



- Euro weakens sharply with analysts pointing to monetary policy divergence ([link](#))
- El Salvador returns to bond market with exotic macro-linked security ([link](#))
- Peru's central bank comes with a 25 bps surprise cut ([link](#))
- Asian equities fell amid weak Chinese trade data ([link](#))
- Investor demand in Treasury auctions at lowest this year amid high volatility ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Magnificent Seven Saved the Day

Yesterday, US Treasury yields continued to edge up, but US equity markets were boosted by the “Magnificent 7” and the technology sector. The NASDAQ gained 1.7%, and the S&P 500 0.7%, recovering from the post-CPI sell-off last Wednesday. Expectations for strong earnings were offsetting the adverse impact of higher rates on equity prices. Sentiment in Treasury markets remained fragile however, and akin to the October episode—when rates increased rapidly—Treasury auctions came back into focus. The sale of 30-year bonds was reportedly met by lackluster demand. This morning, US Treasury yields are trading lower, following similar moves earlier today in European sovereign bond markets. Yesterday, the ECB kept its policy rates unchanged. President Lagarde’s comments were seen to indicate that the ECB is not Fed dependent, but still Fed sensitive. Interest rate swap markets point to a growing divergence in the expected policy paths: a June rate cut is still expected to be on the table for the ECB, but pricing for a first Fed rate cut was pushed back to September. The euro depreciated sharply today, weakening by 0.7% versus the US dollar. While the Magnificent Seven were able to save the day for US equity markets yesterday, they might be challenged by financials today. Of note, JPMorgan Chase (JPMC) fell 4.2% in pre-market trading after weak net interest income data, and equity markets are poised to open lower with S&P futures down 0.3%.

Key Global Financial Indicators

Last updated: 4/12/24 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5199	0.7	1	0	27	9
Eurostoxx 50		5003	0.7	0	0	15	11
Nikkei 225		39524	0.2	1	2	39	18
MSCI EM		41	0.6	1	0	5	3
Yields and Spreads			bps				
US 10y Yield		4.51	-7.3	11	36	112	63
Germany 10y Yield		2.36	-10.2	-4	3	-1	34
EMBIG Sovereign Spread		330	8	-6	-34	-158	-53
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.5	-0.3	-1	-1	-8	-3
Dollar index, (+) = \$ appreciation		105.9	0.6	2	3	4	4
Brent Crude Oil (\$/barrel)		90.9	1.3	0	11	4	18
VIX Index (% change in pp)		15.3	0.4	-1	1	-4	3

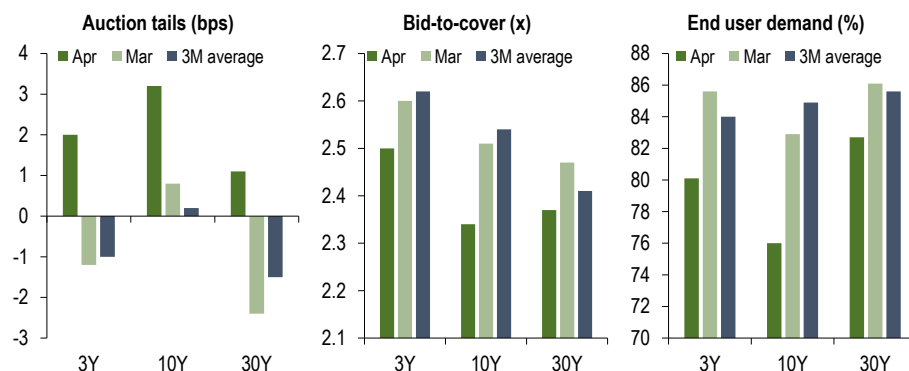
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

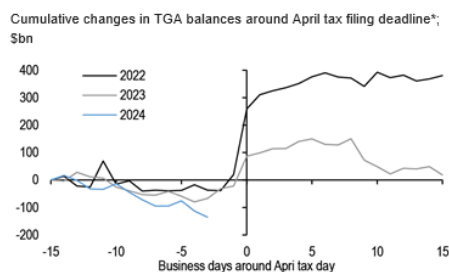
United States

The Treasury curve steepened following a softer than expected PPI and a challenging bond auction. Short-term rates were little changed. Long bond yields rose 4 bps after the 30-year bond auction tailed by over 1 bp with falling end-user demand. This marks the third consecutive auction tail this week, with each of the auction exhibiting the weakest demand metrics of the year for their respective maturities.



