



- **US January inflation print disappoints and triggers significant repricing** ([link](#))
- **Kenya's Eurobond issuance attracts solid demand** ([link](#))
- **Higher commercial real estate exposures weigh on some smaller US banks** ([link](#))
- **US SOFR option pricing consistent with 5-to-6 rate cuts this year as main scenario** ([link](#))
- **EM issuances accelerated to \$22.7bn in the previous week** ([link](#))

[Mature Markets](#)


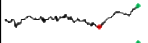






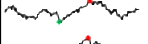

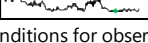
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## Market optimism tested as US inflation print doesn't start with the number two

**US inflation for January came in at 3.1% y/y versus 2.9% expected, and 3.4% prior.** Markets were hoping for a print below three percent y/y, as a “handle of two” would have supported Fed rate cut optimism. With this disappointing number however, the risk of persistent inflation is back on the table, and Treasury yields reacted quite strongly, increasing immediately by between 10–13 bps across the curve, and most pronounced in the short-end. The 2-year yield even spiked by 20 bps after the release, but the market was likely very thin and illiquid at this point. S&P 500 futures is down 1.2%, pointing to a lower open. Three-quarters of a priced Fed rate cut were erased from implied end-of-year pricing in the swap market. The Bank of America Global Fund Manager Survey, released today but taken prior to the inflation print, shows that fund managers have been most bullish in two years, with cash levels falling, and the “soft landing scenario” still being their base case. The most crowded trade, according to respondents, is “long magnificent 7,” referring to the group of large US (mostly) tech firms. Higher inflation is seen as the biggest tail risk, and with today's data, this tail risk may be back in the picture.

Key Global Financial Indicators

Last updated: 2/13/24 9:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5022	-0.1	2	5	21	5
Eurostoxx 50		4702	-0.9	0	5	11	4
Nikkei 225		37964	2.9	4	7	38	13
MSCI EM		40	0.8	3	2	-2	-1
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.16	-1.6	6	22	46	28
Germany 10y Yield		2.35	-1.4	6	16	-2	32
EMBIG Sovereign Spread		390	0	-1	-9	-55	6
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.8	0.0	0	-2	-8	-3
Dollar index, (+) = \$ appreciation		104.1	-0.1	0	2	1	3
Brent Crude Oil (\$/barrel)		82.5	0.6	5	5	-5	7
VIX Index (% change in pp)		14.0	0.1	1	1	-6	2

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

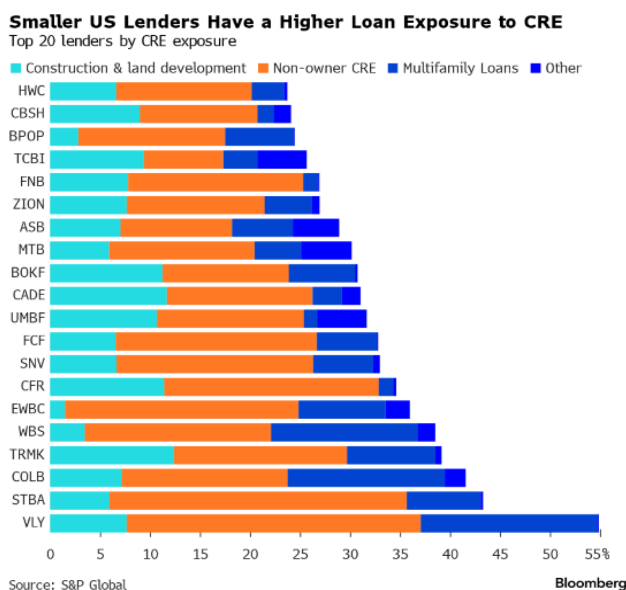
## Mature Markets

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### United States

**January headline CPI this morning was hotter than expected (0.3% m/m, 3.1% y/y versus 0.2% and 2.9% consensus).** Core CPI was also higher (0.4% m/m, 3.9% y/y versus 0.3% and 3.7% consensus). In financial markets, the initial reactions were higher yields and stronger US dollar, with the US dollar index increasing by 0.7% after the release, and strengthening by 0.8% versus the euro.

