



- **US Inflation comes in higher than expected for the second straight month** ([link](#))
- **Investor sentiment remains strong despite recent market pullback** ([link](#))
- **Fed shift to shorter maturities could put upward pressure on US rates** ([link](#))
- **Markets in China remain in the spotlight** ([link](#))
- **Italian credit spreads continue to tighten versus bunds** ([link](#))

[Mature Markets](#)



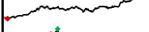


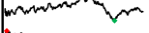



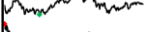
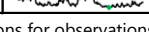
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US CPI report comes in higher than expected

The higher-than-expected US CPI data pushed Treasury yields and the dollar higher and US equity index futures slightly lower. However, market sentiment remains generally positive despite the uncertainty regarding central bank policies and inflation. Next week will be key for markets, with the latest “dot plot” of interest rate forecasts expected from the Fed, and amidst speculation that the Bank of Japan will end its zero interest rate policy. Meanwhile, investors are keeping a wary eye on China, where official attempts to support the equity markets have met with some degree of success in recent days, although the jury is out on how long the recovery will last. Italian credit spreads continue to tighten relative to bunds as the Italian economy enjoys a rare period of strength relative to the rest of the euro area.

Key Global Financial Indicators

Last updated: 3/12/24 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5118	-0.1	0	2	33	7
Eurostoxx 50		4939	0.2	1	4	17	9
Nikkei 225		38798	-0.1	-3	2	39	16
MSCI EM		41	0.2	1	3	8	2
Yields and Spreads			bps				
US 10y Yield		4.09	-1.2	-7	-9	39	21
Germany 10y Yield		2.29	-0.9	-3	-7	-21	27
EMBIG Sovereign Spread		364	-1	0	-25	-109	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.9	0.0	0	0	-7	-3
Dollar index, (+) = \$ appreciation		102.8	0.0	-1	-1	-2	1
Brent Crude Oil (\$/barrel)		82.3	0.1	0	0	-1	7
VIX Index (% change in pp)		15.1	-0.1	1	1	-10	3

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

The US CPI report was stronger than expected, pushing Treasury yields and the dollar higher. US equity index futures fell back on the news. This is the second straight month of higher-than-expected US inflation. Investors worry that persistently high inflation could force the Fed into a more hawkish stance on interest rate policy.

US CPI Report

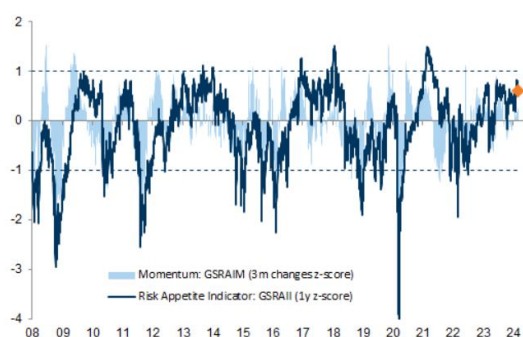
Source: Bloomberg

Variable	Consensus Forecast	Actual Data
CPI month-on-month	0.4%	0.4%
Core CPI mom	0.3%	0.4%
Annualized CPI	3.1%	3.2%
Annualized Core CPI	3.7%	3.8%

Risk sentiment remains very positive by historical standards. Analysis by Goldman finds that the appetite for risk among investors remains strong. A variety of risk-on indicators are signaling that the outlook is optimistic. Many equity indexes around the world are at or close to all-time highs. Credit spreads have narrowed and bond issuance volumes are at record levels for corporations. Emerging market bond issuance has also been strong and a number of frontier markets have managed to regain access to the global credit market. Volatility in both the bond and equity markets remains relatively low. The key to future market developments is how central banks react to the latest economic data, especially with regard to inflation. The Fed, ECB and BOE are all expected to deliver their first rate hikes in June. The BOJ is the outlier, with a turn to more hawkish policy the current baseline.

