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## US Treasury yields surge on a hotter than expected CPI release

US Treasury yields jumped after the release of a hotter than expected CPI print in March, with yields increasing 15–17 bps across the curve immediately after the release. The dollar strengthened (+0.5%) and odds for a Fed fund rate cut in July dropped as result, with only 14 bps priced (vs. 24 bps before). Prior to the release, US equity futures were flat and European stocks traded higher buoyed by positive news in the technology sector and higher energy prices. In fixed income, advanced economy sovereign bond yields were modestly lower. Ahead of tomorrow's ECB policy meeting, where no change in rates is expected, markets were pricing around 88 bps of rate cuts in 2024, with about a 90% probability of a 25 bps cut in June. In Asia, the yen was slightly weaker, with recent option pricing suggesting that investors are adding bets that the yen may weaken further. There was also a significant divergence between onshore and offshore Chinese stocks today (CSI 300: -0.8%, HKSAR-listed: +2.1%), with the latter seemingly unaffected by Fitch ratings outlook change and outperforming on news of greater electric vehicle sales, corporate buybacks and China's latest batch of online game approvals.

Key Global Financial Indicators

Last updated: 4/10/24 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5210	0.1	0	2	27	9
Eurostoxx 50		5035	0.9	-1	1	17	11
Nikkei 225		39582	-0.5	0	2	42	18
MSCI EM		42	0.7	1	2	6	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.34	-1.8	0	27	93	46
Germany 10y Yield		2.35	-2.2	-5	8	17	33
EMBIG Sovereign Spread		330	-1	-10	-35	-156	-53
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.0	0.0	0	0	-7	-2
Dollar index, (+) = \$ appreciation		104.1	-0.1	0	1	1	3
Brent Crude Oil (\$/barrel)		90.0	0.6	1	10	7	17
VIX Index (% change in pp)		15.1	0.1	1	0	-4	3

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

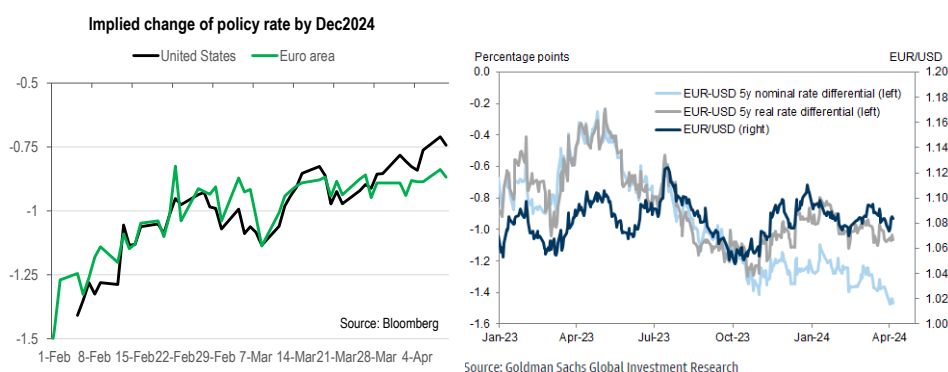
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### United States

This morning, **both headline and core CPI came in stronger than expected in March**. Headline CPI rose 0.4% m/m in March (vs. +0.3% expected), raising the annual rate to 3.5% y/y. Core CPI rose 0.4% m/m as well (vs. +0.3% expected), with annual rate up to 3.8% y/y. US Treasury yields jumped after the release, with yields increasing 15–17 bps across the curve immediately after the release. The dollar strengthened.

**Treasury yields fell yesterday with stocks little changed ahead of today's CPI report.** The Treasury curve shifted lower by around 5 bps and was reportedly partly driven by a bullish block trade on the December 2024 SOFR futures contract that took place shortly after market open. The bet involved 75,000 contracts, which is the largest trade on record in the product. The trade could be positioning for a softer inflation print or to cover existing short positions. Overall, the policy rate outlook remains largely unchanged, and while interest rate volatility remains close to 2-year lows, it has picked up somewhat this month.

