



- The Norges Bank kept the policy rate unchanged at 4.5% as expected ([link](#))
- Indian bonds see first foreign outflows since September ([link](#))
- EM currencies have become more sensitive to US interest rates([link](#))
- Nonfarm payrolls and wage growth came in below expectations ([link](#))
- **Special Feature: US Bank Earnings Monitor** (attached)

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Soft landing back on the table? Markets pull first rate cut forward to September

Market sentiment has stabilized with a rate hike off the table, while Treasury yields fell sharply following the nonfarm payrolls report. Nonfarm payrolls came in at 175k (vs 240k expected), while average hourly earnings were slightly below expectations at 0.2% m/m (vs 0.3% expected). Treasury yields fell 9–11 bps, with the 10y yield back below 4.5%. The VIX index declined below 14 again as markets breathe a sigh of relief after the Fed appeared to rule out additional rate hikes on Wednesday. US stock futures were in the green this morning after Apple earnings came in better than expected yesterday and the firm announced a large stock buyback. Hong Kong equity indices have gained over 3% in the last two days. European stocks also edged higher. **The Japanese yen appreciated to the highest level in several weeks at close to 152 yen per dollar**, though implied volatility in options markets remains elevated. Most EM currencies rose on Friday to end the week higher.

Key Global Financial Indicators

Last updated: 5/3/24 8:45 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5064	0.9	0	-3	24	6
Eurostoxx 50		4912	0.4	-2	-3	14	9
Nikkei 225		38236	-0.1	-1	-3	31	14
MSCI EM		42	2.6	3	2	9	5
Yields and Spreads			bps				
US 10y Yield		4.48	-10.2	-18	13	114	60
Germany 10y Yield		2.47	-6.9	-10	8	23	45
EMBIG Sovereign Spread		379	-1	36	39	-111	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.9	0.6	1	0	-8	-3
Dollar index, (+) = \$ appreciation		104.6	-0.7	-1	0	3	3
Brent Crude Oil (\$/barrel)		84.2	0.7	-6	-6	16	9
VIX Index (% change in pp)		14.3	-0.4	-1	0	-4	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

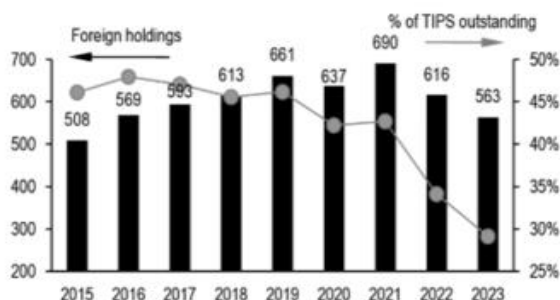
Equities staged a broad-based rally (+0.8%) on Thursday with tech leading the way. Treasuries extended recent gains and the curve steepened, with 2yr and 10yr yields down about 9 bps and 5 bps respectively. The dollar index edged lower.

Treasury yields fell sharply following a weaker than expected nonfarm payrolls report. The jobs report printed at 175k (vs 240k expected and 303k previously). Importantly, average monthly wages rose less than expected at 0.2% (vs 0.3% expected). The unemployment rate rose to 3.9%. **Futures markets pulled forward the first rate cut to September from November.**

Foreign holdings of Treasury Inflation Protected Securities (TIPS) declined by \$53 bn in FY2023 to \$563 bn. The share of foreign holdings in the total stock of TIPS has fallen to 29%, the lowest level since 2011. The largest divestments came from the Cayman Islands, Switzerland, and France. China, which is the largest holder (24% share), had net sales of \$5 bn. Notably, the UK was the largest net buyer (\$22 bn) in 2023. However, given the UK's status as a major financial center, many analysts believe that a portion of its notional demand may be driven by other countries. Some analysts also expect demand from the euro area to weaken going forward as returns relative to similar euro area securities have declined.

