GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, SEPTEMBER 27, 2023

LEAD EDITOR: SANJAY HAZARIKA

- **Real rates in US are much more hawkish than the Fed dot plot** (link)
- **US durable goods data much stronger than expected** (link)
- **Treasury market in US tests key level for equity investors** (link)
- **China's central bank vows to support the renminbi** (link)
- **Widening Italian bond spreads in focus as worries grow about budget deficit** (link)
- **Corporate bond repurchases in US dry up as interest rates rise** (link)

Mature Markets | Emerging Markets | Market Tables

Markets stabilize but worries about the global economy persist

The MSCI World index of global equities fell below its 200-day moving average as risk assets sold off across the board yesterday and the US stock market fell to its lowest level since June. European stocks were mixed today, but US equity index futures finally showed signs of life after days of losses and moved into positive territory in early morning trading. Government bond yields in the US, euro area and the UK were slightly lower after reaching decade highs yesterday. All eyes are on the bond market, where a surge in yields has hit risk assets as investors adjust to the realization that the major central banks are likely to keep policy rates higher for longer than originally expected. Oil prices resumed their ascent, underlining market worries about the impact of high oil prices on the global economy. Worries about a possible US government shutdown continued to weigh on sentiment, while uncertainty about the impact of the US autoworkers strike and the resumption of student loan payments further clouded the outlook.

Key Global Financial Indicators

Last updated: 9/27/23 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4274	-1.5	-4	-3	17	11
Eurostoxx 50		4137	0.2	-3	-2	24	9
Nikkei 225		32372	0.2	-2	1	24	24
MSCI EM		38	-1.4	-3	-3	6	0
Yields and Spreads					bps		
US 10y Yield		4.51	-3.1	10	27	56	63
Germany 10y Yield		2.78	-3.1	8	22	55	21
EMBIG Sovereign Spread		423	4	7	5	-103	-29
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.9	-0.2	-1	-3	-3	-6
Dollar index, (+) = $ appreciation		106.4	0.2	1	2	-7	3
Brent Crude Oil ($/barrel)		95.3	1.4	2	13	10	11
VIX Index (%, change in pp)		18.3	-0.7	3	3	-14	-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

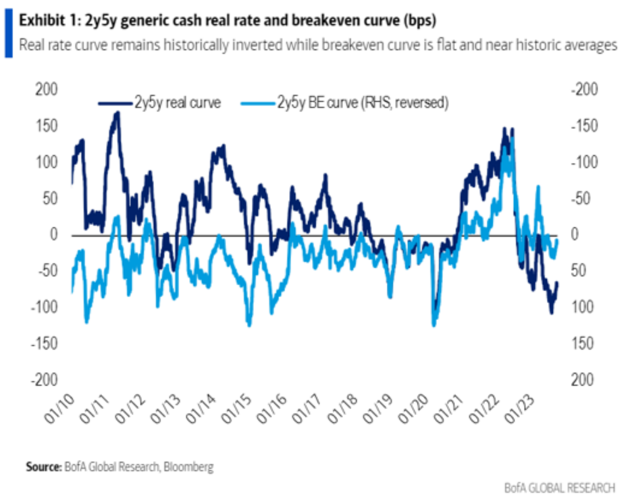
The latest US durable goods data were much stronger than expected. However, markets were little changed in response, with Treasury yields and the dollar holding steady. Tomorrow's GDP and PCE inflation could potentially have a bigger impact on markets.

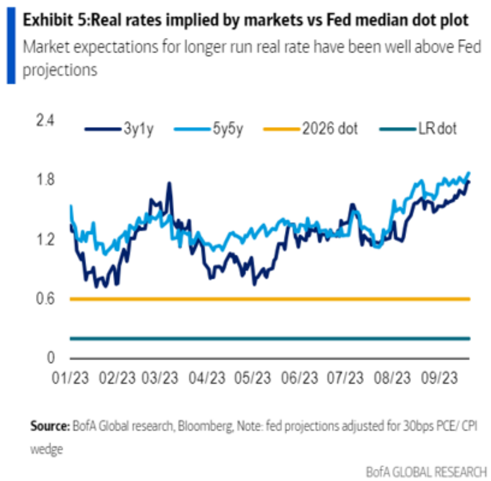
US Durable Goods Data 8.30 a.m.

