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- Geopolitical risk premium remains modest in oil prices ([link](#))
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- People's Bank of China kept 1-year MLF rate unchanged at 2.5%, markets expected a cut ([link](#))
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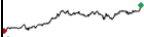








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Markets lose momentum on central bank officials' rhetoric

Global equities fell and the dollar appreciated to a one-month high as central bank officials continued to caution against overly optimistic expectations of cuts this year. ECB's governing council member Villeroy de Galhau said in Davos that its too early to declare victory on inflation. This followed a plethora of central bank official speeches and interviews across both sides of the Atlantic over the past week, including the Fed's Mester and Barkin and the ECB's Lagarde, Lane and Holzmann who pushed back against bets of aggressive interest rate cuts. Despite this, markets are still pricing over 6 rate cuts this year by the Fed (and almost 6 by the ECB). US Treasury yields were up this morning while euro-area sovereign bond yields were little changed. In emerging markets, the People's Bank of China kept its 1-year medium-term lending rate unchanged at 2.5% yesterday, against a consensus call for a 10 bps cut. On the primary issuance front, the Ivory Coast is expected to become the first sub-Saharan African nation to issue a Eurobond in almost 2 years.

Last updated: 1/16/24 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4784	0.1	2	1	20	0
Eurostoxx 50		4443	-0.3	-1	-2	7	-2
Nikkei 225		35619	-0.8	5	8	36	6
MSCI EM		39	0.4	-1	-2	-5	-3
Yields and Spreads			bps				
US 10y Yield		4.00	6.2	-1	9	50	12
Germany 10y Yield		2.24	0.3	5	22	6	21
EMBIG Sovereign Spread		399	-3	-4	0	-64	15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.6	-0.4	0	-1	-7	-1
Dollar index, (+) = \$ appreciation		103.2	0.8	1	1	1	2
Brent Crude Oil (\$/barrel)		78.8	0.9	2	3	-7	2
VIX Index (% change in pp)		13.8	0.5	1	1	-5	1

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

In the **week ahead**, financial markets will be facing a relatively light data calendar. The US PPI's unexpected decrease against expectations of an increase triggered a market rally in the front-end of US rates markets last Friday. The Federal Reserve's Bostic and Waller will be speaking about the economic outlook as markets are still trying to gauge the timing of the central bank's first rate cut. China's Q4 GDP print will be unveiled later today following the PBOC's surprise decision to hold interest rates. Malaysia's GDP figure is due later in the week. Inflation prints will be released in the United Kingdom among other countries. Central Banks in Costa Rica, Indonesia, Kazakhstan and Paraguay will be holding their policy rate meetings this week.

Mature Markets

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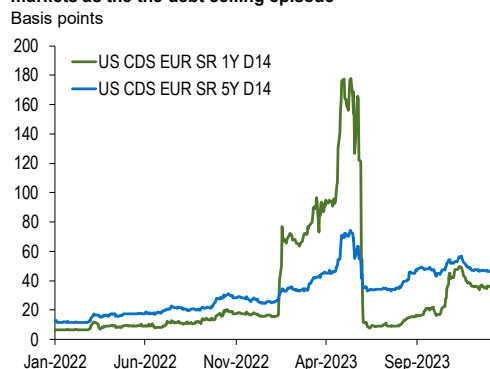
United States

A temporary spending bill has been released to the US Congress to avert a government shutdown.

The current funding for the federal agencies of the government is due to expire on January 20. The stopgap bill would avert a government shutdown until the start of March if passed by both bodies of Congress before the deadline. The legislation is estimated to cover one-third of the government spending. This is the third time over the last year that Congress will have to pass legislation to keep the federal government open. In the event of a government shutdown, analysts expect any drag on economic growth to be added back to the economy once the government re-opens again.

In contrast to the government debt ceiling period in the first half of last year, a shutdown would still allow the US Treasury to continue to pay interest on its debt. Examining the impact of government shutdowns on markets from previous episodes has been hard to gauge for analysts.