Once comprising half of the market, foreign investor holdings now account for under 30% of total TIPS outstanding.

Foreign holdings of TIPS (left axis; \$bn) and as a percentage of TIPS outstanding (right axis; %) as of June of each year



Source: Treasury International Capital System, US Treasury, J.P. Morgan

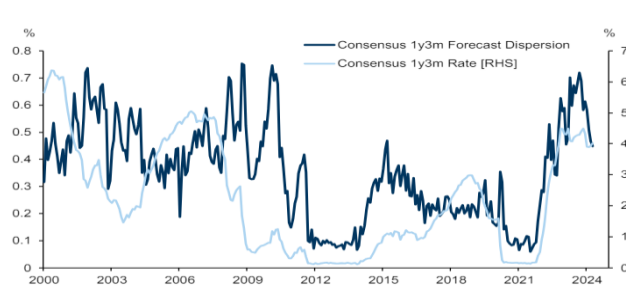
China continued to reduce its TIPS holdings in 2023, while the UK was the largest buyer.

TIPS holdings by country as of June of each year, and change over June 2021 to June 2023, \$bn

	2023	2022	2021	22-23 chg
China, mainland	137	142	195	-5
United Kingdom	75	53	54	22
Singapore	54	55	52	-1
Cayman Islands	26	54	53	-28
Switzerland	25	43	44	-18
Canada	25	22	20	3
France	25	38	40	-13
Kuwait	21	18	20	3
Luxembourg	21	23	20	-2
Ireland	20	16	21	4
Rest of World	80	78	89	3
TOTAL	563	616	690	-53

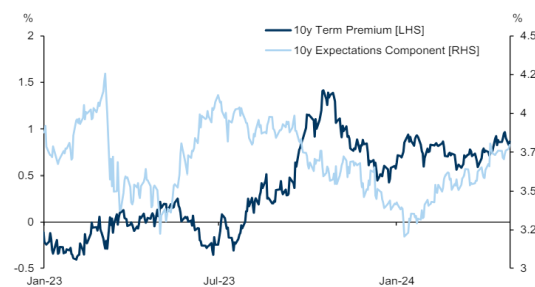
Term premia have been sensitive to uncertainty around the Fed's policy outlook. Model estimates from Goldman Sachs (GS) suggest the decline in term premia from late October through early January was largely driven by the Federal Reserve's dovish messaging in December, which reduced the forecast dispersion around policy rate expectations. In a scenario analysis, GS analysts note that if forecast uncertainty rises back to the levels seen in early October, term premia could rise close to 50 bps, bringing 10y year yields above 5%. More recently, while some models (such as the NY Fed's ACM model) show term premia have been edging higher in recent months, Goldman Sachs attributes the recent rise in Treasury yields largely to the expectations component.

Exhibit 4: Consensus rate expectations have not moved materially, but uncertainty around the short-rate outlook has declined from the cyclical peak



Source: Goldman Sachs Global Investment Research, Consensus Economics

Exhibit 1: The expectations component of yields has led the increase YTD, while term premium has been more steady
Expectations vs term premium of 10y yields, GS decomposition



Source: Goldman Sachs Global Investment Research

Europe

European equities were trading higher this morning, with the Stoxx 600 up +0.3% after today's data confirmed unemployment in the euro area remaining unchanged in March at 6.5%. The euro gained (+0.2%) against the dollar, with analysts trying to assess the level of policy convergence (or lack thereof) between the Fed and ECB. Government bond yields were little changed today, with the 10y bund yield down 1 bp.

