



- **US earnings season best in two years, but uncertainties loom** ([link](#))
- **Private credit borrowers face liquidity challenges but avoid defaults** ([link](#))
- **Bank of Japan Governor Ueda comments on Japanese yen weakness** ([link](#))
- **Swedish krona weaker as Riksbank begins easing cycle** ([link](#))
- **The market anticipates that Banxico will maintain its current policy rate this Thursday** ([link](#))
- **Special Feature: Emerging and Frontier Markets Issuance Monitor** (attached)

[Mature Markets](#)



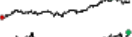



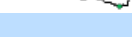
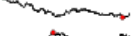


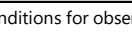
| [Emerging Markets](#)

| [Market Tables](#)

Earnings take the baton from rate cut hopes to fuel European equity gains

Equities advanced in Europe on the back of strong corporate earnings today. The rally in rates seems to have run its course for now with global bond yields increasing mildly in most jurisdictions. In contrast with its European counterparts, Japanese stocks declined (-1.6%) on a weaker earnings outlook, in particular for tech-stocks. US equities are set to open slightly lower with S&P futures trading at -0.2%. In Sweden, rate cut hopes were fulfilled today, as its central bank kicked off with its first rate cut (for this cycle), taking its policy rate from 4% to 3.75%. Within the mature markets, the Riksbank followed in the footsteps of the Swiss National Bank, which cut earlier in March. A first cut for the European Central Bank is fully priced for June. The first Federal Reserve rate cut is priced for September. The Swedish krona weakened by around 0.4% versus the US dollar after the Riksbank's announcement and showed some volatility afterwards. The Japanese yen continued to weaken for the third day in a row today, after last week's suspected interventions. The yen crossed the 155 mark versus the US dollar again, and weakened by 1.7% this week-to-date. Bank of Japan Governor Ueda commented on yen weakness, saying that one should be mindful of an increasing likelihood that yen weakness is impacting inflation. Bloomberg quoted Ueda as saying that depending on those moves, a monetary policy response might be needed.

Key Global Financial Indicators

Last updated: 5/8/24 8:13 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5188	0.1	3	0	25	9
Eurostoxx 50		5039	0.4	2	0	16	11
Nikkei 225		38202	-1.6	1	-4	31	14
MSCI EM		42	-0.6	3	2	7	5
Yields and Spreads			bps				
US 10y Yield		4.49	3.1	-14	7	98	61
Germany 10y Yield		2.46	3.5	-13	2	14	43
EMBIG Sovereign Spread		372	-1	-1	41	-117	-12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.7	-0.1	1	-1	-8	-3
Dollar index, (+) = \$ appreciation		105.6	0.1	0	1	4	4
Brent Crude Oil (\$/barrel)		82.1	-1.3	-2	-9	7	7
VIX Index (% change in pp)		13.3	0.1	-2	-2	-4	1

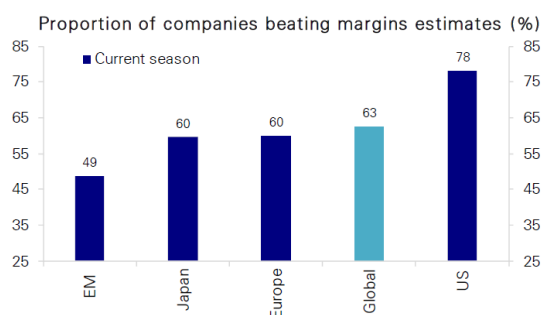
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

United States

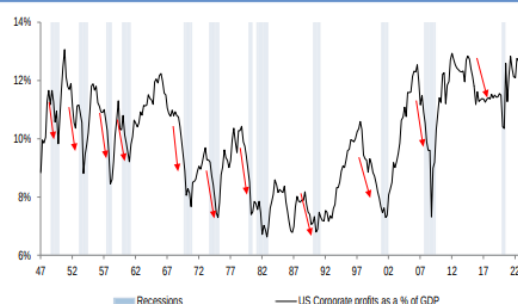
The US earnings season has been smooth sailing, but uncertainty looms. With over 80% of S&P 500 companies having reported earnings, 79% of them have exceeded profit expectations marking this the best season for earnings in almost two years. The Magnificent seven have again helped to propel the index higher, with Nvidia reporting next week. So far, high earnings were supported by strong margins globally, driven notably by large companies with low leverage and fixed-rate debt, which is less susceptible to the higher-interest rate environment. Looking ahead, JP Morgan sees profit margins softening as growth weakens, leading to potential consolidation in equities. Nevertheless, other market analysts points to renewed appetite for equities by institutional investors (Hedge Funds and Commodity Trading advisors), while others expect that American companies are expected to drive the next leg of the stock rally through share repurchases. These uncertainties explain, according to the analysts, that despite the strong earning calls, the median stock outperformed the index by less than 0.1% on results day.



