



- Markets slash Fed rate cut forecasts after blowout jobs report and Powell interview ([link](#))
- January EM bond issuance is up 24% from year earlier ([link](#))
- Bank of Japan renews bond purchases to keep interest rates in check ([link](#))
- Euro area sovereign yields continue to rise ([link](#))
- US regional bank stocks stabilize ([link](#))
- Investors are optimistic about US corporate bond markets ([link](#))

[Mature Markets](#)

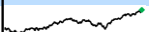
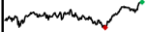
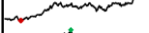
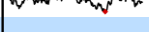


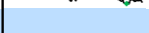



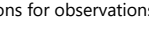
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Fed rate cuts take center stage

In a television interview aired yesterday, Fed Chair Powell said that the first Fed rate cut would probably come in the middle of the year rather than at the next Fed meeting in March. This morning, Fed Funds futures markets further reduced their forecasts for Fed rate cuts, extending moves that began on Friday after the strong US jobs report. Treasury yields were higher today in response to the interview while US equity index futures were slightly lower after Friday's record close. Most stocks in Europe were higher in the wake of Friday's strong US rally. Meanwhile, bond issuance by advanced economy corporations and emerging market countries and companies has been very strong, with credit spreads tightening amidst robust investor demand. The overall market mood seems quite positive, despite lingering worries about geopolitics. The strong performance of the US economy is dominating the current market narrative.

Key Global Financial Indicators

Last updated: 2/5/24 7:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
S&P 500		4959	1.1	1	6	20	4
Eurostoxx 50		4665	0.2	1	5	10	3
Nikkei 225		36354	0.5	1	9	31	9
MSCI EM		39	-0.3	-1	-2	-5	-4
Yields and Spreads							
US 10y Yield		4.10	8.2	3	6	58	22
Germany 10y Yield		2.30	6.1	7	15	11	28
EMBIG Sovereign Spread		393	-7	-6	5	-34	10
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		46.9	-0.2	-1	-2	-8	-3
Dollar index, (+) = \$ appreciation		104.3	0.4	1	2	1	3
Brent Crude Oil (\$/barrel)		77.2	-0.2	-6	-2	-3	0
VIX Index (% change in pp)		14.2	0.3	1	1	-4	2

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

The US data calendar is light this week, with goods and services PMI and ISM the only major reports due to be released. The euro area is busier, with this morning's inflation data to be followed by euro area retail sales and German industrial production. China is due to report on inflation and credit. Corporate earnings will remain in focus as more companies report. Central bank meetings include Australia, India, and Mexico, with all expected to stay on hold at 4.35%, 6.5% and 11.25% respectively.

Mature Markets

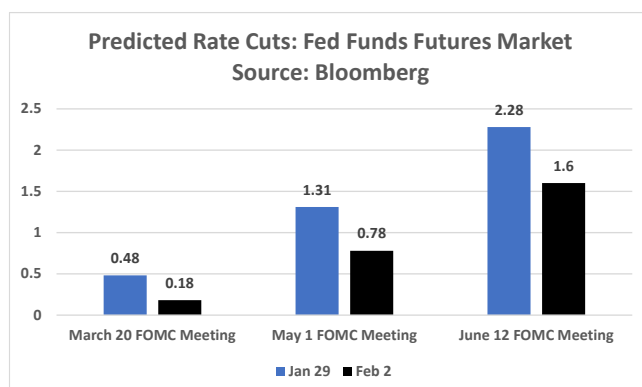
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United States

Markets slashed their forecasts for Fed rate cuts after the blowout jobs report, strong consumer sentiment data and robust durable goods and factory orders forced investors to revise their views about the US economy.