Exhibit 11: Risk Appetite Indicator (GSRAII)

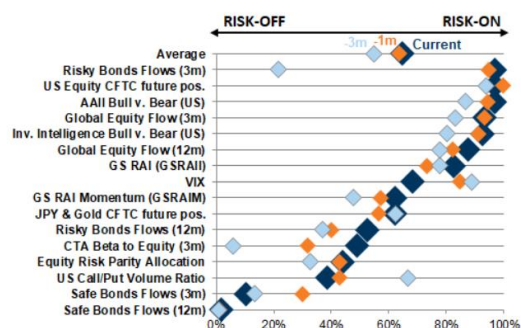
The RAI is based on 27 pair-trades across asset classes measured on z-scores rel. to last 2 years' performance, see July 2016 GOAL for details



Source: Goldman Sachs Global Investment Research

Exhibit 12: Percentile of sentiment indicators

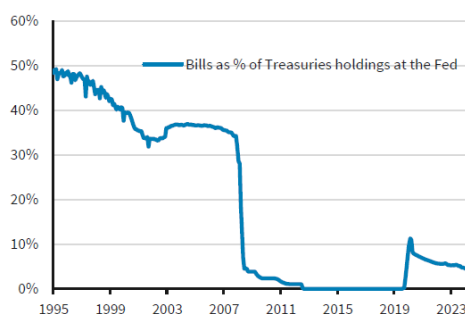
Data since 2007



Source: EPFR, Datastream, Haver Analytics, Goldman Sachs Global Investment Research

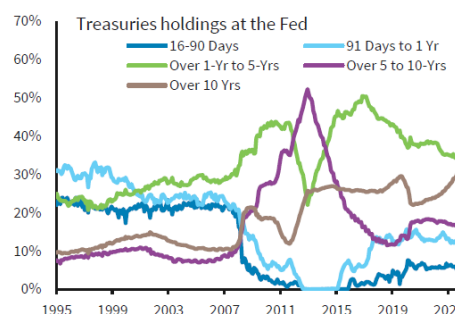
A potential shift in the Fed's holdings towards shorter maturities could put upward pressure on US rates. Fed Governor Waller recently expressed a preference for the Fed to hold more T-Bills than longer maturity notes and bonds. He noted that prior to the global financial crisis, the Fed held one-third of its holdings in T-Bills compared to around 5% of Treasury holdings today. The Fed increasing its holdings of T-Bills means that the private sector will have to absorb the longer maturity paper, which comes with higher interest rate risk. Some analysts worry that markets may react to this trend by pushing interest rates higher, creating more tensions within the financial system. Others are more optimistic, contending that US rates are at attractive levels and there will be plenty of buyers of the larger supply if the Fed does switch its purchases towards T-Bills.

FIGURE 14. Fed's Treasury portfolio has very little T-bills



Source: Haver Analytics, Barclays Research

FIGURE 15. Its portfolio is skewed towards longer dated securities



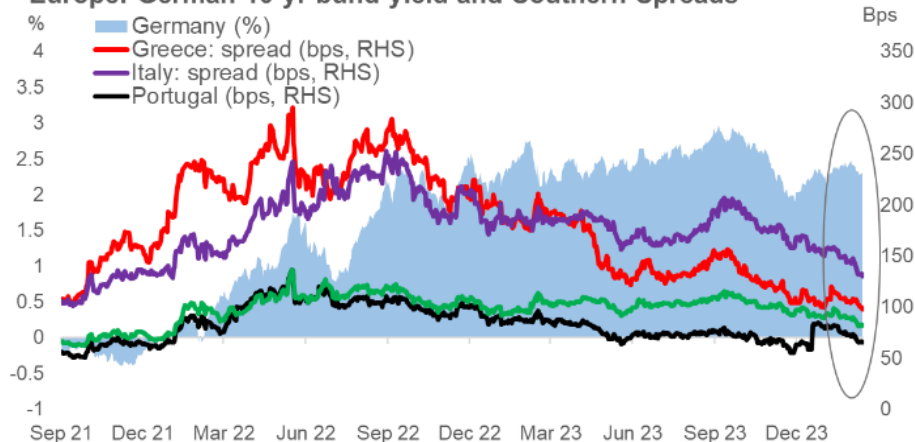
Source: Haver Analytics, Barclays Research

Europe

European equities opened higher with the STOXX 600 index up (+0.4%) and the banking sector outperforming (+1.2%). Media reports yesterday suggested that the ECB would keep the minimum reserve requirement unchanged at 1%, pushing bank stocks higher. Money markets are currently pricing in around 100bps of easing for 2024 with the first rate cut priced in for June, broadly unchanged since last week's policy meeting.