United Kingdom

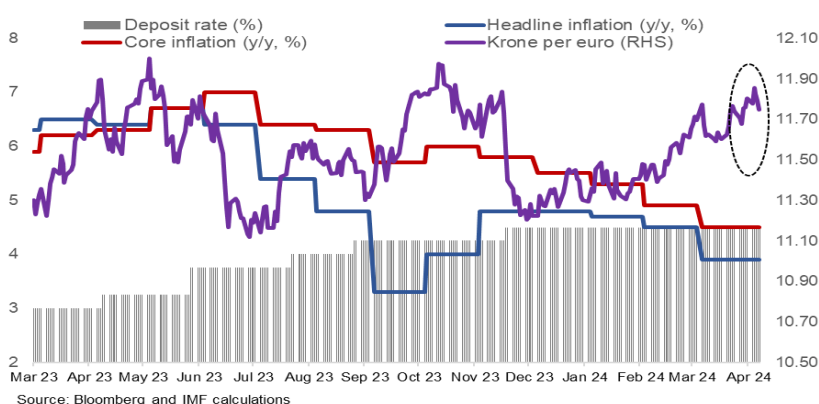
UK stocks were up 0.4% on Friday, with the FTSE100 on track to gain 0.8% this week. The pound gained 0.5% this week, while gilt yields fell 5 bps across most tenors as investors look ahead to the Bank of England MPC meeting on May 9th (no change expected).

Norway

The Norges Bank kept the policy rate unchanged at 4.5% as expected. Governor Ida Wolden Bache said that "Based on the Committee's current assessment of the outlook, the policy rate will likely be kept at today's level for some time ahead".

The monetary policy committee assessed that "price inflation is slowing but is still markedly above target. Business costs have increased sharply in recent years, and high wage growth and a weaker krone are contributing to keeping inflation elevated". Headline inflation was at 3.9% y/y in March, above the central bank's target of 2%, with the median consensus forecast at 3.5% for 2024. JPM analysts see the central bank cutting the policy rate by 25 bps in September, although the market is pricing only 7 bps of easing. **The krone appreciated (+0.4%) against the euro, but remains about 4.4% lower YTD.**

Norway: Deposit rate, inflation and exchange rate



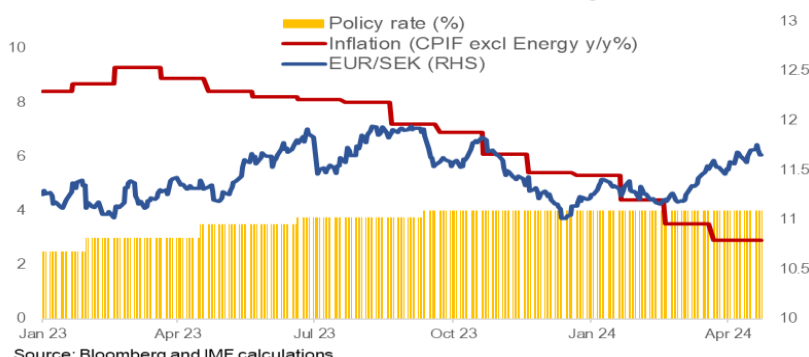
Source: Bloomberg and IMF calculations

Sweden

Analysts expect the Riksbank to cut the policy rate by 25 bps to 3.75% next week, although recent data suggests it will be a close decision. The manufacturing PMI rose to 51.5 in April from 50.4 in March, the highest level in almost two years, though input prices also rose sharply. Core CPI inflation slowed in March to 2.9% from 3.5% and unemployment remains above pre-pandemic levels. Analysts are somewhat

split between 3-4 rate cuts in 2024, with JPM highlighting that a weak krona (-4.5% YTD against the euro) could lead to a more cautious approach. Conversely, markets are pricing only 49 bps of cuts by September.

