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- ECB reportedly close to agreeing on new monetary framework ([link](#))
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Markets cautious ahead of busy data week

European bourses were modestly lower and US equity futures signaled a pause for stocks as investors focused on a busy week of data, including the second release of Q4 US GDP and the Fed's preferred measure of inflation. In Asia, Japanese stocks continued to make new record highs, with the Nikkei up a stellar 17% year-to-date, significantly outperforming US and European stocks. In fixed income markets, advanced economy government bond yields and corporate bond spreads were little changed this morning. The dollar index was marginally weaker, but it remains 2.4% stronger year-to-date. Elsewhere, Chinese equities (-1%) underperformed, led by decline in utilities and energy sectors, snapping an eight-day winning streak. In frontier markets, the eurobonds of Zambia and Egypt extended gains following news that China and India—the last two nations needed to sign a deal to restructure Zambia's debt—have now done so, and that Egypt and the United Arab Emirates reached an investment deal. The JP Morgan Next Generation Markets index, a proxy for frontier bond market spreads, has continued to tighten and was trading at 680 bps on Friday, its narrowest level in over two years.

Key Global Financial Indicators

Last updated: 2/26/24 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
S&P 500		5089	0.0	1	4	28	7
Eurostoxx 50		4862	-0.2	2	5	16	8
Nikkei 225		39234	0.3	2	10	43	17
MSCI EM		41	0.0	2	4	6	1
Yields and Spreads							
US 10y Yield		4.24	-0.6	-4	10	30	36
Germany 10y Yield		2.39	2.5	-2	9	-15	36
EMBIG Sovereign Spread		373	-1	-9	-29	-75	-10
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		46.6	0.2	0	-2	-7	-3
Dollar index, (+) = \$ appreciation		103.7	-0.2	-1	0	-1	2
Brent Crude Oil (\$/barrel)		81.2	-0.5	-3	-3	-2	5
VIX Index (% change in pp)		14.1	0.3	0	1	-8	2

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

This week, the economic calendar in the US is busy with high frequency activity data (PMIs, ISM manufacturing) along with the second release of the Q4 GDP figure and PCE (the Fed's preferred measure of inflation). Flash inflation data will be released for the major economies in the eurozone. CPI prints will also be released in Japan, Australia, and Peru. Central bank meetings will be held in Israel, Hungary, New Zealand, and Nigeria. Nigeria will be holding its first central bank meeting in six months with a new governor. PMI data is also due to be released in China and for the major economies in the CEEMEA region (Russia, Turkey, Poland, Hungary, Czech Republic, Nigeria, and South Africa). Canada, Sweden, Turkey, India, and Brazil will also be releasing their GDP figures. Mexico will release its quarterly inflation report, which will include the central bank's updated forecasts for growth and inflation—the central bank is yet to start its cutting cycle.

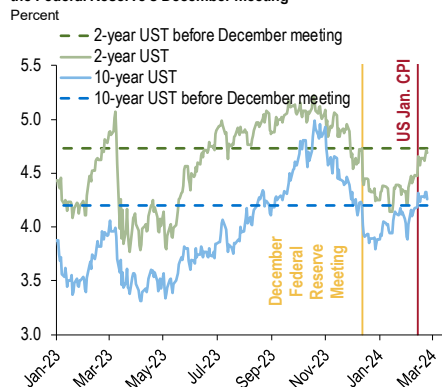
Mature Markets

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United States

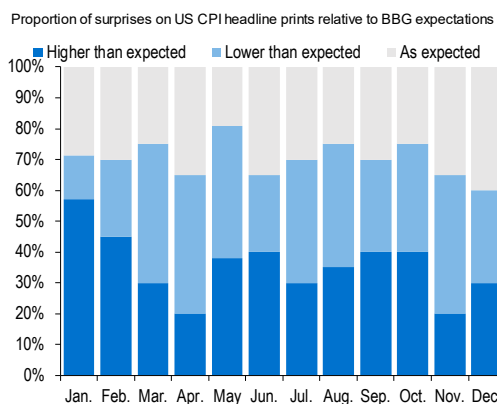
US Treasuries have erased their gains from last December's rally. Risk assets and rates markets had benefitted from last December's Federal Reserve meeting heading into year-end. A dovish surprise on the central bank's median projections showing three cuts for 2024 (against expectations of two) triggered a euphoric rally in financial markets and an anticipation of a deep cutting cycle. Since then, a combination of stronger data and push back from policymakers about the start and pace of rate cuts have pushed yields higher back to levels seen prior to the December meeting. Nearly half of the sell-off in front-end yields was triggered from the recent higher-than-expected CPI print for the month of January (+22 bps). While a majority of January's CPI releases have come in higher-than-expected over the last two decades, some economists think inflation may be stickier going forward. The CPI's core services less housing component has shifted notably higher (+0.85% m/m)—near the peak levels seen in 2022 (+1% m/m). Markets have now dialed back their rate cut expectations for 2024 from seven cuts at their peak to three cuts, in line with the central bank's median dot plot for the rest of the year.

