



- More US firms discuss AI on earnings calls ([link](#))
- US Fed unveils bank stress test scenarios ([link](#))
- Fed's reverse repo facility usage drops below \$500 bn, lowest since 2021 ([link](#))
- Euro area bond yields edge higher amid mixed ECB commentary ([link](#))
- Japanese equities continued their advance, nearly reaching the 1989 peak ([link](#))
- Chile central bank's minutes indicated possibility for accelerated rate cuts ([link](#))
- Panama at risk of losing its investment grade status ([link](#))

[Mature Markets](#)

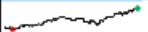
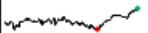
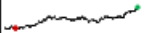


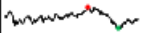





[Emerging Markets](#)

[Market Tables](#)

Inflation jitters hit markets yet again

Equity prices dipped after US PPI data for January showed prices rising more than expected. January PPI data (headline +0.3%/m/m vs. 0.1%/m/m consensus) sent Treasury yields higher by 6–13 bp and the dollar stronger against the dollar by 0.4%. US equity prices fell into negative territory ahead of the market open. Core PPI was also higher (+0.5% m/m vs. 0.1%/m/m consensus). Before this morning's release, global equities—including US equity futures—had risen partly driven by the strong earnings season. Ahead of the PPI release, treasury yields had already been on the rise on comments from Atlanta Fed chair Bostic, a voting member of the FOMC, that inflation is unlikely to decline at a pace consistent with where markets imply the Fed funds to be. European sovereign bond yields also moved higher after ECB board member Schnabel echoed ECB president Lagarde's earlier warning against cutting rates too soon. In emerging markets, the Kenyan shilling continued to rise following its earlier bond issuance and is now up nearly 10% versus the dollar this week.

Key Global Financial Indicators

Last updated: 2/16/24 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5030	0.6	1	6	23	5
Eurostoxx 50		4767	0.5	1	7	11	5
Nikkei 225		38487	0.9	4	7	40	15
MSCI EM		40	0.5	1	4	-1	-1
Yields and Spreads			bps				
US 10y Yield		4.27	4.1	10	21	41	39
Germany 10y Yield		2.40	4.1	2	14	-8	38
EMBIG Sovereign Spread		383	-6	-6	-15	-62	0
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.7	-0.1	0	-1	-7	-3
Dollar index, (+) = \$ appreciation		104.4	0.1	0	1	0	3
Brent Crude Oil (\$/barrel)		82.1	-0.9	0	5	-4	7
VIX Index (% change in pp)		14.2	0.2	1	0	-6	2

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

Mature Markets

[back to top](#)

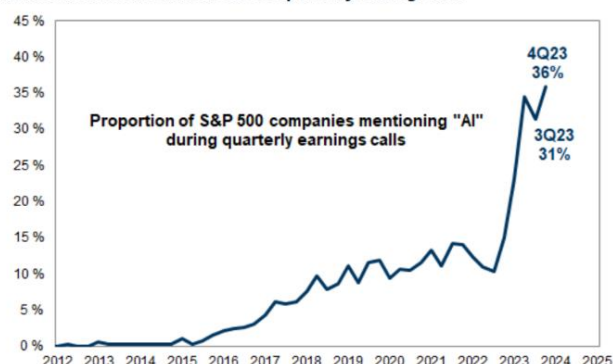
United States

The stock market recovery from the post-CPI sell-off continues: US S&P 500 rose to 5,030 Thursday, approaching another all-time high and Treasury 10-year yields declined 2bp on the day.

More S&P 500 companies discussed AI on their earnings calls.

Three hundred sixty companies have reported 4Q results so far, and 58% beat earnings by at least one standard deviation of analyst estimates. With the reporting season almost complete, the expected EPS growth year on year is now 7%, reflecting better-than-feared profit margins. Goldman Sachs highlights three themes from 4Q earnings calls: AI, supply chains, and the labor market. Of note, the proportion of S&P 500 companies discussing AI rose by 5 percentage points to 36%, signaling enthusiasm for the technology. Companies expect AI to enhance productivity, reduce costs, and improve product offerings. They see good demand for AI-related products and the need for further investment in AI. By sector, information technology remains the sector with the most firms discussing the technology, and their equity prices have reflected this enthusiasm.