Italian spreads narrow back at levels last seen in Q1 2022 and analysts see the possibility of further tightening. The spread between 10-year Italian BTPs and 10-year German Bunds has tightened significantly to now close to 130bps, its lowest level since early 2022. Analysts argue that the recent Bund-BTP tightening is also the result of better growth as well as an improvement in fiscal and debt management in Italy. Looking ahead, Unicredit analysts think that spreads are likely to remain around present levels or even tighten further as Italian growth is forecast to outperform that of Germany, while the fiscal outlook is expected to continue favoring Italy. Moreover, analysts think the household sector in Italy can continue increasing its net purchases of BTPs while the expected ECB-rate cut cycle to start this year will also likely will see less pressure on spreads.

Europe: German 10-yr bund yield and Southern Spreads



Source: Bloomberg and IMF calculations

United Kingdom

Gilt yields eased after the UK jobs report was seen as slightly dovish for the BOE at the margin. Data released this morning showed annual private sector pay growth excluding bonuses easing to 6.1% in the three months to January versus expectations to remain unchanged at 6.2%, while vacancies continued

to decrease, and the three-month average unemployment rate increased to 3.9% (from 3.8%). JP Morgan analysts argue that the labor market still appears resilient but think today's report provides the BOE with more breathing space. **Markets have increased BoE rate cut expectations slightly, fully pricing in 75bps of rate cuts for 2024 (compared to 71bps priced in yesterday).**

Japan

Local markets declined ahead of next week's pivotal BOJ meeting, where the central bank is expected to end its zero interest rate policy (ZIRP). Key labor market negotiations are ongoing; large wage increases could affect central bank policy. There is speculation that the BOJ could also end Yield Curve Control and shift to monthly targets for Japanese Government Bond (JGB) purchases.

Emerging Markets

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EMEA markets were mixed. Equities outperformed in South Africa (+0.9%) and Türkiye (+0.7%) but underperformed in Egypt (-1.3%). **The Turkish lira was broadly unchanged** (to trade at 32.0/\$), while the South African rand was stronger against the dollar (+0.3% to 18.62/\$). **Stocks in Asia were stronger, led by Hong Kong SAR (+3.1%), which finally saw a burst of strength on tech buying after months of losses.** The central bank of Vietnam is reported to be intervening in the FX market to support the Vietnamese dong. **Latin American assets were mixed.** Stocks gained in Chile (1.2%) and Peru (0.7%) while Brazil's equity market declined by 0.8%. The Chilean peso depreciated 0.5% against the US dollar.

Emerging Market Bond and Equity Fund Flows

Emerging markets bond funds outflows almost tripled last week (-\$1.4bn, from -\$504mn). Both hard currency bond funds (-\$732mn, from -\$245mn) and local currency funds outflows increased (-\$679mn, from -\$258mn). The year-to-date flows currently stand at -\$6.3bn and +\$0.8bn for bonds and equities, respectively.

Figure 1: Weekly cross-asset flows

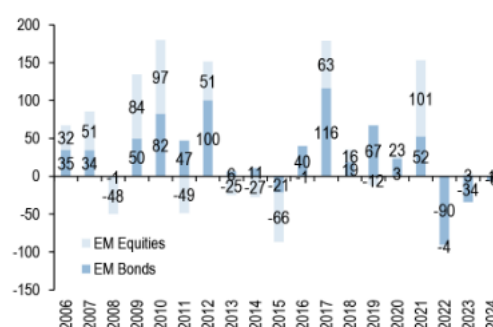
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-3.2	-5.5
EM Bonds		-1.4	-6.3
Hard Ccy		-0.7	-4.8
Local Ccy ^A		-0.7	-1.5
o.w. EM ex-China		-0.7	-0.9
o.w. China		0.0	-0.8
EM Equities		-1.8	0.8
US HG		8.8	78.3
US HY		0.9	5.5
Global Equities		0.5	9.0
EM Bond and Equity ETFs		-1.2	4.2
EM Bond ETFs		-1.0	-3.3
EM Equity ETFs		-0.2	7.5
Non-resident EM flows[*]		2.4	12.8