Variable	Consensus Forecast	Actual Data
August Durable Goods Orders	**-0.5%**	**+0.2%**
Durable Goods Ex-Transportation	**+0.2%**	**+0.4%**

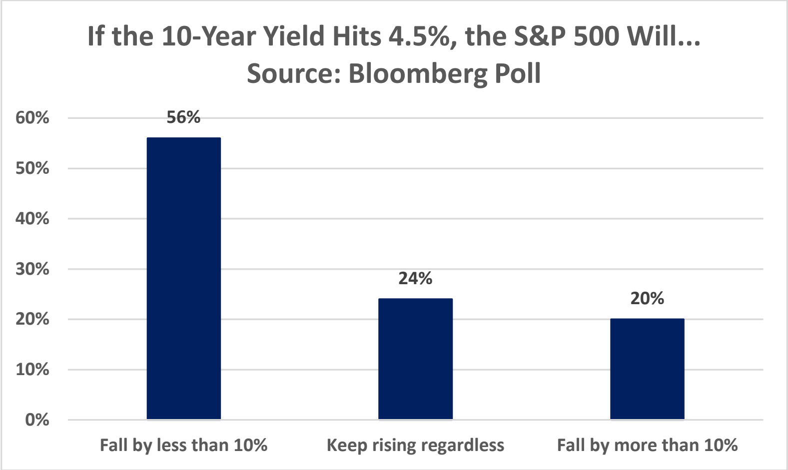
Source: Bloomberg

US real rates paint a much more pessimistic picture about the future path of interest rates. Inflation linked markets are forecasting that interest rates in the future will be much higher than the path predicted for real yields by the Fed's dot plot. This is most conspicuous in the front end of the yield curve, the part most sensitive to policy rates. The first chart shows that the inversion in the two-year/five-year yield portion of the Treasury Inflation Protected Security (TIPS) yield curve is driven entirely by real yields, with the breakeven yield almost at zero. The second chart shows that real rates will remain much higher for longer than the dot plot real rate estimates. With both nominal and real cash yields at their highest level since 2007, markets could be in for a major shock if these market forecasts are realized.

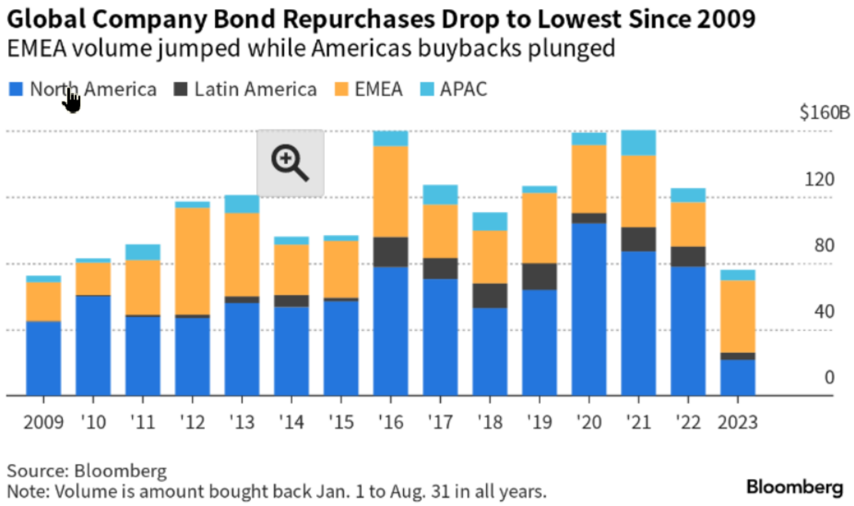




The recent rise above 4.5% of the benchmark US Treasury yield tests a key level for equity investors, according to a recent poll by Bloomberg. Technology stocks are viewed as especially vulnerable due to their high earnings multiples and very strong rally so far this year. A technology selloff would be bad news for the rest of the market, as this year's rally in the S&P 500 has been driven almost entirely by a few large technology stocks. Excluding the seven largest technology stocks, the rest of the S&P 500 is flat to slightly lower for the year. The forward curve predicts that the 10-year yield will fall below current levels one year from now, but some analysts predict that the benchmark yield could rise to the same level as the Fed Funds rate, or 5.25%. They think such a move would likely trigger a major equity selloff, according to some analysts.



