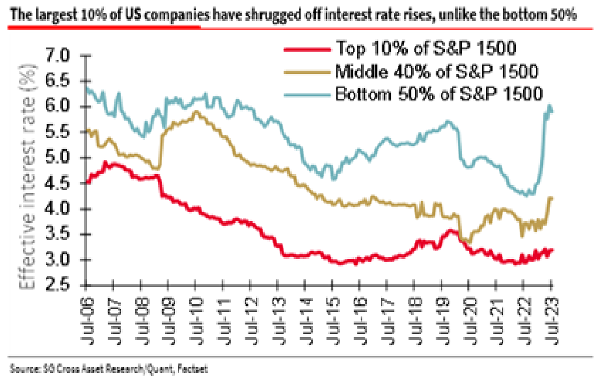
Figure 6: Valuation Extreme relative to Business Cycle

US QMI is the leading business cycle indicator

Source: J.P. Morgan Equity Macro Research

Net interest payments show a divergent picture across firm sizes. Corporate net interest payments have declined despite the increase in rates—a puzzle highlighted by Société Générale (SG) in a recent report. SG believes that firms have been able to continue to benefit from paying rates that were locked-in during 2020/21, whilst they are earning interest on their cash at current rates. On the net, this reduces their interest payments. Furthermore, a closer look shows that the top 10% of firms in the S&P 1500 index, representing 62% of total market cap, have felt no pressure from increased rates. At the same time, the bottom 50% have seen an increase of close to 150bps on their effective net interest rate paid. SG believes that this explains the current environment of rising bankruptcies despite little movement in spreads.



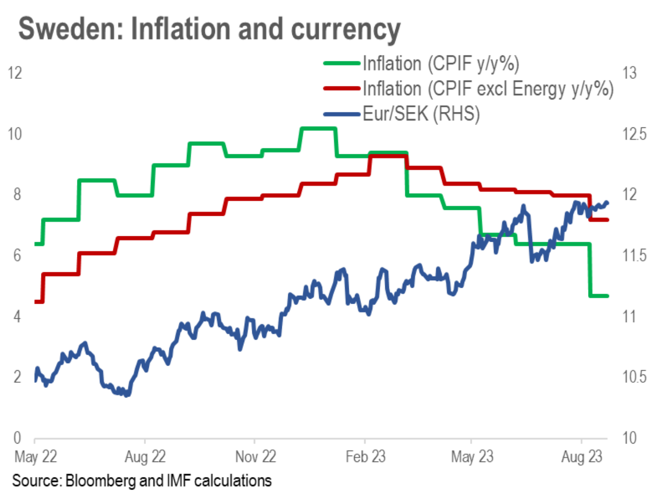


Euro Area

Core sovereign yields declined (10-year bund -5bps to 2.60%) after the ECB hiked key rates by 25 bps to take the deposit rate to 4% with guidance seen as suggesting that this was the final hike. Views on whether the ECB would hold or hike rates were almost evenly split across analysts, with a narrow majority having expected rates to remain unchanged. While noting that inflation has continued to ease, the monetary policy statement reiterated that inflation is still expected to remain too high for too long. Eurosystem staff now forecast headline inflation at 5.6% y/y average in 2023 (prior forecast 5.4%) and at 3.2% in 2024 (prior forecast 3%), while growth forecasts were revised downward. The euro initially appreciated on the announcement but weakened in later trade as the markets digested the policy statement (-0.3% to 1.07 against the dollar).

