



- Expectations for Bank of England rate cuts increase after soft monthly GDP ([link](#))
- Funding squeeze in Chinese markets triggers further liquidity injections ([link](#))
- Chinese corporates show signs of increased dollar demand ([link](#))
- Markets are increasingly pricing a January rate hike by the Bank of Japan ([link](#))
- Investors are still pricing in only a modest easing cycle following softer CPI print ([link](#))
- Strong start to Q4 earnings season for large US banks ([link](#))

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## Focus returns to the incoming Administration after recent data releases.

Treasury yields were slightly higher this morning following the large decline yesterday and some mixed economic data this morning. Initial jobless claims came in slightly above expectations at 217k, while retail sales were mixed, with a weaker than expected headline print but a stronger control group that feeds more directly into GDP. With nonfarm payrolls, inflation, and retail sales out of the way, investors can return to speculating about the first wave of policy announcements expected next week following inauguration on Monday. Trade tensions remain top of mind, as China announced that it will launch anti-dumping and anti-subsidy probes into US legacy chips. Media reports also stated Canada has prepared a list of retaliatory tariffs on over \$100 bn of US products. Nevertheless, global equity markets were mostly higher this morning. After initially slumping lower, the dollar recovered yesterday and was up slightly today, with emerging market currencies mixed. The Korean won rallied after the central bank stayed on hold today, but later pared the move. Incoming Treasury Secretary (likely) Scott Bessent highlighted the importance of maintaining the US dollar as the global reserve currency.

Key Global Financial Indicators

Last updated: 1/16/25 8:37 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		5950	1.8	1	-2	25	1
Eurostoxx 50		5103	1.4	2	3	15	4
Nikkei 225		38573	0.3	-4	-2	9	-3
MSCI EM		42	1.3	0	-5	9	0
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.67	1.4	-2	27	61	10
Germany 10y Yield		2.58	2.4	2	34	33	22
EMBIG Sovereign Spread		322	-1	-1	1	-77	-3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		43.0	-0.2	0	-1	-9	0
Dollar index, (+) = \$ appreciation		109.3	0.2	0	2	6	1
Brent Crude Oil (\$/barrel)		81.6	-0.5	6	10	4	9
VIX Index (% change in pp)		16.4	0.2	-1	2	3	-1

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

## Mature Markets

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## United States

Treasury yields declined slightly following initial jobless claims and retail sales data, but were higher on net (+1 bp) from yesterday.

	Consensus Forecast	Actual Data Print	Previous
Retail Sales Advance MoM	+0.6%	+0.4%	+0.7%
Retail Sales Ex Auto and Gas	+0.4%	+0.3%	+0.2%
Retail Sales Control Group	+0.4%	+0.7%	+0.4%
Initial Jobless Claims	210k	217k	201k
Continuing Claims	1870k	1859k	1867k

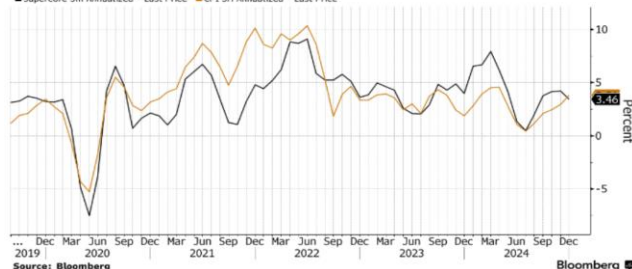
### Markets are still pricing in a shallow easing cycle after the CPI report amid still elevated inflation.

While yesterday's CPI report came in below expectations, three-month annualized rates of headline and supercore inflation remain above 3%. Markets repriced policy rate expectations marginally lower following the CPI release, but are still expecting just 38 bps of easing, or less than two full rate cuts for 2025. Futures markets suggest a higher likelihood of a second rate cut in late 2025 or early 2026, while the outlook for the first half of the year remains largely unchanged.

