



- Growing signs that inflation in the US remains stickier ([link](#))
- ECB's operational framework review mostly in line with analyst expectations ([link](#))
- Slowing inflation in Sweden is firming expectations for a rate cut ([link](#))
- Argentina swapped \$50.4 billion of its local currency treasury debt ([link](#))
- El Salvador removed income tax for overseas investments ([link](#))
- Bank of Korea signals no rate cuts in 1H24 ([link](#))
- Türkiye to launch 6y euro-denominated debt sale ([link](#))

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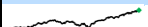

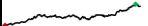



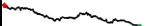
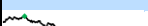



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## Global Interest Rate Markets Are Mixed While Risk Assets Trade Higher

This morning's major release of US economic data of the week confirms that inflation is not going down as quickly as thought. Retail sales printed a little lower than expected while the monthly increase of producer prices doubled from last month and what analysts expected and a big downside surprise in jobless claims, which confirms the narrative that inflation remains stickier. In reaction, 2y Treasury yields continue to rise for a fourth consecutive day while the dollar strengthened. The S&P500 and Nasdaq 100 futures rose in early trading and only fractionally correcting on the news while the Stoxx 600 index in Europe has reached another all-time high. The US dollar and crude oil have been appreciating with the rise in the latter being influenced by Ukrainian attacks on Russian refineries. Abroad, Japanese government bond yields closed higher on a 20y bond auction with weak investor demand ahead of the Bank of Japan decision looming ahead next week. Bund yields declined on dovish remarks from Bank of Greece's Governor Stournaras. In other news, Thailand's Securities and Exchange Commission plans to tighten bond sales criteria after increase in payment defaults and is seeking opinions before implementation.

Key Global Financial Indicators

Last updated: 3/14/24 8:49 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5165	-0.2	1	3	32	8
Eurostoxx 50		5022	0.4	1	7	20	11
Nikkei 225		38807	0.3	-2	2	43	16
MSCI EM		41	-0.3	2	4	9	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.21	2.0	13	-5	52	33
Germany 10y Yield		2.37	0.6	7	4	-5	35
EMBIG Sovereign Spread		356	-5	-11	-29	-130	-27
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.1	0.1	0	1	-6	-2
Dollar index, (+) = \$ appreciation		102.9	0.1	0	-2	-1	2
Brent Crude Oil (\$/barrel)		84.6	0.7	2	4	9	10
VIX Index (% change in pp)		13.6	-0.2	-1	-1	-10	1

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

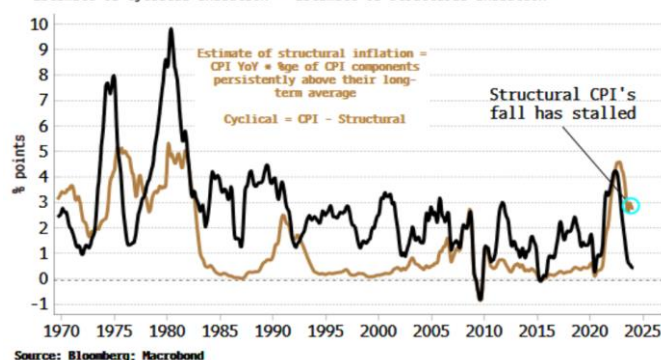
**This morning, February PPI came in hotter than expected (+0.6% m/m and +1.6% y/y versus +0.3% m/m and +1.2% y/y consensus).** Core PPI, excluding food and energy, was also hotter (+0.3% m/m and +2.0% y/y versus +0.2% m/m and +1.9% y/y consensus). Meanwhile, headline retail sales gained 0.6% m/m (versus 0.8% consensus) as car sales rebounded and gasoline prices declined. Excluding cars and gas, sales rose 0.3% m/m as expected (0.3% consensus). Treasury yields rose +3bps following headlines across tenors, and the dollar strengthened +0.1% against major currencies. S&P 500 futures were marginally lower, down -0.1%.

**Equities were marginally lower Wednesday and retreated from their all-time highs,** led by the information technology sector. Treasury yields increased Wednesday morning but stabilized after a 30-year bond auction saw robust investors' demand. In the money market, balances at the Fed's overnight reverse repurchase agreement facility increased to \$521.7 bn on Wednesday from \$476.9 bn two weeks ago. Demand for the facility tends to increase on days when there are no Treasury bills settling, as cash is not withdrawn from the funding markets to finance those purchases.