Exhibit 2: Mentions of AI on S&P 500 quarterly earnings calls



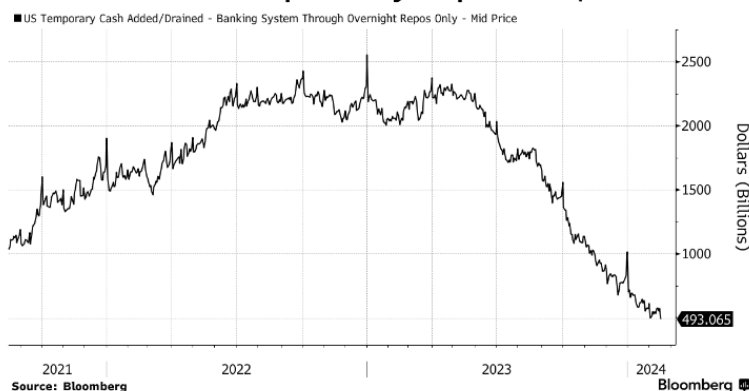
Source: Goldman Sachs Global Investment Research

The Fed unveiled this year's hypothetical scenarios for their bank stress test ([link](#)). This year's scenario assumes an unemployment rate rise of nearly 6.5 percentage points to a peak of 10%, accompanied by intense market volatility and a 40% drop in commercial real estate prices. The stress test is the first one since Silicon Valley Bank and Signature Bank collapsed last March, and it will cover 32 banks with \$100 bn in assets.

The Fed's reverse repo (RRP) facility usage dropped below \$500 billion for the first time since 2021.

The usage declined sharply from a record \$2.55 trillion on December 30, 2022. Market participants have been closely watching the pace of RRP drains. Dallas Fed President Logan discussed in January that the Fed should slow its balance sheet runoff as RRP balances approach a low level, while Fed chair Powell said FOMC members plan to begin discussions about slowing or halting the Fed's balance sheet unwind when they meet in March.

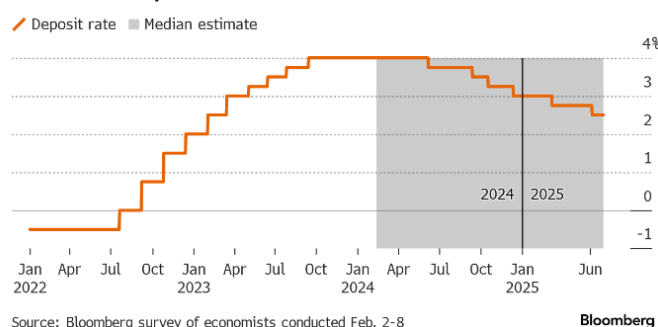
Demand for Reverse Repo Facility Drops Below \$500 Billion



Euro Area

European equities were trading in the green with the Stoxx 600 index up 0.7% this morning and is now up roughly 2.7% so far this year. Euro area sovereign bond yields edged higher this morning with the ECB's Executive Board member Schnabel cautioning against the ECB cutting rates too early. This follows after ECB President Lagarde yesterday also struck a cautious tone and warned against the ECB making hasty decisions, highlighting the importance of wage growth as a driver of inflation. In the meantime, Governing Council (GC) member Villeroy said that the ECB should not wait too long to start cutting interest rates and added that the "risk of cutting too late at least as big as too early". In separate remarks, GC member Scicluna is seen by contacts as the first GC member to explicitly back an imminent rate cut after indications that he is open to an interest rate cut as early as March. While a recent Bloomberg survey showed economists expecting four rate cuts this year, markets are pricing in roughly 110bp of ECB rate cuts in 2024, down from 113bp yesterday. Euro area sovereign bond yields were marginally higher this morning (10y bund yield +3bp), similar to levels it was trading at last Friday.