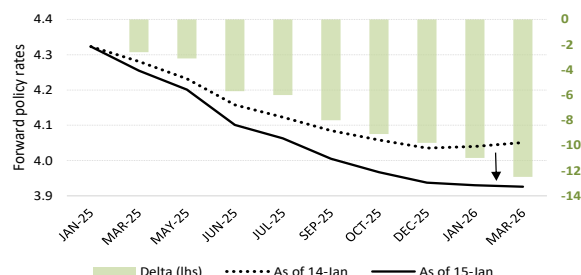
#### Supercore Is Still Too High

Three-month annualized inflation readings

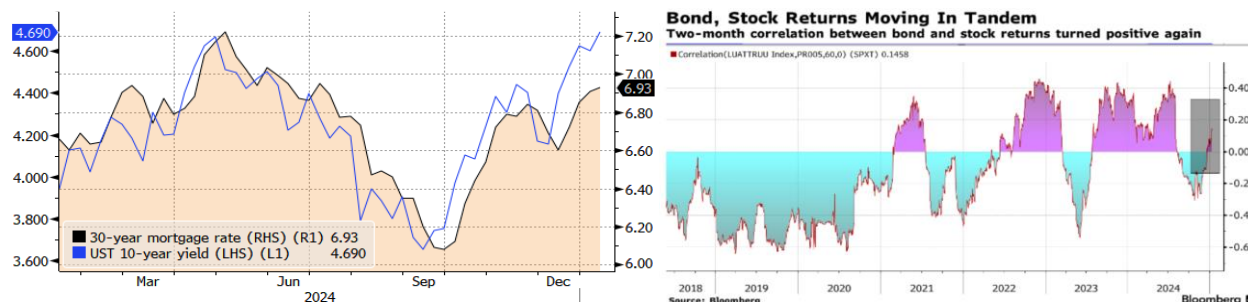
■ SuperCore 3m Annualized - Last Price ■ CPI 3M Annualized - Last Price



#### Priced-in forward rates



**Higher interest rates could weigh on the economy through multiple channels.** Despite yesterday's sharp downward move (-14 bps on the 10y), longer term Treasury yields have risen close to 100 bps since September and put upward pressure on mortgage rates (left chart). Average 30y mortgage rates are close to 7% again for the first time July, with analysts expressing concern about employment in the construction and real estate sector over the coming year. On the corporate side, the passthrough of higher rates to lower rated borrowers can be quick as many rely on floating rate debt, which has contributed to elevated default rates in certain segments. In addition, the reemergence of the positive correlation between stocks and bonds (right chart) indicates that continued disinflation and lower bond yields could become more important to the market's performance going forward.



## US Bank Earnings

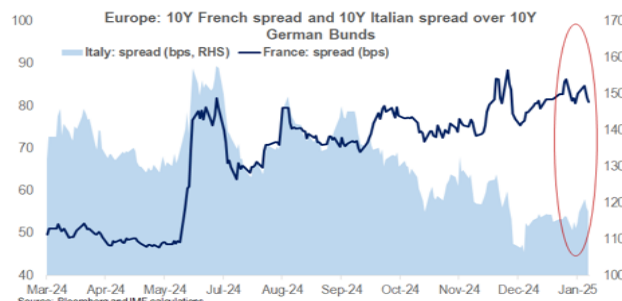
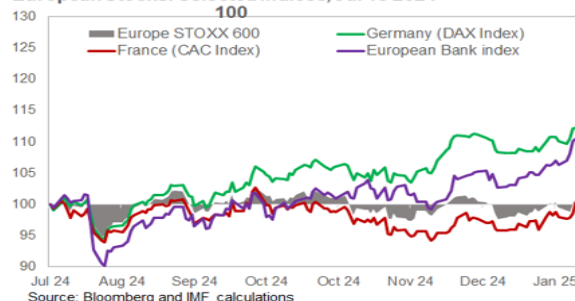
**Strong start to Q4 earnings season for US banks, with the KBW Bank Index rising 4% on Wednesday.** JP Morgan, Goldman Sachs, Bank of New York Mellon, and Bank of America beat revenue and EPS estimates on the back of tailwinds in net interest income and solid wealth management, investment banking, and trading revenues. Citigroup had a relatively strong quarter in trading and announced a \$20 bn buyback but dialed down guidance on return on tangible common equity for 2026 by 1 percentage point. Wells Fargo had mixed results as restructuring costs continue to weigh on the bottom line, but management painted an upbeat 2025. Bank of America reported net income 7% above consensus and management sees “a solid economic environment” and “broad momentum” for 2025.

