



- Fed delivers a pause with a dovish bias ([link](#))
- Reserves may get impacted more than MMFs from tax payments this year ([link](#))
- Swiss franc weakens on surprise rate cut ([link](#))
- BoE keeps policy rate on hold at 5.25%, as expected ([link](#))
- Governor Ueda said that the BOJ saw the risk of falling behind the curve ([link](#))
- Brazil central bank cut rates as anticipated, but signal slower pace of future easing ([link](#))

[Mature Markets](#)

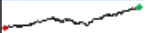

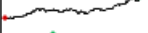

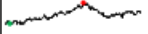
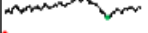




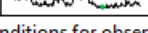
| [Emerging Markets](#)

| [Market Tables](#)

Dovish tilt by major central banks boosts sentiment

While the Fed kept rates unchanged as expected yesterday, the tone of the press conference affirmed the market's view that the FOMC is inclined to cut rates. The dovish interpretation sent short-dated yields lower and broadly boosted risk assets. Market pricing for cuts increased, with the end-year implied policy rate, declining by 11 bp. Spillovers from the decision have lifted assets globally, with equities in Asia higher overnight and European stocks rising this morning. In a further dovish tilt from advanced economy central banks, the Swiss National Bank surprised markets today by lowering its benchmark rate by 25bp. Meanwhile the Bank of England kept rates unchanged as was widely expected. Emerging market currencies are broadly stronger today, thanks mostly to yesterday's FOMC decision. The Turkish lira is one of the outperformers following a surprise hike by the central bank there. While most analysts thought they would remain on hold, the monetary policy committee instead hiked rates by 500 bp, raising the one-week repo rate to 50%.

Key Global Financial Indicators

Last updated: 3/21/24 8:21 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5225	0.9	1	5	31	10
Eurostoxx 50		5035	0.7	1	5	20	11
Nikkei 225		40816	2.0	5	4	49	22
MSCI EM		41	1.1	0	2	8	2
Yields and Spreads			bps				
US 10y Yield		4.23	-4.1	-6	-9	62	35
Germany 10y Yield		2.39	-4.4	-4	-6	10	36
EMBIG Sovereign Spread		353	-2	-3	-29	-155	-30
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.8	0.0	0	0	-6	-3
Dollar index, (+) = \$ appreciation		103.6	0.2	0	0	0	2
Brent Crude Oil (\$/barrel)		85.6	-0.4	0	3	14	11
VIX Index (% change in pp)		12.8	-0.2	-2	-3	-9	0

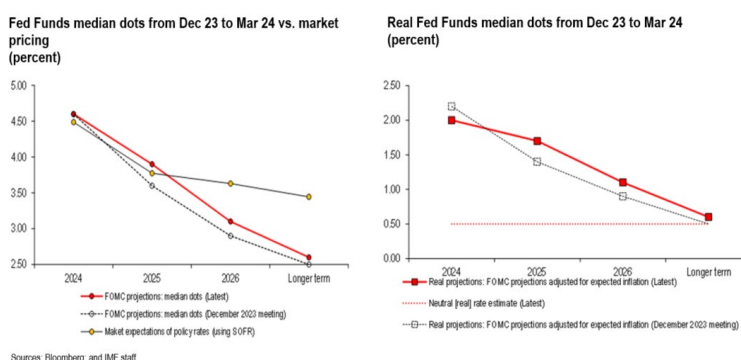
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