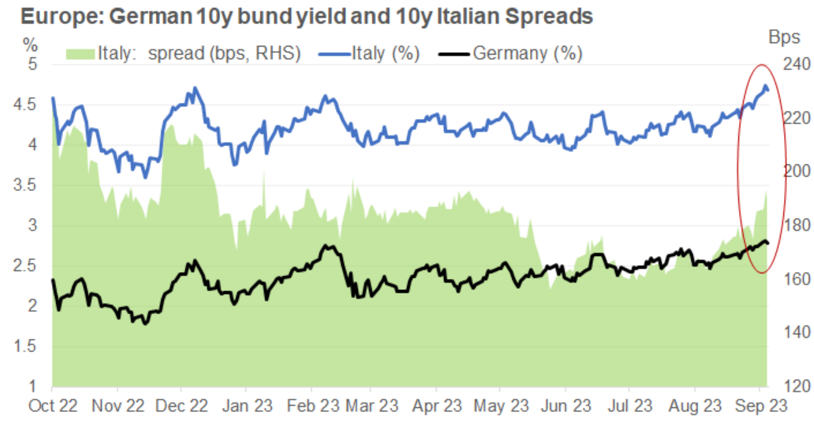
Repurchases of corporate bonds by their issuers has fallen to the lowest level since 2009, in a sign that the age of easy money could be coming to an end. US repurchases have fallen the most, while volumes in Europe and the Middle East have risen. In previous years, companies used to buy back debt before maturity because falling interest rates enabled them to refinance their debt at lower rates. Now, US companies are holding off in order to keep lower funding costs in place as rates have risen much further than in other countries. Buying back debt now would mean issuing new debt at much more expensive levels. Slowing repurchase rates have resulted in a reduction of the average maturity of outstanding corporate bonds in the US to five years for high yield bonds and 11 years for investment grade bonds. Some companies will be forced to issue new debt as their old bonds mature, raising the risk that high funding costs could lead to potentially higher defaults in the future if the economy goes into a recession.



Euro Area

European equities were struggling for direction while sovereign yields eased. The Stoxx 600 Europe index retraced opening gains and was trading marginally lower (-0.1%) after four consecutive days of declines. Sovereign yields were edging lower (10y bund -2bps to 2.79%), after closing at 2.8% yesterday, the highest level since 2011. ECB governing council member Holzmann commented yesterday that it is not yet clear that rates have peaked, cautioning about the existence of shocks that could see further rate hikes. **The euro was weaker against the dollar** (-0.2% at around 1.055/$).

The spread of Italian 10y yields over 10y bunds widened to levels last seen in March ahead of Italy's latest budget projections. The Italian government is set to present its latest budget projections today, and contacts are focused on the expected 2024 deficit, following a Bloomberg report yesterday indicating that the 2024 deficit could be as wide as 4.5%. The original projection in April was 3.7%. Yesterday, the spread between Italian 10y yields and bunds of the same maturity widened to 193 bps, a level last seen in March. The spread narrowed slightly this morning (-3bps to 190bps).



Source: Bloomberg and IMF calculations

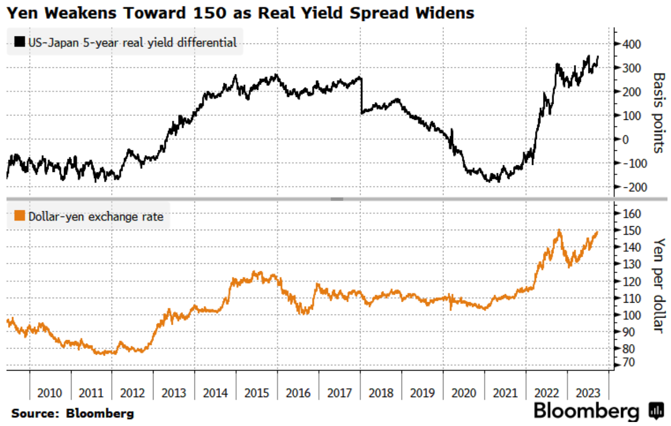
Eurozone bank lending to non-financial corporate drop sharply in August. JPMorgan analysts note that while loans had recently signaled some stabilization, net lending (adjusted for loan sales and securitizations) to households surprisingly increased by €5bn, but lending to non-financial corporates fell sharply by €22bn. Analysts cautioned about drawing strong conclusions given the noisiness of the data, but overall think that the data supports the sense that monetary policy transmission is strong. ING analysts think that business investment would likely be dampened in coming quarters against a backdrop of weak economic growth and higher rates. Meanwhile, data releases this morning showed larger than expected declines in German and French consumer confidence.

