



- US Treasury yields soared yesterday after the higher-than-expected US CPI print ([link](#))
- Japanese government warned of intervention, after yen weakened to 34-year low ([link](#))
- The ECB kept policy rates on hold as widely expected, citing falling inflation ([link](#))
- Canada kept policy rate unchanged, emphasizing patience and data dependence ([link](#))
- China's March CPI inflation slowed to +0.1% y/y (consensus: +0.4%, previous: +0.7%) ([link](#))

[Mature Markets](#)




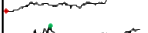

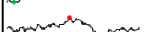





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## Hotter Than Expected US Inflation Spoils Prospects of Summer Rate Cuts

Yesterday, global markets were roiled by a higher-than-expected US inflation print. US CPI inflation for March came in at 3.5% y/y while 3.4% was expected. Concerning to investors, the core component also came in higher than expected, pointing to re-acceleration risk. A strong market reaction, reverberating globally, resulted. US Treasury yields soared, with the two-year yield up by over 20 bps to 4.95%. In futures markets, only 1.6 rate cuts are now priced for 2024 (versus 2.5 at the start of the week) and the first expected rate cut has been pushed back to September. Some market participants see a “no-2024-rate-cut” scenario for the Fed, and Larry Summers said on Bloomberg that “you have to take seriously the possibility that the next rate move will be upwards rather than downwards.” A weak 10-year Treasury auction in the early afternoon contributed to pressures in the longer end of the curve as well. US equities dropped over 1%, and the US dollar strengthened sharply with the US dollar index up 1%. This morning, US equities are set to open flat: S&P futures traded initially at -0.5%, but erased losses after the US PPI and initial jobless claims—both slightly lower-than-expected—did not fuel further inflation concerns. The ECB kept its policy rates unchanged today, as expected.

Key Global Financial Indicators

Last updated: 4/11/24 8:44 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5161	-0.9	-1	1	26	8
Eurostoxx 50		4970	-0.6	-2	1	15	10
Nikkei 225		39443	-0.4	-1	2	40	18
MSCI EM		41	-1.4	0	1	4	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.57	2.3	26	47	114	69
Germany 10y Yield		2.45	1.9	9	15	14	43
EMBIG Sovereign Spread		322	-8	-17	-43	-164	-61
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.6	-0.1	0	-1	-8	-3
Dollar index, (+) = \$ appreciation		105.3	0.0	1	2	3	4
Brent Crude Oil (\$/barrel)		90.1	-0.5	-1	10	5	17
VIX Index (% change in pp)		16.6	0.8	0	1	-3	4

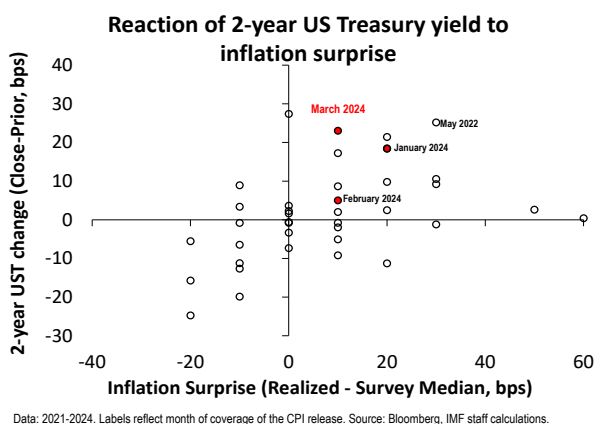
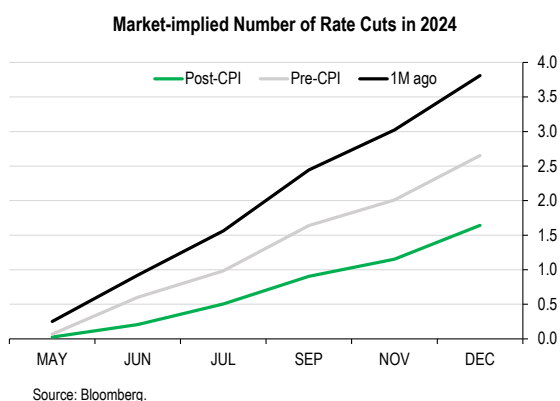
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

