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- High grade corporate credit seen outperforming despite recent headwinds ([link](#))
- Preliminary Q1 euro area growth beats expectations while core inflation remains sticky ([link](#))
- Chilean peso is priced to sustain its rally against the US dollar towards year-end ([link](#))
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Strong Economic Data Faces Off Rate Cut Pricing

A series of upbeat economic data from the Euro Area and the US employment cost index adds credence to a higher for longer interest rate environment. First quarter GDP data so far show slight improvements across nearly every Euro Area country. Additionally, core inflation for the Euro Area exceeded expectations, leading to increases in sovereign yields and a stronger euro. Similarly, the US employment cost index for the first quarter grew at the highest pace since the first quarter a year ago. As Japan resumes trading after a long weekend, the yen exhibits reduced volatility compared to yesterday, as market participants await confirmation from the Bank of Japan's statistical data release tomorrow for confirmation whether authorities intervened in currency markets yesterday. Meanwhile, South Korea's March industrial production data fell short of expectations, but regional stock markets recorded modest gains. Despite lower-than-expected GDP growth in the first quarter, the Hungarian forint performed better than its Central Eastern European counterparts, while upbeat growth data in Czechia triggered negligible market reaction. Expectations are rising for an upgrade in Türkiye's sovereign credit rating by S&P, contributing to the appreciation of the lira against the dollar and pushing Turkish equities to record highs.

Key Global Financial Indicators

Last updated: 4/30/24 8:33 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5116	0.3	2	-3	23	7
Eurostoxx 50		4958	-0.5	-1	-2	14	10
Nikkei 225		38406	1.2	3	-4	32	15
MSCI EM		42	1.0	4	1	6	3
Yields and Spreads			bps				
US 10y Yield		4.66	4.8	6	46	124	78
Germany 10y Yield		2.57	3.7	7	27	26	55
EMBIG Sovereign Spread		340	-1	0	-1	-143	-43
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	0.0	0	0	-8	-4
Dollar index, (+) = \$ appreciation		105.8	0.2	0	1	4	4
Brent Crude Oil (\$/barrel)		88.7	0.3	0	1	11	15
VIX Index (% change in pp)		14.8	0.2	-1	2	-1	2

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

This morning, the first quarter Employment Cost Index accelerated and came in above expectations, growing 1.2% q/q vs the expectations of 1%. The index measures the change in employee compensation in terms of per-employee hour worked. In the market reaction, 2y yields spiked above 5.02% with market contacts reporting big selling flows in front-end Treasury securities. This comes after the US Treasury department yesterday surprised markets by announcing an increase in the borrowing estimate for the current quarter to \$243 bn, up from the previously guided figure of \$202 bn in January. This led to significant volatility in markets during the last hour of trading. Initially, following the announcement, both equities and treasuries erased their daily gains; however, they regained ground in the final minutes of trading, as equities closed the day +0.3% higher, and 10yr treasury yields declined by -6bps.

US Treasury (UST) department increases its financing estimate by \$41 bn to \$243 bn for the quarter of April-June. Further, while assuming the pace of Fed's quantitative tightening (QT) to remain unchanged (\$60 bn per month), the financing requirement for the subsequent quarter was set out at \$847 bn, and estimates predict the cash balance in Treasury General Account (TGA) with the Fed to rise to \$850 bn by end of 3Q24. Overall, the UST's financing need is +\$100 bn higher than market estimates for 2Q-3Q24. The announcement came as a surprise to market contacts, who were expecting smaller financing needs for both quarters. As reasons, the UST department cites lower tax receipts that drive up borrowing needs and the need to replenish its TGA cash balance at the Fed, which needs to cover the anticipated outlays of the federal government over five consecutive business days. Conversely, a number of market contacts correctly anticipated that Treasury officials did not anticipate any expectation for Fed QT to avoid front-running any announcement from the Fed tomorrow. Indeed, the UST's pro forma financing estimates that are underpinning the financing estimates assume that Fed balance sheet runoff will continue unabated over the forecasting horizon, as Wrightson ICAP market contacts rightly anticipated out in the run up to the release. While consensus expects that the additional funding needs will be raised through a higher T-bill issuance share, market contacts will be attentive to the quarterly refunding announcement tomorrow morning, where the details on the auction sizes of coupon securities will be released.