Source: ECB, J.P. Morgan

Source: ECB, J.P. Morgan

Japan

The Japanese yen depreciated slightly to 149 yen per dollar. The widening of real interest rate differentials continued putting depreciation pressure on the currency and raised expectations of FX intervention. Finance Minister Suzuki said that he was watching the currency movement with a strong sense of urgency. **The minutes of the Bank of Japan's July policy meeting revealed that several board members were deeply worried about inflation.** JGB yields were mixed (10-year: -0.1 bp; 30-year: +0.5 bp), with the 10-year yield at 0.734%. Japanese equities gained (NIKKEI: +0.2%).



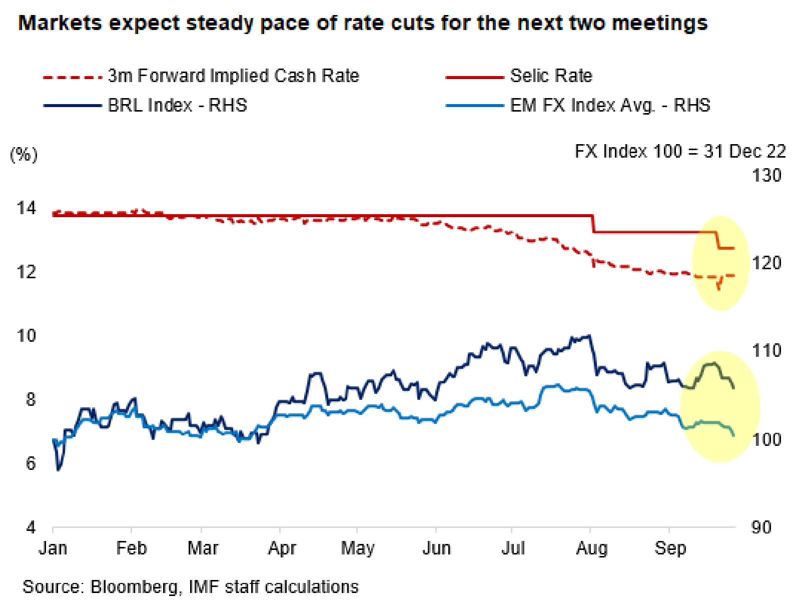
Emerging Markets

back to top

The MSCI emerging market index hit a six month low as US markets declined yesterday. EMEA markets were mixed. Equities in Saudi Arabia outperformed (+1.2%) while those in Poland and Romania were roughly 0.8% lower, respectively. Currencies were mostly trading weaker against reference currencies. The Czech koruna was weakening against the euro (-0.2% to 24.47/€) ahead of the central bank meeting later today, where consensus expect the Czech National Bank to keep its policy rate unchanged at 7%. **Asian equities were mixed, gaining 0.3% overall.** Philippine (+1.8%) and Hong Kong (+0.8%) equities led the gains, while share prices fell in Singapore (-0.5%) and Malaysia (-0.4%). Thailand hiked by 25 bps to 2.5% as expected. **Latin American equities, currencies and bonds continued to weaken in the wake of the US selloff.**

Brazil

Brazil's central bank's September meeting minutes revealed a more hawkish stance on monetary policy trajectory than previously expected. Although the bank cut the SELIC policy rate by 50 bps to 12.75% in a unanimous decision, the minutes expressed concerns about above-trend economic growth and the potential for upside risks to food and industrial prices due to the recent movement of the exchange rate and global commodity prices. Markets reacted to the hawkish rhetoric by reducing estimates of major rate cuts and settling at two 50 bps cuts for the rest of the year.



