



- Markets scale back UK rate cut expectations after inflation data ([link](#))
- Korean officials step up verbal intervention against currency weakness ([link](#))
- The Mexican peso fell over 2%, the largest sell off since October ([link](#))
- US bank earnings have surprised on the upside but highlighted some areas of stress ([link](#))
- South African inflation eased more than expected but remains elevated ([link](#))
- **Special Feature: Quarterly EM BOP Capital Flows Monitor** ([attached](#))

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Markets stabilized somewhat, but investors continue to adjust rate expectations

The upward move in Treasury yields and the dollar took a breather, while global risk assets are mixed this morning. Treasury yields edged lower after climbing earlier in the week, with the 2y yield nearly reaching 5% for the first time since November after Fed Chair Powell's comments seemed to affirm market expectations of delayed rate cuts beyond June. The dollar index was down slightly today, with the yen exchange rate holding firm near 154.5 after some intraday volatility. Japanese and Korean officials stepped up their verbal interventions, with the Korean won appreciating slightly after falling to its lowest level since late 2022. Global equity indices were mixed, with Europe and China rebounding while Japanese indices fell. US equity futures rose slightly as the market looks to rebound after falling 3% in the last week. Elsewhere, the Bank of America Fund Manager Survey showed that expectations for "no landing" in the economy rose to 36% in April, up from 23% in March and 7% in January.

Key Global Financial Indicators

Last updated: 4/17/24 7:53 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
S&P 500		5051	-0.2	-3	-1	22	6
Eurostoxx 50		4951	0.7	-1	-1	13	9
Nikkei 225		37962	-1.3	-4	-4	32	13
MSCI EM		40	-1.3	-5	-3	0	-1
Yields and Spreads				bps			
US 10y Yield		4.66	-1.2	11	35	105	78
Germany 10y Yield		2.49	0.8	6	5	2	47
EMBIG Sovereign Spread		348	5	18	-7	-130	-35
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		45.9	0.1	-2	-2	-10	-5
Dollar index, (+) = \$ appreciation		106.2	-0.1	1	3	4	5
Brent Crude Oil (\$/barrel)		89.4	-0.7	-1	5	5	16
VIX Index (% change in pp)		17.9	-0.5	2	4	1	5

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

Treasury yields continued to climb higher, with the 2y yield approaching 5% on Wednesday. The sell off in yields accelerated after Fed Chair Powell said the latest data show a lack of progress on inflation, and that “it is appropriate to allow restrictive policy further time to work,” according to Bloomberg. **Markets are now pricing in only one full rate cut through the November FOMC meeting.** Higher US rates, alongside lingering geopolitical tensions, have helped drive the dollar over 2% higher in the last week.

US Two-Year Yield Hovers Near 5%



US Banks

G-SIBs and US regional bank earnings reports have largely surprised on the upside, but have highlighted some medium term stress. US GSIBs benefited from a strong quarter of investment banking and trading activity while smaller banks were able to offset pressure on revenues with better expense control. An improved macro outlook allowed banks to increase provisions by less (or even release them) than market expectations, despite management calls highlighting continued stress in CRE and credit card segments. Custodian banks have benefitted from high asset values, which boosted investment services and management fees, although net inflows from clients were more limited. Capital positions remain strong as banks await the final package of Basel III. In general, higher deposits costs are weighing on net interest income and likely to continue doing so. **Bank stocks are down 7.1% over the last week, compared to 3% for the benchmark index.**

Europe

European equities rebounded today (+0.7%) after the STOXX 600 index fell 1.5% on Tuesday, the largest sell off since July 2023. Most sectors were higher this morning, with the banking sector up 1.6%, while the technology sector (-1.4%) underperformed. Contacts highlighted that the equity sell off yesterday was driven by concerns about energy prices, highlighting the path of natural gas prices amid growing geopolitical risk. Natural gas price futures closed 6% higher yesterday before easing today, but are trading 2% higher YTD. Elsewhere, the final euro area March CPI print confirmed earlier estimates – with headline inflation at 2.4% y/y and core inflation at 2.9% y/y. **Euro area sovereign yields were little changed this morning (10y bund trading at around 2.49%), close to the highest level since November 2023.**