Figure 1: Treasury's borrowing estimates suggest somewhat larger borrowing needs than we expected, which should lead to more T-bill issuance

Estimated marketable borrowing and cash balance projections; \$bn

	Apr-Jun		Jul-Sep	
	Borrowing	Cash	Borrowing	Cash
Current Treasury estimate	243	750	847	850
Previous Treasury estimate	202	750	-	-
JPM estimate	227	750	535	775

Source: US Treasury, J.P. Morgan

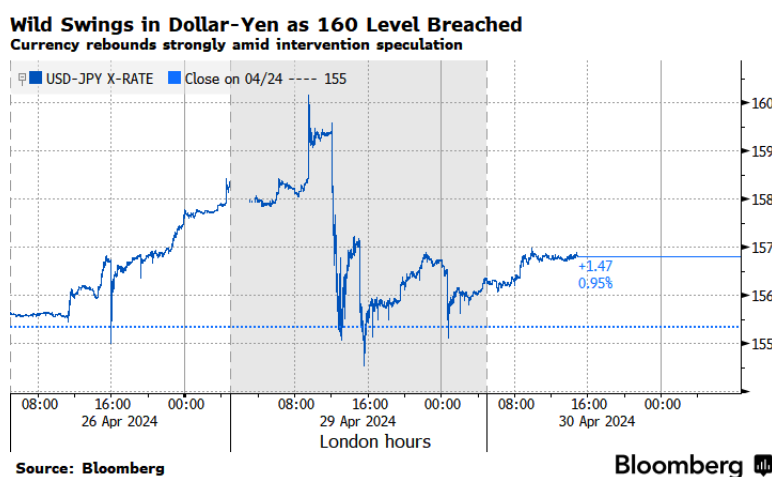
Despite recent headwinds, high grade (HG) corporate credit is outperforming. In the current earnings season, a few key companies showed negative price reaction on below-than-expected earnings results, e.g., from Tesla (rated *BBB*) and DTE energy (rated *A*). This has caused volatility in the bond markets to rise by more than 25% in April, while HG bonds have seen only a marginal spread widening. As of last week, the spreads had widened only by a feeble +5bps from their yearly tight levels of 99 bps in mid-April. However, the fund flows into the segment suffered considerably in April and returns at index level have turned negative (left chart). In reaction, corporate treasurers curbed HG issuance volumes, which declined to \$86 bn this month, versus a seasonal average of \$94 bn for the month of April. Going forward, market analysts expect the demand for HG credit to remain strong as investors seek to collect attractive coupons

amid the current higher-for-longer rate environment and higher yield levels (right chart). JP Morgan market contacts expect that this will revive the demand for longer-dated HG corporate credit.

Japan

March industrial production and retail sales data printed weaker than expected. Industrial production contracted 6.7% y/y (consensus: -6.3%), while retail sales expanded 1.2% y/y (consensus: +2.4%). Meanwhile, the unemployment rate stayed at 2.6% in March (consensus: 2.5%). Japanese equities gained (NIKKEI: +1.2%). Japanese yen depreciated to 156.9 yen per dollar (-0.3%). Long-end JGB yields showed mixed results on the day (10-year: -1.1 bps; 30-year: +0.5 bp).

Market contacts are attentive to the Bank of Japan's (BOJ) statistical data to seek confirmation whether the authorities intervened in FX markets. Tonight (Asia time), the BOJ will be releasing forecasts for its current account balance on May 1. Given the t+2 FX settlement, the Wednesday data release would reflect the effect of the BOJ having bought yen for Dollar on Monday. It is consensus among market contacts that the authorities intervened yesterday following the yen's depreciation beyond 160 yen per dollar amid thin market liquidity conditions.

