



- The Fed could signal less rate cuts for 2024 at its meeting next week ([link](#))
- Leveraged investors increase their exposures to Gold and Bitcoin ([link](#))
- Expectation is for the BoE to keep policy rates unchanged ([link](#))
- The BOJ reportedly prepares an end of its negative interest rate policy ([link](#))
- The People's Bank of China drained liquidity for the first time since 2022 ([link](#))
- Brazil is projected to lower the production of agricultural produce and exports ([link](#))

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Contrasting Perspectives Emerge Amid Inflation Debate

A rift emerges among market participants on the implications of recent US data releases for financial conditions. Some foresee the possibility of that a continuing trend of slowing inflation amid the Fed holding rates unchanged could passively tighten financial conditions. Others see the slew of recent incoming data as indicative that inflation remains stickier, which raises the increasing concern that financial conditions might remain persistently loose amid abundant liquidity or a higher natural rate of interest. With no rate cut expected for the Fed meeting next week, the attention is on the updated Summary of Economic Projections and the dot plots. The concern lies in potential upward adjustments to lower Fed Fund dots, which could elevate the median and signal less rate cuts. In Japan, there is growing anticipation that the Bank of Japan will hike interest rates next week after the biggest union group announced the most substantial wage increase in over three decades, which is seen to provide the remaining impetus to prompt a policy rate liftoff. In Emerging Markets, the Central Bank of Ukraine delivered a surprise rate cut yesterday on account of further declining inflation, stable currency market conditions and positive developments in the prospects of receiving external assistance.

Key Global Financial Indicators

Last updated: 3/15/24 8:31 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5150	-0.3	0	2	32	8
Eurostoxx 50		5020	0.5	1	6	24	11
Nikkei 225		38708	-0.3	-2	1	42	16
MSCI EM		41	-0.5	0	3	10	2
Yields and Spreads			bps				
US 10y Yield		4.29	0.0	22	6	84	41
Germany 10y Yield		2.44	1.2	17	8	31	41
EMBIG Sovereign Spread		354	-2	-13	-35	-125	-29
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.0	0.2	0	0	-5	-2
Dollar index, (+) = \$ appreciation		103.3	0.0	1	-1	-1	2
Brent Crude Oil (\$/barrel)		84.8	-0.8	3	2	15	10
VIX Index (% change in pp)		14.2	-0.2	-1	0	-12	2

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

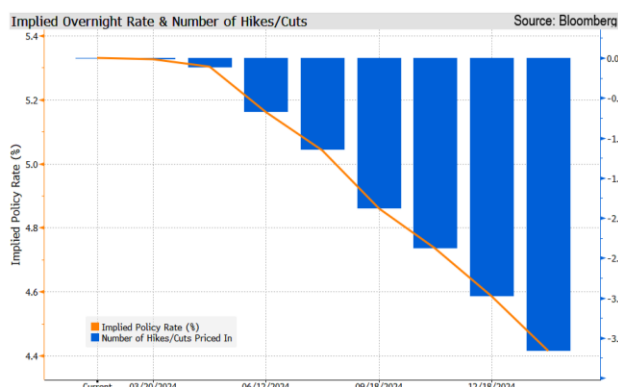
Mature Markets

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United States

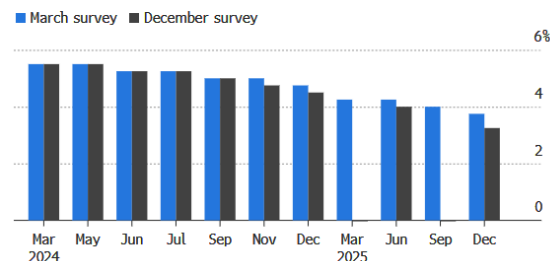
Equities traded lower, and rates were higher Thursday following the hotter-than-expected February PPI in the morning, which influenced Fed policy expectations. Analysts see that the growing expectation that the Bank of Japan would end its negative interest rate policy (NIRP) next week could also have played a role, as it has helped to anchor yields globally.

