



- Kenya's June 2024 eurobond yield sharply lower after buyback offer ([link](#))
- Largest US 10-year auction met with solid demand ([link](#))
- China CPI deflation worsens in January due to seasonal effects ([link](#))
- Reserve Bank of India keeps policy rate unchanged as expected ([link](#))
- Riksbank Governor suggests possible rate cuts in the first half of this year ([link](#))

[Mature Markets](#)


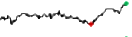

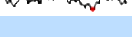
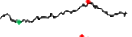





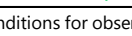
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Equity markets heat up despite central banks pouring some cold water

European equities advanced today with the STOXX 600 index closing in on its January 2022 high. While S&P 500 futures prices point to a slightly lower opening today, the index trades around its record high, and close to the 5000-level, despite Powell's weekend interview, where he pushed back on market expectations for aggressive cuts in 2024. While the recent pushback of central bankers has led to some repricing in rate cut expectations, five 25 bps cuts are still priced in by year-end for both the euro area as well as the US. For the US, this stands in contrast with Powell's remarks last weekend, as he stated that he did not see reasons to change Fed rate-setters' expectations for three cuts in 2024. Concerns about banks' US CRE exposures remain, but US regional bank stocks showed signs of stabilization yesterday. A strong US Treasury auction yesterday boosted market sentiment, even though Treasury yields were little changed on-the-day. The announcement by Kenya to buy back some of its 2024 eurobond was received positively, while a new issuance is set to be priced next week. Contacts note the importance of the recent Eurobond issuance from countries in Sub-Saharan Africa (SSA), after a long period of muted activity. On the data-front, US initial jobless claims came in close to expectations this morning.

Key Global Financial Indicators

Last updated: 2/8/24 8:34 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4995	0.8	3	5	21	5
Eurostoxx 50		4710	0.7	2	5	12	4
Nikkei 225		36863	2.1	2	9	34	10
MSCI EM		40	0.1	3	0	-2	-1
Yields and Spreads			bps				
US 10y Yield		4.14	1.7	26	11	53	26
Germany 10y Yield		2.34	1.8	19	20	-3	31
EMBIG Sovereign Spread		389	-3	-12	-13	-43	6
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.9	-0.1	-1	-2	-7	-3
Dollar index, (+) = \$ appreciation		104.3	0.2	1	2	1	3
Brent Crude Oil (\$/barrel)		80.2	1.2	2	5	-6	4
VIX Index (% change in pp)		13.0	0.2	-1	0	-7	1

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

Mature Markets

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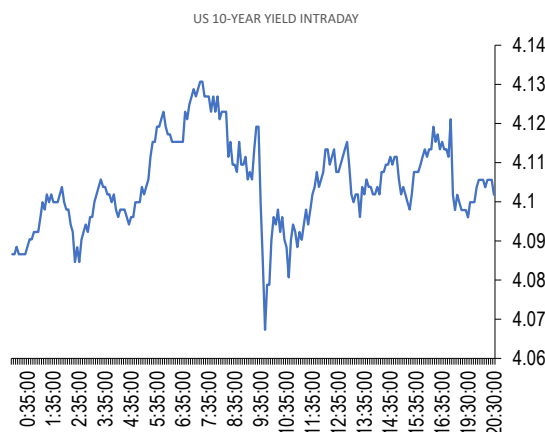
United States

Yesterday's record auction amount of \$42bn 10-year Treasuries was met with solid demand as the clearing yield stopped below "when-issued" yields for the first time in a year. Longer-term Treasury yields offered little reaction to the bond auction as Fed speakers continued to push-back on the idea of a March rate cut. Indirect bidder participation—associated with foreign reserve managers whose bids are placed through the NY Fed as well as accounts buying through a primary dealer—rose by 5pp. to 71%. End user demand from pension funds, hedge funds, insurers and banks dropped by 2.5pp to a 16.1% direct bidder participation. The US 10-year yield closed at 4.12%, 2bps higher in the day.