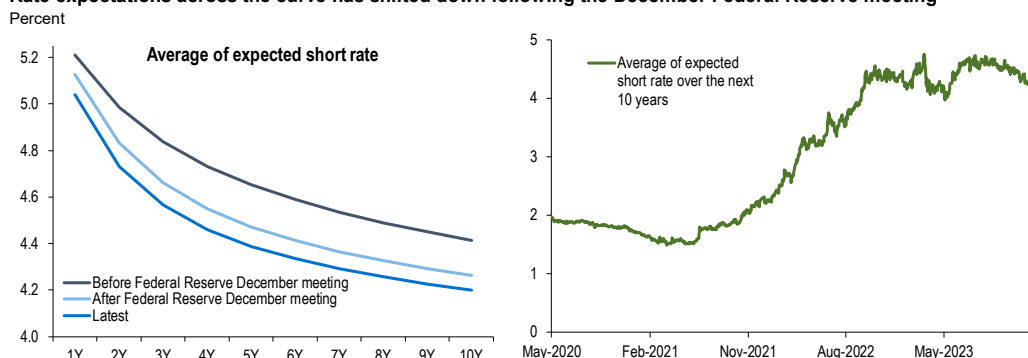
A government shutdown wouldn't be as consequential to Treasury markets as the the debt ceiling episode



The average expectation of the US short rate at long-dated maturities remains elevated despite the December rally.

The messaging from the Federal Reserve's December meeting sparked a euphoric rally for risk assets before the end of last year. The FOMC's median DOT plot for three cuts for this year was more dovish than market expectations of two cuts. While investors are expecting a more aggressive easing cycle for 2024 (over six cuts), the nominal decomposition of the US yield curve illustrates this has had little effect over the average expectation of the short rate at long-dated maturities. This suggests that interest rates over the long-term are likely to remain higher-for-longer on average than levels seen during the pandemic.

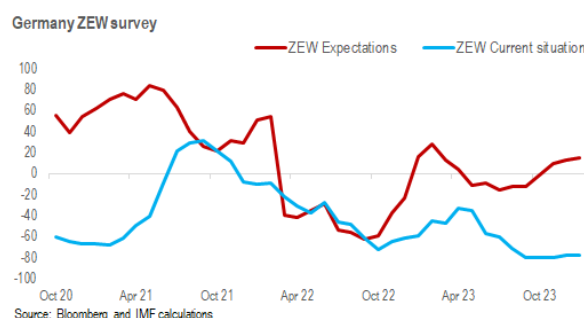
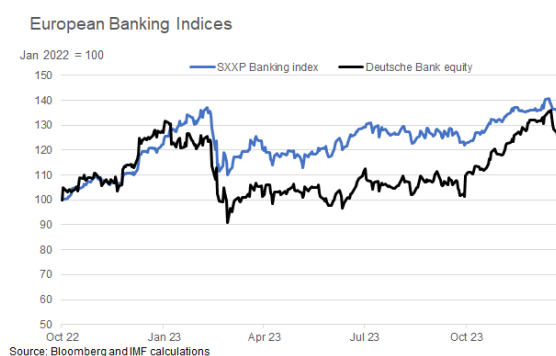
Rate expectations across the curve has shifted down following the December Federal Reserve meeting