**The repricing of inflation expectations may be driving the diverging policy outlook between the US and euro area.** Over the past two weeks, investors have pared back rate cut expectations in the US by pricing out one rate cut in 2024, while the expectations for the euro area remains little changed (left chart). The wedge between the US and euro area appears to be driven by a repricing of inflation expectations in the US, in particular in the front end. In contrast, investors have not materially changed their growth outlook for both regions. This has led to a continued widening in the nominal rate differential while real rate differential remains relatively unchanged.

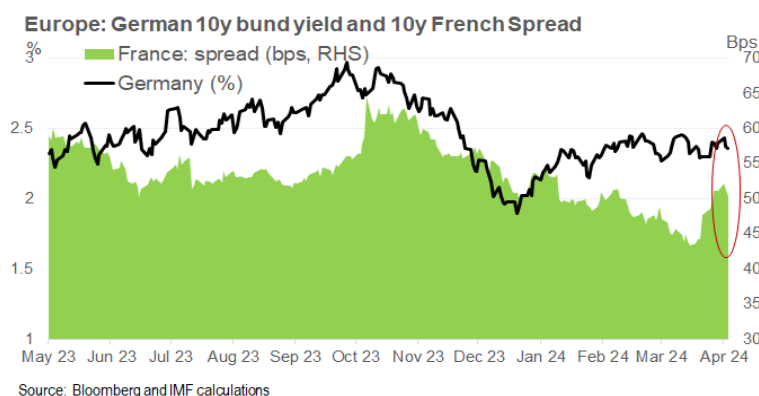


### Euro Area

The STOXX 600 index was **(+0.6%) higher, led by gains in the energy (+1.1%) and technology (+0.7%) sectors. European banking sector stocks were also higher this morning, up (+1.0%) in early morning trading.** The euro was broadly unchanged against the dollar, trading at around 1.09. **Euro area sovereign yields were lower (-2 bps) with the 10-year bund yield trading at 2.35%.** 10-year Italian BTP spreads over bunds were narrower (-2 bps) at 136 bps.

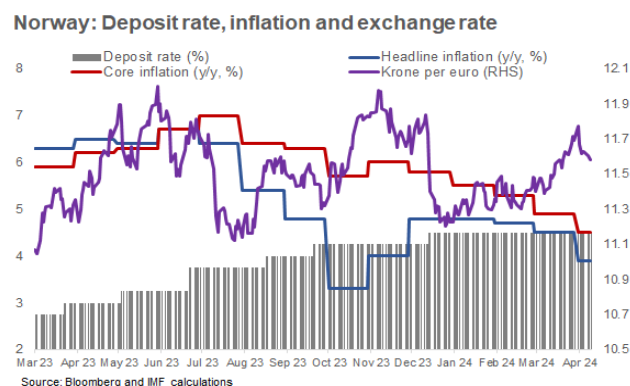
**Ahead of tomorrow's ECB policy meeting, analysts at Citi noted that today's US CPI release and hawkish spillovers from the Fed "increasingly matter for the ECB".** They noted that despite the ECB suggesting that policy easing will begin in June, "this has not translated into easier € financing conditions with the 2Y € real OIS rate 25 bps higher than at the time of the last ECB rate hike in September". They noted that today's US CPI release is particularly important in determining whether the Fed will follow the ECB with a June rate cut. A delay in easing from the Fed may mean the ECB will have to cut faster to ease financing conditions sufficiently and guard against overtightening or recession risk. Ahead of tomorrow's ECB policy meeting, where no change in rates is expected, **markets are pricing in around 88 bps of rate**

cuts in 2024, with 90% probability of a 25 bps cut in June. Elsewhere, analysts at UBS believe that while the risk of a downgrade by Fitch on April 26 of France is limited, a negative rating action by Moody's (April 26) or S&P (May 31) is a more likely outcome. They expect that a change in France's credit rating by any of the major credit rating agencies could add some pressure on 10-year OAT spreads, which have widened by nearly 7 bps since mid-March, but believe the impact would be limited in the short-term. The analysts note other cyclical factors will likely support French OAT spreads in the near-term, including the widely expected June rate cut by the ECB, investors' appetite for carry and the fact that France has already completed around 40% of its funding program for 2024.