^{*}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

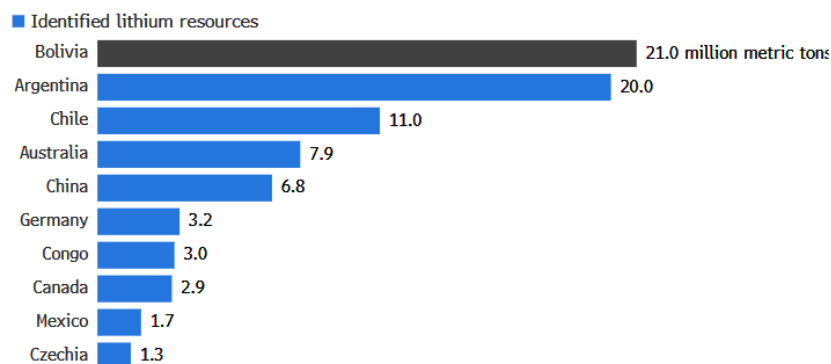
USD billion



Bolivia

Bolivia is contemplating the issuance of up to \$1 billion in green bonds to fund lithium mining projects, which are essential for electric vehicle batteries. The Economy Minister discussed the potential for capitalizing on clean energy investments, aiming to reduce borrowing costs to 10% or lower despite high levels of existing debt. The initiative aligns with the global shift towards clean energy, a contrast to the potentially higher costs of conventional bond sales. Despite Bolivia's possession of the world's largest lithium reserves, commercial extraction remains limited due to technical and logistical challenges.

Bolivia Is Home To the World's Biggest Lithium Deposits



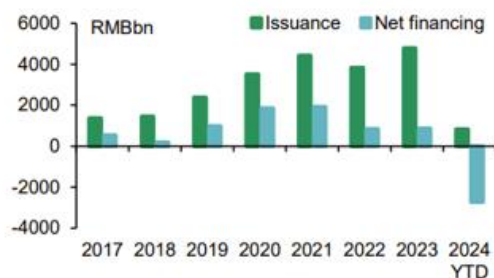
Source: US Geological Survey

Bloomberg

China

Regulators are reportedly asking banks to limit backing for offshore bonds issued by local government financing vehicles (LGFV). At least four commercial banks were asked last week to limit the use of standby letters of credit (SBLC), Bloomberg reported. The guidance was aimed at curbing debt issuance by LGFVs from China's county-level or less-developed regions with weaker repayment ability. A total of \$52 bn of offshore notes have been sold by Chinese companies with SBLCs from commercial banks since 2012, Bloomberg estimated. Separately, **Moody's downgraded China's second largest property developer Vanke's credit rating to junk and warned of further potential cuts.** The downgrade from investment grade credit rating (Baa3) to junk (Ba1) reflected Moody's expectations that several of the developer's credit metrics may weaken due to declining home sales and increased funding uncertainties. Vanke is in talks with banks on a debt swap that would help to avoid its first-ever bond default as its longer-dated dollar bonds are trading at distressed levels below 47 cents on the dollar, Bloomberg reported. Meanwhile, Vanke shares surged as much as 11% in Hong Kong SAR, on expectations that it will get continued funding support from the government. Meanwhile, **the People's Bank of China (PBOC) is expected to stay on hold on this week.** Banks' net interest margins are at historical lows and are likely to fall further following February's loan prime rate cut. This is limiting room for further policy rate cuts without commensurate reductions in deposit rates, Standard Chartered noted.