## Europe

**European equities were higher this morning on positive earnings data.** The Stoxx 600 index was 0.7% higher, led by gains in the consumer discretionary sector (+3.75%) on positive earnings news from luxury goods maker Richemont, with other European bourses also trading in the green. The CAC 40 was outperforming, up 2% on the day, driven by gains in the luxury goods sector.

**European government bond yields were slightly higher with the 10y bund yield at 2.56% (+2 bps) and the 10y French OAT yield at 3.37%.** The 10y OAT-Bund spread was steady at around 80 bps, while the 10y BTP-Bund spread narrowed to 113 bps. The euro was steady against the dollar at around 1.0287. French Budget Minister Montchalin said that the government plans to limit temporary levies on companies with annual revenues of more than €1bn to one year. In addition, she said the government will focus on plans to clamp down on tax “optimization” as part of efforts to reduce the deficit to 5.4% of GDP. Meanwhile, **ECB Governing Council member Centeno remarked that “inflation in the euro zone was generally under control” but added that the process of lowering rates should be “gradual over the next few months”**, warning against generating inflationary pressures through demand. He also urged restraint in budgetary policies, wage increases, and companies’ profit margins.

European Stocks: Selected Indices, Jul 18 2024 = 100

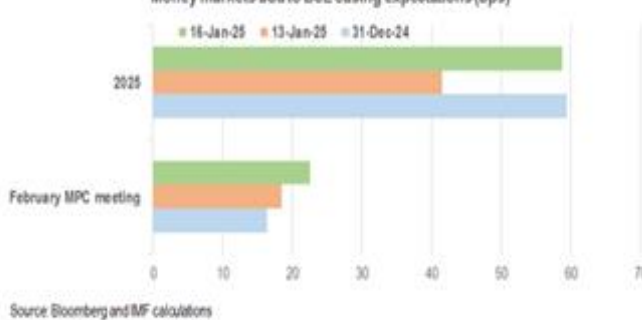


## United Kingdom

**Monthly GDP came in below consensus, increasing expectations for Bank of England (BoE) rate cuts.** Output in the UK in November grew by 0.1% m/m, below consensus expectations of 0.2% growth, following negative output in the prior two months. The pound sterling declined 0.4% against the dollar to trade at 1.2199 and remains one of the worst performing G-10 currencies so far this year. Meanwhile, money markets continue to add to rate cut expectations with around 59 bps of easing priced in through December 2025, up from around 56 bps yesterday. However, HSBC analysts noted that while today’s data printed on the downside, it was broadly in line with the BoE’s expectation for no growth in Q4. Conversely, Morgan Stanley analysts believe that the MPC is likely becoming more “attentive to increasing growth risks” citing yesterday’s speech by external MPC member Taylor who suggested that interest rates may need to fall by as much as 150 bps in the next 12 months. Gilt yields continued to ease this morning, with the 2y gilt yield (-5 bps) at 4.42%, while the 10y gilt yield (-2 bps) remains around 14 bps higher YTD at 4.71%.

