



- Treasury yields tumbled on Fed's dovish pivot ([link](#))
- SEC approved new central clearing mandate on hedge funds and brokerages ([link](#))
- The ECB stays on hold at 4%, as expected ([link](#))
- Pound strengthens after BoE leaves rates unchanged but keeps hawkish stance ([link](#))
- Norwegian krone rallies after central banks surprises with 25bps hike ([link](#))
- Swiss National bank leaves rates unchanged, as expected ([link](#))
- Brazil central bank delivers another 50bps rate cut ([link](#))

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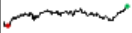



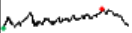

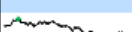


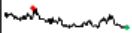
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## Dovish Fed drives markets higher

The bullish sentiment that began following yesterday's Fed decision has continued to spill into other markets as they opened around the globe. The shift in the DOT plot, now projecting 75 bp in cuts for next year, as well as relatively dovish changes in the statement and press conference, sent bond yields sharply lower and equities higher. While the move was especially dramatic in US yields, with the 2-year treasury declining 28 bp, other country's bond yields also saw significant drops. This morning, US retail sales were reported stronger than expected, causing some unwinding of the move, with the 2-year yield increasing 5 bp. Ahead of the ECB's decision today, the German 2-year had fallen as much as 20 bp this morning but has recovered some to just 15 bp lower with the ECB's decision to leave rates on hold. The 2-year British gilt also fell as much as 20 bp but reversed much of that after the Bank of England's decision this morning to keep rates steady and signaled that the fight against inflation has further to go. While most Asian equity indices saw substantial gains overnight (MSCI Asia Pacific index +1.6%), Chinese equities declined following yesterday's disappointing credit growth data. Emerging market currencies are broadly stronger this morning as the dollar index has declined 1.5% since the Fed's decision.

Key Global Financial Indicators

Last updated: 12/14/23 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4707	1.4	3	5	18	23
Eurostoxx 50		4566	0.8	2	6	15	20
Nikkei 225		32686	-0.7	-1	-2	17	25
MSCI EM		40	1.0	2	1	3	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.93	-8.4	-22	-52	45	6
Germany 10y Yield		2.08	-9.1	-11	-52	14	-49
EMBIG Sovereign Spread		408	10	8	-26	-44	-44
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		48.1	0.2	1	0	-4	-4
Dollar index, (+) = \$ appreciation		102.4	-0.5	-1	-2	-1	-1
Brent Crude Oil (\$/barrel)		75.8	2.1	2	-8	-8	-12
VIX Index (% change in pp)		12.1	-0.1	-1	-2	-9	-10