The Fed dot plot for policy rates is expected to be revised. Market pricing is now for a first rate cut in July, and the market implied December policy rate stands at 4.59%, closely aligned to the most recent Fed Funds median dot plot at 4.625% by year-end 2024, which the Fed last updated at its December meeting last year (left chart). Given that an update of the Summary of Economic projections is imminent at the Fed meeting next week, a growing number of market contacts see a push factor of a potential upward revision to the median Fed Fund dot towards 5.0% in the growing signs that inflation might become stickier. However, some market contacts see slowing real activity—for example seen in the weaker retail sales for February and also the decline of GDP nowcasts such as the Atlanta Fed's GDPNow measure—as a pull factor that might keep larger upward revisions of the year-end 2024 Fed Funds median dot in check. The prevailing sentiment among a majority of market participants is that the Fed will still deliver three or more cuts in 2024, with only approximately one third among market participants expects two or fewer cuts, as a Bloomberg survey published today shows (right chart). However, the survey was conducted prior to the yesterday's release of PPI and retail sales data, which might have affected the sentiment since then.



First Fed Rate Cut Expected by Economists in June

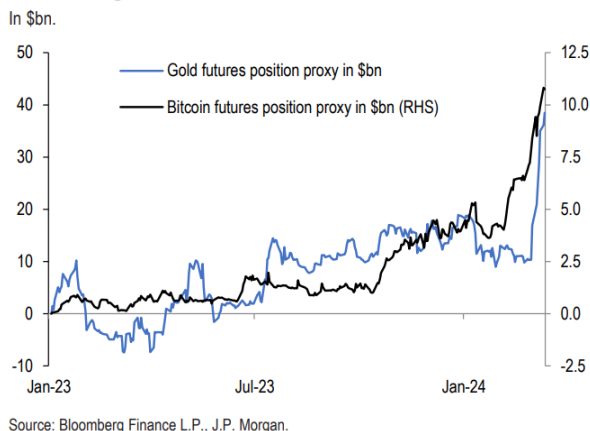
Three quarter-point reductions are seen this year by median economist



Source: Bloomberg News survey of economists March 8-13
Note: Projections for March and September 2025 were not collected in the December survey.

Speculative investors are seen to have bolstered the recent surge in gold and Bitcoin prices via leveraged positions within the futures market. According to futures markets positioning proxies by JP Morgan analysts—which approximate futures positioning using cumulative open interest changes multiplied by the sign of the price change—speculative investors positioning in both assets markedly increased since February. Latest news relating to MicroStrategy, a software company recognized as the largest non-mining public holder of Bitcoin, are viewed as an additional catalyst propelling the upward trajectory of Bitcoin prices in recent days. The company yesterday announced that it acquired over \$800mn of Bitcoin over the last few weeks, funded through the sale of convertible notes. Year-to-date, MicroStrategy has bought over \$1 bn of Bitcoin after over \$1bn of purchases in Q4 last year and the company further aims at

Figure 4: Implied cumulative position build up by speculative investors in gold and CME bitcoin futures



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

raising an additional \$500mn of convertible senior notes to buy more Bitcoin for general corporate purposes. Accordingly, market contacts are becoming increasingly apprehensive that those debt-funded Bitcoin purchases could add froth to the current rally among cryptocurrencies, which could increase the risk of sudden deleveraging in a potential price correction.

Euro Area

This morning, European markets saw minor change. The STOXX 600 index inched marginally higher (+0.2%), retracing from yesterday's feeble decline (-0.2%). The banking sector outperformed the broader market (+0.5%). The euro marginally appreciated versus the dollar trading at around \$1.09/€. Euro area sovereign bond yields flatlined around 2.43% after selling off yesterday (+6bps) in the follow-through of yesterday's upbeat US PPI data. The 10y Italian-Germany bond spread remained at 126bps. Within news, ECB Governing Council member Stournaras stated yesterday that he viewed that the ECB's monetary policy has been successful in achieving a soft landing for the euro area—noting the absence of a recession.

