



- Markets price fewer cuts in 2024 compared to the FOMC's dot plot ([link](#))
- Euro-area government bond spreads remain in focus ([link](#))
- March headline inflation eases unexpectedly in Switzerland ([link](#))
- BOJ likely to wait until October for the next hike, per former board member Sakurai ([link](#))
- Polish zloty weaker ahead of central bank meeting ([link](#))
- Colombian peso continues to outperform on higher oil prices ([link](#))

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Markets quiet post Powell comments

European stocks treaded water, and US equity futures signaled a positive opening, after Fed's chair Powell comments yesterday. Powell noted that the strength of the economy provides flexibility to the Fed and that the recent inflation figures did not "materially change" the overall picture. Powell also reaffirmed that it will be likely appropriate to begin lowering rates "at some point this year." US Treasury yields were slightly higher this morning after dropping yesterday. Expectations for Fed rate cuts were unchanged, with a with full rate cut expected in July and about 70 bps of easing priced for this year, less than what FOMC members were expecting in the dot plot at the time of the March 20 meeting. Across the pond, it was a relatively quiet day on the data front with investor focus increasingly turning to next week's ECB policy meeting. With rates expected to remain unchanged next week—and the first rate cut fully priced in June—investors will be focusing on comments from president Lagarde during the press conference for clues on the likely path of rates beyond June. In Asia, Japanese equities recovered on reports that the heavy profit taking at the start of new fiscal year has eased. Elsewhere, markets in mainland China and Hong Kong SAR were closed for public holidays.

Key Global Financial Indicators

Last updated: 4/4/24 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5211	0.1	0	2	27	9
Eurostoxx 50		5071	0.0	0	3	18	12
Nikkei 225		39773	0.8	-1	-1	43	19
MSCI EM		41	0.1	1	2	4	3
Yields and Spreads			bps				
US 10y Yield		4.37	2.2	17	16	103	49
Germany 10y Yield		2.39	-0.6	9	0	14	37
EMBIG Sovereign Spread		339	-1	-7	-29	-141	-44
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.8	0.1	1	0	-8	-3
Dollar index, (+) = \$ appreciation		104.1	-0.1	0	0	3	3
Brent Crude Oil (\$/barrel)		89.4	0.0	4	8	5	16
VIX Index (% change in pp)		14.2	-0.1	1	1	-5	2

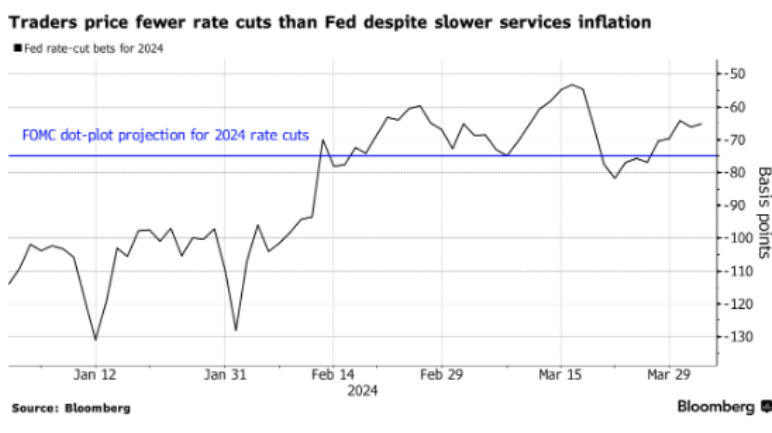
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

Markets are pricing in fewer rate cuts in 2024 compared to the FOMC dot projections. The second quarter started with solid macroeconomic data: manufacturing is expanding for the first time since 2022, factory orders exceeded estimates, labor data remains solid and the services sector—albeit slowing—indicated strong employment and business activity. A resilient and strengthening US economy aligns with the narrative of the Fed maintaining a patient approach to cutting rates. Chair Powell resonated this message his comments yesterday, noting that the strength of the economy provides flexibility to the Fed. As a result, investors this week scaled back their expectations for rate cuts in 2024 and are now more dovish, pricing fewer rate reductions (70 bps this morning and as low as 63 bps at some point yesterday), compared to the FOMC dot plot projection (75 bps). The markets are currently fully pricing the first rate hike in July.