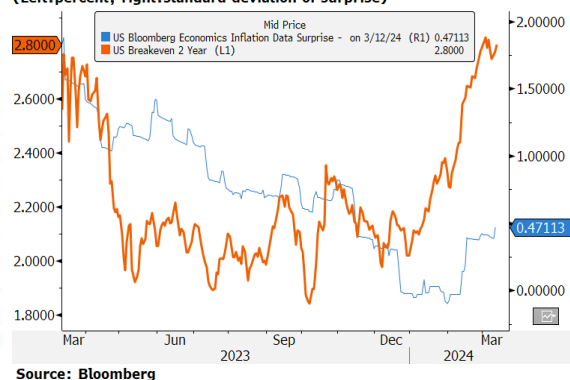
**CPI inflation is becoming stickier.** According to Bloomberg analysts, structural CPI—defined as the index components that are persistently above their long-term average—has stalled at an elevated level, while cyclical CPI, which includes all the components not counted as structural CPI, has driven most of the decline in the headline CPI (left chart). While cyclical CPI might continue falling, there are three forces that point to a turn towards a re-acceleration in cyclical CPI: robust corporate profits, supply constraints, and potential recovery in China. Furthermore, also Banks' lending standards have recently eased again, also pointing to a turn in CPI. Indeed, the economic inflation data surprise index retraced in the first half of March, reflecting that recent inflation prints surpassed consensus expectations, and 2-year breakeven inflation has increased +80 bps to 2.8% since the beginning of the year (right chart). The market-implied amount of rate cuts this year has decreased to three times from more seven at the start of the year.

**US CPI Is Becoming Entrenched**

— Estimate of Cyclical Inflation — Estimate of Structural Inflation



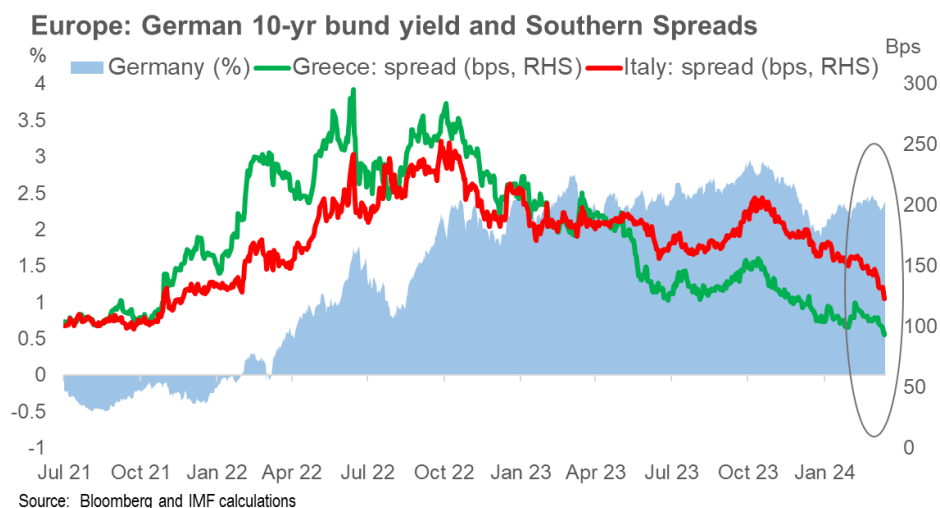
**US 2y Breakeven and Inflation Surprise Index**  
(Left: percent; right: standard deviation of surprise)



### Euro Area

**This morning, European markets benefited from positive sentiment as equities reach new record highs and the Italian-Germany 10y yield spread narrows to the lowest level since November 2021.** The STOXX600 gained +0.3% while the banking sector moved fractionally lower (-0.1%). The euro fractionally changed against the dollar, trading at around \$1.09/€. Euro area sovereign bond yields were little changed this morning with the 10y bund yield trading at around 2.37%, now roughly +10bps since Monday. Southern spreads, however, continue to tighten with the spread between 10y Italian BTPs and German Bunds narrowing by -3bps to 120bps. This morning, ECB Governing Council member and Bank

of Greece Governor Stournaras opined that it could be appropriate for the ECB to cut rates twice before the summer break, with four rate cuts by end-2024.