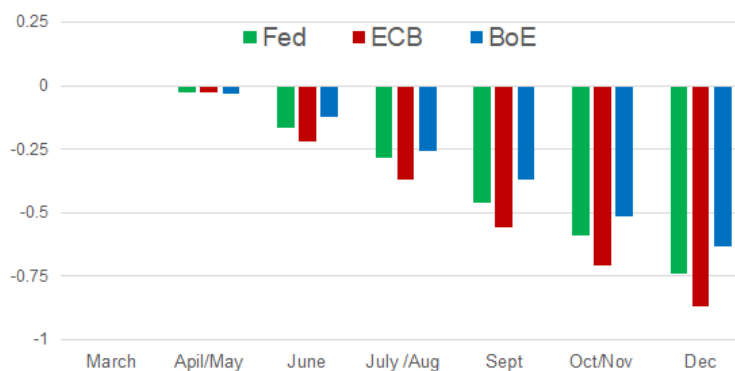
United Kingdom

The BoE is expected to keep its policy rate unchanged at the upcoming MPC meeting next week.

Several analysts expect the BoE to reiterate its February guidance that Bank Rate “will need to remain restrictive for sufficiently long to return inflation to the 2% target”. Market pricing and analysts expectations are aligned with expectations for the policy rate to remain unchanged at 5.25% at the BoE MPC meeting next Thursday, however views are mixed about when

interest rate cuts could start. Deutsche Bank analysts continue to expect a first rate cut in May, albeit with low conviction, and still see the Bank Rate easing to 3% by summer next year. Citi analysts maintain expectations for a first rate cut in June, while acknowledging a first rate cut in May as a possibility, which is at odds with ING analysts who expect a first rate cut in August. Given recent mixed data releases with weaker wage data but stronger GDP, market contacts underscore the importance of the UK inflation data release next Wednesday, a day before the BoE meeting. In the meantime, the UK BoE/Ipsos inflation attitudes survey for February shows 12-month median inflation expectations falling to 3% from 3.3% in November. Markets are now pricing in roughly -62bps of BoE rate cuts in 2024, with -25bps of rate cuts by August. Separately, Rishi Sunak ruled out a UK general election on May 2, according to Bloomberg.

OIS Implied rate changes for upcoming Fed, ECB and BoE meetings (%)



Sources: Bloomberg and IMF staff calculations

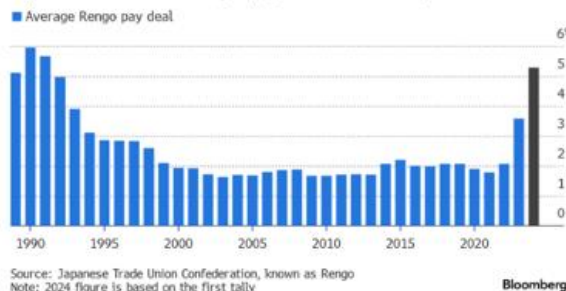
Japan

The Bank of Japan (BOJ) reportedly makes final arrangements to end its negative interest rate policy at next week meeting. The headline emerged from Jiji Press after an announcement indicating that Japan's largest union group, Rengo, had secured the most substantial wage increase in over three decades, although the news did not provide additional details. As for the wage increase, **Rengo announced a +5.28% wage increase at first tally**, surpassing last year's initial increase of +3.8% (left chart). Market participants suggest that the wage increase aligns with the Bank of Japan's expectations, thereby strengthening the likelihood of a hike in March which moved to as much as 70% during the day as implied by short-dated interest rate forward pricing. In a separate development, Finance Minister Suzuki remarked that, based on recent price trends, the government perceives Japan as not currently experiencing

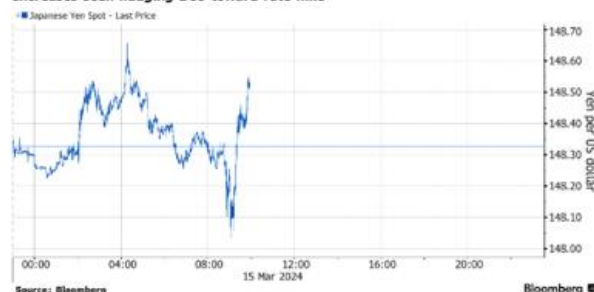
deflation, according to Bloomberg reports. Suzuki acknowledged the robust momentum behind wage hikes but refrained from commenting on the upcoming BOJ meeting scheduled for next week.