The upcoming April tax season could test the funding markets. Analysts expect over \$400bn tax payments around the April 15 deadline, equivalent to 1–2% of bank assets, to be drained from the reserves into Treasury General Account (TGA). This could coincide with liquidity drain from large Treasury settlements that typically take place in mid-month. Some market participants see the upcoming tax season as a useful test on the stability of the funding markets, which could influence the Fed's considerations of its balance sheet policy.

Figure 2: The TGA should rise sharply in the coming days...



Source: US Treasury
Dates used: 4/18/22, 4/18/23, 4/15/24

Euro Area

European equities are rallying with the STOXX 600 index 1% higher as commodities increased, with Bloomberg pointing to tensions in the Middle East. All sectors were trading in the green, with the basic resources (+2.1%), technology (+1.6%) and energy (+1.5%) sectors outperforming. Euro area sovereign yields eased this morning, retracing moves seen earlier this week following stronger than expected US inflation data. This morning, the 10y bund yield was roughly 8bps lower at around 2.38%, back to levels seen at the start of the week.

Analyst expectations for a June ECB rate cut firm up after ECB policy decisions yesterday. The ECB left its three key interest rates unchanged yesterday, as expected, but changes the forward-looking language was seen as opening the door for a rate cut in June. Contacts note specifically that it is the first time that the policy statement included a specific reference to lowering rates. Moreover, a few ECB

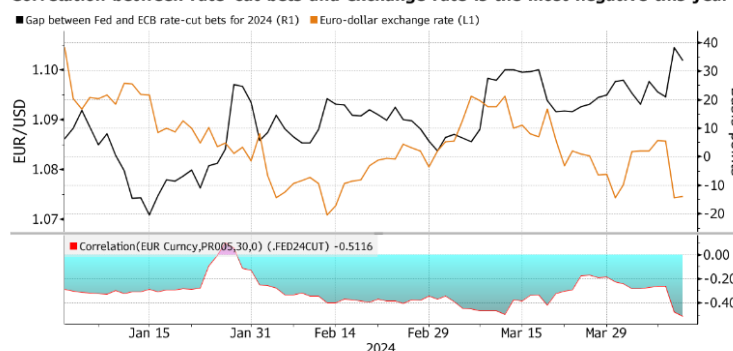
Governing Council members also thought a rate cut yesterday would have been appropriate. The ECB did not send any signals about the rate path beyond the first cut and President Lagarde emphasized “a data-dependent and meeting-by-meeting approach.” The market reaction to the ECB meeting yesterday was muted—with contacts noting that US data releases had a larger impact than the ECB meeting. Most analysts expect the ECB to start cutting rates in June, despite the ECB retaining some optionality not to ease. Views on the path thereafter diverge—Goldman Sachs analyst for example expect 100bps of rate cuts in 2024, while analysts from CACIB and UBS for example expect 75bps of rate cuts, and other analysts see as much as 125bps rate cuts this year. Markets are now pricing in roughly 82bps of ECB rate cuts in 2024 (compared to roughly 70bps yesterday), with 22bps of ECB easing priced in by June.

The euro was sharply weaker (-0.7%) this morning, trading at around 1.065, the weakest level since November 2023. Bloomberg analysts highlight that the wedge between the expected rate cuts from the Fed and expected rate cuts from the ECB has increased to its widest this year while the euro has weakened to its lowest level.

During the ECB press conference yesterday, a prominent question that President Lagarde received was the extent to which US inflation developments and the Fed’s decisions would impact the ECB’s monetary policy outlook. President Lagarde’s comments were seen to indicate that the ECB is not Fed dependent, but still Fed sensitive. After the policy meeting, ECB Governing Council member Stournaras also commented on the differences between the situations in the euro area and the US, noting that “now is the time to diverge.”

Widening Gap in Fed, ECB Rate Bets Weighs on Euro

Correlation between rate-cut bets and exchange rate is the most negative this year



Source: Bloomberg

Bloomberg

Japan

Japan Finance Minister Suzuki reiterated recent warnings against excessive currency moves,

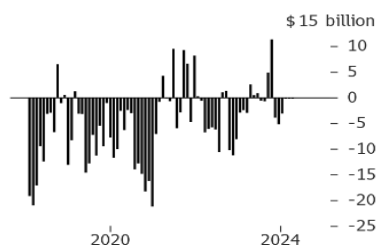
without ruling out any options. He repeated that he is monitoring foreign exchange developments with urgency and rapid foreign exchange moves are not desirable. Separately, local investors seemed to heed authorities’ intervention warnings on the yen, while foreign investors had shrugged them off, Bloomberg reported. Japanese retail investors

have eased their short positions on the yen against the dollar in the past months. However, hedge funds still maintained sizable short positions via futures in the US.