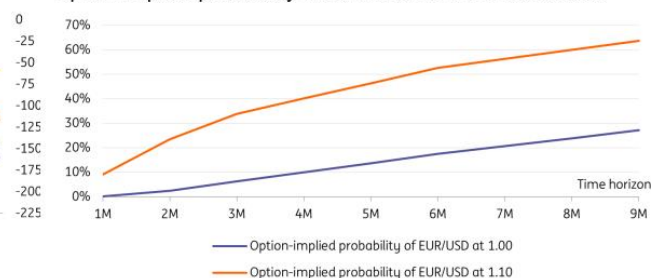
The euro appreciated against the dollar (+0.2%), but is down 3.6% YTD. ING analysts see rate differentials, geopolitical developments, and higher energy prices as key drivers of euro weakness. ING analysts think that the euro could reach parity if markets price out all rate cuts for the Fed, while maintaining ECB rate cuts of between 75 bps and 100 bps in 2024. **ECB President Lagarde yesterday confirmed that the ECB were moving closer towards a rate cut, and also indicated that the ECB would be**

paying attention to changes in the exchange rate. Markets have slightly scaled back the probability of a June rate cut by the ECB, though it still stands at 87%, with roughly 78 bps of cuts priced in for 2024.

The euro's fundamentals are stronger than in 2022



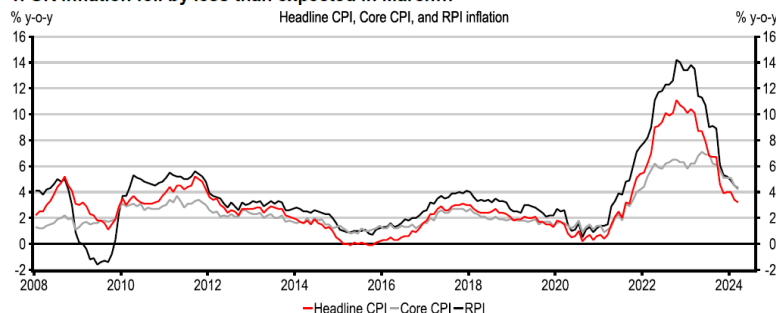
Option-implied probability of different EUR/USD scenarios



United Kingdom

Markets scaled back rate cut expectations for 2024 after March inflation eased less than expected. Headline CPI inflation came in at 3.2% (vs 3.1% expected, 3.4% previously), while core printed at 4.2% y/y (vs 4.1% expected, 4.5% previously). ING analysts expect a renewed downtrend in services inflation in the coming months and maintained their expectations for a first rate cut in August. In contrast, HSBC expects the first rate cut in June amid waning base effects and lower utility rates. Analysts also highlighted comments by Governor Bailey yesterday, where he noted that inflation in the US is more “demand-led”. **Markets are now pricing in roughly 40 bps of BoE rate cuts in 2024, compared to 56 bps priced in at the end of last week, with the first rate cut fully priced by November.** The pound was trading stronger against the dollar (+0.2% at around 1.25).

1. UK inflation fell by less than expected in March...

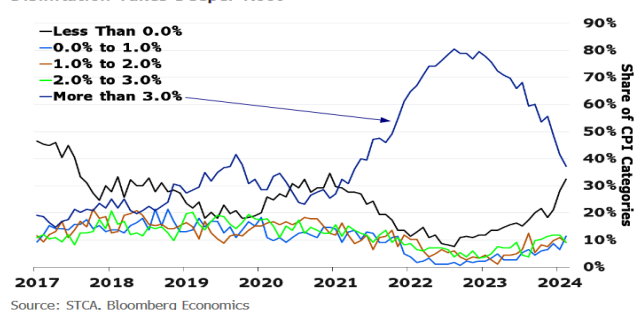


Canada

March inflation data came in below expectations, solidifying market expectations for rate cuts in the near term. Headline CPI rose 0.6% m/m (vs 0.7% expected), while annual inflation was in line with expectations at 2.9%. Median core inflation came in at 2.8% y/y (vs 3% expected). Bank of Canada Governor Macklem had stated at last week's policy meeting that a persistent decline in core inflation was both necessary and sufficient to begin easing.