Table 1: 10y Bond Auction statistics

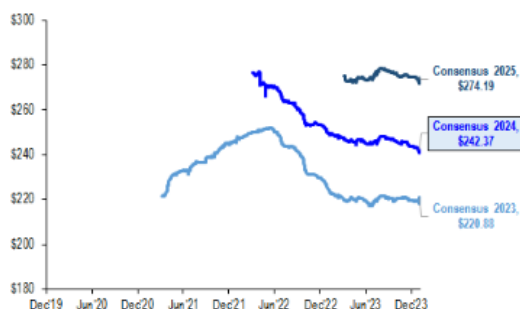
10y Bond auctions	Dec 11, 23	Jan 10, 24	Feb 7, 24
Total sold	\$37bn	\$37bn	\$42bn
Auction Tail	1.4bps	0.7bps	-1.2bps
Mkt. reaction	1.0bps	0.6bps	-0.2bps
Bid-to-cover	2.53	2.56	2.56
Dealers awarded	16.6%	15.2%	12.9%
Direct bidders	18.4%	18.7%	16.1%
Indirect bidders	63.8%	66.1%	71%

Source: Bloomberg



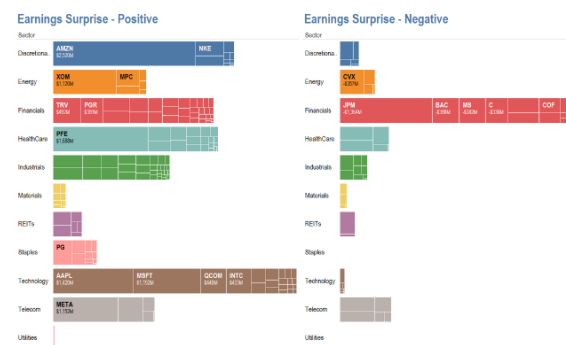
S&P 500 earnings expectations are being put to the test. 45% of S&P 500 companies had reported their earnings by the start of this week, with another 19% scheduled to report before Friday. Results have beaten earnings expectations by 4.4% (5.8% ex financials). Despite this, 2024 earnings-per-share (EPS) were revised slightly downwards to -0.4%. Sector wise, technology and consumer discretionary led the way, while financials posted the largest negative surprises. Earnings beats have been rewarded on average with 1% excess performance on-the-day, while asymmetrically larger negative performance (-2.5%) was seen when earnings expectations were missed. This asymmetric trade-off shows that high stock prices and valuations will need support from solid earnings into 2024.

Figure 6: S&P 500 Consensus Annual EPS



Source: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P., FactSet

Figure 8: Earnings Surprise – Sector Breakdown



Source: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P., FactSet

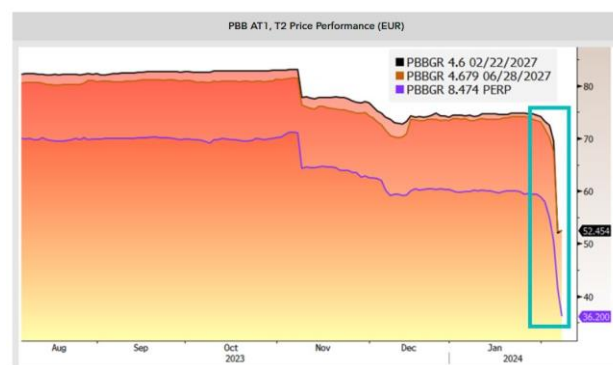
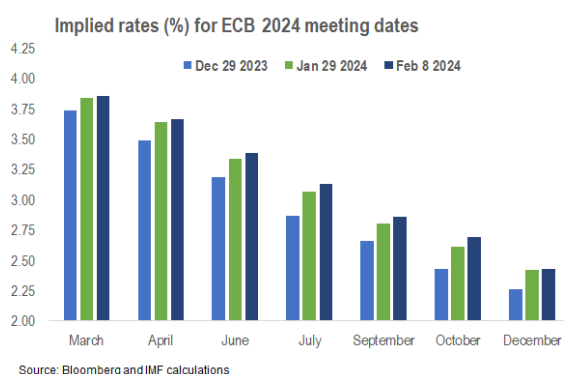
Euro Area

