



- Markets expect US Treasury to announce another increase of bond auction sizes ([link](#))
- Statements by ECB officials prompt market pricing for cuts to solidify ([link](#))
- Consensus is for the BoE to remain on hold on Thursday ([link](#))
- EPFR data shows that EM funds saw a continuation of outflows ([link](#))
- Brazil's mid-January inflation data below expectations ([link](#))
- Evergrande received a liquidation order from a Hong Kong SAR court ([link](#))
- Hungarian bonds and forint underperform ahead of central bank meeting ([link](#))

[Mature Markets](#)


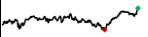
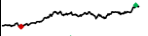








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## Two Main Catalysts for Directionality

The European morning session showed increased demand for bond on dovish ECB remarks. Financial markets are expected to trade laterally this week, awaiting key central bank meetings, speeches, and data releases. Wednesday's directionality hinges on two main catalysts: the Treasury's upcoming quarterly refunding announcement and the Fed meeting. For the former, market contacts anticipate a continued pace of bond issuance and an increase in nominal coupon auction sizes. Regarding the latter, consensus predicts the Fed will maintain the 5.50% rate. Market contacts closely monitor Chair Powell's press conference for hints on the timing of rate cuts, with market pricing for cuts at the March meeting approaching a 50% chance. On Thursday, consensus is for the Bank of England is to keep rates unchanged at 5.25%. Market contacts will focus on updated projections for growth and inflation, checking for any removal of references to a tightening bias. The Riksbank is set to meet on Thursday, with consensus pointing to the central bank staying on hold while increasing the pace of quantitative tightening. Finally, Ghana's central bank surprised by delivering Africa's first rate cut of 2024.

Key Global Financial Indicators

Last updated: 1/29/24 8:42 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4891	-0.1	1	3	20	3
Eurostoxx 50		4625	-0.2	3	2	11	2
Nikkei 225		36027	0.8	-1	8	31	8
MSCI EM		39	0.1	1	-3	-8	-3
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.09	-4.4	-1	21	59	21
Germany 10y Yield		2.24	-5.9	-5	22	0	22
EMBIG Sovereign Spread		399	-4	0	15	-40	16
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.3	-0.1	0	-2	-8	-2
Dollar index, (+) = \$ appreciation		103.7	0.2	0	2	2	2
Brent Crude Oil (\$/barrel)		83.0	-0.7	4	8	-4	8
VIX Index (% change in pp)		14.0	0.7	1	2	-5	2

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

**This week will be seeing a slew of monetary policy rate decisions and economic data releases.** In US, the Fed is expected to keep its policy rate on hold, while the markets are also closely following the JOLTS report, non-farm payrolls and unemployment rates. In the UK, consensus is for the Bank of England to maintain its policy rate at 5.25%. The euro area sees the release of key economic indicators including aggregate GDP data and inflation in Germany and France. Among emerging markets, the central banks in Brazil, Chile, and Colombia will convene for monetary policy meetings while manufacturing PMI data will be published in China.

## Mature Markets

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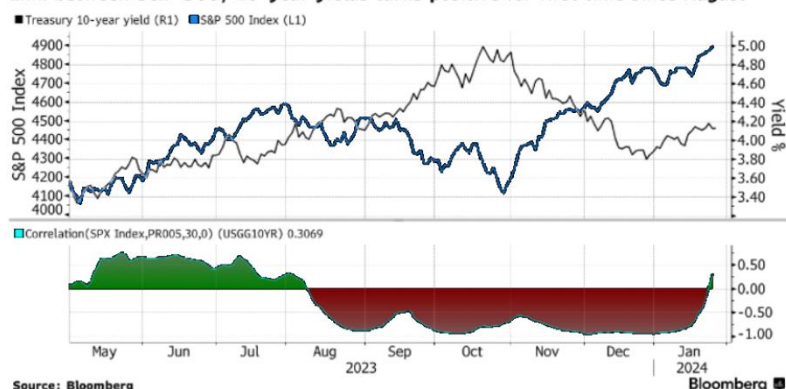
### United States

**Stronger than expected spending data on Friday prompted the rally in US equity markets to come to a halt.** Yields on 2-year and 10-year Treasuries initially spiked to 4.47% and 4.10% but retraced slightly. The surge followed remarks from former Kansas City Fed President George, a known hawk, featured in a Wall Street Journal article, cautioning against the risks of delayed rate cuts. Furthermore, market contacts also point to a marginally less hawkish new composition of Fed voting members owing to the recent rotation among regional Fed presidents, including Barkin (Richmond Fed), Bostic (Atlanta Fed), and Daly (San Francisco Fed). In other developments over the weekend, Brent crude price rose +0.5% on reports of escalation in the conflict in the Red Sea.