The gap between equity markets and interest-rate expectations is widening. US stocks have gained about 30% from the October lows, and continued to rise even as projections for Fed interest-rate cuts are repeatedly pushed back. According to JP Morgan analysts, the narrative of strong growth and contained inflation that underlines these developments is at odds with weaker earnings projections. Should earnings fail to adjust upwards, a market correction is possible. Looking forward, the gap may persist if interest rate cuts get pushed back further due to a pick-up in inflation expectations. Several market analysts are concerned that markets remain complacent on inflation expectations, given the Fed's guidance that rates will ease "at some point this year", alongside easy financial conditions and strong growth expectations.

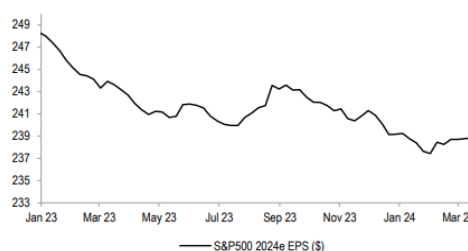
Disconnect Between Fed Funds Futures and S&P 500

Stocks have brushed off the repricing of rate-cut expectations



2024 EPS projections remain weak

S&P500 2024e EPS

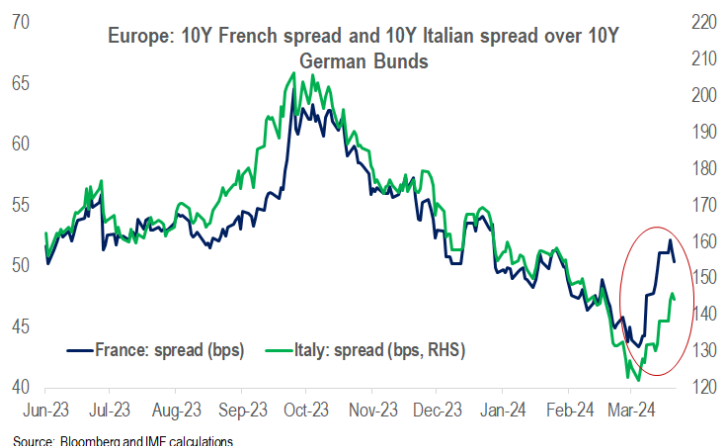


Euro Area

European equities traded modestly higher this morning, with the **STOXX 600 index +0.1% higher and banking stocks (+0.9%) outperforming**. The euro was stronger against the dollar (+0.2%), trading at around 1.09. **Euro area sovereign yields were a touch lower (-2 bps) with the 10-year bund yield trading at 2.37%**. 10-year Italian BTP spreads over 10-year bunds were a touch narrower (-3 bps) at 143 bps.

Euro-area government bond spreads remain in focus. As investor attention shifts to the multi-annual budget plans that EU member countries must submit to Brussels later this month, **Italy's FM admitted that the country will likely enter into an excessive deficit procedure (EDP) this year**. Contacts noted that, despite this morning's modest tightening, **BTP-Bund spreads have continued to widen ahead of Italy submitting its budgetary plans next Tuesday in a sign that "markets remain**