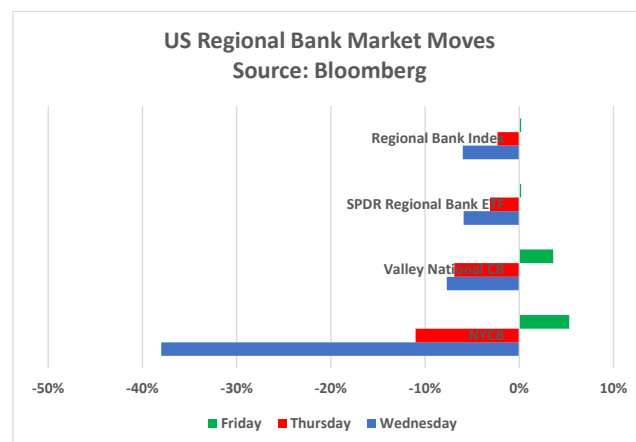
Even the more optimistic analysts were impressed with the results, as the theme of "American Exceptionalism" gains ground. Odds of a March rate cut fell to its lowest level ever, while the forecast for total rate cuts by December 2024 fell from 5.46 to 4.7 after Fed Chair Powell said in an interview aired yesterday that the first rate cut

would come in the middle of the year. Meanwhile, strong results from Meta and Amazon pushed US stocks to another record close. Contacts expressed optimism about inflation, noting that stronger labor productivity could keep inflation in check despite the unexpectedly high rise in wages reported on Friday.



The slide in regional US bank stocks came to a halt on Friday, although this could be temporary. A much worse than expected earnings report from New York Community Bank (NYCB) on Wednesday reignited fears about a regional bank crisis that have been simmering ever since the collapse of Silicon Valley Bank in March 2023.

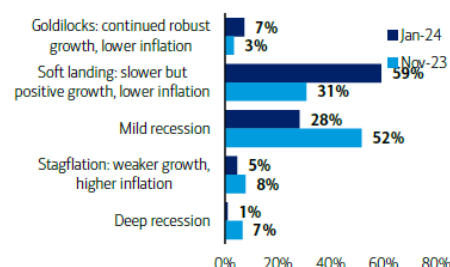
NYCB's share price plunged by almost 38% that day, pulling down other regional banks as well, and prices fell further on Thursday. Friday appeared to bring some stability, but the worries are likely to linger. Regional banks have high exposure to the commercial real sector, which is under pressure due to falling revenues and rising funding costs. The office sector is seen as especially vulnerable. Valley National Community Bank is another bank to come under pressure after the NYCB news.



Investors are optimistic about US credit markets, according to the latest Fund Manager Survey (FMS) from Bank of America. The consensus view is that the Fed will successfully engineer a soft landing and that inflation will fall. Recent data have reinforced this view, with inflation prints meeting consensus forecasts and other data such as jobs and retail sales coming in well above expectations. With volatility also on the decline, the scene could be set for another year of tighter spreads and positive returns. Investment grade (IG) spreads have already narrowed by 5 bps, although the high yield (HY) bond market got off to a negative start with spreads increasing by 20 bps. January saw a record volume of corporate bond issuance of nearly \$190 bn that was easily absorbed by the market. If market forecasts for \$160 bn of new supply are fulfilled, it will make it a new record for February as well.

Exhibit 1: What is your outlook for the US economy in 2024?

The majority (59%) now expects a soft landing in 2024, while a mild recession was the second most popular answer (31%).

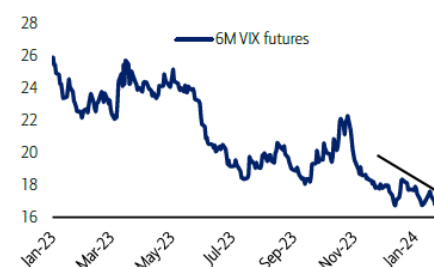


Source: BofA US Credit Investor Survey

BoFA GLOBAL RESEARCH

Exhibit 2: Equity implied volatility declined since October

Fading recession risk led to a decline in implied equity volatility since October.