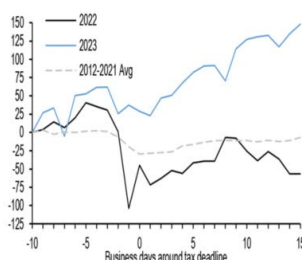
United States

The Fed stays the course for 2024. The Federal Reserve left the Fed Funds rate range unchanged at 5.25–5.50% in a unanimous decision. The two most important changes in the updated economic projections were (a) the long-run Fed Funds dot moves up +0.1pp. to 2.6%; (b) the GDP growth projection for this year was revised upwards to 2.1% from the December update of 1.4%. In terms of real policy rates adjusting by core PCE projections, the dot plot implies a 2% real Fed Funds rate for 2024 (down 20bp from the Dec meeting). Chair Powell also noted that quantitative tightening could start “fairly soon” to avert another 2019 like episode in short-term funding markets. Interestingly, a view seems to be emerging amongst market participants that the Fed could be biased towards wanting to cut rates despite stronger economic momentum. Overall, markets welcomed the dovish bias. Equity markets rallied, and notably, the regional banks’ index outperformed the broader markets. The short end of the treasury curve fell with 2y yields falling 7bp. However, the fall in yields in the longer end was much smaller (1bp for 10yr).

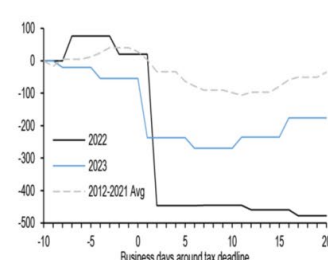


Reserves could see larger drawdowns than MMFs around the April Tax Day this year. Individuals and corporations have been observed to tap into their investments in Money Market Funds (MMF) and bank deposits to make tax payments. This, in turn, has a bearing on the RRP and reserves balances of the Fed. During 2011–21, the average annual withdrawals around the April Tax Day from MMFs and deposits/reserve balances were \$30 bn and \$150 bn, respectively. This increased significant in 2022 to \$145 bn and \$465 bn, respectively, due to massive increase in taxes from the capital gains of the preceding year. According to a market report, drawdowns around April 15th this year could be in the range of \$40–140 bn for MMFs, and \$215–465 bn for reserves. Reserves are expected to experience larger drawdowns than MMFs, since yields on the latter are more attractive than interest on bank deposits. While the reserve balance of \$3.57 tr. (as of 13th April) is seen as large enough to absorb these withdrawals, it might fall to \$3.1–3.3 tr.

Cumulative change in total taxable MMF AUM around U.S. Tax Day (bn USD)



Cumulative change in total reserve balances* around U.S. Tax Day (bn USD)



Survey estimates of the size of reserves when the SOMA portfolio ceases to decline (bn USD)

	Survey of Market Participants			Survey of Primary Dealers		
	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile
Jan-24	2625	2875	3125	3063	3125	3375
Dec-23	2375	2500	3063	2875	3125	3125
Oct-23	2375	2375	2813	2625	2875	3125
Sep-23	2375	2625	3000	2375	2625	3000
Jul-23	2375	2375	2875	2375	2625	2938
Jun-23	2188	2375	2813	2375	2625	2875
May-23	2125	2375	2625	2375	2625	2875
Mar-23	2125	2375	2688	2375	2375	2875
Jan-23	2125	2375	2375	2125	2625	2875

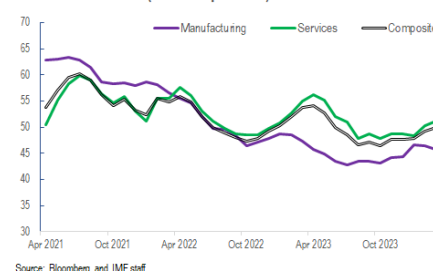
* Wednesday closes
Sources: Source: Bloomberg, Crane Data, iMoneyNet, J.P. Morgan, and Federal Reserve Bank of New York

Euro Area

European equities were trading higher this morning as risk sentiment was boosted following yesterday's FOMC decision and this morning's better than expected flash composite PMI data. The STOXX 600 index was up 0.6%, with banking sector stocks up 0.8%. March's composite PMI index for the eurozone rose to 49.9 (49.7 exp, 49.2 prior), reaching its highest level since June last year, driven in large part by continued improvement in the services PMI which climbed to 51.1 (50.5 exp, 50.2 prior). Meanwhile, the eurozone manufacturing PMI for March came in at 45.7 (47.0 exp, 46.5 exp).

