



- US dollar rebounded from sharp depreciation in Q4 ([link](#))
- Bitcoin prices dropped 20% since spot ETF debut ([link](#))
- German business confidence falters in January ([link](#))
- Norges Bank keeps policy rate on hold as expected ([link](#))
- China contemplates expanding foreign access to domestic repo market ([link](#))
- Central Bank of Türkiye hikes policy rate as expected ([link](#))

[Mature Markets](#)

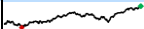
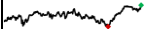
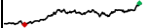

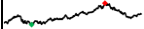
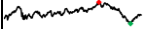

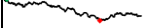



[Emerging Markets](#)

[Market Tables](#)

Fed Ceases BTFP as Investors Eye Fiscal Supply

Recent developments in the US money and bond markets signal a notable shift in dynamics. The Fed's surprise decision to halt loans in the Bank Term Funding Program (BTFP) from March 11, along with an immediate change in the rate-setting mechanism, is reshaping funding conditions for banks. Previously, the BTFP set rates slightly lower than the 1-year rate, offering preferential terms to banks anticipating substantial rate cuts. The new approach establishes the funding floor at the overnight interest on reserve balances, eliminating these preferential terms. In the bond market, tepid demand in a recent 5-year Treasury note auction reveals ongoing investor wariness of fiscal supply, causing long-term Treasury yields to surge to their highest level since early December. The Central Bank of Türkiye raised its policy rate, while the South African Reserve Bank, the Bank of Canada and the ECB kept their policy rates unchanged. Market contacts are attentively monitoring potential shifts in ECB communication due to the Euro Area's proximity to geopolitical conflicts and greater trade dependencies and reliance on energy imports.

Key Global Financial Indicators

Last updated: 1/25/24 8:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4869	0.1	3	2	21	2
Eurostoxx 50		4568	0.1	3	1	10	1
Nikkei 225		36236	0.0	2	9	32	8
MSCI EM		39	1.1	3	-1	-8	-3
Yields and Spreads			bps				
US 10y Yield		4.15	-2.9	1	25	71	27
Germany 10y Yield		2.32	-1.9	-3	34	17	30
EMBIG Sovereign Spread		399	-4	0	16	-43	16
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.4	0.1	0	-1	-8	-1
Dollar index, (+) = \$ appreciation		103.2	-0.1	0	1	1	2
Brent Crude Oil (\$/barrel)		81.1	1.3	2	3	-6	5
VIX Index (% change in pp)		13.2	0.0	-1	0	-6	1

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

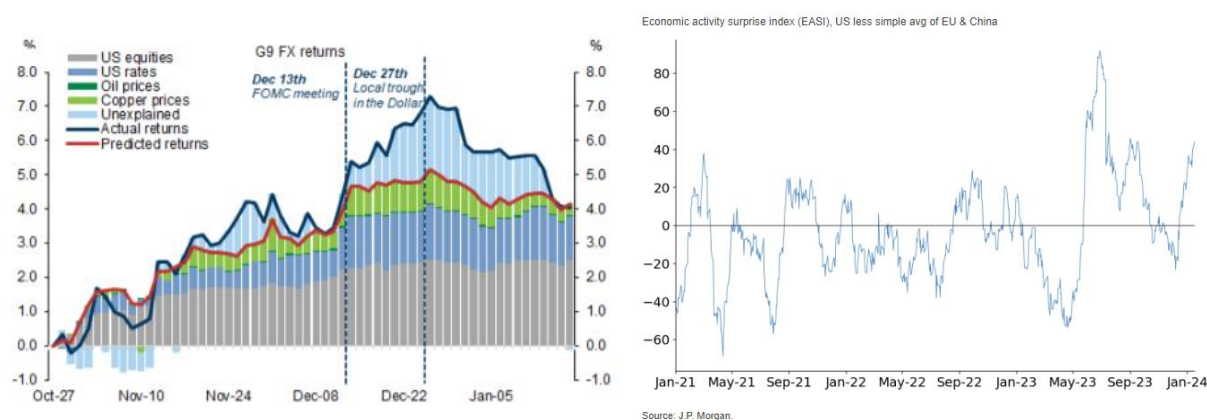
Mature Markets

[back to top](#)