European equities were higher with the Stoxx 600 index up +0.3% following positive corporate earnings news from the consumer staples sector, while banking sector stocks were down (-0.1%). The euro was up (+0.1%) against the dollar trading at around 1.078. Euro area sovereign bond yields were

lower (-1bp) with the 10-year bund yield trading at 2.30% and the spread of 10-year Italian government bonds over bunds broadly unchanged at 156bps.

Analysts at ING note that despite recent ECB pushback against early easing, “the market is resolutely attaching a 60% probability to a rate cut from the ECB in April” which they think should be priced out. Similarly, analysts at Raiffeisen believe the ECB will want to see a “continuous series of good data to build confidence that inflation is sustainably on its way to the 2% target” and will likely want to collect more wage growth data before any loosening in policy. As a result, they expect the first rate cut from the ECB in June. Since last month’s policy meeting, markets have been adjusting rate cut expectations and now expect a total of 125bps of rate cuts in 2024, down from 147bps last Thursday.

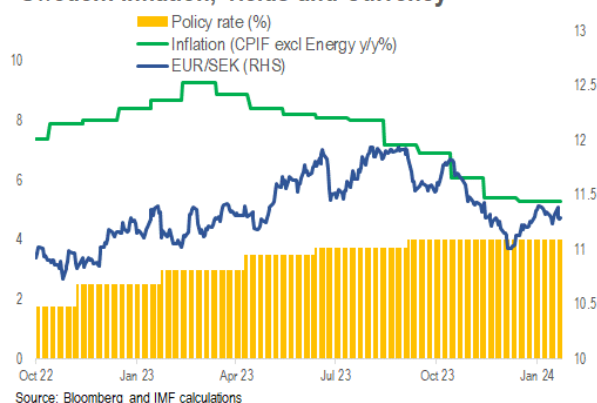
Bloomberg reports that Deutsche Pfandbriefbank’s (PBB) bond prices have fallen sharply as investor concerns over the lenders €5bn US commercial real estate exposure mount. According to Bloomberg, 80% of Deutsche PBBs US CRE exposure is to offices and 63% in New York. As of Q3 2023, US non-performing exposures were €691m or 14% of the book. Similarly, Bloomberg reports that almost half of Deutsche Bank’s €31bn CRE portfolio is in the US, which makes the bank one of the most exposed European lenders. Shares in Deutsche Bank are down around 6% year-to-date, with the broader European banks index down 0.9% in the same period. Yesterday, Bloomberg reported that German banking regulator BaFin said that it “has a watch on current market developments and is reflecting them in its supervision.”



Sweden

Riksbank Governor Jansson raises possibility for rate cuts in the first half of the year. In prepared remarks for an event in London, the governor said “underlying inflation has fallen a little faster than expected [...] and economic developments have continued to cool, reducing the risk of inflation becoming entrenched at too high a level.” The Governor highlighted possible upside risks to inflation citing global geopolitical tensions that may result in supply chain disruptions or lead to a “problematic weakening of the krona”. While he did not rule out the possibility of a rate cut as early as March, he noted that for this to be a consideration, the plans for policy-rate cuts from the major central banks will need to be clearer. The governor sees a rate cut at the meeting in either May or June as more realistic.

Sweden: Inflation, Yields and Currency



Japan

Japanese funds purchased a record amount of US sovereign debt in 2023. Net investments reached ¥18tn (\$121bn) defying repatriation fears of Japanese investors dumping Treasuries ahead of potential BoJ policy revisions. Japanese investors also bought a record net ¥1.2tn (\$8.1bn) of overseas equities via investment trusts, bolstered by the new tax-exempt retirement savings system (NISA), with higher annual investment limits and infinite tax exempted period. Some market participant stated that funds have flowed abroad more than expected, which contributed to yen weakness in January. Others believe long term impact remains limited for the yen, Bloomberg reported.