The wage rise news prompted a yen depreciation while eliciting a mixed reaction in equity markets. The Japanese yen depreciated (-0.3%, right chart) and the Nikkei declined (-0.3%) while the Topix gained (+0.4%). 10y Japanese government bond yields remained flat.

Wage Jump
Japan's workers secured the largest pay hike in more than 30 years



Yen Weakens After Biggest Wage Rises in 30 Years
Increases seen nudging BOJ toward rate hike



Emerging Markets

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EMEA markets were driven by country specific factors. Equities outperformed in Czechia (+0.4%) but underperformed in Hungary (-0.9%). The Turkish lira inched marginally lower (-0.2%) towards 32.2/\$. CEE currencies were mostly weaker against the euro, except for the Hungarian forint which gained (+0.6%) towards 393.5/€ continuing yesterday's gains on news that the government has postponed further talks with stakeholders on the draft central bank bill which would allow government delegates to supervise central bank activities more closely. The yield on Romania's 10y government bond rose +11bps in the last week to reach 6.71%, the highest level since December, with Bloomberg pointing to the slower than expected decline in inflation. On the data front, Nigeria's February CPI data is due later today. Consensus expectations are for headline inflation to pick up to 31.3%/y from 29.9% in January. Elsewhere, voting begins in Russia's Presidential election.

Asian markets reflected the impact of yesterday's upbeat PPI print. On net, stock markets declined (-1.3%), mirroring the decline in US equities. Among regional markets, Philippines (-2.1%), South Korea (-1.9%) and Hong Kong SAR (-1.4%) declined. Asian currencies similarly declined. The South Korean Won depreciated (-0.9%) with market participants attributing the weakness to stalling upside momentum for tech. Also, the Thai baht (-0.5%) and Malaysian ringgit (-0.4%) declined. Conversely, Asian 10y bond yields rose, propelled by the rise in US Treasury yields. Australia's yields rose the most (+7.7bps), followed by South Korea's (+6.1bps) and New Zealand's (+5.2bps).

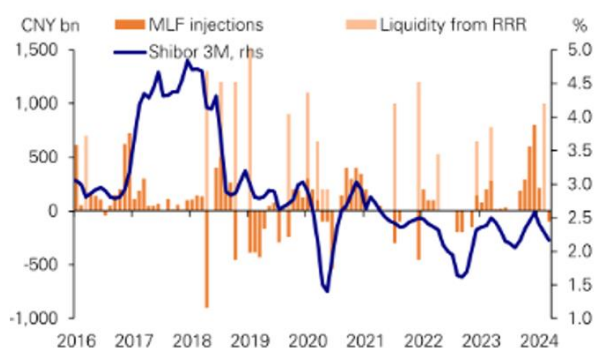
On Wednesday, Latin American assets lacked a clear direction. Stocks gained in Mexico (+0.4%) and Peru (+0.5%) while Chile's equity market declined (-0.5%). Currencies depreciated in Brazil (-0.4%) and Peru (-0.4%), while the Chilean peso strengthened (+0.6%) against the US dollar.

China

Chinese equities rose (CSI +0.2%) while the Renminbi and 10Y bond yields were little changed. In a briefing, the China Securities Regulatory Commission (CSRC) unveiled plans for stricter requirements for initial public offerings (IPOs) in China. The CSRC will oversee enhancements to listing rules on the Shanghai and Shenzhen stock exchanges, mandating on-site inspections for at least one-third of firms seeking IPOs. Separately, both aggregate financing and new yuan loans rose to 8060bn yuan and 6370bn yuan respectively year-to-date in February.

