



- The option-implied probability of deep rate cuts in 2024 has fallen ([link](#))
- Bank of Japan board member signals that policy shift is approaching ([link](#))
- Chinese bond yields have fallen sharply since December 2023 ([link](#))
- Indian GDP growth surprised on the upside at 8.4% ([link](#))
- UK housing pressures may be easing, as mortgage approvals surprised on the upside ([link](#))

[Mature Markets](#)



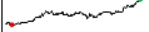






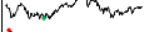

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Financial markets remain muted despite Leap Day excitement

Market sentiment has been cautious, with US stocks and bond yields little changed on net in recent days. Advanced economy bond yields moved slightly higher on Thursday, reversing part of the previous day's move. Global stocks were mixed, with S&P futures down slightly. Initial jobless claims came in slightly higher than expected at 215k, while **PCE inflation was broadly in line with expectations**. The Japanese yen rallied below 150 following comments by a BOJ board member on the potential for an impending policy shift, though it later pared some of its gains. Mainland Chinese indices continued to move higher, now about 10% off their early February lows. Bitcoin resumed its relentless march higher, surpassing 63k again.

Key Global Financial Indicators

Last updated: 2/29/24 8:36 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5070	-0.2	2	5	28	6
Eurostoxx 50		4876	-0.2	0	5	15	8
Nikkei 225		39166	-0.1	2	9	42	17
MSCI EM		40	-1.3	-1	4	5	-1
Yields and Spreads			bps				
US 10y Yield		4.29	2.8	-3	22	37	41
Germany 10y Yield		2.48	2.4	4	25	-17	46
EMBIG Sovereign Spread		368	0	-10	-31	-78	-15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.6	0.0	0	-1	-7	-3
Dollar index, (+) = \$ appreciation		104.0	0.0	0	1	-1	3
Brent Crude Oil (\$/barrel)		83.6	-0.1	0	2	0	9
VIX Index (% change in pp)		14.1	0.2	0	0	-7	2

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

Mature Markets

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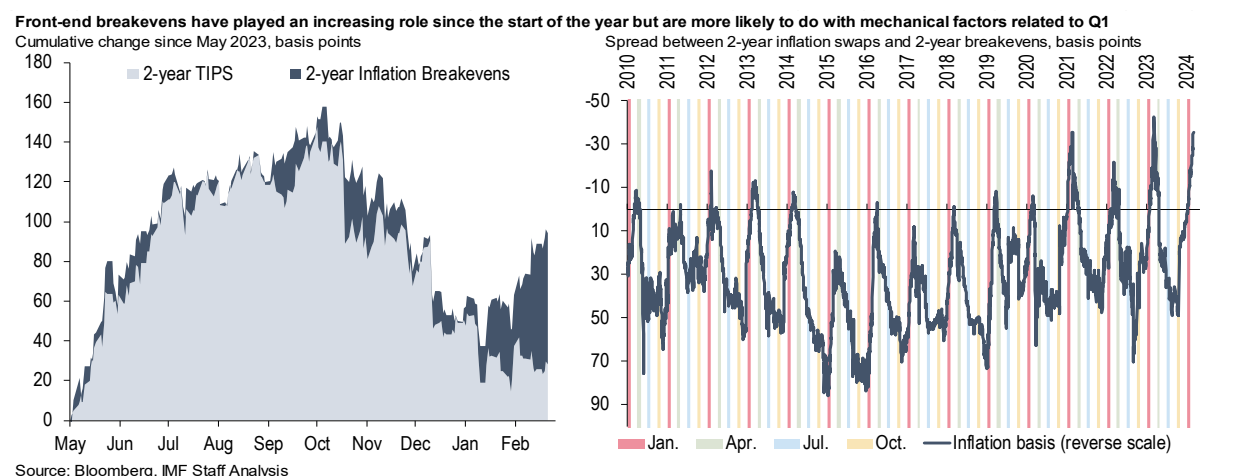
United States

January's PCE deflator's headline and core numbers came in line with expectations this morning. Short-term US Treasuries rallied modestly in reaction to the release (-2bps). The dollar was unchanged against major currencies.