**Higher loan exposures to commercial real estate (CRE) weighs on smaller banks.** In smaller and regional banks' portfolios, CRE loans sometimes make up more than 40% of their loans. According to one study, 44% of office loans are in negative equity, and anywhere from dozens to over 300 regional banks were at risk of solvency runs at the end of the third quarter last year. Other analysts estimated that property prices may need to drop another 10% to reach fair valuations, putting more pressure on smaller banks. Unlike smaller banks with fewer regulatory constraints, larger banks shrunk their commercial real estate exposures after the financial crisis, as capital charges encouraged them out of risky lending.



**SOFR options market sees 5-to-6 cuts as the main scenario.** JP Morgan analysts reverse-engineered a weighted combination of scenario-specific conditional distributions matching the observed implied distribution of the December 2024 SOFR futures price. After last week's moves, they found that the options market priced in 5-to-6 rate cuts this year as the main scenario, with small weight on a tail risk scenario corresponding to much more aggressive path of 300bps of rate cuts. JP Morgan analysts attribute such a scenario to tail risks for the banking sector, related to banks' CRE exposures. However, market participants see banking sector concerns due to CRE exposures as idiosyncratic and limited to some smaller banks, and messages from Fed speakers last week also suggested that the regional banking sector issues are limited to smaller banks and unlikely to derail the broader policy path.

**Figure 4: Premia on Dec '24 SOFR futures options currently imply a distribution that can be thought of as a combination of a modal scenario that assumes 5-6 cuts and a tail risk scenario that assumes a much more aggressive ~300bp in rate cuts**

Weights and parameters for three different conditional Normal distributions, that can be combined to create a composite distribution that recovers the prices of SFRZ4 calls and puts at various strikes\*, as of 2/8/2024

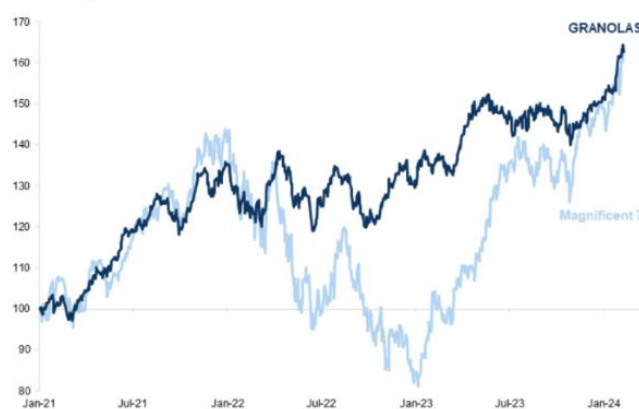
Scenario Description	Scenario Weight	Conditional Distribution	
		Mean	Std. Dev
2-3 cuts	5%	4.74	0.05
4-5 cuts	77%	4.57	0.67
Aggressive cuts	17%	2.14	0.33

## Euro Area

**European equities were lower ahead of the US CPI data release, with the Stoxx 600 index down -0.4%.** Euro area sovereign bond yields were initially marginally lower, but increased across the board after the US CPI print. On the data front the German ZEW survey expectations component surprised to the upside in February (+19.9 versus expected 17.3 from 15.2) while the current situation deteriorated by more than expected (-81.7 versus expected -79.0 from -77.3).

**A group of companies accounting for 25% of the STOXX 600 market cap, account for 60% of all gains over the past year.** European equities have performed relatively well despite lackluster domestic GDP—analysts largely attribute this to a grouping of the largest European companies by market cap as of 2020, a grouping dubbed the GRANOLAS by Goldman Sachs. The GRANOLAS (comprising GSK, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, Astrazeneca, SAP and Sanofi) has, since January 2021, seen a 63% return and even outperformed the so-called Magnificent 7 over the past two years. Moreover, analysts highlight that the realized volatility of this large-cap European cohort is 2x lower on average than for the Magnificent 7 since 2018. Consensus expects that these compounders would continue to grow strongly in the coming years, with the compound annual growth rate of revenue seen at 7% until 2025 for the GRANOLAS, compared to less than 2% for the market excluding GRANOLAS.