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### United States

**A third consecutive strong inflation print triggered a sharp repricing of policy outlook.** Investors focused on the sticky shelter inflation and the acceleration of the closely watched “super core” measure, which could weaken the Fed’s conviction that inflation is sustainably moving towards target. In response, investors continued to price a later start and shallower path of monetary policy easing. In the futures markets, the first rate cut has been pushed to September and only 1.6 rate cuts are now priced for 2024, below the 3 cuts indicated from the latest DOT plot. In addition, investors in the option markets have increased wagers of a “no-landing” or “no rate cut” scenario, with a commensurate decline in the odds of a “deep or recession cut” scenario. Treasury yields soared, with 2- to 7-year yields up over 20 bps and long bond yields up over 15 bps. The sharp increase in the short- and medium-term yields could be exacerbated by heavy speculative positions built up ahead the report and the weak 10-year Treasury auction in the early afternoon that tailed by over 3 bps with little investor demand. The smaller decline in the long bond yields could be the result of some flight-to-safety bid related to geopolitical headlines. Equities extended month-to-date losses by dropping 1%, led by a 4% slump in the real estate sector which weighed on the regional bank stocks as KRE index dropped almost 5%. All but the energy sector closed in red. The dollar strengthened sharply with DXY up 1%, breaking the pattern of relative calmness in the past few weeks despite higher interest rates.



**The March FOMC minute suggest QT tapering will start “fairly soon.”** The minutes noted that policymakers “generally favored” reducing the monthly pace of runoff by roughly half from “the recent overall pace,” by adjusting the redemption cap on Treasury securities while leaving the cap on MBS unchanged. This could imply a larger than \$30bn reduction per month in the Treasury cap.

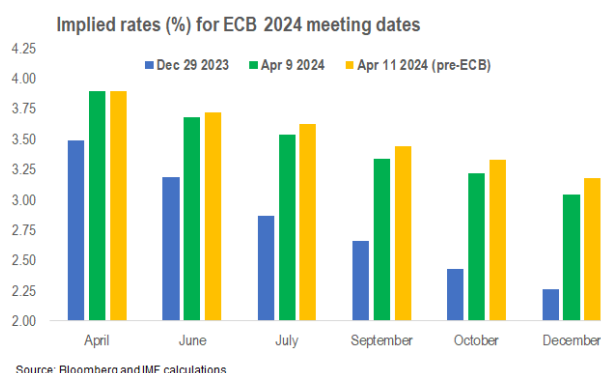
### Euro Area

**The Governing Council decided to keep the three key ECB interest rates unchanged, with the deposit facility rate at 4%, as widely expected.** The accompanying statement noted that incoming data was broadly in-line with the Governing Council’s previous assessment of the medium-term inflation outlook. The statement noted that the Governing Council considers that the key ECB interest rates are at levels that are making a substantial contribution to the ongoing disinflation process and further stated that “If the Governing Council’s updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction” which contacts have taken as the ECB preparing the ground for a rate cut. The statement reiterated that the Governing Council intends to reduce the PEPP portfolio over 2H 2024, by €7.5bn per month on average. Following the announcement, the euro showed volatility against the US

dollar around the 1.07 level, after having weakened by over 1% post-US-CPI yesterday. Focus now shifts to the press conference, due later today. Euro area sovereign yields showed small increases earlier this morning, extending yesterday's post-CPI moves, but then started to decline after the ECB decisions.