Variable	Consensus Forecast	Actual Data
PCE Deflator	+0.3% m/m, +2.4% y/y	+0.3% m/m, +2.4% y/y
Core PCE Deflator	+0.4% m/m, +2.8% y/y	+0.4% m/m, +2.8% y/y
Initial jobless claims	+210k	+215k

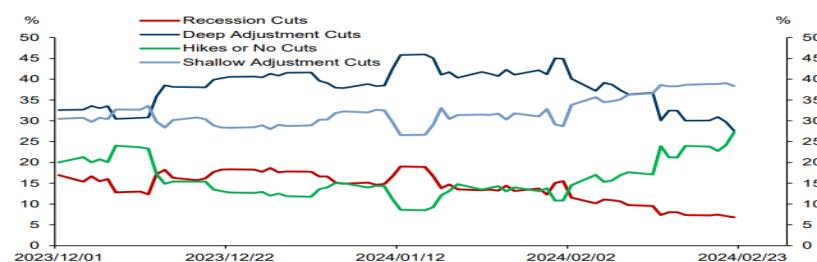
US markets have traded cautiously in recent days. Fed officials have broadly reiterated the central bank's data dependence, with little reaction from markets to specific comments. New York Fed President Williams acknowledged that the strong state of the US economy gives the Fed time to analyze the incoming data before shifting policy. The S&P500 fell (-0.2%) on Wednesday, while Treasuries rallied, with 10y yields down 4 bps, leaving both little changed on net through midweek.

Sharp rise in near-term inflation breakeven rates driven largely by technical factors. 2y breakeven rates have surged by around 60 bps YTD, reaching the highest levels since March 2023. However, a comparison between 2y breakeven rates and 2y inflation swaps (referred to as the inflation basis) suggests the surge in breakevens is most likely due to technical factors related to seasonality of inflation data, liquidity, and the rollover of short-dated inflation-indexed bonds (TIPS). A historical analysis since 2010 shows that at start of the year, 2y breakeven rates increase sharply relative to swaps before fading. A similar pattern is visible at some longer tenors but appears to diminish further out the curve. Long dated forwards, such as the 5y5y forward breakeven, have risen by just 5 bps.



Investors have priced out the probability of deep rate cuts by the Federal Reserve in 2024. Recent commentary by Fed officials has helped push back expectations of imminent and deep rate cuts. Goldman Sachs analysis shows that the option implied probability of the federal funds rate (FFR) being in the range of 2.75–4.25% by year-end has fallen below 30% (from 45% in January), roughly similar to the probability of no cuts or outright hikes (FFR >5.25%). The likelihood of steep cuts in a recessionary scenario (FFR below 2.75%) also has declined in a reflection of recent economic strength. “Shallow adjustment” cuts, with the FFR between 4.25% and 5.25% at year end, are priced as the most likely scenario. Goldman Sachs analysts noted that the bar for markets to price anything less than the three cuts shown in the Federal Reserve's December dot plot is high.

Exhibit 1: Investors appear to have moved to their modal view away from deeper cuts to a shallower adjustment cut cycle for this year
Option-implied probabilities for December 2024 SOFR



Recession cuts: <2.75%; Deep adjustment cuts: 2.75-4.25%; Shallow adjustment cuts: 4.25-5.25%; Hikes or no cuts: >5.25%

Source: Goldman Sachs Global Investment Research

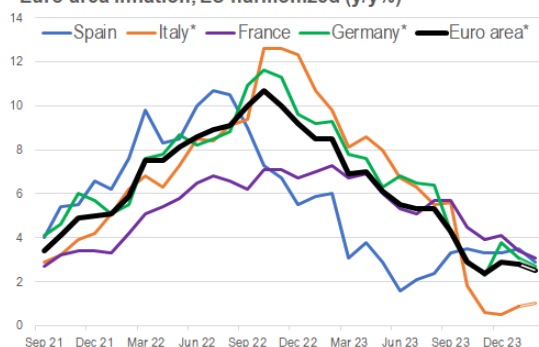
Euro Area

European equities were mixed with the STOXX600 index marginally higher (+0.1%) after closing 0.4% lower yesterday. The euro was little changed against the dollar trading at around 1.083. Investor focus remains on earnings and the upcoming inflation data for the euro area, following inflation prints from France and Spain earlier today.

Euro area sovereign bond yields increased this morning (10y bund yield +4 bps to 2.5%) with analysts cautioning that the euro area inflation print tomorrow could show a slower than expected decline. Contacts highlighted that recent ECB commentary has been rather hawkish. Markets have scaled back ECB rate cut expectations this morning, with markets now pricing in 22 bps of ECB easing by June (vs 26 bps yesterday) and around 88 bps of easing by end-2024 (versus roughly 94 bps yesterday).