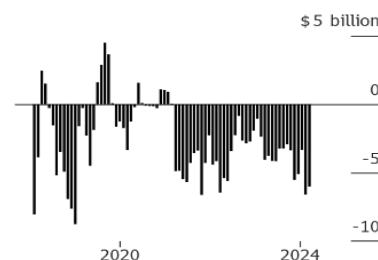
Locals Heed Verbal Warnings But Foreigners Don’t

Net yen positions

Japanese retail investors



Hedge funds’ futures position in US



Sources: Bloomberg, CFTC, Financial Futures Association of Japan, Tokyo Financial Exchange, the author’s calculation
Note: Retail positions for March and April are estimated using daily data from Tokyo Financial Exchange

Bloomberg

Emerging Markets

[back to top](#)

EMEA equities were trading higher today after softer-than-expected US PPI yesterday, while currencies mostly weakened. In CEE, equities gained about +0.6% in Hungary, Czechia and Poland, while currencies were weaker against the euro, in particular the Hungarian forint that lost -0.5% trading today at 391.80/€ as the 10-year yield spread over the Bund fell 2.5 bps to 450 bps. Elsewhere, in

Kazakhstan the tenge gained against the dollar, trading at 448.27/\$ (+0.7% since February) after the central bank surprised by keeping the policy rate unchanged at 14.75% (25bps cut expected) as inflation reached 7.7%/y in March and against the key rate standing at 16% in Russia.

Asian equities broadly declined by around -1%, as sentiment was weighed by weak trade data from China. Hong Kong SAR equities tumbled -2.2%, followed by South Korea (-0.9%), Mainland China, India, and Thailand (-0.8%). Vietnam bucked trend and rose +1.5%, as all sectors saw gains. Asian currencies weakened. The South Korean won depreciated by -0.8%, followed by Malaysian ringgit (-0.5%) and Singapore dollar (-0.4%). Asian 10Y bond yields were mixed. New Zealand (+7.1bps) and India (+6.8bps) yields rose. South Korea (-4.5bps) and Singapore (-5.7bps) yields declined. Both South Korea (BoK) and Singapore (MAS) central banks kept monetary policy settings unchanged as expected. Advance estimates for Singapore's 1Q GDP missed expectations +2.7%/y (consensus: +3%, previous: +2.2%), as manufacturing activity slowed.

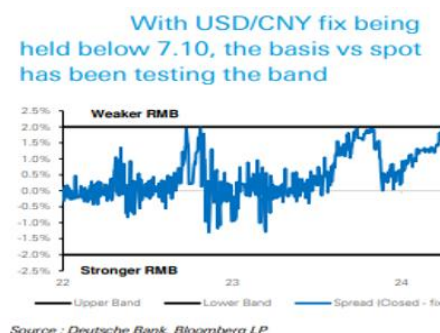
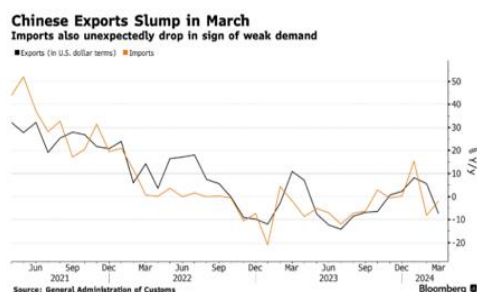
In LATAM markets, stock indices saw gains, notably in Colombia (+1.2%), Ecuador (+0.9%), Chile, Mexico, and Peru. Currency markets showed limited depreciation versus the US dollar; particularly for the Colombian peso, Brazilian real, and Chilean peso, although the Peruvian sol strengthened by +0.7% before Peru's central bank made a surprise 25bps cut of its policy rate to 6%. The Bloomberg EM LATAM Total Return Bond Index fell -1.2%, led by Mexican sovereign bonds, deepening losses from early April. Additionally, Argentina's central bank reportedly cut its key interest rate by 10 pp from 80% to 70%.

China

Chinese equities fell (CSI 300: -0.8%, Hang Seng China Enterprises: -2.1%), amid weak China trade data. China's exports missed expectations and contracted by -7.5% y/y (consensus: -1.9%, previous: +5.6%) in March. Imports contracted -1.9%/y (consensus: +1%, previous: -8.2%). These translated into a trade balance of +\$58.6bn (previous: +\$39.7bn) in March.