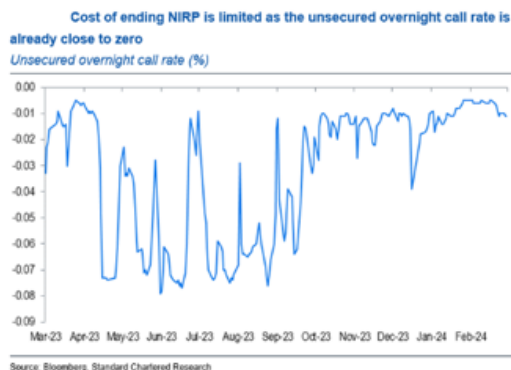


**The outcome of the ECB's operational framework was in line with analyst expectations.** The ECB confirmed that it would continue to steer monetary policy using the deposit facility rate (DFR), while main refinancing operations (MROs) will play a key role in meeting banks' liquidity needs. The spread between the MROs and the DFT will be narrowed to 15bps (from 50bps) in September 2024. Market contacts see the framework as a demand-led floor system with structural supply-side elements. Also, yesterday's announcement confirmed that the ECB's current bond holdings would continue to run off for the time being while the ECB will introduce new structural longer-term refinancing operations and a structural portfolio of securities at a later stage. The reserve ratio for determining banks' minimum reserve requirement (MRR) remains unchanged at 1%, which market contacts perceived as marginally dovish as some Governing Council members last year expressed preference for a higher MRR. However, market contacts note that the announcement did not address questions relating to the ultimate size of the balance sheet, and that it remained vague on the introduction of structural longer-term operations and a new structural securities portfolio. Contacts do not see implications for the monetary policy outlook.

## Japan

**Japanese equities continued to rally, up +0.5%.** Japan's retail investors bought the most domestic stocks last week since December, about net ¥327 bn (\$2.2 bn) of cash equities. Foreign investors, who have been the main driver of the market rally, added ¥176 bn.

**Local media reiterates that the Bank of Japan (BOJ) may discuss dropping its negative interest rate policy (NIRP) at next week's meeting.** As the unsecured overnight call rate is close to zero (left chart), Standard Chartered analysts argue that costs of ending NIRP are limited. Meanwhile, a Bloomberg survey reveals that market participants expect the BOJ to avoid aggressive hikes following the rate lift-off, arguing that currency appreciation by year end remains nimble reaching ¥140/\$ (from previously ¥135/\$), which though still surpasses forward pricing of ¥142/\$ and then yen depreciated -0.1% to ¥147.83/\$ on the day. Within Japanese government bonds, yields at the 10y tenor rose by +1.2bps to 0.77% while those at the 20y tenor rose by up to +3.5bps to 1.56% following a bond auction with weak investor demand.



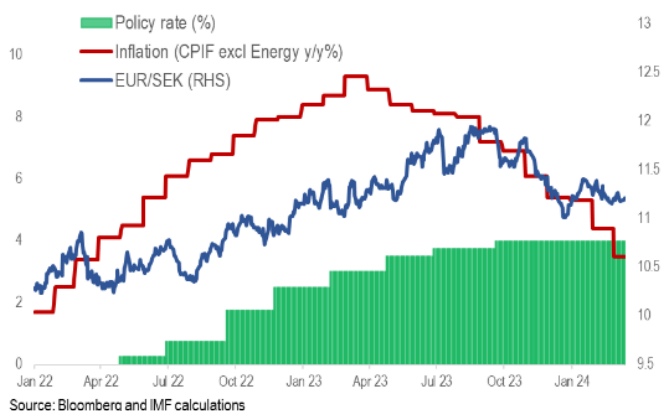
Analysts Cut Forecasts as Yen Weakness Persists



## Sweden

**A downside inflation surprise reinforces expectations for Riksbank rate cuts.** Today's core inflation print for February reached its lowest level in two years, declining to 3.5% (exp. 3.6% from 4.4%), which is well below the Riksbank's November MPR projection. Headline inflation eased to 2.5%/y (exp. 2.8% from 3.3%). At the Riksbank's most recent policy meeting in February, the central bank left its policy rate unchanged at 4%, as expected, but hinted at the possibility of rate cuts in H1 2024. Today's inflation data fuels analyst expectations for the first rate cut either in May or June, with markets pricing in roughly -15bps of easing by May (compared to -13bps priced in yesterday). The Swedish krona marginally depreciated against the euro this morning (-0.1% at around 11.20/€), reflecting a ytd -0.6% depreciation.