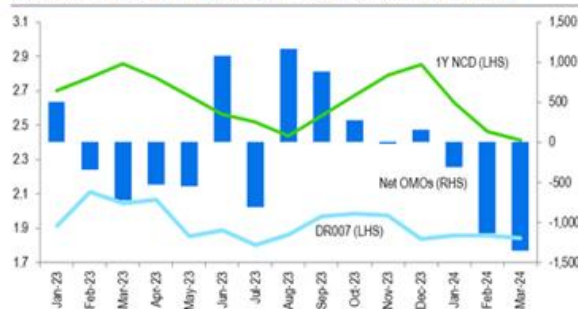
The issuance and net financing of LGFVs have declined significantly



Sources: WIND, BNP Paribas

Market interest rates fell despite sizeable liquidity withdrawal

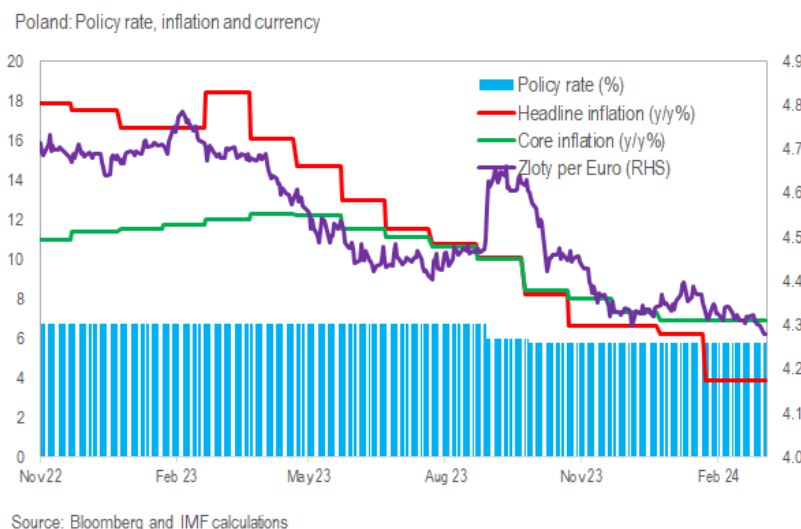
Market interest rates, % (LHS); net open market operations, CNY bn (RHS)



*The first eight days data for March 2024; Source: Wind, Standard Chartered Research

Poland

Poland tapped the international debt markets with an \$8bn bond sale. According to Bloomberg, Poland has sold a total of \$8bn worth of five, ten and thirty-year dollar-denominated bonds, with yields ranging from 4.79% to 5.58%, the largest dollar-denominated debt issue for the country. According to the Finance Ministry, the country has met more than half of this year's borrowing needs. Poland already sold €3.75bn of euro-denominated notes in January. The zloty reached a four-year high against the euro yesterday to trade at 4.3/€, although it is slightly lower this morning 4.27/€. Contacts cite the improved macro backdrop as well as expectations for interest rates to remain stable in the near-term as supportive factors for the currency.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (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), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (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

3/12/24 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		5130	-0.1	1	2	33	8
Europe		4939	0.2	1	4	17	9
Japan		38798	-0.1	-3	2	39	16
China		3597	0.2	1	7	-10	5
Asia Ex Japan		68	0.4	2	3	5	2
Emerging Markets		41	0.2	1	3	8	2
Interest Rates							
			basis points				
US 10y Yield		4.09	-1.2	-7	-9	39	21
Germany 10y Yield		2.29	-0.9	-3	-7	-21	27
Japan 10y Yield		0.77	1.1	6	4	36	16
UK 10y Yield		3.91	-6.0	-10	-15	27	37
Credit Spreads							
			basis points				
US Investment Grade		126	0.2	-3	-2	-35	-8
US High Yield		365	-0.1	-3	-8	-112	-20
Exchange Rates							
			%				
USD/Majors		102.85	0.0	-1	-1	-2	1
EUR/USD		1.09	0.1	1	2	2	-1
USD/JPY		147.5	0.4	-2	-1	11	5
EM/USD		46.9	0.0	0	0	-7	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		82.3	0.1	0	1	6	7
Industrials Metals (index)		142	0.3	3	7	-9	-1
Agriculture (index)		59	-0.2	2	-2	-12	-5
Implied Volatility							
			%				
VIX Index (% change in pp)		15.1	-0.1	0.7	1.2	-9.7	2.7
Global FX Volatility		6.7	0.0	0.2	-0.4	-3.7	-1.4
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		97	-2.6	-10	-16	-86	-7
Italy		129	-3.5	-10	-26	-52	-38
Portugal		65	-0.7	-4	-16	-22	2
Spain		82	-1.0	-4	-15	-22	-15