Contacts noted the services PMI showed price pressures softened in March, which they believe policymakers will view as an encouraging sign that price pressures are not accelerating further and should therefore lend further support to a June rate cut. The euro was trading broadly unchanged against the dollar while euro area sovereign bond yields eased, with the 10y bund yield (-4bp) trading at around 2.4%. Elsewhere, 10Y Italian BTP spreads over 10Y German bunds tightened to 125bp. Market pricing for rate cuts in 2024 has remained relatively stable with around 90bp of easing priced in for 2024, and around 22bp of rate cuts priced in for June.

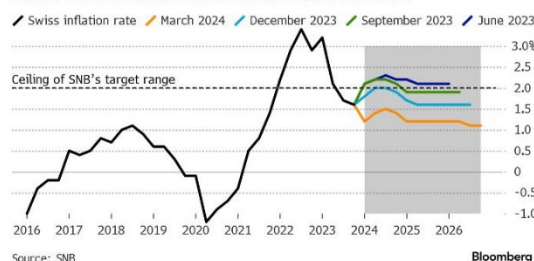
Eurozone: PMI data (>50 is expansion)



Switzerland

Swiss franc weakens on surprise rate cut. Consensus expectations had been for the Swiss National Bank (SNB) to keep rates on hold at 1.75% at today's meeting, with market pricing expecting the first rate cut in June. Instead, the SNB became the first G-10 central bank to cut rates. Policymakers said, 'the easing in monetary policy has been made possible because the fight against inflation has been effective' as they cut the policy rate by 25bp to 1.5%. The SNB's latest forecast expects inflation to remain below 2% through 2026. Following the decision, the Swiss franc fell by almost 1% against the euro, with contacts noting that the prospect of further rate cuts will likely keep the franc under pressure on coming months.

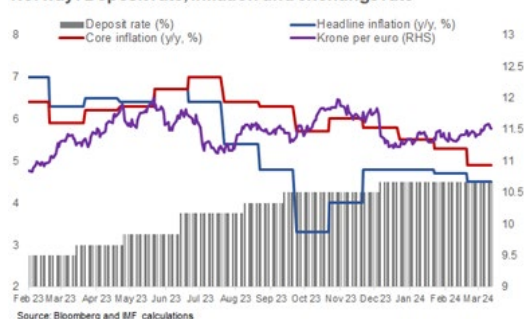
Swiss Central Bank Lowers Its Inflation Forecast



Norway

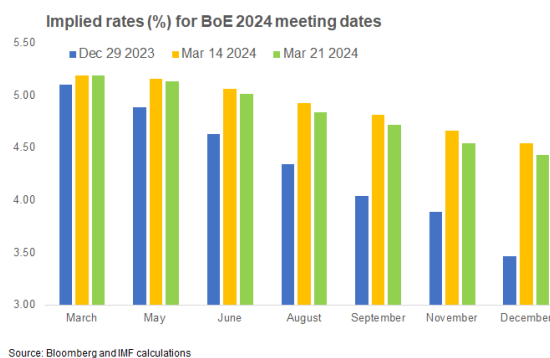
Norges Bank keeps rates on hold at 4.5%, in line with expectations. The accompanying statement noted that policy rates "will likely need to be maintained at the current level for some time" citing high wage growth and the depreciation of the krone as factors that will likely keep inflation elevated. In addition, the statement noted that "the current forecast indicates that the policy rate will continue to lie at 4.5% in the period to autumn before gradually moving down". The krone was broadly unchanged against the euro.