Sweden: Policy rate, Inflation, and Currency



## Emerging Markets

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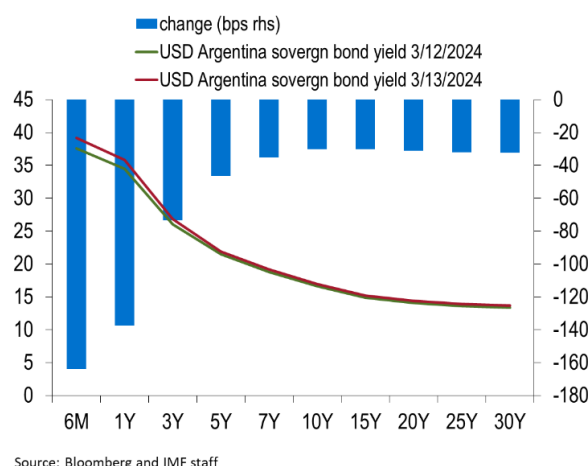
**Asian equities diverged across countries while currencies remained flat.** In the region, stock markets increased +0.2% on net. South Korea (+0.9%) and Singapore (+0.8%) gained, Hong Kong SAR (-0.7%) declined. The Thai baht outperformed +0.2%, while South Korean won depreciated (-0.3%). Thailand's Securities and Exchange Commission plans to tighten bond sales criteria after increase in payment defaults and is seeking opinions before implementation. Some of the key proposals include: i) issuers, who default or postpone a payment on existing bonds can only sell new subordinate debt securities, ii) issuers must disclose breach of financial covenants, and iii) additional financial ratios.

**EMEA markets posted mixed results.** Equities outperformed in Hungary (+0.5%) but underperformed in South Africa (-0.4%). The Turkish lira was a tad weaker (-0.1%) to trade at 32.1/\$. CEE currencies were mostly weaker against the euro, except for the Hungarian forint which gained +0.3% to trade at 394.9/€ on headlines that the government will hold more talks with stakeholders on the draft central bank bill which would allow government delegates to supervise central bank activities more closely. The Polish zloty was weaker following commentary from some central bank policymakers suggesting that rate cuts in 2024 is a possibility. Elsewhere, Bloomberg reports that Nigeria is planning its first Eurobond issue since 2022 by June of this year. Additional details of the issue, including size, were not yet available.

**On Wednesday, Latin American stock markets and currencies appreciated.** Stocks gained in Mexico (1.7%), Colombia (0.4%) and Peru (0.8%). Against the US dollar, Currencies appreciated in Mexico (0.8%), Chile (1.5%), Mexico (-0.6%) and Colombia (0.5%).

## Argentina

**Argentina swapped 42.6 tn pesos (\$50.4 bn) of its local currency treasury debt.** The swap covers about 77% of peso debt due in 2024. The auction extended bond maturities to between 2025 and 2028. It is the largest debt rollover in Argentina's history. This reduced pressure from Argentina to print money for debt repayments. Following the announcement, Argentina's bonds surged across the curve, outperforming many emerging market peers, with dollar-denominated bonds rising significantly. Meanwhile, S&P downgraded Argentina's local currency debt rating from CCC- to SD, while affirming the foreign currency debt rating at CCC- with a negative outlook.