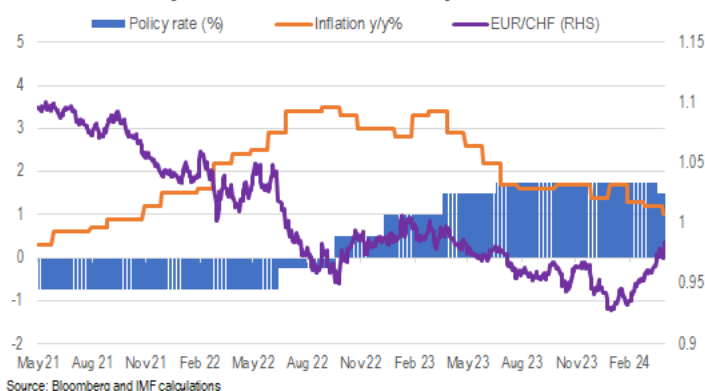
to be convinced" that the country can return to 3% deficits by 2026, after recording a 7.2% deficit in 2023. Commerzbank analysts expect BTP-Bund spreads to widen to the 150 bps mark in the near-term. On the monetary policy front, while the ECB is expected to keep policy rates unchanged at next week's meeting, contacts will be looking to the press conference for cues as to the path of future rate cuts. **Market pricing for ECB rate cuts in 2024 remains stable with around 90 bps of rate cuts expected this year and the first 25 bps rate cut fully priced for June**. Analysts at Morgan Stanley expect that after June, policymakers will only cut rates at ECB projection meetings (September and December) with risks of a faster cutting cycle dependent on confirmation of weaker 1Q24 wages and weaker inflation prints.



Switzerland

March headline inflation eased unexpectedly. Swiss headline inflation eased to 1.0% y/y in March (1.3% exp, 1.2% prior), the lowest rate since September 2021, vindicating last month's surprise rate cut. **This morning the Swiss franc was trading weaker (-0.6%) against the euro at around 0.98/€** and has weakened about 1% since last month's rate cut. Contacts noted that that decline in inflation was surprising given the weakness in the currency and expect further rate cuts this year. Analysts at

Switzerland: Policy rate, Inflation and Currency



UBS expect two more 25 bps rate cuts in June and September, with the terminal rate at 1%. The analysts note that the actions of other central banks will also matter for the SNB, given the exchange rate impact. Therefore, if inflation reaccelerates or remains more persistent elsewhere and delays policy easing, notably by the ECB, the SNB may pause further rate cuts or decide not to cut at every meeting.

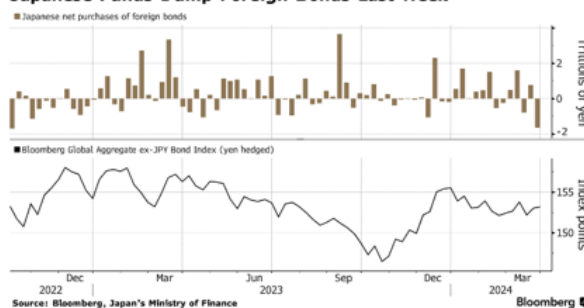
Japan

Japanese equities rebounded +0.9%, as heavy profit taking at the start of new fiscal year reportedly ebbed. Foreign investors sold a net -¥1.2 tn (-\$7.8 bn) of Japanese stocks and futures last week, the most since September. Separately, **former Bank of Japan (BOJ) board member Sakurai said in an interview that BOJ is likely to wait until October meeting before mulling the next hike**. He said that the BOJ's priority now is to confirm a virtuous wage-price cycle and gauge the strength of the economy. He does not believe the weak yen is a key consideration for monetary policy unless it weakens past 160 to the dollar. **Both the Japanese yen and 10-year JGB yields were little changed**. An auction of ¥900 bn (\$5.9 bn) 30-year JGBs saw solid demand, as the bid-to-cover ratio rose to 3.47, the highest since November. Separately, Japanese investors sold -¥1.7 tn (-\$11 bn) foreign bonds last week, the most since October 2022, as they took profits before the end of fiscal year, according to Bloomberg. Separately, the **BOJ downgraded its economic assessments for seven of nine regions in its quarterly regional economic report**. However, this is unlikely to be a major shift in BOJ's overall economic view, as most regions still reflect that their economies are picking up or recovering moderately, Bloomberg reported.