Source: Adrian, Crump & Moench (2013), Bloomberg, NYFRB, IMF Staff Analysis

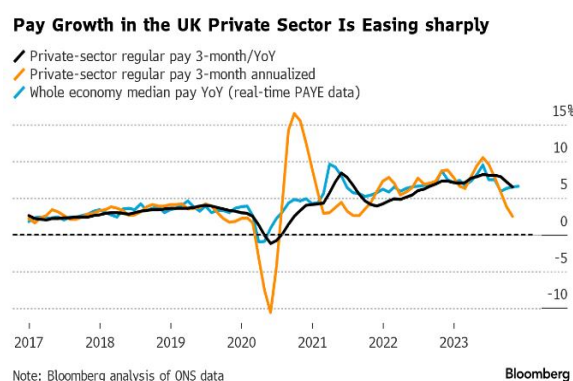
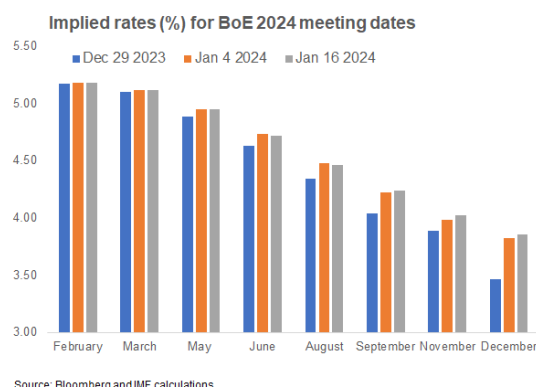
Euro Area

European equities traded lower this morning (-0.5%) with banking sector stocks underperforming (-1.4%) following a report by JP Morgan analysts which downgraded several European banks citing the lower interest rate environment which will negatively impact on net interest income. The index fell to its lowest level since early December. The euro was lower (-0.6%) against the dollar, trading at around 1.089. Euro area sovereign yields were little changed with the 10-year bund yield (-1 bps) trading at 2.22%. On the data front, ahead of next week's ECB meeting where market expectations are for no change in policy, the German ZEW expectations index surprised to the upside, rising to 15.2 in January vs 11.7 expected. Current market pricing suggests that there is an over a 75% probability that first rate cut will be delivered in April, despite policymakers pushing back and suggesting that the middle of the year would be more realistic.



United Kingdom

The pound was trading a weaker against the dollar (-0.7%) at 1.26 and gilt yields were slightly lower (10-year gilt -1 bps to 3.78%) following the release of November labor market data which showed that UK wage growth (ex-bonuses) slowed to 6.6% 3m/yr, in line with expectations from a downwardly revised 7.2% 3m/yr in the prior month. Analysts at HSBC note that the volatility in the data, particularly for the last couple of months makes it difficult for the BoE to determine whether wage growth rates will continue to slow below last summer's peak of 9%. Market pricing for BoE rate cuts following the release was broadly unchanged with the first 25 bps rate cut fully priced in for May and a further four more cuts expected by year-end.

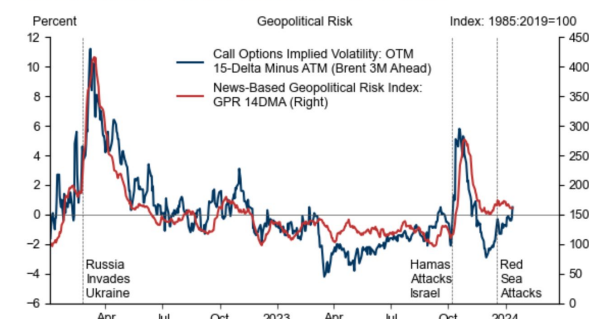


Commodities

A Geopolitical risk premium remains modest in oil prices. Goldman Sachs analysts forecast that Brent will continue to trade range-bound between \$70 and \$90/bbl for the year ahead based on strong demand and high space capacity. The range-bound view stands in contrast to the recent geopolitical tensions in the

Middle East. Risk premium priced into oil markets continues to be modest despite the recent attacks in the Red Sea. Tensions in the region thus far have not affected production. A physical or geopolitical barrier that would impede OPEC from deploying its spare capacity could see oil prices spiking as investors would price in significant risk premia.