**The bond-equity correlation turned positive for the first time in 5 months.** Recently, the strong macro-economic outlook prompted US equities to continue rising, while yields have also risen on a readjustment in the policy path, leading to the correlation between equity returns and yields to turn back positive. Before latest developments, the correlation was negative for most of the second half of last year. For example, between August and October, the S&P500 declined by -10% while the 10-yr yields rose by +110 bps, which reversed in the subsequent months of November to December, when equities rebounded while yields fell.

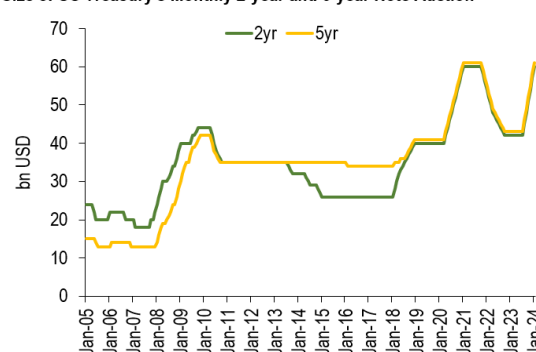
#### Positive Development in Stock-Yield Correlation

Link between S&P 500, 10-year yields turns positive for first time since August



**Anticipation grows for the US Treasury's quarterly refunding announcement to bring another increase in nominal coupon auctions sizes.** Consistent with the guidance offered in the latest policy statement, market contacts expect Treasury to announce a final round of increases to nominal coupon auction sizes in the refunding announcement, akin to the increases announced in November. Despite a recent weak demand in the 5-year nominal Treasuries auction, where yields rose above the when-issued yields and primary dealers took down a larger share than usual, overall bond supply has so far met robust demand. With the US government's rising budget deficit, Treasury had previously projected a \$30bn sequential increase in private borrowing for the first quarter of 2024, reaching \$816bn.

Size of US Treasury's Monthly 2-year and 5-year Note Auction



## Euro Area

**Remarks from two ECB officials fueled the expectation for further rate cuts.** This morning, remarks from ECB Vice President de Guindos stated that “*there has been good news regarding the evolution of inflation, and that—sooner or later—will end up being reflecting in monetary policy.*” Banco de Portugal’s Governor Centeno stroke a similar tone, stating that “*the ECB should start bringing down interest rates sooner rather than later, and in small steps rather than abruptly.*” In reaction, money markets now price in a total of 148bps rate cuts in 2024, up from 144bps on Friday.



### Euro area benchmark yields continue to decline ahead of the preliminary January CPI data due this week.

Expectations are that headline inflation for the eurozone will slow further to 2.7% y/y from 2.9%y/y prior. At the 10y maturity point, bunds declined (-5bps) to a yield of 2.24%, while the spread of 10Y Italian government bonds remained flat at around 152bps. European equities fractionally gained (+0.1%) while banking sector stocks declined (-0.4%) ahead of Q4 earnings data due this week where investors will be looking to assess how the changing macro backdrop might impact on earnings. The euro mildly depreciated against the dollar (-0.2%), trading at around 1.083.

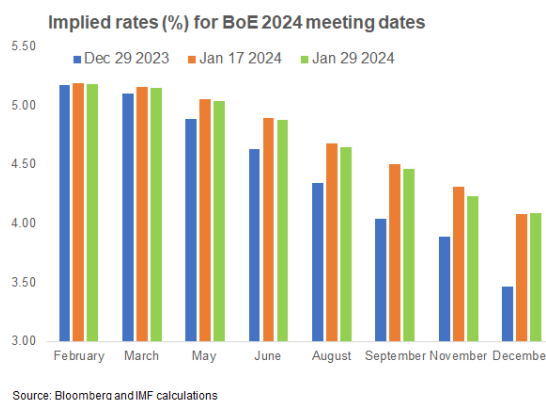
Eurozone inflation



## United Kingdom

**The FTSE 100 hit a near three-week high.** UK equities opened higher (+0.2%), led by gains in the energy sector as ongoing tensions in the Red Sea pushed crude oil prices higher. The pound was trading flat against the dollar at 1.27 while Gilts yields declined (-5bps) to 3.91%.