## El Salvador

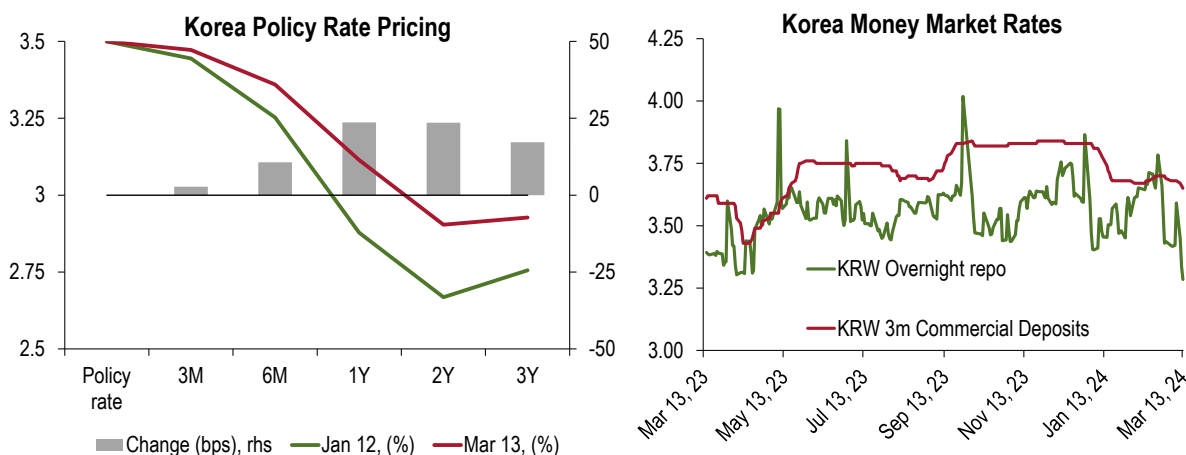
**El Salvador removed income tax for overseas investments and remittances.** The country aims to attract capital and wealthy foreigners under President Nayib Bukele's initiative. The unanimous congressional vote reduced the tax from 30% to 0%, without specifying the fiscal cost of this decision. This move aligns with Bukele's efforts to make the country appealing to cryptocurrency enthusiasts, especially after adopting Bitcoin as a legal tender. Concerns about the nation's financial health persist, highlighted by the recent dip in El Salvador's dollar bonds. In November last year, S&P Global Ratings upgraded El Salvador's credit rating on its long-term foreign currency debt from CCC+ to B-, which remains in the sub-investment grade category.





## South Korea

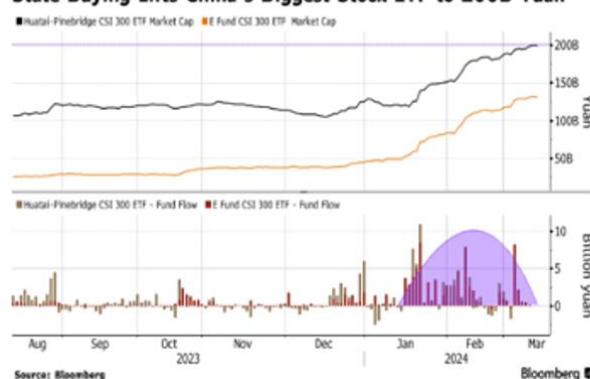
**Bank of Korea's (BoK) Deputy Governor Mr. Lee stated a 'near zero probability' for a rate cut during the first half of this year.** He also hinted at monetary policy guidance for 2H24 at the May meeting. Earlier this year, some market participants mulled that the BoK could start reducing policy rate ahead of the Fed while market pricing has essentially priced out cuts during the first half of the year since BoK's January meeting (left chart). Meanwhile, overnight repo rates plunged to as low as 3.28% on Wednesday, the lowest level since March 2023 (right chart).



## China

**Chinese equities declined (CSI -0.3%) and the Renminbi weakened -0.1% while 10y bond yields saw little change.** Within stock markets, state backed funds have lifted China's biggest stock ETF to a 200bn yuan (\$27.8bn) market capitalization (left chart). In currency markets, Bank of America market contacts note that the difference between the PBoC daily fixing and estimates remains high (right chart). Within news, China urged US to stop "unreasonably suppressing" Tiktok, as the US House of Representatives overwhelmingly passed a bill to ban Tiktok in US unless it is divested.