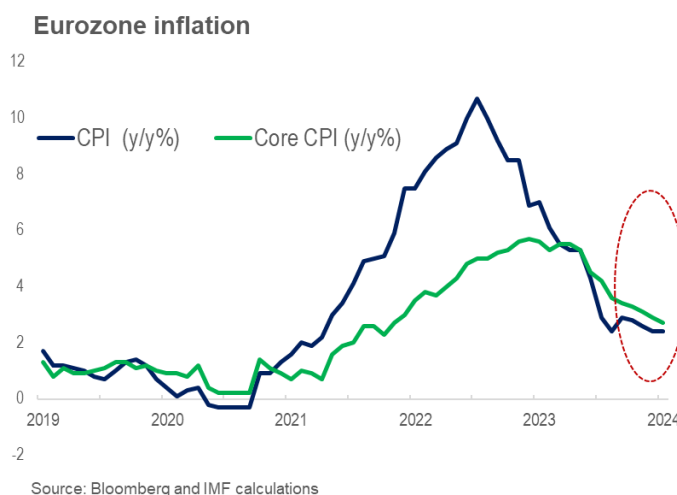


Euro Area

Markets became more cautious ahead of the Fed with European equities paring back gains this morning. As earnings reporting continued, the Stoxx 600 Europe index slightly declined (-0.3%), with mixed performance across sectors, with the real estate sector (+0.8%) outperforming, while the banking sector was little changed. Sovereign yields were edging higher in early trade (German 10y bund yield +2bps trading at around 2.56%) while the euro retraced early morning losses against the dollar to trade marginally stronger (+0.1% at around 1.07) after preliminary Q1 euro area growth surprised on the upside.

Preliminary data for euro area core inflation in April surprised to the upside as preliminary Q1 GDP data surprised on the upside. Data released this morning showed preliminary euro area core inflation in April eased to +2.7%y/y (exp. +2.6% from +2.9%) while headline inflation remained unchanged at +2.4%y/y, as expected. France's flash headline HICP inflation surprised on the upside, remaining unchanged at +2.4%y/y (exp. +2.2% from +2.4%), while Italy's flash headline HICP inflation was printed at +1.0% (exp. +1.1% from +1.2%). This follows after data yesterday showed Germany's flash headline HICP inflation ticking up to +2.4% y/y in April (exp. +2.3% from +2.3%), while Spain's preliminary headline inflation rate rose +3.4%y/y in April (exp. +3.4% from +3.3%). The Preliminary Q1 euro area growth surprised on the upside, printing at +0.3%q/q (exp. +0.1% from revised -0.1%), with preliminary GDP data from Germany, Italy and France also modestly higher than anticipated.

The pricing for the first ECB rate cut remains firmly anchored for June. The ECB's Vice President de Guindos stated yesterday that the inflation outlook is surrounded by "*substantial risks*" on both sides. Despite the stronger than expected inflation and GDP data today, market pricing continues to attach 90% odds for the ECB starting to cut policy rates in June, with around -69bps of easing priced in for 2024 (compared to -72bps yesterday). Market contacts at ING expect an ECB rate cut in June, and that the ECB would be data-dependent thereafter.



Emerging Markets

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Asian currencies depreciated while equity markets lacked clear trend. Among currencies, the Korean won (-0.4%), Philippine peso (-0.2%) and Chinese yuan (-0.2%) led the decline. Stock markets slightly declined on net (-0.2%). Regional markets in Indonesia (+1.1) and India (+0.6%) could post gains while those in the Philippines (-1.0%) and China (CSI 300: -0.5%) lagged. In Korea, industrial production data for March missed expectations, up only +0.7% y/y (exp. +4.6% from revised +4.6%) while Korean equities gained (+0.2%) on the day. In Singapore, the unemployment rate in March edged up to 2.1% (exp. 2.0% from 2.0%). In Hong Kong SAR, a batch of crypto-linked exchange-traded funds (ETFs) went live today. Based on Bloomberg's estimates, the assets under management for crypto ETFs stand at \$244mn in Asia, which remains small compared to those in North America, Europe and South America, which are estimated to stand at \$73bn, \$12bn and \$850mn, respectively.