**UK Economy Was Supported by Services Sector**

Contributions to monthly gross domestic product growth, UK, November 2023 to November 2024

**Money markets add to BoE easing expectations (bps)****Japan**

**The yen rallied for a second day as traders see a January rate hike by the Bank of Japan (BOJ) as increasingly likely.** Overnight index swaps (OIS) are signaling over an 80% probability for a January hike, up from 60% on Tuesday, following a Bloomberg report that BOJ officials see a good chance of an interest rate hike in January if the new US administration does not trigger negative shocks. The yen appreciated by as much as 0.8%, reaching 155.2 per US dollar at one point today. Bloomberg analysts expect the yen to strengthen against a wider range of major currencies, as yield differentials are likely to become more favorable for the yen, given that Japan's G-10 counterparts are still on an easing path. Japanese equities gained (Nikkei 225: +0.3%).

**USD/JPY Losses May Extend to Test 50-Day Moving Average**

Support may break as bearish momentum gathers pace

**Emerging Markets**[back to top](#)

**EMEA equities were mixed while currencies were mostly weaker this morning.** In CEE, currencies were marginally weaker against the euro. In Poland, the central bank (NBP) kept its benchmark rate unchanged at 5.75%. Analysts will focus on the NBP's press conference after yesterday's final December headline inflation was marginally lower (at 4.7% y/y) than preliminary figures. Turkish equities moved higher (+0.3%) while the lira was little changed against the dollar trading at TRY35.44/\$. In South Africa the rand lost ground (-0.4%) against the dollar, trading at ZAR18.85/\$.

**Asian equities rallied (+2.0%) on Thursday on the back of the softer US CPI report.** Equities in Taiwan POC (+2.3%), Korea (+1.2%), and Hong Kong SAR (+1.2%) outperformed. Share prices of Asian banks and brokers gained as sentiment was buoyed by the upbeat earnings of US financial institutions. However, most Asian currencies weakened after the initial dollar rally yesterday faded. The Indonesian rupiah (-0.3%) extended its depreciation following Bank Indonesia's surprise rate cut yesterday. The Korean won rallied by 0.5% after the Bank of Korea surprised the market with a rate hold but later pared all the gains.

**In Latin American, equity markets generally closed higher yesterday, with Brazilian equities outperforming.** Brazil's benchmark index rose to the highest level in over a month, with financial institutions leading the way. Regional currencies were mixed, with the Mexican peso and Brazilian real posting modest gains, while Chile and Colombia edged lower.

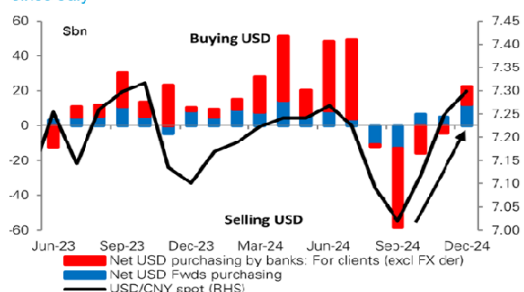
## China

### Chinese corporates increased foreign currency holdings amid rising concerns over RMB weakness.

Official data earlier this week showed that Chinese banks reported a December FX settlement deficit of \$10.45 bn for clients, the first deficit since July 2024. Deutsche Bank analysts note that this shift deviates from the typical year-end selling for overseas earnings repatriation by domestic corporates, with exporters' FX conversion ratio declining to 49% from 51.4% in the second half of the year. Additionally, net dollar forward purchases rose for three consecutive months, possibly due to concerns associated with the escalation of US-China tensions, RMB weakness, and higher USD deposit rates. HSBC analysts highlighted that China's record high trade surplus in December has yet to translate into higher FX conversions, indicating that the appetite to hoard USD might have returned, with residents' RMB outflow pressure worth monitoring.