Sweden: Inflation, Yields and Currency

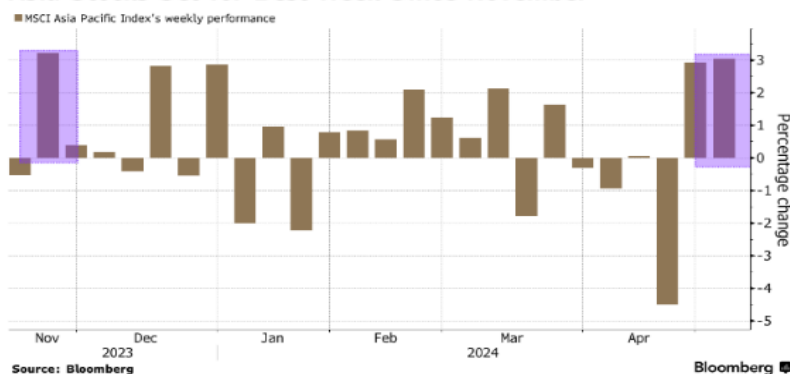


Emerging Markets

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EMEA equities were mostly trading higher while currencies were mixed. Equities in Egypt (+3.3%), South Africa (+0.9%), and Türkiye (+0.6%) outperformed, while Czechia (-1.5%) and Kenya (-1.5%) lagged. **Asian equities were mixed, up +0.8% on net, and poised for the best weekly performance since November.** Hong Kong SAR gained +1.4%, while Indian stocks fell 0.8% but remain just below the record high reached in April. Regional currencies appreciated, with the South Korean won rising 0.9% after the central bank signaled a tighter policy outlook in anticipation of the Fed staying higher for longer. Thailand's CPI inflation unexpectedly returned to positive territory in April +0.2% y/y (consensus: -0.2%, previous: -0.5%) on the back of higher food and fuel prices. **In Latin America, most regional currencies rallied, with the Brazilian real (+1.6%) and the Chilean peso (+1.4%) outperforming.** Brazilian and Colombian stocks gained on the day. Argentina's central bank cut its benchmark rate for the fifth time since December to 50% (from 60%).

Asia Stocks Set for Best Week Since November



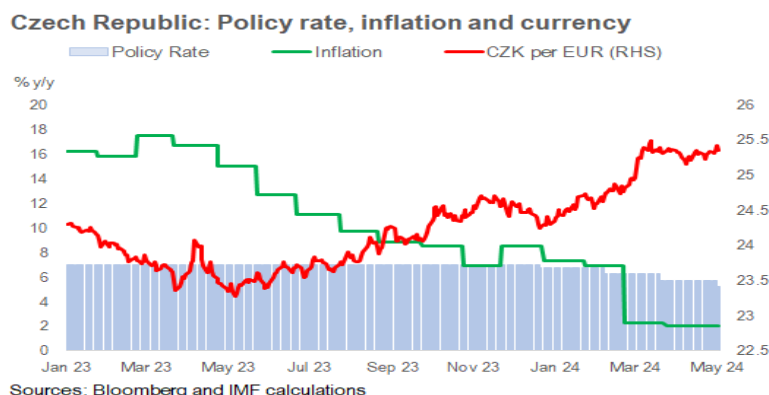
China

Mainland China closed for holiday.

Czechia

The Czech koruna strengthened on a 'hawkish' rate cut yesterday. The Czech National Bank (CNB) reduced its key policy rate by 50 bps to 5.25% for its fourth consecutive rate cut. The accompanying guidance emphasizing a cautious approach helped support the koruna, which gained 0.7%. The committee also voted unanimously, as opposed to the previous meeting where two members voted for a 75 bp move.

Updated macroeconomic projections showed a higher interest rate path with rates expected to decline to 4% by year end (3% previously) and 3% by end-2025 (previously below 3%). The CNB also revised up growth expectations for 2024 to 1.4% y/y (from 0.6%) and for 2025 to 2.7% y/y (from 2.4%). Goldman Sachs expect further easing from the CNB with the policy rate at 3% by early 2025 (versus 3.9% priced in by the market). The koruna reversed some of yesterday's gains today to trade (-0.3%) weaker against the euro at 25.04/€.



