



- ECB expected to leave policy rate unchanged on Thursday ([link](#))
- US regulators consider requiring banks to tap discount window periodically ([link](#))
- Floating rate instruments have seen increased demand amid renewed policy uncertainty ([link](#))
- China's commercial banks leave 1y and 5y loan prime rates unchanged as expected ([link](#))
- EM sovereign bond issuance has reached \$33.3 bn in January, the third highest ever ([link](#))

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Markets look to extend Friday's gains even as Chinese stocks underperform

European stocks and US futures climbed higher following Friday's record close on the S&P500. The 'Magnificent 7' tech stocks gained 2.5% last week to drive the benchmark index higher. The Nikkei gained 1.6% on Monday to bring its YTD gains to over 9%. However, Chinese stocks continued to underperform, down 1.6% (Hong Kong -2.3%) amid growth concerns and lingering concerns about the property sector. Advanced economy bond yields drifted lower, with yields across Australia, Europe, and the United States down 3–6 bps. The ECB, BOJ, and Federal Reserve (January 31) will hold policy meetings over the next two weeks. EM currencies were mixed this morning, with the dollar index retreating after gaining nearly 1% last week.

Key Global Financial Indicators

Last updated: 1/22/24 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4840	1.2	1	2	22	1
Eurostoxx 50		4468	0.4	0	-1	8	-1
Nikkei 225		36547	1.6	2	10	36	9
MSCI EM		38	1.1	-2	-3	-8	-5
Yields and Spreads			bps				
US 10y Yield		4.09	-3.7	15	19	61	21
Germany 10y Yield		2.29	-5.3	6	31	11	27
EMBIG Sovereign Spread		399	2	1	16	-47	16
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.5	0.0	-1	-1	-7	-1
Dollar index, (+) = \$ appreciation		103.2	-0.1	1	1	1	2
Brent Crude Oil (\$/barrel)		78.6	0.1	1	-1	-10	2
VIX Index (% change in pp)		13.7	0.4	1	1	-6	1

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

In the week ahead, the ECB and BOJ are both expected to stay on hold, though markets will be looking for guidance on the timing of any policy pivot. On the data front, PCE inflation and preliminary Q4 GDP will be center stage in the US as the last major inputs ahead of the FOMC meeting on January 31. European countries will report PMIs, with expectations for modest improvement from still depressed levels, alongside market relevant surveys such as Ifo (Germany) and INSEE (France). Elsewhere, analysts expect central banks to hold rates unchanged in Malaysia, Canada, Norway, and South Africa, while Turkey is expected to hike the 1-week repo rate by 250 bps.

Mature Markets

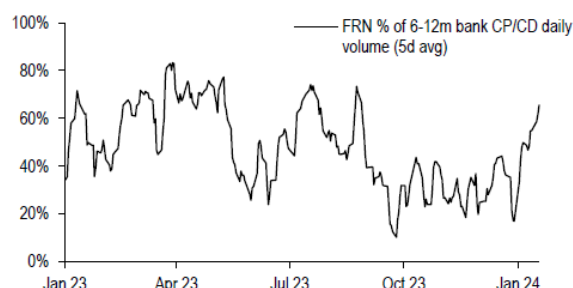
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United States

Regulators are considering requiring banks to tap the Federal Reserve's discount window periodically to reduce any associated stigma and ensure operational readiness. In a speech made last week, the Acting Comptroller of the Currency Michael Hsu discussed a new targeted liquidity requirement that would give credit to banks for their discount window borrowing capacity to cover ultra-short term and acute outflows up to five days. Specifically, when calculating the liquidity coverage ratio, the denominator would consider the potential speed and severity of uninsured deposit outflows, while the numerator would consider the liquidity value of pre-positioned discount window collateral, in addition to reserves. Since the regional bank crisis, regulators have stepped up efforts to encourage bank to make use of the discount window as a source of liquidity.