Foreign Investors Dumped Japanese Stocks Last Week



Japanese Funds Dump Foreign Bonds Last Week



Emerging Markets

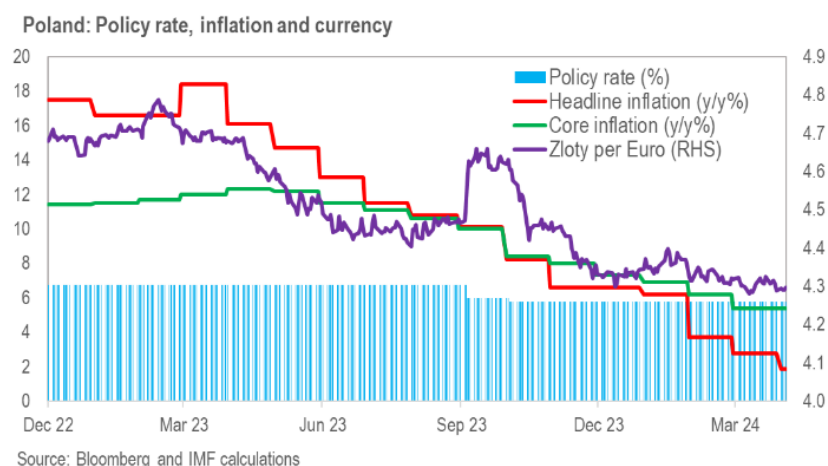
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Markets in mainland China and Hong Kong SAR were closed for holidays. Elsewhere in Asia, equities broadly recovered after Fed's chair Powell reaffirmed rate cuts for this year. Indonesia (+1.2%) and Malaysia (+1.1%) led the gains. Taiwan POC (-0.6%) bucked trend and declined as semiconductor shares sell off after Wednesday's earthquake. Philippines equities (-0.5%) declined too, as **Philippines** cut its 2024 GDP growth forecasts to 6%–7% from 6.5%–7.5% previously; fiscal deficit estimates were also widened through 2028 to support higher spending. **Asian currencies strengthened**, with the Malaysian ringgit (+0.3%) outperforming. In **EMEA, equities were mostly higher while currencies appreciated**. Equities outperformed in Poland (+0.9%) and in South Africa (+1%), where the stock market offset all this week's losses despite the release today of lower manufacturing PMI in March 2024, with the indicator dropping to 48.4 from 50.8 in February. In Hungary equities underperformed today (-0.4%) but have overall gained 2% since the start of the week. In Türkiye, the lira appreciated (+0.2%) and the equities performance was strong (+2%) this morning. The lira has appreciated 1.5% to the dollar since the start of the week. **Government bond yields were stable in Poland and Romania where consensus expects central banks to keep rates unchanged at their MPC meetings later today, while the benchmark rate was kept at 13% in Kenya yesterday**, as widely expected. Currencies in **Latin America** were stronger to the dollar yesterday. The Chilean peso (+2.6%) was the clear outperformer following the central bank meeting earlier this week. Even though the central bank cut its policy rate by 75 bps, its forward guidance was more hawkish than anticipated. Equity markets in Colombia and Peru were the sole gainers (+0.8% each).

