



- **Markets still expect multiple rate cuts from the Fed** ([link](#))
- **Regional US banks are back in the firing line** ([link](#))
- **US companies have successfully reduced interest expenses** ([link](#))
- **China unexpectedly replaces securities regulator** ([link](#))
- **Benin successfully launches \$750 million dollar bond** ([link](#))

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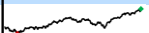
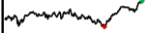

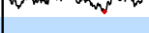






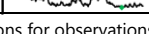
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Markets are cautious ahead of record US Treasury auction

Euro area stocks are down and US equity index futures are holding steady in early morning trading. Treasury and bund yields are a few basis points higher ahead of a record US auction of \$42 bn 10-year Treasuries. A number of Fed speakers have called for caution on the inflation front, with more progress needed before rate cuts can proceed. Regional US banks are back in the firing line as the share price of New York Community Bank continued its precipitous decline. In other news, US authorities announced a plan to treat hedge funds trading Treasuries as dealers, subjecting them to the same amount of regulatory oversight as other dealers such as banks. Meanwhile, China surprised by abruptly replacing the head of its securities regulator amidst recent market turmoil and a bad start for equity markets in 2024. Benin's launch of a \$750 million dollar bond was a major success among investors.

Key Global Financial Indicators

Last updated: 2/7/24 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4954	0.2	1	5	19	4
Eurostoxx 50		4682	-0.2	1	5	11	4
Nikkei 225		36120	-0.1	0	8	31	8
MSCI EM		40	2.3	3	0	-2	-2
Yields and Spreads			bps				
US 10y Yield		4.13	2.7	21	8	45	25
Germany 10y Yield		2.31	2.1	15	16	-4	29
EMBIG Sovereign Spread		393	2	-8	-10	-37	9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.0	-0.1	-1	-2	-7	-2
Dollar index, (+) = \$ appreciation		104.1	-0.1	1	2	1	3
Brent Crude Oil (\$/barrel)		79.2	0.8	-3	1	-5	3
VIX Index (% change in pp)		13.1	0.0	-1	0	-6	1

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

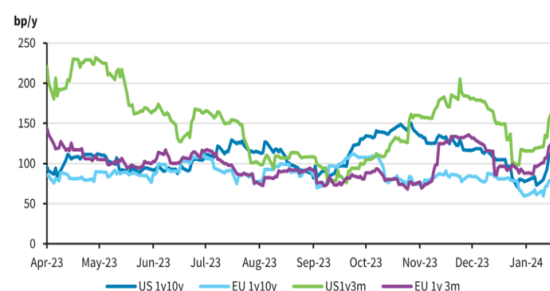
Mature Markets

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United States

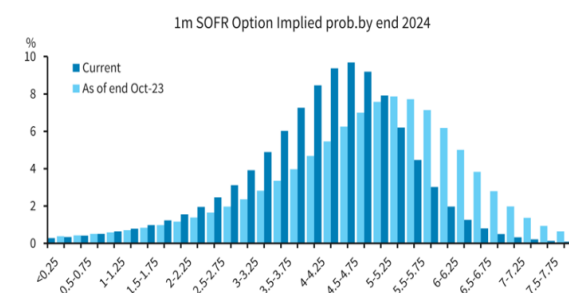
Markets still expect more rate cuts from the Fed despite the recent hawkish rhetoric from Fed Chair Powell and other Fed speakers, higher Treasury yields and higher interest rate volatility. The Fed Funds futures market is pricing almost five rate cuts by December. Options on Secured Overnight Funding Rate (SOFR) futures, indicate that the probability of lower rates has gone up and the probability of higher rates has gone down. Options on SOFR futures assign a probability of 20% that the policy rate will decline by 225 bps in 2024, compared to just 15% back in October. Rate cut probabilities have risen for all potential levels of the Fed Funds rate today compared to October and fallen for all potential rate rises. Fed Chair Powell said that just three cuts were likely in a recent interview.