Deutsche Bank
Research

Profit margins are at risk...

US corporate profit margins



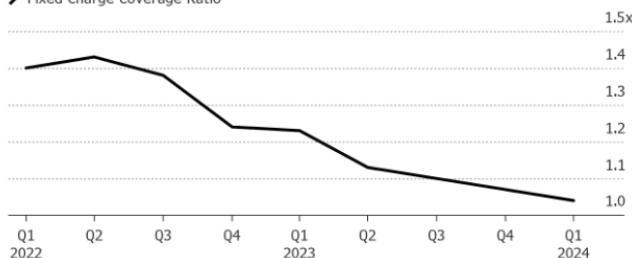
J.P.Morgan

Private credit borrowers face increased liquidity challenges due to prolonged high interest rates.

According to Lincoln data, an investment management advisory firm, the average fixed charge coverage ratio, a measure of cost coverage, has declined to 1.04 times in the first quarter, worse than during the early stages of the Covid-19 pandemic. Despite these difficulties, some businesses are managing to avoid defaults by making amendments to their loans. Around 16% of the approximately 1,400 private companies that Lincoln covers have made adjustments that include preemptive changes before covenant defaults, raising funds through non-interest-paying investments, and even allowing companies to pay interest using additional debt. Additionally, anecdotal evidence suggests that strong-performing companies are benefiting from competition from more traditional market segments, such as leveraged loans, resulting in amendments that lead to lower loan prices.

Borrowers Ability to Pay for Debt Continues to Slide

Fixed Charge Coverage Ratio



Source: Lincoln International
Note: FCCR is calculated as Ebitda minus capital expenditures and cash taxes divided by cash interest expense and mandatory debt repayment

Bloomberg

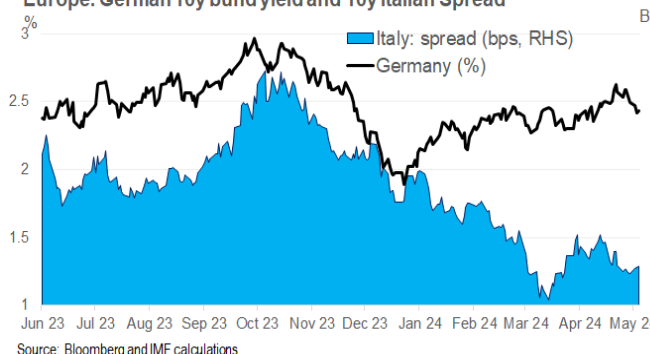
Europe

Strong corporate sector earnings boosted European equities this morning, pushing the STOXX 600 index to a new high in early morning trading. The index was up 0.4% led by gains in the consumer staples (+1.1%) and industrials (+1.0%) sectors. On the data front, March industrial production data for Germany showed that industrial output fell for the first time this year, registering a -0.4% m/m decline (-0.7% exp, +1.7% prior). There was little immediate market reaction to the data release. Elsewhere, 10y bund yields were higher (+3bps) to trade at around 2.45% although they are almost 14bps lower compared to last week. Meanwhile, the euro was marginally weaker against the dollar (-0.1%) trading at around 1.0743.

Analysts at Commerzbank note that “sluggish demand” for recent Italian BTP Valore sales has led to some spread-widening of the 10y BTP versus the German bund yield. This stands in contrast to the risk-on moves seen in equities markets as well as the rally in core fixed income markets.

According to Bloomberg, households placed orders of around €6.6bn in the first two days of a sale that ends Friday, with demand on the third day of sales amounting to around €600mn. Commerzbank note that the slow start to the latest BTP Valore sales suggests that the government may not be able to tap retail savings indefinitely as a source of funding, with some market participants concerned that waning household demand could result in upward pressure on yields if the Treasury has to increase its supply of bonds to institutional investors. This morning, 10y BTP spreads over 10y bunds were broadly unchanged at 134bps.