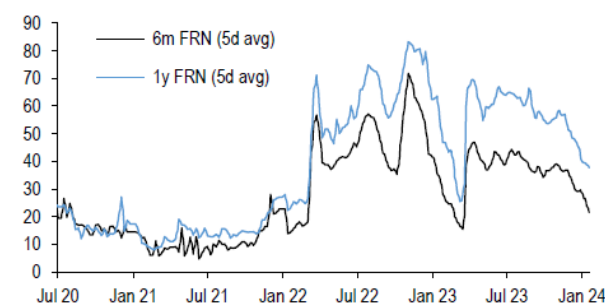
Floating rate instruments have seen increased demand amid renewed uncertainty about monetary policy. According to JPMorgan data, over two-thirds of 6–12 month bank CD/CP daily volume has been in floating rate notes (FRNs), back to the levels last seen in August when markets were split on the prospect of further rate hikes. The demand for FRNs has helped to tighten their spreads over SOFR by around 25 bps over the last two weeks. Some investors warned that the tight spreads don't necessarily reflect lower credit risks and therefore are vulnerable to repricing (as seen in March 2022 and 2023) given the lower overall liquidity in the system.

Percentage of 6-12m bank CP/CD daily volume that is FRNs (5d avg, %)



Source: DTCC, J.P. Morgan

6m and 1y CP/CD FRN spreads to SOFR (5d avg, bp)

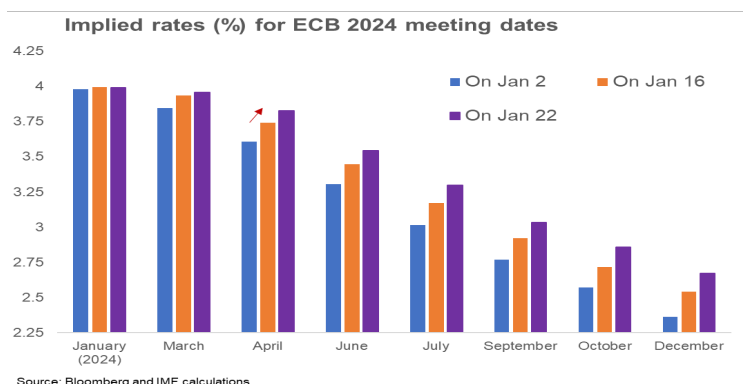


Source: J.P. Morgan

Euro area

European equities were mostly trading higher this morning (Stoxx 600 Index +0.6%) after ending 1.5% lower last week, marking the worst weekly performance since October 2023. The euro was little changed against the dollar, trading at around 1.089.

The ECB is expected to keep rates unchanged at the policy meeting on Thursday, with contacts focused on the ECB's updated views on growth and inflation. Recent ECB commentary has pushed back against the market's early rate cut expectations, while President Lagarde indicated that a "summer" cut is possible. Many contacts think that the ECB is unlikely to support market expectations for a rate cut in spring, absent further evidence that inflation is slowing, with Q1 wage data of particular interest. Some analysts are expecting the first rate cut in April, alongside weaker growth and easing underlying inflation. Markets have reduced their expectations for early rate cuts, with March now seen as a 50/50 proposition, alongside 45 bps of easing by June and 130 bps by end-2024. **Euro area sovereign yields were lower this morning (10y bund down 5 bps at 2.29%),** after 10y bund yields ended last week 16 bps higher.

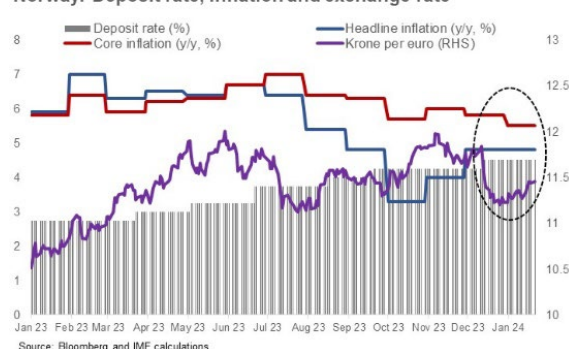


Norway

Analysts expect the central bank of Norway to leave rates unchanged at its meeting this Thursday. While Norges Bank surprised with a 25 bps hike in December to take the deposit rate to 4.5%, consensus and market pricing sees rates unchanged this week. JPMorgan analysts argue that the surprise hike in December was an attempt to strengthen the Norwegian krone (NOK).

