



- US data sends yields lower ([link](#))
- Investors see inflation as largest tail risk, while majority still anticipate soft landing ([link](#))
- Swedish krona steady after soft April inflation print ([link](#))
- China's central bank kept 1Y medium term lending facility rate unchanged ([link](#))
- Analysts believe new US tariffs hike is limited and expect measured Chinese response ([link](#))
- Argentina central bank cut rates by 10 ppt as monthly inflation falls to single digits ([link](#))
- Hungarian forint weaker as March industrial production declines ([link](#))

[Mature Markets](#)



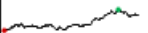




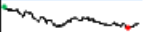



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Rate cuts thought to be back on the table

This morning's data showed inflation declining as expected and retail sales weakening. The report sent treasury rates lower and increased the implied pricing for Fed interest rate cuts later this year. Going into the report, futures on the S&P 500 had already been moving higher and treasury yields lower as traders had been anticipating the data to indicate slowing inflation. With the data confirming that view, and, combined with weaker than expected retail sales, treasury yields moved sharply lower. European equities had already been heading for their ninth consecutive day of gains, rising nearly 4% over that time. Overnight, Chinese equities moved higher as the PBC maintained the rate on the medium-term lending facility, and analysts expect limited impact from the tariff hikes announced by the US. Argentina's central bank cut its benchmark rate by 10 percentage points to 40% after monthly inflation fell into the single digits.

Key Global Financial Indicators

Last updated: 5/15/24 8:35 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5247	0.5	1	4	27	10.00
Eurostoxx 50		5077	-0.1	1	2	18	12
Nikkei 225		38386	0.1	0	0	29	15
MSCI EM		43	0.5	2	7	10	7
Yields and Spreads			bps				
US 10y Yield		4.36	-7.6	-13	-24	86	48
Germany 10y Yield		2.44	-11.3	-3	-1	13	41
EMBIG Sovereign Spread		370	3	-1	33	-113	-13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.0	0.2	1	2	-7	-2
Dollar index, (+) = \$ appreciation		104.8	-0.2	-1	-1	2	3
Brent Crude Oil (\$/barrel)		82.0	-0.5	-2	-9	9	6
VIX Index (% change in pp)		13.9	0.5	1	-5	-3	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

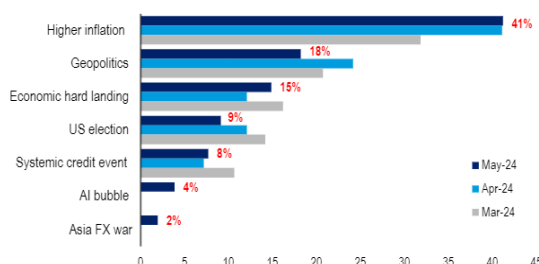
US stocks climbed (+0.5%) on Tuesday to come within 1% of their record high. Tech outperformed, while the industrial and metals sectors were little changed on aggregate following President Biden's formal announcement about the imposition of imports tariffs on Chinese EVs, steel, and solar cells. Treasury yields were 3–4 bp lower ahead of today's CPI report.

Treasury yields moved lower after retail sales came in worse than expected and CPI inflation was broadly in line with expectations. Treasury yields fell as much as 8 bp, with the 10yr declining to 4.35% and the 2-year to 4.73%. The dollar slumped and stock futures jumped higher following the release.