**Market expectations are that the BoE will keep policy rates on Thursday.** Market contacts at ING note that relative to the Fed and ECB, the BoE has been reticent to endorse rate cuts. With the improving inflation backdrop, the BoE’s “higher for longer” stance becomes more difficult to defend. ING analysts anticipate that the BoE will drop references to a tightening bias from the policy statement and confer with a unanimous vote to stay on hold. Currently, market pricing assigns a 44% probability for a rate cut in May with around four rate cuts priced in for the full year, down from around six rate cuts at the end of the last year.



## Japan

**Japanese equities gained as energy producers which benefited from rising oil prices.** The Nikkei gained (+0.8%) and the Japanese yen appreciated (+0.2%), similar to regional trends. Long-end yields edged up with 10y JGBs yielding 0.72% (+0.7 bp) and 30-year JGBs yielding 1.84% (+1.6 bps).

## Singapore

**The Monetary Authority of Singapore (MAS) kept its policy setting unchanged as expected.** The MAS maintained the prevailing rate of appreciation of the Singaporean dollar nominal effective exchange rate, with no change to its width or midpoint. The MAS acknowledged that core inflation will remain elevated in the near term, partly due to the transitory impact of the GST hike, before moderating toward the year end. The MAS kept its core inflation forecast in the range of 2.5%-3.5% for this year, while the slightly negative output gap is expected to narrow. Singaporean dollar appreciated slightly. Equities declined (-0.5%). Long-end government bond yields posted mixed results (10-year: +0.5 bp; 30-year: -1.0 bp).

## Emerging Markets

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**EMEA markets lacked clear direction.** Türkiye's stock markets rose for the fourth consecutive day (+1.7%) while Hungary's (-1.1%) and Poland's (-0.4%) underperformed. CEE currencies were trading in a tight range against the euro, except for the Hungarian forint which declined (-0.6%) to 389.52/€ ahead of the monetary policy meeting of the Hungarian central bank tomorrow, where consensus is for the central bank to cut its benchmark interest rate by -100bps to 9.75%. Ghana surprised with Africa's first rate cut of 2024, lowering its policy rate by -100bps to 29%.

**Asian currencies appreciated while country-specific news affected stock markets.** The Thai baht (+0.2%) and Taiwan dollar (+0.2%) gained the most. The Indonesian rupiah stabilized after underperforming last week (-1.1%) as expectation grows that Bank Indonesia will intervene to curb exchange rate volatility ahead of the elections. Evergrande's liquidation order elicits varied market reactions in Hong Kong SAR and Mainland China equity markets. While Hong Kong SAR-listed equities advanced (+0.9%), onshore Chinese equities, represented by the CSI 300, have seen a correction (-0.9%). Outside of China, Indian (+0.7%), Korean (+0.9%), and Hong Kong (+0.8%) stock markets have gained. Philippine's regional stock market lagged (-0.8%) on news that the central bank governor signaled the possibility of a policy rate cut in the second half of the year.

**On Friday, stock markets in Latin America mostly gained while currencies diverged.** Equities traded higher in Peru (+1.5%), Mexico (+1.2%), Chile (+1.2%), and Colombia (+1.1%). The Colombian peso appreciated (+0.9%) together with the Mexican peso (+0.2%), while the Chilean peso (-1.6%) and the Peruvian sol (-0.7%) depreciated against the dollar.

## EM Fund Flows

**Following EPFR data, EM funds continued to see outflows in the past week.** Outflows in EM bond funds continued for a second month, led by hard currency funds that saw an acceleration of outflows to -\$454mn from -\$361mn the former week ago. Local currency funds also saw an acceleration of outflows to -\$274mn from -\$210mn, led by China-focused funds that saw an outflow of -\$220mn. EM equity funds also saw an outflows of -\$1.2bn, driven by non-ETFs (-\$1.7bn).