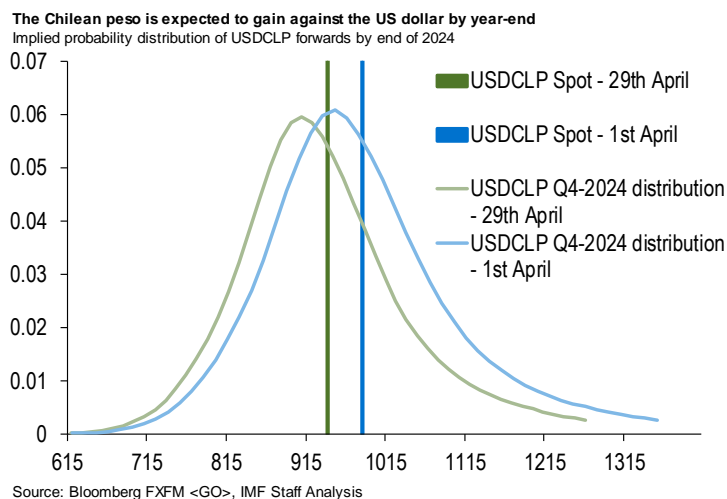
EMEA equities and currencies were trading mixed today. Speculation is mounting that S&P will upgrade Türkiye's sovereign credit rating from B to B+ later this week, which helped the lira appreciating against the dollar (+0.5%) to trade at 32.38/\$, while Turkish equities climbed to a record high advancing a further +0.3% this morning. Year-to-date, Turkish equities are up around +35%. Elsewhere, equities in Egypt (-1.3%) and Kenya (-0.7%) underperformed, while equities in Hungary (+0.3%) gained. On the data front, Czechia's Q1 GDP printed at a better-than-expected +0.5% q/q (exp. +0.4% from 0.4%) with lower interest rates supporting household consumption. There was limited immediate market reaction to the data release. The Czech National Bank (CNB) is expected to cut interest rates by another -50bps when it meets later this week. The Hungarian forint was outperforming CEE peers to trade stronger against the euro (+0.2%) at 390.6/€, despite softer-than-expected Q1 GDP growth which showed GDP rose 1.1%/y/y in Q1 (exp. 1.3%/y/y from 0.0%).

Yesterday, Latin American currencies and stock markets posted broad based gains. The Colombian peso was the outperformer on the day (+0.9%), closely followed by its Chilean and Mexican counterparts (+0.8%). Mexican equities were the regional underperformer (-0.2%) when others performed

strongly—most notably Chilean equities (+2.1%) on the back of higher copper prices (+2.2%). Brazil's government posted a -1.5bn Brazilian real budget deficit in March against expectations of a surplus (exp. +1.6bn from -58.4bn).

Chile

Market pricing anticipates the Chilean peso to continue its rally against the US dollar for the remainder of the year. The peso has been the sole currency across major regional peers to gain against the dollar over the last month (+4%). The performance follows a bounce back from historically weak levels as the Chilean peso emerged as a laggard currency in the first quarter of the year (-10.8%). Market contacts perceive that the main reason for the peso's underperformance was the Chilean central bank continuing its easing cycle and its dovish guidance despite a less favorable economic backdrop since the start of the year. Even though the central bank delivered a -75bps rate cut at its last meeting in the first week of April, removing the dovish guidance from the central bank meeting statement has been enough of a catalyst for the peso to recover. FX options show that despite the recent risk-off episode in markets this month, the implied probability distribution of the currency hints at further appreciation towards the end of this year.



China

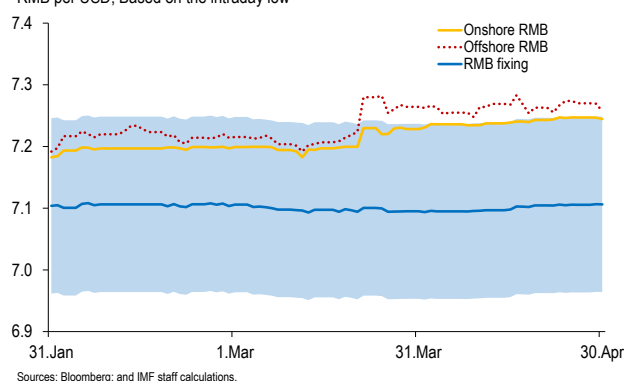
Manufacturing PMIs remain in April expansionary for a second month. The official manufacturing PMI softened to 50.4 in April (exp. 50.3 from 50.8), and the Caixin manufacturing PMI, which has a greater coverage of small, export-oriented firms, improved to 51.4 (exp. 51 from 51.1). Meanwhile, official non-manufacturing PMI weakened to 51.2 (exp. 52.3 from 53.0).

The Politburo meeting statement featured more dovish signals than expected. The readout mentioned a flexible use of interest rates and reserve requirements to lower funding costs, the need to digest the housing inventory, and that the necessary intensity of fiscal spending needs to be maintained. The meeting statement also included a call for action to issue ultra-long Chinese government bonds as soon as possible. Long-end CGB yields fell (10-year: -4.2 bps) on dovish signals from the Politburo meeting.