	CPI m/m	Core CPI m/m	CPI y/y	Core CPI y/y	Retail Sales m/m	Retail Sales Control Group m/m
Actual	0.3%	0.3%	3.4%	3.6%	0.0%	-0.3%
Expectations	0.4%	0.3%	3.4%	3.6%	0.4%	0.1%

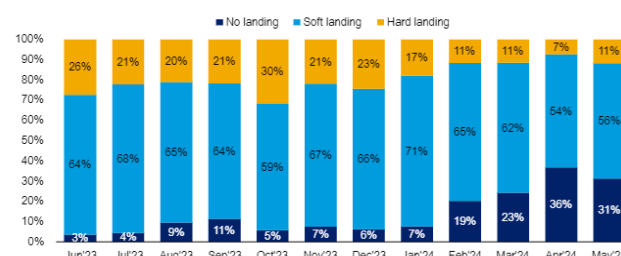
Nearly half of investors see inflation as the largest tail risk, while a majority still see a soft landing as the most likely outcome. 41% of investors in the Bank of America Fund Manager Survey consider higher inflation as the biggest tail risk, the fourth consecutive month with inflation at the top. While inflation has featured prominently since 2021, the fourth quarter of 2023 briefly saw geopolitics and hard landing as top investor fears as well. 56% of respondents see a soft landing as the most likely outcome for the global economy, up slightly from April, but down from a peak of 71% in January. The share expecting no landing declined to 31%. A plurality of investors (45%) think the Federal Reserve will cut twice in the next 12 months, and one-third see more than 3 cuts. Just 2% of respondents are expecting any rate hikes.

Chart 11: "Higher inflation" still seen as the biggest 'tail risk'
What do you consider as the biggest 'tail risk'?



Source: BofA Global Fund Manager Survey

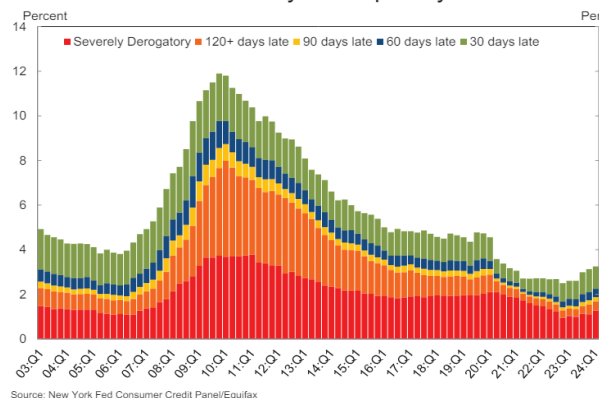
Chart 5: 56% of FMS investors say soft landing, 31% say no landing, and 11% hard landing
What is the most likely outcome for the global economy in the next 12 months?



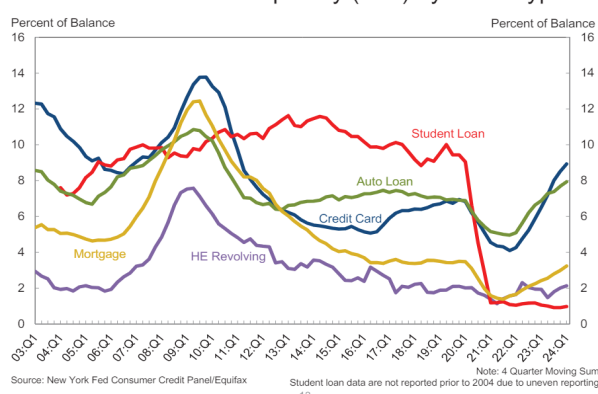
Source: BofA Global Fund Manager Survey

Consumer delinquencies are rising but remain relatively low on aggregate, with credit cards and auto loans in the spotlight. The NY Fed's Household Debt and Credit Report showed that aggregate household (HH) debt increased by \$184 bn in the first quarter to \$17.7 tn, up 1.1% q/q. Outside of mortgages and HELOCs, only auto loan balances increased. HH delinquencies rose to 3.2% of outstanding, up 0.1% from the fourth quarter, but remain about 1.5 percentage points below the level seen in late 2019. The rise in new delinquencies is particularly notable in credit cards and auto loans. New mortgage delinquencies have continued to tick higher but remain low by historical standards, likely reflecting a strong labor market and still low fixed mortgage rates for many borrowers. On the downside, the percent of credit card balances more than 90 days delinquent is the highest in more than ten years.