Bank of Japan Deputy Governor Uchida ruled out BoJ hiking policy rate sharply even if the negative interest rate ends. He expects financial conditions to remain easy arguing for gradual policy normalization. Japanese stocks rose +0.5%. Yen depreciated -0.4%, while 10-year bond yields declined -1bps.

The new NISA led to investment trusts making the largest ever net purchase of foreign equities
Monthly net purchase of foreign equities by Japanese investment trusts



Source: Macrobond, Nomura

Japan-US Yield Gap Remains Wide

■ Ten-year yield gap between Japan and the US



Source: Bloomberg

Bloomberg

Emerging Markets

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EMEA equity markets were mixed. Equities in Türkiye (+1%) were outperforming and the lira was little changed against the dollar after governor Karahan presented the central bank's inflation report showing the end-2024 forecast unchanged at 36%. There had been some expectations that the new governor would be more hawkish, but Karahan was seen to largely repeat previous communication. Equities in South Africa were lower (-0.5%) and the rand weakened (-0.4% to 18.97/\$) ahead of the State of Nation Address.

The Czech koruna depreciated against the euro (0.6%) directly after a larger-than-expected 50 bps rate cut by the central bank. Consensus expected a 25bps rate cut. Elsewhere on the central bank front, Serbia kept its benchmark rate unchanged at 6.5%, as expected.

Asian equities were mixed, down -0.3% on net. **Indian** equities underperformed (-0.9%) as central bank kept policy rate unchanged as expected. Vietnam (+0.9%) and Mainland China (+0.6%) gained. Most of Asian currencies and 10Y bond yields were little changed. **Thai baht** depreciated (-0.7%), while 10Y bond yields declined (-10.8bps) on dovish bets after Wednesday's Bank of Thailand meeting.

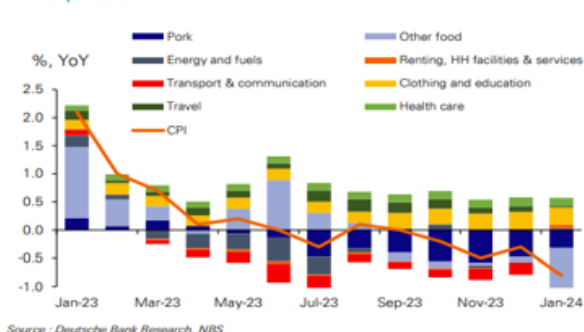
Latin American assets performed mixed. Stocks lost in Brazil (-0.4%). The Chilean peso depreciated (-0.5%), while the Peruvian sol strengthened against the US dollar by 0.5%.

China

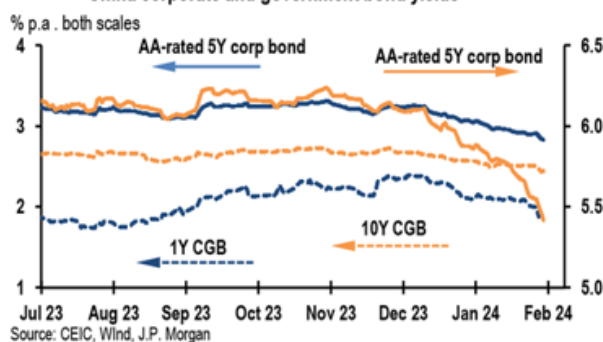
Headline CPI inflation slipped to -0.8%/y/y (previous: -0.3%) in January. This was the sharpest drop in prices since September 2009 and the fourth straight month of negative inflation. PPI remained in contraction at -2.5%/y/y (previous: -2.7%), while core inflation sank to +0.4% (previous: +0.6%). Analysts, however,

attributed the fall in headline inflation to the Lunar New Year (LNY) effect—LNY falls on February this year, while it was in January in 2023. Some also noted that consumer prices showed tentative signs of bottoming. Separately, market interest rates have come off across the board on the back of liquidity injections by the central bank in recent weeks, JP Morgan noted. The most notable decline was observed in 5-year AA-rated corporate bond yields at almost -50bps. Chinese equities extended gains +0.6%, heading into LNY.