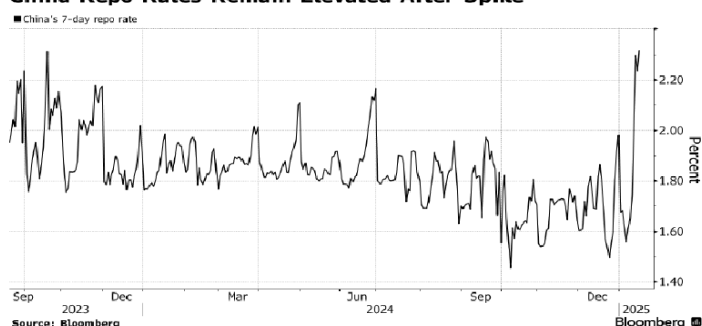
**China's liquidity squeeze continued, spurring further injections.** The People's Bank of China (PBC) injected another RMB336.4 bn (US\$45.9 bn) of liquidity into the financial system through reverse repos (reported from the central bank's perspective), following more than RMB1 tn in net injections from Monday to Wednesday. The spread between short term rates for the broader financial market and banks widened, indicating more severe pressure for nonbank financial institutions, with some reportedly paying as much as 9% to obtain overnight funds. Some market analysts reported that surging borrowing costs had caused settlement disruptions yesterday. Analysts believe the liquidity squeeze is caused by maturing medium-term lending worth nearly RMB 1 tn, peak tax payments, and cash demand before the Lunar New Year holidays. Local media expect the People's Bank of China to cut the reserve requirement ratio to release longer-term liquidity before the Chinese New Year. The CSI 300 advanced 0.1% today, after paring most of its gains made in the morning.

Figure 1: Net RMB purchasing has contracted for the first time since July



Source: Deutsche Bank, CEIC

China Repo Rates Remain Elevated After Spike



Source: Bloomberg

## Chile

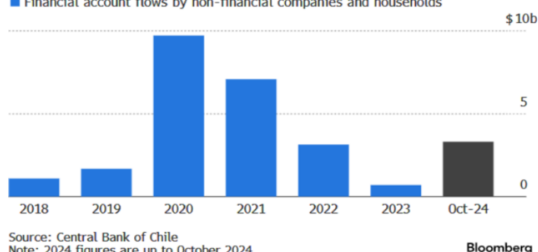
**Pension reforms gain traction following large withdrawals during pandemic period.** Chile's government has been negotiating with the opposition to raise the required contributions under the country's pension system, and a proposal was presented to the senate yesterday. Pension funds are known to be the biggest institutional investors in the country, with estimated assets under management of \$190 bn. The need to raise pension contributions has become more urgent due to significant capital outflows from the country in the last 5 years (\$23.9 bn), and the one-time withdrawal from pension accounts (\$50 bn) that was allowed during the pandemic. Saving rates are still below pre-pandemic levels, with changes to the pension system seen as a possible solution. The market reaction was muted, with equities gaining 1.1% and the peso falling 0.3%.



**Capital Flight Out of the Country**

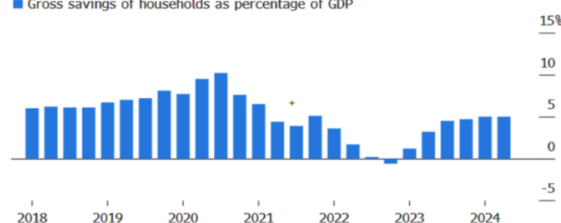
People have pulled about \$23.9 billion out of Chile since 2020