Markets are pricing in about a 70% chance of a rate cut in June, and 32 bps of easing by July.

Disinflation Takes Deeper Root



Japan

The Japanese yen stabilized around 154.5 yen per dollar after briefly strengthening overnight (to nearly 154.0). Market narratives are increasingly focused on FX intervention risk following a joint statement issued by the finance ministers of Japan and Korea. The statement noted concerns about recent exchange rate moves and vowed to take appropriate steps to counter extreme volatility. Japanese equities declined (NIKKEI: -1.3%), while long-end JGB yields increased (10-year: +1.3 bps; 30-year: +1.6 bps).

Emerging Markets

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EMEA equities were mostly higher today, while currencies were mixed. Equities gained in Hungary (+1.1%), Poland (+1.3%), and Türkiye (+1%). Most CEE currencies were stronger against the euro, with the exception of the Czech koruna. Asian equities and currencies lacked a clear direction. Asian equities were mixed, gaining 0.7% on net. Taiwanese (+1.6%) and Chinese (CSI 300: +1.5%) markets gained, while stock prices dropped in Thailand (-2.0%) and Korea (-1.0%). The Korean won appreciated 0.6% after verbal intervention from the authorities, while other regional currencies generally declined. Government bond yields increased, with 10y yields rising in the Philippines (+13 bps) and Indonesia (+6 bps). In Latin America, financial markets extended recent losses, with currencies in Mexico (-2.1%), Brazil (-1.8%), and Chile (-0.8%) declining against the dollar.

China

The People's Bank of China (PBC) left the daily RMB fixing unchanged from yesterday after weakening it 0.1% on Tuesday. The deviation of the RMB fixing from market consensus (which is based on a prescribed formula) remained wide at 1,394 pips. The offshore yuan appreciated slightly. CNH HIBOR rates (RMB funding costs in the Hong Kong market) rose to the highest levels since 2018, pushing the spread between 1-month CNH HIBOR and SHIBOR to more than 300 bps, a gap last seen in September 2023. Tighter CNH liquidity made it more costly for offshore traders to bet against the currency.



Chinese equities gained (CSI 300: +1.5%) as small cap stocks rebounded (CSI 1000: +4.4%) after falling since last Friday on concerns that tighter oversight of capital markets could put smaller firms at a disadvantage. The China Securities Regulatory Commission (CSRC) tried to assuage such concerns by saying that the latest delisting rules do not target small cap stocks. Beijing kicked off a new round of anti-graft inspections in the financial sector, spanning state-owned financial institutions, the central bank, and financial regulators. Elsewhere, demand for bonds remained strong despite the significant rally seen since December 2023. Many mutual fund managers have set buying limits. CGB yields declined slightly.

Korea

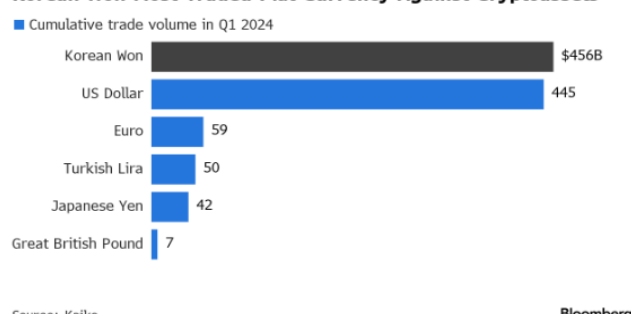
The Korean won appreciated (0.6%) after increased verbal intervention from the authorities. The Ministry of Finance and Bank of Korea (BOK) issued a rare joint warning to market participants yesterday after the Korean won breached the 1,400 won per dollar mark for the first time since 2022. The statement

highlighted that excessive one-sided moves in the FX market are not desirable. Separately, BOK Governor Rhee said that recent weakness of Korean won was a bit excessive and that the central bank has tools against FX volatility. Furthermore, finance ministers from Korea and Japan issued a joint statement, which highlighted serious concerns about recent exchange rate depreciations and vowed to take appropriate steps to counter volatility. **The Korean won is now the most traded currency against crypto assets globally.** Based on Kaiko data, the trading volume of Korean won exceeded that of the US dollar in 2024Q1.