Poland

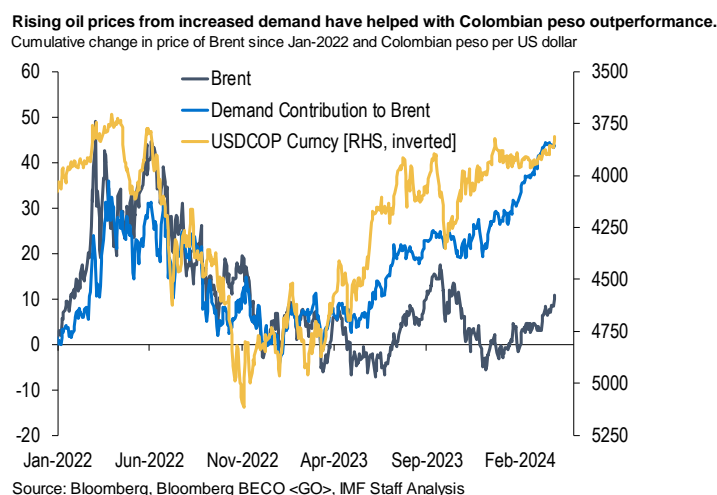
The Polish zloty was weaker (-0.2%) against the euro ahead of the MPC meeting later this morning, with consensus expecting the NBP to keep the policy rate unchanged at 5.75% amid uncertainty over the

medium-term inflation outlook. While preliminary headline inflation slowed to 1.9% y/y in March from 2.8% in February, this is expected to be reversed from April due to higher VAT on food and the lifting of the energy price cap, with inflation heading for 4.1% y/y by year-end according to Bloomberg, outside NBP's target (2.5%, +/-1%). The NBP Governor hinted no appetite for rate cuts in 2024 at the March press conference, while other MPC members did not rule out that possibility. ING expects rates to be kept unchanged until the end of 2024, with 75–100bp rate cuts in 2025. Crédit Agricole considers the tensions between the ruling political party and the NBP as a factor that will reduce the room for monetary easing in the coming months.



Colombia

Rising oil prices are paving the way for the Colombian peso's outperformance. Oil prices have risen more than 15% since the start of the year. According to market contacts, demand related factors have pushed prices higher. This has favored the Colombian peso which is correlated with oil prices. The currency remains one of the few to have appreciated to the dollar since the start of the year (+1.6%) and offers one of the highest carry rates among major currencies (%12.6 ann.). The country is expected to issue \$1.3 bn bond later this week.



Brazil


















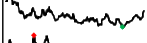







The Brazilian central bank intervened in FX markets for the first time since 2022. The central bank sold \$1 bn in swaps to manage FX volatility. According to a Bloomberg report, an NTN-A bond (\$3.7 bn)

that was issued in 1997 is due to expire later this month, which has prompted the central bank to intervene in the market. This comes at a time when foreigners are increasing their short positions in the Brazilian real. The central bank's short position on USDBRL has exceeded \$100 bn.