Total Balance by Delinquency Status



Transition into Delinquency (30+) by Loan Type



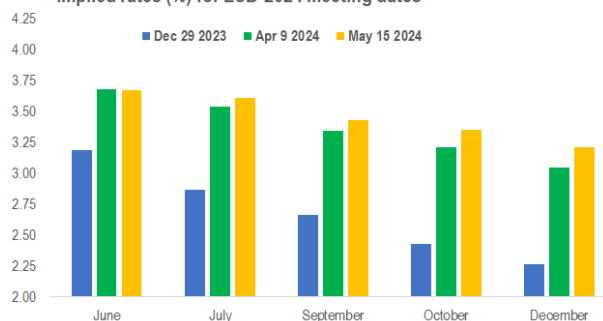
Europe

European equities were trading higher this morning ahead of the key US inflation data and following preliminary Q1 euro area GDP data which printed in line with expectations. The STOXX 600 index was up (+0.3%) to trade near record highs led by gains in the real estate (+1.2%) and utilities (+0.7%) sectors. Elsewhere, 10y bund yields were lower (-6bp) to trade around 2.48%, while the euro was marginally stronger against the dollar (+0.1%). Separately, according to Bloomberg, Italy issued €9bn yesterday in a new October 2037-dated green government bond. The sale attracted orders in excess of €84bn and was priced at a yield of 4.104%, 9bp above the yield on the 0.95% March 2037 conventional BTP.

On the data front, **preliminary Q1 euro area GDP data came in at 0.3% q/q, in line with consensus expectations.** Elsewhere, the European Commission's latest forecasts show that inflation in the euro-area is expected to slow to 2.5% y/y this year and to 2.1% y/y in 2025—down from 2.7%/y/y and 2.2% y/y previously. In addition, the forecasts expect moderate growth over 2024 and 2025 of 0.8% and 1.4% respectively, with consumption supported by declining inflation and an improvement in real purchasing power as well as continued growth in employment.

Elsewhere, a raft of comments by ECB Governing Council (GC) members Rehn, Villeroy and Muller cautioned against consecutive summer rate cuts. While officials continue to signal the first rate will be delivered at next month's meeting, they underscore that policy rate decisions beyond June remain less clear cut. Reflecting this, markets are currently assigning a 96% probability to a 25bp rate cut in June, with around 70bp of total easing expected in 2024, down from 160bp of cuts priced in for this year as of December 2023.

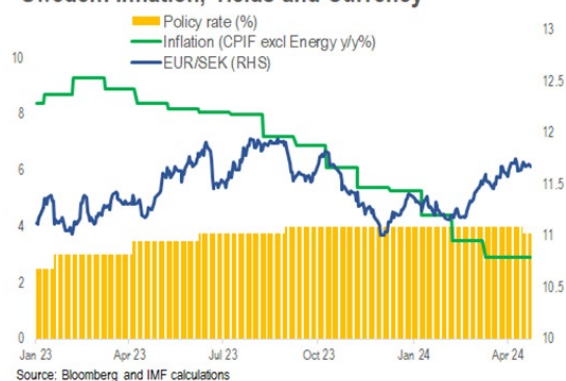
Implied rates (%) for ECB 2024 meeting dates



Sweden

The Swedish krona is steady after soft April inflation print. Underlying inflation excluding energy was unchanged on the month at 2.9%/y/y, and a touch softer than expectations of 3.0% y/y. The krona was broadly unchanged against the euro following the data release. Elsewhere, minutes from the Riksbank's May meeting suggest that a consecutive rate cut is unlikely stating that "more rate cuts will likely be justified this year, but it will probably not be appropriate to cut the rate again as early as June." Meanwhile, analysts at ING note that external developments, including somewhat less dovish tones from the ECB and delayed easing by the Fed, make a June rate cut unlikely. However, if US CPI prints below expectations and core inflation slows further next month, the Riksbank may reassess.