Source: Bloomberg

BoFA GLOBAL RESEARCH

Euro Area

European equities were mostly higher with the Stoxx 600 index up 0.3%, European banking stocks were up 0.5% with Unicredit SPA outperforming (+9.7%) after beating profit estimates. **The euro was weaker against the dollar (-0.3% to 1.0754), continuing the trend seen after the strong US jobs data last week.** On the data front, the final euro area composite and services PMI data for January confirmed earlier estimates and the Sentix investor confidence index surprised on the upside in February.

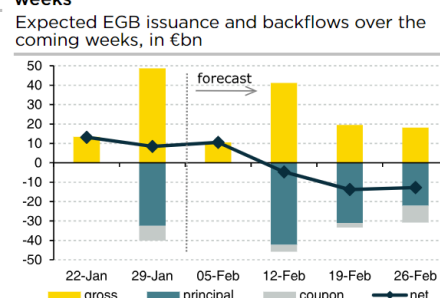
Euro area sovereign yields continued to increase but moderation in supply as well as consumer expectations could provide some relief. The 10y bund yield (+4bps) adding to Friday's increases to trade at 2.28%. In the aftermath of the strong US labor market report on Friday, euro area sovereign bond yields increased sharply with the 10y bund yield ending the day 9bps higher. Markets have also scaled back ECB rate cut expectations for this year, with cumulative rate cuts priced in for 2024 now at 127bps, compared to 147bps one week ago. Contacts think that European government bond (EGB) yields would remain susceptible to the renewed bearish pattern in US Treasuries but add that the ECB consumer expectations survey due tomorrow, as well as the anticipated moderation in EGB supply could provide some support to the market.

Yields to test upper end of the latest ranges
2y Schatz and 10y Bund yields, in %, intra-day



Source: Bloomberg, Commerzbank Research

Net supply to turn negative over the coming weeks
Expected EGB issuance and backflows over the coming weeks, in €bn

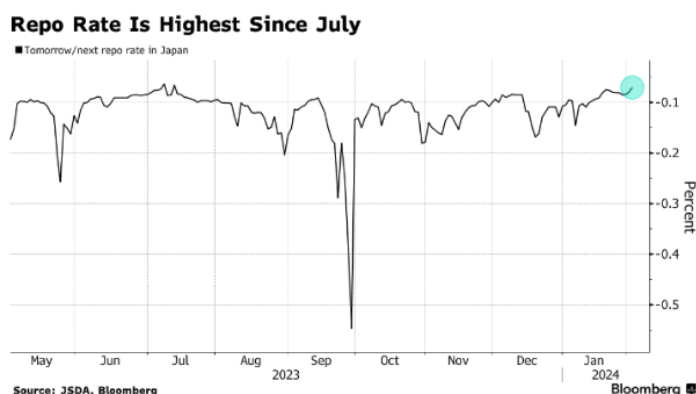


Source: DMOs, Bloomberg, Commerzbank Research

Japan

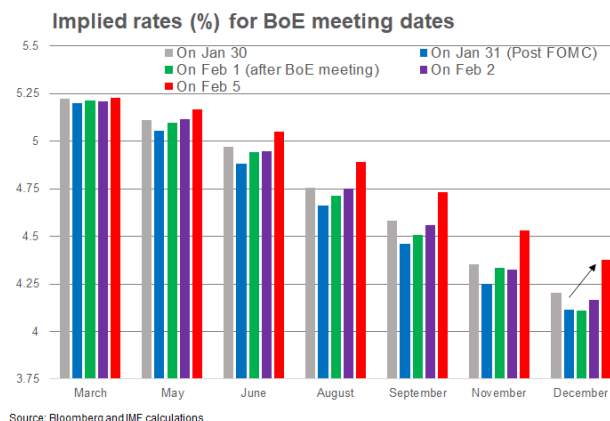
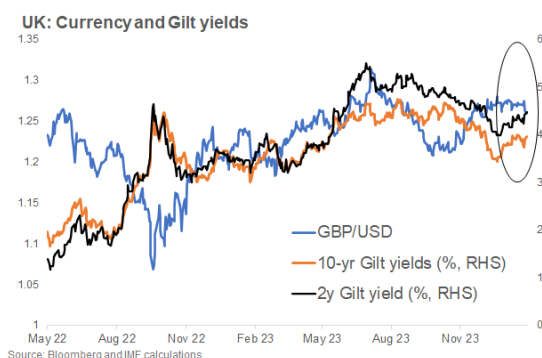
The Bank of Japan (BOJ) offered to buy Japanese bonds in order to contain a rise in repo rates. The overnight repo rate climbed to its highest level since July on Friday and touched zero bps. BOJ offered to buy ¥5tn (\$34bn) of bonds and futures on Monday and ¥4tn (\$27bn) on Tuesday, with a minimum yield of -0.1%. Market participants noted that these are the first such operations since July and they believe the BOJ is trying to restrict the rise in short-term rates. Citi also noted that issuance sizes of government bonds and bills may face a sharp reduction in coming months, and with poor visibility on supply and demand, the BOJ may be forced to adjust liquidity conditions more frequently. Separately, **Japan's debt service costs**