Economists Expect Four ECB Rate Cuts This Year



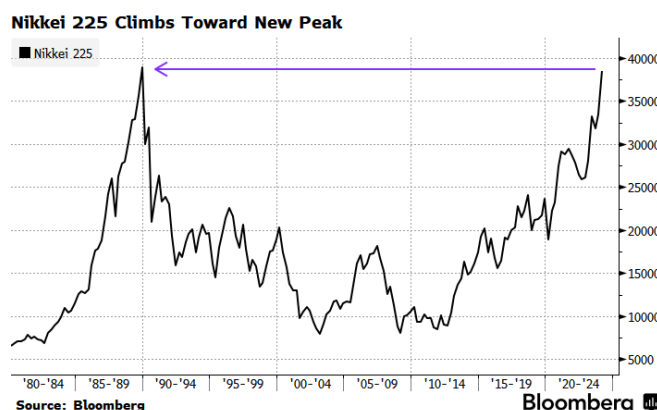
Bond prices of Deutsche Pfandbriefbank (PBB) continued to decline after S&P downgraded its rating to BBB- yesterday. The rating agency pointed to its high exposure to the US commercial property market. According to Bloomberg, PBB's perpetual notes were trading at around 23 cents on the euro today, down from around 60 cents at the end of January.

United Kingdom

The pound weakened in early morning trade as the significant upside surprise in retail sales is attributed to seasonal trends. Data released this morning showed retail sales increasing by +3.4%/m/m (versus expected +1.5% from a revised -3.3%). Analysts highlight that while this follows a large drop in December, and attribute the moves to seasonality adjustments. Data releases this week included softer than expected preliminary Q4 GDP data, a marginally lower-than-expected January inflation print, and an upside surprise in wage growth. ING analysts reiterate that they do not expect activity data do have significant implications for the BoE's policy outlook, arguing that, instead, focus remains on inflation and wage growth. Against this backdrop analysts are not surprised that the pound weakened despite retail sales data release this morning, although some moves were retraced in later trading. The pound was trading at around 1.26 against the dollar, roughly 0.3% weaker than at the start of the week. 10y gilt yields edged higher (+4bp). Markets are now pricing in roughly 74bp of rate cuts this year (compared to 75bp yesterday), with the first rate cut still fully priced in August.

Japan

Japanese equities continued their advance, nearly reaching the 1989 peak. Share prices rose 0.9% today and 4.3% this week (based on NIKKEI). Some strategists recently raised their Nikkei/TOPIX target levels on the view that the yen will unlikely appreciate sharply due to the US economy's strength and the Bank of Japan's continuation of relatively loose monetary policy. Given the recent rally of Japanese equities, the BOJ's holding of Japanese stock ETFs surged to a new record of about 70 tn yen (\$466 bn), with about 32 tn (\$213 bn) of unrealized gains. **Governor Ueda reiterated that the BOJ will review the need for large-scale monetary policy easing when achieving the price objective is in sight.** Financial conditions are likely to stay accommodative for the time being even if the negative rate policy is ended. The BOJ is still looking to confirm wage growth momentum and a virtuous cycle between wages and consumption. The yen depreciated (-0.2%). Long-end JGB yields were mixed (10-year: +0.3 bp; 30-year: -1.1 bp).