The People's Bank of China (PBC) kept its one-year medium-term lending facility (MLF) rate unchanged. As expected, the PBC maintained the 1y MLF rate at 2.5% while it drained a net 94bn yuan (\$13bn) liquidity for the first time since November 2022. Deutsche Bank analysts view the decrease in short-term interest rates after the reserve requirement ratio cut in February as diminishing the necessity for liquidity supply via the MLF. Consequently, they perceive this measure more as an adjustment than a hawkish shift, maintaining their anticipation that the PBC will lower the 1y MLF rates by about -50bp later this year to provide the necessary accommodation to support for the economy. Separately, the PBC also set a stronger than expected yuan fixing, with the widest gap versus estimates since November 2023 (1043pips).

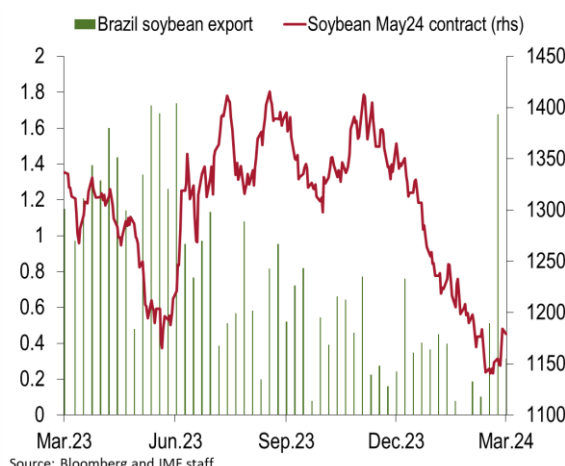
PBOC withdrew liquidity from MLF as short-term interest rates have come down after the RRR cut



Source: Deutsche Bank Research, WIND

Brazil

In reaction to a supply glut of agricultural products market contacts expect declining soybeans and corn exports. Since mid-2022, crop prices have been on a downward trend as abundant global supplies have overshadowed any trade disruptions stemming from Russia's invasion of Ukraine. For Brazil, the consultancy firm Agroconsult expects a harvest of only 152.2mn tons of soybean in the 2023/2024 soybean crop, which corresponds to a decline of -4.7% compared to the 2022/2023 crop. Accordingly, the consultants expect Brazil's soybean exports to fall by -7.4% to 93.5mn tons in 2024. For corn production in the 2023/2024 crop, Agroconsult expects a decline by -11.9% to 123.4mn tons compared to the previous season. Concurrently, Brazil's retail sales surged unexpectedly by +2.5% in January driven by enhanced household spending power that easing monetary policy and slowing inflation propelled. For next week, consensus expects Brazil's central bank plans to cut its policy rate by 50 bps to 10.75% and another 50bps cut at the subsequent central bank meeting.

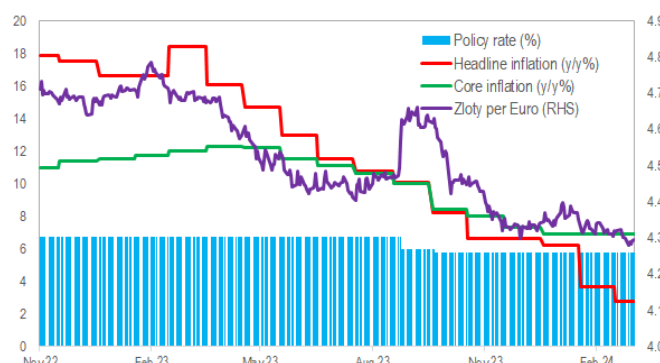


Source: Bloomberg and IMF staff

Poland

The Polish Zloty marginally weakened following softer-than-expected February inflation data. Headline inflation eased to 2.8%/y (exp. 3.2% from 3.7%), returning to the +/- 1 pp. tolerance band around the central bank's 2.5% target. Separately, MPC member Duda stated that any discussion about interest rate cuts remains premature and that he expects rates to remain on hold and that he expects inflation to slow to 2.5% in March. However, if the government withdraws some of its support programs, he could see inflation increasing sharply to 8% year-end. This morning, the zloty was down -0.1% to trade at 4.29/€.