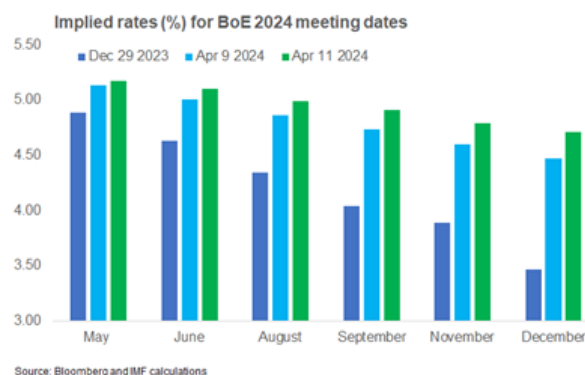
**Investors are keenly awaiting the ECB press conference for further insights into the likely path for monetary policy.** Following yesterday's stronger-than-expected US CPI print, markets have pared back expectations of a 25bps cut in June to around 80% probability down from 90% before yesterday's US inflation data. Contacts expect that President Lagarde will reiterate earlier guidance that the ECB will deliver its first interest rate cut at the June meeting and will be looking for clues as to the pace of rate cuts beyond June.

Analysts at Citi expected that the issue of Transmission Protection Instrument (TPI) eligibility for countries expected to enter Excessive Deficit Procedures (EDPs) would also have been discussed at the meeting, in which case they expect President Lagarde "to confirm that it is not an issue as long as countries comply with any recommendations made." Ahead of today's policy meeting, markets are pricing in around 74bps of rate cuts in 2024, down from around 88bps yesterday, with around 80% probability of the first 25bps cut in June.



## United Kingdom

**Markets price fewer Bank of England (BoE) rate cuts following US CPI data.** Markets are now pricing in less than a 50% chance of a BoE rate cut in Q2, with around 50bps of rate cuts priced in for 2024, down from around 72bps prior to yesterday's US inflation data release. Analysts at Morgan Stanley, who had been expecting the BoE to move ahead of the Fed and deliver a 25bps rate cut in May, continue to think that the market is underestimating the chance of a BoE rate cut in the second quarter of this year and believe that policy divergence with the Fed is possible. Elsewhere, comments by external MPC member Megan Greene that UK interest rate cuts "should still be a way off" further tempered expectations that the BoE could start cutting rates as early as June. Contacts are now focused on next week's UK CPI report to determine the likely timing of BoE rate cuts. This morning the pound was stronger against the dollar (+0.2%) to trade at 1.26, while 10Y gilts were higher (+8bps) at 4.23%.

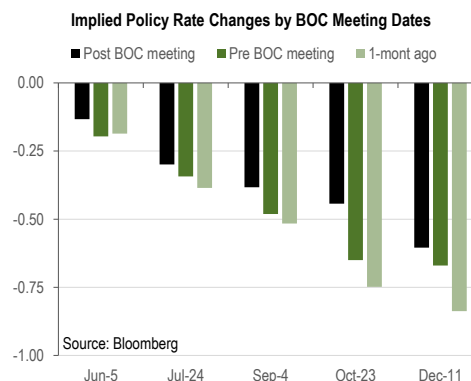


## Canada

**Bank of Canada left its policy rate unchanged at 5%, as expected, and gave no explicit guidance on upcoming rate cuts.** The growth forecast was raised for 2024 from 0.8% to 1.5%; this was framed as still consistent with slowing inflation. The neutral rate estimate was revised upwards from 2–3% to 2.25–3.25%. The policy statement and Governor Macklem noted the recent progress in inflation (3-month pace of core inflation below 3%) that makes the June rate cut "in the realm of possibility", but caveated that more of this "good" inflation data over the next "several" months is needed. In the futures market, investors trimmed their rate cut expectations, which now sees less than 50% chance of a rate cut in June, and a little over 2 cuts expected for 2024. There will be two additional CPI reports before the next policy meeting in June.