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

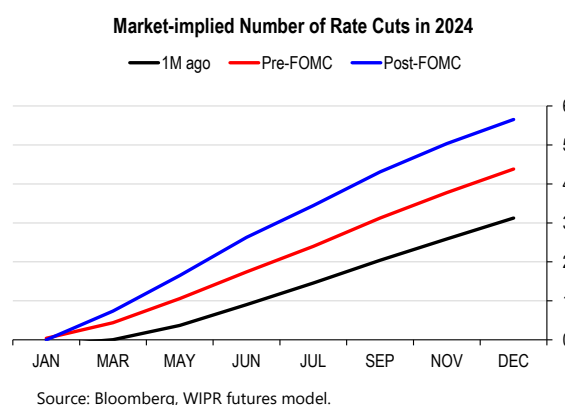
## Mature Markets

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### United States

**In a unanimous vote, the Federal Reserve left interest rates unchanged for a third meeting, while the updated DOT plot now projects 3 rate cuts next year.** The 75 bp projected rate cut was a dovish surprise as markets were expecting the Fed to meet them halfway with 2 rate cuts. For the first time since March 2021, the DOTs contain no further hike. During the presser, Chair Powell acknowledged that policymakers have discussed when it would become appropriate to discuss a rate cut. Taken together, markets read it as a strong signal that the aggressive rate hike cycle is over. The committee softened the stance towards further hikes by adding “any” to “additional policy firming” would be appropriate. It also acknowledged that inflation “has eased over the past year but remains elevated” and most participants now see the risks to price growth as broadly balanced. On the SEP, the median forecast for the federal funds rate was lowered to 4.6% for end 2024 and 3.6% for end 2025, though individual forecasts varied widely. The long-run federal funds rate remains at 2.5%. The projections show lower inflation forecasts for this year and next, unchanged unemployment forecasts, and slightly lower growth for next year. **The treasury curve bull steepened in a massive move across the curve.** The 2-year yield dropped 28bp to 4.45% and the 10-year yield was down 18bp to 4.02%. Investors raised their rate cut expectations again, pricing in 5 cuts for 2024 and pulling forward the first rate cut to March. Stocks gained 1.1%, led by real estate, consumer staples and financials (regional banks in particular), lifting the S&P500 within 1.7% of its all-time-high.

Percent					
Variable	Median <sup>1</sup>				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September projection	2.1	1.5	1.8	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	2.0
Core PCE inflation <sup>4</sup>	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projection	5.6	5.1	3.9	2.9	2.5



**SEC approves new central clearing mandate on hedge funds and government security dealers and brokerages for Treasury transactions.** The mandate would require using clearing houses for Treasury transactions in both the cash and repo markets. However, hedge funds' cash Treasuries trades are exempt from the mandate, on concerns that it would force participants to exit the market which could impair market liquidity. Still, the new rules could bolster oversight of highly leveraged strategies such as the so-called basis trade—which involves using leverage to profit from the price gap between Treasury futures and the cash markets. In particular, the repo leg of such strategies—used to finance their purchases of Treasury securities—will be subjected to central counterparty haircuts. With around 70–80 percent (or around \$2 trillion) of repos currently uncleared and the majority of such uncleared repos being subject to zero haircuts, this would likely increase the cost of basis trades and other repo-based trading strategies. Broker-dealers will also no longer be allowed to net their proprietary positions against their customer positions to achieve savings on margins. Some market participants believe the consequences of the mandate will reduce liquidity, although market participants will have until end-2025 to phase in clearing cash Treasury trades and until June 2026 for repo transactions.

## Euro Area

**The ECB stayed on hold at 4% for the second consecutive policy meeting, as expected.** The statement noted that underlying inflation has eased further, and that the Governing Council (GC) considers that key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution towards inflation returning to its 2% medium-term target. The main refinancing rate was kept at 4.5%. The statement also notes that the GC intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP) during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by €7.5 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024. Focus now shifts to the press conference, due later today.

**Euro area sovereign yields were sharply lower after the US Fed meeting and ahead of today's ECB meeting.** Euro area sovereign yields were lower across the curve this morning, with 10y bund yields (-10bp) trading at around 2.08%. The euro strengthened against the dollar (+0.5% to 1.09/\$). European equities were rallying (Stoxx 600 equity index +1.6%) with most sectors trading in the green. Ahead of the ECB meeting, markets were pricing in roughly 145bp of ECB rate cuts by October 2024, with 22bp of easing priced in by April.