2-year and 10-year US Treasury yields trace back to levels prior to the Federal Reserve's December meeting



Source: Bloomberg, IMF Staff Analysis.

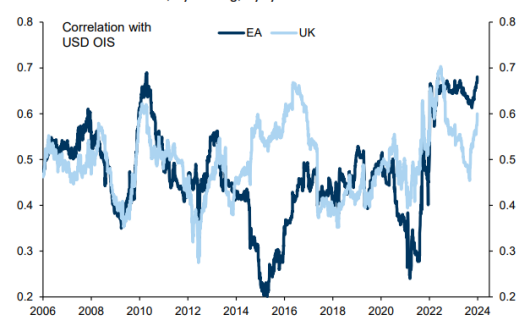
Majority of January's inflation prints have come in higher than expected since 2003



European rates markets are increasingly sensitive to US economic data developments. Expectations of US economic growth outperformance in 2024 relative to the UK and the Euro Area have continued to widen according to Consensus Economics' surveys. Despite the anticipated widening growth differential, expectations on the policy front for the ECB and the BoE appear to be quite reliant on US data releases. Goldman Sachs strategists find that the sensitivity of front-end EUR and GBP rates to US economic data have increased significantly with the recent hiking cycle, being roughly double than in the pre-forward guidance period in 2014. The heightened sensitivity could be reflecting a similar magnitude of uncertainty around central banks' reactions functions along with long positioning in rates markets rather than increased linkages between the economies. The strategists think more than half of the sell-off in European rates since the start of the year can be attributed to positive surprises coming out of US data.

Exhibit 2: Correlation between US and Euro area/UK rates is close to historic highs

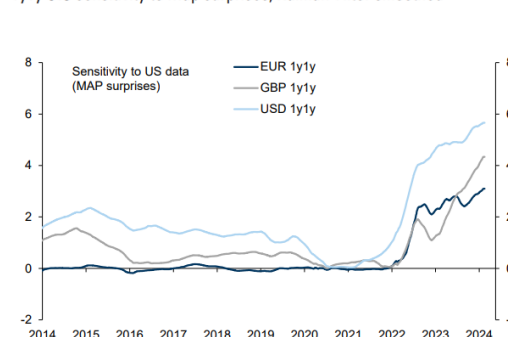
Correlation coefficient, 1y rolling, 1y1y OIS



Source: Goldman Sachs Global Investment Research

Exhibit 6: EU & UK rate sensitivity to US data is at the highs

1y1y OIS sensitivity to Map surprises, Kalman-Filter smoothed



Source: Goldman Sachs Global Investment Research

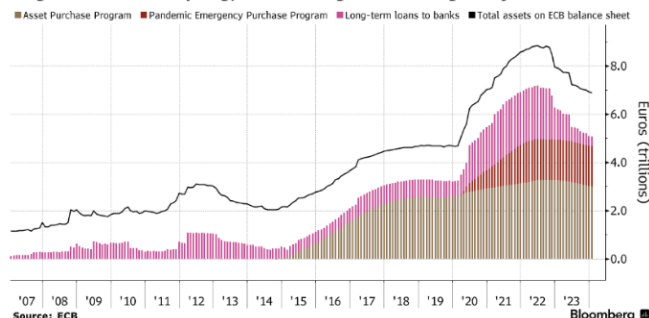
Euro-area

European equities were trading lower this morning (STOXX 600 -0.3%), with the technology sector outperforming (+0.4%). The basic resources sector saw the largest declines (-2.0%), with Bloomberg pointing to concerns over Chinese demand. **The euro was trading marginally stronger against the dollar (+0.3%) at around 1.085.** Contacts are focused on inflation data from Europe (and the US), due this week. **Euro area sovereign bond yields were little changed (10-year bund yield +1 bps to 2.37%).** Analysts highlight that relatively dovish ECB commentary on Friday saw markets scale up their expectations for ECB rate cuts slightly on Friday although some of the moves were retraced this morning. ECB president Lagarde on Friday described slower Q4 pay growth as “encouraging”, however Lagarde also highlighted the importance of the upcoming Q1 wage negotiations.