Europe: German 10y bund yield and 10y Italian Spread

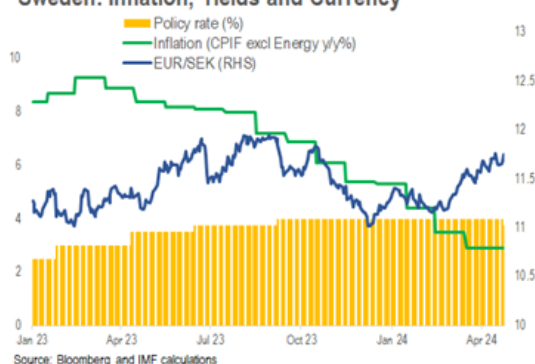


Sweden

The Swedish krona weakened as the Riksbank begins its easing cycle. This morning the Riksbank joined the Swiss National Bank as the second advanced economy central bank to start easing rates as it delivered a 25bps rate cut to take its key policy rate to 3.75%. Officials also said that they could reduce rates twice more in the second half of the year.

Immediately following the announcement, the Swedish krona was trading (-0.4%) weaker against the euro at 11.73/€. While weak growth and a sharp deceleration in the rate of inflation were the justifications for today's cut, some analysts had suggested that weakness in the Swedish krona might have delayed the start of the easing cycle to June. HSBC analysts expect two more rate cuts this year, one each in Q3 and Q4 with a further cut at the start of next year, leaving the terminal rate at 3.0%.

Sweden: Inflation, Yields and Currency



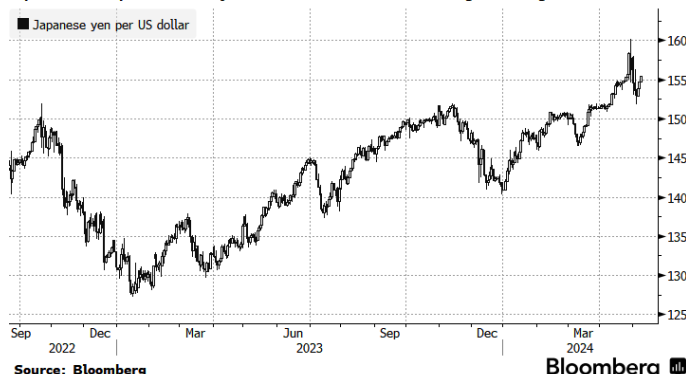
Japan

Bank of Japan Governor Ueda seen to beef up language on the weak Japanese yen.

In response to a parliamentary inquiry, he said that foreign exchange rates make a significant impact on inflation and that a monetary policy response may be needed depending on the developments. He also indicated that the likelihood of the weak Japanese yen to have an impact on inflation has increased as firms become more willing to pass on rising costs. He appeared to have adjusted his tone on the Japanese yen, according to analysts. However, the Japanese yen depreciated to 155.3 yen per dollar (-0.4%) today. JGB yields were mixed (10-year: +1.1 bps; 30-year: -0.8 bp), and Japanese equities declined (NIKKEI: -1.6%), with some tech stocks underperforming on their weaker earnings outlook.

Yen Has Stayed Weak After Suspected Interventions

Japan's two suspected currency interventions have failed to be a game changer



Emerging Markets

[back to top](#)

EMEA equities were lower today and currencies weakened. Stock markets underperformed in Türkiye (-0.3%) and in Hungary (-0.3%). CEE currencies were weaker against the euro, in particular the Polish zloty (-0.2%) which traded at 4.31/€ ahead of the National Bank of Poland's policy rate decision tomorrow, where consensus expects the rate to be left unchanged at 5.75%. In South Africa, the rand depreciated by -0.5% against the dollar, trading at 18.06/\$.

Most Asian equities declined, falling 0.5% on net, led by Singaporean (-1.1%), Hong Kong SAR (-0.9%) and Chinese mainland (CSI 300: -0.8%) stocks. Asian currencies depreciated, led by Philippine peso (-0.3%), Korean won (-0.2%) and Thai baht (-0.2%). On Thursday, Bank Negara Malaysia is expected to hold its policy rate at 3%, where it has been since May 2023.