Exhibit 2: Only a modest geopolitical risk premium in oil prices



Source: Federal Reserve Board, ICE, Goldman Sachs Global Investment Research

Japan

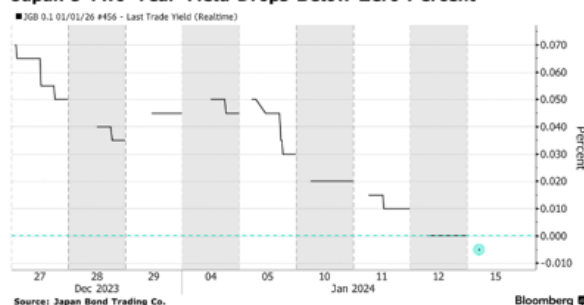
Japan's equities declined -0.8% amid profit taking from a 34-year high, ending an eight-day winning streak. Japan's PPI slowed to 0.0% y/y (consensus: -0.3%, previous: +0.3%) in December. **Traders are not expecting any hawkish moves by the BOJ next week**, Bloomberg reported. Japan's dollar-yen one-week risk reversals are at the least bullish reading compared to 2023. 2-year JGB yields fell below zero for the first time since July, easing pressure on the BOJ. The 5-year JGB sale drew lower-than-expected cut-off price and the bid-to-cover ratio fell to 3.79, the lowest since August. The **Yen weakened -0.5%**, **10-year JGB yields rose modestly (+0.8 bps)**.

Yen Bulls Look for BOJ Hawkish Forward Guidance at Best
Volatility skew steepens, albeit not close to 2023 pre-meeting levels



Source: Bloomberg

Japan's Two-Year Yield Drops Below Zero Percent



Source: Japan Bond Trading Co.

Bloomberg

Emerging Markets

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Asian equities declined led by Hong Kong SAR (-2.2%) and Taiwan POC (-1.1%). Mainland China (+0.6%) and Vietnam (+0.8%) bucked trend. **Taiwan POC's** equities initially saw minor gains (+0.2%) on Monday, as the election results evoked a muted response from China. Lai Ching-te of the ruling Democratic Progressive Party (DPP) won the three-way presidential election, albeit with the lowest winning percentage vote count (40.1%) since 2000. DPP lost its legislative majority and will have to work with China-friendly Kuomintang on policy. Citibank believes this will offer checks and balances to the ruling DPP, but unlikely to impede normal policy implementation. **Asian currencies depreciated**, led by Thai Baht (-1.2%). The Thai baht had initially outperformed (+0.3%) on Monday after **Thailand's** central bank (BoT) pushed back against prime minister Srettha's public calls for rate cuts. BoT stated that rate cuts cannot fix structural economic problems and warned that lower rate will worsen household debt. **EMEA equity and currency markets were lower while local currency bond yields were mostly higher**. On the data front, the final

December inflation print for Poland was marginally higher than initial estimates (+6.2% y/y vs. a previously estimated +6.1%). In **Latam**, the Colombian peso (+0.2%) appreciated yesterday, while the rest of major currencies in the region depreciated against the dollar. Equities in Peru (-0.3%) and Mexico (-0.2%) experienced losses while the rest of the region saw gains between 0.4-0.5%. Additionally, **Argentina's** central bank revealed that it will start to issue AR\$10,000 and AR\$20,000 banknotes to meet consumer demand. **Peru's economy experienced growth for the first time since April**. GDP grew +0.3% in November, beating forecasts of +0.1% and up from -0.8% in October. Bloomberg analysts highlighted a 60% growth in the fishmeal industry contributed to the expansion. Markets did not react favorable to the two positive data releases, with the sol depreciating slightly and Peruvian equities down (-0.3%) yesterday.

EM Fund Flows

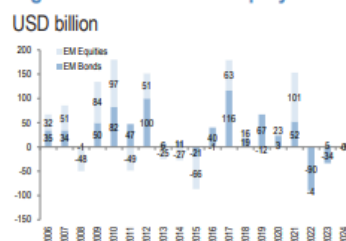
EM weekly bond and equity fund flows continued their trends from the first week of 2024. EM bond fund outflows (-\$542 mn) were marginally lower from the week prior. Hard currency fund outflows (-\$615 mn) were only partially offset by local currency fund inflows (+\$73 mn). Specifically for hard currency, both Asia ex-Japan (-\$186 mn) and broad-based EM funds (-\$429 mn) experienced marginal increases in outflows. Local currency funds saw outflows in EM ex-China funds (-\$77 mn), **but China focused funds (+\$150 mn) had inflows for the first time in almost a year**. Equities fund inflows (+\$106 mn) continued from the previous week, although at a slower pace. Despite equity fund flows being positive, all regional based funds had outflows last week.