	Near-term forecast		Average annual	
	2024Q1	2024Q2	2024	2025
<b>CPI inflation yoy</b>				
Apr MPR	2.8	2.9	2.6	2.2
Jan MPR	3.2	NA	2.8	2.2
<b>Real GDP yoy</b>				
Apr MPR	1	1.2	1.5	2.2
Jan MPR	0.2	NA	0.8	2.4

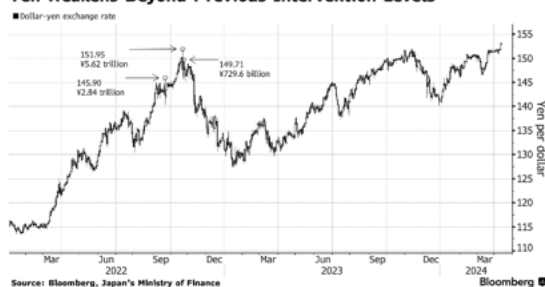
Source: Bank of Canada



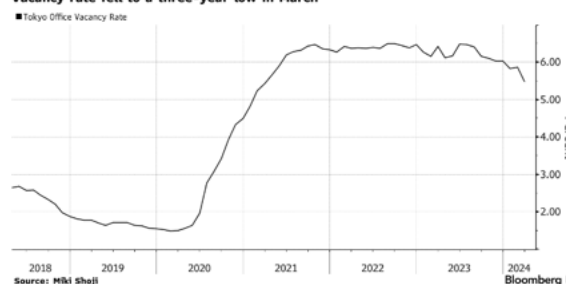
## Japan

**Japanese yen weakened past the 153-level against the US dollar overnight—a 34-year low.** Little changed on Thursday. Japanese government warned of intervention amid yen weakness. Japan Finance Minister Suzuki said excessive forex moves are undesirable and is watching forex with high urgency. Meanwhile, Vice Finance Minister Kanda described recent yen slump as rapid and does not rule out any options to deal with excessive foreign exchange moves. Some market participants said intervention may happen anytime now. However, if there is no intervention, they see room for more yen weakness. Japanese equities were mixed (Nikkei 225: -0.4%, Topix: +0.2%). Nikkei was weighed by slump in tech stocks after the hotter than expected US CPI. Meanwhile, the broader Topix was supported by banks stocks on higher JGB yields. 10Y bond yields added +8.7bps and followed global yields higher. Separately, Tokyo's average office vacancies rate fell to 5.5% (previous: 5.9%) in March, a three-year low, real estate broker Miki Shoji reported. Companies in Tokyo are moving into better locations in the central business districts and some for larger spaces; stricter corporate culture have seen people continue to frequent offices.

**Yen Weakens Beyond Previous Intervention Levels**



**Tokyo Offices Are Starting to Fill Up Again**  
Vacancy rate fell to a three-year low in March



## Emerging Markets

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**EMEA equities were mostly lower while currencies weakened against the dollar** and local currency bond yields increased as markets assessed the higher-than-expected US inflation data and its possible implications for monetary policy decisions elsewhere. The South African rand underperformed (-0.2% to 18.81/\$). CEE currencies were mostly stronger against the euro, with the Hungarian forint outperforming (+0.3% to 390.20/€) and the Romanian leu was stable at 4.97/€ after today's March inflation print (6.6%/y) surprised on the downside (6.8% estimate).

**Asian equities fell -0.4%** and followed US equities lower, after higher-than-expected US CPI reined in Fed rate cut expectations. India, Indonesia, and Malaysia were closed for holidays on Thursday. Philippines (-0.9%) and Thailand (-0.8%) led the losses. Asian currencies weakened. Thai baht, South Korean won

and Taiwanese dollar depreciated (-0.7%). Asian 10-year bond yields rose and followed US yields higher. Philippines added +27.8bps, followed by Australia (+13.8bps) and New Zealand (+13bps).

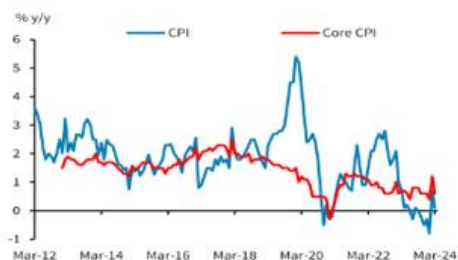
**In LATAM markets, stocks fell across the board, particularly in Mexico (-1.6%), Brazil (-1.4%), Colombia (-0.8%), in response to yesterday's US inflation data release.** Currencies mirrored the risk-off sentiment observed in the broader EM currency market, with notable weakness in the Chilean peso (-1.3%) and Colombian peso (-0.9%) amid a strengthening dollar. The central bank of Peru is expected to hold its policy rate at 6.25%.