China's State Council issued guidelines to strengthen supervision and prevent risks in capital market development, Bloomberg reported. The State Council will tighten stock listing criteria, ensure "high quality development" of listed companies, clamp down on illegal share sales and improve supervision.

Offshore renminbi depreciated -0.1%, onshore was little changed. The People's Bank of China (PBoC) has kept the daily yuan fixing stable below 7.1 this week; Deutsche Bank believes the US dollar is unlikely to relieve pressure on the renminbi anytime soon.



El Salvador

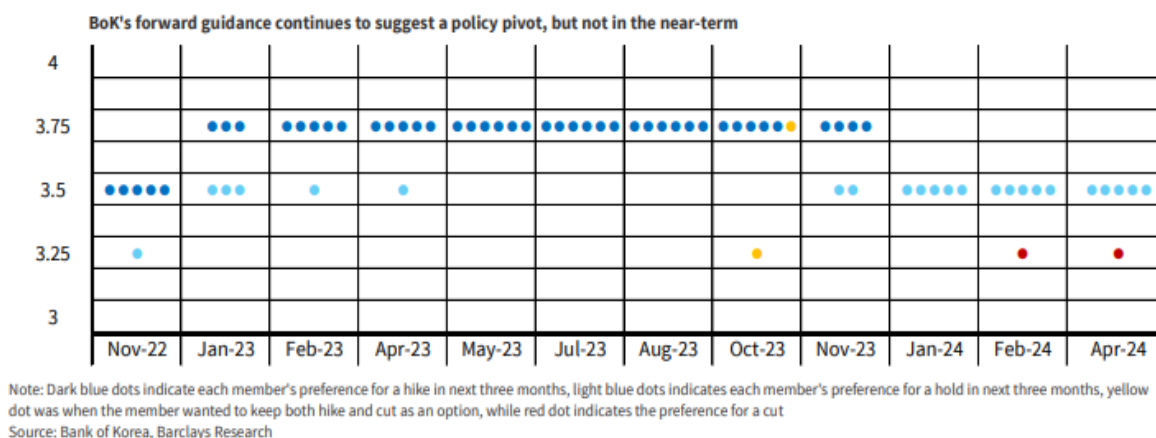
El Salvador is reentering global bond markets by selling \$1bn of a 6-year US dollar denominated bond, reportedly issuing at a yield of 12%. This is the first bond deal of its kind in nearly four-years. S&P confirmed its B- (stable outlook) foreign currency rating for El Salvador, which is rated Caa3 and CCC+ by

Moody's and Fitch, respectively. Some of the proceeds will be used for a buyback of existing notes under a tender offer. The bond with a 9.25% coupon was reportedly sold in conjunction with a "macro variable interest only step-up note." This refers, reportedly, to a security with a 0.25% coupon rate that could rise to 4% if the country fails to improve its credit rating sufficiently or secure an IMF deal by October 2025. Analysts at Citi note that this "macro-linked" bond is "the first of its kind in emerging markets credit."

Republic of Korea

The Bank of Korea (BoK) kept its policy rate unchanged at April's Monetary Policy Committee meeting. The decision was unanimous. In its statement, BoK stated that it is premature to be confident that inflation will converge to target level, therefore will maintain a restrictive monetary policy stance for sufficient period. BoK stated that GDP growth is consistent and could be higher than current forecast of 2.1%, driven by exports amid buoyancy in IT industry. BoK expects core inflation to slow to 2% at the end of 2024.

BoK Governor Rhee flagged possibility of a rate cut in H2, if CPI slows and oil prices stabilize. However, he declined to say whether the rate cut will come before or after the Fed's. Barclays views BoK's messaging as a good balance between dovishness and hawkishness and expects BoK to cut rate in August, before the Fed.



Peru

The central bank of Peru unexpectedly cut its policy rate by 25bps on Thursday evening, contrary to widespread expectations of a hold. Annual inflation has been declining, reaching 3.05% y/y in March 2024. For comparison, in March 2023 CPI inflation still printed at 8.4% y/y. However, March 2024 monthly inflation came in higher-than-anticipated at 1.01% m/m compared to 0.56% in February and 0.76% expected. Despite concerns about price pressures, the central bank described the monthly increase as transitory.