Won Gains After Falling to 1,400 Key Level on Tuesday

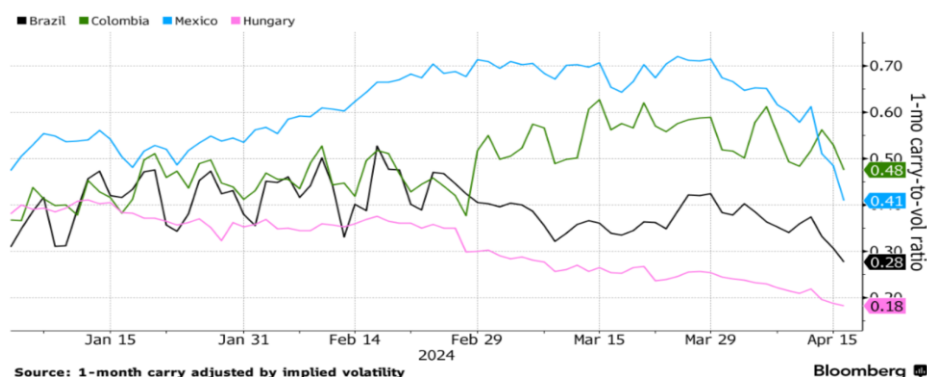


Korean Won Most Traded Fiat Currency Against Cryptoassets



Mexico

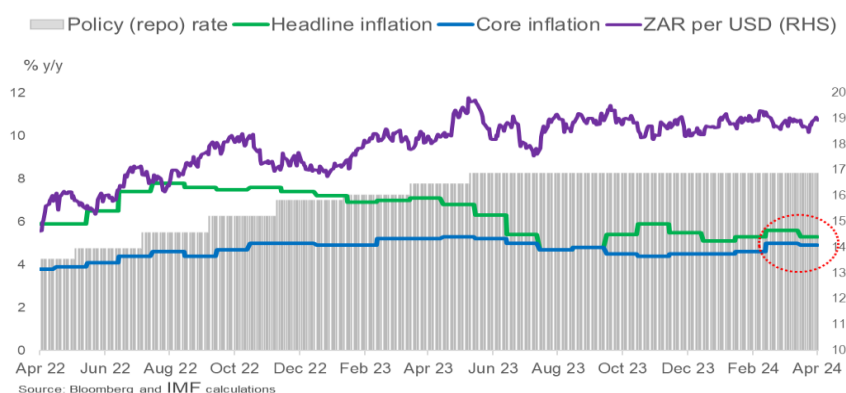
The peso depreciated 2.1% on Tuesday, the largest sell off since October. The “super peso” led EM currencies lower, as investors are reportedly beginning to unwind some carry trades as volatility spikes. The pricing out of Fed rate cuts, higher Treasury yields, and safe haven flows amid geopolitical risk is likely playing a role as well. Credit Agricole recommended clients bet against the Mexican peso, as the currency has become expensive ahead of the US and Mexican election cycles. **The Mexican peso’s one month implied volatility spiked to 13.4% on Tuesday, from 7.4% at the beginning of the month.**



South Africa

The rand appreciated (+0.3%) against the dollar after March inflation was slightly lower than expected. Headline inflation eased to 5.3% y/y in March (vs 5.4% expected and 5.6% previously). Core inflation also declined to 4.9% from 5% in February, in line with expectations. Inflation remains above the 4.5% midpoint of the central bank’s target range, and the March figure appears unlikely to persuade the central bank to cut rates. Analysts expect the central bank to remain cautious given concerns about rising oil prices and the recent depreciation of the rand (-3.2% YTD). SARB Governor Lesetja Kganyago reiterated on Tuesday that he remains wary of inflation pressures and is ready to maintain tight monetary policy. 10y government bond yields fell 6 bps to 12.44%.