Emerging Markets

[back to top](#)

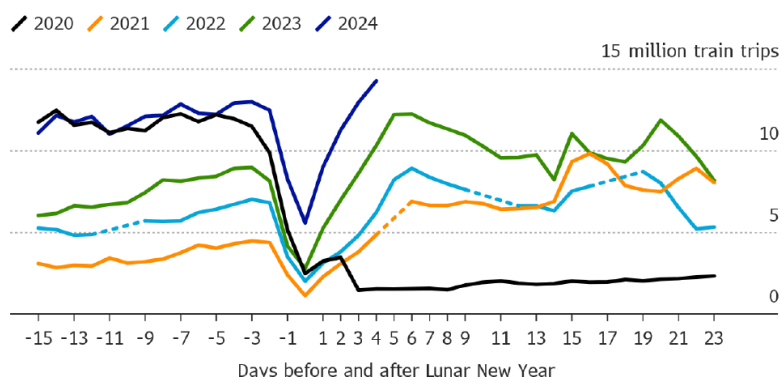
Asian equities gained today, up 0.8% on net, led by Hong Kong (+2.6%), Singapore (+1.5%) and Korea (+1.3%) equities, similar to global trends. Asian currencies were mixed. The Thai baht appreciated (+0.4%), while the Korean won depreciated (-0.1%). Long-end government bond yields generally increased, with 10-year yields rising in Singapore (+4 bp). In Korea, the unemployment rate unexpectedly dropped to 3.0% in January (consensus: 3.2%). **EMEA markets were mixed this morning.** Equities in Poland (+1.3%) and Hungary (+0.4%) outperformed. Weakness in the Czech koruna continues this morning with the currency trading lower (-0.3%) against the euro. Analysts at Raiffeisen note that the significant weakening in the currency, which is down around 2.9% against the euro year-to-date will affect the CNB's decision-making given that monetary policy has also been eased via the exchange rate channel, where they note that a "1% weakening of the Czech koruna equates to around a 25bp cut in interest rates". On the monetary policy front, Russia kept its key policy rate unchanged at 16%, in line with expectations. There was little immediate market reaction to the announcement. **LatAm currencies, local bonds and equities continue to rally alongside other risk assets.** The Peruvian Sol led currency gains, appreciating 0.9% against the dollar. In contrast, the Chilean Peso was the largest underperformer, weakening 1.0% against the dollar, after central bank officials signaled the possibility for an acceleration in rate cuts. The Colombian peso strengthened 0.2% against the dollar, despite the weaker-than-expected GDP print. Its local currency government bonds were amongst the outperformers in the region, with the benchmark 5- and 10-year government bond yields lower by 8 bp and 7 bp, respectively.

China and Hong Kong SAR

Hong Kong SAR-listed Chinese equities extended their gains, driven by optimism on spending in Mainland China during the Lunar New Year holiday. Hong Kong SAR-listed Chinese stocks rose 2.9% today and 3.9% this week. Markets remained closed in mainland China. Data showed a resurgence in domestic travel in mainland China, fueling optimism of a consumer spending pickup as the economy is struggling with low confidence and deflationary pressure. Initial data showed an increase in road, rail and air travel, as well as hotel bookings via e-commerce platforms. The average daily consumer spending on Meituan's online platforms also increased 36% from last year.

China's New Year Holiday: Train Travel Surges

Number of rail trips is highest in five years



Source: China's Ministry of Transport, China Railway; Bloomberg

Bloomberg

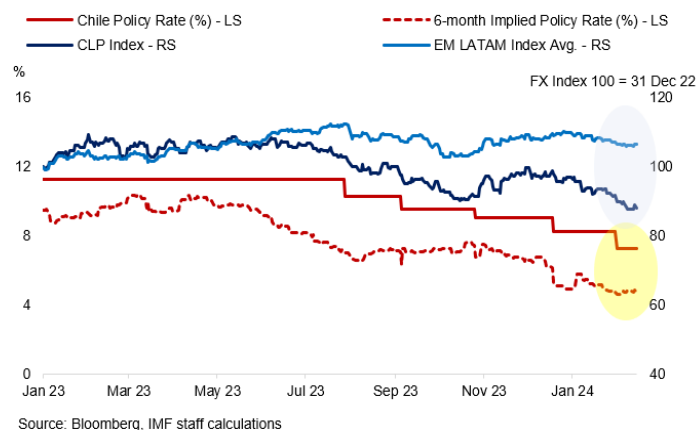
Offshore RMB was little changed today and this week, trading at around 7.22 yuan per dollar. Markets expect the People's Bank of China (PBC) to keep the 1-year medium-term lending facility rate unchanged at 2.5% on February 18, but expect Chinese banks to lower the 5-year loan prime rate by 10 bp to 4.10% afterwards. One noteworthy point is that the PBC did not inject liquidity via market operations ahead of the Lunar New Year.