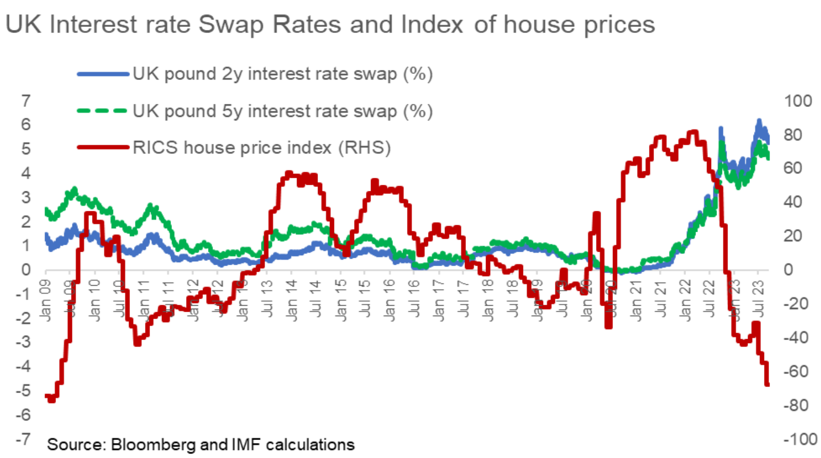
Sweden

August's CPIF inflation surprised to the downside, but analysts still expect the Riksbank to hike rates in September. Data released this morning showed core CPIF inflation easing to 7.2%y/y (versus expected 7.4% from 8.0%) and headline inflation easing to 4.7% (versus expected 4.9% from 6.4%). The Swedish krona was little changed after the data release and has weakened by roughly 6.5% against the euro so far this year. ING analysts argue that downside risk to the exchange rate as a result of the faster-than-expected disinflation could be larger than the observable immediate FX reaction. Against this backdrop analysts expect the Riksbank to hike the policy rate at the upcoming policy meeting, set to take place next week, and to also signal further tightening. However, analysts are less convinced that the central bank could deliver such a hawkish message after the inflation data.



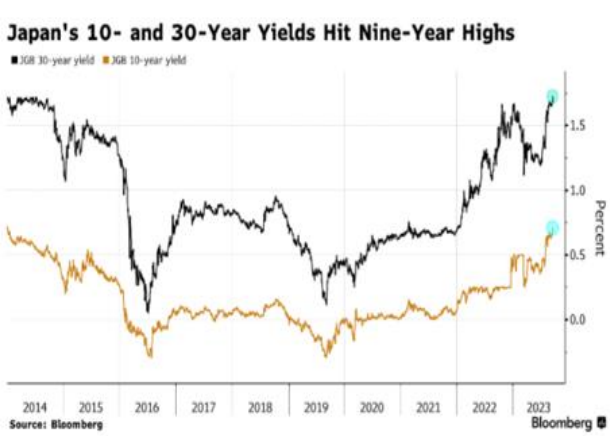
United Kingdom

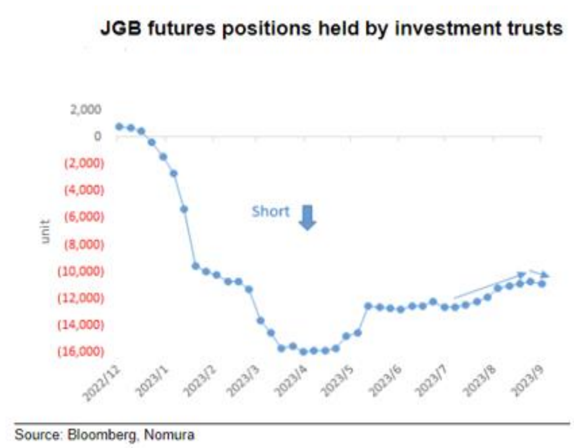
An index measuring the expected monthly change in UK house prices fell to its lowest level since 2009 against a backdrop of high mortgage rates. In the meantime, rental prices are expected to increase in the coming three months as a result of a supply and demand mismatch. The RICS house price index fell by 13ppts to -68 in August, with newly agreed sales falling to the weakest level since the pandemic. The survey also showed that respondents expect near-term sales to remain subdued, while on a 12-month view the trend in home sales is expected to flatten out. Contacts have recently cautioned that the potential for spillovers to other UK assets appears to have increased—while the correction in house prices to date have been well-flagged in advance and thus have been broadly unsurprising, going forward analysts see a period of higher uncertainty. The pound was trading slightly weaker against the US dollar (-0.1% to 1.248) this morning, and gilt yields eased (10-year gilt -3bps to 4.3%).



Japan

Japanese equities gained +1.2%. The TOPIX equity index reached a 33-year high driven by the energy and real estate sectors. By contrast, core machine orders contracted more than expected -13% y/y (consensus: -10.3%, previous: -5.8%). **Japanese investors have bought the largest amount of overseas bonds in more than three years last week.** The Ministry of Finance reported that net purchases totaled ¥3.6tn ($24.6bn), the largest outflow since March 2020. Foreign investors sold ¥855 bn of Japanese stocks, the most since March this year, and bought ¥79.3 bn of Japanese bonds. The 10-year government bond (JGB) yield was little changed hovering around multi-year highs. **Recent comments by central bank officials have boosted market expectations that rates could move higher and triggered establishment of new bearish (inverse) bond funds**, according to Nomura. The analysts estimated that investment funds marginally increased short provisions in JGB futures recently. The auction of 20-year notes registered strong demand with bid-cover ratio at 3.9, the highest since May 2020**.** About ¥1.2 tn ($8.2 bn) of bonds maturing in June 2043 were sold at an average yield of 1.433%, slightly down from the peaks seen after Governor Ueda hawkish statement. The yen appreciated +0.1% versus the US dollar.