Peru's Central Bank Makes a Surprise 25bps Cut

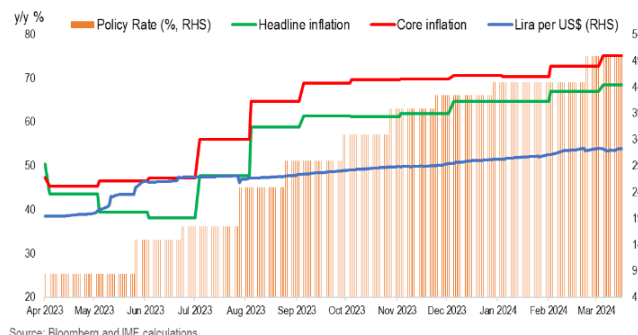


Türkiye

The Turkish lira was marginally weaker (-0.1%) this morning against the dollar, trading at 32.32/\$, but it has remained overall stable (+0.1%) since the beginning of April. According to Bloomberg, analysts look at uncertainties w.r.t. US monetary policy after surprising inflation data as reasons for intensifying pressure on the lira, which has depreciated by -8.68% against the dollar since the start of 2024, by -40.25% in one year, against a backdrop of inflation reaching as high as 68.5%/y/y in March. Analysts at Goldman

Sachs still maintain a positive view on the currency, based on increased confidence on Türkiye's path towards a more orthodox policy framework, as they see the 50bps rate hike made by the central bank (the CBRT raised the policy rate to 50% on 21 March) 10 days before the election as a sign of its credibility in pursuing inflation goals. Similarly, Unicredit also expects that economic policy stance will tighten, as President Erdogan confirmed his support to the current policies in his speech after the election. Unicredit expects that the policy rate will be kept at 50% until the end of 2024, supporting the currency.

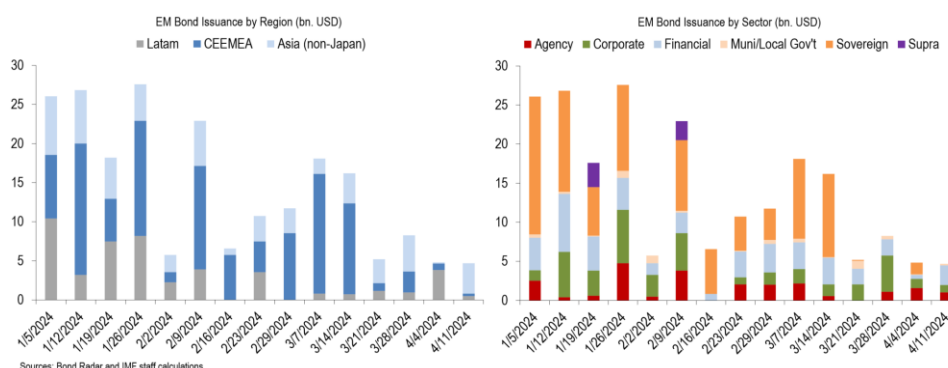
Türkiye: Inflation, Policy Rate and FX



EM Bond Issuance

EM bond issuance reached \$4.69bn this week, bringing YTD issuance to \$213bn. Notable issuance includes \$2.2bn from China, followed by \$1.2bn from Singapore, and \$497mn from Korea. By sector, financials led with 53%, followed by agencies at 22%, and corporates at 20%. Banks in Georgia, Singapore, and Korea collectively issued \$1.6bn, with the Bank of Georgia issuing a perpetual bond at 9.5%, that has its first call date in July 2029.

Largest Issuers: China and Financial Sector



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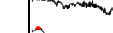
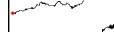


























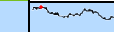

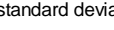


Global Financial Indicators

4/12/24 8:15 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5192	0.7	0	0	27	9
Europe		5003	0.7	0	0	15	11
Japan		39524	0.2	1	2	39	18
China		3476	-0.8	-3	-3	-15	1
Asia Ex Japan		68	0.8	1	0	2	3
Emerging Markets		41	0.6	1	0	5	3
Interest Rates			basis points				
US 10y Yield		4.51	-7.3	11	36	112	63
Germany 10y Yield		2.36	-10.2	-4	3	-1	34
Japan 10y Yield		0.86	-1.6	7	9	39	24
UK 10y Yield		4.14	-6.6	7	19	57	60
Credit Spreads			basis points				
US Investment Grade		119	0.7	-1	-6	-44	-15
US High Yield		350	5.8	2	-9	-134	-35
Exchange Rates			%				
USD/Majors		105.87	0.6	2	3	4	4
EUR/USD		1.07	-0.7	-2	-3	-3	-4
USD/JPY		153.1	-0.1	1	4	15	9
EM/USD		46.5	-0.3	-1	-1	-8	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		90.9	1.3	0	12	14	19
Industrials Metals (index)		152	2.0	3	7	-3	7
Agriculture (index)		59	0.8	-1	0	-13	-5
Implied Volatility			%				
VIX Index (% change in pp)		15.3	0.4	-0.7	1.5	-3.8	2.9
Global FX Volatility		7.1	0.0	0.4	0.4	-2.6	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-0.2	2	11	-81	3
Italy		139	-2.3	-3	11	-46	-29
Portugal		67	-1.0	-1	2	-18	4
Spain		81	-0.9	-2	0	-23	-16