Therefore, even though the stronger krona has helped ease inflation, the committee would view a dovish pivot as counterproductive. The NOK is 2% weaker against the euro so far this year (trading at around 11.45/€) but remains roughly 2% stronger than before the December policy meeting. JPMorgan analysts expect the first rate cut in June, while Bank of America see September as more likely.

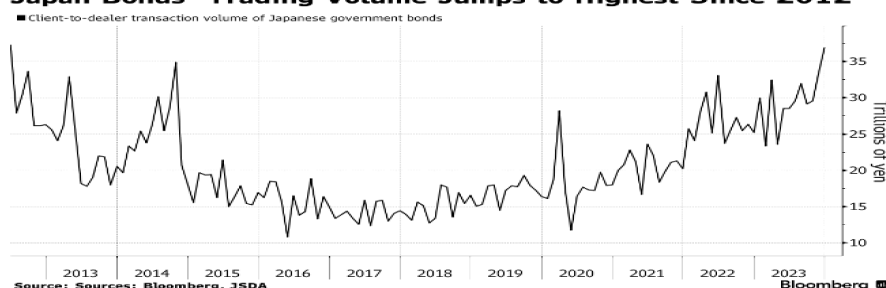
Norway: Deposit rate, inflation and exchange rate



Japan

Japanese equities rose +1.6%, while 10Y yields declined -0.9 bps amid expectations that the Bank of Japan (BOJ) will maintain its easy monetary policy stance on Tuesday. The yen edged 0.1% higher. **Japanese government bonds' trading volume hit a decade high of ¥36.9 bn (\$250 bn) in December**, alongside heightened uncertainty around monetary policy expectations. Separately, the Cabinet Office estimated Japan would see a primary deficit of -0.4% of GDP in FY2025, missing its balanced budget target under the baseline scenario, despite a slight upward revision to the forecast. The authorities expected inflation to slow to around 0.8% over the medium term.

Japan Bonds' Trading Volume Jumps to Highest Since 2012

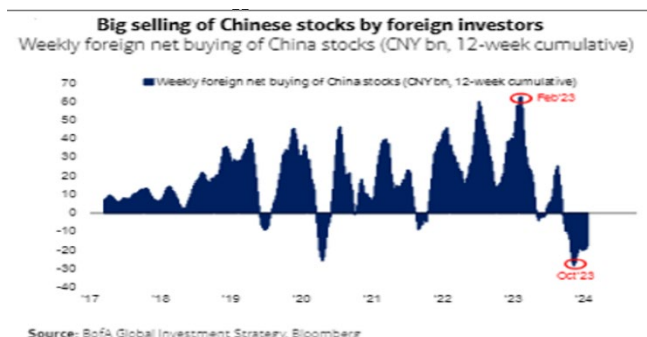


Emerging Markets

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EMEA equity markets were mostly trading higher on Monday, while currencies were mixed with the broad dollar index slightly lower. **Asian equities were mixed, down -0.5% on net as markets in Hong Kong SAR (-2.3%) and Mainland China (-1.6%) continued to slide.** Nonresidents have been selling Chinese

stocks since August, with \$4.5 bn of outflows in 2024 YTD. Elsewhere, South Korea (+1.5%) and Philippines (+1.2%) posted sizeable gains. The Philippines peso, Thai baht, and Malaysian ringgit all drifted lower. **In Latin America, equities rallied in Mexico (+1.4%) and Brazil (+0.3%) on Friday, while closing lower elsewhere.** The Chilean peso (+1%) gained for a third consecutive day. Paraguay cut its key interest rate 25 bps to 6.5%.