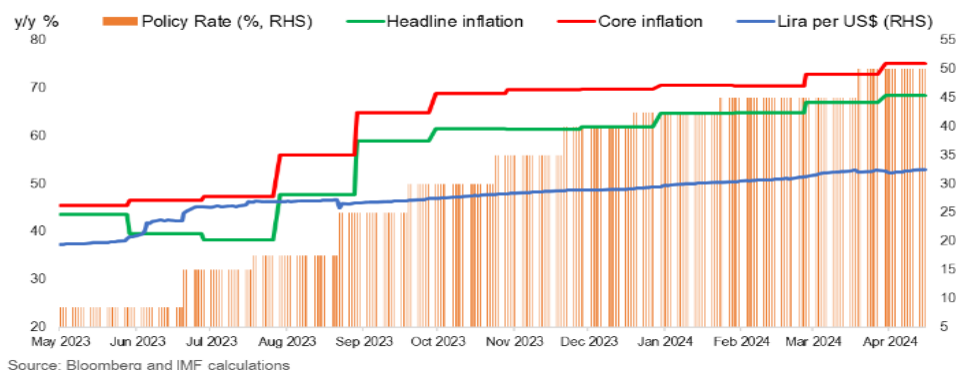
South Africa - Policy Rate, Inflation and Currency



Türkiye

The lira weakened (-0.2%) against the dollar after the current account deficit widened to -\$3.2 bn in February (vs -\$3.7 bn expected, -\$2.5 bn previously). The lira has depreciated 9.2% against the dollar YTD. However, ING analysts see the February data confirming recent improvement (as measured on a 12m basis) in the external balance. They also expect recent central bank tightening to dampen import demand going forward. CBT Governor Fatih Karahan said Tuesday: “Our strategy going forward is that our utmost priority is disinflation and we will accumulate reserves as much as we can depending on market conditions”. Karahan said the central bank intends to borrow less hard currency from commercial lenders via swap transactions, as these operations made it difficult to maintain a tight policy stance.

Türkiye: Inflation, Policy Rate and FX



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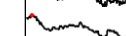




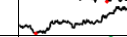

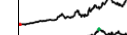

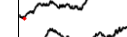


















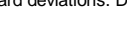




Global Financial Indicators

4/17/24 7:52 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5051	-0.2	-3	-1	22	6
Europe		4951	0.7	-1	-1	13	9
Japan		37962	-1.3	-4	-4	32	13
China		3565	1.5	2	-1	-14	4
Asia Ex Japan		66	-1.2	-5	-3	-4	-1
Emerging Markets		40	-1.3	-5	-3	0	-1
Interest Rates			basis points				
US 10y Yield		4.66	-1.2	11	35	105	78
Germany 10y Yield		2.49	0.8	6	5	2	47
Japan 10y Yield		0.88	1.2	8	10	40	27
UK 10y Yield		4.32	1.6	17	21	62	78
Credit Spreads			basis points				
US Investment Grade		124	0.3	5	2	-35	-10
US High Yield		367	2.1	21	15	-101	-18
Exchange Rates			%				
USD/Majors		106.19	-0.1	1	3	4	5
EUR/USD		1.06	0.2	-1	-2	-3	-4
USD/JPY		154.6	-0.1	1	4	15	10
EM/USD		45.9	0.1	-2	-2	-10	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		89.4	-0.7	-1	5	13	17
Industrials Metals (index)		153	0.8	2	6	-4	7
Agriculture (index)		59	0.2	-1	-1	-16	-6
Implied Volatility			%				
VIX Index (%, change in pp)		17.9	-0.5	2.1	3.5	1.0	5.5
Global FX Volatility		7.8	0.0	1.0	1.4	-1.4	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-1.2	5	8	-78	4
Italy		144	-2.2	7	18	-39	-24
Portugal		69	-0.5	2	5	-15	6
Spain		84	-0.9	3	3	-19	-13