Chile

Chile's central bank minutes indicated that it could accelerate rate cuts.

The January meeting, where the central bank cut policy rate by 100 bp in a split vote, had members weighing a reduction of 100, 125 and 150 bp to its policy rate. All board members agreed that inflation was converging to the 3% target quicker than initially thought and noted that consumer price expectations were in line with the 3% target and that the economy “had already narrowed the activity gap”. Board members also desire to limit the economic cost of fighting inflation and indicated that the policy rate should reach “neutral level” in the second half of the year. The Chilean Peso is one of the largest underperformers amongst EM currencies in 2024. The currency weakness could pose some inflationary risk as imports become more expensive, and Chile is particularly vulnerable as it imports most of its fuel.

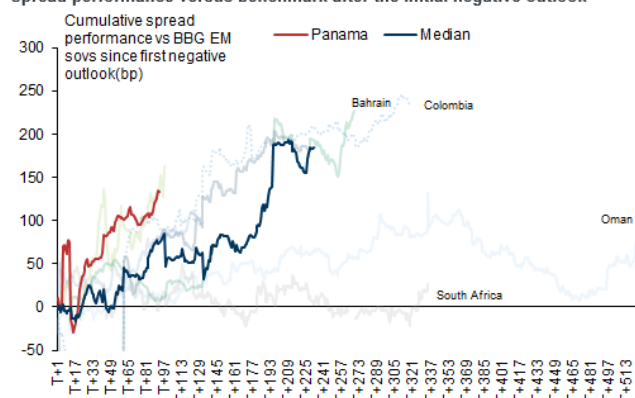
CLP has underperformed regional peers since initiating rate cuts last year



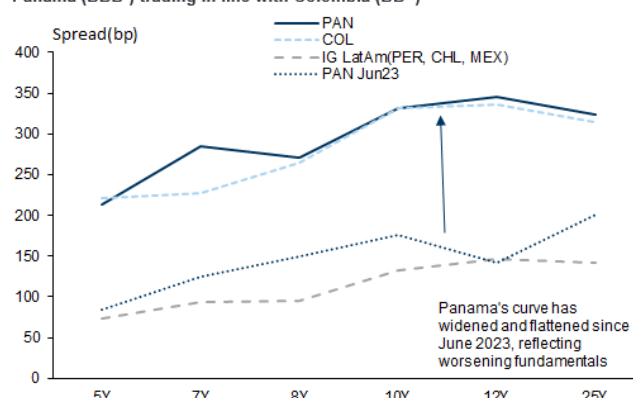
Panama

Panama is at risk of being downgraded to below investment-grade. According to a Goldman Sachs analysis, Panama is at risk of becoming a “fallen angel”, due to the impact of the closure of the Cobre Panama mine. Its median BBB- rating (Baa3/BBB/BBB-), with negative outlook (S&P and Fitch), could be compromised due to the potential ramification of the mine closure, to its economic growth and fiscal balance. The analysis suggest that a sovereign takes about 13 months on average to become a “fallen angel” after receiving its first negative outlook with a BBB- rating. The bonds tend to underperform the benchmark by approximately 160 bp, from the onset of the negative outlook until the country's rating is downgraded to high yield by two rating agencies. Panama's bonds have largely tracked a similar trend and are now trading in-line with Colombia (BB+).