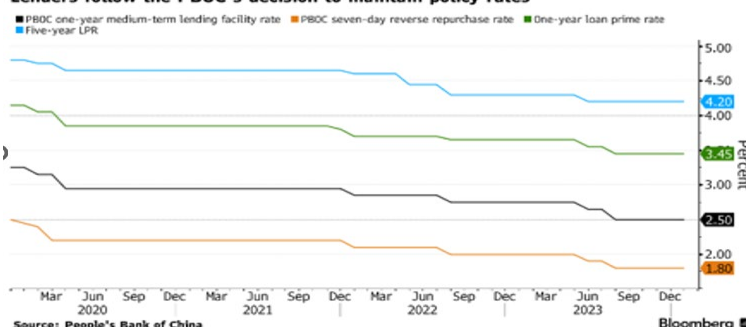
China

China's commercial banks kept 1y and 5y loan prime rates unchanged as expected, following People's Bank of China (PBC) surprise decision to hold MLF rate unchanged last week.

ANZ noted lenders may need more time to reduce funding costs before lowering lending rates. Overall, analysts still expect PBC to ease policy via cuts to MLF rate or reserve requirement ratio as early as 1Q, amid a sluggish economy and deflationary concerns.

Analysts also expect Chinese policy makers to use fiscal measures to stabilize growth through investment following the proposed plan to issue 1 tn (\$139 bn) in ultra-long special bonds last week. Such "special" bonds have been rarely issued, usually to address specific spending needs (such as pandemic spending in 2020) and are generally not incorporated in the budget deficit. Following an unusual increase in the budget deficit above 3% of GDP last year, market analysts noted that Chinese authorities are trying to shift the fiscal burden away from local governments while still stimulating growth.

Chinese Banks Keep Benchmark Lending Rates Steady Lenders follow the PBOC's decision to maintain policy rates

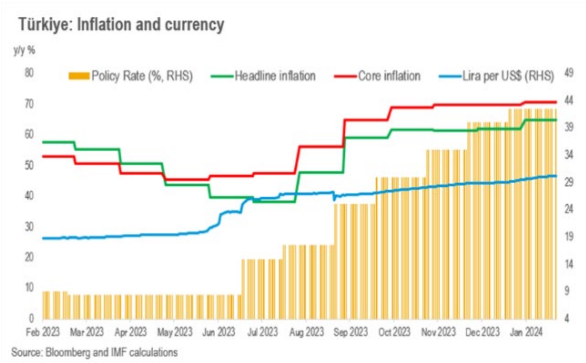


Niger

Niger failed to make a \$38.7 mn payment on a government bond because of regional sanctions following a coup last July. According to a report from Moody's, this brings the total amount of interest and principal payments on government securities that the country has missed since the July coup to \$485 mn. Moody's notes that the missed payments "pose a tail risk to Nigerien banks' liquidity" particularly if the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) were to stop accepting Nigerien government securities as collateral for refinancing.

Türkiye

Analysts expect the central bank to end its tightening cycle with a final 250 bps hike on Thursday. Policymakers have indicated they would like to complete the hiking cycle (+3400 bps thus far) as soon as possible, though policy rates could remain at elevated levels for an extended period to secure price stability. Headline inflation increased to 64.8% y/y in December, with the policy rate currently at 42.5%.



EM fund flows turned negative last week, with outflows for equities (-\$1.5 bn) and bonds (-\$0.6 bn). YTD both bonds and equity funds have seen outflows at -\$1.7 bn and -\$1.1 bn, respectively. Asia ex-Japan equity funds saw substantial outflows (-\$1.5 bn). Bond outflows continue to be led by hard currency funds, while **China dedicated funds saw outflows resume after a rare week of inflows**.