Sweden: Inflation, Yields and Currency



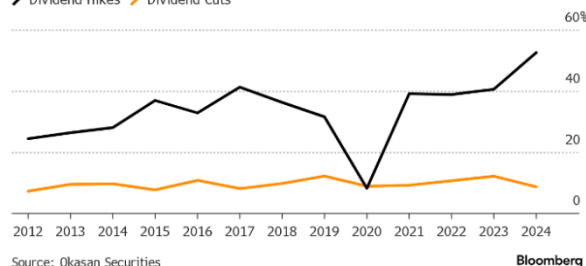
Japan

Japanese equities were little changed. Japanese companies are increasing dividends and share buybacks at a record pace. According to Bloomberg, 53% of the firms that have reported earnings by May 10 announced plans to raise dividend in the current fiscal year. Firms announced ¥1.2tn (\$7.7bn) of share buybacks in April, a record for the first month of fiscal year. The increased payouts come as the Tokyo Stock Exchange is pushing firms to improve capital efficiency and valuations. Separately, investors bolstered bets on higher policy rates after the Bank of Japan (BOJ) unexpectedly reduce its bond buying on Monday. Overnight indexed swaps indicate a 70% possibility that the BOJ will raise the benchmark rate by July, up from about 50% in early May. 10Y bonds yields were little changed; the yen appreciated 0.4%.

Dividend Hikes at Record Pace

The ratio of companies that have announced dividend hikes/cuts

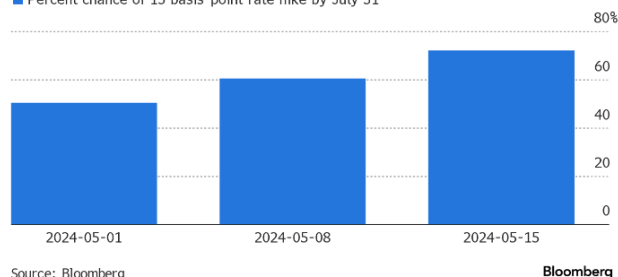
■ Dividend Hikes ■ Dividend Cuts



Chances of Bank of Japan Rate Hike by July Are Over 70% Now

Figures based on overnight-indexed swaps prices

■ Percent chance of 15 basis-point rate hike by July 31



Emerging Markets

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Asian equities were mixed, up +0.5% on net. Indonesia outperformed (+1.2%); Indonesia's President elect Prabowo said he is very confident in achieving 8% economic growth and sees room for fiscal spending to boost growth. Chinese stocks declined (CSI 300: -0.9%; Hang Seng China Enterprise index: -0.3%). **Asian currencies strengthened** led by the Philippine peso and Indonesian rupiah (+0.5%). 10Y bond yields were little changed. Singapore yields declined 5bp. Singapore inaugurates Lawrence Wong as its new Prime Minister, the first top leadership change in 20 years. Wong will remain as Finance Minister. **EMEA equities are higher today, while currencies are mixed.** In CEE, the stock market was in the green in all countries while currencies were mostly higher against the euro, with the Czech koruna gaining 0.2%. In Poland equities gained 0.2% after today's preliminary Q1 2024 GDP data surprised to the upside (+1.9%y/y, exp. 1.8%, from 1% at the end of 2023). In Türkiye, equities lost (-0.3%) while the lira was stable against the dollar. The stock market outperformed in South Africa (+0.7%), where the rand was marginally weaker (-0.1%) against the dollar. **In Latin America, equity markets displayed broad gains on Tuesday**, with rises in Colombia (+0.9%), Chile (+0.5%), Peru (+0.6%), and Brazil, although falling in Mexico (-0.9%).