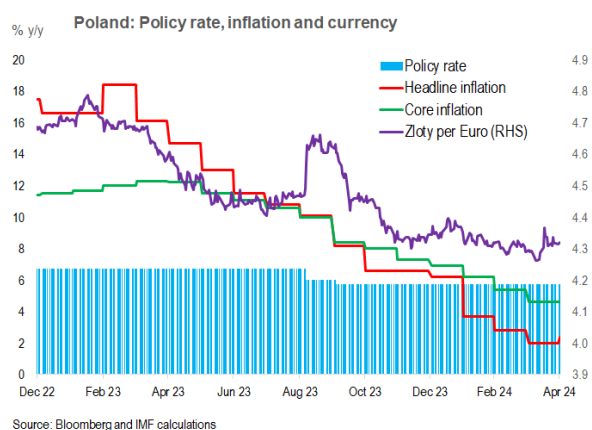
The People's Bank of China (PBC) set the daily yuan fixing slightly stronger today. With the RMB depreciating to 7.24 yuan per dollar (-0.2%), the deviation from market consensus narrowed to 1,369 pips. The RMB continued trading near the weak side of the band set by the daily fixing. The PBC also injected liquidity in an amount of 438 bn yuan (\$60.5 bn) to ease month-end funding pressures as the key interbank repo rate (DR007) rose to 2.11%.

RMB: Daily Weakest Level

RMB per USD; Based on the intraday low

**Poland**

The Polish Zloty remains flat as preliminary headline inflation for April prints below expectations. Preliminary headline inflation for April came in at +2.4%/y/y (exp. +2.5% from 2.0%), with policymakers describing the increase in inflation as temporary and caused by the reintroduction of 5% VAT on food as well as plans to ease measures introduced to cap energy prices following the war in Ukraine and lapsing pandemic-support measures. This morning Finance Minister Domanski stated that lower interest rates would help the country's budget and the economy, while policy rates remained at 5.75% since October. However, the member of the National Bank of Poland's monetary policy council Kotecki stated that headline inflation will likely rise further to around 3.0% y/y in June with momentum in core inflation leaving little room for policymakers to cut rates. Following the release, the zloty was trading broadly unchanged against the euro at 4.32/€, while yields slightly declined. Market contacts at JP Morgan expect the National Bank of Poland to remain hawkish until mid-year with two 25bps cuts expected at each of the November and December meetings, although they note risks are tilted towards rates remaining unchanged this year.

**UAE**

Abu Dhabi's sovereign wealth fund to issue its first dollar bond. Following last week's issuance of \$5bn across 5-, 10- and 30-year tranches by the capital of the UAE, ADQ, Abu Dhabi's sovereign wealth fund is looking to issue dollar-denominated bonds across 5- and 10-year tenors, according to Bloomberg. Indicative pricing as reported by Bloomberg suggests the issue may price today with the 5-year bond expected to price at 5y UST + 115bps and the 10-year bond to price at 10Y UST + 125bps.

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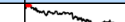









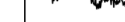




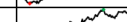

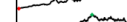

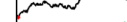
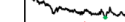










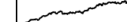
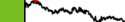


Global Financial Indicators

4/30/24 8:34 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5110	0.3	1	-3	23	7
Europe		4958	-0.5	-1	-2	14	10
Japan		38406	1.2	3	-4	32	15
China		3604	-0.5	3	2	-11	5
Asia Ex Japan		69	0.9	4	2	4	4
Emerging Markets		42	1.0	4	1	6	3
Interest Rates			basis points				
US 10y Yield		4.66	4.8	6	46	124	78
Germany 10y Yield		2.57	3.7	7	27	26	55
Japan 10y Yield		0.88	-1.2	-1	15	49	27
UK 10y Yield		4.32	2.9	8	39	60	78
Credit Spreads			basis points				
US Investment Grade		118	-0.2	-3	-1	-43	-16
US High Yield		346	0.9	-7	0	-134	-39
Exchange Rates			%				
USD/Majors		105.76	0.2	0	1	4	4
EUR/USD		1.07	-0.2	0	0	-3	-3
USD/JPY		157.2	0.5	2	4	14	11
EM/USD		46.4	0.0	0	0	-8	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		88.7	0.3	0	2	17	16
Industrials Metals (index)		158	-1.1	2	13	3	11
Agriculture (index)		59	-1.0	0	-1	-11	-5
Implied Volatility			%				
VIX Index (% change in pp)		14.8	0.2	-0.9	1.8	-1.0	2.4
Global FX Volatility		7.5	0.0	0.3	0.9	-1.5	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		99	-0.6	-6	-9	-88	-4
Italy		133	0.3	-2	-6	-54	-35
Portugal		62	0.3	0	-9	-20	-1
Spain		77	-0.1	0	-9	-28	-20