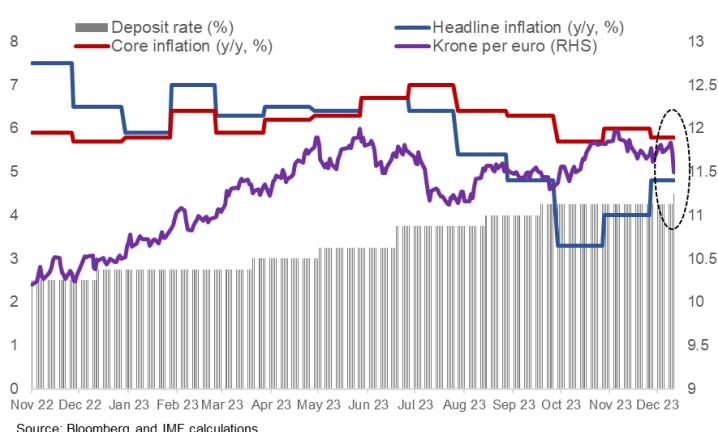
## United Kingdom

**The BoE left its policy rate unchanged for the third consecutive policy meeting at 5.25% as expected.** Three of the nine MPC members voted in favor of a 25bp rate hike. The BoE maintained wording that rates need to be “sufficiently restrictive for sufficiently long” to return inflation to the 2% target sustainably in the medium term. The pound strengthened against the dollar, adding to early morning moves (+0.7% at 1.27 against the dollar). Gilt yields pared early morning moves, 10y gilt yields were roughly 10bp lower ahead of the policy decision at around 3.73%, but increased after the policy announcement to 3.77%.

## Norway

**The Norwegian krone rallied after the Norges Bank surprised markets with a 25bp hike to take the deposit rates to 4.50%.** Bloomberg consensus, similar to market pricing, had expected rates to remain unchanged. The central bank said that the policy rate would likely be kept at this level for some time, with the policy rate forecast indicating that it would be around 4.5% until autumn 2024 and then gradually moving down. Core inflation forecasts were revised marginally lower for 2023 (to 6.2%) and marginally higher for 2024 (to 4.8%). JPMorgan analysts argue that the forecast revisions do not justify the hike and think that the hike was likely due to risk management concerns around the Norwegian krone. The krone rallied against the euro after the policy decision (roughly 2.1%), reaching its strongest level since October, and is now roughly 9% weaker than at the start of the year.

Norway: Deposit rate, inflation and exchange rate



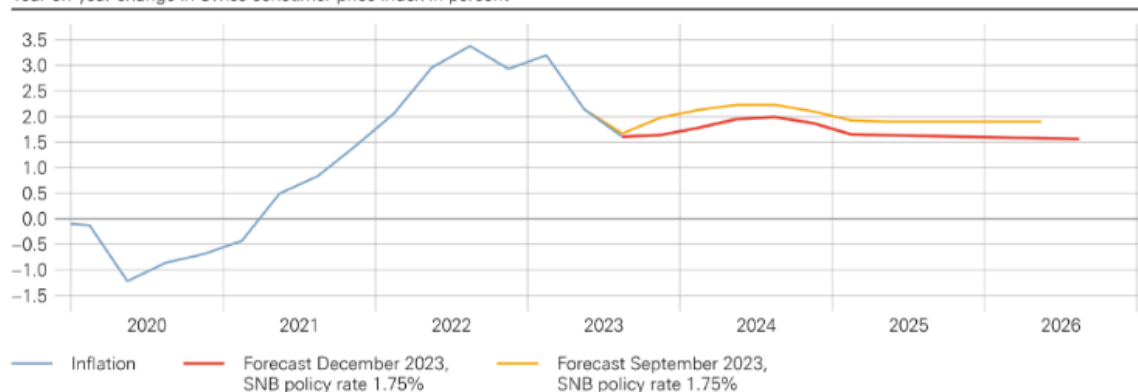
Source: Bloomberg and IMF calculations

## Switzerland

The Swiss National Bank (SNB) left its policy rate unchanged at 1.75%, as expected, dropped a reference to rate hikes and indicated a shift in its currency policy. This is the second consecutive meeting that the SNB leaves rates on hold. New conditional inflation forecasts were revised lower compared to September, with the inflation forecast within the range of price stability over the entire forecast horizon. During the press conference SNB President Jordan also said that the SNB is no longer focusing on foreign currency sales. ING analysts note that the SNB could again start selling the currency, which could support exports and by extension Swiss economic growth. The Swiss franc erased early morning gains and weakened against the euro (-0.2% to 0.9496).