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

Emerging Market Financial Indicators

Last updated: 3/12/2024 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.18	0.1	0.3	0	-5	-1		2.4	2.5	3	-3	-78	-14		
Indonesia		15590	0.4	0.7	0	-1	-1		6.6	-1.0	0	1	-43	15		
India		83	0.0	0.1	0	-1	1		7.2	1.0	-4	-4	(39.8)	-5		
Philippines		55	0.1	1.2	1	-1	0		5.5	0.0	7	8	-52	-12		
Thailand		36	-0.5	0.7	1	-3	-4		2.5	-1.8	-10	-11	1	-23		
Malaysia		4.68	0.1	1.2	2	-4	-2		3.8	0.1	-3	1	-13	8		
Argentina		848	-0.1	-0.4	-2	-76	-5		67.5	-377.1	-345	-676	-2157	-1892		
Brazil		4.97	0.1	-0.3	0	6	-2		10.8	2.4	13	7	-228	44		
Chile		967	-0.1	1.3	0	-17	-9		5.0	0.0	-7	5	-17	8		
Colombia		3914	-0.3	0.7	0	22	-1		7.6	0.0	-6	3	-181	-8		
Mexico		16.82	-0.1	0.8	2	12	1		8.6	1.5	-3	-6	-11	14		
Peru		3.7	0.0	2.2	5	3	0		7.0	0.3	12	30	-110	34		
Uruguay		39	0.1	0.5	1	1	0		8.9	-1.3	-4	-15	-138	-58		
Hungary		363	-0.6	-0.1	-1	1	-4		6.0	2.0	-3	-9	-226	19		
Poland		3.92	0.0	1.3	2	11	0		4.8	0.6	6	4	-36	37		
Romania		4.5	0.1	0.8	2	1	-1		6.4	0.5	2	10	-89	16		
Russia		91.2	-0.8	-0.3	0	-17	-2									
South Africa		18.6	0.6	2.1	2	-2	-1		9.4	0.5	-11	-5	22	25		
Türkiye		32.05	-0.1	-1.2	-4	-41	-8		27.0	-84.0	-141	43	1538	21		
US (DXY; 5y UST)		103	0.0	-0.9	-1	-2	1		4.08	-0.4	-6	-5	12	24		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	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	YTD		
									basis points						
China		3597	0.2	1	7	-10	5		155	2	-5	-16	-3		
Indonesia		7382	0.0	1	2	9	2		108	2	-2	-58	12		
India		73668	0.2	0	3	26	2		111	6	-5	-42	-5		
Philippines		6880	0.1	0	1	5	7		92	3	0	-42	12		
Thailand		1380	0.0	1	-1	-12	-3		0	0	0	0	0		
Malaysia		1555	0.6	1	2	9	7		87	4	-2	-9	2		
Argentina		957778	-4.4	-9	-15	305	3		1711	111	-298	-586	-202		
Brazil		126124	-0.8	-2	-1	22	-6		221	8	2	-59	6		
Chile		6416	1.2	3	5	19	4		133	4	-3	-20	8		
Colombia		1298	-0.1	0	4	9	9		306	3	-16	-116	35		
Mexico		55076	0.3	-1	-4	4	-4		330	5	-2	-66	-4		
Peru		28927	0.7	1	5	34	11		146	4	-7	-48	2		
Hungary		65837	0.4	0	2	53	9		162	4	-8	-74	13		
Poland		80577	0.3	0	1	35	3		104	7	-6	17	7		
Romania		16238	0.0	0	3	31	6		202	1	2	-56	1		
South Africa		73869	0.5	2	0	-3	-4		351	3	-3	-43	43		
Türkiye		9143	0.1	3	0	70	22		330	-3	-2	-148	16		
Ukraine		507	0.0	0	0	0	0		3751	-49	-578	-1049	-253		
EM total		41	0.9	1	3	8	2		317	2	-35	-91	-28		

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

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