Figure 1. Realized vol has picked up sharply over the past few days, especially for forwards sensitive to the path of rate cuts



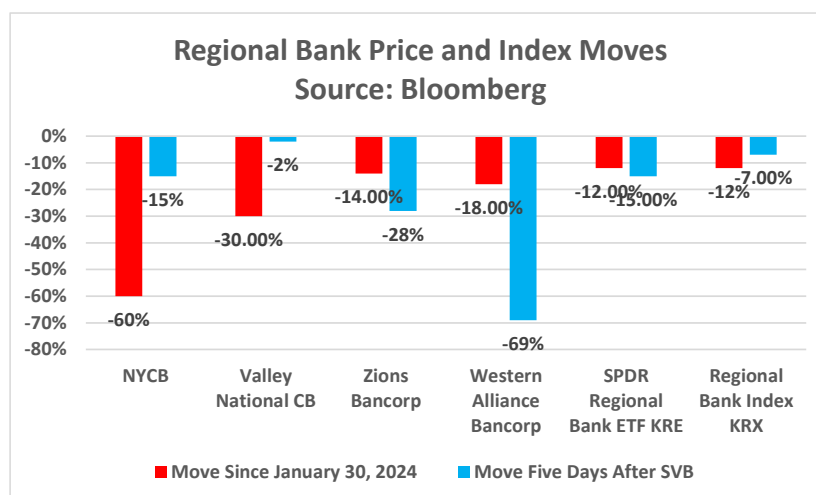
Source: Barclays Research

Figure 4. US options-implied probability distribution



Source: Barclays Research

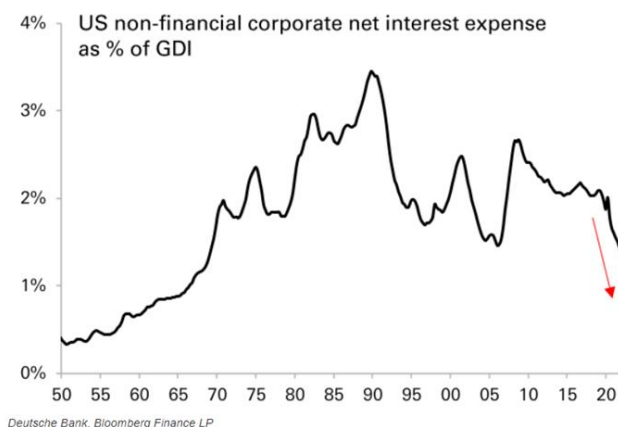
Regional banks in the US are back in the firing line as New York Community Bank's (NYCB) share price fell by 60% from its level last Tuesday, extending a decline that began last Wednesday when it announced losses and cut its dividend. Moody's has put the bank's BBB-/Baa3 rating on downgrade watch, which would push NYCB into junk territory. Yesterday's move was triggered by a news report that officials at the Office of the Controller of the Currency may have pressured the bank's management to cut the dividend and take losses, according to Bloomberg. NYCB's travails have put pressure on other regional banks. Worries about regional banks have simmered below the surface ever since the collapse of Silicon Valley Bank (SVB) last March. Regional banks have high exposure to the troubled commercial real estate sector. The KRX regional bank index has is down by more than it was after the SVB collapse.



US companies are unique in world markets in that they have greatly reduced their interest expenses as a proportion of gross domestic income over time, making their debt burdens much more manageable.

For companies in Asia and Europe, interest expenses are much higher as a proportion of gross domestic income. A key element here is that US companies are much less reliant on bank credit because of the large and liquid US corporate bond markets that have grown even larger in recent years. Asia and Europe have much smaller corporate bond markets and companies there are much more

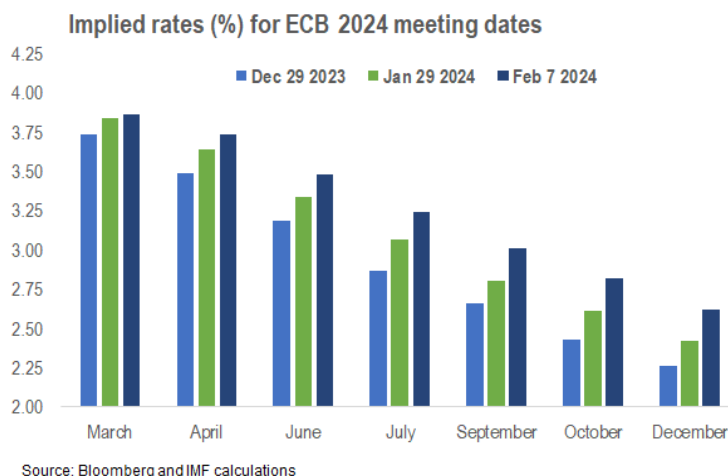
reliant on bank credit. Although the Fed's latest survey of banking conditions finds that bank credit standards remain very tight, the impact on the economy is more muted because companies can obtain credit much more easily from the bond market. Some analysts think these considerations could lead the Fed to remain more hawkish as tight bank lending conditions are less of a strain on the economy.