### CONDITIONAL INFLATION FORECAST OF DECEMBER 2023

Year-on-year change in Swiss consumer price index in percent



Sources: SFSO, SNB

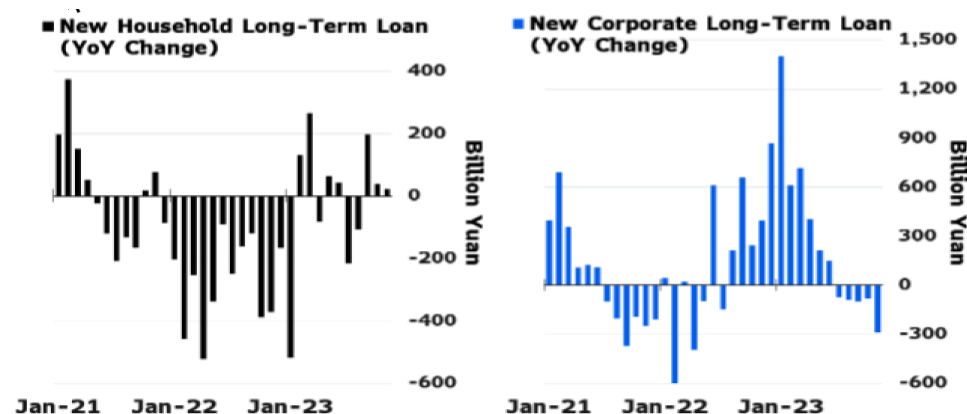
## Emerging Markets

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EMEA equity markets rallied, and currencies were strengthening against the dollar while local currency sovereign debt yields were mostly lower after the US Fed meeting yesterday. Equity markets in South Africa (+3.2%) and Hungary (+1.9%) were outperforming, while equities in Bulgaria (-1.4%) were sharply lower. CEE currencies were weaker against the euro. Hungarian local currency bonds rallied (10y yield -35bp to 6.05%). **Most LatAm markets closed higher Wednesday.** Markets in Brazil saw the largest gains with equities rising 2.3% and the currency appreciating 0.9%, reversing much of the depreciation from the last four sessions. Markets in Mexico bounced post the Fed chair's press conference. Equities ended the day 1.5% higher and the currency appreciated 0.4%. Other regional equities also gained in the range of 1.2-2.2%. Argentina's currency devaluation came into effect and the currency closed the day at 800 pesos against US dollar. In Peru, where markets are expecting a 25bp rate cut in today's monetary policy meeting, the currency depreciated 0.4%.

## China

**Chinese credit growth came in slower than expected in November.** New local currency loans rose to RMB1.09 tn (vs RMB1.3 tn expected) from RMB738 bn in October, but down from RMB1.2 tn in November 2022. Corporate financing weakened, with new long-term corporate loans nearly RMB300 bn lower versus the same month last year. New long-term loans for households increased slightly y/y in November, but continued weakness in the mortgage market weighed on the overall numbers. Total new social financing rose to RMB2.45 tn (+9.4% m/m), supported by increasing government bond issuance. Analysts noted that relatively weak private credit growth compared to strong public financing indicates the onus for growth will remain with the government despite recent statements casting doubt on further large-scale stimulus efforts.