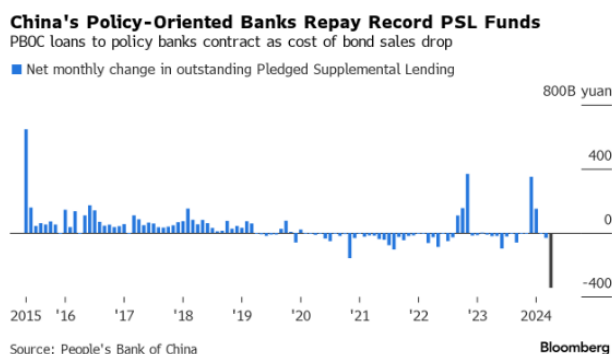
Bank Indonesia Governor Perry signaled that it does not need to raise interest rates further while pledging efforts to boost the currency to the 16,000 rupiah per dollar level. Indonesian rupiah was little changed, outperforming other regional currencies. Long-end government bond yields were mixed, with 10-year yields rising in Indonesia (+4.4 bps) while falling in the Philippines (-3.7 bps). In the Philippines, the unemployment rate increased to 3.9% in March from 3.5% in February.

Latin American equities advanced while currencies retreated. Stocks gained in Brazil (+0.6%) and Chile (+1.6%). The Chilean peso depreciated 0.7% against the US dollar. Chile's trade surplus widened to \$1.87 bn in April, higher than the \$1.7 bn consensus estimation. Later today, the central bank of Brazil will announce its policy decisions: it is expected to cut its Selic rate by 25 bps.

China

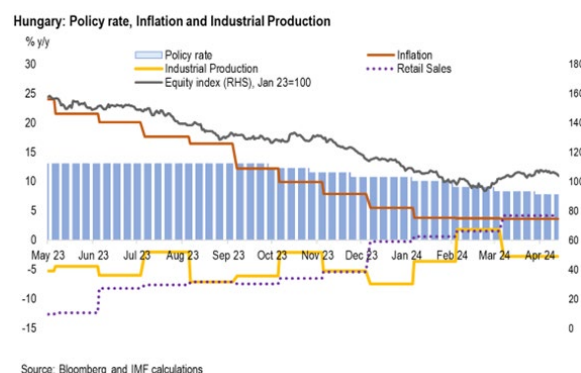
Policy banks repaid funds under the People's Bank of China's (PBoC) Pledged Supplementary Lending (PSL) in April. The repayment amounted to 343 bn yuan (\$48 bn), the largest amount on record. The PSL is mainly intended to finance infrastructure and real estate projects. The PSL repayment came after policy banks planned to accelerate their bond issuances. Analysts noted that policy banks' effort to increase bond supply could aim at moderating a bond market rally, which became a concern for Chinese authorities more recently. Analysts generally did not see that a contraction in PSL funding means a withdrawal of support to the property sector.

China issued draft rules aimed at slowing the expansion of the battery industry. Particularly, firms in the lithium-ion battery industry should avoid building plants that simply expand the production capacity. Unrelated, today Chinese equities declined (CSI 300: -0.8%; Hong Kong SAR-listed: -1.1%). The renminbi (RMB) depreciated to 7.23 yuan per dollar (-0.1%) as the PBoC further weakened the daily RMB fixing today. That said, the daily fixing remained much stronger than expectations, with the deviation from market consensus amounting to 1,353 pips. CGB yields rose (1-year: +0.2 bp; 10-year: +0.8 bp).



Hungary

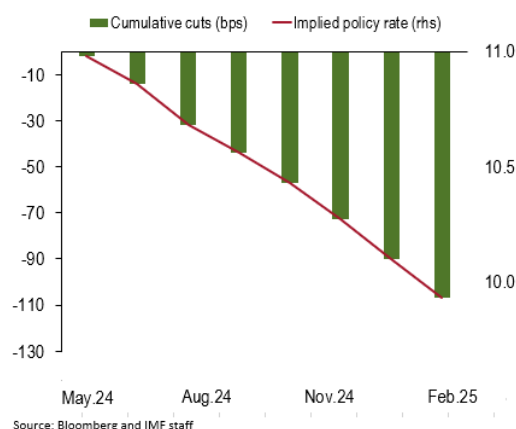
The stock market edged down (-0.3%) this morning, as today's data on Hungary's industrial production surprised to the downside. Production fell in March by -2.8%/y/y, against (median) estimate of -0.6% and from a revised print of +1.8%/y/y in February. This came after yesterday's data showed instead the highest growth of retail sales since May 2022: +4.2%/y/y in March from a (revised) figure of +1.6% in February and above consensus expectations of 0.8%/y/y. Yesterday's data on retail spending was good news, in particular for Hungary's budget which relies heavily on value-added taxes. However, after today's IP data analysts at ING



expect the negative performance of the industrial sector to be confirmed for the year as a whole and to hold back GDP growth in 2024. They highlight that various business surveys and indicators pointed to some improvements, but with limited reliability. The PMI was above 50 for six months, indicating expansion, while actual industrial production growth has not steadily occurred.