Euro Area

European equities were lower with the Stoxx 600 index down 0.2% and banking sector stocks down (-0.3%). The euro and local interest rates held steady.

German industrial production declined for a seventh consecutive month. December production fell 1.6% m/m (exp. -0.5% from -0.2% prior) with the overall level of production at its lowest since June 2020. Elsewhere, **ECB Executive Board member Schnabel remarked that the ECB should be “patient and cautious” before lowering interest rates**, citing labor market resilience, sticky services inflation, a loosening in financial conditions and tensions in the Red Sea as reasons for caution. **Markets have been adjusting rate cut expectations since last month’s policy meeting and now expect a total of 127bps of rate cuts in 2024, down from 160bps last Wednesday.** Separately, **analysts at Morgan Stanley recommended clients sell senior bonds issued by German state-owned lender Deutsche Pfandbriefbank because of its exposure to the US CRE market.** According to Bloomberg, the bank’s €150m tier 2 bond registered its largest one-day drop yesterday with similar bonds at other real-estate focused German lenders also falling as investors, concerned about the downturn in US CRE, have sought to sell bonds. German banking regulator BaFin said that it “has a watch on current market developments and is reflecting them in its supervision.”

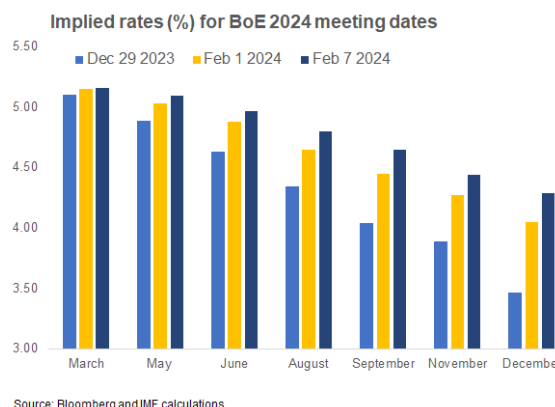


United Kingdom

UK equities opened lower (-0.4%) and the pound was up a touch against the dollar (0.2%) at 1.26. Gilt yields were higher (+5bps) with the 10Y gilt trading at 3.99% this morning.

External MPC member, Swati Dhingra said policymakers are underestimating ‘downside risks’ to the economy. Dhingra, who voted to cut rates at last week’s meeting said, “you might see the real economy start to get hit in a more profound way—and I don’t see why we should be risking that,” disagreeing with the idea of maintaining policy rates at their current level to return inflation back to target. Separately, Deputy Governor Breeden in a speech this morning noted that she had become “less concerned that rates might need to be tightened further” and that instead her “focus has shifted to thinking about how long rates need to remain at their current level” noting that she will look at how pay growth and demand are influencing firms’ pricing decisions to assess inflation persistence.

Markets have continued to scale back BoE hiking expectations following last week’s MPC meeting with current pricing anticipating roughly 90bps of rate cuts in 2024, compared to 113bps priced in a week ago.



Japan

Japanese stocks rose +0.4%. The leading index of the business cycle indicators rose more than expected to 110 (previous: 108.1), a 14-month high. BoJ’s consumption activity index fell -2.0% m/m sa, in December. JP Morgan noted that recent consumption indicators were lacking strength, as wage growth has yet to catch up to inflation; both durable and non-durable goods consumption was weak, while services demand held almost steady.