## China

**China CPI inflation came in weaker than expected and slowed to +0.1%y/y (consensus: +0.4%, previous: +0.7%) in March.** Food and travel-related prices eased in March and reversed price hikes from the Lunar New Year holidays. Separately, PPI remained in deflationary territory at -2.8%y/y (previous: -2.7%) in March. Despite the low inflation print, Deutsche Bank believes People's Bank of China (PBC) will delay its first rate cut to June or July amid renewed depreciation pressures on the renminbi.

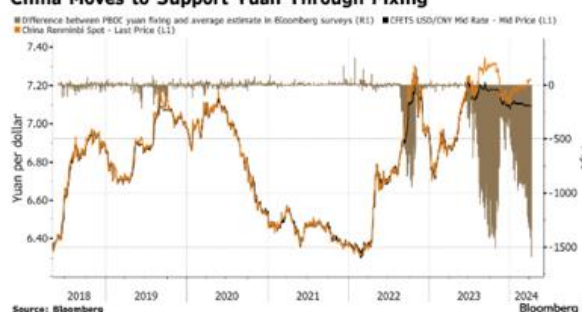
**Chinese equities were mixed** (CSI 300: 0%, Shanghai: +0.2%, Hang Seng China Enterprises: -0.2%). Separately, China Vanke shares fell -1.9% to lowest in a decade, after S&P Global Ratings downgraded China Vanke to junk (BB+ with negative outlook) amid weakening property sales and margins. The downgrade followed similar moves by Moody's and Fitch Ratings. Separately, Offshore renminbi appreciated +0.1%, onshore was little changed. PBC kept yuan fixing steady within recent range; the gap between fixing and estimates was the widest on record.

CPI eased notably on food and travel-related services prices



Source: Wind, Barclays Research

China Moves to Support Yuan Through Fixing



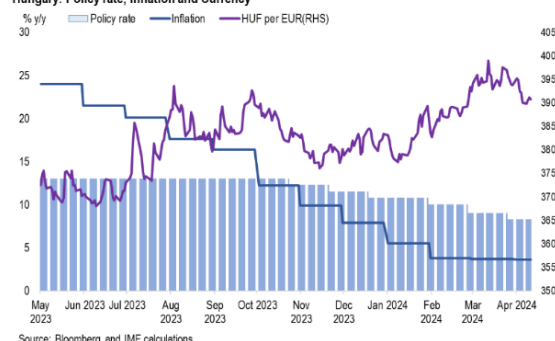
Source: Bloomberg

Bloomberg

## Hungary

**The forint gained (+0.2%) against the euro, trading at 390.65/€, after today's data confirmed that inflation continued to decline in March although by less than consensus expectations.** Headline inflation slowed to 3.6%y/y in March, from 3.7%y/y in February and against (median) estimate of 3.5% as reported by Bloomberg. Yearly core inflation rates also declined in March (CPI ex-food to 6.4% from 7.1%, and CPI ex-indirect taxes to 4.4% from 5.1% in February). Hungary's central bank flagged in March that it would slow its pace of interest-rate cuts in the second quarter of 2024, following a series of reductions in the first quarter that took the base rate to 8.25%, given the need to maintain positive real interest rates to anchor the forint, which has lost 1.7% against the euro since the beginning of the year.