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

Emerging Market Financial Indicators

Last updated: 4/12/2024 8:15 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	-1.5	-3	-7	-80	-21
Indonesia		15845	0.3	0.1	0	-6	-3		6.7	-1.9	-4	0	-4	17
India		83	-0.3	-0.2	-1	-2	0		7.4	10.0	16	25	3.8	20
Philippines		57	-0.1	0.0	-2	-2	-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		4.77	-0.5	-0.5	-2	-8	-4		3.9	4.0	6	10	6	19
Argentina		866	-0.1	-0.5	-2	-75	-7		46.3	23.2	-191	-2120	-4306	-4012
Brazil		5.11	-0.4	-0.9	-3	-4	-5		11.5	-0.4	10	67	-111	109
Chile		956	-0.1	-1.4	1	-16	-8		5.4	-0.5	14	35	20	50
Colombia		3827	-0.4	-1.6	2	18	1		8.7	-0.5	52	101	-9	105
Mexico		16.51	-0.4	-0.4	2	9	3		9.3	0.0	24	73	100	88
Peru		3.7	0.7	-0.1	0	2	0		7.5	1.4	29	42	-1	79
Uruguay		39	-0.1	-0.8	0	0	1		9.0	-6.5	-10	1	-137	-57
Hungary		368	-1.3	-2.2	-1	-7	-6		6.8	-4.0	26	79	-175	105
Poland		4.00	-0.7	-1.3	-2	6	-2		5.3	-2.0	21	41	-18	82
Romania		4.7	-0.7	-1.8	-3	-4	-3		6.5	5.3	9	13	-71	28
Russia		93.5	-0.2	-1.0	-2	-12	-4							
South Africa		18.8	-0.2	-0.3	-1	-2	-2		10.0	-1.0	21	58	77	86
Türkiye		32.33	-0.1	-0.9	-1	-40	-9		27.2	-8.0	97	-92	1683	40
US (DXY; 5y UST)		106	0.6	1.5	3	4	4		4.55	-8.0	16	40	109	70

	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		3476	-0.8	-3	-3	-15	1		142	-7	-13	-51	-16	
Indonesia		7287	0.0	0	-1	7	0		90	-7	-18	-62	-6	
India		74245	-1.1	0	2	23	3		103	-3	-8	-61	-13	
Philippines		6659	-0.3	-3	-2	3	3		78	-7	-14	-49	-2	
Thailand		1396	0.0	2	1	-12	-1		0	0	0	0	0	
Malaysia		1551	-0.2	1	0	8	7		79	-3	-8	-20	-6	
Argentina		1259303	2.1	6	23	372	35		1288	-76	-423	-1151	-625	
Brazil		127396	-0.5	0	0	19	-5		205	-7	-16	-74	-10	
Chile		6727	0.6	3	3	26	9		110	-10	-23	-34	-15	
Colombia		1415	1.2	2	11	15	18		278	-10	-28	-128	7	
Mexico		56830	0.3	-2	4	5	-1		307	2	-23	-89	-27	
Peru		27948	0.5	-1	-3	25	8		138	-4	-8	-53	-6	
Hungary		67479	0.4	1	2	56	11		140	-11	-22	-93	-9	
Poland		83850	0.4	0	2	39	7		85	-9	-19	6	-12	
Romania		16991	-0.1	-1	5	37	11		173	-4	-28	-86	-27	
South Africa		75520	0.3	1	3	-3	-2		347	0	-4	-80	39	
Türkiye		9814	0.0	9	7	93	31		277	-7	-53	-227	-37	
EM total		41	-0.7	1	0	5	3		280	-7	-38	-136	-66	

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

[back to top](#)