■ Financial account flows by non-financial companies and households

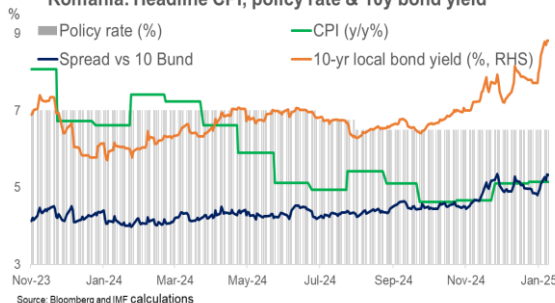
**Chileans Putting Aside Less Money**

Household savings haven't returned to levels before pension withdrawals

■ Gross savings of households as percentage of GDP

**Romania**

**The National Bank of Romania left the policy rate unchanged yesterday as expected.** The leu and government bond yields were little changed this morning, with the currency trading tight against the euro at LEU4.97/€ and 10y yields at 7.90%. The central bank stated that “Considerable uncertainties and risks stem from the future fiscal and income policy stance.” Inflation remained high at 5.14% y/y in December and will decline to 3.5% only by the end of 2025 on a “higher than previously anticipated path”, according to the central bank. Uncertainty remains high after last month’s annulment of presidential elections, while the new government formed at the end of 2024 has increased concerns around inflationary pressures from possible tax increases in the attempt to reduce the budget deficit from 8.6% of GDP in 2024 to 7% in 2025. Government bonds have been under pressure since the beginning of the year, with the 10y yields rising by about 60 bps YTD. Romania issued a record €18 bn in international sovereign bonds in 2024, and plans to issue another €13 bn this year, alongside additional funding from international institutions and the local market, including via retail debt. The Treasury estimated gross funding needs at RON231 bn (\$48 bn).

**Romania: Headline CPI, policy rate & 10y bond yield****Romanian Bonds Under Pressure From Politics, Budget Risks**

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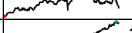






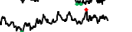
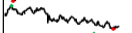


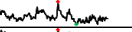
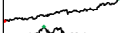



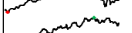
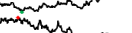



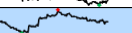

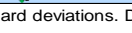


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## Global Financial Indicators


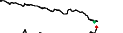










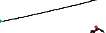
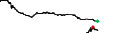
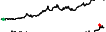







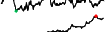

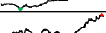










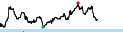




1/16/25 6:52 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		5,950	1.8	0.7	-2.0	24.8	1
Europe		5,098	1.3	1.6	3.0	14.6	4
Japan		38,573	0.3	-3.5	-2.2	8.3	-3
China		3,800	0.1	0.5	-2.8	15.1	-3
Asia Ex Japan		71	1.0	-1.4	-5.1	13.2	-1
Emerging Markets		42	1.3	-0.5	-4.5	9.3	0
<b>Interest Rates</b>			basis points				
US 10y Yield		4.7	1	-2	27	61	10
Germany 10y Yield		2.6	2	1	33	32	21
Japan 10y Yield		1.2	-5	2	14	61	11
UK 10y Yield		4.7	-1	-9	28	92	15
<b>Credit Spreads</b>			basis points				
US Investment Grade		119	-1	-1	2	-13	-1
US High Yield		305	-5	-8	-1	-93	-24
<b>Exchange Rates</b>			%				
USD/Majors		109.1	0.0	-0.1	2.1	5.6	1
EUR/USD		1.03	0.0	-0.1	-2.1	-5.4	-1
USD/JPY		155.9	-0.4	-1.4	1.1	5.9	-1
EM/USD		43.0	-0.1	0.0	-1.3	-9.3	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		81.1	-1.2	5.4	10.3	8.7	9
Industrials Metals (index)		146.3	0.9	2.7	1.7	7.4	4
Agriculture (index)		57.7	-0.8	2.0	1.4	-4.7	1
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		16.0	-0.1	-1.7	1.3	2.2	-1.4
Global FX Volatility		9.0	0.0	0.0	0.5	1.3	-0.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		79	-1	0	-5	-29	-6
Italy		113	-1	-2	-3	-45	-3
France		80	0	-3	-1	30	-3
Spain		65	0	-1	-4	-27	-4