Spread performance versus benchmark after the initial negative outlook



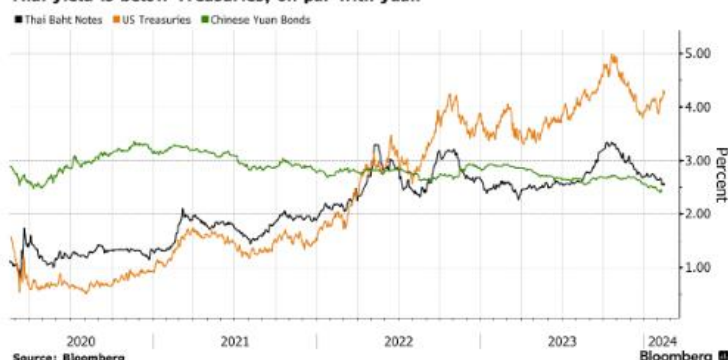
Panama (BBB-) trading in line with Colombia (BB+)



Thailand

Thailand's government is weighing a plan to raise about \$1 bn from global markets. The plan would be the sovereign's first foreign-currency sovereign bond sale in two decades. The Finance Ministry is said to be analyzing the cost-benefit and is to allow the government to decide by May, according to Public Debt Management Office Director-General Patchara Anuntasilpa. The issuance would primarily serve as a benchmark for Thai companies to raise funding internationally. Patchara added that the issuance is likely to be a "dollar-denominated bonds" and suggested that the proceeds will likely be earmarked for sustainability-linked financing. Nonetheless, Patchara highlighted that the challenge is to "convince people why we need to do it the hard way", as local financing is currently cheaper and more convenient.

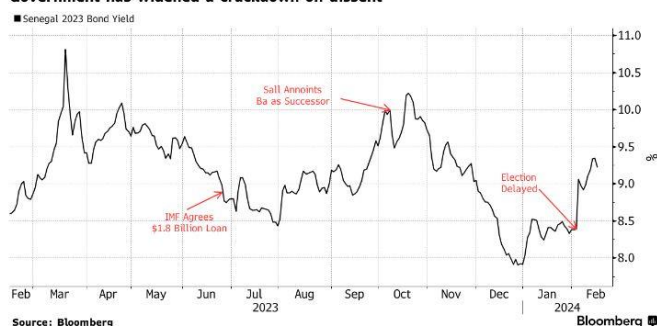
Thailand Looks to Tap Global Bond Market
Thai yield is below Treasuries, on par with yuan



Senegal

Senegal's Constitutional Council yesterday ruled that the election delay to 15 December was unlawful and called for elections to be held as soon as possible. According to Bloomberg, the yield on Senegal's 10-year dollar debt has risen almost 100bp since President Sall's decision on February 4 to postpone voting, reaching 9.22%, compared to 8.39% on February 2.

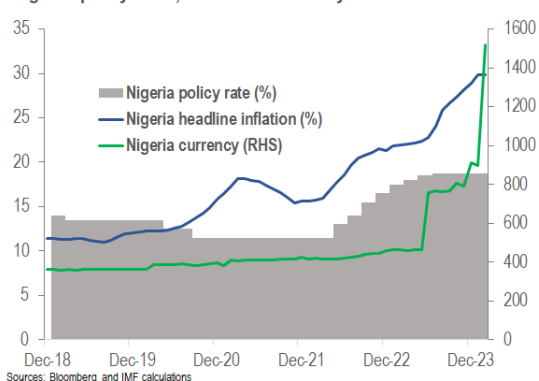
Senegal Bond Yields Have Surged Since Election Postponement
Government has widened a crackdown on dissent



Nigeria

January inflation data released yesterday surprised to the upside. Inflation rose to 29.9%/y (exp 29.5%/y and 28.9%/y prior)—a near three decade high, with contacts noting that this will put pressure on policymakers to hike rates sharply at the February 27 policy meeting. **Bank of America analysts expect the Central Bank of Nigeria to raise rates by around 300bp in each of the upcoming February and March policy meetings.** This would take interest rates close to 25%, which BofA believe to be the terminal rate, and would see positive real rates in the country if inflation evolves in line with current projections and settles at around 22–25% by year-end.