are expected to increase by 24% over the next few years. According to estimates released by finance ministry on Friday, interest payments on outstanding debt are projected to grow at a double-digit clip in coming years as rates rise. Annual costs will climb to ¥33.4tn (\$228bn) by FY27.



United Kingdom

Gilt yields continued to increase as traders scaled back expectations for BoE rate cuts. On Friday 10y gilts yields ended the day 17bps higher and this morning 10y gilts yields increased a further 5bps, now trading at 3.96%. Markets have scaled back on BoE hiking expectations, with the market now pricing in roughly 88bps of rate cuts in 2024, compared to 114bps priced in a week ago and roughly 100bps priced in last Friday. Moreover, the first rate cut is no longer fully priced by June, with markets currently pricing in just 36bps of rate cuts by August. **In the meantime, CFTC data show that GBP net long positions have increased for the fifth consecutive week as a result of an increase in long positions, now at their highest level since September 2023.** Rabobank analysts highlight that in January the pound was the best performing G10 currency on the spot market.



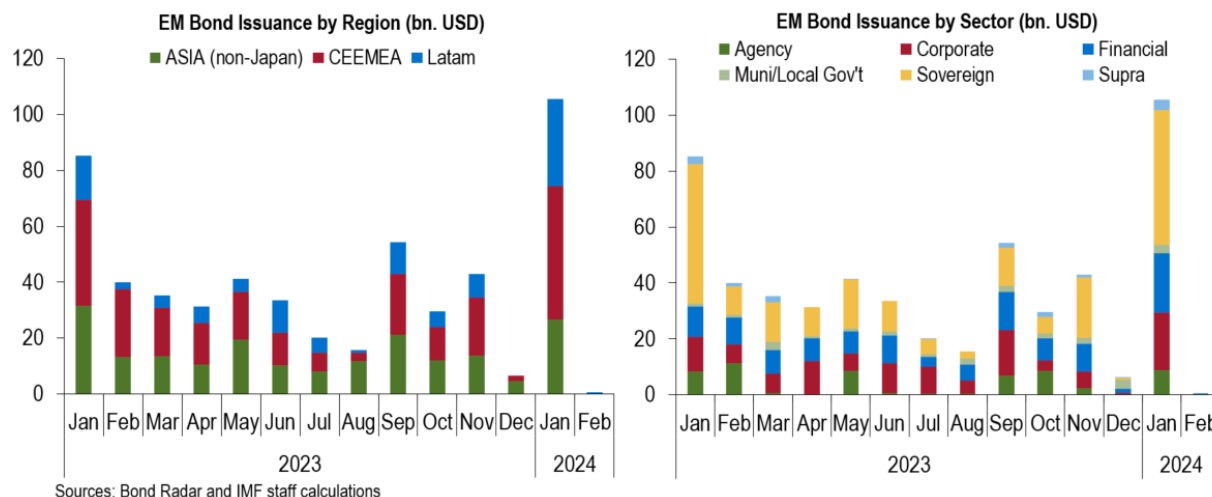
Emerging Markets

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EMEA equity markets were mostly trading higher this morning, with equities in Türkiye up +1.2%. Local currencies were mixed versus the euro. Analysts expect tighter policy from the central bank of Türkiye. **Equities in Asia were also mixed while currencies were generally weaker against the dollar.** Indonesia's GDP was up, while inflation in Thailand turned negative as CPI was down 1.1%. **Friday's surge in US markets failed to lift markets in Latin America, with both Brazil and Chile down 1%.** Mexican stocks did benefit from the US rally, gaining 0.7%. Currencies were weaker across the board, while interest rates in Chile and Colombia were higher.