## Norway

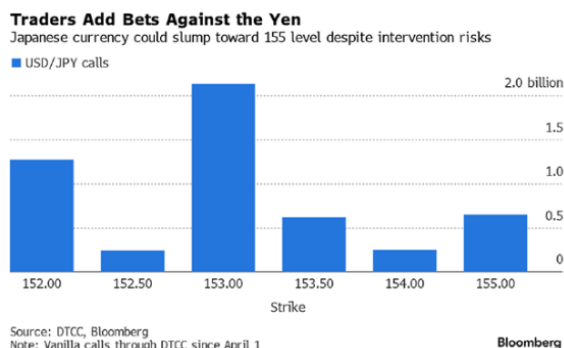
**March core inflation slowed more than expected.** Data this morning showed core inflation declined to 4.5% y/y in March (4.7% exp, 4.9% prior)—the lowest rate in 20 months and below the rate forecast by the Norges Bank. **Following the release, the krone weakened against the euro, but erased early losses to trade broadly unchanged at 11.59/€.** Contacts noted that the faster than expected decline in inflation may outweigh policymakers concerns about the weakness in the currency and should allow for a September rate cut. While analysts at JP Morgan expect a first rate cut in September, they noted that “the high outcome in the latest wage settlement, a weaker krone and more hawkish central banks abroad create the risk of a later move”. Separately, analysts at Goldman Sachs continued to expect the Norges Bank to start easing policy rates in September in 25 bps increments until they reach a neutral rate of 3% in Q2 2025.



## Japan

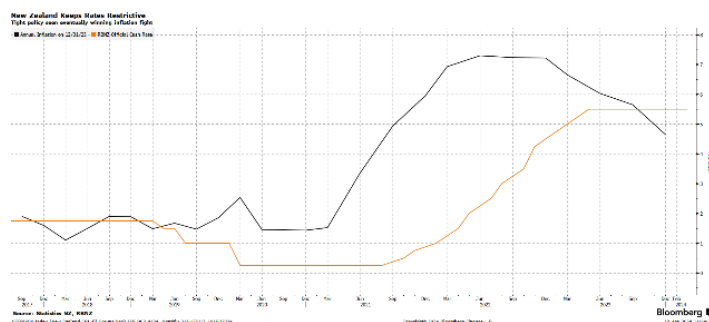
**The Bank of Japan (BoJ) is reportedly considering raising its inflation forecast at a policy meeting later this month.** According to Bloomberg, the central bank will probably discuss revising the FY2024 forecast for the growth of consumer prices excluding fresh food from the current projection of 2.4%, after surprisingly upbeat results from annual wage negotiations. Analysts noted that the Japanese government's plan to end utility subsidies at the end of May is another factor that could support revising the inflation forecast by the BoJ. The subsidies were introduced last year to cushion the blow to households' energy bills from a spike in fuel costs. Some estimates show that the end of the subsidies will likely push up the key inflation gauge by 0.5 ppt between May and July. The yen strengthened temporarily after the news but still traded close to 152 per dollar and depreciated slightly on the day. **Recent option pricing suggests that investors are adding bets that the yen may weaken beyond 152 per dollar.** Data from the Depository Trust and Clearing Corporation show that traders have shifted away from barrier positions at

152 towards a target of 153 and as far as 155, according to Bloomberg. Long-end JGB yields rose (10-year: +1.0 bp; 30-year: +2.2 bps). **Japanese equities declined** (NIKKEI 225: -0.5%).



## New Zealand

**The Reserve Bank of New Zealand (RBNZ) held its official cash rate (OCR) unchanged at 5.50%, as expected.** The latest data show that the December quarterly CPI grew at the slowest rate in more than 2 years at 4.7% y/y. While the inflation remained above the RBNZ's target of 1.0% -3.0%, the central bank is confident that maintaining OCR at a restrictive level for a sustained period will return inflation to the target range later in this calendar year. The RBNZ also notes the recent monthly selected price indices (SPI) imply some upside risk to the March quarterly CPI inflation but perceives the price change mostly due to volatile components. **New Zealand shares gained 0.4%**; the **New Zealand Dollar appreciated 0.2%**; **long-end government bond yields declined** (10-year: -8.0 bps, 30-year: -8.5 bps).