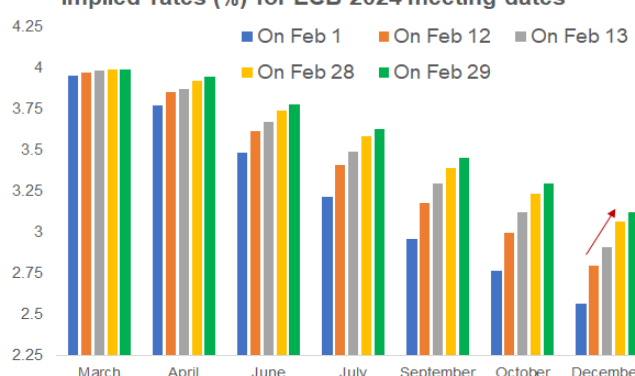
Preliminary data showed inflation easing in France and Spain, generally in line with expectations, but with some upside surprises. Preliminary HICP in France eased to 3.1% y/y as expected from 3.4% previously, while preliminary HICP in Spain eased slightly less than expected to 2.9% y/y (versus 2.8%) from 3.5% previously. Contacts also highlighted that Belgian CPI inflation data released yesterday showed a significant increase to 3.2% y/y (from 1.75%). While regional inflation prints in Germany this morning also showed inflation easing, contacts note that the data suggests that core inflation could be stickier than anticipated. Germany's inflation print is due later today, with consensus expecting HICP to ease to 2.7% y/y from 3.1%. For the euro area inflation print tomorrow, consensus expect both headline and core inflation to ease to 2.5% y/y and 5.9% y/y respectively.

Euro area inflation, EU harmonized (y/y%)



* Data for February 2024 show median Bloomberg forecast
Source: Bloomberg and IMF calculations

Implied rates (%) for ECB 2024 meeting dates



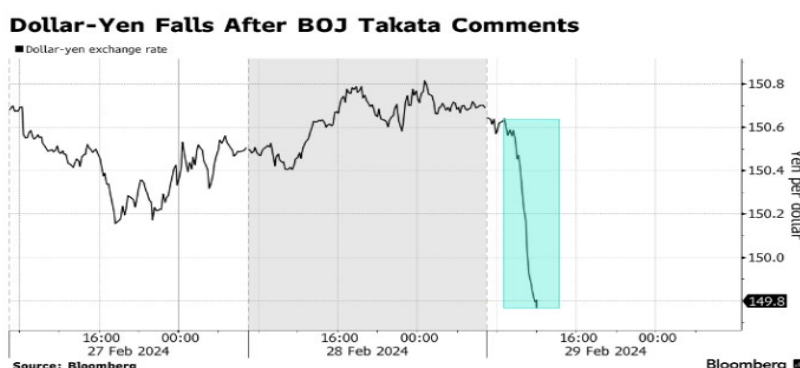
Source: Bloomberg and IMF calculations

United Kingdom

Housing market pressures could be easing, as UK mortgage approvals surprised on the upside (55,200 versus 52,000 expected from 51,500 previously). Bloomberg analysts highlight that even though mortgage rates have increased marginally recently, several banks had been offering 5y fixed-rate mortgages for under 4% in January. Nevertheless, analysts still expect mortgage approvals to remain below the 10y average of 66,000 as interest rates are expected to remain restrictive, with Bloomberg analysts expecting the base rate to reach 4% by end-2024 and 3% in 2025 (from the current 5.25%). Analysts cautioned that significant headwinds to the housing market remain, with an estimated 1.5 mn households facing an increase in mortgage repayments in 2024 as fixed-rate mortgages expire.

Japan

Bank of Japan (BOJ) board member Takata signaled that an exit from negative interest rate policy could be approaching. In a speech to local business leaders, he said BOJ's 2% inflation target is finally in sight, and the BOJ sees a "shift in the entrenched belief that wages and inflation won't rise", according to Bloomberg. He added that monetary policy should be nimble and shift gears in line with changing economic conditions, but does not expect to hike multiple times in a short period. Markets deemed Takata's comments as hawkish; overnight swaps are pricing in a 34% chance of a rate hike at the March meeting, a jump from 21% on Wednesday. Separately, **Japan's Vice Finance Minister Kanda said he is monitoring the yen with a high level of urgency.** He stressed the authorities will take appropriate steps as needed. Data releases for January were mixed as retail sales came in stronger than expected at +2.3% y/y (consensus: +2%, previous: +2.3%) while industrial production contracted for the third straight month at -1.5% y/y (previous: -1%). Japanese stocks were little changed. 10Y bond yields rose +1.2 bps and the Japanese yen appreciated +0.7%.