Negative contribution to CPI largely came from food prices



China corporate and government bond yields



India

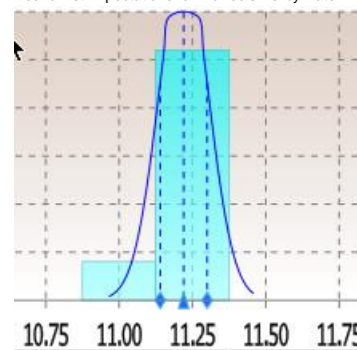
India's central bank (RBI) kept its policy rate unchanged at 6.5% as expected. Five MPC members voted for a pause, while one voted for a cut. Governor Das said RBI's fight against inflation is not over. He added that inflation is on a downward trajectory but flagged uncertainties about food prices. RBI remains upbeat on growth and projected GDP to increase 7% in FY25 with inflation above the 4% target at 4.5%. Analysts interpreted RBI statement as hawkish, some were expecting a change in stance to neutral. Meanwhile, RBI carried out six rounds repo auctions in the last four days to absorb liquidity, Bloomberg reported. Tight liquidity has accelerated policy transmission, but with tight liquidity current strength in credit growth may not be sustained, as banks struggle with deposits. Indian equities declined (-0.9%).

Mexico

Banxico is expected to hold its policy rate at 11.25% today, but some market participants see growing scope for a cut in the future.

The central bank is seen to weigh the need for easing against the risk of diverging too sharply from the Fed trajectory. Mexico's core inflation has stabilized while there are signs of a deceleration in economic activity and industrial production. Some market reports therefore see a rationale for a rate cut. Reports suggest that Mexico holds one of the higher real rates globally, and a strong Mexican peso could impact export competitiveness. Market pricing is consistent with a "hold" for this central bank meeting, but traders are looking for room for more dovish statements.

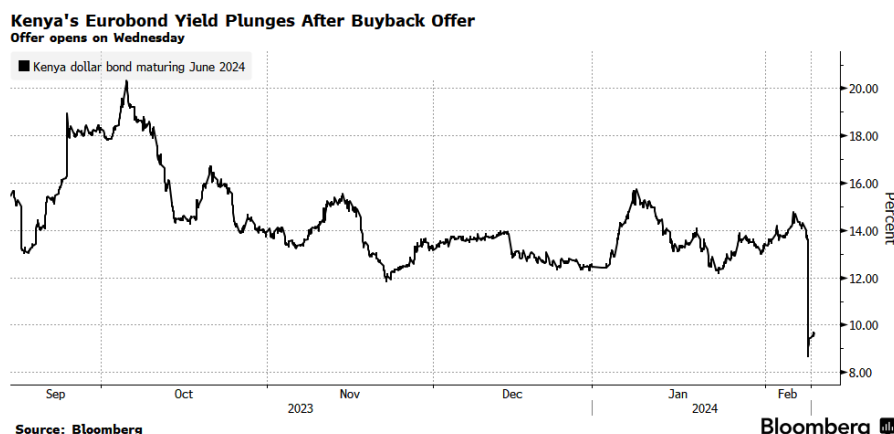
Economist Expectations for Mexico's Policy Rate



Kenya

The yield on Kenya's Eurobonds maturing in June 2024 fell sharply yesterday after the Kenyan government offered a \$2bn debt buyback with plans for new issuance. The Kenyan government announced yesterday an offer to buy back \$2bn of its eurobond due in 2024, with the offer starting yesterday and ending on February 14. According to a statement, the amount that will be repurchased depends on the amount the government raises in a new offering, which is set to be priced next week. The yield on the June 2024 bonds fell from 14.70% on Monday to 8.66% yesterday. Contacts expect the bond issuance to be successful and argue that in such a case the door would be open for further issuance in H1, if required,