Figure 1: Weekly cross-asset flows

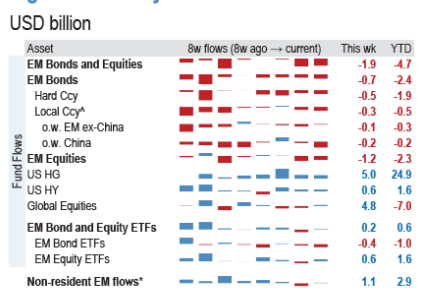
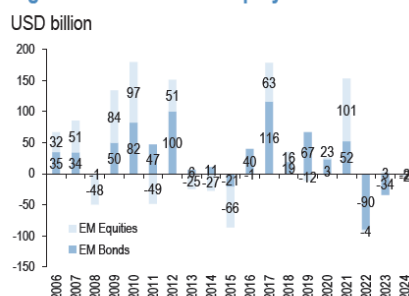


Figure 2: EM bond and equity fund flows



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

Figure 1: Weekly cross-asset flows

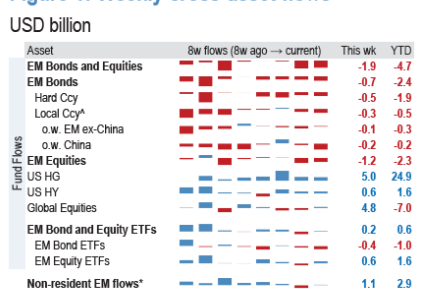
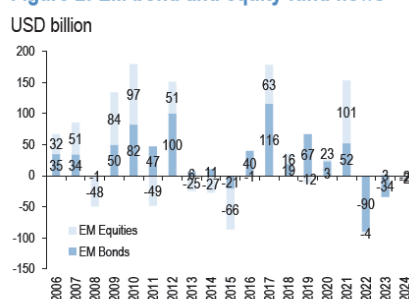


Figure 2: EM bond and equity fund flows



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

## Brazil

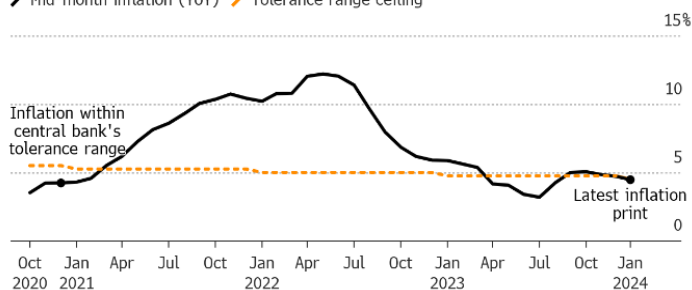
### Brazil's mid-January inflation eased far more than expected.

Inflation data (IPCA-15) released last Friday showed that consumer prices increased 4.47% y/y in January (exp. 4.63% from 4.72%). With latest headline inflation data approaching the target range of Brazil's central bank—which is 3% plus or minus 1.5 pp.—money market pricing for policy rates in a year's time declined (-8bps) to 9.29%. The country's stock market gained (+0.6%). Market contacts expect the central bank to cut policy rates by -50 bps in the forthcoming meeting on Wednesday.

### Brazil's Inflation Eases Into Target Range

Central bankers' target ceiling is 4.5%

Mid-month inflation (YoY) Tolerance range ceiling



Source: Brazil's statistics agency and central bank

Bloomberg

## China

**Chinese authorities continue to stabilize markets.** Over the weekend, the China Securities Regulatory Commission announced a partial ban on securities lending. Strategic investors will not be allowed to do securities lending during agreed lock-up periods; previously, such strategic investors were not allowed to sell shares. The People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected; the deviation from market consensus keeps increasing in recent weeks. State-owned banks were selling dollar to support the currency today. The PBC also injected liquidity in an amount of 378 bn yuan (\$53.2 bn) and the key interbank repo rate (DR007) dropped (-14.9 bps) to 1.80% while 10y CGB yields declined (-0.7 bp) to 2.49%.

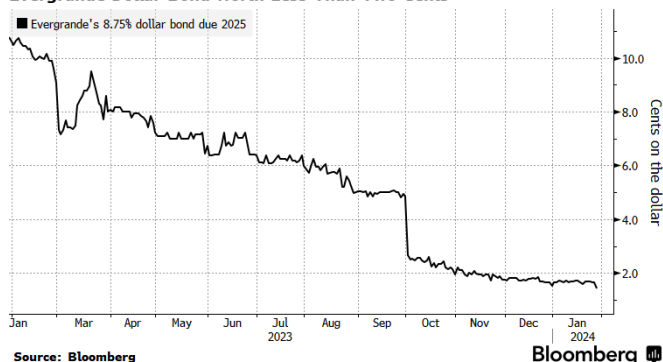


### Evergrande received a liquidation order from a Hong Kong SAR court today.

The court appointed Alvarez & Marsal as the liquidator. Analysts noted that the liquidator will face challenges of taking control of Evergrande's assets in Mainland China as individual development projects are typically conducted out by separate subsidiaries. Presently, Hong Kong SAR and Mainland China have a cooperation framework for recognition of and assistance to corporate insolvency and debt restructuring matters; however, only three Mainland courts are