Emerging Markets

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EMEA markets were mixed as stocks in Poland (+0.9) gained while Czechia (-0.7%) underperformed. In **Türkiye, Q4 GDP surprised on the upside**, increasing to 1.0% q/q (versus expectations of 0.3%). The lira was little changed against the dollar while Turkish equities gained (+0.7%). The South African rand (+0.2% to 19.23/\$) gained against the dollar, while CEE currencies continued to trade in a narrow range against the euro. On the data front, South Africa private sector credit growth slowed more than expected in January to 3.2% y/y (versus 4.4% expected). **Asian equities were mixed, gaining +0.3% on net, as mainland China rallied (+1.9%) while Thailand (-0.9%) declined.** Several regional currencies gained but the Indonesia rupiah underperformed, down 0.2%. Taiwan POC revised down its 2023 GDP estimate to 1.3% (from 1.4%) and raised the 2024 GDP outlook slightly. In Latam, most regional equity markets declined, notably in Peru (-1.7%), Brazil (-1.2%), and Mexico (-1.6%). Banxico revised down its 2024 GDP forecast from 3% to 2.8%, citing heightened geopolitical tensions and increased risks of inflation. Currencies were mixed, with the Brazilian real (-0.7%) and Mexican peso (-0.2%) slipping lower, while the Chilean peso (+0.5%) and Colombian peso (+0.2%) appreciated.

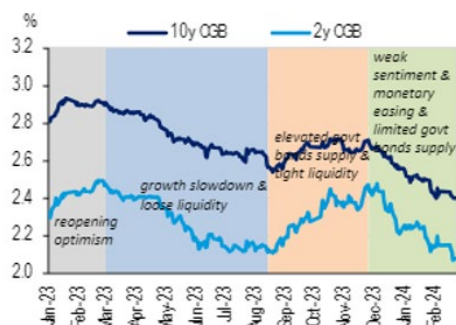
China

Chinese equities rallied +1.9% as sentiment improved after Wednesday's panic selling, with some market participants noting the possibility of buying by state funds. Morgan Stanley said Chinese stocks outflows should be largely over from a rebalancing perspective, but it may take time before meaningful inflow returns.

S&P Global Ratings said bond issuance by a local government financing vehicle (LGFV) in Guizhou province to pay for a regional LGFV peer's debt may introduce systemic risk. Guizhou Hongyingda Construction Project Management issued a 1.8 bn yuan (\$250 mn) on Feb 23, and proceeds will be used to repay or refund bonds sold by Anshun Xixiu Qiancheng Investment Development, another LGFV in the province. S&P noted that if this becomes a new channel for entities to expand borrowing, it could increase the total debt of Chinese LGFVs and exacerbate moral hazard.

Chinese bond yields have fallen sharply since December 2023. BofA analysts attributed the move to the macro backdrop of weak growth sentiment and monetary easing, and a limited net supply of central and local government bonds. 30y CGBs have continued to outperform the rest of the curve and dropped below the 1Y MLF rate. On Thursday, 30Y bond yields fell to 2.47%, close to a two-decade low, and have fallen 11 bps in the last week, the sharpest move since August 2022 according to Bloomberg. BofA opined that the tailwind from limited supply could start to fade if fiscal policy steps up after the National People's Congress. Nevertheless, some market participants noted that an extension of monetary easing will provide continued support to China's bond market, with room for 10y bond yields to fall further this year. Renminbi appreciated +0.1%.

2y and 10y CGB yield movement
The bull market that started in Dec last year continues



Source: Bloomberg, BofA Global Research

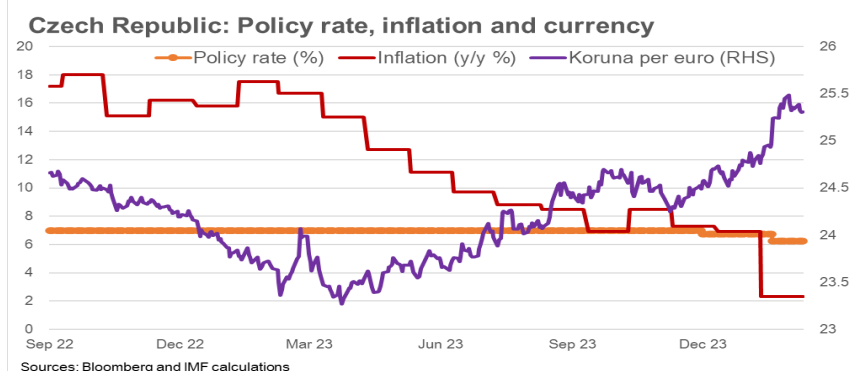
China Government Bond (CGB) yield vs policy rates
CGB yield at multi-decade low level in both 10y and 30y, lower than 1y MLF rate as of Feb 28