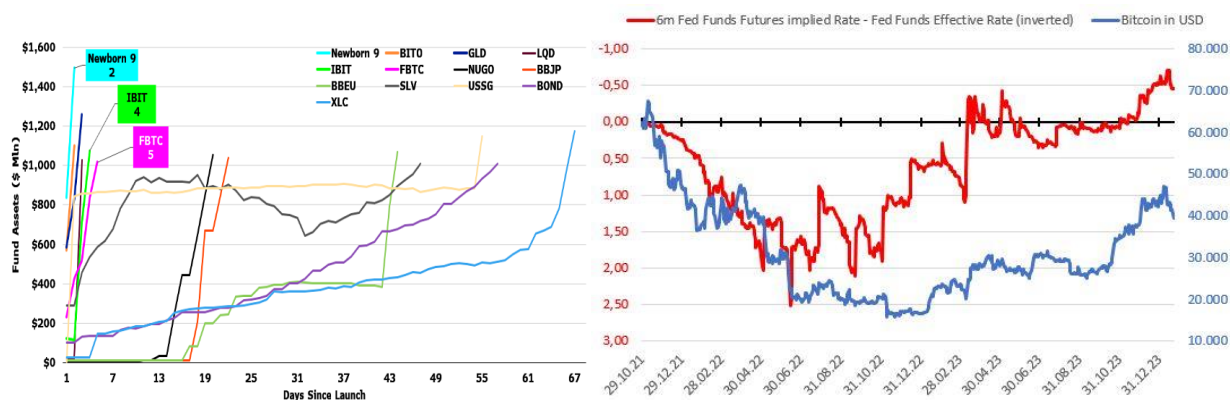
United States

Latest US economic data this morning shows improved prospects for a soft landing. Preliminary estimates show that the US economy in Q4 grew at 3.3% y/y (exp. 2.0% from 4.9%), a significantly higher number than anticipated. The GDP price index rises at a 1.5% y/y (exp. 2.2% from 3.3%), below the Fed's inflation target, putting the focus on the PCE inflation release for December which will be released tomorrow. Jobless claims popped back up to 214k (exp. 200k from revised 189k). In reaction to the benign data, equity markets inched up (+0.3%), 2y Treasuries slightly declined to 4.37% and while the dollar traded fractionally weaker.

The dollar's recent strength, marking a stark reversal from its December trough, stems from a correction of overly optimistic rate cut expectations. The dollar index, which experienced a significant +2.2% gain, had dipped below what Goldman Sachs analysts deemed fundamentally justified levels during Q4 due to exaggerated rate cut euphoria that prompted a trough on December 27 (left chart). Subsequently, fueled by stronger US economic data compared to major economies like the Euro Area and China, the dollar rebounded, closing its valuation gap. Many investors anticipate a continuation of dollar strength in the short term, as highlighted by JP Morgan analysts (right chart). Observers are keenly awaiting the Fed meeting for potential signals that could further solidify this narrative.