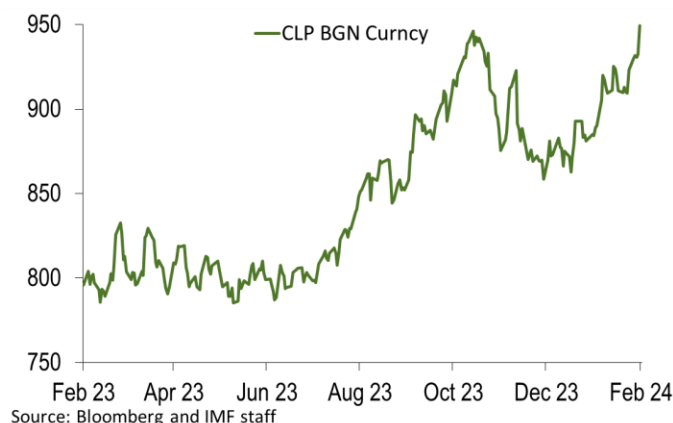
EM Bond Issuance

It was a slower week for EM bonds, with just \$5.7bn coming to market, but total January issuance reached \$105.5bn, 24% higher than last January. All the bonds were hard currency fixed-rate bonds with maturity varying from 1.5 years to perpetual. The weighted average yield was 7.26%. For last week, \$2.2bn of the new issuance was investment grade.



Chile

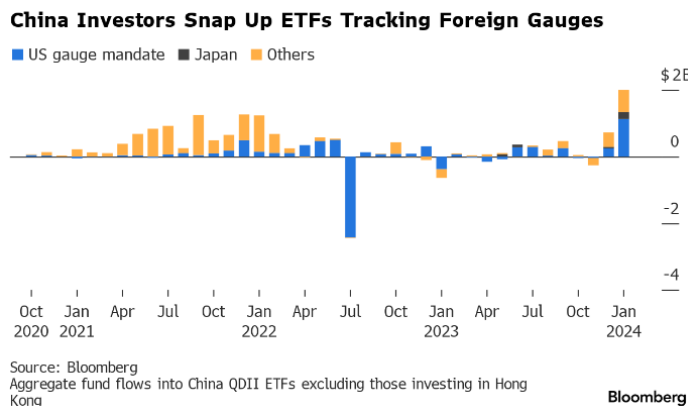
The Chilean peso was the worst-performing emerging-market currency last week and it depreciated by 1.8% on Friday alone. The peso is at a three-month low versus the dollar due to a decline in copper prices and worries about central bank rate cuts. The YTD cumulated depreciation of the Peso has reached 7%. Peso traders are closely monitoring a pivotal point at 950/USD, as the currency remains unattractive for carry traders due to the possibility of lower rates, economic weakness, and significant exposure to oil. The recent 100bps rate cut by the Chilean central bank adds further pressure, making any potential delay in Fed rate cuts detrimental to the local currency.