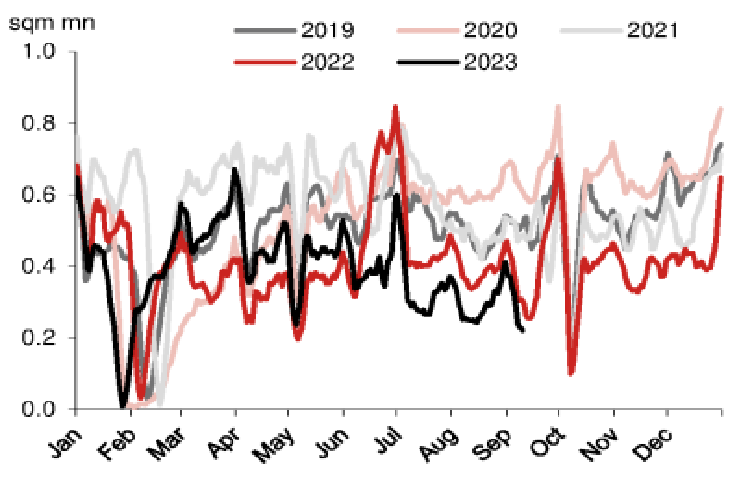
Emerging Markets back to top

Equity markets in EMEA were mixed while CEE currencies were weakening against the euro ahead of the ECB decision. Equities in Türkiye were underperforming (-1.6%) with banking stocks down -1.2% after the central bank raised the reserve requirement ratio for FX-linked deposits maturing in up to 6 months. The central bank of Ukraine cut their key rate by 2pp to 20%, as expected. **Asian equities rose by +0.7%** on aggregate, as the overnight US CPI report did not change the expectation for a Fed pause next week. South Korean (+1.5%) and Taiwanese equities (+1.4%) outperformed, led by the electronics sector. Vietnam bucked the trend (-1.2%). **Asian currencies were mixed.** South Korean won (+0.3%), Taiwanese dollar (+0.2%) followed equities narrative and led the gains. **India**'s bonds rallied amid speculation that it may be included in a key JP Morgan's EM bond index after. **Latin American currencies appreciated against the dollar** after US CPI came in slightly higher than expected. The Chilean peso (+1.31%) rallied after weakening past the 900 per dollar psychological barrier on Tuesday. Argentina's August CPI inflation reaches its highest level since 1991**.** Prices rose 124.4% y/y (122.4% expected) from 113.4% y/y in July. The central bank is expected to hold its key interest rate at 118% on Thursday. **The central bank of Peru will announce its monetary policy decisions on Thursday and is expected to cut its reference rate by 25 bps from 7.75% to 7.50%.**

China

Moody's downgraded the outlook for Chinese property sector from stable to negative. The agency cited economic challenges will offset government policy support for sales, which they expect to be short-lived and uneven. They expect a nationwide contraction of sales, with a decline by about -5% over the next six to 12 months. Meanwhile, Nomura noted that latest policy easing aimed to boost the property sector has yet to feed into high frequency data, as the fall in weekly new home sales volume deepened to -57%y/y in early September (previous: -31%). **The People's Bank of China (PBOC) asked some of the biggest lenders to refrain from immediately squaring off their foreign exchange positions.** PBOC told banks to run open positions to relief downside pressure on the yuan, and to not square off foreign-exchange positions after any US dollar sales to clients until spot reaches a certain level, Reuters reported. 10-year government bond yields were little changed and Chinese stocks declined marginally by -0.1%. Offshore renminbi depreciated -0.1%, while onshore was little changed.

