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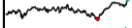
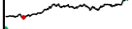

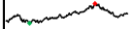
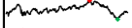





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Positive Sentiment in Asia and Europe

Asian and European markets registered positive sentiment today. This follows yesterday's conciliatory US GDP report, which reinforced expectations of a soft landing and immaculate disinflation. A softer-than-expected Tokyo CPI print that is suggesting that Bank of Japan central bankers are in no rush to exit the accommodative monetary policy further propelled Asian markets. In Europe, ECB officials have attempted to temper yesterday's rally with Governing Council Members Mr. Šimkus and Mr. Vujčić leaning hawkish, although money market pricing suggests that investors continue positioning for rate cuts. Positive sentiment also lifted UK and European equities on the back of better-than-expected earnings announcements and UK consumer confidence reaching a two-year high. In China, the PBC and HKMA announced further measures to boost the onshore yuan bond market while Moody's downgraded the ratings of seventeen local government financing vehicles one notch on concerns about long-term debt sustainability. At the same time, Moody's upgraded Qatar's rating by one notch to Aa2.

Key Global Financial Indicators

Last updated: 1/26/24 8:57 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4894	0.5	2	3	21	3	16
Eurostoxx 50		4633	1.1	4	2	11	2	17
Nikkei 225		35751	-1.3	-1	7	31	7	35
MSCI EM		39	0.1	2	-2	-9	-3	-18
Yields and Spreads			bps					
US 10y Yield		4.11	-0.8	-1	21	62	23	212
Germany 10y Yield		2.28	-1.1	-6	30	6	26	205
EMBIG Sovereign Spread		403	4	6	20	-41	20	-10
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		47.5	0.1	0	-1	-8	-1	-11
Dollar index, (+) = \$ appreciation		103.2	-0.4	0	2	1	2	7
Brent Crude Oil (\$/barrel)		81.9	-0.6	4	1	-6	6	-15
VIX Index (% change in pp)		13.6	0.2	0	1	-5	1	-17

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

Mature Markets

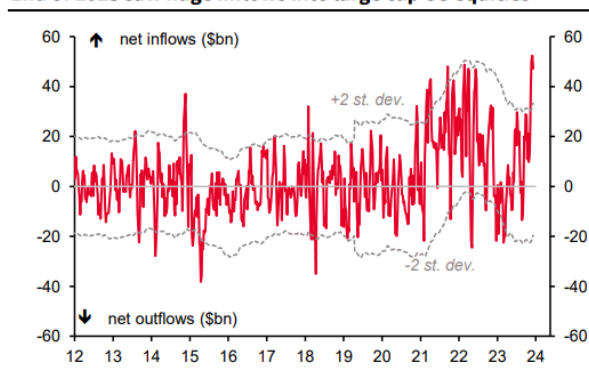
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United States

Core PCE in December dropped below 3% y/y against strong personal spending. Headline and core PCE increased 0.2% m/m each in December, as expected. On an annual basis, PCE rose 2.6% y/y while core PCE rose 2.9% y/y, slightly below expectation. Personal income rose 0.3% m/m, and personal spending was stronger than expected in both nominal and real terms (0.7% m/m and 0.5% m/m respectively). Bond yields rose and stock futures dropped after the release as the personal spending figures tapered expectations of rate cut.