China

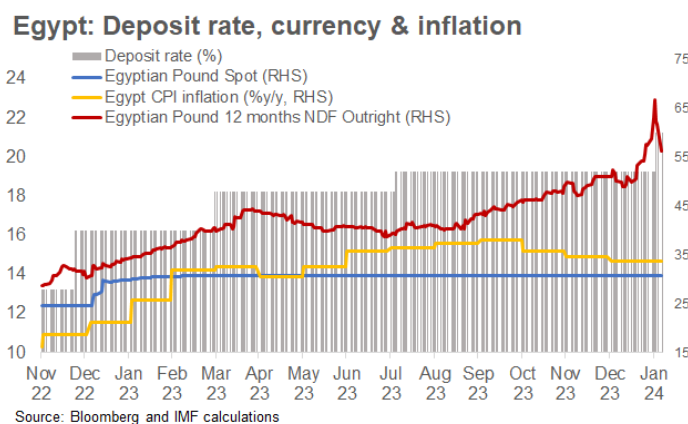
Chinese equities made modest gains (+0.7%) after the authorities repeated that they would implement market stabilization measures. The China Securities Regulatory Commission vowed to take effective measures to prevent stock pledging risks and promote smooth market operations on Monday, after they promised to use more medium and long-term funds to stabilize markets on Sunday. In addition, China will launch an action plan to further lure foreign investment according to the National Development

and Reform Commission. They will shrink the negative list for foreign investment access and remove restrictions for foreign investment in the manufacturing sector. Separately, **inflows into ETFs tracking foreign bourses reached \$2bn in January**. From 33 onshore ETFs, excluding those based in Hong Kong SAR, more than half were in US stocks, while \$204mn went into Japan, Bloomberg estimated. Chinese investors use such ETFs to invest abroad to avoid domestic capital controls despite high premiums and frequent trading restrictions.



Egypt

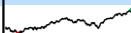
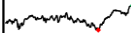
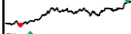


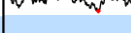
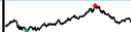
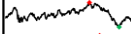











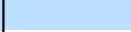

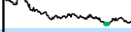
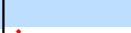
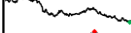

The Egyptian pound strengthened on the black market. According to Bloomberg, the currency which had been trading at around 70/\$ last week, was trading at less than 60/\$ on Sunday following rumors of a large Gulf investment in the region. The official rate remains at 30.9/\$. In the non-deliverable forwards market, the pound's 12-month contract fell below 57, from a high of around 67 last month. Goldman analysts note that the "authorities' preferred strategy is to bring the parallel rate under control before unifying the exchange rate by lowering demand for dollars through tighter policies and increasing supply through external borrowing." They estimate Egypt's total financial needs over the next four years at around \$25bn, assuming a new deal with the IMF is finalized in the coming weeks.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), 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 (New York Representative), Benjamin Mosk 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), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (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

2/5/24 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4959	1.1	1	6	20	4
Europe		4665	0.2	1	5	10	3
Japan		36354	0.5	1	9	31	9
China		3200	0.7	-3	-4	-22	-7
Asia Ex Japan		63	-0.4	-1	-2	-9	-5
Emerging Markets		39	-0.3	-1	-2	-5	-4
Interest Rates			basis points				
US 10y Yield		4.10	8.2	3	6	58	22
Germany 10y Yield		2.30	6.1	7	15	11	28
Japan 10y Yield		0.73	5.3	0	12	23	11
UK 10y Yield		3.99	7.2	11	20	94	45
Credit Spreads			basis points				
US Investment Grade		127	-1.1	1	-11	-10	-7
US High Yield		382	-3.1	3	-21	-33	-3
Exchange Rates			%				
USD/Majors		104.30	0.4	1	2	1	3
EUR/USD		1.08	-0.3	-1	-2	0	-3
USD/JPY		148.6	0.1	1	3	12	5
EM/USD		46.9	-0.2	-1	-2	-8	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		77.2	-0.2	-6	-2	2	0
Industrials Metals (index)		136	-0.7	-3	-2	-21	-5
Agriculture (index)		60	-0.5	0	-1	-13	-3
Implied Volatility			%				
VIX Index (%, change in pp)		14.2	0.3	0.5	0.8	-4.2	1.7
Global FX Volatility		7.7	0.1	0.2	-0.3	-2.5	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-0.2	8	-10	-75	3
Italy		157	-1.0	7	-13	-27	-11
Portugal		80	-1.0	-1	14	-5	16
Spain		91	-1.3	2	-8	-1	-5