Norway: Deposit rate, inflation and exchange rate



United Kingdom

The BoE kept policy rates on hold at 5.25% as widely expected. The vote split was 8–1 with external MPC member Dhingra voting for a 25bp rate cut and Haskel and Mann dropping their votes for higher rates. The accompanying minutes from the MPC meeting noted that “The Committee recognized that the stance of monetary policy could remain restrictive even if the Bank Rate were to be reduced, given that it was starting from an already restrictive level” which markets took as a slightly dovish tilt. Following the announcement, the pound edged lower (-0.4%) against the dollar to 1.27 and 10Y gilt yields were 9bp lower to trade at 3.93%. Markets further increased expectations for rate cuts from the BoE this year, with around 81bp of easing priced in for 2024, up from around 76bp before the announcement.

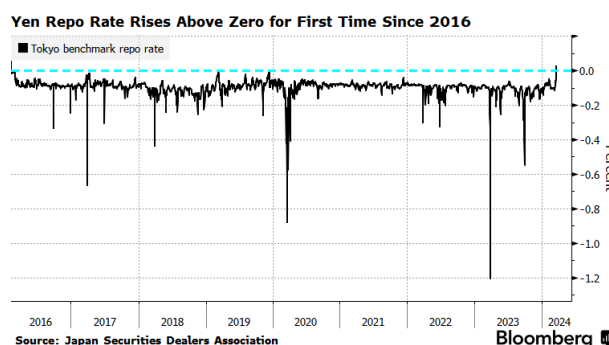


Australia and New Zealand

In Australia, government bond yields rose on strong labor market data (1-year: +4.6 bp; 10-year: +3.9 bp). The unemployment rate unexpectedly fell to 3.7% in February from 4.1% in January (consensus: 4.0%). Employment also increased by 116.5k (consensus: +40k). March composite PMI improved slightly to 52.4 (from 52.1), driven by the services component. Meanwhile, manufacturing PMI weakened to 46.8 (from 47.8). The Australian dollar appreciated (+0.5%). The 1-year OIS rate increased (+5.1 bp). **In New Zealand, the economy contracted 0.1% q/q in 2023Q4** (vs. expectations of 0.1% growth). Long-end government bond yields fell (10-year: -1.1 bp), and 1-year OIS rate dropped (-4.6 bp). The New Zealand dollar appreciated (+0.2%), broadly similar to regional trends amid the broad-based weakening of USD.

Japan

Governor Ueda said that the Bank of Japan (BOJ) saw the risk of potentially having to raise interest rates rapidly if it waited too long to end its large-scale monetary easing program, in response to questions in parliament. His remark was seen as an explanation for the BOJ's decision to end its unconventional monetary policy earlier this week. He also reiterated that the BOJ will continue to firmly support the economy and inflation with accommodative financial conditions for the time being. After the BOJ ended the negative interest rate policy earlier this week, the benchmark repo rate climbed above zero for the first time since 2016. The overnight rate for transactions starting the next business day rose to 0.029% from -0.045% on Tuesday. However, the swap curve was mixed, with 1-year OIS rate edging up to 0.19% (+2.5 bp) while 2-year OIS rate fell to 0.54% (-6.7 bp). **The yen appreciated to 151.2 per dollar (+0.2%)**. Finance Minister Suzuki issued a verbal warning, saying that it is desirable for exchange rate movements to be stable. Japanese equities gained (NIKKEI: +2.0%) on the continued weakness of Japanese yen. Long-end JGB yields were mixed (10-year: +0.2 bp; 30-year: -0.3 bp).