Emerging Markets

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EMEA equity markets were mixed while currencies were mostly trading weaker. Kenya hiked its policy rate by 50bps to 13% yesterday against expectations of a hold. **Türkiye’s sovereign wealth fund TWF is a reportedly continuing with plans to raise around \$500mn via Eurobonds, which could price today.** Bloomberg noted that previous plans for such issuance were reportedly placed on hold for more than 3 years because of adverse market conditions. **Asian stocks rallied today and local currencies appreciated against the dollar.** Thailand stayed on hold as expected, but two of the seven members voted for a rate cut. The Thai government criticized the central bank, calling for more rate cuts. **In Latin America markets rallied, led by Brazil (+2.2%) where positive inflation data raised hopes for further rate cuts.**

Yesterday saw the second largest day of EM bond issuance in 2024, with \$14.3 bn of bonds coming to market.

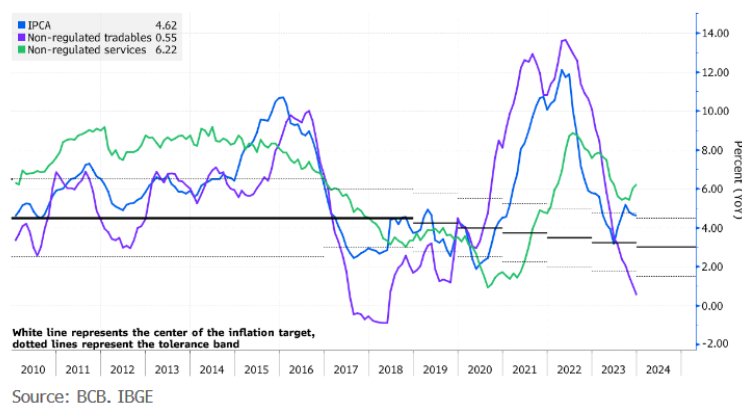
Benin

Benin issued its first US dollar bond yesterday, raising \$750mn, with the offering oversubscribed more than six times. This follows after Côte d'Ivoire in January issued the first Eurobond in sub-Saharan Africa, excluding Gabon's guaranteed debt-for-nature swap, since April 2022. Benin is rated B+, one notch below Côte d'Ivoire, but still managed to issue the 14-year bonds at an 8.375% yield, which was close to where the equivalent Ivory coast Eurobond was trading yesterday. Benin's 2038 bond was issued with a 7.96% coupon at a price of 96.754. Media articles note that the issuance attracted the attention of more than 200 international investors, with the order book reaching \$5bn.

Brazil

Brazilian central bank's January meeting minutes expressed caution regarding service inflation and wage pressures in the labor market. Policymakers are proceeding with a gradual easing cycle as inflation approaches the target, with recent data showing consumer price increases within tolerance for the first time in three years. While there is a belief that recent wage gains may be temporary, persistent trends could impede inflation convergence toward the 3% target. High-frequency indicators suggest better-than-expected growth in early 2024, potentially influenced by resilient household income, but the central bank emphasized there is no mechanical relationship between US monetary policy and its rate decisions. The market anticipates 50-basis-point cuts at the next two meetings, but the pace may slow from June depending on fiscal and industrial policy outcomes and inflation trends.

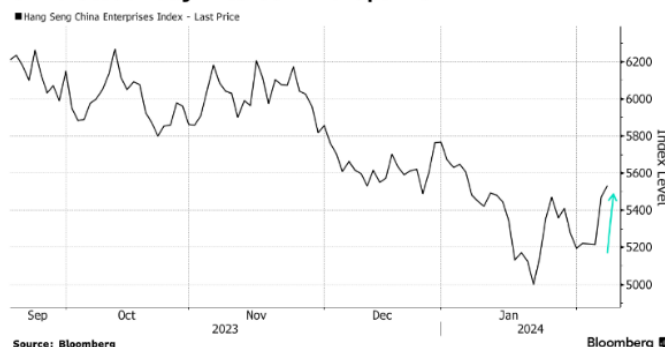
Brazil Inflation Breakdown



China

China replaced the head of its securities regulator in a surprise move. Wu Qing, previously deputy party secretary of Shanghai and a banking veteran who led a crackdown on traders in the mid-2000s, is replacing Yi Huiman as Chairman and party chief of the China Securities Regulatory Commission (CSRC), local media reported. Yi had overseen the CSRC since 2019, and some market participants described his style as “respecting the market and keeping a light-handed approach,” according to Bloomberg. Separately, China and US officials held third round of economic working group talks on Feb 5–6, the Ministry of Finance stated. The discussion covered economic conditions and policies, the debt of developing countries and industrial policies. China said talks were constructive and frank, while flagging concerns on tariffs, investment restrictions and sanctions against Chinese companies. **Chinese equities extended gains by 1%.** Daily turnover of some China ETFs, believed to be favored by China sovereign wealth fund Central Huijin, hit record highs on Wednesday. Earlier this week Central Huijin had pledged to increase its ETFs holdings.