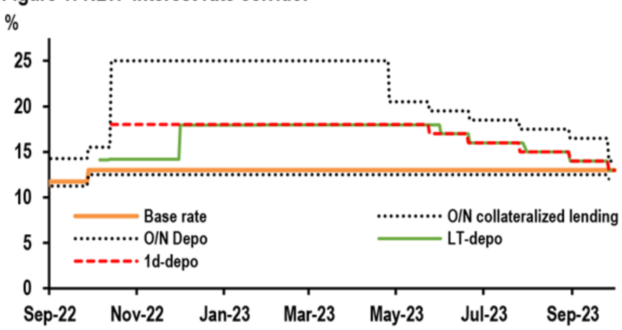
China

The People's Bank of China (PBOC) said it would clamp down on excessive currency movements in its quarterly monetary policy meeting statement. The renminbi appreciated slightly to 7.31 yuan per dollar. The statement also noted that China's economic recovery is gaining momentum, but challenges, including insufficient demand, remain. The PBOC vowed to work on countercyclical and cross-cyclical measures. In other news, Industrial profits increased 17.2% y/y in August, registering the first monthly positive y/y growth since 2022H2. According to analysts, the improvement in industrial profits was attributable to stronger-than-expected industrial activity, easing PPI deflationary pressures, and policy support measures. Chinese equities gained (CSI 300: +0.2%). However, shares of real estate firms dropped further. Meanwhile, Hui Ka Yan, the controlling shareholder of distressed property developer China Evergrande, has reportedly been placed under police control earlier this month.

Hungary

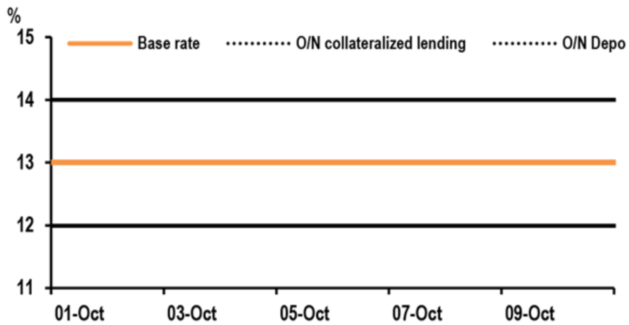
The central bank of Hungary (NBH) cut the one-day deposit rate by 100bps to 13%, merging it with the base rate, as expected. The NBH also simplified its monetary policy framework, with the central bank base rate becoming the effective interest rate. The statement highlighted the necessity to maintain tight monetary conditions to achieve price stability, and also noted a slight upward revision in the 2024 inflation forecasts, mainly as a result of higher oil prices. JPMorgan analysts argue that macro data provide space for continued easing, but think that the central bank appears hesitant, likely as a result of the recent weakening of the Hungarian forint. In their baseline, JPMorgan analysts expect that rates would remain unchanged until Q1 2024 but see the possibility for rate cuts to continue in October against a backdrop of easing inflation.

Figure 1: NBH interest rate corridor



Source: NBH

Figure 2: Stylized simplified NBH corridor - from start of October



Source: NBH

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Global Financial Indicators

	Level		Change				
9/27/23 8:03 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4278	-1.5	-3	-3	17	11
Europe		4137	0.2	-3	-2	24	9
Japan		32372	0.2	-2	1	24	24
China		3701	0.2	0	-1	-3	-4
Asia Ex Japan		63	-1.6	-3	-3	6	-2
Emerging Markets		38	-1.4	-3	-3	6	0
Interest Rates			basis points				
US 10y Yield		4.51	-3.1	10	27	56	63
Germany 10y Yield		2.78	-3.1	8	22	55	21
Japan 10y Yield		0.74	0.0	1	8	49	32
UK 10y Yield		4.29	-3.3	8	-15	-21	62
Credit Spreads			basis points				
US Investment Grade		146	-0.3	4	1	-41	-12
US High Yield		433	0.4	31	16	-99	-47
Exchange Rates			%				
USD/Majors		106.41	0.2	1	2	-7	3
EUR/USD		1.05	-0.3	-1	-3	10	-2
USD/JPY		149.2	0.1	1	2	3	14
EM/USD		46.9	-0.2	-1	-3	-3	-6
Commodities			%				
Brent Crude Oil ($/barrel)		95.3	1.4	2	14	26	16
Industrials Metals (index)		139	-0.7	-3	-1	-1	-16
Agriculture (index)		65	0.2	-2	-3	-4	-5
Implied Volatility			%				
VIX Index (%, change in pp)		18.3	-0.7	3.1	2.6	-14.3	-3.4
Global FX Volatility		8.1	0.0	0.1	-0.3	-4.5	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		152	1.5	14	18	-118	-54
Italy		191	-2.6	16	23	-62	-24
Portugal		75	-1.6	3	4	-35	-26
Spain		108	-1.4	3	5	-12	-1