Exhibit 1: The GRANOLAS has kept pace with the so-called Magnificent 7 in the US for a 63% return since January 2021  
Total Return (%)



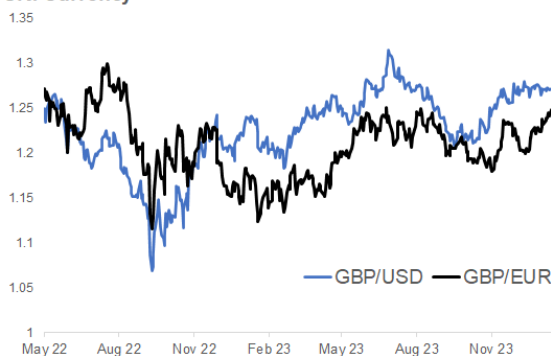
Granolas = GSK, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, Astrazeneca, SAP and Sanofi. Magnificent-7 = Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia and Tesla.

Source: Datastream, Goldman Sachs Global Investment Research

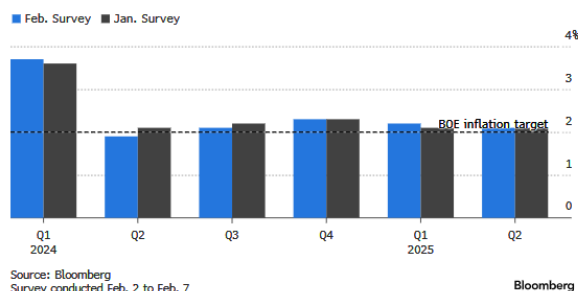
## United Kingdom

**Gilt yields increased after UK wage growth eased less than expected, while the unemployment rate eased to below consensus expectations.** Regular private sector average weekly earnings ex-bonuses increased to 6.2% 3m/y in December (versus expected 6.0% from a revised 6.7%). The ONS data also showed that the 3-month average unemployment rate eased to 3.8% in Q4 2023 (versus expected 4.0% from 3.9%). ING analysts expect wage growth to remain sticky in Q1 but also highlight the marked decline in wages from the summer peak. Morgan Stanley analysts expect the BoE to place a low weight on the unemployment data, given ongoing data issues such as low survey response rates. The market reaction to the job numbers showed that the data were interpreted as slightly hawkish—the pound initially strengthened against the dollar and also reached a six-month high against the euro; but versus the dollar, the pound weakened after the US CPI print was released. Gilt yields were higher (10y +7bps to 4.12%) and expectations for BoE rate cuts were scaled down. Analysts are focused on tomorrow's UK inflation data, as well as GDP data due on Thursday and Friday's retail sales data. In the meantime, a recent Bloomberg survey showed that economists now expect inflation to ease to 1.9% in Q2 (compared to 2.1% in the previous survey).

## UK: Currency



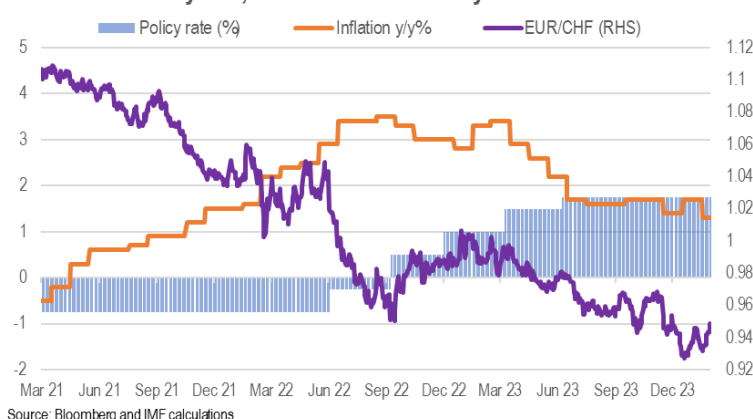
## Economists See UK Inflation Below BOE Target in 2Q



## Switzerland

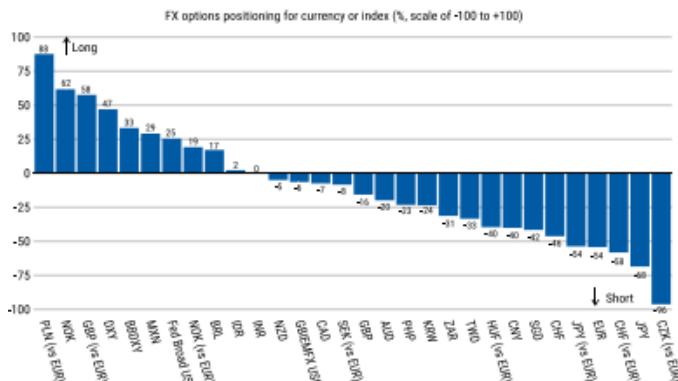
The Swiss Franc depreciated after the January inflation print surprised to the downside. Data released this morning showed headline inflation eased to 1.3%/y/y in January (versus expectations to remain unchanged at 1.7%), and core inflation easing to 1.2%/y/y (versus expectations to increase to 1.6% from 1.5%). The Swiss franc (CHF) was trading weaker against the euro this morning (-0.5% to 0.95), and is now roughly 2% weaker against the euro YTD.