Figure 1: Weekly cross-asset flows

USD billion

Asset	Flows (in \$ bn) - current	This wk	YTD
EM Bonds and Equities	-	-4.4	-8.7
EM Bonds	-	-4.5	-9.1
Hard Ccy	-	-4.6	-9.5
Local Ccy*	-	0.1	0.0
ov. EM ex-China	-	-4.1	-8.1
ov. China	-	0.1	0.1
EM Equities	-	0.1	0.0
EM HG	-	0.5	14.9
US HG	-	1.3	0.6
Global Equities	-	-0.5	-0.9
EM Bond and Equity ETFs	-	0.0	1.2
EM Bond ETFs	-	0.1	4.4
EM Equity ETFs	-	0.4	1.5
Non-resident EM flows*	-	3.2	7.8

Figure 2: EM bond and equity fund flows



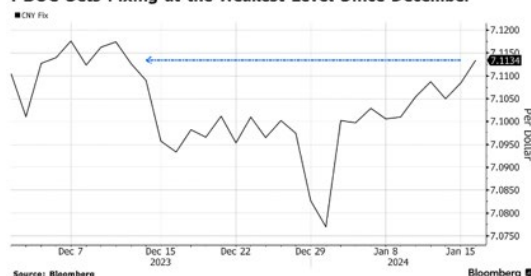
*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

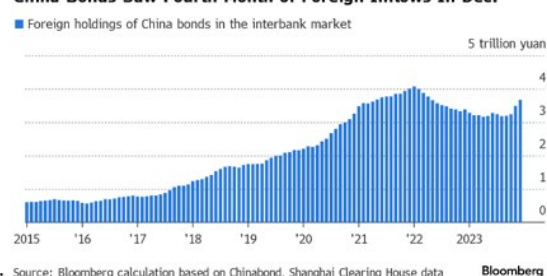
Chinese equities rose +0.6% amid speculation the Chinese authorities informally urged institutions not to sell stocks, the *FT* reported. On Monday, the **People's Bank of China (PBC)** kept its **1-year medium-term lending rate (MLF) unchanged at 2.5% against a consensus call for a 10 bps cut**. The PBC injected 995 bn yuan (\$139 bn) via the MLF facility, followed by liquidity provisions via open market operations, including a net of 695 bn on Tuesday, the most since October. Analysts still viewed a rate cut inevitable amid China's deflationary pressures and slowing economy. However, PBC's surprise hold suggested that any easing moves will likely be modest. JP Morgan expects two 10 bps cuts to 1y MLF in March and September and two 25 bps RRR cuts (2Q and 4Q) in 2024. Separately, **China is reportedly considering 1 tn yuan of new debt issuance under a special sovereign bond plan**. This would be only the fourth such sale in the past 26 years. The proposal under discussion by senior policymakers would allegedly involve the sale of ultra-long sovereign bonds to fund projects related to food, energy, supply chains and urbanization. Separately, **local governments were asked to better coordinate with financial institutions (FIs) to provide financing support to real estate projects**. A joint notice by the Ministry of Housing and Urban-Rural Development and the National Financial Regulatory Administration requested local governments to produce 'whitelists' of projects eligible for financing assistance. FIs should speed up loan approval for projects that have sufficient collateral, reasonable liabilities, and guaranteed repayment

sources. FIs should prevent a hasty withdrawal, suspension or withholding of loans from projects that are experiencing temporary difficulties; extending existing loans, adjusting repayment arrangements, and offering new loans for such projects would be supported by the regulators. **Foreign investors bought 181 bn yuan (\$25 bn) of Chinese bonds in December**, which took total holdings to highest since April 2022, Bloomberg calculated. The demand was driven by an attractive FX swap premium amid expectations of a Fed reversal. The **Renminbi declined (-0.3%)**, **10-year bond yields were little changed**.