Hungary: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

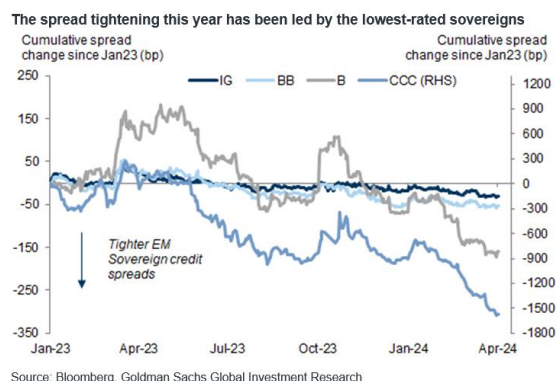


## Ghana

**Analysts expect the policy rate to remain unchanged for the remainder of H1 after inflation continued to increase in March, with rate cuts expected in H2.** Data released yesterday showed headline inflation increasing to 25.8%/y/y in March (from 23.2%), albeit at a slightly lower pace than consensus had expected. Absa analysts largely attribute the acceleration in March to base effects but note that a weaker currency likely also played a role—with the Ghanaian cedi weakening by 11% this year against the dollar, according to Bloomberg. Following a 100bps rate cut in January, the central bank had left rates unchanged at the March meeting at 29%, noting that risks to inflation are slightly on the upside. Absa analysts expect the central bank to leave rates unchanged at the May policy meeting but think that the policy rate easing cycle could be resumed in H2 as more favorable base effects is expected to see inflation resume a downward trend. However, analysts caution that currency weakness complicates the policy outlook, and think that the size of policy rate cuts would likely depend on currency developments. Goldman Sachs analysts continue to expect that normalization of fiscal policy and the IMF program will act as anchor to disinflation, reducing headline inflation to 20%/y/y in the second half of 2024. Against this backdrop the analysts expect policy rate cuts unless currency selloffs persist.

## EM Sovereigns



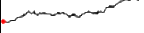


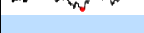



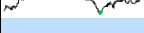
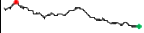








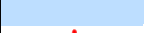

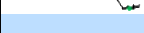
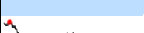


**The EMBI Global Diversified Index has exhibited resilient spreads despite increased volatility, rising Treasury yields, and elevated oil prices amid geopolitical tension.** Analysts at Goldman Sachs attribute the durability to the significant presence of oil-exporting countries in the index at around 40% coupled with stronger growth prospects. A caveat with higher oil prices is that they are seen to strengthen during periods of elevated geopolitical risk which could also frighten investor interest. On the growth argument, sovereigns with weaker fiscal balances and lower credit ratings have been outperforming sovereigns with stronger fiscal balances, relatively. This “down in quality” phenomenon suggest market participants are willing to overlook fiscal risks in anticipation of higher fiscal revenues driven by robust economic growth.



*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

4/11/24 8:45 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		5161	-0.9	-1	1	26	8
Europe		4970	-0.6	-2	1	15	10
Japan		39443	-0.4	-1	2	40	18
China		3504	0.0	-2	-3	-14	2
Asia Ex Japan		68	-1.4	0	0	0	2
Emerging Markets		41	-1.4	0	1	4	3
<b>Interest Rates</b>			basis points				
US 10y Yield		4.57	2.3	26	47	114	69
Germany 10y Yield		2.45	1.9	9	15	14	43
Japan 10y Yield		0.87	6.5	8	11	41	26
UK 10y Yield		4.21	6.1	19	24	67	67
<b>Credit Spreads</b>			basis points				
US Investment Grade		117	-1.8	-2	-10	-44	-17
US High Yield		340	-5.6	-12	-26	-146	-45
<b>Exchange Rates</b>			%				
USD/Majors		105.28	0.0	1	2	3	4
EUR/USD		1.07	-0.2	-1	-2	-2	-3
USD/JPY		153.1	-0.1	1	4	15	9
EM/USD		46.6	-0.1	0	-1	-8	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		90.1	-0.5	-1	10	14	17
Industrials Metals (index)		150	-0.3	1	6	-3	5
Agriculture (index)		59	-0.3	-1	0	-14	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		16.6	0.8	0.2	1.4	-2.5	4.2
Global FX Volatility		6.9	0.0	0.3	0.1	-3.0	-1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		104	2.1	0	4	-84	0
Italy		140	2.9	2	8	-46	-27
Portugal		68	0.9	0	2	-18	5
Spain		82	0.8	-1	-1	-23	-15