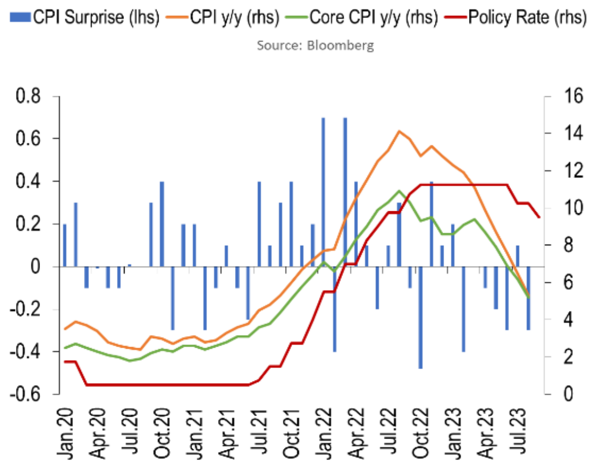
New home sales volume in major cities: 7dma



Note: Major cities include four tier-1 cities, nine tier-2 cities and eight lower-tier cities.
Source: Wind, Nomura Global Economics.

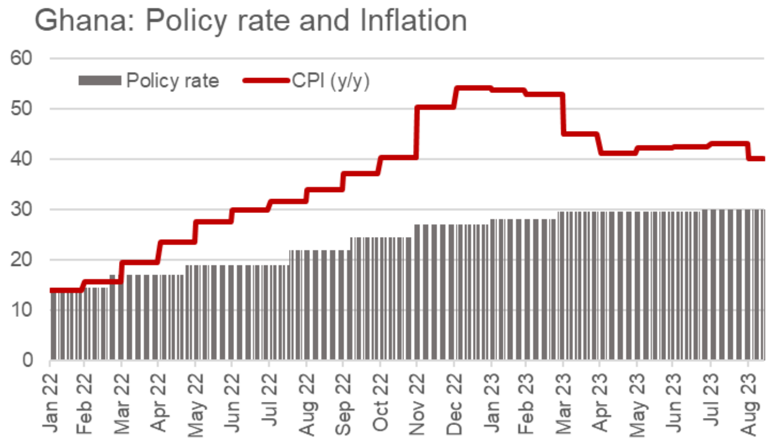
Chile

Chilean assets rally after Finance Minister states that the stabilization of the economy after a period of elevated inflation is almost complete. Finance Minister Mario Marcel highlighted that inflation is about 1/3 of the level from a year ago, due to the combination of both fiscal and monetary policy working to stabilize the economy. The peso (+1.31%) outperformed regional peers and other emerging market currencies on Wednesday. The country's IPSA equity index (+0.49%) experienced gains following the announcement. Marcel also mentions that Chile is still experiencing strong demand for copper, even as the Chinese economy has been slowing. Inflation is expected to reach 4% by year end, close to the central bank's target of 3%.



Ghana

Analysts expect the central bank to leave rates unchanged after August inflation surprised on the downside. Data released yesterday showed inflation unexpectedly easing to 40.1%y/y in August (versus expected 43.7% from 41.1%), with both food and non-food prices declining over the month. Absa analysts see the August inflation decline as marking a new deceleration phase in inflation, mainly because of base effects. Moreover, analysts see foreign currency risk as limited at this point. Against this backdrop Absa analysts expect the central bank to leave rates unchanged at the next policy meeting, even though they see a hike as a significant possibility. Goldman Sachs analysts also note that the inflation data supports their view that the hiking cycle is complete. The central bank of Ghana hiked rates by 50bps to 30% in their July policy meeting, and the next monetary policy committee meeting is set to take place later this month, with the press release scheduled for September 25. Separately, Ghana's government announced the reopening of its domestic debt exchange, according to media articles. The terms are reportedly identical to the original February 2023 debt exchange, in which roughly 85% of bondholders accepted the exchange.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

9/14/23 8:55 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4471	0.1	0	0	13	16
Europe		4231	0.2	0	-2	19	12
Japan		33168	1.4	1	3	19	27
China		3734	-0.1	-1	-3	-7	-4
Asia Ex Japan		65	-0.2	-1	-1	1	1
Emerging Markets		39	-0.1	0	-1	1	3
Interest Rates					basis points		
US 10y Yield		4.27	2.6	3	8	87	40
Germany 10y Yield		2.60	-4.5	-1	-3	89	3
Japan 10y Yield		0.72	0.3	6	10	46	29
UK 10y Yield		4.31	-3.7	-15	-26	118	64
Credit Spreads					basis points		
US Investment Grade		147	-0.7	-1	2	-14	-12
US High Yield		404	-6.7	-12	-7	-71	-76
Exchange Rates					%		
USD/Majors		104.95	0.2	0	2	-4	1
EUR/USD		1.07	-0.6	0	-2	7	0
USD/JPY		147.5	0.0	0	1	3	12
EM/USD		47.6	-0.1	1	0	-4	-5
Commodities					%		
Brent Crude Oil ($/barrel)		93.3	1.5	4	9	11	14
Industrials Metals (index)		144	1.0	1	4	-6	-13
Agriculture (index)		67	-0.1	0	1	-4	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.3	-0.2	-1.1	-1.5	-12.9	-8.4
US 10y Swaption Volatility		98.6	-3.1	-6.0	-20.1	-29.3	-27.1
Global FX Volatility		8.3	0.0	-0.2	-0.3	-3.0	-2.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		140	-1.0	4	14	-114	-66
Italy		178	-2.0	5	13	-51	-37
Portugal		74	-1.5	0	3	-30	-27
Spain		106	-1.1	2	4	-9	-3