PBOC Sets Fixing at the Weakest Level Since December



China Bonds Saw Fourth Month of Foreign Inflows In Dec.

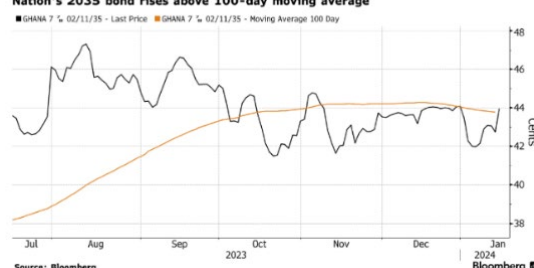


Ghana

Ghana's Eurobonds gained on news from the Finance ministry that an agreement had been reached with official creditors on debt treatment. Ghana's finance ministry noted that it is "a significant step towards restoring Ghana's long-term debt sustainability." JP Morgan analysts highlight that is an important step in the common framework process and in restructuring Ghana's \$5.4 bn bilateral debt. JP Morgan analysts highlight that is an important step in the common framework process and in restructuring Ghana's \$5.4 bn bilateral debt.

While not much detail was provided on the agreement, the terms of the agreement are expected to be finalized in a memorandum of understanding between the two parties. JP Morgan analysts argue that the completion of Ghana's debt overhaul could be drawn out. The price of Ghana's Eurobond maturing in 2035 has increased over the past several days, and according to Bloomberg was trading above its 100-day moving average at 43.97 cents on the dollar yesterday.

Ghana Bonds Rally
Nation's 2035 bond rises above 100-day moving average



Ivory Coast

The Ivory coast will issue a new Eurobond next week, according to President Ouattara. This would make Ivory Coast the first Sub-Saharan country to issue a Eurobond in almost 2 years, according to Absa analysts. The president did not share details regarding the size of the planned agreement, but Bloomberg reports that analysts from Danske Bank expect US dollar denominated 10-year tenor issuance of roughly \$1 bn, with an aim to sell at between 8.5% and 8.75%.

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 Shehryar 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 (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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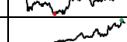







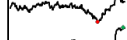








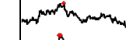










Global Financial Indicators

1/16/24 8:06 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4779	0.1	0	1	20	0
Europe		4443	-0.3	-1	-2	7	-2
Japan		35619	-0.8	5	8	36	6
China		3301	0.6	0	-1	-20	-4
Asia Ex Japan		65	0.4	0	-2	-8	-3
Emerging Markets		39	0.4	-1	-2	-5	-3
Interest Rates			basis points				
US 10y Yield		4.00	6.2	-1	9	50	12
Germany 10y Yield		2.24	0.3	5	22	6	21
Japan 10y Yield		0.60	3.0	1	-10	7	-1
UK 10y Yield		3.78	-1.4	0	10	40	25
Credit Spreads			basis points				
US Investment Grade		131	-0.7	-6	-6	-20	-3
US High Yield		397	2.1	-6	-13	-48	12
Exchange Rates			%				
USD/Majors		103.19	0.8	1	1	1	2
EUR/USD		1.09	-0.6	0	0	1	-1
USD/JPY		146.7	0.7	2	3	14	4
EM/USD		47.6	-0.4	0	-1	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		78.8	0.9	2	3	-2	2
Industrials Metals (index)		136	0.1	-1	-3	-21	-5
Agriculture (index)		61	0.8	0	-5	-10	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.8	0.5	0.7	1.5	-4.6	1.3
Global FX Volatility		7.5	0.0	-0.4	-0.6	-3.3	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-1.4	-6	-9	-91	3
Italy		156	-1.1	-10	-14	-28	-11
Portugal		82					
Spain		91	-0.8	-6	-7	-8	-6