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

## Emerging Market Financial Indicators

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points					
China		3,800	0.1	0.5	-2.8	15.1	-3.4		93	-3	-5	-71	-3	
Indonesia		7,108	0.4	0.6	-2.1	-1.9	0.4		101	4	13	-12	10	
India		77,043	0.4	-0.7	-5.8	5.4	-1.4		89	-1	8	-39	3	
Philippines		6,266	-1.0	-3.8	-5.3	-5.6	-4.0		93	3	16	-2	14	
Thailand		1,353	0.0	-0.8	-4.7	-3.5	-3.4							
Malaysia		1,556	-0.4	-2.8	-3.2	4.1	-5.3		74	0	4	-20	4	
Argentina		2,704,474	-1.1	-2.8	6.3	155.7	6.7		604	33	-103	-1306	-33	
Brazil		122,650	2.8	2.5	-0.7	-5.1	2.0		230	-8	12	21	-17	
Chile		6,900	1.1	1.4	1.5	15.6	2.8		119	-1	9	-14	6	
Colombia		1,398	-0.1	-0.7	2.0	8.1	1.3		313	-11	7	19	-13	
Mexico		50,243	0.8	1.2	-1.2	-8.9	1.5		306	3	6	-29	-6	
Peru		29,765	0.8	0.7	0.4	13.7	2.8		140	-3	6	-12	-1	
Hungary		84,129	0.2	3.6	5.5	32.9	6.1		160	6	20	-6	5	
Poland		82,611	-0.3	0.9	1.2	10.2	3.8		115	0	14	10	3	
Romania		17,020	0.1	-0.4	-1.3	7.9	1.8		256	17	48	48	21	
South Africa		83,732	0.3	0.0	-3.9	14.7	-0.4		293	5	15	-40	0	
Türkiye		9,787	0.5	-2.1	-2.1	21.9	-0.4		268	4	19	-76	9	
EM total		42	0.7	-0.5	-4.5	9.3	0.0		360	0	5	1	-4	

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

Last updated: 1/16/2025 6:49 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		7.33	0.0	0.0	-0.7	-2.0	-0.4		1.7	-1	2	-9	-91	-3
Indonesia		16360	-0.2	-1.0	-2.2	-4.7	-1.6		7.2	-1	10	21	57	18
India		87	-0.2	-0.8	-1.9	-4.0	-1.1		7.3	-5	3	17	8	-6
Philippines		59	0.0	-0.2	0.1	-4.7	-1.3		5.1	-1	14	14	-55	24
Thailand		35	0.4	0.1	-1.5	2.2	-1.5		2.5	2	7	11	-30	12
Malaysia		4.50	-0.1	0.0	-1.2	4.3	-0.7		3.8	-1	0	0	1	0
Argentina		1041	0.0	-0.5	-1.9	-21.4	-0.9		23.8	-34	-126	-508	-5884	-541
Brazil		6.01	0.7	1.6	2.0	-19.1	2.7		15.1	-26	-34	25	496	-86
Chile		1007	-0.1	0.1	-1.6	-8.1	-1.2		5.8	-9	3	46	42	14
Colombia		4302	-0.2	0.6	0.4	-9.2	2.4		11.6	-8	2	43	207	-23
Mexico		20.60	-0.7	-0.5	-2.3	-16.5	1.1		10.3	-7	4	14	112	-8
Peru		3.8	0.3	0.3	-0.7	-1.8	-0.6		6.7	-2	1	11	12	9
Uruguay		44	-0.1	-0.3	0.8	-11.0	-0.1		9.7	3	2	8	48	4
Hungary		401	-0.3	0.2	-3.0	-12.9	-0.8		6.7	-11	0	51	105	24
Poland		4.15	-0.2	-0.2	-2.3	-2.6	-0.4		5.7	-10	6	20	69	9
Romania		4.8	0.0	-0.1	-2.1	-5.3	-0.6		7.7	3	37	70	148	46
Russia		102.5	0.1	-0.2	1.1	-13.9	10.7							
South Africa		18.9	-0.5	0.3	-5.4	0.5	-0.1		10.6	-14	9	31	-62	16
Türkiye		35.45	0.0	-0.3	-1.4	-15.1	-0.3		28.8	-3	-28	-202	115	-94
US (DXY; 5y UST)		109	0.0	0.0	2.1	5.6	0.6		4.47	2	1	21	54	9

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