China Stock Rally Extends Amid Optimism

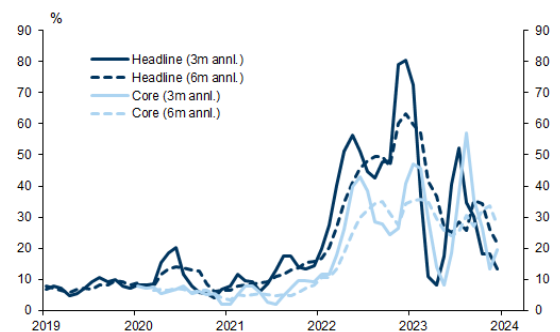


Ghana

Analysts expect frontloaded rate cuts in Ghana as meaningful disinflation led to higher positive real policy rates. The Bank of Ghana last week surprised markets by lowering its benchmark interest rate to 29% from 30%, while consensus expectations had been for rates to be kept on hold. Recent data show headline inflation had eased significantly to 23.2% y/y in December 2023 from over 50% y/y at end-2022. Goldman Sachs forecasts end-2024 inflation at around 14% y/y and assesses the balance of payments adjustment as semi-permanent as result of the ongoing comprehensive debt restructuring. Against this backdrop Goldman now expects the benchmark policy rate to be at 20% by end-2024 (compared to 27% expected previously) and forecasts an additional 600bps of rate cuts thereafter to reach the expected terminal rate of 14% at end-2026.

Exhibit 1: Headline Inflation Now at an Annualised Rate of 14%

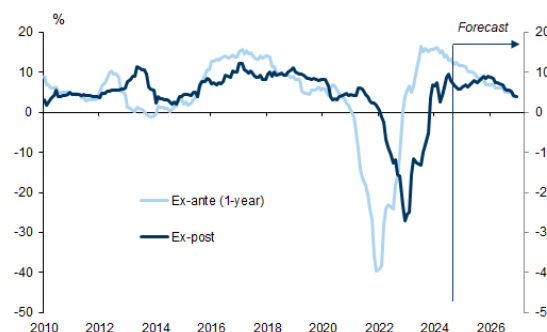
Inflation



Source: Ghana Statistical Service, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 2: We Expect The Real Policy Rate to Stabilise Around 4%

Real monetary policy rate


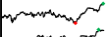
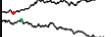









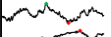

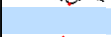

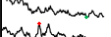
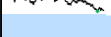


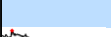





Source: Bank of Ghana, Haver Analytics, Goldman Sachs Global Investment Research

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Global Financial Indicators

2/7/24 7:53 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4954	0.2	1	5	19	4
Europe		4682	-0.2	1	5	11	4
Japan		36120	-0.1	0	8	31	8
China		3344	1.0	4	2	-18	-3
Asia Ex Japan		65	2.6	3	0	-6	-2
Emerging Markets		40	2.3	3	0	-2	-2
Interest Rates			basis points				
US 10y Yield		4.13	2.7	21	8	45	25
Germany 10y Yield		2.31	2.1	15	16	-4	29
Japan 10y Yield		0.72	-0.5	-1	11	22	10
UK 10y Yield		3.99	3.5	19	20	67	45
Credit Spreads			basis points				
US Investment Grade		127	0.1	1	-10	-10	-6
US High Yield		387	0.9	4	-16	-32	2
Exchange Rates			%				
USD/Majors		104.08	-0.1	1	2	1	3
EUR/USD		1.08	0.1	0	-2	0	-2
USD/JPY		148.2	0.2	1	3	13	5
EM/USD		47.0	-0.1	-1	-2	-7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		79.2	0.8	-2	1	1	3
Industrials Metals (index)		135	-0.2	-3	-2	-20	-5
Agriculture (index)		60	-0.4	-2	-1	-13	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.1	0.0	-1.3	-0.3	-5.6	0.6
Global FX Volatility		7.7	0.0	0.0	-0.4	-2.8	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		118	-1.3	13	2	-67	15
Italy		156	-0.3	0	-13	-32	-12
Portugal		80	-0.2	-1	15	-5	17
Spain		92	-0.2	-1	-8	-2	-5