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

Emerging Market Financial Indicators

Last updated: 1/16/2024 8:00 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.19	-0.3	-0.3	-1	-6	-1		2.5	1.5	4	-7	-68	1
Indonesia		15593	-0.2	-0.5	-1	-4	-1		6.7	-0.3	-5	10	-9	19
India		83	-0.2	0.0	0	-2	0		7.2	2.9	-8	9	(23.0)	-1
Philippines		56	-0.1	0.4	0	-2	-1		5.7	-0.1	-3	-8	-35	2
Thailand		35	-1.2	-1.2	-1	-6	-3		2.7	2.0	2	0	23	5
Malaysia		4.69	-0.5	-1.1	0	-8	-2		3.8	1.5	-2	7	-15	8
Argentina		818	-0.2	-0.5	-2	-78	-1		82.6	141.4	175	-164	22	-378
Brazil		4.89	-0.5	0.3	0	5	-1		10.6	-0.4	-12	-9	-204	17
Chile		919	-0.9	0.1	-5	-11	-4		4.9	1.0	-5	6	-20	-2
Colombia		3905	0.1	-0.6	1	20	-1		7.6	0.0	-21	-36	-172	-9
Mexico		17.06	-1.0	-0.5	1	10	0		8.4	2.0	-16	-19	28	-4
Peru		3.7	0.0	0.0	2	4	0		6.6	0.0	-24	-21	-144	-12
Uruguay		39	0.1	0.2	0	1	-1		9.2	0.0	-32	-36	-131	-32
Hungary		349	-0.8	-0.5	1	6	0		5.7	9.0	-14	-28	-196	-6
Poland		4.03	-1.0	-1.2	-2	8	-2		4.6	9.8	17	34	-69	13
Romania		4.6	-0.6	-0.5	0	0	-1		6.2	2.3	-10	-5	-106	4
Russia		88.0	-0.2	1.9	2	-22	2							
South Africa		18.9	-1.1	-1.0	-2	-10	-3		9.2	5.0	14	31	45	6
Turkey		30.11	-0.1	-0.5	-4	-38	-2		27.1	6.0	44	148	1681	38
US (DXY; 5y UST)		103	0.8	1.0	1	1	2		3.90	7.0	-7	-1	29	5

	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		3301	0.6	0	-1	-20	-4		164	5	10	-23	6	
Indonesia		7243	0.3	1	1	7	0		113	-4	8	-68	17	
India		73129	-0.3	2	2	21	1		128	-1	18	-29	12	
Philippines		6637	-0.7	0	2	-5	3		95	0	10	-52	15	
Thailand		1402	-0.4	-1	1	-17	-1		0	0	0	0	0	
Malaysia		1494	-0.5	0	2	0	3		94	3	9	-11	9	
Argentina		1038358	0.5	-6	12	314	12		1910	-93	16	-99	-3	
Brazil		131521	0.4	-1	1	20	-2		209	-14	-7	-71	-6	
Chile		5987	0.5	-2	-2	16	-3		133	-1	5	-20	8	
Colombia		1297	0.5	0	12	-3	9		294	0	-7	-85	23	
Mexico		55501	-0.2	-1	-3	3	-3		335	-9	-28	-32	1	
Peru		25995	-0.3	1	5	12	0		152	-3	0	-38	8	
Hungary		63322	-0.7	2	5	36	4		166	8	4	-85	17	
Poland		74689	-0.6	-3	-4	21	-5		105	2	3	-6	8	
Romania		15794	-0.1	1	2	32	3		208	-6	5	-70	7	
South Africa		73289	-0.5	-1	-3	-7	-5		333	6	-12	-34	25	
Turkey		8029	-0.2	4	0	54	7		344	9	0	-164	30	
Ukraine		507	0.0	0	0	0	0		3841	-288	158	-357	-163	
EM total		39	-1.1	-1	-2	-5	-3		359	-3	1	-28	14	

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

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