Poland: Policy rate, inflation and currency



Source: Bloomberg and IMF calculations

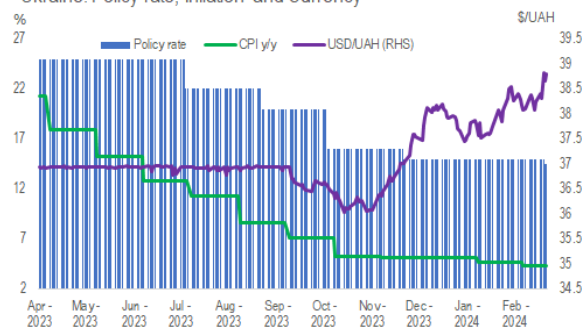
Türkiye

Inflation expectations by year-end have increased. Ahead of its policy meeting next week, the Central Bank of Türkiye (CBRT) released the results of its March survey of market participants expectations for inflation showing that year-end inflation expectations have risen to 44.19%y/y (42.96% prior). Meanwhile, inflation in the next 12-months is expected to decline to 36.7%y/y (37.78% prior). The CBRT is due to meet next week with consensus expecting policymakers to keep rates unchanged at 45%. Separately, data released today showed Türkiye's budget deficit widened to TRY 153.8bln in February from TRY 150.7bln in January. Elsewhere, according to Bloomberg, **Türkiye's 6-year euro-denominated bond priced at 6.125% (indicative pricing had been 6.5%), with €2bn issued and the eurobond more than five times oversubscribed. **This morning the Turkish lira was trading a touch weaker (-0.2%) against the dollar at 32.2/\$.****

Ukraine

The National Bank of Ukraine (NBU) delivered a surprise rate cut yesterday. While consensus expected policy rates to remain unchanged, the central bank cut its policy rate by -50bps to 14.5% citing *"a further decline in inflation, stable FX market conditions and positive developments in the prospects to receive external assistance as laying the ground for an earlier resumption of the easing cycle."* Market contacts at Raiffeisen note that only last month, the NBU had suggested that policy rates would remain on hold until at least the end of Q2. The analysts view yesterday's decision to ease as an indication that the NBU is "fine-tuning" its monetary easing cycle. While the decision to cut the policy rate at yesterday's meeting was not in line with Raiffeisen analyst expectations, it remains consistent with their forecast for a 13% policy rate by year-end.

Ukraine: Policy rate, Inflation and Currency

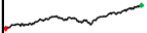

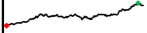







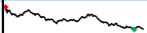
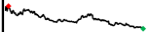







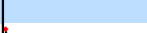




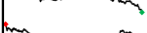


Source: Bloomberg and IMF staff calculations

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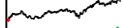
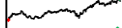
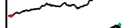
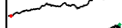
















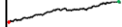
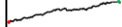




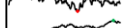
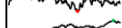








Global Financial Indicators

3/15/24 8:31 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5149	-0.3	0	2	32	8
Europe		5020	0.5	1	6	24	11
Japan		38708	-0.3	-2	1	42	16
China		3570	0.2	1	6	-10	4
Asia Ex Japan		68	-0.6	1	4	6	2
Emerging Markets		41	-0.5	0	3	10	2
Interest Rates			basis points				
US 10y Yield		4.29	0.0	22	6	84	41
Germany 10y Yield		2.44	1.3	17	8	31	42
Japan 10y Yield		0.79	0.9	5	6	46	17
UK 10y Yield		4.11	1.9	13	6	79	57
Credit Spreads			basis points				
US Investment Grade		124	0.4	-4	-1	-56	-10
US High Yield		352	-0.9	-14	-20	-183	-33
Exchange Rates			%				
USD/Majors		103.34	0.0	1	-1	-1	2
EUR/USD		1.09	0.1	0	1	3	-1
USD/JPY		148.8	0.3	1	-1	12	5
EM/USD		47.0	0.2	0	0	-5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		84.8	-0.8	3	3	20	10
Industrials Metals (index)		144	0.9	3	7	-6	1
Agriculture (index)		59	-0.2	0	0	-12	-6
Implied Volatility			%				
VIX Index (%, change in pp)		14.2	-0.2	-0.5	0.2	-11.9	1.8
Global FX Volatility		6.5	0.0	-0.2	-0.6	-5.1	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		97	1.5	-4	-13	-113	-6
Italy		123	-4.4	-8	-26	-75	-44
Portugal		63	-1.5	-3	-13	-33	0
Spain		79	-1.8	-2	-12	-34	-18