## Emerging Markets

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**Asian equities were mixed** ahead of the US inflation report. Hong Kong equities (+1.8%) outperformed, led by shares of Chinese technology firms. Indian (+0.4%) and Thai equities (+0.7%) also rose, while share prices declined in China (-0.8%) and Vietnam (-0.3%). **Most Asian currencies strengthened**, the Philippine peso appreciating +0.4%. Long-end government bond yields were mixed, with 10-year yields rising in Thailand (+2 bps) and China (+1 bps), while falling in Vietnam (-7 bps) and India (-3 bps). **EMEA equities and currencies were trading higher today.** In CEE, equities outperformed in Poland (+1%) and Hungary (+1.2%), and currencies were stronger against the euro. In Türkiye, the stock market performed well this morning (+0.5%), while the lira was stable to the dollar. In South Africa, equities were higher (+0.5%) but the rand weaker (-0.3%). **In Latam, equities markets experienced widespread gains yesterday** in Colombia (+1.6%), Chile (+1%) and Brazil (+0.8), although Mexico (-0.7%) underperformed. **Currency markets were mixed**, with the **Brazilian real (+0.4%) strengthening supported by buoyant commodity prices.** Iron ore prices (+2.3%) extended its largest two-day rally in over two years, boosting Brazil's terms of trade, particularly as demand from China enters its peak season for steel consumption. The **Mexican peso weakened (-0.4%)** after lower-than-expected inflation figures in Mexico (4.4% y/y vs

4.5% expected). **Analysts at Barclays believe that Banxico will refrain from intervening despite the peso's recent strength.** The peso has appreciated 4% year-to-date, outperforming peers. Banxico board members have recently emphasized the need for maintaining Mexico's floating exchange rate regime, underscoring that the exchange rate serves as a more pertinent channel for monetary policy transmission than traditional credit channels. On the issuance front, there is speculation about **El Salvador planning to return to international debt markets after nearly four years**, with officials reportedly meeting with Bank of America on Monday.

## China

**Fitch Ratings cut China's long-term foreign debt credit outlook to "negative" from "stable", while affirming its credit rating at "A+".** The rating firm cited increasing uncertainty in China's shift from property reliant growth to a new growth model and eroded fiscal buffers due to wide fiscal deficits and rising government debt in recent years. Fitch also raised concerns on China's growing contingent liability risk, as lower nominal growth further compounds the challenges from managing a high economy-wide leverage.



**There was a significant divergence between onshore and offshore Chinese stock market movements today (CSI 300: -0.8%, HKSAR-listed: +2.1%).** Onshore Chinese equities fell deeper after Fitch's rating action, with a further drag from real estate sector stocks on the news that one of Vanke's regional managers in Jinan city is assisting an investigation over "personal reasons". In contrast, market sentiment in offshore stocks was buoyed by a jump in electric vehicle sales, corporate buybacks and China's latest batch of online game approvals. The **RMB was little changed today**, with the RMB fixing set at 7.0959, 1355 pips stronger than the consensus. **CGB yields edged up modestly** (1-year: +0.5 bp; 10-year: +1.4 bps).

## Thailand

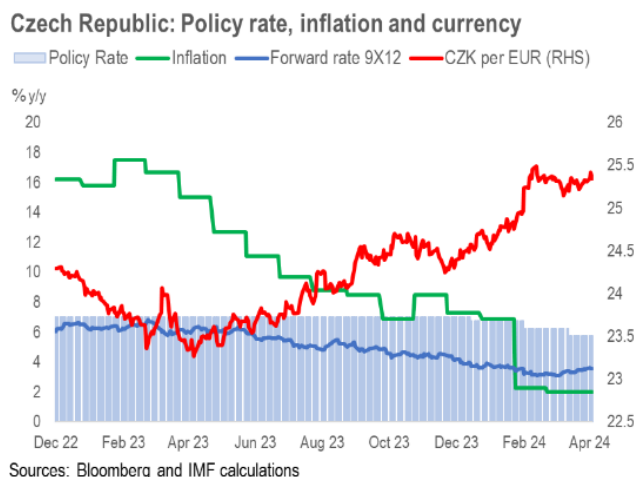
**The Bank of Thailand (BoT) kept its policy rate unchanged at 2.50%**, resisting pressure from previous commentary by the Thai prime minister to cut rates. The BoT views the decline in economic growth after the pandemic as reflecting the impact of structural headwinds on the economy's potential, where the effectiveness of monetary policy would be limited. The central bank revised headline inflation for 2024 downward to 0.6% from 1.0% previously, attributing the weakness of inflation to supply factors and government subsidies. The BoT also noted that the Thai baht performed weaker than regional peers to the dollar, aiming to closely monitor the currency volatility. **Thai equities gained (+0.7%); The baht depreciated (-0.1%); long-end government bond yields rose** (10-year: +2 bps).