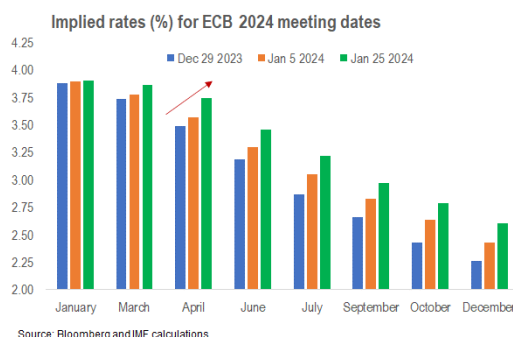
The Bitcoin price has corrected by over -20% since the launch of spot ETFs. Analysis by Bloomberg reveals that the 10 spot bitcoin ETFs garnered \$1.1bn in total net inflows this month, bringing total assets under management to \$4.7bn (left chart). However, prices faced headwinds from higher rates and a stronger dollar, compounded by significant selling pressures stemming from a nearly \$3.5bn outflow from Grayscale's Bitcoin Trust (GBTC), the largest spot ETF. Some attribute the outflows to traders unwinding GBTC arbitrage positions and the liquidation of GBTC shares by the estate of the bankrupt crypto exchange FTX, while other cryptocurrencies like Ether experience similar losses. Despite this, the availability of spot ETFs is seen as a positive, attracting investors previously hesitant to buy Bitcoin. Additionally, the supply reduction of new BTC post-halving is expected to support prices. Conversely, some market contacts argue that the correction in Bitcoin is tied to the pricing out of Fed rate cuts. Analysis of the spread between the Fed Funds market-implied forward rate in 6 months and the current effective Fed Funds rate suggests that the previous Bitcoin rally was supported by rate cut expectations until December, but that the recent fall aligns with the diminishing likelihood of these rate cut bets (right chart).



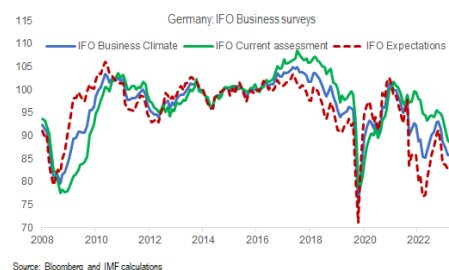
Euro Area

The ECB kept policy rates on hold at 4% for the third consecutive policy meeting, as widely expected. The

accompanying statement noted that incoming data was broadly in-line with the Governing Council's previous assessment of the medium-term inflation outlook. Like last month, the statement noted that the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution towards inflation returning to its 2% medium-term target. The main refinancing rate was kept at 4.5%. The statement reiterated that the Governing Council intends to reduce the PEPP portfolio over 2H 2024, by €7.5bn per month on average. Following the announcement, the euro held on to early morning gains (+0.1%) against the dollar. Focus now shifts to the press conference, due later today. Ahead of the meeting, market pricing assigned a 50% chance of a rate cut in April, which only last month had been fully priced in.



European equities were trading lower on the open this morning (-0.2%), with the real estate (-0.7%) and financials (-0.4%) sectors weighing on performance. The euro fractionally strengthened against the dollar (+0.1%) trading at around 1.090. Euro area sovereign bond yields inched up with the 10y bund yield (+2bps) trading at 2.36%. On the data front, business expectations in Germany as measured by the Ifo index printed worse than expected. The business expectations index fell to 83.5 in January (exp. 84.8 from 84.2). Market contacts at ING and Morgan Stanley note that this morning's weaker than expected Ifo data, coupled with yesterday's weak flash January PMI data portend weaker growth in Germany for Q1.



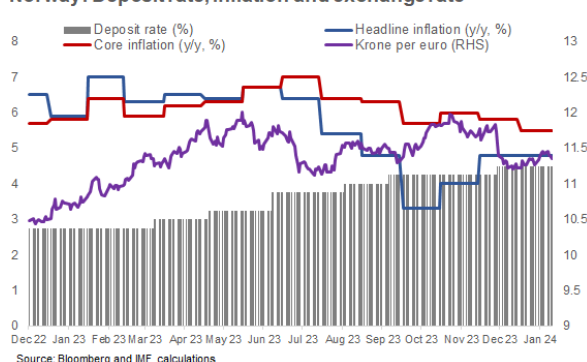
United Kingdom

UK markets remained calm absent major data releases ahead of next week's BoE meeting. The pound inched up against the dollar (+0.1%) at 1.27 and gilt yields were lower (10Y gilt -3ps to 3.96%) this morning. UK equities fractionally weakened (-0.1%) led by sector declines in real estate (-0.7%) and healthcare (-0.6%). Market expectations are that the BoE will keep policy rates on hold next week with investor focus likely to be on the MPC's updated growth and inflation projections particularly given yesterday's flash PMI data which showed ongoing wage pressures in the services sector, adding to concerns about inflation persistence. Current market pricing assigns around a 50% probability to a rate cut in June with just under four rate cuts priced in for the full year.