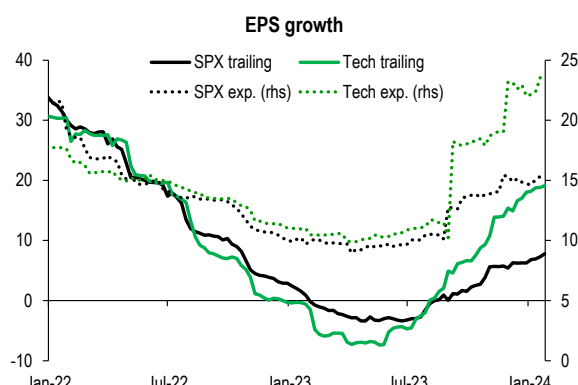
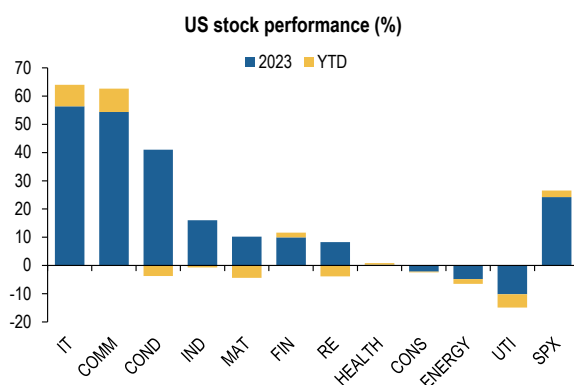
Stocks rallied into new record high after GDP report reinforced soft-landing outlook. Small-cap and cyclical sectors led the gains. Analysts note that inflows into US stock markets continue to run at a record pace, particularly into large cap stocks. Small-cap sectors saw smaller inflows, instead investors opted to use derivatives to hedge their underweight positions.

End of 2023 saw huge inflows into large cap US equities



The tech sector continues rising with a strong start in 2024 backed by rising earnings expectations.

So far this year, the tech sector in the S&P 500 has gained +8%, building on a +50% rise in 2023. Robust earnings growth and a notable uptick in earnings expectations support this impressive performance, driven in part by the potential of artificial intelligence (AI) contributing to productivity growth. Though, some market contacts remain wary about the outsized influence of the tech sector on the overall market, especially regarding the risk associated with elevated earnings expectations. Persistently high interest rate volatility and regulatory uncertainties surrounding AI compound this concern.



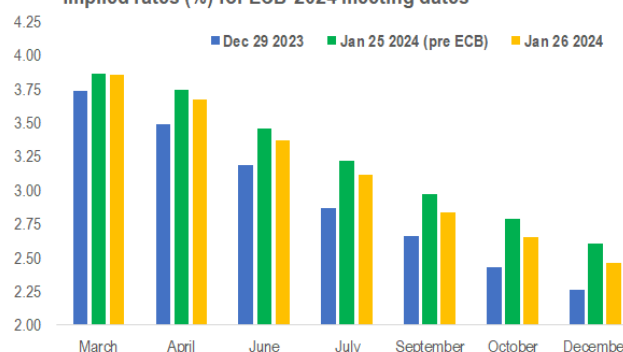
Euro Area

Expectations are mounting that the ECB will start to ease policy rates from April.

Despite President Lagarde's assertion that a discussion on rate cuts remains "*premature*", she also stood by her remarks at Davos in which she suggested a rate cut in the "*summer*" was likely, market contacts saw the lack of directly ruling out of earlier rate cuts as a back door to cuts in April. Furthermore, after the meeting a Reuters article cited four sources close to the matter suggesting ECB officials will be open to a change in their rhetoric at their next meeting in March when the

ECB is also set to issue new economic projections, which in turn could clear the way for a rate cut most likely in June, when official wage data will have been published, the sources added. Markets responded by increasing their expectations of rate cuts for 2024 with around 141bps of easing priced in over the course of the year (vs 130bps before the meeting). The probability assigned to a rate cut in April climbed to 80% (vs 50% before the meeting). Euro area sovereign bond yields were lower with the 10y bund yield (-3bps) trading at 2.26% at the spread of 10y Italian government bonds over bunds narrowing (-3bps) to 150bps. The euro was unchanged against the dollar trading at around 1.085.