EM Currencies

Emerging market currencies have become more sensitive to US Treasury yields. Major EM currencies have depreciated by 3.1% on average in 2024 after generally appreciating in 2023. Goldman Sachs analysts highlighted that exchange rates have become more sensitive to moves in US Treasury yields in recent months, with a stronger negative relationship, as the FX carry available has declined. Although some analysts believe that upside surprises on growth can support EM currencies, particularly those with strong trade linkages to the US, a renewed sell off in Treasury yields could pressure EM central banks to pursue a more cautious policy stance. Markets have generally repriced policy expectations higher for most emerging markets in recent weeks.

Exhibit 13 : The sensitivity of EM FX to US yields has turned more negative and FX carry has declined
Data for EM FX aggregate

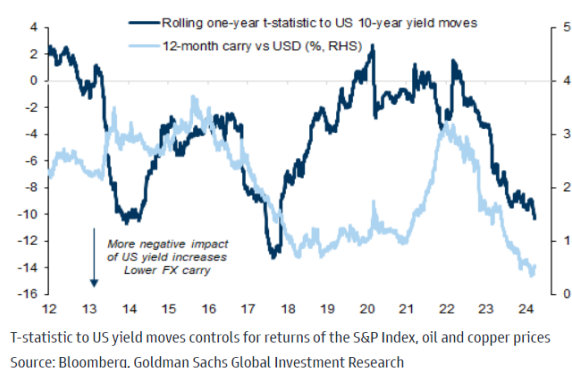
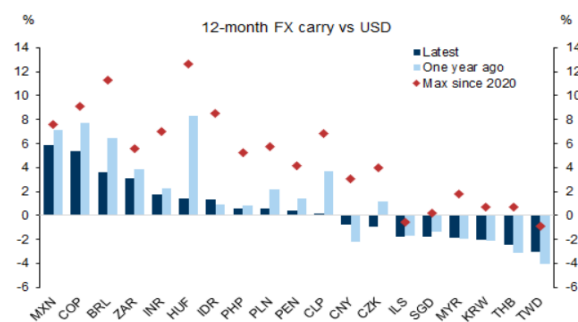


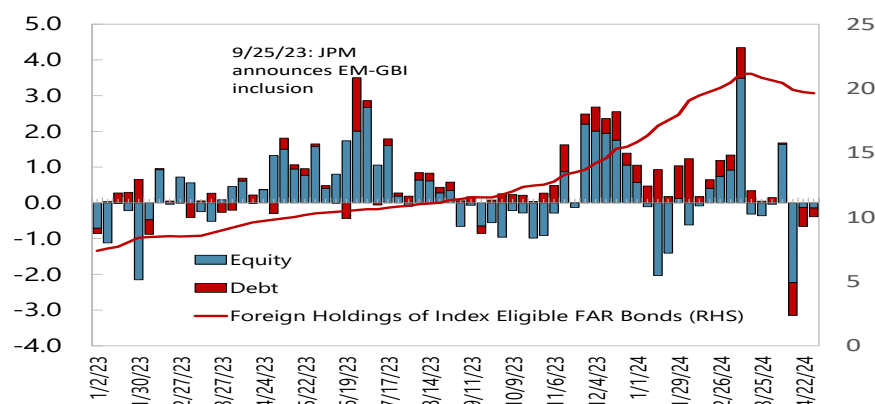
Exhibit 14 : FX carry has declined across the board and is well off the highs of the last 4 years, except in MXN and COP



India

Indian bonds see first foreign outflows since September, though index inclusion in June should support inflows going forward. Foreign investors have sold about \$1.7 bn in bonds over the last three weeks after nearly 30 weeks of consecutive inflows. Flows to emerging markets have been choppy in recent weeks amid heightened uncertainty around the Fed's policy outlook. The rupee has weakened marginally since

March with a slight uptick in volatility, though overall remains rangebound with ongoing central bank activity in the spot and forward market. Foreign investors also sold about \$2.5 bn in equities over the last three weeks. YTD, portfolio inflows of equity and debt stand at \$0.4 bn and \$5.2 bn respectively. Inclusion of India's government bonds to the JPMorgan GBI-EM index will begin on June 28th, with India reaching its maximum 10% weight by March 2025.