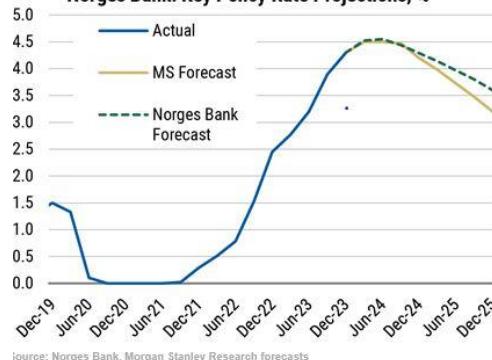
Norway

Norges Bank validated expectations and maintained its policy rate unchanged. In its latest interest decision this morning, the central bank kept the policy rate at 4.5%, noting that rates will likely stay at the current level for some time to bring inflation back to target. Following the announcement, the Norwegian krone rose against both the euro and dollar (left chart). Compared to the December statement, policymakers explicitly highlighted the recent strength in the currency, stating it is “*stronger than expected*” and dropping a reference to maintaining rates on hold “*until autumn*.” Currently, market pricing assigns around a 30% chance of a rate cut in May. Market contacts at Morgan Stanley expect a -25bps cut in September (right chart), which in terms of timing could mean Norges Bank only cuts rates after its G10 central bank peers. Accordingly, Norges Bank’s hawkish rhetoric could prove supportive for the NOK. Indeed, consensus expectations see the krone strengthening to 11 versus the euro by Q4 2024 according to the latest Bloomberg survey.

Norway: Deposit rate, inflation and exchange rate



Norges Bank: Key Policy Rate Projections, %



Japan

Japan’s officials reiterate yen stability while long-term JGBs continue to sell off on the back of tepid demand in the latest government bond auction. Japan’s vice finance minister Kanda warned about speculative yen trading. He said in an interview that the Fed and BOJ policy outlook are drawing strong market attention and reiterated the importance of yen stability, reflecting economic fundamentals, for the currency “*safe-haven*” status. The 40-year JGB auction drew the lowest bid-to-cover ratio since 2011, prompting JGB long-term yields to continue to rise (+2 bps), approaching a 2.1% level that was last seen early November. Market contacts mention that the expectation was that the BOJ would increase its purchases, especially in the long-end, while the BOJ kept purchase sizes unchanged. In terms of data releases, Tokyo apartment prices jumped to a record high for third straight year in 2023, driven by low supply and high construction costs. The average price of a new apartment for sale in Tokyo and surrounding areas rose to 29%. Japan’s equity markets rose modestly (+0.1%) while the yen fractionally depreciated (-0.1%).

Emerging Markets

[back to top](#)

EMEA markets posted mixed results. Equities in Türkiye were outperforming (+1.1%) while those in Bulgaria (-0.9%) continued to decline. The Hungarian forint strengthened against the euro (+0.4% to 385.83/€) with analysts pointing to push back from the central bank regarding proposals for a new reference rate for bank loans. The South African rand changed little against the dollar (-0.1% at 18.91/\$) ahead of the central bank policy decision, where the central bank validated consensus expectations, keeping policy rates to remain unchanged at 8.25%.

Asian currencies broadly weakened while equities lacked a clear trend. The Indonesian rupiah underperformed (-0.7%) followed by Philippine peso (-0.4%). Within equities, outperformers included

mainland China (Shanghai +3%; Shenzhen +2.6%) and Hong Kong SAR (+2%) amid a slew of stimulus measures. Laggards included India (-0.9%) and Indonesia (-0.7%). The Indonesia central bank (BI) intervened in FX spot, domestic non-deliverable and bond markets, according to Bloomberg reports. Yet, the Rupiah extended its decline given several cabinet officials are mulling resignation.