Implied rates (%) for ECB 2024 meeting dates

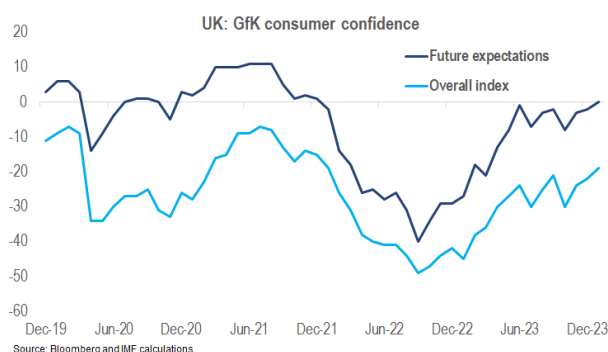


Source: Bloomberg and IMF calculations

United Kingdom

Better than expected January consumer confidence data have set the stage for positive sentiment.

the January GfK consumer confidence index improved by 3 points to -19 (vs -21 expected and -22 prior) as slowing inflation boosted household optimism about their finances. Consumer confidence reaching a two-year high, coupled with positive earnings from the luxury goods sector, propelled UK equities (+1.1%).

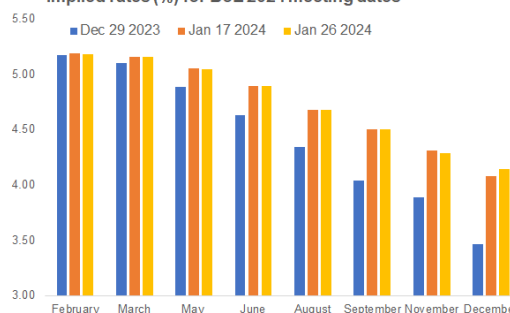


Source: Bloomberg and IMF calculations

Market consensus is for the BoE to keep policy rates on hold next week.

Market contacts at Morgan Stanley note that albeit price and pay pressures have improved relative to the Bank's November MPR projections, the upcoming budget as well as on-going disruption in the Red Sea could present sizeable hawkish risks. Hence, they expect the MPC to remain on hold with no mention of rate cuts next week and a first rate cut expected in May, to which current market pricing assigns around a 40% probability, and around four rate cuts priced in for the full year. The pound was trading fractionally stronger against the dollar (+0.1%) at 1.27 and gilt yields were lower (10Y gilt -3ps to 3.95%) this morning.

Implied rates (%) for BoE 2024 meeting dates



Source: Bloomberg and IMF calculations

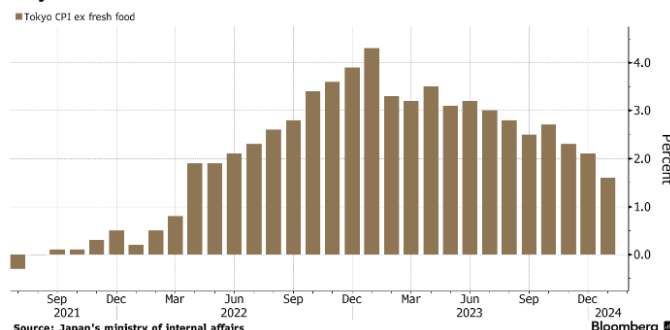
Japan

Latest CPI data printed below 2% for the first time since early 2022.

While latest PPI services inflation data for December validated expectations at 2.4% y/y (exp. 2.4% from revised 2.4%), the latest Tokyo CPI inflation data for January came out at 1.6% y/y (exp. 2.0% from 2.4%). According to market contacts, this might temper the urgency of the BoJ normalizing its accommodative monetary policy. Bond yields on 10y JGBs declined (-3bps) to 0.71% while the yen fractionally depreciated (-0.1%) to ¥147.67/\$. Though, the minutes from the BOJ's December meeting suggest that the board members are deepening the discussion of policy normalization. More specifically, one member stated that the timing of normalization is getting closer, and that the BOJ should not miss the chance to revise its policy. Other members were more apprehensive on timing, suggesting awaiting the outcome of the spring wage talks prior to deciding. Japanese stock traded weaker (-1%), with all sectors declining on the back of reported month-end rebalancing flows.