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

Emerging Market Financial Indicators

Last updated: 2/7/2024 7:56 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		7.19	-0.1	-0.4	-1	-6	-1		2.4	-4.5	0	-13	-77	-13		
Indonesia		15635	0.6	0.9	-1	-3	-2		6.6	0.1	4	-9	-10	14		
India		83	0.1	0.1	0	0	0		7.1	-3.1	-2	-16	(22.2)	-8		
Philippines		56	0.4	0.6	0	-2	-1		5.4	0.0	-2	-25	-47	-20		
Thailand		36	-0.1	-0.1	-2	-6	-4		2.6	-6.8	-7	-13	-3	-7		
Malaysia		4.76	0.1	-0.6	-2	-10	-4		3.8	0.6	3	-6	-1	8		
Argentina		830	-0.1	-0.5	-2	-77	-3		74.1	-176.4	91	-823	-1152	-1232		
Brazil		4.96	0.0	-0.1	-2	5	-2		10.7	-8.4	-7	-4	-269	25		
Chile		946	0.3	-1.7	-4	-16	-7		4.8	-0.2	-2	-18	-47	-11		
Colombia		3958	0.1	-1.0	-2	21	-2		7.5	0.0	16	-39	-140	-18		
Mexico		17.06	-0.1	0.9	-1	11	-1		8.7	0.0	12	18	34	29		
Peru		3.9	0.0	-1.4	-4	0	-4		6.8	-0.2	14	-9	-118	9		
Uruguay		39	0.1	0.2	1	0	-1		9.2	2.8	-5	-25	-76	-30		
Hungary		361	-0.4	-1.7	-4	1	-4		6.2	10.0	22	27	-189	39		
Poland		4.04	0.2	-0.8	-2	10	-2		4.7	2.0	12	24	-75	27		
Romania		4.6	0.2	-0.4	-2	-1	-2		6.2	0.9	-2	-11	-105	3		
Russia		91.0	-0.4	-1.3	0	-21	-2									
South Africa		18.9	-0.4	-1.2	-1	-7	-3		9.3	3.0	8	17	44	14		
Türkiye		30.60	-0.4	-0.9	-2	-39	-4		27.0	11.0	-75	-123	1527	20		
US (DXY; 5y UST)		104	-0.1	0.8	2	1	3		4.06	1.9	23	6	23	22		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
									basis points						
China		3344	1.0	4	2	-18	-3		160	-2	1	-13	2		
Indonesia		7235	-0.2	0	-1	4	-1		116	2	-1	-17	20		
India		72152	0.0	1	1	19	0		122	1	-7	-21	6		
Philippines		6830	1.1	3	3	-1	6		96	1	1	-12	16		
Thailand		1400	0.2	3	-1	-16	-1		0	0	0	0	0		
Malaysia		1513	0.0	0	1	3	4		90	-2	-1	-9	5		
Argentina		1215654	-3.6	-4	15	393	31		1859	-83	-144	-70	-54		
Brazil		130416	2.2	2	-1	21	-3		221	-4	-2	-33	6		
Chile		6017	0.0	0	-1	14	-3		136	4	2	5	11		
Colombia		1277	0.3	0	-1	1	7		323	23	29	-43	52		
Mexico		58680	0.8	3	4	10	2		334	-2	-10	-13	0		
Peru		27312	1.1	1	6	22	5		155	8	0	-27	11		
Hungary		64413	-0.9	1	5	42	6		169	-4	11	-24	20		
Poland		79135	0.0	2	3	31	1		110	3	7	46	13		
Romania		15725	0.2	1	3	27	2		199	3	-15	-26	-2		
South Africa		74246	-0.4	0	0	-7	-3		350	6	23	-1	42		
Türkiye		8855	-0.2	4	16	97	19		354	-1	19	-152	40		
Ukraine		507	0.0	0	0	0	0		4181	52	52	-21	177		
EM total		40	0.0	3	0	-2	-2		354	-9	-9	-12	8		

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

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