under the pilot, including Shanghai, Xiamen and Shenzhen. Hence, analysts view that it might prove challenging for the liquidator to take control of Evergrande's onshore assets without such court recognition more widely. Evergrande's share price declined today (-20.9%), and its trading is now suspended. Most of its USD bonds trade at around 1.5 cents on the dollar.

Evergrande Dollar Bond Worth Less Than Two Cents

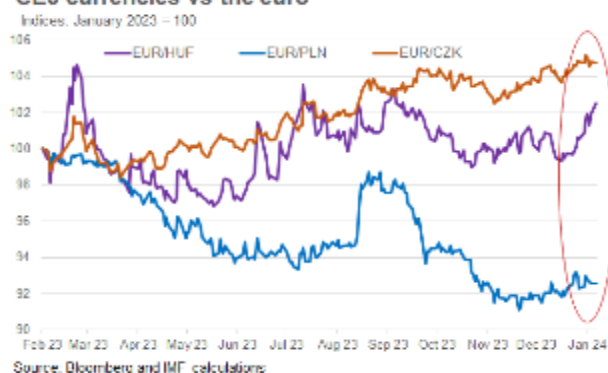


### Hungary

#### The Hungarian forint and government bonds underperform amid a debate between the central bank and the government on the reference rate.

The Hungarian forint ended last week -1.3% weaker against the euro (compared to a -0.3% weakening in the Polish zloty and little change in the Czech koruna). 10y Hungarian government bond yields ended the week roughly +20bps higher at around 6.22% (compared to a 14bps increase in Polish 10y yields and a 4bps increase in Czech Republic 10y yields). The underperformance comes after officials at the ministry shared a proposal last week to change the main reference rate that commercial banks use for loans from the Bubor interbank rate to government bill yields, which could lower loan rates by several percentage points. Market contacts also highlight a report from the central bank's chief economist from last Thursday that stated that the government's proposal could limit the scope for economic policy and make the achievement of long-term goals more challenging. This morning the Hungarian forint continued to weaken (-0.6% to 389.52/€, now -1.9% weaker than at the start of last week), and 10y yields were another +8bps higher on the back of a Financial Times article that the EU is planning to increase pressure on Hungary regarding its stance on financial support for Ukraine.

CE3 currencies vs the euro



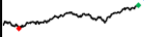
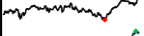



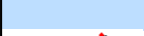
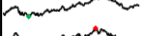
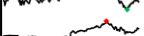

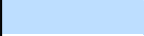





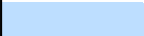


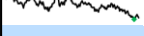


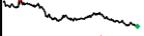
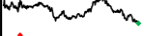


Hungary Mulls Reference Rate Switch  
3-month interbank rate and 3-month government bill yield



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## Global Financial Indicators

1/29/24 8:43 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		4896	-0.1	1	3	20	3
Europe		4625	-0.2	3	2	11	2
Japan		36027	0.8	-1	8	31	8
China		3304	-0.9	3	-4	-21	-4
Asia Ex Japan		64	0.0	1	-4	-12	-4
Emerging Markets		39	0.1	1	-3	-8	-3
<b>Interest Rates</b>			basis points				
US 10y Yield		4.09	-4.4	-1	21	59	21
Germany 10y Yield		2.24	-5.9	-5	22	0	22
Japan 10y Yield		0.72	0.6	7	11	23	11
UK 10y Yield		3.91	-5.8	0	37	58	37
<b>Credit Spreads</b>			basis points				
US Investment Grade		124	-0.2	-3	-9	-19	-9
US High Yield		381	2.5	-6	-4	-61	-4
<b>Exchange Rates</b>			%				
USD/Majors		103.65	0.2	0	2	2	2
EUR/USD		1.08	-0.3	-1	-2	0	-2
USD/JPY		147.9	-0.1	0	5	13	5
EM/USD		47.3	-0.1	0	-2	-8	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		83.0	-0.7	4	8	3	8
Industrials Metals (index)		139	-0.5	3	-2	-21	-2
Agriculture (index)		61	-0.6	-1	-3	-12	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.0	0.7	0.8	1.5	-4.6	1.5
Global FX Volatility		7.5	0.1	0.1	-0.6	-2.6	-0.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		103	0.4	-1	-1	-99	-1
Italy		151	-1.3	-4	-16	-35	-16
Portugal		81	-0.2	-3	18	-9	18
Spain		90	-0.5	-2	-7	-9	-7