Figure 1: Weekly cross-asset flows

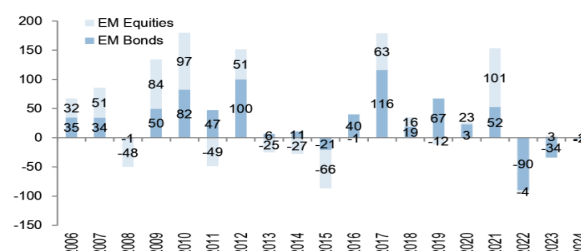
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-2.1	-2.8
EM Bonds		-0.6	-1.7
Hard Ccy		-0.4	-1.5
Local Ccy ^A		-0.2	-0.2
o.w. EM ex-China		-0.2	-0.2
o.w. China		-0.1	0.1
EM Equities		-1.5	-1.1
US HG		5.0	19.9
US HY		0.6	1.0
Global Equities		-6.8	-11.9
EM Bond and Equity ETFs		-0.7	0.5
EM Bond ETFs		-0.2	-0.6
EM Equity ETFs		-0.5	1.0
Non-resident EM flows*		-5.5	1.9

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

Figure 2: EM bond and equity fund flows

USD billion


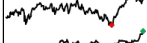
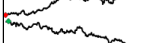



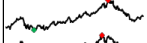
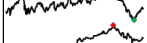
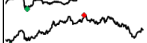
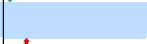




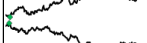
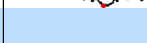

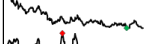
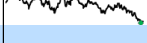









EM sovereign international bond issuance has reached \$33.3 bn in January, the third highest on record. Sovereign issuers have rushed to meet their 2024 external funding goals amid a window of relative calm, even as yields have started to tick higher. However, thus far, only investment grade sovereigns have issued, led by Saudi Arabia (\$12.5 bn) and Mexico (\$9.6 bn). Côte d'Ivoire reportedly plans to offer new debt this week, with its existing 2033 USD bond trading at a yield of 7.7%. The yield on the Bloomberg EM sovereign dollar index have risen to just under 8% from 7.6% in late December.

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 Sheheryar 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 (Senior 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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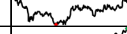

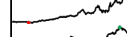










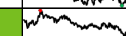













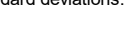
Global Financial Indicators

1/22/24 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4840	1.2	1	2	22	1
Europe		4468	0.4	0	-1	8	-1
Japan		36547	1.6	2	10	36	9
China		3219	-1.6	-2	-4	-23	-6
Asia Ex Japan		63	1.2	-2	-3	-12	-5
Emerging Markets		38	1.1	-2	-3	-8	-5
Interest Rates			basis points				
US 10y Yield		4.09	-3.7	15	19	61	21
Germany 10y Yield		2.29	-5.3	6	31	11	27
Japan 10y Yield		0.66	-1.0	9	3	27	4
UK 10y Yield		3.89	-3.9	9	39	51	35
Credit Spreads			basis points				
US Investment Grade		128	-1.0	-4	-6	-21	-6
US High Yield		390	-4.1	-7	6	-68	5
Exchange Rates			%				
USD/Majors		103.21	-0.1	1	1	1	2
EUR/USD		1.09	0.0	-1	-1	0	-1
USD/JPY		147.8	-0.2	1	4	13	5
EM/USD		47.5	0.0	-1	-1	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		78.7	0.1	1	0	-5	2
Industrials Metals (index)		134	-0.5	-1	-5	-24	-6
Agriculture (index)		61	-0.1	0	-3	-10	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.7	0.4	1.0	0.6	-6.2	1.2
US 10y Swaption Volatility		#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A
Global FX Volatility		7.6	0.0	0.1	-0.4	-2.7	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		103	0.2	-6	-2	-96	-1
Italy		154	-0.2	-3	-4	-28	-14
Portugal		84	0.6	25	28	-3	20
Spain		91	0.2	-1	-1	-5	-6