## Switzerland: Policy rate, Inflation and Currency



## Japan

The Japanese yen has weakened by 6.7% versus the US dollar year-to-date, and yen-short positions are at their highest level since October last year. Based on option positions, Morgan Stanley (MS) concludes that the yen is one of the most shorted currencies at the moment. Recently, Bank of Japan (BoJ) Governor Ueda said that accommodative financial conditions will persist even if its negative interest rate policy ends. A sharp hiking cycle after "lift-off" is therefore seen as unlikely. Analysts believe that further JPY weakening may intensify verbal



warnings against “excessive moves” in the currency by Japanese officials. The NIKKEI advanced by 2.9% today after strong earnings results from especially the tech sector (Tokyo Electron Ltd. +13%). The yen weakened by versus the US dollar but especially so after the US CPI print, with the yen immediately trading 0.8% weaker versus the US dollar at 150.4.

## Emerging Markets

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**EMEA markets were mixed ahead of the US CPI report.** Equities in Serbia (+2.3%) and Saudi Arabia (+0.7%) outperformed. Equities in Poland declined (-0.4%) while the polish zloty underperformed against the euro (-0.2% to 4.32%). The Romanian leu was little changed against the euro (at 4.976/€); the central bank kept its policy rate unchanged at 7.0% as expected. Elsewhere the Nigerian naira yesterday closed above 1500/USD for the first time in the official market, surpassing the parallel rate of 1,485/USD. Absa analysts attribute this weakening to the Nigerian market's ongoing backlog of FX demand.

**A number of Asian markets remained closed for the Lunar New Year's holiday**, including China, Taiwan POC, and Hong Kong SAR. Sovereign bond yields in Asia were largely unchanged, with the exception of Singapore and the Republic of Korea, where bond yields edged up by about 3–5 bps across the curves. Korean equities also outperformed (1.1%), with Asian markets being mixed today and Indonesia underperforming (-1.2%). On the currency front, the Thai baht was the only currency showing a larger move versus the US dollar, as it strengthened by 0.5%. More broadly, traders were awaiting this morning's US January CPI print for direction.

**Latin American regional currencies and equities broadly recorded small gains amid thin trading volume due to holidays in some markets** (Argentina, Brazil and Venezuela). Traders are also awaited US inflation data. The Chilean Peso continued to be an exception, depreciating against the US dollar to the weakest level since October 2022. Pemex bond prices declined following last Friday's downgrade.

## Philippines

**According to Bloomberg, the Philippine central bank has been intervening actively to prevent the peso from weakening beyond the 57 per dollar level**, but the report says that the central bank's efforts may be facing serious challenges from the combined effects of rising oil prices, the possibility of significant interest rate cuts, and the nation's ongoing trade deficit. Dovish remarks from Philippine Finance Secretary Benjamin Diokno about potential rate cuts and the Federal Reserve's resistance against anticipated rate cuts exacerbate the peso's vulnerability. Escalating tensions in the Middle East could serve as a catalyst for the

peso's decline, with analysts predicting a potential drop of 2%-to-4%. Investors are awaiting commentary from the central bank's policy meeting on Thursday, where it's expected to maintain its overnight borrowing rate at 6.5%. Today, the peso strengthened slightly by 0.1% versus the US dollar.