Yesterday, Latin American currencies saw wide gains, while most stock markets traded weaker. The region's currencies saw a collective rise, led by the Colombian peso (+1.1%), marking the strongest performance among emerging market currencies. The Mexican peso (+0.4%), Chilean peso (+0.3%), and Brazilian real (+0.4%) also registered positive movements. Stock markets in Brazil (-0.4%), Mexico (-0.2%), and Colombia (-0.2%) faced declines. Chile's equities (+1.6%) outperformed, benefiting from an increase in the copper price (+0.7%). Inflation in Mexico first two weeks in January printed at 4.9% y/y (exp. 4.8% from 4.9%).

Brazil

The potential for rate cuts, earnings growth, attractive valuations, and capital inflows positions Brazil as a solid core emerging market (EM) equity investment. JP Morgan analysts highlight the historical trend where the Ibov has, on average, risen 5.5% for every 100 basis points rate cut. With expectations of the Selic rate dropping from 11.75% to 9.5% by year-end, this aligns with a projected 12% gain in the equity market. Earnings growth, estimated at 4% for the year, signals a positive shift, surpassing the double-digit decline seen in 2023. Notably, current price-to-earnings (PE) ratios are below historical averages in various sectors, including energy, industrials, and financials, adding to the attractiveness of Brazilian equities. Foreign investors are anticipated to further bolster Brazilian stock markets, especially as they continue to divest from China due to its underperformance.

Figure 2: Market performance during periods of Selic cuts

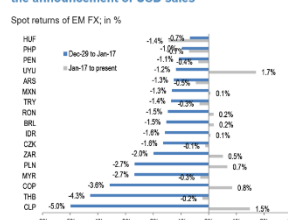


Source: Bloomberg Finance L.P., J.P. Morgan. Note: Gray areas are periods of interest rate cuts

Chile

The Chilean peso has been the best performing EM currency in the past week following a weak opening at the start of the year. Analysts at JP Morgan point to FX intervention as a main driver of recent outperformance. Last Thursday, the Finance Ministry of Chile announced sales of up to 3bn USD until March, and on Friday they began selling 300mn per day, twice the maximum daily amount in 2023. At this high rate, they have already sold 30%, or 0.9bn USD, of their Q1 target. As of Wednesday this week, the pace of intervention slowed to 150mn USD per day. Analysts expect the peso to have a difficult time maintaining positive inertia this year given low carry trades, weak external accounts, and lower overall sales of USD compared to 2023.

Figure 1: CLP curbed its underperformance with the announcement of USD sales



Source: J.P. Morgan, Bloomberg Finance L.P.

Figure 2: Sales of US Dollars have accelerated



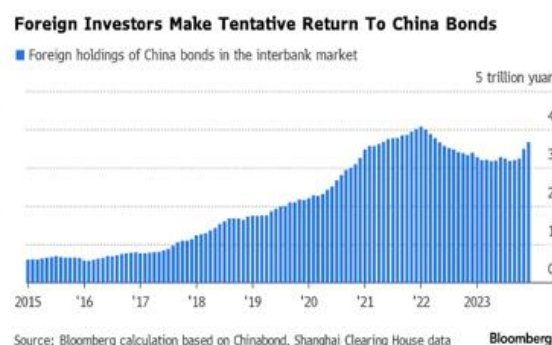
Source: J.P. Morgan, BCCH

China

Chinese regulators are expanding the use of bank loans for developers to pay off outstanding debt, as outlined in a joint statement by the People's Bank of China (PBC) and the National Financial Regulatory Administration (NAFR) issued late Wednesday. The new regulation allows developers to utilize bank loans backed by their commercial properties to settle other outstanding loans and bonds, effective until the end of 2024. The NAFR, in a Thursday briefing, highlighted China's intention to guide banks in enhancing credit support for the economy while maintaining overall stability in property credit. Previously, commercial property loans were restricted to specific purposes like maintenance and renovation, and repayment was limited to debt related to pledged properties. Nomura market contacts view this as a potential solution for

cash-strapped developers dealing with lingering debt issues. However, others expect limited impact, noting that distressed developers have already pledged much of their commercial properties as collateral, and the collateral value has contracted amidst the economic downturn. Additionally, banks may be hesitant to extend further loans to troubled developers, especially as not every developer engages in commercial property operations.