The ECB is reportedly close to agreeing on its new monetary framework and on track to announce the results in spring. According to a Bloomberg article, sources say that the set-up will be tailor-made for the euro-area and is envisaged to rely on bond holdings and bank loans to provide liquidity. It is expected that the ECB will require at least two years to transition into the new system. In the meantime, **HSBC analysts see it as unlikely that central bank losses change the monetary policy outlook.** HSBC analysts also do not expect that the ECB would start tapering quantitative tightening soon.

ECB Is Aiming for Smaller Balance Sheet

Long-term loans are expiring, bonds holdings are shrinking slowly



Source: ECB

Bloomberg

Japan

Japanese stocks continued to make new record highs (Topix +0.5%, Nikkei +0.4%). Separately, Japan's services PPI slowed to +2.1%/y in January (consensus: 2.4%, previous: 2.4%). **10Y bond yields declined -3.5bps, the yen appreciated +0.1%.** Last week, net yen short positions held by leverage funds and asset managers rose to highest since mid-2022. Easing financial stress globally and expectations that Bank of Japan will tighten policy more slowly than previously expected have boosted allure of yen-funded carry trades, Bloomberg reported.

Emerging Markets

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Asian equities were mixed. Mainland China led the decline (-1%) amid profit taking from the recent rebound. Vietnam outperformed (+1%), led by financials. **Asian currencies traded in narrow ranges.** The Philippine's peso (-0.3%) and Indonesian rupiah (-0.2%) depreciated. **10-year bond yields broadly fell.** **Indonesia** plans to propose a wider budget deficit between 2.5%-2.8% of GDP for 2025 to fund new policies by the new president. Prabowo is likely to succeed president Jokowi after winning nearly 60% of votes in unofficial quick counts in the February elections; official results are to be announced by March 20. **Philippines** raised a record 585 bn pesos (\$10.5 bn) from retail treasury bonds, exceeding a previous record of 516 bn pesos raised during the pandemic in 2020. **EMEA markets were also mixed.** Equities in Egypt (+4.8%) outperformed while those in South Africa (-1%) declined. CEE currencies were mostly trading weaker against the euro with the Hungarian forint (-0.2% at 389.78/€) underperforming ahead of the policy decision tomorrow. The Turkish lira underperformed against the dollar (-0.7% to 31.12/\$). **Last week S&P Global Ratings affirmed its B+/B long- and short-term foreign and local currency sovereign credit ratings for Senegal, with a stable outlook.** While the rating agency noted that authorities have delayed an election for the first time since the introduction of a multiparty democratic system in 1974, it views the February 15 court ruling that elections must be held as soon as possible "as evidence that checks and balances in the country remain relatively strong". **In Latam, equities mostly fell on Friday, with notable decreases in Mexico (-0.9%), Chile (-0.8%) and Brazil (-0.6%), while Colombia equities rose (+0.9%).** Most currencies also weakened, led by the Colombian Peso (-0.9%) and the Brazilian Real (-0.6%). **The Chilean peso is underperforming peers year-to-date,** reflecting prevailing bearish sentiment fueled by falling local interest rates. The peso is progressively approaching its historical low of 1,060.4 to the dollar from July 2022, trading at 980.5 to the dollar on Friday.

EM Weekly Fund Flows

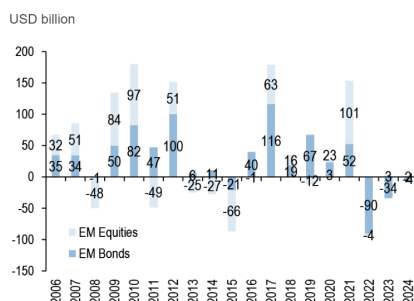
EM bond weekly outflows accelerated to -\$1 bn, while equity inflows persisted at +\$240 mn. Following January data revisions, YTD bond flows are down -\$4.4 bn (-\$41 mn revision) while equity fund flows are up +\$2 bn (+2.1 bn revision). Notably, **EM local currency bond funds observed inflows amounting to +\$52mn (up from -\$253mn) last week,** whereas hard currency outflows continued at a rate of -\$1.1 bn (compared to -\$537 mn previously). Within local currency funds, the EM ex-China trend reversed to the upside, recording an inflow of +\$143 mn (compared to -\$238 mn previously), while China's bond outflows accelerated to -\$91 mn (from -\$15 mn). Turning to equities, ETFs attracted inflows of +\$784 mn, while non-ETFs experienced outflows of -\$544 mn.