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

Emerging Market Financial Indicators

Last updated: 3/15/2024 8:32 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		7.20	0.0	-0.1	0	-4	-1		2.3	-4.6	-2	-8	-80	-19
Indonesia		15595	-0.1	0.0	0	-1	-1		6.6	0.6	2	2	-12	17
India		83	-0.1	-0.1	0	0	0		7.2	2.8	4	-3	(23.8)	-2
Philippines		56	-0.2	0.1	1	-1	0		5.5	7.5	7	8	-47	-12
Thailand		36	-0.4	-1.0	1	-3	-5		2.5	1.8	0	-9	4	-19
Malaysia		4.71	-0.5	-0.5	2	-5	-2		3.9	2.4	6	5	-1	15
Argentina		850	-0.1	-0.5	-2	-76	-5		57.5	120.8	-971	-1797	-3216	-2888
Brazil		4.99	0.1	-0.1	0	6	-3		10.9	-1.6	5	7	-236	52
Chile		937	0.4	2.6	3	-12	-6		5.1	-0.5	14	16	6	18
Colombia		3894	0.3	0.6	1	22	-1		7.8	0.0	24	31	-155	14
Mexico		16.68	0.1	0.8	2	14	2		8.7	0.0	12	-4	7	25
Peru		3.7	-0.4	0.6	5	3	0		7.0	1.3	7	28	-70	35
Uruguay		38	0.4	0.8	2	2	1		8.9	-0.8	-3	-6	-138	-58
Hungary		361	0.7	-0.2	0	4	-4		6.0	0.0	10	1	-228	25
Poland		3.94	0.0	-0.3	2	13	0		4.9	-5.3	11	14	-30	46
Romania		4.6	0.1	-0.5	1	2	-1		6.4	2.6	9	1	-83	24
Russia		92.0	-0.6	-1.0	0	-17	-3							
South Africa		18.7	0.4	0.3	1	-1	-2		9.5	-2.3	14	17	35	40
Türkiye		32.22	-0.2	-0.9	-5	-41	-8		27.0	8.0	-107	61	1571	25
US (DXY; 5y UST)		103	0.0	0.6	-1	-1	2		4.30	1.2	25	9	75	45

	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		3570	0.2	1	6	-10	4		151	-3	-7	-24	-7	
Indonesia		7328	-1.4	0	0	10	1		99	-17	-12	-59	3	
India		72643	-0.6	-2	0	25	1		108	1	-4	-53	-8	
Philippines		6822	-2.1	-2	-1	5	6		84	-15	-9	-49	4	
Thailand		1386	-0.6	0	0	-11	-2		0	0	0	0	0	
Malaysia		1553	0.6	1	1	10	7		85	-2	-1	-17	0	
Argentina		1039095	-1.1	4	-5	395	12		1628	-22	-331	-706	-285	
Brazil		127690	-0.3	-1	0	24	-5		212	-10	-4	-67	-3	
Chile		6461	-0.5	2	4	24	4		125	-10	-7	-22	0	
Colombia		1283	-0.1	-1	3	15	7		292	-17	-18	-133	21	
Mexico		56059	0.4	2	-2	8	-2		321	-7	-13	-76	-13	
Peru		29190	0.5	1	3	36	12		140	-9	-9	-49	-4	
Hungary		64988	0.0	-2	-1	55	7		150	-14	-17	-83	1	
Poland		80528	-1.5	0	2	42	3		95	-9	-10	7	-2	
Romania		16370	0.5	0	5	34	7		187	-18	-14	-65	-14	
South Africa		73215	-0.2	-1	0	0	-5		341	-11	-18	-51	33	
Türkiye		8859	-0.3	-3	-4	73	19		318	-17	-6	-159	4	
Ukraine		507	0.0	0	0	0	0		3755	-17	-548	-1067	-249	
EM total		41	-0.4	0	3	10	2		307	-12	-44	-101	-38	

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

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