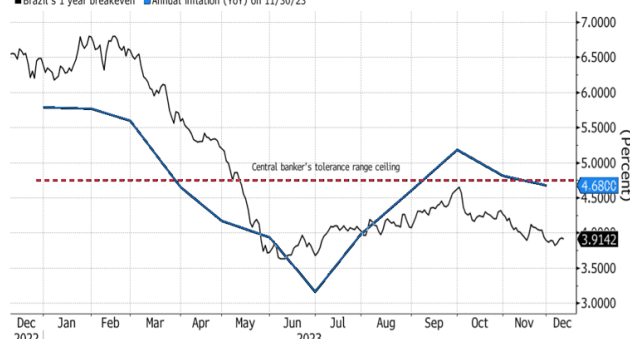
## Brazil

**Brazil's central bank (BCB) cut its policy rate by another 50 bp to 11.75%** in a unanimous decision, as broadly expected. With this, the central bank has delivered 200 bp in cuts over the last 4 meetings since Aug 2023. Inflation has now fallen within the upper limit of the bank's tolerance band. The BCB cited this, along with declining interest rates in US, and an improved global economic outlook, while guiding to maintain the pace of policy easing going forward. Local markets closed higher, also in reaction to the news from the US, while interest rate swap rates declined 12–16bp for tenors over one year.

### Brazil's Inflation Eases Back Toward Target

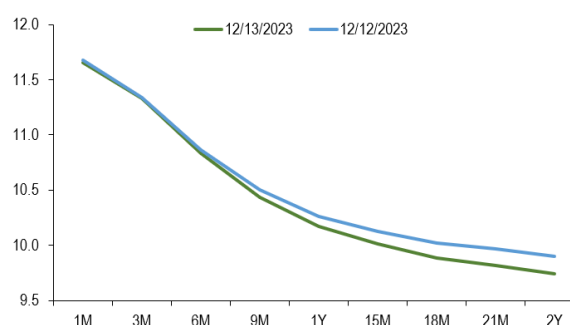
Current prints cool down, alongside measures of implied inflation

■ Brazil's 1 year breakeven ■ Annual inflation (YoY) on 11/30/23



### Swap rates

(percent)



Sources: Brazil Central Bank, Brazilian institute of statistics and geography, and Bloomberg

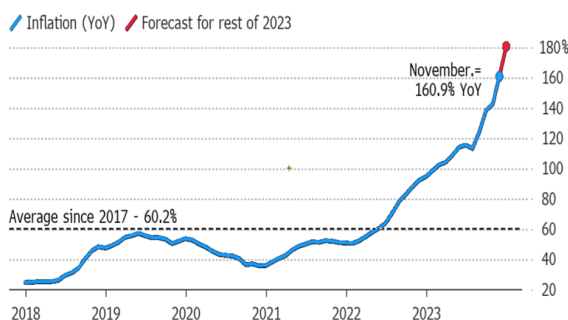
## Argentina

**November inflation accelerated to 12.8% m/m, higher than expectations of 11.4% m/m**, and moving to 160.9% on a y/y basis. Analysts estimate that yesterday's announcement on reductions in subsidies/price controls, and the devaluation of the currency, will take inflation even higher to 60% m/m over the next couple of months. Despite that, markets have largely welcomed these policy measures and the country's US dollar bonds rallied further, reaching their highest levels since Sep. 2021. The parallel exchange rate, however, was little affected and traded around 1040 peso/US dollar, as per market report. Among other developments, the central bank maintained its policy rate unchanged at 133%, while cutting the rates on 1-day repo notes by 26 pp to 100%. In addition, the bank has reportedly stated that it would continue to finance the fiscal deficit and seek international credit options.



**Argentina Annual Inflation Hits 161% in November**

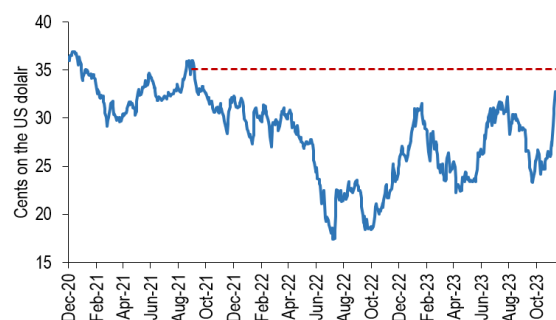
Central bank expectations survey sees CPI extending climb to year-end