Figure 1: Weekly cross-asset flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.8	-2.4
EM Bonds		-1.0	-4.4
Hard Ccy		-1.1	-3.8
Local Ccy ^a		0.1	-0.6
o.w. EM ex-China		0.1	-0.1
o.w. China		-0.1	-0.5
EM Equities		0.2	2.0
US HG		5.3	61.1
US HY		0.7	5.5
Global Equities		12.7	0.9
EM Bond and Equity ETFs		0.1	4.3
EM Bond ETFs		-0.7	-1.7
EM Equity ETFs		0.8	6.0
Non-resident EM flows [*]		2.9	8.6

^{*}High frequency non-resident EM portfolio flow data where available. ^aLocal ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Figure 2: EM bond and equity fund flows



China

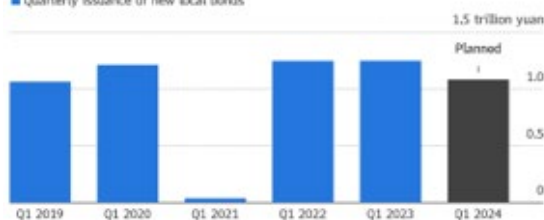
Chinese equities slumped -1% led by decline in utilities and energy sectors and snapped an eight-day winning streak. **Chinese banks' net interest margin shrank to a record low under 1.7%** in Q4 2023. Market participants noted that large state-owned banks and urban commercial banks profitability have been

hit hard due to the cut in existing mortgage rates in H2 2023. Separately, **the State Council emphasized the resolution of local government debt risk** in an executive meeting last Friday. While local government debt risk has eased following joint efforts from various agencies, the State Council highlighted the need to further implement debt resolution plans. Meanwhile, **China's local governments plan to issue less bonds in Q1 2024**, about 13% less than in Q1 2023, Bloomberg calculated. There were market narratives that local governments appear reluctant or unable to borrow more despite pressure to stimulate growth. Some market participants believe the central government may take greater borrowing responsibility. Separately, **foreign funds piled into China's bond markets via bank negotiable certificates of deposit (NCDs) in January**. Inflows into banks' NCDs reached a record 117 bn yuan (\$16.3 bn) in January. Foreign investors returned to Chinese bonds was helped by lucrative swap-based trades, yuan stability and growing expectations for further monetary policy easing by the People's Bank of China. The **Renminbi and 10-year bond yields were little changed** today.

China's Provinces Slow on Borrowing

Planned local bond offering in first quarter 13% less than actual sales a year prior

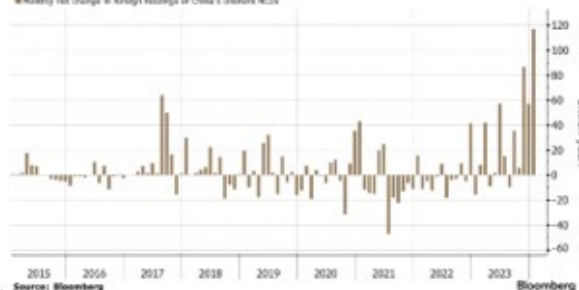
■ Quarterly issuance of new local bonds



Source: Bloomberg-compiled data
Note: Data exclude Shanghai, Guangdong, Henan, Tibet, and Galian, which haven't announced their full issuance plan for the first quarter of 2024.

Overseas Funds Pour Into Chinese Bank Debt in January

■ Monthly net change in foreign holdings of China's onshore NCDs



Zambia

Zambia's eurobond prices gained sharply after Zambian president Hichilema said that China and India have signed a deal to restructure Zambia's debt. China and India are the last two nations to sign a deal, and focus will now shift to a deal with the private sector external sector debtholders, particularly its eurobonds. This follows after Zambia in October 2023 reached a memorandum of understanding with official creditors to restructure \$6.3 bn of debt, but a deal in principle was rejected by the official creditors committee in November. The price of Zambia's 2027 eurobonds saw the largest daily increase since October 2023, according to Bloomberg, increasing to 68.70 cents on the dollar this morning – the highest level since June 2022.