Mexico

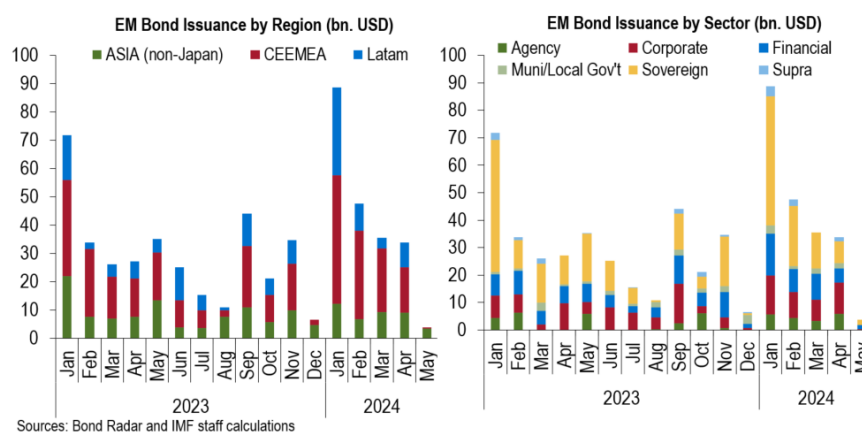
The market anticipates that Banxico will maintain its current policy rate at 11% this Thursday. Market participants believe it is likely that a next rate cut will be happening in the June meeting, after the presidential and congressional elections. Recent meeting minutes revealed a more cautious tone among some members regarding a rate reduction, citing concerns about external factors, persistent domestic inflation amidst strong growth, and election-related event risks. Inflation expectations have remained relatively stable since March, with slight improvements in both headline and core inflation expectations. Fiscal spending in the first half of the year has supported growth, though it's expected to slow down later in the year. Elsewhere, the central bank of Peru will announce its decisions as well on Thursday and is expected to cut its policy rate by 25 bps from 6% to 5.75%.



EM Bond Issuance

Emerging Markets (EM) saw \$3.6bn of new bond issuances last week, 76% lower than last week.

New issuances were comprised of, \$2.5bn of agency bonds, \$745mn of corporate/financial bonds, and \$399mn of local government bonds. The Abu Dhabi development holding company's issuance was most significant in size. All new issuances were hard currency fixed-rate bonds with maturity varying from 3 years to 10 years. The weighted average yield amounted to 5.72% as 98% of the new issuances were investment-grade rated. Year-to-date combined hard currency and local currency issuance now stands at \$209bn.



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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.











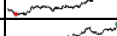








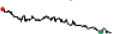

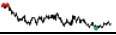

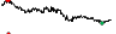

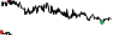

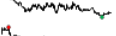



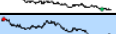

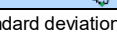


Global Financial Indicators

5/8/24 8:13 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5179	0.1	3	0	25	9
Europe		5039	0.4	2	0	16	11
Japan		38202	-1.6	1	-4	31	14
China		3630	-0.8	1	3	-10	6
Asia Ex Japan		70	-0.7	3	3	5	6
Emerging Markets		42	-0.6	3	2	7	5
Interest Rates			basis points				
US 10y Yield		4.49	3.1	-14	7	98	61
Germany 10y Yield		2.46	3.5	-13	2	14	43
Japan 10y Yield		0.88	0.9	-1	8	46	27
UK 10y Yield		4.14	1.8	-22	6	36	61
Credit Spreads			basis points				
US Investment Grade		117	0.5	-1	-2	-52	-17
US High Yield		337	-0.3	-12	-8	-166	-48
Exchange Rates			%				
USD/Majors		105.57	0.1	0	1	4	4
EUR/USD		1.07	-0.1	0	-1	-2	-3
USD/JPY		155.6	0.6	1	2	15	10
EM/USD		46.7	-0.1	1	-1	-8	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		82.1	-1.3	-2	-8	12	7
Industrials Metals (index)		156	-1.8	-1	5	1	9
Agriculture (index)		61	-0.6	3	1	-10	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.3	0.1	-2.1	-1.9	-3.7	0.9
Global FX Volatility		7.1	0.0	-0.4	0.5	-1.9	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	0.3	2	-1	-74	-2
Italy		134	-0.4	0	-6	-58	-34
Portugal		65	-0.5	2	-2	-20	1
Spain		79	0.4	2	-3	-30	-18