## Czechia

**The Czech koruna was stronger (+0.4%) after today's data confirmed headline inflation at 2% y/y in March**, in line with expectations (median estimate at 2%) and the same as in February. The figure was below the central bank's 2.9% forecast for March and at its 2% target. Faster-than-expected inflation easing has opened room for the central bank to reduce the policy rate by 50 bps, to 5.75%, in March. Still, the minutes from the March MPC meeting cited Governor Michl saying that monetary policy needed to remain tight "until the core component of inflation was fully under control". The central bank will publish core inflation data later today. According to ING estimates, core inflation remained stable at 2.8%/y/y in March, so they expect the central bank will continue to cut in 50 bps increments at each meeting. The 2-year government

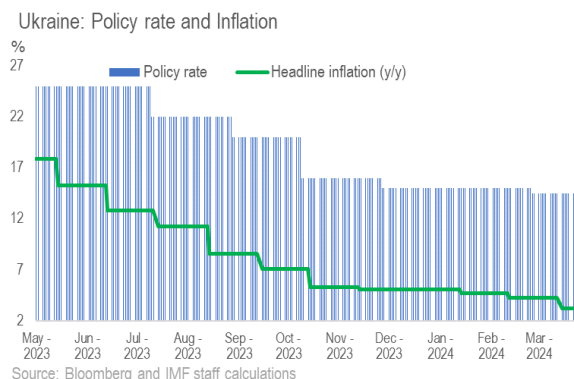


bond yield adjusted upward by 10 bps today to 3.71%, with forward rates still pointing in the direction of the policy rate reaching as low as 3.5% by the end of 2024.



## Ukraine










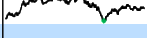













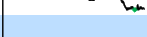

**Analyst expectations for a rate cut were reinforced by a downside inflation surprise.** Data released yesterday showed headline inflation fell to +3.2% y/y in March (3.5% y/y exp, 4.3% y/y prior), below the lower bound of the National Bank of Ukraine's (NBU) target (+5.0% +/- 1%). Core inflation also declined, from +4.5% y/y to +4.2% y/y, and food inflation decreased to +0.2% y/y. According to analysts at Goldman Sachs, yesterday's inflation figures reinforce the prospect that the NBU will cut rates by 50 bps at the MPC meeting on April 25, and that the key rate will reach +11.5% by year-end 2024 (currently at 14.50%) with the central bank introducing further FX liberalization measures.



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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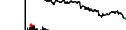









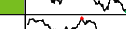



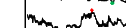



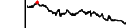













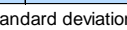


## Global Financial Indicators

4/10/24 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5211	0.1	0	2	27	9
Europe		5035	0.9	-1	1	17	11
Japan		39582	-0.5	0	2	42	18
China		3505	-0.8	-3	-2	-15	2
Asia Ex Japan		69	0.8	1	2	2	3
Emerging Markets		42	0.7	1	2	6	4
<b>Interest Rates</b>			basis points				
US 10y Yield		4.34	-1.8	0	27	93	46
Germany 10y Yield		2.35	-2.2	-5	8	17	33
Japan 10y Yield		0.81	0.6	1	7	34	19
UK 10y Yield		4.01	-1.5	-4	4	58	48
<b>Credit Spreads</b>			basis points				
US Investment Grade		119	0.0	-1	-8	-44	-15
US High Yield		347	1.2	-6	-19	-139	-38
<b>Exchange Rates</b>			%				
USD/Majors		104.09	-0.1	0	1	1	3
EUR/USD		1.09	0.0	0	-1	0	-2
USD/JPY		151.8	0.0	0	3	14	8
EM/USD		47.0	0.0	0	0	-7	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		90.0	0.6	1	10	16	17
Industrials Metals (index)		152	1.4	4	9	-2	6
Agriculture (index)		60	0.5	0	1	-12	-4
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		15.1	0.1	0.8	0.3	-3.9	2.6
Global FX Volatility		6.6	0.0	-0.1	-0.2	-3.5	-1.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		101	-1.2	-7	0	-90	-2
Italy		136	-2.2	-10	4	-49	-32
Portugal		67	0.0	-3	1	-20	4
Spain		81	-0.3	-5	0	-24	-16