Reportedly, the People's Bank of China (PBC) is contemplating broadening foreign access to the domestic interbank repo market, as per a Bloomberg report. Currently restricted to public-sector investors and offshore Renminbi settlement banks, the PBC intends to open the market to foreign private-sector investors. Market contacts view this positively, anticipating a deeper bond market and increased demand for yuan notes among foreigners. Standard Chartered analysts believe this shift will facilitate more leveraged investment in China's onshore cash bonds, streamline cross-border liquidity management, introduce diverse trading strategies, and potentially attract more investments over time. They project a potential surge in foreign inflows, reaching 400–500 billion yuan (\$55–70 billion) in 2024, compared to 269 billion yuan in 2023. Chinese equities continued their upward trend with a +2% rally, supported by various stimulus measures. JP Morgan analysts note that the recent Reserve Requirement Ratio (RRR) cut could positively impact banks' share performance by providing long-term liquidity and marginally enhancing net interest margin. However, they acknowledge that a clear positive correlation between banks' share price movement and RRR cuts has not been consistently observed in the past. Despite this news, 10-year bond yield levels held steady at 2.49%, and the Renminbi experienced a marginal depreciation (-0.2%).



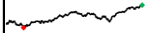
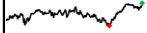
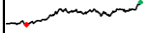



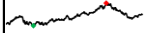
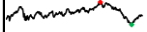







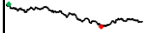


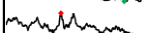
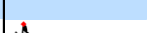
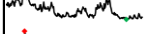
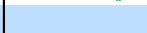


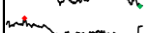
Türkiye

The central bank hiked its one-week repo rate by 250bps to 45%. The interest rate decision was broadly expected, while the accompanying meeting statement is indicating a pause. While inflationary pressures remained, the statement suggests that domestic demand continues to moderate, and that the Committee “assesses that the monetary tightness required to establish the disinflation course is achieved and that this level will be maintained as long as needed”. This forward guidance is consistent with recent comments by central bank officials, which have already indicated that the tightening cycle would soon be completed. Ahead of the decision, several analysts had expected that this would be the final hike in this tightening cycle. Markets were little changed in the immediate aftermath of the decision, with Turkish equities hanging on to early morning gains (+1%) and the lira trading marginally weaker (-0.1% at 30.28/\$).

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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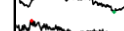














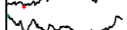




















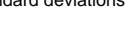
Global Financial Indicators

1/25/24 8:52 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4874	0.1	2	3	21	2
Europe		4568	0.1	3	1	10	1
Japan		36236	0.0	2	9	32	8
China		3343	2.0	2	1	-20	-3
Asia Ex Japan		64	1.5	4	-1	-11	-4
Emerging Markets		39	1.1	3	-1	-8	-3
Interest Rates			basis points				
US 10y Yield		4.15	-2.9	1	25	71	27
Germany 10y Yield		2.32	-1.9	-3	34	17	30
Japan 10y Yield		0.75	2.9	10	12	30	13
UK 10y Yield		4.00	-1.4	7	49	75	46
Credit Spreads			basis points				
US Investment Grade		127	0.2	-2	-9	-20	-7
US High Yield		386	2.2	-9	2	-67	1
Exchange Rates			%				
USD/Majors		103.16	-0.1	0	1	1	2
EUR/USD		1.09	0.0	0	-1	0	-1
USD/JPY		147.5	0.0	0	4	14	5
EM/USD		47.4	0.1	0	-1	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		81.1	1.3	2	3	0	5
Industrials Metals (index)		139	-0.2	4	-1	-22	-2
Agriculture (index)		62	-0.2	2	-1	-8	-1
Implied Volatility			%				
VIX Index (% change in pp)		13.2	0.0	-1.0	0.1	-5.9	0.7
Global FX Volatility		7.6	0.0	-0.1	-0.5	-2.7	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	-1.4	-4	-2	-105	-1
Italy		156	0.0	-2	-2	-23	-12
Portugal		84	0.3	1	29	-3	21
Spain		92	-0.3	-1	0	-4	-5