### State Buying Lifts China's Biggest Stock ETF to 200B Yuan



### USDCNY exchange rate with daily fixing

The daily fixing's difference remained at high level while USDCNY remained stable at 7.2



Source: Bloomberg. Note: data as of Mar 13

BoFA GLOBAL RESEARCH

**Analysts mull that China is considering the issuance of ultra-long government bonds.** Local media cited analysts floating the idea that ultra-long government bonds could help ensuring funding for strategic projects with market contacts being constructive that the flexibility to issue debt with longer maturities could be a useful addition to the sovereign's debt management toolkit. Meanwhile, investors appear getting more comfortable absorbing longer duration bonds issued by local government financing vehicles (LGFVs), as

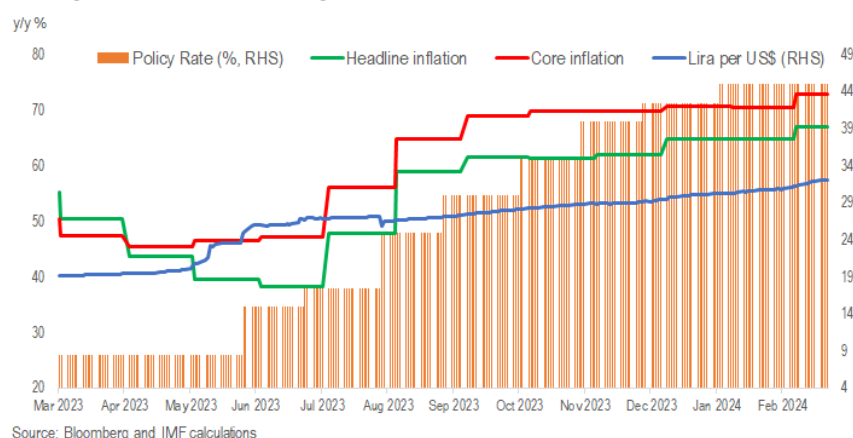
shown by a recent 20y bond issuance by the LGFV from the city of Hangzhou which was the second one in this tenor since September 2021.

## Türkiye

**Türkiye to launch 6-year euro-denominated debt sale.** According to Bloomberg, the country has mandated several banks for the sale of a six-year euro-denominated bond as it looks to capitalize on its recent credit rating upgrade from Fitch to B+ from B, as well as investor appetite for riskier debt which could price today. The Turkish Treasury has said that it has a borrowing target of \$10bn for this year and has already raised \$3bn so far. The lira was trading a touch weaker (-0.1%) against the dollar at 32.1/\$.

**Bloomberg analysts argue that latest liquidity measures have helped slowing the lira depreciation.** They estimate that those measures are equivalent to +230bps of rate hikes. Going forward, Bloomberg analysts expect that further rate hikes might be needed to slow the rate of headline inflation that currently stands at 67.1% y/y.

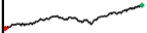

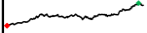







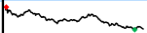
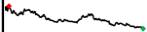







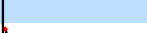





Türkiye: Inflation and currency



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## Global Financial Indicators






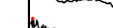
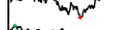



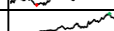

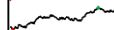





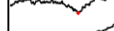
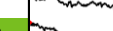
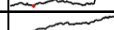
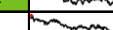
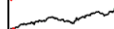



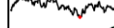











3/14/24 8:49 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5169	-0.2	0	3	32	8
Europe		5024	0.5	1	7	20	11
Japan		38807	0.3	-2	2	43	16
China		3562	-0.3	1	6	-11	4
Asia Ex Japan		68	-0.5	2	5	5	3
Emerging Markets		41	-0.3	2	4	9	3
<b>Interest Rates</b>			basis points				
US 10y Yield		4.21	2.0	12	-5	52	33
Germany 10y Yield		2.37	0.6	7	4	-5	35
Japan 10y Yield		0.78	1.0	5	2	50	16
UK 10y Yield		4.01	-1.1	1	-3	52	47
<b>Credit Spreads</b>			basis points				
US Investment Grade		123	-0.1	-5	-3	-44	-11
US High Yield		352	-0.5	-14	-23	-140	-33
<b>Exchange Rates</b>			%				
USD/Majors		102.87	0.1	0	-2	-1	2
EUR/USD		1.09	-0.1	0	2	2	-1
USD/JPY		147.7	0.0	0	-2	10	5
EM/USD		47.1	0.1	0	1	-6	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		84.6	0.7	2	4	15	10
Industrials Metals (index)		142	-0.6	1	7	-9	0
Agriculture (index)		59	-0.2	1	0	-11	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.5	-0.2	-0.9	-0.9	-10.2	1.1
Global FX Volatility		6.5	0.0	-0.3	-0.8	-4.4	-1.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		91	-2.9	-12	-22	-101	-13
Italy		117	-6.2	-15	-35	-68	-51
Portugal		61	-2.8	-5	-18	-29	-3
Spain		77	-2.8	-5	-16	-30	-20