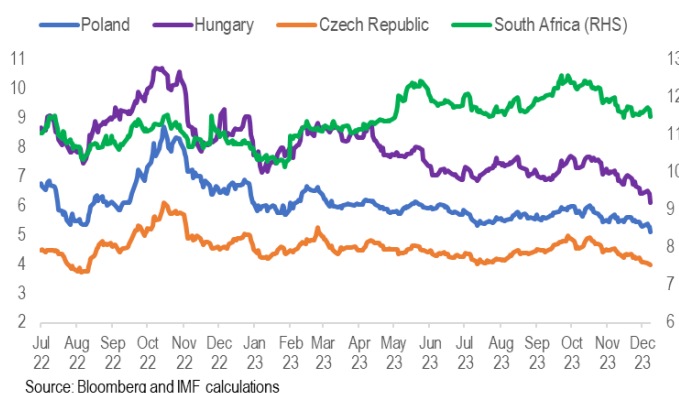
Sources: National statistical agency, Central Bank of Argentina, and Bloomberg

**Rally in Argentine bonds extends**

Price of Dollar notes due in 2035

**Hungary**

**Hungarian local currency bond yields are sharply lower as markets scale up hopes that the Hungarian central bank would cut rates.** In the aftermath of the Fed meeting yesterday, most local currency bond yields in EMEA were lower this morning. The 10y local currency yields in Hungary saw sharper downward moves (-35bp to 6.05%) with Bloomberg analysts also pointing to the partial unblocking of EU funding. ING analysts highlight that the Fed's pivot and the unlocking of EU funds means that two of the central bank's preconditions for larger rate cuts have been met. In the meantime, Bloomberg notes that forward rate agreements show markets now pricing in roughly 380bp of easing in the next six months, compared to 350bp earlier.

**EMEA: Local Currency 10-yr yields (%)**

Source: Bloomberg and IMF calculations

*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (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 Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (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), Mustafa Oguz Caylan (Research Officer), 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

12/14/23 8:01 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>							
			%				%
United States		4711	1.4	3	5	18	23
Europe		4566	0.8	2	6	15	20
Japan		32686	-0.7	-1	-2	17	25
China		3352	-0.5	-1	-7	-15	-13
Asia Ex Japan		65	0.8	2	0	-1	1
Emerging Markets		40	1.0	2	1	3	5
<b>Interest Rates</b>							
			basis points				
US 10y Yield		3.93	-8.4	-22	-52	45	6
Germany 10y Yield		2.08	-9.1	-11	-52	14	-49
Japan 10y Yield		0.67	-2.0	-8	-19	42	25
UK 10y Yield		3.73	-9.6	-23	-42	42	6
<b>Credit Spreads</b>							
			basis points				
US Investment Grade		136	-1.6	-6	-19	-18	-23
US High Yield		416	5.6	-4	-17	-35	-64
<b>Exchange Rates</b>							
			%				
USD/Majors		102.35	-0.5	-1	-2	-1	-1
EUR/USD		1.09	0.4	1	0	2	2
USD/JPY		141.7	-0.8	-2	-6	5	8
EM/USD		48.1	0.2	1	0	-4	-4
<b>Commodities</b>							
			%				
Brent Crude Oil (\$/barrel)		75.8	2.1	2	-8	-4	-6
Industrials Metals (index)		138	2.2	2	-1	-18	-17
Agriculture (index)		64	0.4	-1	-4	-5	-7
<b>Implied Volatility</b>							
			%				
VIX Index (% change in pp)		12.1	-0.1	-1.0	-2.1	-9.0	-9.6
Global FX Volatility		7.8	0.0	-0.3	0.3	-1.6	-3.0
<b>EA Sovereign Spreads</b>							
			10-Year spread vs. Germany (bps)				
Greece		122	-3.5	3	-9	-87	-84
Italy		172	-3.4	-2	-9	-20	-42
Portugal		64	-3.3	-2	-5	-30	-38
Spain		99	-1.4	-2	-5	-5	-11