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

Emerging Market Financial Indicators

Last updated: 4/30/2024 8:35 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	-0.2	0.1	0	-5	-2		2.4	-5.5	9	0	-70	-16
Indonesia		16260	0.0	-0.2	-2	-10	-5		7.2	2.3	19	55	72	77
India		83	0.0	-0.1	0	-2	0		7.6	1.1	1	39	27.3	34
Philippines		58	-0.2	-0.5	-3	-4	-4		5.7	-2.5	10	30	-24	11
Thailand		37	-0.1	0.0	-2	-8	-8		2.9	2.5	6	41	29	22
Malaysia		4.77	-0.1	0.2	-1	-7	-4		4.0	-1.5	0	11	26	24
Argentina		877	-0.2	-0.5	-2	-75	-8		40.7	12.2	-468	-1203	-5365	-4572
Brazil		5.14	-0.4	-0.3	-2	-3	-6		11.7	1.2	14	52	-78	131
Chile		944	-0.2	1.1	4	-15	-7		5.4	0.0	5	15	19	46
Colombia		3866	0.9	1.3	0	21	0		8.5	0.0	13	49	-61	83
Mexico		17.03	-0.2	-0.4	-2	5	0		9.5	0.0	12	67	117	107
Peru		3.7	0.3	-0.9	0	-1	-1		7.3	0.1	5	0	-14	66
Uruguay		38	-0.2	0.7	-2	1	2		9.1	0.4	10	9	-90	-44
Hungary		365	-0.1	0.6	1	-7	-5		7.0	-1.0	12	45	-82	124
Poland		4.04	-0.3	-0.3	-1	4	-3		5.3	-1.5	0	39	-5	87
Romania		4.7	-0.2	0.0	-1	-4	-3		6.6	0.8	8	26	-51	42
Russia		93.5	-0.2	-0.3	-1	-15	-4							
South Africa		18.8	-0.7	1.9	1	-2	-2		10.0	1.5	-5	25	69	92
Türkiye		32.38	0.5	0.5	0	-40	-9		28.0	2.0	-85	116	1509	123
US (DXY; 5y UST)		106	0.2	0.1	1	4	4		4.70	5.5	7	49	122	85

	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		3604	-0.5	3	2	-11	5		145	2	-4	-49	-13		
Indonesia		7234	1.1	2	0	5	-1		106	5	6	-47	10		
India		74483	-0.3	1	1	22	3		100	-3	-7	-59	-16		
Philippines		6700	-1.0	3	-4	1	4		92	4	5	-32	12		
Thailand		1368	0.4	1	-1	-11	-3		0	0	0	0	0		
Malaysia		1576	-0.4	1	2	11	8		83	0	0	-18	-2		
Argentina		1308069	2.2	3	8	339	41		1212	65	-247	-1485	-701		
Brazil		127352	0.7	1	-1	22	-5		214	-1	1	-63	-1		
Chile		6550	2.5	1	-1	21	6		119	3	-5	-19	-6		
Colombia		1381	1.1	2	4	15	16		295	-5	2	-130	24		
Mexico		57828	0.0	2	1	5	1		304	-9	-7	-87	-30		
Peru		29224	1.1	5	3	34	13		148	3	7	-31	4		
Hungary		68183	0.4	3	4	52	12		150	1	-3	-77	1		
Poland		84982	-0.5	0	3	35	8		95	2	-3	-42	-2		
Romania		17170	0.3	2	1	40	12		184	2	0	-76	-17		
South Africa		76545	0.1	3	3	-2	0		334	-11	-25	-85	26		
Türkiye		10077	-0.1	4	10	118	35		271	-11	-30	-235	-43		
EM total		42	-0.5	4	1	6	3		285	1	-9	-134	-60		

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

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