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

## Emerging Market Financial Indicators

Last updated: 4/11/2024 8:45 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.24	0.0	-0.1	-1	-5	-2		2.3	-1.0	-2	-3	-73	-20
Indonesia		15845	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	0.1	8	16	(5.2)	10
Philippines		57	0.0	-0.2	-2	-3	-2		5.4	0.1	0	-7	-52	-20
Thailand		37	-0.6	0.3	-3	-6	-7		2.9	14.0	30	42	35	21
Malaysia		4.75	0.1	0.1	-1	-7	-3		3.9	-1.3	1	6	2	15
Argentina		865	-0.1	-0.9	-2	-75	-7		46.0	8.3	-370	-2521	-4311	-4035
Brazil		5.07	-1.3	-0.7	-2	0	-4		11.4	14.5	14	61	-138	103
Chile		955	-1.4	0.0	1	-14	-8		5.4	0.0	15	39	12	47
Colombia		3811	-1.0	0.1	3	20	1		8.7	0.0	62	110	-17	102
Mexico		16.46	-0.1	0.8	2	10	3		9.3	0.2	39	75	99	88
Peru		3.7	-0.7	-0.8	-1	2	0		7.4	11.4	-11	36	-14	70
Uruguay		39	-0.6	-0.7	0	0	1		9.0	0.7	-4	6	-124	-51
Hungary		363	0.2	-0.4	-1	-5	-4		6.9	16.0	29	91	-143	108
Poland		3.97	0.0	-0.3	-1	8	-1		5.3	7.3	27	47	-7	84
Romania		4.6	-0.2	-1.1	-2	-2	-3		6.4	3.9	4	8	-73	23
Russia		93.7	-0.4	-1.6	-3	-13	-5							
South Africa		18.8	-0.2	-0.5	-1	-2	-2		10.0	7.2	29	63	78	87
Türkiye		32.27	0.1	-1.1	-1	-40	-8		27.2	-8.0	97	-92	1683	40
US (DXY; 5y UST)		105	0.0	1.1	2	3	4		4.62	1.5	32	53	109	77

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3504	0.0	-2	-3	-14	2		143	-5	-11	-52	-15	
Indonesia		7287	0.0	0	-1	7	0		83	-12	-31	-73	-13	
India		75038	0.0	2	2	25	4		103	-4	-7	-64	-13	
Philippines		6678	-0.9	-4	-3	3	4		70	-13	-27	-62	-10	
Thailand		1396	-0.8	2	1	-12	-1		0	0	0	0	0	
Malaysia		1554	0.0	0	1	9	7		78	-5	-10	-22	-7	
Argentina		1233950	-1.5	2	29	375	33		1280	-148	-413	-1150	-633	
Brazil		128054	-1.4	1	2	21	-5		205	-10	-17	-75	-10	
Chile		6688	0.3	2	4	26	8		110	-11	-26	-36	-15	
Colombia		1398	-0.8	-1	8	14	17		276	-10	-32	-128	5	
Mexico		56637	-1.6	-2	3	4	-1		304	-3	-25	-93	-30	
Peru		27799	0.9	-2	-4	25	7		137	-4	-12	-55	-7	
Hungary		67248	0.0	1	3	51	11		137	-15	-28	-94	-12	
Poland		83799	-0.7	0	4	41	7		83	-12	-22	13	-14	
Romania		17022	-1.0	0	5	37	11		166	-13	-39	-88	-35	
South Africa		75032	-0.6	0	2	-4	-2		334	-15	-14	-88	26	
Türkiye		9814	0.0	9	7	93	31		266	-24	-72	-239	-48	
EM total		41	0.6	0	1	4	3		274	-17	-44	-141	-71	

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

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