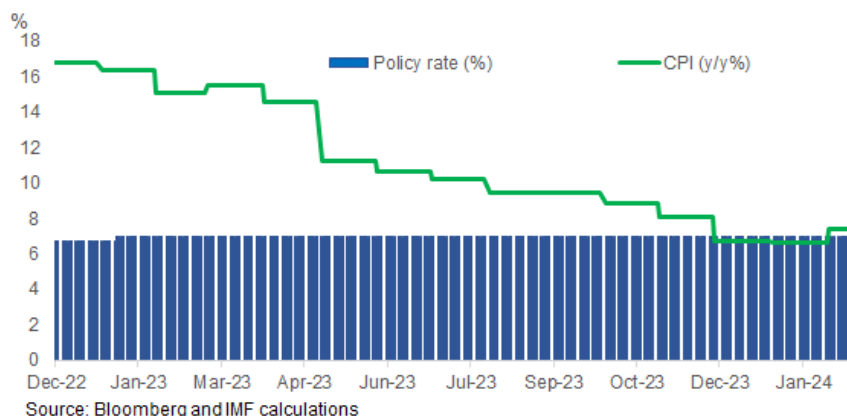
Nigeria: policy rates, inflation & currency



Romania

Romania issued its first green bond to fund its budget deficit and several environmentally friendly projects. According to Bloomberg, the country offered a 12Y green bond which priced at 345bp over mid-swaps and raised €2bn. This is the second time this year that Romania has tapped international capital markets after attracting significant demand for an earlier sale in January. Separately, analysts at Raiffeisen expect the NBR to start cutting rates in May. Following stronger-than-expected January inflation, which printed at 7.4%/y (exp 7.2%/y, 6.6%/y prior), Raiffeisen expects inflation will gradually consolidate at levels below 7% in the coming months which should enable the NBR to start easing policy rates.

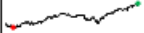
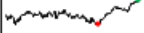
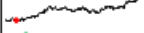


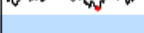
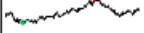



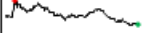








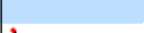
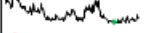

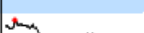


Romania: Headline CPI & policy rate



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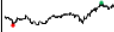
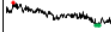
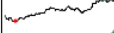
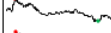




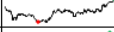

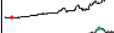









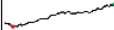


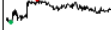


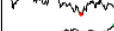





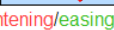
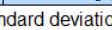


Global Financial Indicators

2/16/24 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5039	0.6	0	6	23	6
Europe		4767	0.5	1	7	11	5
Japan		38487	0.9	4	7	40	15
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		66	0.4	1	4	-4	-1
Emerging Markets		40	0.5	1	4	-1	-1
Interest Rates			basis points				
US 10y Yield		4.27	4.1	10	21	41	39
Germany 10y Yield		2.40	4.1	2	14	-8	38
Japan 10y Yield		0.74	0.4	1	14	23	12
UK 10y Yield		4.10	4.1	1	30	60	56
Credit Spreads			basis points				
US Investment Grade		124	-0.4	-4	-7	-19	-10
US High Yield		368	-3.5	-3	-29	-80	-17
Exchange Rates			%				
USD/Majors		104.36	0.1	0	1	0	3
EUR/USD		1.08	0.0	0	-1	1	-2
USD/JPY		150.3	0.3	1	2	12	7
EM/USD		46.7	-0.1	0	-1	-7	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		82.1	-0.9	0	5	3	7
Industrials Metals (index)		135	0.8	2	-1	-17	-5
Agriculture (index)		59	0.1	-3	-3	-15	-6
Implied Volatility			%				
VIX Index (% change in pp)		14.2	0.2	1.3	0.3	-6.0	1.7
Global FX Volatility		7.1	0.0	-0.2	-0.6	-3.2	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		109	-1.8	-6	1	-71	5
Italy		148	-1.6	-10	-9	-37	-20
Portugal		75	-1.3	-7	-7	-13	12
Spain		90	-1.4	-9	-2	-6	-7