Price Jump

Biggest one day gain in Zambia's 2027 bond price since October

■ Zambia dollar bond maturing 2027



Source: Bloomberg

Bloomberg

Price of Eurobonds

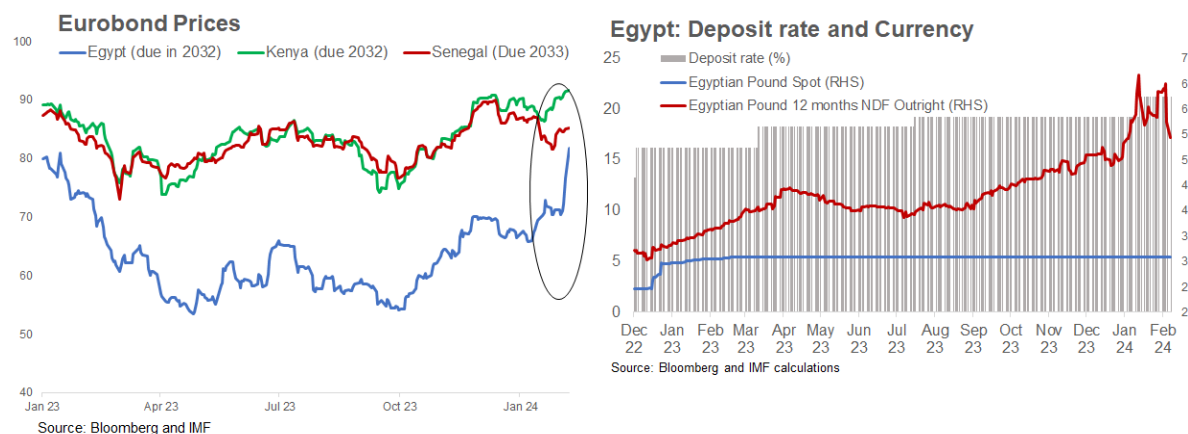


Source: Bloomberg and IMF calculations

Egypt

Egypt's eurobonds extended their rally after the announcement of an investment deal with the United Arab Emirates (UAE). Egypt and the UAE reached an agreement last Friday to develop the areas of Ras El-Hekma on the Mediterranean Sea. Egypt is set to receive \$15 bn within one week and then a

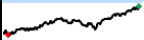

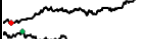


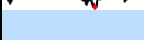
















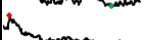
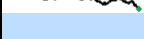

further \$20 bn in the coming two months, with Goldman Sachs analysts pointing out that Egypt is expected to receive \$24 bn in new FX inflows over the next two months. **Several analysts noted that the deal between Egypt and the UAE increases the chances of restoring a functioning FX market in the coming days.** The 12-month non-deliverable forward contracts declined to 54.5 this morning and Morgan Stanley analysts expect the dollar exchange rate against the Egyptian pound to continue decreasing in the parallel market. Egypt's 2032 eurobond was trading at 81.77 cents on the dollar this morning, from 76.68 on Friday and 72.24 on Thursday. Equities were up sharply (+4.8%).



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

2/26/24 8:03 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5090	0.0	2	4	28	7
Europe		4862	-0.2	2	5	16	8
Japan		39234	0.3	2	10	43	17
China		3453	-1.0	1	4	-15	1
Asia Ex Japan		67	0.0	2	5	3	1
Emerging Markets		41	0.0	2	4	6	1
Interest Rates			basis points				
US 10y Yield		4.24	-0.6	-4	10	30	36
Germany 10y Yield		2.39	2.5	-2	9	-15	36
Japan 10y Yield		0.69	-3.4	-5	-3	18	7
UK 10y Yield		4.11	7.6	1	15	45	58
Credit Spreads			basis points				
US Investment Grade		124	2.9	-1	-5	-22	-10
US High Yield		362	0.7	-9	-17	-84	-23
Exchange Rates			%				
USD/Majors		103.74	-0.2	-1	0	-1	2
EUR/USD		1.09	0.3	1	0	2	-2
USD/JPY		150.6	0.1	0	2	11	7
EM/USD		46.6	0.2	0	-2	-7	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		81.2	-0.5	-3	-2	4	6
Industrials Metals (index)		137	-0.4	1	-2	-13	-4
Agriculture (index)		57	-0.2	-3	-6	-17	-8
Implied Volatility			%				
VIX Index (% change in pp)		14.1	0.3	-0.2	0.8	-7.6	1.6
Global FX Volatility		6.7	0.1	-0.2	-0.8	-3.5	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		105	-0.5	-3	2	-80	1
Italy		145	0.9	-5	-8	-46	-23
Portugal		73	-0.2	-1	-9	-16	9
Spain		89	0.1	-2	-1	-8	-8