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



## Emerging Market Financial Indicators

Last updated: 3/14/2024 8:55 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.19	-0.1	0.0	0	-4	-1		2.4	1.0	5	-3	-76	-15
Indonesia		15582	0.0	0.5	0	-1	-1		6.6	1.0	1	0	-9	16
India		83	0.0	0.0	0	0	0		7.2	0.0	1	-10	(35.9)	-5
Philippines		55	0.0	0.8	1	-1	0		5.4	0.0	-7	0	-54	-20
Thailand		36	0.3	-0.1	1	-3	-4		2.5	2.7	-3	-12	2	-21
Malaysia		4.69	0.0	0.4	2	-4	-2		3.8	-0.5	0	-1	-3	10
Argentina		850	-0.5	-0.5	-2	-76	-5		56.3	-253.5	-1225	-1793	-3305	-3009
Brazil		4.96	0.2	-0.6	0	6	-2		10.8	2.6	8	-2	-243	44
Chile		945	0.1	3.9	1	-15	-7		5.1	0.0	14	6	-20	15
Colombia		3904	0.5	0.4	1	22	-1		7.6	0.0	14	7	-177	0
Mexico		16.67	0.0	1.2	2	12	2		8.6	0.0	5	-17	-7	17
Peru		3.7	0.2	1.7	6	3	1		7.0	-0.2	6	24	-90	31
Uruguay		39	0.5	0.9	2	2	1		8.9	-1.4	-4	-15	-138	-58
Hungary		361	0.3	0.1	0	1	-4		6.0	7.0	6	-12	-232	26
Poland		3.93	-0.4	0.1	3	12	0		4.9	-2.5	9	9	-46	45
Romania		4.5	-0.1	-0.2	2	1	-1		6.4	2.9	8	12	-73	21
Russia		91.7	-0.4	-1.2	0	-17	-2							
South Africa		18.6	-0.2	0.3	2	-3	-1		9.4	4.6	4	6	25	33
Türkiye		32.12	-0.1	-0.7	-4	-41	-8		26.9	1.0	-105	42	1567	17
US (DXY; 5y UST)		103	0.0	0.0	-2	-1	1		4.22	2.3	15	-2	37	37

	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		3562	-0.3	1	6	-11	4		153	-1	-4	-20	-5	
Indonesia		7433	0.2	3	2	12	2		104	-11	5	-64	8	
India		73097	0.5	-1	1	27	1		108	-3	-5	-54	-8	
Philippines		6968	0.0	2	1	8	8		89	-9	8	-46	9	
Thailand		1395	0.8	2	1	-11	-1		0	0	0	0	0	
Malaysia		1544	0.4	1	1	10	6		86	-1	-1	-12	1	
Argentina		1050711	2.3	5	-5	377	13		1590	-37	-453	-741	-323	
Brazil		128006	0.3	-1	1	24	-5		216	-3	3	-73	1	
Chile		6470	-0.2	2	6	22	4		127	-5	-5	-29	2	
Colombia		1284	0.4	-2	4	11	7		293	-13	-20	-139	22	
Mexico		55849	1.7	1	-2	6	-3		325	-1	-8	-79	-9	
Peru		29053	0.8	1	4	33	12		141	-3	-7	-55	-3	
Hungary		65527	-0.1	-1	1	57	8		156	-8	-6	-80	7	
Poland		82059	0.5	3	3	41	5		100	-4	-2	-1	3	
Romania		16263	0.2	0	4	31	6		195	-10	1	-59	-6	
South Africa		73724	-0.7	0	1	-2	-4		343	-12	-16	-53	35	
Türkiye		8929	0.2	-1	-2	71	20		318	-23	1	-170	4	
Ukraine		507	0.0	0	0	0	0		3765	-40	-621	-1057	-239	
EM total		41	0.0	2	4	9	3		307	-12	-42	-108	-38	

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

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