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Global Financial Indicators

4/4/24 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5220	0.1	-1	2	27	9
Europe		5071	0.0	0	3	18	12
Japan		39773	0.8	-1	-1	43	19
China		3568	-0.4	2	1	-13	4
Asia Ex Japan		68	-0.1	1	2	1	3
Emerging Markets		41	0.1	1	2	4	3
Interest Rates			basis points				
US 10y Yield		4.37	2.2	17	16	103	49
Germany 10y Yield		2.39	-0.6	9	0	14	37
Japan 10y Yield		0.79	-0.8	8	7	36	17
UK 10y Yield		4.04	-1.7	11	-8	61	50
Credit Spreads			basis points				
US Investment Grade		119	-0.3	-2	-10	-42	-15
US High Yield		350	-2.7	4	-12	-145	-35
Exchange Rates			%				
USD/Majors		104.13	-0.1	0	0	3	3
EUR/USD		1.09	0.2	1	0	-1	-2
USD/JPY		151.8	0.0	0	1	15	8
EM/USD		46.8	0.1	1	0	-8	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		89.4	0.0	5	9	14	17
Industrials Metals (index)		147	0.8	6	6	-6	3
Agriculture (index)		60	0.0	1	3	-12	-4
Implied Volatility			%				
VIX Index (%, change in pp)		14.2	-0.1	1.4	0.7	-4.8	1.8
Global FX Volatility		6.7	0.0	0.1	0.2	-3.5	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		106	-2.5	-3	-1	-86	2
Italy		143	-3.3	4	1	-44	-25
Portugal		68	-1.6	-3	-2	-18	5
Spain		84	-1.9	-2	-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: 4/4/2024 8:02 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.23	0.0	-0.1	0	-5	-2		2.3	0.0	-3	-4	-80	-18
Indonesia		15893	0.2	-0.2	-1	-6	-3		6.7	-1.6	-2	3	-6	19
India		83	0.0	0.0	-1	-1	0		7.2	-2.0	7	4	(27.0)	2
Philippines		56	0.1	-0.1	-1	-3	-2		5.4	0.0	0	0	-55	-20
Thailand		37	-0.2	-0.6	-3	-7	-7		2.6	2.5	9	4	-2	-10
Malaysia		4.74	0.3	-0.1	0	-7	-3		3.9	-1.5	1	2	-4	13
Argentina		858	0.0	0.0	-2	-75	-6		49.7	-296.8	-297	-2016	-3811	-3665
Brazil		5.04	0.4	-1.1	-2	1	-4		11.3	3.9	23	51	-160	88
Chile		948	0.7	3.4	3	-15	-7		5.2	0.0	4	4	12	30
Colombia		3813	0.5	1.1	3	21	2		8.1	0.0	31	49	-42	47
Mexico		16.54	0.0	0.5	3	10	3		9.0	0.1	21	30	65	50
Peru		3.7	0.5	0.8	2	2	1		7.5	-1.3	15	62	0	81
Uruguay		38	-0.8	-1.7	2	1	2		9.1	4.0	7	6	-116	-47
Hungary		361	0.4	1.2	1	-4	-4		6.6	-1.0	5	56	-176	84
Poland		3.96	0.1	0.9	1	8	-1		5.1	-6.4	10	25	-33	59
Romania		4.6	0.1	0.6	0	-2	-2		6.4	-0.3	2	5	-83	19
Russia		92.2	0.1	0.4	-1	-14	-3							
South Africa		18.7	0.0	1.4	2	-4	-2		9.7	-7.0	-8	21	60	59
Türkiye		31.90	0.2	1.4	-1	-40	-7		26.7	45.0	0	-119	1645	-4
US (DXY; 5y UST)		104	-0.1	-0.2	0	2	3		4.34	1.6	13	14	95	50

	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		3568	0.0	2	1	-13	4		148	-2	1	-45	-10		
Indonesia		7254	1.2	-1	0	6	0		95	-7	-14	-66	-1		
India		74228	0.5	2	1	24	3		107	0	10	-59	-9		
Philippines		6827	-0.5	-1	-1	5	6		83	-5	-8	-50	3		
Thailand		1374	-0.1	0	1	-13	-3		0	0	0	0	0		
Malaysia		1553	1.1	1	1	9	7		83	-1	4	-17	-2		
Argentina		1212639	-0.1	-1	16	382	30		1428	-14	-203	-856	-485		
Brazil		127318	-0.2	0	-1	25	-5		215	3	3	-57	0		
Chile		6617	-0.3	0	4	27	7		121	-4	-12	-25	-4		
Colombia		1384	0.8	5	7	17	16		286	-6	-15	-92	15		
Mexico		57503	-0.1	2	4	6	0		307	-6	-17	-77	-27		
Peru		28371	0.8	0	-1	29	9		141	0	-3	-49	-3		
Hungary		66578	-0.4	2	0	52	10		152	-2	-10	-89	3		
Poland		83650	0.9	3	3	42	7		95	-4	-4	10	-2		
Romania		17120	0.4	1	6	39	11		179	-6	-22	-85	-22		
South Africa		75007	1.2	2	3	-3	-2		349	-11	-4	-53	41		
Türkiye		9127	2.0	1	2	83	22		290	-19	-35	-198	-24		
Ukraine		#N/A N/A	0.0	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A		3595	25	-281	-1398	-409		
EM total		41	0.3	1	2	4	3		291	-9	-28	-119	-54		

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

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