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

Emerging Market Financial Indicators

Last updated: 2/16/2024 8:10 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	0	-12	-76	-12
Indonesia		15624	0.0	0.1	0	-3	-1		6.6	-0.6	1	-5	-7	14
India		83	0.0	0.0	0	0	0		7.2	-0.1	2	2	(22.0)	1
Philippines		56	0.1	-0.2	0	-2	-1		5.4	-0.1	-7	-22	-47	-20
Thailand		36	0.0	-0.4	-2	-5	-5		2.6	2.5	6	-13	-9	-8
Malaysia		4.78	0.1	-0.3	-2	-8	-4		3.8	1.7	4	3	-4	11
Argentina		835	-0.1	-0.4	-2	-77	-3		75.6	9.5	11	-703	-1158	-1082
Brazil		4.97	0.0	-0.4	-1	5	-2		10.8	-1.7	6	6	-272	43
Chile		969	-0.1	0.2	-4	-18	-9		4.9	0.5	2	5	-57	3
Colombia		3913	-0.1	0.2	1	26	-1		7.5	0.0	-6	-8	-208	-18
Mexico		17.04	0.0	0.3	1	9	0		8.7	-5.0	4	34	-2	28
Peru		3.8	0.7	0.3	-4	0	-4		6.7	-4.5	-1	11	-133	3
Uruguay		39	0.0	0.0	0	1	-1		9.0	1.1	-17	-20	-69	-52
Hungary		361	0.0	-0.7	-3	-1	-4		6.0	0.5	4	34	-256	25
Poland		4.03	0.0	-0.5	0	11	-2		4.8	3.4	4	23	-81	34
Romania		4.6	-0.1	-0.2	-1	-1	-3		6.3	-8.3	10	10	-101	15
Russia		93.1	-0.8	-2.1	-5	-20	-4							
South Africa		18.9	0.3	0.7	0	-4	-3		9.4	3.0	4	20	27	26
Türkiye		30.83	-0.3	-0.5	-2	-39	-4		26.5	6.0	-83	-69	1550	-30
US (DXY; 5y UST)		104	0.1	0.2	1	0	3		4.27	5.2	13	33	19	42

	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		3365	0.0	5	2	-19	-2		158	-2	-6	-13	0	
Indonesia		7336	0.4	1	1	6	1		108	-1	-5	-36	12	
India		72427	0.5	1	1	19	0		112	-3	-16	-35	-4	
Philippines		6873	-0.1	0	6	1	7		90	-2	-5	-32	10	
Thailand		1386	-0.1	0	0	-16	-2		0	0	0	0	0	
Malaysia		1534	0.3	1	3	4	5		87	-2	-7	-12	2	
Argentina		1093752	-1.1	-10	3	325	18		1845	-123	-65	-173	-68	
Brazil		127804	0.6	-2	-1	16	-5		216	-3	7	-47	1	
Chile		6218	1.7	3	4	14	0		129	-7	-4	-7	4	
Colombia		1246	0.7	0	-4	2	4		302	-19	8	-91	31	
Mexico		57252	0.0	-1	4	6	0		329	-3	-6	-36	-5	
Peru		28340	1.6	4	8	29	9		145	-8	-7	-38	1	
Hungary		65831	0.3	1	4	43	9		164	-7	-2	-44	15	
Poland		80207	1.1	2	7	32	2		102	-7	-3	33	5	
Romania		15761	0.7	0	0	27	3		197	-2	-11	-40	-4	
South Africa		73861	0.9	1	1	-8	-4		346	-4	13	-22	38	
Türkiye		9268	0.3	2	15	85	24		318	-19	-26	-199	4	
Ukraine		507	0.0	0	0	0	0		4251	17	410	-191	247	
EM total		40	0.7	1	4	-1	-1		344	-9	-15	-40	-1	

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

[back to top](#)