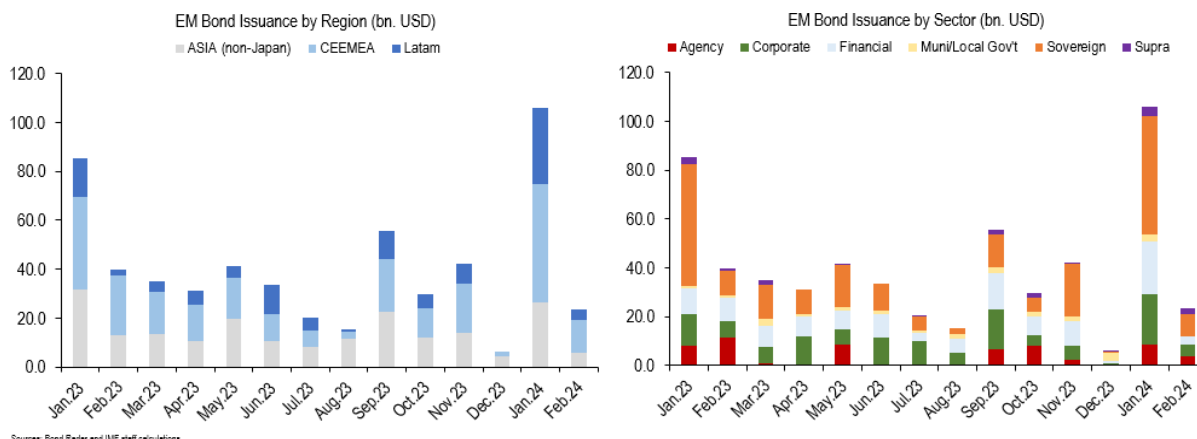


## Kenya

**Kenya accepted \$1.5bn in a 7-year Eurobond issuance, priced at a yield of 10.375%, with issuance attracting more than \$5bn orders**, according to Bloomberg. The issuance proceeds will be used partially to finance the upcoming buyback of its Eurobond maturing in June 2024. Absa analysts think that the effective switch could see greater inflows into the local bond market. Against this backdrop Absa analysts expect local currency yields in Kenya to decline. The pricing of 10.375% was lower than the initial guidance of 10.625%. Its existing 2048 bond yield also fell 10bps to trade around 10.51%, suggesting that investors' demand for Kenyan bond remain supportive. Some analyst suggests that this could "gradually open the way" for issuances at lower yields, if "UST yields were to oblige". Kenya has more than \$3.5 bn of foreign-currency obligations maturing this year. S&P affirmed Kenya's credit rating at B, with a negative outlook, reflecting "risks to Kenya's external debt-servicing capacity amid high external refinancing requirement".

## EM Bond Issuances

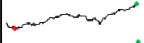
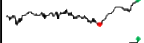
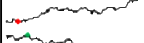


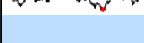



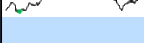







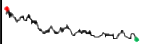

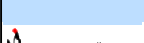

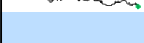



**EM hard currency issuances reaccelerated last week after a slow-down for the final week of January.** EM issuers sold \$22.7bn of hard currency bonds with USD-denominated issuances totaling \$16.3bn. In terms of sectoral composition, \$9.0bn were sovereign bonds, \$7.2bn were corporate/financial bonds, \$3.8bn were agency bond and \$0.2bn were local government bonds. Notable sovereign issuers include Bahrain, Benin, Türkiye and Paraguay, offering fixed rate issuances with maturities up to 2038. Specifically, Türkiye's \$3bn 10-year deal, which was more than 3x subscribed, was the first since President Erdogan won elections in May and installed a more market-friendly economic team. Benin's 14-year USD bond was oversubscribed by more than 6x, receiving \$5.0bn demand for \$0.75bn of debt. For YTD 2024, sovereigns accounted for 44.5% of total issuances for the year, followed by corporates (19.6%) and financials (19.0%).



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

2/13/24 9:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5022	-0.1	2	5	21	5
Europe		4702	-0.9	0	5	11	4
Japan		37964	2.9	4	7	38	13
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		66	0.8	3	2	-6	-1
Emerging Markets		40	0.8	3	2	-2	-1
<b>Interest Rates</b>			basis points				
US 10y Yield		4.16	-1.6	6	22	46	28
Germany 10y Yield		2.35	-1.4	6	16	-2	32
Japan 10y Yield		0.73	0.2	1	12	22	11
UK 10y Yield		4.07	1.5	12	28	67	54
<b>Credit Spreads</b>			basis points				
US Investment Grade		128	0.0	1	-3	-14	-6
US High Yield		373	1.1	-13	-24	-69	-12
<b>Exchange Rates</b>			%				
USD/Majors		104.08	-0.1	0	2	1	3
EUR/USD		1.08	0.1	0	-2	1	-2
USD/JPY		149.4	0.0	1	3	13	6
EM/USD		46.8	0.0	0	-2	-8	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		82.5	0.6	5	6	2	7
Industrials Metals (index)		134	0.3	-1	-2	-19	-6
Agriculture (index)		60	-0.1	0	0	-14	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.0	0.1	1.0	1.3	-6.3	1.6
Global FX Volatility		7.2	0.0	-0.5	-0.5	-3.3	-0.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		112	-0.7	-7	7	-71	9
Italy		153	-1.3	-3	-2	-27	-14
Portugal		79	-1.6	-1	21	-6	16
Spain		95	-1.4	3	4	1	-2