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

Emerging Market Financial Indicators

Last updated: 5/8/2024 8:13 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		7.23	-0.1	0.2	0	-4	-2		2.3	-1.0	-8	-6	-72	-24
Indonesia		16045	0.0	1.3	-1	-8	-4		7.0	4.4	-28	31	48	49
India		84	0.0	-0.1	0	-2	0		7.5	4.0	-6	14	26.3	28
Philippines		57	-0.3	0.7	-2	-4	-3		5.7	6.1	-6	26	-21	7
Thailand		37	-0.2	0.3	-1	-9	-8		2.9	3.5	-4	25	31	18
Malaysia		4.74	-0.1	0.7	0	-6	-3		4.0	5.1	-2	6	26	23
Argentina		881	-0.1	-0.5	-2	-74	-8		39.0	6.4	-124	-888	-5732	-4737
Brazil		5.09	-0.4	2.0	-1	-2	-5		11.6	4.9	-31	22	-80	117
Chile		937	-0.7	2.5	1	-15	-6		5.1	2.5	-24	-18	-12	21
Colombia		3888	0.2	0.8	-3	16	-1		8.1	0.0	-35	-21	-68	49
Mexico		16.95	-0.3	0.3	-4	5	0		9.1	0.0	-41	1	79	69
Peru		3.7	0.1	1.1	-1	0	-1		7.0	-0.6	-24	-20	-32	37
Uruguay		39	-0.5	-1.0	0	0	1		9.1	-1.7	1	6	-93	-41
Hungary		362	-0.1	0.6	-1	-7	-4		6.4	-3.0	-65	-28	-153	60
Poland		4.01	0.0	0.6	-2	3	-2		5.1	-0.6	-27	-3	-11	63
Romania		4.6	-0.1	0.3	-1	-3	-3		6.5	-13.4	-16	11	-59	30
Russia		91.9	-0.4	2.1	1	-16	-3							
South Africa		18.7	-0.8	-0.4	0	-2	-2		9.8	-1.0	-32	-9	44	64
Türkiye		32.26	0.0	0.7	-1	-40	-8		28.3	-17.0	3	106	1560	154
US (DXY; 5y UST)		106	0.1	-0.2	1	4	4		4.50	2.6	-15	7	101	65

	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		3630	-0.8	1	3	-10	6		141	5	-7	-59	-17	
Indonesia		7089	-0.5	-2	-3	5	-3		105	8	15	-41	9	
India		73466	-0.1	-1	-2	19	2		98	-2	-8	-66	-18	
Philippines		6659	0.6	-1	-1	1	3		88	4	11	-31	8	
Thailand		1373	-0.2	1	-2	-12	-3		0	0	0	0	0	
Malaysia		1605	-0.1	2	3	12	10		81	0	-1	-23	-4	
Argentina		1463624	-2.2	12	19	381	57		1227	7	-74	-1362	-686	
Brazil		129210	0.6	1	0	22	-4		206	-6	-2	-75	-9	
Chile		6601	1.6	1	0	18	7		123	4	8	-16	-2	
Colombia		1381	0.1	2	0	19	16		288	-16	6	-138	17	
Mexico		57108	-0.3	-1	-2	4	0		306	-1	4	-97	-28	
Peru		29174	-0.3	0	7	31	12		145	-5	7	-40	1	
Hungary		68762	-0.2	1	3	47	13		155	5	11	-66	6	
Poland		86535	0.1	1	2	37	10		95	4	9	-41	-2	
Romania		17247	0.0	1	0	41	12		186	5	16	-72	-15	
South Africa		76842	-0.1	1	2	-2	0		323	-12	-15	-109	15	
Türkiye		10273	-0.6	2	5	125	38		279	7	1	-249	-35	
EM total		42	-0.5	3	2	7	5		327	-2	48	-97	-19	

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

[back to top](#)