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

Emerging Market Financial Indicators

Last updated: 1/22/2024 8:06 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	0.0	-0.3	-1	-6	-1		2.5	-0.5	-2	-9	-71	-3
Indonesia		15635	-0.1	-0.5	-1	-4	-2		6.6	-2.0	-7	11	-3	12
India		83	0.1	-0.2	0	-2	0		7.2	0.0	5	8	(20.7)	1
Philippines		56	-0.6	-0.9	-2	-3	-2		5.5	-17.3	-20	-42	-49	-17
Thailand		36	-0.4	-2.0	-3	-8	-4		2.8	-2.5	4	5	27	7
Malaysia		4.73	-0.3	-1.3	-2	-9	-3		3.8	-2.0	2	7	8	8
Argentina		820	-0.1	-0.5	-2	-78	-1		81.0	17.0	-23	-214	-414	-542
Brazil		4.93	0.0	-1.4	-1	5	-2		10.7	-6.7	12	26	-257	29
Chile		904	0.7	0.8	-2	-10	-3		5.0	-1.5	7	11	-22	4
Colombia		3905	0.1	0.0	0	16	-1		7.6	0.0	2	-10	-233	-8
Mexico		17.08	0.0	-1.1	-1	10	-1		8.7	-0.5	33	18	46	28
Peru		3.7	0.1	-1.2	-1	3	-1		6.7	0.1	11	-13	-134	0
Uruguay		39	0.3	0.7	1	1	0		9.3	9.3	9	-34	-111	-23
Hungary		352	-0.5	-1.8	-2	3	-1		5.7	-4.0	10	-5	-205	-5
Poland		4.01	-0.2	-0.4	-2	8	-2		4.6	-5.3	8	26	-68	11
Romania		4.6	-0.1	-0.6	-1	-1	-1		6.3	-1.3	6	1	-97	7
Russia		88.1	-0.2	-0.3	5	-22	2							
South Africa		19.2	-0.7	-2.6	-4	-10	-4		9.2	-3.5	6	11	37	6
Turkey		30.24	-0.2	-0.5	-3	-38	-2		27.4	8.0	34	169	1728	66
US (DXY; 5y UST)		103	-0.1	0.8	1	1	2		4.02	-3.2	19	15	46	17

	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		3219	-1.6	-2	-4	-23	-6		162	-2	6	-25	4	
Indonesia		7248	0.3	0	0	5	0		111	-2	12	-46	15	
India		71424	-0.4	-3	0	18	-1		127	-1	17	-20	11	
Philippines		6583	1.2	-1	1	-7	2		95	0	14	-27	15	
Thailand		1370	-0.9	-3	-3	-19	-3		0	0	0	0	0	
Malaysia		1491	0.3	-1	3	-1	3		92	-2	12	-15	7	
Argentina		1174875	3.6	14	24	374	26		1970	60	110	25	57	
Brazil		127636	0.3	-3	-4	14	-5		208	-1	-6	-67	-7	
Chile		5862	-0.4	-2	-5	12	-5		127	-6	1	-15	2	
Colombia		1275	-0.1	-2	9	-5	7		309	15	20	-60	38	
Mexico		55452	1.4	0	-3	3	-3		335	0	-6	-23	1	
Peru		26288	0.5	1	2	14	1		155	3	10	-42	11	
Hungary		65100	0.8	2	8	40	7		168	2	18	-71	19	
Poland		74989	0.3	0	-5	23	-4		104	-1	9	-4	7	
Romania		15687	0.4	-1	3	30	2		214	6	13	-53	13	
South Africa		72202	-0.6	-2	-3	-9	-6		338	5	23	-31	30	
Turkey		8056	0.7	0	7	47	8		351	7	44	-170	37	
Ukraine		507	0.0	0	0	0	0		4138	297	205	-35	134	
EM total		38	-0.5	-2	-3	-8	-5		362	3	18	-9	17	

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

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