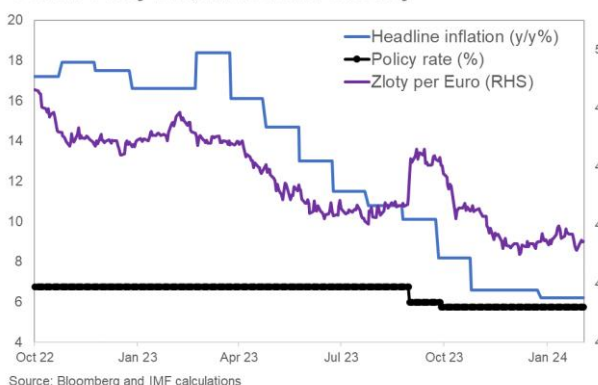
possibly even at a lower yield. **Overall contacts note the importance of the recent Eurobond issuance from countries in Sub-Saharan Africa (SSA), after a long period of no access to international capital markets.** In January, the Ivory Coast became the first country in the SSA region to issue a new Eurobond in nearly two years (issuing \$2.6bn, roughly three times oversubscribed), and Benin followed this week, (issuing \$750mn, oversubscribed more than six times).



Poland

Yesterday, the central bank of Poland (NBP) left interest rates unchanged at 5.75% as expected. The policy statement pointed to elevated uncertainty around inflation developments related to fiscal and regulatory policies. Despite headline inflation easing from its peak at 18.4% in February 2023 to 6.2% in December, contacts see the central bank guidance since the start of the year as incrementally hawkish. Contacts highlight that the NBP's decisions seem take into consideration political economy aspects, and argue that yesterday's policy statement indicates that the monetary policy outlook is conditional on whether the new government's key election pledges are implemented.

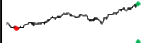

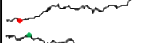


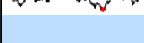


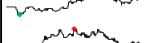
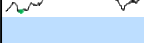






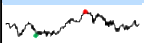


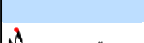

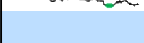


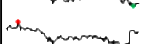
Poland: Policy rate, Inflation and Currency



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Global Financial Indicators

2/8/24 8:35 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4991	0.8	2	5	21	5
Europe		4710	0.7	2	5	12	4
Japan		36863	2.1	2	9	34	10
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		65	0.0	3	0	-6	-2
Emerging Markets		40	0.1	3	0	-2	-1
Interest Rates			basis points				
US 10y Yield		4.14	1.7	26	11	53	26
Germany 10y Yield		2.34	1.8	19	20	-3	31
Japan 10y Yield		0.71	-1.3	0	10	21	9
UK 10y Yield		4.01	2.6	27	24	70	48
Credit Spreads			basis points				
US Investment Grade		127	-0.3	-3	-11	-11	-7
US High Yield		380	-6.7	-17	-23	-38	-5
Exchange Rates			%				
USD/Majors		104.31	0.2	1	2	1	3
EUR/USD		1.08	-0.1	-1	-2	0	-3
USD/JPY		149.3	0.7	2	3	14	6
EM/USD		46.9	-0.1	-1	-2	-7	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		80.2	1.2	2	6	1	4
Industrials Metals (index)		134	-0.1	-2	-2	-20	-6
Agriculture (index)		61	-0.1	-1	-1	-13	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.0	0.2	-0.9	-0.1	-6.6	0.6
Global FX Volatility		7.6	0.0	0.0	-0.4	-2.8	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		116	-3.0	7	0	-71	12
Italy		157	0.0	0	-11	-29	-10
Portugal		81	-0.6	-1	17	-5	17
Spain		92	0.1	-1	-6	-2	-4