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

Emerging Market Financial Indicators

Last updated: 9/14/2023 8:55 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		7.28	-0.1	0.7	0	-4	-5		2.7	0.6	-6	2	-7	-38
Indonesia		15355	0.1	-0.2	0	-3	1		6.6	-1.2	6	26	-49	-30
India		83	-0.1	0.2	0	-4	0		7.7	-5.5	9	15	14.1	27
Philippines		57	-0.1	0.1	0	1	-2		5.9	-1.6	-4	-4	24	-11
Thailand		36	-0.1	-0.5	-2	2	-3		3.1	-5.0	3	29	32	47
Malaysia		4.68	-0.1	-0.1	-1	-3	-6		3.9	-0.3	3	3	-20	-15
Argentina		350	0.0	0.0	0	-59	-49		121.4	3.2	351	2819	4169	3317
Brazil		4.91	0.0	1.3	1	5	7		11.4	1.5	-14	13	-53	-122
Chile		885	-0.3	0.0	-3	4	-4		5.3	-0.5	-18	-5	-130	-6
Colombia		3950	0.8	3.1	2	12	23		8.5	0.0	16	44	-122	-124
Mexico		17.19	-0.2	2.4	-1	16	13		9.0	-10.0	-6	34	31	29
Peru		3.7	0.1	0.0	0	5	3		6.9	0.3	-14	12	-130	-111
Uruguay		38	0.1	-1.0	-1	6	4		9.3	-0.6	6	32	-211	-134
Hungary		360	-0.6	0.5	-2	13	4		6.8	-1.5	-21	-31	-277	-277
Poland		4.34	-0.6	-0.3	-6	9	1		4.7	-0.6	-2	-20	-129	-148
Romania		4.7	-0.7	-0.5	-3	6	-1		6.6	6.5	2	0	-149	-108
Russia		95.7	0.5	2.7	5	-37	-23							
South Africa		19.0	-0.9	1.0	1	-8	-10		9.5	2.0	1	1	32	32
Turkey		26.95	0.0	-0.4	0	-32	-31		27.2	130.0	379	606	1581	1741
US (DXY; 5y UST)		105	0.2	-0.1	2	-4	1		4.42	3.7	5	6	82	42

	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		3734	-0.1	-1	-3	-7	-4		184	3	2	-16	7
Indonesia		6959	0.3	0	1	-5	2		136	11	21	-34	-4
India		67519	0.1	2	3	13	11		140	2	6	-19	-2
Philippines		6208	1.0	0	-2	-6	-5		112	10	21	-10	15
Thailand		1545	0.6	0	2	-6	-7		0	0	0	0	0
Malaysia		1450	-0.3	-1	-1	-1	-3		98	1	6	1	-2
Argentina		553410	2.8	-5	12	277	174		2176	-1	249	-150	-29
Brazil		118176	0.2	1	1	7	8		231	0	8	-58	-43
Chile		5916	0.5	1	-5	5	12		128	0	15	-46	-4
Colombia		1078	-0.5	1	-6	-12	-16		345	8	33	-47	-27
Mexico		51522	-0.7	-3	-3	10	6		360	-5	-2	-58	-21
Peru		22819	-0.2	-1	-2	18	7		161	8	17	-32	-19
Hungary		57423	0.4	1	3	39	31		198	3	13	-22	-24
Poland		66977	0.5	2	-5	33	17		130	14	23	104	57
Romania		14154	0.5	4	8	20	21		218	8	28	-66	-37
South Africa		73812	0.7	1	-3	9	1		381	-4	18	-36	14
Turkey		7800	-2.7	-6	1	126	42		402	10	15	-184	-38
Ukraine		507	0.0	0	0	-2	-2		3306	-147	35	-157	-773
EM total		39	-1.2	0	-1	1	3		383	3	24	-35	8

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

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