Emerging Markets

[back to top](#)

Asian markets rallied today after the Federal Reserve's dovish hold. Asian equities advanced, up 2.7% on net, led by Korean (+2.4%), Taiwanese (+2.1%) and Hong Kong (+1.9%) stocks. However, share prices dropped in onshore China markets (CSI 300: -0.1%). Asian currencies also appreciated, led by the Korean

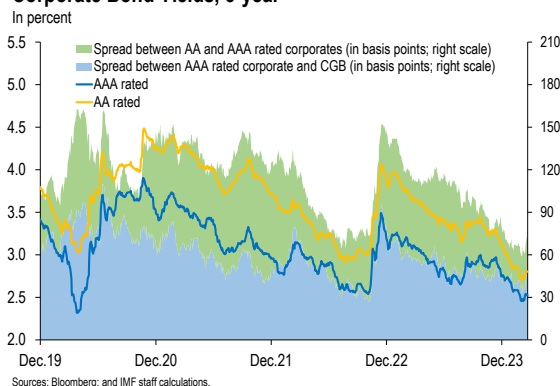
won (+1.3%) and Malaysian ringgit (+0.5%). Long-end government bond yields declined, with 10-year yields falling in Korea (-3.9 bp) and India (-2.5 bp), following the decline in US treasury yields. In Hong Kong SAR, CPI inflation picked up to 2.1% y/y in February, though lower than expected (consensus: +2.2%). In Vietnam, President Vo Van Thuong resigned from his position yesterday. His resignation came after he was found to have violated regulations of the Vietnam Communist Party. Market reaction was muted; the Vietnamese dong was little changed; equities gained (+1.3%). **EMEA equities are mostly higher while currencies are mixed.** Equities outperformed in Poland (+1.6%) and Türkiye (+1.5%) but underperformed in Czechia (-0.2%). CEE currencies were mixed but trading in a tight range against the euro. The Turkish lira was trading weaker against the dollar (-0.2%) ahead of the central bank meeting. Elsewhere on the policy front, Egypt has cancelled the MPC meeting that was scheduled for later this month, following the unscheduled hike earlier this month. **LatAm assets benefitted from the Fed's decision yesterday.** Regional currencies largely strengthened alongside dollar weakness, with the Brazilian real outperforming, appreciating 1.3%. However, the Colombian and Chilean peso bucked the broader trend, weakening marginally by 0.4% and 0.2% respectively. Regional local currency bonds and equity bourses also gained, in tandem with other EM counterparts and tracking AE markets.

China

Onshore Chinese equities declined, underperforming regional peers (CSI 300: -0.1%).

The decline was broad-based, led by energy firms. In contrast, Hong Kong SAR-listed Chinese stocks advanced (+1.9%), similar to other regional markets that gained following the Federal Reserve's dovish hold. Deputy Governor Changneng Xuan of the People's Bank of China (PBC) said that China still has ample monetary policy space at a press briefing. He mentioned that the reserve requirement ratio is still an important tool to adjust liquidity and that interest rate policy can become more autonomous as other major economies move toward policy easing. Markets took his remark as a signal for forthcoming monetary policy easing albeit not in the form of rate cuts. CGB yields declined (1-year: -0.6 bp; 10-year: -1.6 bp). RMB was little changed at 7.2 yuan per dollar. The PBC continued setting the daily RMB fixing stronger than expected. The deviation from market consensus narrowed to 868 pips today. Analysts noted that China's bonds have become relatively expensive. Both rate and credit bond yields have declined as credit spreads have narrowed.

Corporate Bond Yields, 3-year

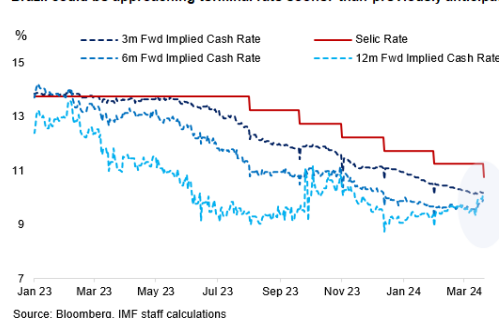


Brazil

Central bank takes a hawkish tilt despite cutting rates as anticipated.