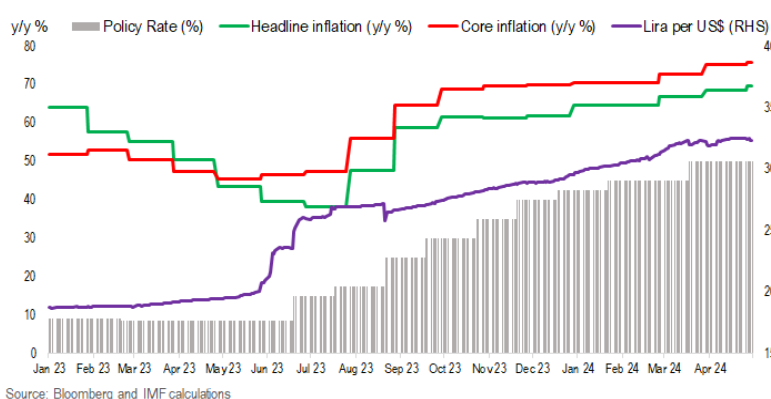


Türkiye

Inflation rose to 69.8% y/y (vs 70.1% expected), with the lira little changed following the release.

Analysts highlighted recent wage increases that have countered the impact of higher interest rates. Central bank officials expect headline inflation to peak later this month, before declining to 36% y/y by year end. Investors remain generally constructive on Turkish assets citing “encouraging policy developments”. Separately, S&P is expected to provide an update on Türkiye's sovereign credit rating after market close, according to Bloomberg. Media reports suggest S&P could upgrade Türkiye's rating from B to B+ based on the country's adoption of more orthodox monetary and financial policies.

Türkiye: Inflation, Policy Rate and FX



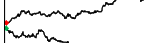











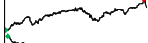






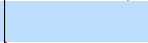





Source: Bloomberg and IMF calculations

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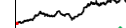
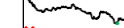




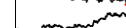

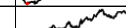




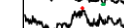



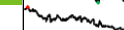


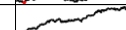
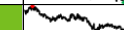







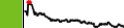


Global Financial Indicators

5/3/24 8:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5106	0.9	0	-2	25	7
Europe		4915	0.5	-2	-3	14	9
Japan		38236	-0.1	-1	-3	31	14
China		3604	-0.5	3	0	-11	5
Asia Ex Japan		70	3.0	4	3	7	5
Emerging Markets		42	2.6	3	2	9	5
Interest Rates			basis points				
US 10y Yield		4.47	-11.4	-20	12	113	59
Germany 10y Yield		2.46	-7.9	-11	7	22	44
Japan 10y Yield		0.90	0.0	1	11	48	29
UK 10y Yield		4.20	-8.5	-12	15	51	66
Credit Spreads			basis points				
US Investment Grade		113	-4.1	-6	-6	-53	-21
US High Yield		346	0.6	-2	-7	-161	-39
Exchange Rates			%				
USD/Majors		104.90	-0.4	-1	1	4	4
EUR/USD		1.08	0.8	1	0	-2	-2
USD/JPY		151.9	-1.1	-4	0	13	8
EM/USD		46.9	0.6	1	0	-8	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		84.1	0.5	-5	-5	20	10
Industrials Metals (index)		157	1.4	0	8	3	10
Agriculture (index)		60	1.0	0	1	-10	-4
Implied Volatility			%				
VIX Index (%, change in pp)		14.4	-0.3	-0.7	0.0	-4.0	1.9
Global FX Volatility		7.4	0.0	0.0	0.7	-1.7	-0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		98	-1.2	-4	-10	-87	-6
Italy		130	-2.6	-5	-16	-57	-38
Portugal		63	-0.3	-2	-7	-22	-1
Spain		77	-0.7	-2	-9	-30	-20