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

Emerging Market Financial Indicators

Last updated: 2/8/2024 8:26 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	-0.2	-1	-6	-1		2.4	1.5	1	-12	-77	-12
Indonesia		15635	0.6	0.9	-1	-3	-2		6.6	0.1	4	-9	-10	14
India		83	0.0	0.0	0	-1	0		7.1	1.0	6	-15	(25.1)	-7
Philippines		56	0.1	0.4	0	-2	-1		5.4	0.0	0	-25	-47	-20
Thailand		36	-0.6	-1.0	-2	-7	-5		2.5	-8.8	-15	-22	-11	-16
Malaysia		4.77	-0.2	-0.8	-3	-10	-4		3.8	-0.8	1	-5	0	6
Argentina		830	-0.1	-0.5	-2	-77	-3		75.9	179.8	257	-643	-976	-1052
Brazil		4.98	-0.1	-1.3	-2	5	-2		10.7	6.8	15	4	-264	34
Chile		954	0.0	-2.3	-5	-16	-8		4.8	4.7	9	-14	-54	-7
Colombia		3965	-0.2	-1.9	-2	20	-3		7.4	0.0	19	-42	-155	-21
Mexico		17.08	-0.2	0.0	-1	11	-1		8.7	-0.4	17	14	32	26
Peru		3.8	0.5	-0.9	-4	0	-4		6.7	-0.6	12	-11	-126	4
Uruguay		39	-0.1	0.0	0	0	-1		9.2	-6.2	-10	-31	-82	-37
Hungary		360	0.1	-2.2	-4	0	-4		6.0	-7.0	28	15	-178	27
Poland		4.03	-0.1	-1.6	-2	10	-2		4.8	5.8	25	29	-63	31
Romania		4.6	-0.2	-1.2	-2	-1	-3		6.2	0.7	4	-10	-116	4
Russia		91.4	-0.2	-1.2	0	-20	-2							
South Africa		18.9	-0.2	-1.8	-2	-6	-3		9.3	9.3	25	24	43	21
Türkiye		30.60	0.0	-0.8	-2	-38	-4		27.2	2.0	-28	-3	1574	41
US (DXY; 5y UST)		104	0.3	1.2	2	1	3		4.09	2.1	28	10	30	24

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3365	0.6	5	2	-19	-2		161	-5	2	-11	3	
Indonesia		7235	0.0	0	-1	4	-1		111	-10	-6	-24	15	
India		71428	-1.0	0	0	17	-1		115	-9	-14	-31	-1	
Philippines		6850	0.3	3	3	0	6		93	-11	-2	-19	13	
Thailand		1389	-0.8	2	-2	-17	-2		0	0	0	0	0	
Malaysia		1512	0.0	0	1	3	4		89	-7	-2	-10	4	
Argentina		1152888	-5.2	-9	4	361	24		1942	-27	-61	19	29	
Brazil		129950	-0.4	1	-2	18	-3		221	-16	-2	-33	6	
Chile		6006	0.1	-1	-1	13	-3		135	-3	1	4	10	
Colombia		1279	0.2	0	-1	1	7		318	9	24	-48	47	
Mexico		58712	0.1	2	5	11	2		332	-2	-12	-18	-2	
Peru		27231	-0.3	1	6	22	5		151	0	-4	-30	7	
Hungary		64358	0.0	-1	5	40	6		168	-6	10	-24	19	
Poland		78671	-1.0	0	2	29	0		107	-3	4	43	10	
Romania		15745	0.1	1	2	29	2		195	-6	-19	-28	-6	
South Africa		73924	-0.5	-1	0	-8	-4		346	-10	19	-4	38	
Türkiye		8975	1.5	4	15	99	20		343	-27	8	-161	29	
Ukraine		507	0.0	0	0	0	0		4209	-125	80	-22	205	
EM total		40	-0.2	3	0	-2	-1		352	-12	-10	-17	7	

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

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