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

Emerging Market Financial Indicators

Last updated: 4/17/2024 7:47 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		7.24	0.0	-0.1	-1	-5	-2		2.3	-0.5	-3	-1	-84	-22
Indonesia		16220	-0.3	-2.3	-3	-9	-5		7.0	5.3	32	32	31	49
India		84	-0.1	-0.3	-1	-2	0		7.5	0.0	15	23	5.0	25
Philippines		57	-0.3	-1.2	-3	-2	-3		5.6	0.1	15	15	-39	-4
Thailand		37	-0.5	-1.1	-2	-7	-7		2.9	-1.0	13	39	32	20
Malaysia		4.79	0.1	-0.9	-2	-8	-4		3.9	-1.4	4	5	8	20
Argentina		869	0.0	-0.5	-2	-75	-7		43.1	2.0	-283	-1874	-4665	-4327
Brazil		5.28	-1.8	-5.2	-5	-6	-8		12.0	23.2	69	89	-47	157
Chile		982	-0.3	-4.1	-3	-18	-10		5.6	-0.8	19	41	26	65
Colombia		3917	-0.4	-3.7	-1	13	-2		8.9	0.0	24	108	-5	126
Mexico		16.99	0.5	-3.2	-1	6	0		9.6	-2.5	28	85	106	116
Peru		3.8	-0.4	-1.7	-1	1	-1		7.5	0.5	19	48	-8	78
Uruguay		39	-0.7	-2.0	-2	-1	-1		8.9	4.3	-8	-1	-133	-59
Hungary		369	0.8	-1.4	-2	-8	-6		7.1	-2.0	45	85	-135	137
Poland		4.09	0.5	-2.9	-3	4	-4		5.5	-3.0	29	50	-5	106
Romania		4.7	0.2	-1.1	-2	-3	-4		6.6	5.7	16	11	-69	35
Russia		94.1	0.0	-0.9	-3	-13	-5							
South Africa		19.1	0.0	-1.5	-1	-4	-4		10.2	-8.0	26	48	84	106
Türkiye		32.53	-0.2	-0.7	-1	-40	-9		28.0	58.0	87	102	1585	127
US (DXY; 5y UST)		106	-0.1	0.9	3	4	5		4.68	-2.2	8	35	98	83

	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
								basis points						
China		3565	1.5	2	-1	-14	4		142	-6	-8	-52	-16	
Indonesia		7131	-0.5	-1	-2	5	-2		98	0	-3	-42	2	
India		72944	0.0	-2	0	22	1		103	-3	-4	-53	-13	
Philippines		6450	0.7	-4	-6	0	0		85	0	-1	-30	5	
Thailand		1367	-2.1	-1	-1	-14	-3		0	0	0	0	0	
Malaysia		1540	0.4	-1	-1	8	6		83	2	-2	-17	-2	
Argentina		1203238	0.5	-4	13	328	29		1382	145	-225	-993	-531	
Brazil		124389	-0.8	-4	-2	17	-7		220	10	7	-49	5	
Chile		6431	-0.8	-4	-1	18	4		116	1	-9	-23	-9	
Colombia		1368	-0.9	-2	6	9	14		297	19	4	-102	26	
Mexico		55797	-0.3	-3	-1	2	-3		325	23	4	-61	-9	
Peru		27394	-0.2	-1	-7	22	6		146	8	6	-38	2	
Hungary		66330	1.4	-1	2	51	9		145	-4	-6	-87	-4	
Poland		82515	1.5	-2	3	34	5		88	-3	-6	11	-9	
Romania		16963	0.9	-1	4	36	10		181	5	-5	-74	-20	
South Africa		72960	-0.1	-3	0	-7	-5		358	20	14	-49	50	
Türkiye		9615	0.7	0	9	90	29		289	9	-33	-188	-25	
EM total		40	0.4	-5	-3	0	-1		296	18	-12	-110	-49	

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

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