Prices Cooling

Tokyo inflation slowed for third consecutive month



Emerging Markets

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EMEA posted mixed results. Equities in Türkiye continued to outperform (+1.1%) after the Central Bank of Türkiye yesterday delivered the eighth consecutive rate hike to take its 1-week repo rate to 45%. Hungarian and Polish equities, however, traded -0.4% lower. On the data front, Hungary's unemployment rate remained unchanged at 4.2% in December, as expected. Absa analysts highlight that the Nigerian naira yesterday depreciated sharply in both the official and parallel markets. Analysts note that in the parallel market the naira yesterday fell to 1,420/\$ (from 1,365/\$ the prior day) as demand for FX increased while FX shortages remain severe.

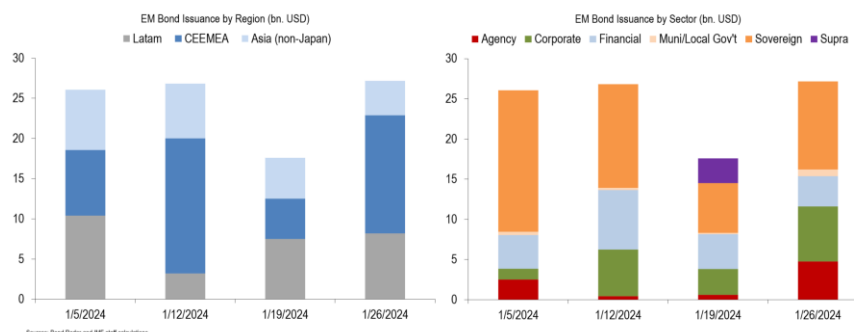
Asian equities are broadly weaker while currency trends diverge. On net, regional stock markets experienced a slight decline (-0.4%), reflecting fading optimism in Chinese stimulus measures as market participants are starting to call into question whether China will proceed with the \$278 bn stabilization fund plan, Bloomberg wrote. Accordingly, Chinese stock markets traded weaker in Hong Kong SAR (-1.6%) and Mainland China (-0.3%). Indonesian stocks (-0.7%) also remained under pressure due to election risks. Currency movements showed mixed results, with the Philippine peso appreciating (+0.4%), while the Chinese renminbi weakened slightly (-0.1%).

Yesterday, most Latin American stock markets gained while currencies remained mostly flat. Latin American stock markets saw gains yesterday, with positive movement in Mexico (+1.3%), Colombia (+0.6%), and Brazil (+0.3%), while Chile (-1.2%) experienced profit-taking following the previous day's surge amid a slightly weaker copper price. Regional currencies remained stable, except for the Colombian peso (-0.7%), which retraced gains from the day before. Additionally, budget-friendly Brazilian airline Gol filed for Chapter 11 bankruptcy in the US on Thursday, seeking \$950m for funding during the bankruptcy proceedings.

EM Primary Market Activity

Strong EM bond issuance signals a robust start to this year's primary market dynamics. In the week of January 26th, the bond issuance reached \$27.2bn, bringing the cumulative ytd amount to \$97 bn. This pace surpasses last year's amount of \$76bn by this same time in last year. Although EM bond issuance has already exceeded the \$85bn level recorded for the month of January in 2023, only few business days remain until February. Sovereigns led the issuance (40%), followed by corporates (25%). Regionally,

CEEMEA accounted for the lion's share (54%), while LatAm (30%) and Asia ex-Japan (16%) accounted for the rest. Notably, Saudi Arabia took the lead in issuance by country (18%), followed by Mexico (14%), and South Korea (11%).