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

Emerging Market Financial Indicators

Last updated: 9/27/2023 8:05 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	-0.3	0	-2	-6		2.7	1.4	-1	11	-9	-34
Indonesia		15520	-0.2	-0.9	-1	-3	0		6.9	1.0	12	35	-50	-7
India		83	0.0	-0.2	-1	-2	-1		7.7	-2.0	-10	11	3.1	27
Philippines		57	0.1	-0.2	0	4	-2		5.8	1.3	-2	-10	11	-17
Thailand		37	-0.5	-1.2	-4	4	-5		3.3	4.0	10	36	12	69
Malaysia		4.71	-0.4	-0.5	-1	-2	-6		4.0	-0.1	5	13	-43	-6
Argentina		350	0.0	0.0	0	-58	-49		116.6	29.9	207	804	3024	2838
Brazil		4.99	0.0	-2.2	-2	8	6		12.0	14.3	58	86	18	-54
Chile		905	-0.1	-2.5	-5	9	-6		5.7	0.0	35	33	-141	41
Colombia		4069	-0.4	-3.8	1	11	19		9.1	0.0	55	100	-86	-68
Mexico		17.59	-0.2	-2.8	-5	16	11		9.5	-1.0	37	75	10	79
Peru		3.8	-0.2	-1.9	-2	4	1		7.3	6.6	38	34	-117	-64
Uruguay		38	-0.2	-0.4	-2	8	4		9.4	10.7	10	30	-202	-123
Hungary		371	-0.4	-2.9	-4	14	1		7.1	1.0	30	16	-248	-248
Poland		4.39	-0.7	-1.4	-6	14	0		4.9	2.5	14	-6	-183	-128
Romania		4.7	-0.4	-1.2	-3	10	-2		6.7	1.9	11	7	-167	-97
Russia		96.7	0.3	-0.5	-1	-39	-23							
South Africa		19.2	-0.6	-1.8	-3	-6	-11		9.9	5.0	43	57	28	75
Turkey		27.30	-0.2	-1.0	-3	-32	-31		27.1	21.0	100	569	1538	1731
US (DXY; 5y UST)		106	0.2	1.0	2	-7	3		4.59	-1.6	1	15	40	59

	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		3701	0.2	0	-1	-3	-4		184	3	3	3	7
Indonesia		6938	0.2	-1	0	-2	1		128	1	0	-56	-12
India		66119	0.3	-1	2	17	9		138	0	1	-27	-4
Philippines		6375	1.8	6	3	8	-3		105	2	2	-34	8
Thailand		1497	0.2	-1	-4	-6	-10		0	0	0	0	0
Malaysia		1440	-0.4	-1	0	3	-4		97	0	0	1	-3
Argentina		543252	-1.0	-6	-14	301	169		2385	189	306	-219	180
Brazil		114193	-1.5	-4	-1	5	4		226	0	-4	-84	-48
Chile		5763	-0.4	-3	-5	11	10		124	-1	-4	-63	-8
Colombia		1090	-1.0	-2	-1	-3	-15		328	1	-18	-124	-44
Mexico		51108	-0.5	-2	-4	14	5		370	5	1	-91	-11
Peru		22603	-0.5	-1	-1	20	6		151	-6	-8	-70	-29
Hungary		55703	0.2	-3	-2	44	27		187	-2	-13	-92	-35
Poland		65312	-0.7	-3	-4	36	14		118	-4	-1	88	45
Romania		14138	-0.8	-2	9	31	21		200	-4	-13	-138	-55
South Africa		72780	0.2	-1	-1	14	0		389	13	6	-69	22
Turkey		8244	0.0	7	7	152	50		382	-22	-1	-239	-58
Ukraine		507	0.0	0	0	-2	-2		3308	77	-268	-369	-771
EM total		38	0.3	-3	-3	6	0		387	9	9	-66	12

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

back to top