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

Emerging Market Financial Indicators

Last updated: 1/25/2024 8:54 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		7.17	-0.1	0.4	0	-5	-1		2.5	-1.5	-1	-10	-74	-5
Indonesia		15825	-0.7	-1.3	-2	-5	-3		6.7	3.7	-5	17	0	18
India		83	0.0	0.0	0	-2	0		7.2	0.2	-6	3	(25.7)	-4
Philippines		57	-0.4	-1.3	-2	-3	-2		5.5	0.2	0	-42	-49	-17
Thailand		36	-0.1	-0.4	-3	-8	-4		2.8	0.8	-2	4	29	6
Malaysia		4.73	-0.1	-0.3	-2	-9	-3		3.8	2.2	-2	9	11	10
Argentina		823	-0.1	-0.5	-2	-78	-2		72.4	-202.8	-907	-814	-1344	-1397
Brazil		4.92	0.3	0.2	-1	3	-1		10.7	-4.6	-11	27	-226	30
Chile		912	-0.2	0.7	-2	-12	-4		4.9	0.0	1	9	-22	2
Colombia		3922	-0.1	-0.1	0	16	-2		7.4	-1.5	-15	-24	-221	-22
Mexico		17.19	0.2	-0.2	-1	9	-1		8.7	-4.0	2	13	39	23
Peru		3.8	0.2	-0.4	-2	4	-1		6.6	0.2	-3	-15	-140	-3
Uruguay		39	-0.6	0.7	1	0	0		9.3	0.1	10	-29	-87	-24
Hungary		354	0.5	-0.8	-2	0	-2		6.1	7.0	35	34	-160	35
Poland		4.02	0.0	0.3	-2	7	-2		4.8	0.8	15	46	-45	31
Romania		4.6	0.0	0.0	-1	-2	-1		6.3	0.0	-4	4	-104	6
Russia		89.2	-0.4	0.2	4	-22	0							
South Africa		18.8	0.4	0.6	-2	-9	-2		9.2	1.7	4	15	55	11
Turkey		30.28	-0.1	-0.5	-3	-38	-2		27.4	28.0	20	148	1719	60
US (DXY; 5y UST)		103	-0.1	-0.3	1	2	2		4.04	-4.5	0	17	50	20

	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		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3343	2.0	2	1	-20	-3		160	-1	3	-26	2
Indonesia		7178	-0.7	-1	-1	5	-1		107	-1	11	-47	11
India		70701	-0.5	-1	-1	17	-2		126	1	18	-20	10
Philippines		6674	-0.1	2	3	-5	3		91	-1	12	-31	11
Thailand		1376	-0.4	0	-3	-18	-3		0	0	0	0	0
Malaysia		1504	0.0	1	3	0	3		89	-4	6	-19	4
Argentina		1251660	3.7	11	32	381	35		1901	-55	31	59	-12
Brazil		128553	-0.4	1	-3	12	-4		219	13	6	-54	4
Chile		6046	1.6	3	-2	15	-2		130	0	5	-11	5
Colombia		1261	-0.2	-1	8	-3	6		310	12	33	-56	39
Mexico		55420	-0.2	1	-3	1	-3		336	-2	1	-21	2
Peru		26365	-0.5	1	3	14	2		157	4	13	-41	13
Hungary		64523	0.6	1	7	40	6		165	2	13	-55	16
Poland		75354	0.0	1	-4	24	-4		102	-1	6	8	5
Romania		15182	-0.3	-2	-1	25	-1		202	-9	-3	-46	1
South Africa		74066	-0.3	2	0	-7	-4		339	-1	30	-26	31
Turkey		8154	0.8	2	12	54	9		339	-11	30	-164	25
Ukraine		507	0.0	0	0	0	0		4102	38	109	13	98
EM total		39	0.0	3	-1	-8	-3		360	-1	16	-8	15

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

[back to top](#)