The decision to cut the selic rate by 50 bp to 10.75%, was not a surprise with all 34 analysts surveyed by Bloomberg expecting the outcome. However, the statement reiterated that monetary policy requires "serenity and moderation", and anticipates a "reduction of the same magnitude in the next meeting". Although another -50bp cut is expected for the next meeting in May, market participants note that the change to "meeting" from "meetings" in the January statement suggests that the pace of rate cut could slow to 25 bp or halted entirely in June, corresponding to a higher terminal rate than previously anticipated. On Wednesday, the BRL rallied strongly alongside broader USD weakness after the US Fed's decision, and market commentary suggests that the BRL is now more likely to be pushed deeper within 4.84–5.00/USD range.

Brazil could be approaching terminal rate sooner-than-previously anticipated



Czechia

Markets were little changed after the Czech National Bank cut rates by 50bp yesterday to take the policy rate to 5.75%, as expected, in a split vote. The voting split was seen as a slight dovish change, with two out of the five MPC members voting for a larger 75bp rate cut, but some contacts saw the accompanying press statement as very hawkish. Contacts note that the statement highlighted upside risk to inflation against a backdrop of a weaker currency, despite inflation being well-below the central bank's target. JP Morgan analysts continue to expect another 50bp rate cut at the next policy meeting in May, after which rate cuts are expected to continue in 25bp increments, to take the policy rate to 4% or slightly lower by end-2024. Meanwhile, Deutsche Bank analysts continue to expect 50bp rate cuts at upcoming policy meetings as headline inflation is expected to remain close to 2% but see a low probability of larger rate cuts given the CNB's cautious approach. The Czech koruna was marginally weaker this morning (-0.1) taking its overall depreciation against the euro to -5.6% over the past 12 months.

Chile

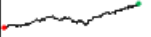

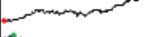


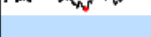








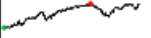










Unstable easing cycle said to be driving Chilean Peso volatility. The Chilean peso's implied volatility remains high compared to peers. Some market participants highlighted the inconsistent pace of rate cuts to be a reason for this. Natwest Markets analysts attribute this volatility to the central bank's focus on the month-on-month inflation trajectory, resulting in split votes and changes to the pace of rate cuts. The central bank initially cut rates by 100 bp in July last year, followed by 75 bp in September, 50 bp in October, 75 bp in December, and 100 bp in January this year. This unstable approach contrasts with the more consistent policy path of Brazil's, who cut rates by 50 bp in each of the past few meetings.



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Global Financial Indicators

3/21/24 8:21 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5246	0.9	2	5	31	10
Europe		5035	0.7	1	5	20	11
Japan		40816	2.0	5	4	49	22
China		3581	-0.1	1	3	-10	4
Asia Ex Japan		68	0.9	-1	3	4	2
Emerging Markets		41	1.1	0	2	8	2
Interest Rates			basis points				
US 10y Yield		4.23	-4.1	-6	-9	62	35
Germany 10y Yield		2.39	-4.4	-4	-6	10	36
Japan 10y Yield		0.74	0.0	-4	2	49	13
UK 10y Yield		3.95	-7.1	-15	-16	58	41
Credit Spreads			basis points				
US Investment Grade		120	-1.1	-4	-2	-46	-14
US High Yield		351	1.8	-2	-19	-151	-34
Exchange Rates			%				
USD/Majors		103.58	0.2	0	0	0	2
EUR/USD		1.09	-0.1	0	1	1	-1
USD/JPY		151.2	-0.1	2	1	14	7
EM/USD		46.8	0.0	0	0	-6	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		85.6	-0.4	0	4	19	12
Industrials Metals (index)		142	0.8	0	4	-8	0
Agriculture (index)		60	0.6	1	2	-10	-4
Implied Volatility			%				
VIX Index (% change in pp)		12.8	-0.2	-1.6	-2.5	-8.5	0.4
Global FX Volatility		6.5	0.0	0.0	-0.2	-4.4	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		100	0.6	4	-9	-91	-3
Italy		127	-1.6	-1	-24	-56	-41
Portugal		64	-0.5	-1	-11	-20	1
Spain		81	-0.6	0	-11	-23	-16