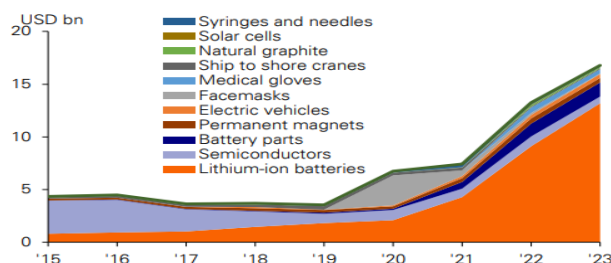
Currency markets witnessed strength, notably in the Colombian peso (+1.1%), Brazilian real (+0.5%), and Chilean peso (+0.9%), which is nearing its 200-day MA thanks to rising copper prices (+1.8%).

China

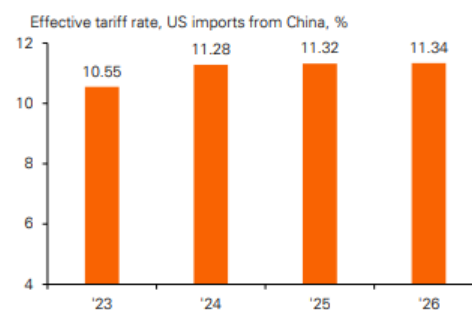
The People's Bank of China (PBC) kept its 1Y medium term lending facility (MLF) rate unchanged as expected. MLF liquidity offered was equivalent to the amount of loans maturing this month. Market participants continue to see rate cuts as early as June. Some note that a rate cut may require a further push from the State Council, as PBC did not explicitly mention the use of interest rate and RRR instruments in its recent 1Q24 Monetary Policy report. Separately, **China is mulling plans to have local governments and entities buy unsold homes across the country.** According to Bloomberg sources, local state-owned enterprises would be asked to purchase unsold homes from distressed developers at steep discounts using loans from state banks. Properties would then be converted into affordable housing. The State Council is reportedly still seeking feedback on the preliminary plan, which could take months to finalize.

Separately, analysts believe the latest US tariffs hike is limited and expect a measured response from China. Deutsche Bank said the new tariff list only affects 0.5% of China total exports and the size of new tariffs does not appear to be macro-significant. Lithium-ion batteries form the bulk of affected exports, in which a 17.5% tariff increase is proposed. Deutsche Bank estimates that, overall, this represents only a modest 0.8ppt increase on the US effective tariff rate on China by 2026. **Chinese equities declined 0.9%, 10Y bond yields were little changed; the renminbi appreciated (onshore: +0.1%, offshore: +0.2%).**

The US will impose tariffs on USD18bn of Chinese products, most notably batteries



This represents a modest 0.8ppt increase on US effective tariff rate on China by 2026



Brazil

Three of the largest Brazilian hedge funds posted losses in April due to bearish positioning on rising US and Brazilian interest rates. Verde Asset Management (-3.8%), Kapitalo Investimentos (-4.1%), and Ibiuna Investimentos (-3.8%) incurred their largest losses since November 2022, while the overnight interbank rate rose 0.9% in the same period. Both the US and Brazilian sovereign curve rose significantly last month. Brazil's forward swap curve also rose as 2yr2yr swaps jumped 57 bps last month.

Brazil Hedge Funds Lag Benchmark Rate Year-to-Date

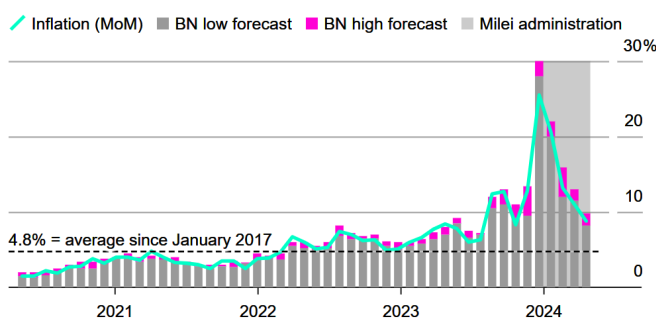


Argentina

Argentina cut its benchmark interest rate by 10 percentage points to 40% Tuesday night as monthly inflation fell to single digits.