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

Emerging Market Financial Indicators

Last updated: 2/26/2024 8:01 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		7.20	0.0	0.0	0	-4	-1		2.3	-1.5	-4	-12	-90	-18
Indonesia		15630	-0.2	0.0	1	-2	-1		6.6	0.6	-5	-7	-23	10
India		83	0.1	0.1	0	0	0		7.2	-3.5	-2	3	(54.4)	0
Philippines		56	-0.3	0.0	0	-1	-1		5.4	0.5	1	-2	-51	-19
Thailand		36	0.3	0.5	-1	-2	-4		2.6	1.0	-7	-20	-17	-15
Malaysia		4.78	0.0	0.2	-1	-6	-4		3.9	-1.2	3	7	-4	14
Argentina		839	-0.1	-0.5	-2	-77	-4		75.7	6.4	-5	122	-1248	-1073
Brazil		4.99	0.1	-0.5	-2	4	-3		10.9	-2.0	3	22	-247	46
Chile		983	-0.2	-1.7	-6	-15	-10		5.1	0.0	10	18	-45	19
Colombia		3964	-0.9	-1.4	0	23	-2		7.7	-2.0	17	22	-233	2
Mexico		17.10	0.1	-0.3	0	7	-1		8.7	1.0	-10	-7	-26	21
Peru		3.8	-0.2	0.6	-1	0	-2		6.8	0.0	5	9	-124	8
Uruguay		39	0.0	0.1	-1	-1	-1		9.0	0.1	-2	-27	-88	-52
Hungary		359	0.1	0.4	-1	-1	-3		5.9	-1.0	-17	-24	-225	8
Poland		3.97	0.3	1.1	1	12	-1		4.7	0.5	-16	-10	-117	24
Romania		4.6	0.3	0.8	0	1	-2		6.3	2.2	-2	6	-107	13
Russia		91.9	3.2	0.7	-2	-18	-3							
South Africa		19.3	0.0	-1.8	-3	-5	-5		9.5	0.5	8	34	33	44
Türkiye		31.12	-0.7	-0.9	-3	-39	-5		26.9	16.0	53	-66	1638	12
US (DXY; 5y UST)		104	-0.2	-0.5	0	-1	2		4.28	-0.2	0	24	6	43

	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		3453	-1.0	1	4	-15	1		150	-5	-12	-17	-8	
Indonesia		7284	-0.2	0	2	6	0		112	5	4	-38	16	
India		72790	-0.5	0	3	23	1		99	-10	-27	-52	-17	
Philippines		6891	-0.3	1	3	4	7		94	5	4	-29	14	
Thailand		1398	0.0	1	2	-14	-1		0	0	0	0	0	
Malaysia		1548	-0.1	1	3	6	6		80	-3	-11	-18	-5	
Argentina		1105610	2.7	4	-12	345	19		1688	-105	-209	-302	-225	
Brazil		129419	-0.6	1	0	22	-4		211	-3	-11	-50	-4	
Chile		6193	-0.8	-3	2	16	0		128	-1	-6	-8	3	
Colombia		1290	0.9	6	1	8	8		298	-4	-18	-102	27	
Mexico		56660	-0.9	-1	0	8	-1		322	-5	-17	-35	-12	
Peru		28612	0.5	1	7	32	10		145	1	-15	-37	1	
Hungary		66333	0.1	1	3	47	9		165	0	-5	-46	16	
Poland		83153	-0.1	3	10	41	6		95	-6	-9	22	-2	
Romania		16015	0.6	1	6	30	4		200	1	-9	-39	0	
South Africa		73494	-1.0	0	-2	-4	-4		352	6	8	-16	44	
Türkiye		9376	0.0	2	12	85	26		310	-5	-45	-193	-4	
Ukraine		507	0.0	0	0	0	0		4187	-68	31	-481	183	
EM total		41	-0.4	2	4	6	1		331	-11	-33	-53	-14	

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

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