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

Emerging Market Financial Indicators

Last updated: 3/21/2024 8:22 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		2.4	-2.5	-3	-4	-78	-17
Indonesia		15669	0.3	-0.6	0	-2	-2		6.6	-3.0	-2	3	-28	14
India		83	0.0	-0.4	0	-1	0		7.2	-5.9	3	-1	(29.7)	-2
Philippines		56	0.2	-1.1	0	-3	-1		5.5	7.3	8	8	-44	-12
Thailand		36	-0.2	-0.8	0	-4	-5		2.5	-0.5	4	-1	14	-17
Malaysia		4.72	0.4	-0.6	2	-5	-3		3.9	-1.0	1	0	-7	14
Argentina		853	0.0	-0.4	-2	-76	-5		57.2	12.5	95	-1841	-3332	-2915
Brazil		4.97	0.0	0.4	-1	6	-2		10.9	-4.2	-2	13	-235	52
Chile		968	0.0	-2.8	0	-15	-9		5.1	-3.5	-1	4	6	18
Colombia		3893	-0.4	0.3	1	24	0		7.8	0.0	3	22	-135	17
Mexico		16.73	-0.3	-0.1	2	11	1		8.7	0.5	2	3	7	26
Peru		3.7	0.2	-0.5	2	2	0		7.0	0.4	-1	29	-65	34
Uruguay		38	0.0	0.7	2	2	1		9.0	0.2	4	-1	-136	-54
Hungary		360	0.0	0.9	-1	0	-4		6.2	-6.0	20	30	-214	45
Poland		3.94	0.1	0.1	1	10	0		5.0	-1.9	2	21	-31	53
Romania		4.6	-0.1	0.2	1	0	-1		6.4	-6.3	0	10	-85	21
Russia		91.7	0.8	-0.2	1	-16	-2							
South Africa		18.7	-0.2	0.0	1	-1	-2		9.6	-4.0	6	25	66	49
Türkiye		32.12	0.8	0.1	-3	-41	-8		26.3	-67.0	-59	-33	1476	-42
US (DXY; 5y UST)		104	0.2	0.2	0	0	2		4.21	-3.9	-8	-10	46	36

	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		3581	-0.1	1	3	-10	4		150	-3	-1	-31	-8	
Indonesia		7338	0.1	-1	0	10	1		100	-4	-6	-64	4	
India		72641	0.7	-1	-1	25	1		109	1	7	-73	-7	
Philippines		6963	1.6	0	1	6	8		86	-3	-3	-54	6	
Thailand		1388	1.1	-1	-1	-12	-2		0	0	0	0	0	
Malaysia		1541	0.4	0	0	9	6		86	0	4	-22	1	
Argentina		1185177	4.9	13	14	418	27		1503	-87	-239	-878	-410	
Brazil		129125	1.3	1	-1	28	-4		213	-3	0	-76	-2	
Chile		6501	1.3	1	4	23	5		124	-3	-4	-28	-1	
Colombia		1309	0.2	2	3	16	10		289	-4	-15	-154	18	
Mexico		56618	1.9	3	-1	8	-1		322	-3	-7	-102	-12	
Peru		29728	1.5	2	5	37	15		139	-2	-5	-55	-5	
Hungary		66109	0.2	1	0	57	9		153	-3	-9	-101	4	
Poland		81388	2.1	0	0	42	4		97	-3	1	-3	0	
Romania		16606	0.8	2	5	37	8		186	-9	-11	-93	-15	
South Africa		72420	0.0	-2	-1	-2	-6		350	7	1	-75	42	
Türkiye		9108	1.7	3	-2	86	22		326	8	14	-155	12	
Ukraine		507	0.0	0	0	0	0		3853	88	-405	-1095	-151	
EM total		41	1.1	0	2	8	2		306	-1	-35	-123	-40	

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

[back to top](#)