President Javier Milei received encouraging news on Tuesday as monthly inflation rose 8.8% in April, the lowest level since he lifted price freezes late last year. Stocks ended the day 2.4% higher following the data print and before the central bank decision. Applications for inflation-linked mortgages have been on the rise, reflecting sustained optimism regarding long-term inflation trends. While annualized inflation is 289%, analysts have lowered their year-end estimate from 227% to 161%, anticipating some moderation.

Argentina Monthly Inflation Returned to Single Digits in April
CPI fell to 8.8% last month, from 11% in March, 25.5% in December



Source: National statistics agency, Bloomberg
Note: Forecasts via BN surveys of economists

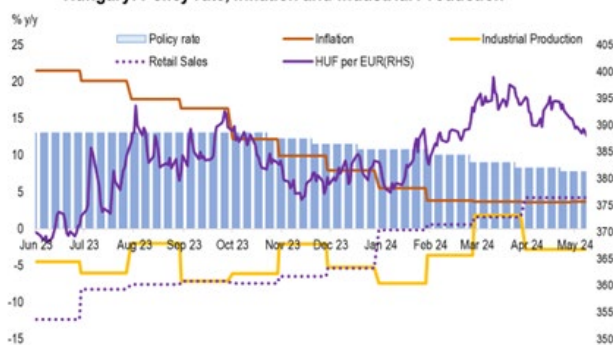
Bloomberg

Hungary

The forint was weaker (-0.1%) against the euro today, trading at 386.24/€, as today's data indicated a decline of industrial manufacturing production in March by 2.8%/y/y (-10.4% before adjusting for the number of workdays), same as in February.

The forint partially retraced from yesterday's gains (+0.4%, to 385.6/€) after Hungary's Central Bank Deputy Governor Virag said on Tuesday that he sees the policy rate between 6.75% and 7.0% by the end of June, against earlier guidance of between 6.5% and 7.0%. The forint had benefitted from the renewed hawkish tone of the central bank, which mirrors similar positions in the region, with Romania having held off what was expected to be its first rate cut last Monday and Governor Adam Glapinski having said last week that the Polish central bank "may not discuss cutting rates again until early next year". Still, analysts at ING maintain a negative view on the forint, given the uncertain economic recovery and fiscal risks in Hungary, expecting the currency to stay above the 390/€ level in June. The Hungarian 10y government bond yield has edged down by about 10bp to 6.6% today, and the spread against the Bund fell by 4bp to 414 bp.

Hungary: Policy rate, Inflation and Industrial Production



Source: Bloomberg and IMF calculations

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

5/15/24 8:35 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5259	0.5	1	4	27	10
Europe		5077	-0.1	1	2	18	12
Japan		38386	0.1	0	0	29	15
China		3626	-0.8	0	3	-9	6
Asia Ex Japan		72	0.6	2	8	8	8
Emerging Markets		43	0.5	2	7	10	7
Interest Rates			basis points				
US 10y Yield		4.36	-7.6	-13	-24	86	48
Germany 10y Yield		2.44	-11.3	-3	-1	13	41
Japan 10y Yield		0.96	0.3	7	9	55	34
UK 10y Yield		4.08	-9.1	-6	-16	27	55
Credit Spreads			basis points				
US Investment Grade		117	-1.3	1	-6	-56	-17
US High Yield		352	4.5	12	-13	-156	-33
Exchange Rates			%				
USD/Majors		104.81	-0.2	-1	-1	2	3
EUR/USD		1.09	0.3	1	2	0	-2
USD/JPY		155.2	-0.8	0	1	14	10
EM/USD		47.0	0.2	1	2	-7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		82.0	-0.5	-2	-8	14	7
Industrials Metals (index)		164	1.0	5	7	12	15
Agriculture (index)		61	0.5	1	3	-10	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.9	0.5	0.9	-5.3	-3.2	1.4
Global FX Volatility		7.0	0.0	-0.2	-0.4	-1.8	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	-1.0	0	-7	-69	-2
Italy		132	-2.3	-2	-12	-56	-36
Portugal		64	0.0	0	-5	-17	1
Spain		78	-0.7	-1	-6	-29	-19