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

## Emerging Market Financial Indicators

Last updated: 1/29/2024 8:44 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	-1	-6	-1		2.4	-3.0	-7	-9	-79	-9
Indonesia		15810	0.1	-1.1	-3	-5	-3		6.6	-0.6	4	16	-11	16
India		83	0.0	-0.1	0	-2	0		7.2	2.1	-2	-1	(29.5)	-1
Philippines		56	0.1	0.0	-2	-3	-2		5.5	0.1	0	-17	-47	-17
Thailand		36	0.1	0.3	-4	-8	-4		2.7	-0.5	-5	2	17	2
Malaysia		4.73	-0.1	-0.1	-3	-10	-3		3.8	-0.6	-1	7	4	7
Argentina		825	-0.2	-0.5	-2	-77	-2		75.0	-0.4	-596	-540	-1163	-1138
Brazil		4.91	-0.1	1.5	-1	4	-1		10.7	2.7	-16	27	-250	27
Chile		926	-0.4	-1.8	-5	-13	-5		4.9	-1.3	-3	-1	-42	-1
Colombia		3910	0.1	-0.2	-1	19	-1		7.4	-3.5	-3	-23	-216	-23
Mexico		17.15	0.0	0.2	-1	9	-1		8.7	-2.1	3	26	24	26
Peru		3.8	-0.8	-1.4	-3	1	-2		6.7	0.0	3	-1	-130	-1
Uruguay		39	-0.1	-1.0	0	-1	0		9.3	-2.6	-3	-31	-78	-26
Hungary		361	-1.0	-2.3	-4	0	-4		6.2	6.0	34	38	-200	38
Poland		4.03	-0.2	-0.6	-2	8	-2		4.8	-0.3	19	33	-52	33
Romania		4.6	-0.3	-0.6	-2	-2	-2		6.3	-1.9	-2	3	-89	5
Russia		89.5	0.4	-1.7	0	-22	0							
South Africa		18.8	0.1	2.3	-2	-7	-2		9.2	0.0	3	10	47	10
Turkey		30.35	-0.2	-0.3	-3	-38	-3		27.5	0.0	12	78	1712	78
US (DXY; 5y UST)		104	0.2	0.3	2	2	2		4.00	-4.0	-3	15	39	15

	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		3304	-0.9	3	-4	-21	-4		162	0	5	-22	4	
Indonesia		7157	0.3	-1	-2	4	-2		110	-1	13	-38	14	
India		71942	1.8	0	0	21	0		123	-4	10	-24	7	
Philippines		6631	-0.8	1	3	-5	3		92	-3	11	-23	12	
Thailand		1376	0.6	0	-3	-18	-3		0	0	0	0	0	
Malaysia		1515	0.6	2	4	1	4		91	-1	7	-15	6	
Argentina		1253620	-2.4	7	35	393	35		1857	-113	-13	14	-56	
Brazil		128739	0.6	2	-4	15	-4		219	11	3	-55	4	
Chile		6071	1.2	3	-2	13	-2		131	4	4	-6	6	
Colombia		1282	1.1	1	7	0	7		305	-4	27	-57	34	
Mexico		56856	1.2	3	-1	4	-1		337	2	0	-20	3	
Peru		26842	1.5	2	3	19	3		153	-2	8	-37	9	
Hungary		63209	-1.4	-2	4	36	4		166	-2	13	-53	17	
Poland		75282	-0.5	0	-4	23	-4		101	-3	4	13	4	
Romania		15199	0.5	-3	-1	25	-1		198	-16	-7	-49	-3	
South Africa		74481	-0.8	3	-3	-8	-3		337	-1	26	-21	29	
Turkey		8474	1.5	6	13	63	13		342	-9	33	-159	28	
Ukraine		507	0.0	0	0	0	0		3990	-148	-6	-85	-14	
EM total		39	0.3	1	-3	-8	-3		359	-3	13	-7	14	

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

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