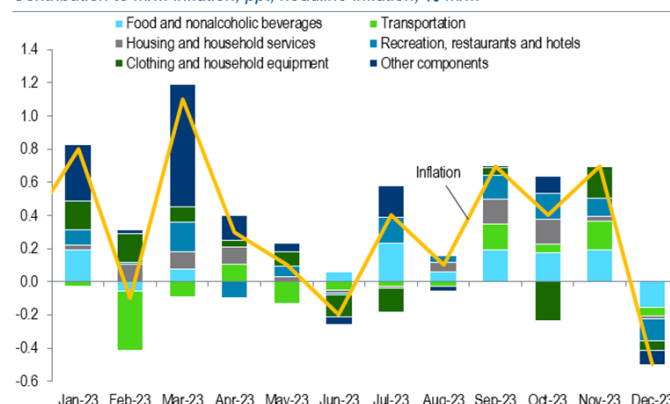


Chile

Easing inflation provides leeway for Banco Central de Chile cutting rates at its meeting next week. December headline inflation, released on January 8, printed at 3.9% y/y, notably below the central bank's forecast of 4.5% for the month in its latest monetary policy report. This is the first instance since mid-2021 that headline inflation has approached the 2–4% target range. Core inflation also retreated to 5.4% y/y, similarly below the 5.8% that central bank has forecasted. Standard Chartered market contacts anticipate a -100bps policy rate cut to 7.25% at the central bank's next meeting on January 31, citing falling inflation expectations and a tight output gap as justifications. While market pricing already foresees a terminal rate of 4% by end-2025, some market contacts urge caution, emphasizing policymakers' need to consider potential strain on the Chilean peso, which is currently being supported through the recent USD selling program.

Figure 1: Broad-based price drops warrant a bigger rate cut

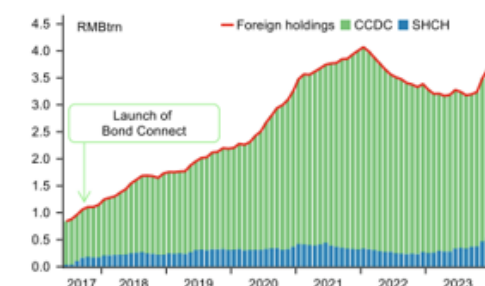
Contribution to m/m inflation, ppt; headline inflation, % m/m



China/Hong Kong SAR

The People's Bank of China (PBC) and Monetary Authority of Hong Kong (HKMA) have jointly announced a set of measures to promote the onshore bond market, reinforcing Hong Kong SAR's standing as a global financial hub. A key facet involves expanding eligible collateral for the HKMA's RMB Liquidity Facility to encompass yuan bonds issued by China's government and policy banks. Additionally, the onshore repo market will become expanded to allow access to all foreign institutional investors, while cross-boundary e-CNY pilots will see an expansion into Hong Kong SAR. BNP Paribas analysts underscore particularly the significance of opening the China's onshore repo market, aligning with the growing foreign interest in China's bond market (see chart below). This initiative coincides with the imminent launch of offshore CGB bond futures in Hong Kong SAR, which could further attract foreign investors. Bloomberg estimates project a substantial increase in the share of trade settlement via repo agreements under the Bond Connect channel, potentially rising from currently 0% up to 45% with broader access. At present, only selected overseas investors like central banks can trade China bonds on a repo basis and via non-Bond Connect channels.

Onshore bond market is regaining foreign interest



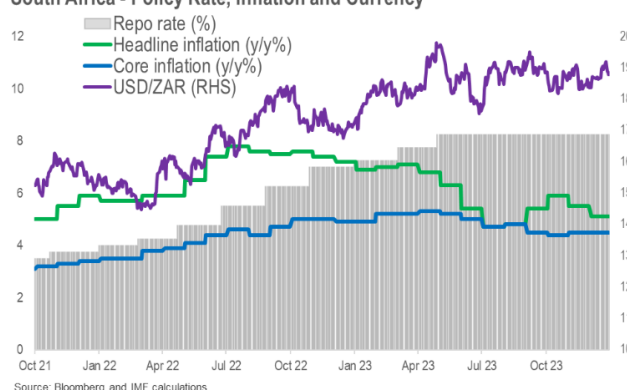
Sources: Macrobond, BNP Paribas

The PBC has also unveiled comprehensive plans to channel funds into strategically vital sectors, aiming to bolster the sluggish economy. In a bid to promote financing in technology, green initiatives, and other key areas, the PBC is establishing a new credit market department. Additionally, the central bank is reducing the interest rate on over 2tn yuan (\$279bn) of low-cost funds for banks, with the goal of incentivizing increased lending to agriculture and small businesses. Market expectations point to additional liquidity support measures, including a potential cut in the medium-term lending facility rate and/or the loan prime rate, as suggested by market contacts at Oversea-Chinese Banking Corporation.