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

Emerging Market Financial Indicators

Last updated: 5/15/2024 8:36 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		7.22	0.2	0.1	0	-4	-2		2.3	1.4	-2	-6	-66	-26
Indonesia		16028	0.4	0.1	-1	-8	-4		7.0	-5.1	1	32	54	50
India		83	0.0	0.0	0	-1	0		7.4	-7.0	-9	-1	21.1	19
Philippines		58	0.5	-0.3	-1	-3	-4		5.6	0.3	-7	14	-26	-1
Thailand		36	0.3	1.3	1	-7	-6		2.8	-3.0	-5	-8	17	13
Malaysia		4.71	0.2	0.7	2	-4	-2		3.9	-2.5	-3	-3	24	16
Argentina		885	-0.1	-0.5	-2	-74	-9		37.4	-73.5	-161	-840	-6157	-4897
Brazil		5.15	-0.4	-1.1	1	-5	-6		11.7	2.4	11	-1	-6	132
Chile		909	0.7	3.1	8	-14	-3		5.2	-1.2	14	-16	-7	32
Colombia		3848	1.1	1.0	2	17	1		8.3	0.0	10	-45	-18	66
Mexico		16.84	0.1	0.3	-1	4	1		9.2	-0.5	5	-30	96	75
Peru		3.7	0.2	0.1	1	-1	0		7.1	-0.3	-2	-36	-11	42
Uruguay		39	-0.3	-0.6	1	1	1		9.2	0.4	3	24	-91	-37
Hungary		355	0.3	1.7	4	-5	-2		6.4	-11.0	-1	-54	-132	67
Poland		3.93	0.4	1.9	3	5	0		5.2	-0.7	4	-27	-9	70
Romania		4.6	0.3	1.0	2	-1	-2		6.5	-3.4	2	8	-37	32
Russia		91.2	0.1	0.4	3	-13	-2							
South Africa		18.3	0.4	1.4	4	4	0		9.7	-11.5	-7	-45	-2	59
Türkiye		32.27	0.1	0.0	1	-39	-8		27.5	22.0	-84	26	1587	71
US (DXY; 5y UST)		105	-0.2	-0.7	-1	2	3		4.37	-8.6	-13	-25	90	52

	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		3626	-0.8	0	3	-9	6		140	-1	-4	-60	-18	
Indonesia		7180	1.4	1	0	8	-1		100	-5	4	-46	4	
India		72987	-0.2	-1	0	18	1		93	-5	-10	-68	-23	
Philippines		6559	-0.8	-2	2	0	2		90	2	8	-30	10	
Thailand		1370	-0.4	0	-2	-11	-3		0	0	0	0	0	
Malaysia		1603	-0.2	0	4	13	10		79	-2	0	-24	-6	
Argentina		1409886	2.4	-4	18	340	52		1248	21	-89	-1337	-665	
Brazil		128515	0.3	-1	3	18	-4		218	12	7	-58	3	
Chile		6728	0.5	1	4	20	9		116	-7	3	-17	-9	
Colombia		1403	0.9	2	2	22	17		295	7	8	-126	24	
Mexico		57232	-0.9	0	2	4	0		296	-10	-20	-110	-38	
Peru		29847	0.6	2	9	38	15		144	-1	4	-38	0	
Hungary		69066	0.3	0	2	50	14		148	-7	5	-69	-1	
Poland		87527	-0.3	1	5	37	12		99	4	12	-31	2	
Romania		17325	0.2	1	2	44	13		181	-5	5	-70	-19	
South Africa		79217	0.7	3	6	1	3		329	6	-20	-129	21	
Türkiye		10162	-0.1	-1	5	126	36		281	2	-9	-188	-33	
EM total		43	0.4	2	7	10	7		328	2	40	-89	-17	

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

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