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

Emerging Market Financial Indicators

Last updated: 5/3/2024 8:29 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		7.24	-0.2	0.1	0	-5	-2		2.4	0.0	0	2	-70	-16
Indonesia		16084	0.6	0.8	-1	-9	-4		7.2	-1.3	-1	48	69	69
India		83	0.0	-0.1	0	-2	0		7.5	-4.1	-9	22	23.6	26
Philippines		57	0.3	0.6	-2	-3	-3		5.8	-0.1	1	33	-22	13
Thailand		37	0.4	0.5	0	-8	-7		2.8	-1.3	-6	25	25	13
Malaysia		4.74	0.3	0.6	0	-6	-3		4.0	-0.5	-5	8	22	23
Argentina		878	-0.2	-0.5	-2	-74	-8		38.8	-142.3	-165	-1386	-5598	-4754
Brazil		5.11	0.1	0.1	-1	-2	-5		11.6	-5.6	-14	29	-71	118
Chile		946	1.5	0.4	3	-14	-7		5.3	0.0	-13	9	19	39
Colombia		3905	0.4	1.3	-2	20	-1		8.5	0.0	-11	34	-59	81
Mexico		16.93	0.3	1.4	-2	6	0		9.3	0.0	-23	37	101	87
Peru		3.7	0.9	0.6	-1	0	-1		7.2	0.4	-16	-27	-26	54
Uruguay		38	-0.1	0.6	0	2	2		9.1	1.9	7	11	-86	-40
Hungary		362	0.4	1.4	0	-6	-4		6.8	-12.0	-26	18	-102	103
Poland		4.03	0.3	0.2	-2	3	-2		5.3	0.0	-10	18	2	83
Romania		4.6	0.3	0.6	-1	-4	-3		6.6	-3.0	3	24	-48	43
Russia		91.5	1.8	0.4	1	-14	-2							
South Africa		18.5	0.2	1.6	1	-1	-1		9.9	-4.8	-18	16	67	82
Türkiye		32.34	0.1	0.5	-1	-40	-9		28.9	4.0	78	264	1580	215
US (DXY; 5y UST)		105	-0.1	-0.7	1	4	4		4.54	-2.7	-14	22	125	70

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)						Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	
									basis points					
China		3604	0.0	3	0	-11	5		139	-3	-8	-61	-19	
Indonesia		7135	0.2	0	-2	5	-2		104	5	12	-54	8	
India		73878	-1.0	-1	0	21	2		100	-1	-6	-64	-16	
Philippines		6616	-0.5	1	-2	-1	3		90	5	10	-40	10	
Thailand		1370	0.5	0	0	-11	-3		0	0	0	0	0	
Malaysia		1590	0.6	1	2	11	9		83	-1	1	-21	-2	
Argentina		1369674	3.5	14	13	374	47		1241	5	-215	-1425	-672	
Brazil		127122	1.0	2	0	25	-5		209	-6	-3	-73	-6	
Chile		6498	-0.2	3	-2	21	5		120	1	-2	-21	-5	
Colombia		1379	1.6	2	0	19	15		300	-1	8	-128	29	
Mexico		56677	-0.1	0	-1	3	-1		309	0	-1	-86	-25	
Peru		29041	-0.5	2	2	34	12		147	1	6	-37	3	
Hungary		68077	-0.1	3	2	46	12		156	7	6	-72	7	
Poland		84394	0.0	0	2	34	8		97	4	3	-42	0	
Romania		17221	0.0	2	1	41	12		189	5	8	-74	-12	
South Africa		76630	0.8	3	3	-2	0		341	-9	-18	-90	33	
Türkiye		10223	0.1	5	14	128	37		282	1	-10	-240	-32	
EM total		42	0.3	3	2	9	5		333	45	41	-92	-12	

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

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