South Africa

The central bank left its benchmark rate unchanged at 8.25% as expected. It was a unanimous decision to leave rates on hold for the fourth consecutive MPC meeting. While analysts agree that the tightening cycle will end soon, views diverge on the tone of the MPC and regarding when rate cuts would start. JPMorgan analysts, for example, see the tone of the statement and Q&A as hawkish leaning—with the governor again noting the absence of a discernible trend in inflation moving to the target mid-point. Nevertheless, JP Morgan analysts expect the MPC to remain cautious even when they start cutting rates, because of the sensitivity of South Africa's currency to global growth developments. JP Morgan analysts expect the first rate cut in May and a total of between 75 and 100bps of rate cuts in 2024. Deutsche Bank analysts, however, saw the statement as more dovish than before, as it no longer included wording such as "vigilant" and "ready to act should risks begin to materialize". Deutsche Bank analysts, however, argue that against an uncertain backdrop the SARB is will only start cutting rates in July. Markets are pricing in 75bps of rate cuts in 2024—which is close to the MPC's projection model. The South African rand ended the day little changed against the dollar yesterday and was +0.3% stronger this morning trading at around 18.81/\$.

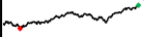
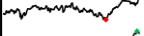



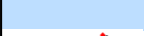
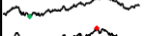
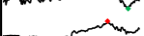

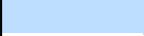





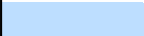


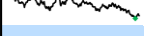

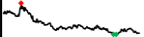
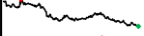
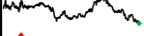

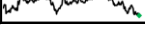
South Africa - Policy Rate, Inflation and Currency



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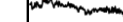















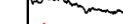


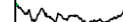






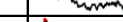





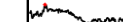


Global Financial Indicators

1/26/24 8:59 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4891	0.5	1	2	20	3
Europe		4634	1.1	4	2	11	2
Japan		35751	-1.3	-1	7	31	7
China		3334	-0.3	2	-3	-20	-3
Asia Ex Japan		64	0.0	3	-2	-12	-4
Emerging Markets		39	0.1	2	-2	-9	-3
Interest Rates			basis points				
US 10y Yield		4.11	-0.8	-1	21	62	23
Germany 10y Yield		2.28	-1.2	-6	30	6	25
Japan 10y Yield		0.72	-2.9	5	8	22	10
UK 10y Yield		3.95	-3.2	2	45	63	41
Credit Spreads			basis points				
US Investment Grade		125	-0.8	-3	-10	-19	-9
US High Yield		382	-0.9	-8	3	-59	-3
Exchange Rates			%				
USD/Majors		103.15	-0.4	0	2	1	2
EUR/USD		1.09	0.3	0	-2	0	-1
USD/JPY		147.6	0.0	0	4	13	5
EM/USD		47.5	0.1	0	-1	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		82.0	-0.6	4	1	0	6
Industrials Metals (index)		140	0.4	4	-1	-22	-2
Agriculture (index)		61	-0.6	1	-3	-11	-2
Implied Volatility			%				
VIX Index (% change in pp)		13.6	0.1	0.3	0.6	-5.1	1.1
Global FX Volatility		7.5	0.0	-0.1	-0.5	-2.7	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	0.8	-1	-3	-100	-3
Italy		151	-2.4	-3	-7	-31	-16
Portugal		81	-1.2	-2	26	-7	18
Spain		90	-1.0	-1	-2	-7	-7