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

Emerging Market Financial Indicators

Last updated: 2/5/2024 7:59 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.20	-0.1	-0.2	-1	-6	-1		2.4	-1.0	-6	-12	-81	-15
Indonesia		15708	-0.3	0.6	-1	-4	-2		6.6	8.4	-3	-10	6	13
India		83	-0.2	0.1	0	0	0		7.2	10.1	-5	-18	(22.4)	-6
Philippines		56	-0.6	0.0	-1	-3	-2		5.4	0.1	-3	-25	-47	-20
Thailand		36	-0.7	-1.1	-3	-6	-4		2.7	3.0	0	-8	5	2
Malaysia		4.75	-0.7	-0.3	-2	-10	-3		3.8	3.7	1	-6	4	8
Argentina		827	-0.1	-0.5	-2	-77	-2		73.8	13.2	-120	-1129	-1313	-1258
Brazil		4.99	-0.4	-0.8	-2	3	-3		10.7	-0.7	-2	5	-264	30
Chile		952	-0.2	-2.2	-6	-16	-7		4.9	4.5	-5	-20	-46	-5
Colombia		3935	-1.2	-0.6	-1	17	-2		7.4	0.5	3	-41	-147	-21
Mexico		17.18	-0.2	0.3	-2	12	-1		8.7	-1.0	-5	5	40	25
Peru		3.8	-0.5	-1.0	-3	0	-3		6.6	0.0	-5	-24	-119	-7
Uruguay		39	-0.1	-0.2	0	-1	-1		9.2	-4.4	-6	-32	-77	-32
Hungary		358	-0.7	0.2	-4	3	-3		6.0	10.0	-17	8	-214	19
Poland		4.03	-0.7	0.1	-1	10	-2		4.7	6.0	-13	15	-59	21
Romania		4.6	-0.4	-0.7	-2	-1	-3		6.2	4.4	-5	1	-100	1
Russia		91.0	-0.3	-2.0	0	-21	-2							
South Africa		19.0	-0.4	-0.9	-2	-7	-3		9.2	6.5	2	16	45	11
Türkiye		30.55	-0.2	-0.7	-2	-38	-3		27.5	-8.0	-1	-65	1669	78
US (DXY; 5y UST)		104	0.4	0.7	2	1	3		4.08	9.3	9	7	42	23

	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		3200	0.7	-3	-4	-22	-7		159	-3	3	-25	1		
Indonesia		7199	-0.6	1	-2	5	-1		113	3	14	-29	17		
India		71731	-0.5	0	0	19	-1		121	-2	7	-33	5		
Philippines		6728	0.3	1	1	-3	4		91	-1	7	-18	11		
Thailand		1384	0.0	1	-3	-18	-2		0	0	0	0	0		
Malaysia		1511	-0.3	0	2	1	4		90	-1	8	-15	5		
Argentina		1316205	1.1	5	25	450	42		1926	69	-18	119	13		
Brazil		127182	-1.0	-1	-4	17	-5		227	8	7	-39	12		
Chile		5963	-0.9	-2	-1	12	-4		135	4	5	0	10		
Colombia		1278	0.0	0	-1	1	7		320	15	37	-44	49		
Mexico		58227	0.7	2	4	8	1		332	-5	-13	-8	-2		
Peru		27058	0.0	1	5	22	4		153	0	3	-33	9		
Hungary		65204	-0.1	3	6	44	8		165	-1	14	-32	16		
Poland		80207	0.8	6	5	30	2		109	8	6	30	12		
Romania		15763	0.8	4	3	28	3		192	-6	-14	-36	-8		
South Africa		74443	0.1	0	0	-7	-3		350	13	37	7	42		
Türkiye		8754	1.0	3	15	75	17		361	19	40	-128	47		
Ukraine		507	0.0	0	0	0	0		4209	219	165	32	205		
EM total		39	0.1	-1	-2	-5	-4		356	-3	4	0	11		

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

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