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

## Emerging Market Financial Indicators

Last updated: 12/14/2023 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		7.13	0.6	0.2	2	-3	-3		2.6	-3.0	-7	-6	-50	-47
Indonesia		15502	1.0	0.1	1	1	0		6.6	-12.3	4	-32	-25	-31
India		83	0.1	0.0	0	-1	-1		7.2	-16.1	-15	-40	(3.3)	-30
Philippines		56	0.5	-0.9	0	0	0		5.9	-2.6	0	-3	-12	-12
Thailand		35	1.0	0.6	2	-1	-1		2.7	-14.5	-14	-49	24	5
Malaysia		4.67	0.7	0.0	1	-6	-6		3.7	-9.2	0	-16	-35	-31
Argentina		801	-0.1	-54.5	-56	-79	-78		81.0	13.9	-1969	-2771	-821	-725
Brazil		4.88	0.7	0.5	0	8	8		10.7	-8.3	-18	-45	-282	-187
Chile		866	1.2	0.8	3	1	-2		4.9	-13.5	-19	-36	-30	-49
Colombia		3945	1.3	1.1	1	21	23		8.0	-0.5	12	-18	-190	-177
Mexico		17.30	-0.3	1.0	0	14	13		8.6	0.0	-10	-30	34	-14
Peru		3.8	-0.4	-1.0	0	1	0		7.0	-8.8	5	-22	-79	-100
Uruguay		40	-0.4	-1.8	0	-3	0		9.7	0.0	5	-3	-113	-100
Hungary		347	0.4	1.9	0	9	8		6.0	-19.0	-29	-111	-264	-364
Poland		3.95	0.2	1.7	2	11	11		4.3	-16.8	-18	-57	-121	-182
Romania		4.6	0.4	1.1	0	1	1		6.5	-7.7	0	-22	-101	-117
Russia		89.6	0.6	3.1	1	-28	-17							
South Africa		18.6	0.7	1.2	-2	-7	-8		8.9	-28.2	-26	-45	-14	-26
Turkey		29.00	-0.1	-0.3	-1	-36	-35		26.3	-33.0	-64	-533	1573	1645
US (DXY, 5y UST)		102	-0.5	-1.1	-2	-1	-1		3.87	-9.7	-26	-57	26	-13

	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		3352	-0.5	-1	-7	-15	-13		159	4	-4	-27	-18	
Indonesia		7176	1.4	1	3	6	5		118	7	-6	-44	-22	
India		70514	1.3	1	7	14	16		115	-3	-13	-29	-27	
Philippines		6410	2.5	2	4	-2	-2		99	10	-2	-17	2	
Thailand		1379	1.5	-1	-3	-15	-17		0	0	0	0	0	
Malaysia		1456	0.6	1	-1	-1	-3		87	0	-5	-12	-13	
Argentina		1003484	-0.6	13	58	511	397		1827	-88	-675	-455	-378	
Brazil		129465	2.4	3	5	25	18		218	1	-11	-47	-56	
Chile		6060	1.8	2	6	16	15		135	6	-12	-3	3	
Colombia		1166	1.4	3	5	-5	-9		307	8	-13	-68	-65	
Mexico		55168	1.3	2	5	10	14		358	4	-13	-18	-23	
Peru		22634	2.2	2	4	6	6		155	7	-10	-16	-25	
Hungary		60081	2.0	3	4	33	37		173	7	-25	-41	-49	
Poland		77741	1.0	2	5	35	35		118	10	4	39	45	
Romania		15289	0.6	3	4	28	31		220	19	15	-26	-36	
South Africa		75034	3.3	0	2	1	3		359	15	-27	-19	-8	
Turkey		7746	2.9	-3	1	53	41		353	-7	-35	-96	-87	
Ukraine		507	0.0	0	0	-2	-2		3849	106	313	-92	-230	
EM total		40	1.6	2	1	3	5		365	7	-36	-7	-10	

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

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