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

Emerging Market Financial Indicators

Last updated: 1/26/2024 9:01 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		7.18	0.0	0.2	0	-5	-1		2.5	-1.0	-4	-11	-75	-6
Indonesia		15820	0.0	-1.3	-2	-6	-3		6.6	-1.8	2	15	-4	16
India		83	0.0	0.0	0	-2	0		7.2	0.8	-4	-2	(25.9)	-3
Philippines		56	0.4	-0.6	-2	-3	-2							
Thailand		36	0.3	-0.3	-3	-8	-4		2.7	-3.8	-7	-1	26	2
Malaysia		4.73	0.0	-0.2	-2	-10	-3		3.8	0.1	-2	8	6	8
Argentina		824	-0.1	-0.5	-2	-77	-2		75.0	259.5	-578	-555	-1108	-1138
Brazil		4.91	0.2	0.5	-2	3	-1		10.6	-8.2	-14	26	-242	22
Chile		911	-0.1	0.0	-2	-12	-3		4.9	1.0	-3	11	-23	3
Colombia		3926	0.4	-0.4	-2	15	-2		7.4	0.0	-16	-33	-208	-23
Mexico		17.15	0.3	-0.4	-1	10	-1		8.7	-0.4	-5	14	34	23
Peru		3.8	0.1	-0.5	-2	2	-2		6.6	-1.0	-3	-15	-137	-4
Uruguay		39	0.5	0.4	1	0	0		9.3	1.0	9	-28	-86	-23
Hungary		356	-0.3	-1.5	-3	0	-2		6.1	1.0	31	30	-168	31
Poland		4.02	0.2	-0.6	-3	7	-2		4.8	3.0	15	47	-47	32
Romania		4.6	0.2	-0.2	-2	-2	-2		6.3	0.8	-2	5	-94	7
Russia		89.9	-0.8	-2.1	3	-23	0							
South Africa		18.7	0.7	1.5	-1	-8	-2		9.2	-0.3	-3	12	52	7
Turkey		30.31	-0.1	-0.4	-3	-38	-3		27.5	10.0	20	151	1717	78
US (DXY; 5y UST)		103	-0.4	-0.1	2	1	2		4.01	1.6	-4	13	42	17

	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		3334	-0.3	2	-3	-20	-3		162	1	5	-24	4	
Indonesia		7137	-0.6	-1	-2	3	-2		116	9	20	-38	20	
India		70701	0.0	-1	-1	17	-2		127	1	19	-21	11	
Philippines		6686	0.2	3	4	-5	4		98	7	19	-17	18	
Thailand		1368	-0.6	-1	-3	-19	-3		0	0	0	0	0	
Malaysia		1506	0.1	2	4	1	4		91	-2	8	-17	6	
Argentina		1284940	2.7	9	41	391	38		1876	-94	6	32	-37	
Brazil		128252	0.3	0	-4	12	-4		220	16	7	-59	5	
Chile		6014	-1.2	3	-3	13	-3		130	3	5	-11	5	
Colombia		1269	0.6	0	7	-3	6		309	8	32	-57	38	
Mexico		56160	1.3	3	-3	2	-2		337	3	2	-25	3	
Peru		26456	0.3	1	2	16	2		155	2	11	-43	11	
Hungary		64107	-0.7	-1	6	37	6		171	9	19	-50	22	
Poland		75338	0.2	1	-4	23	-4		106	6	10	8	9	
Romania		15231	0.6	-2	0	25	-1		207	-2	2	-45	6	
South Africa		74700	0.9	3	0	-7	-3		344	15	35	-24	36	
Turkey		8335	2.0	4	14	59	12		345	2	36	-163	31	
Ukraine		507	0.0	0	0	0	0		4069	-9	76	-17	65	
EM total		39	-0.2	2	-2	-9	-3		362	3	17	-8	17	

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

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