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 4/10/2024 8:00 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		7.23	0.0	0.0	-1	-5	-2		2.3	0.0	-1	-2	-81	-19
Indonesia		15848	0.3	0.1	0	-6	-3		6.7	-1.9	-4	0	-4	17
India		83	0.1	0.3	-1	-1	0		7.3	-4.0	6	16	(3.4)	10
Philippines		56	0.4	0.4	-1	-3	-1		5.4	0.0	0	-7	-52	-20
Thailand		36	-0.2	0.6	-3	-6	-6		2.8	8.0	19	28	19	7
Malaysia		4.75	0.1	0.1	-1	-7	-3		3.9	-1.3	1	5	3	15
Argentina		865	-0.1	-0.8	-2	-75	-6		45.9	9.1	-675	-2529	-4301	-4044
Brazil		5.01	0.4	1.0	-1	1	-3		11.3	-6.1	4	46	-153	88
Chile		942	0.1	3.6	3	-13	-6		5.3	0.0	6	28	5	36
Colombia		3775	-0.1	1.5	4	21	3		8.3	0.0	23	78	-50	70
Mexico		16.31	0.5	1.4	3	11	4		9.1	0.1	15	52	76	65
Peru		3.7	-0.1	0.4	0	2	0		7.3	1.4	-24	30	-24	58
Uruguay		39	0.1	-2.0	0	0	1		9.0	-4.3	0	5	-131	-51
Hungary		358	0.3	1.1	1	-4	-3		6.6	2.0	-2	66	-160	83
Poland		3.92	0.2	1.0	0	10	0		5.1	1.0	-2	27	-18	63
Romania		4.6	0.0	0.2	-1	-1	-2		6.4	-1.6	0	4	-78	19
Russia		93.3	-0.4	-1.0	-3	-12	-4							
South Africa		18.5	-0.2	0.9	1	0	-1		9.8	5.5	7	48	78	73
Türkiye		32.26	0.0	-0.9	-1	-40	-8		27.2	-8.0	97	-92	1683	40
US (DXY; 5y UST)		104	-0.1	-0.2	1	1	3		4.36	-1.2	3	31	84	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		3505	-0.8	-3	-2	-15	2		148	1	-6	-46	-10		
Indonesia		7287	0.0	0	-1	7	0		98	6	-16	-62	2		
India		75038	0.5	2	2	25	4		106	0	-4	-62	-10		
Philippines		6741	0.0	-3	-3	4	5		85	5	-12	-49	5		
Thailand		1408	0.5	2	2	-12	-1		0	0	0	0	0		
Malaysia		1554	0.0	0	1	9	7		81	-1	-7	-19	-4		
Argentina		1253210	1.9	3	25	388	35		1237	-219	-456	-1226	-676		
Brazil		129890	0.8	2	2	28	-3		210	-2	-12	-68	-5		
Chile		6669	1.0	1	5	26	8		115	-7	-21	-31	-10		
Colombia		1409	1.6	2	8	17	18		278	-14	-30	-122	7		
Mexico		57571	-0.7	0	5	6	0		302	-8	-27	-94	-32		
Peru		27551	0.7	-2	-4	25	6		138	-3	-11	-55	-6		
Hungary		67288	1.4	1	2	52	11		149	-1	-16	-82	0		
Poland		84674	1.2	2	6	45	8		91	-3	-14	20	-6		
Romania		17259	0.3	1	6	39	12		176	-4	-29	-80	-25		
South Africa		76009	0.7	3	3	-1	-1		338	-21	-10	-86	30		
Türkiye		9814	0.0	9	7	93	31		280	-12	-58	-227	-34		
EM total		42	0.4	1	2	6	4		278	-14	-40	-136	-67		

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

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