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

## Emerging Market Financial Indicators

Last updated: 2/13/2024 9:06 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		7.19	0.0	0.0	0	-6	-1		2.4	0.0	-3	-11	-73	-12
Indonesia		15595	0.0	0.9	0	-3	-1		6.6	-0.3	3	-2	-10	16
India		83	0.0	0.1	0	0	0		7.2	1.0	5	4	(24.1)	0
Philippines		56	0.1	0.4	0	-2	-1		5.4	0.0	0	-22	-49	-20
Thailand		36	0.5	-0.1	-2	-5	-4		2.6	-1.0	-13	-16	-18	-13
Malaysia		4.76	0.0	0.1	-2	-8	-4		3.8	1.6	2	1	-6	9
Argentina		831	-0.1	-0.5	-2	-77	-3		74.2	0.0	-160	-696	-1253	-1216
Brazil		4.95	0.9	0.3	-1	6	-2		10.8	1.5	7	5	-286	37
Chile		975	-0.4	-2.6	-6	-19	-10		4.9	-0.5	13	5	-56	2
Colombia		3915	0.2	1.3	0	22	-2		7.5	0.0	7	-2	-161	-11
Mexico		17.09	-0.1	-0.3	-1	9	-1		8.7	1.5	-8	27	2	21
Peru		3.9	-0.1	-0.1	-4	0	-4		6.7	-0.1	-5	20	-123	3
Uruguay		39	0.1	-0.4	1	0	-1		9.1	0.0	-9	-11	-70	-42
Hungary		359	0.0	0.0	-4	-1	-3		6.1	0.0	-1	42	-192	28
Poland		4.01	-0.2	0.9	0	11	-2		4.8	3.5	12	34	-55	37
Romania		4.6	0.1	0.3	-2	-1	-2		6.3	0.3	4	4	-112	6
Russia		91.4	-0.1	-0.7	-4	-19	-2							
South Africa		18.8	0.3	-0.1	-1	-5	-3		9.4	-3.3	16	26	55	27
Türkiye		30.72	0.0	-0.8	-2	-39	-4		26.5	-5.0	-36	-33	1512	-27
US (DXY; 5y UST)		104	-0.1	-0.1	2	1	3		4.13	-0.9	8	30	22	28

	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		3365	0.0	5	2	-19	-2		161	4	-3	-12	3	
Indonesia		7210	-1.2	0	0	4	-1		110	4	-3	-28	14	
India		71555	0.7	-1	-1	17	-1		115	-5	-13	-30	-1	
Philippines		6828	0.3	1	3	1	6		91	6	-4	-24	11	
Thailand		1392	0.2	0	-2	-16	-2		0	0	0	0	0	
Malaysia		1531	1.3	1	3	3	5		88	-1	-6	-13	3	
Argentina		1128511	1.1	-14	9	352	21		2037	162	127	65	124	
Brazil		128026	-0.2	1	-2	18	-5		218	-4	9	-47	3	
Chile		6101	1.1	2	2	14	-2		135	0	2	-1	10	
Colombia		1248	0.0	-2	-3	1	4		318	-6	24	-65	47	
Mexico		57419	0.2	-1	3	8	0		336	3	1	-27	2	
Peru		27656	1.1	2	6	26	7		150	-2	-2	-37	6	
Hungary		64800	0.1	0	2	40	7		172	8	6	-37	23	
Poland		78916	-0.6	0	4	31	1		110	3	5	33	13	
Romania		15759	0.1	0	0	28	3		200	8	-8	-39	-1	
South Africa		73701	0.0	-1	-1	-8	-4		358	9	25	-9	50	
Türkiye		9140	-0.4	3	14	103	22		321	-29	-23	-187	7	
Ukraine		507	0.0	0	0	0	0		4401	171	560	-2	397	
EM total		40	-0.4	3	2	-2	-1		353	0	-6	-31	7	

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

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