Source: Bloomberg, CEIC Note: data as of Feb 28

Czechia

Recent data releases reinforce ING analyst expectations for a 75 bp rate cut in March. PPI data for January confirmed disinflationary trends (-1.8% y/y as expected, from +1.4%), with agricultural producer prices also declining, and earlier data releases showed inflation eased significantly in January (3.9% y/y versus 4.1% expected from 6.2%). ING analysts stated they have more confidence that the central bank will increase the pace of rate cuts despite some lingering currency pressures. Ahead of the central bank's March policy meeting, ING analysts expect the currency to remain stable at current levels after coming under pressure following the previous 50 bp rate cut.



India

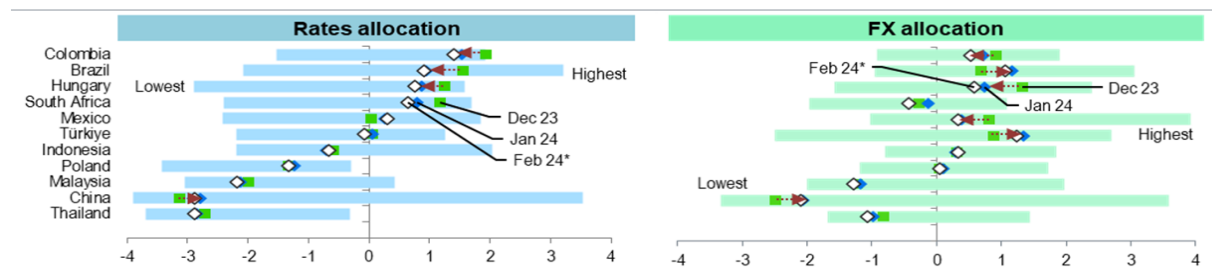
Indian GDP growth surprised on the upside at 8.4% (vs 6.6% expected) in the third quarter of the fiscal year, with growth in the prior quarter also revised up to 8.1%. The authorities also revised up the second advance estimate for the fiscal year ending in March 2024 to 7.6%. Recent quarters of GDP data have come in well above expectations. Markets were closed at the time of the release. The rupee has appreciated slightly over the last week but continues to trade in narrow range around INR83/1USD.

EM Fund Allocations

Investors have continued to show interest in Latin America even as fund managers have reduced or maintained low allocations to emerging markets overall. Analysts at Standard Chartered anticipate continued overweight positions in Brazilian debt and currency, as well as Colombia and Hungary. In contrast, investors look set to remain underweight Asia, according to recent data and Standard Chartered's model.

Figure 1: EM funds have reduced rates allocation to most LCY markets, except Mexico and China

Average fund allocations vs the benchmark index since August 2013 (China since February 2020)*



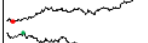


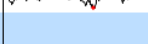
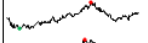

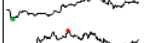




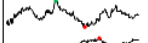



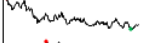









*Prediction of fund allocation is based on our proprietary model; Source: Bloomberg, fund factsheets, Standard Chartered Research

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Global Financial Indicators

2/29/24 8:06 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5064	-0.2	0	5	28	6
Europe		4879	-0.1	0	5	15	8
Japan		39166	-0.1	2	8	42	17
China		3516	1.9	1	9	-15	2
Asia Ex Japan		66	-1.3	-1	4	1	-1
Emerging Markets		40	-1.3	-1	4	5	-1
Interest Rates			basis points				
US 10y Yield		4.31	4.5	-1	24	39	43
Germany 10y Yield		2.50	4.0	6	26	-15	48
Japan 10y Yield		0.71	0.9	-1	-1	20	10
UK 10y Yield		4.25	6.4	14	37	42	71
Credit Spreads			basis points				
US Investment Grade		128	2.7	6	3	-18	-6
US High Yield		368	5.5	-2	-10	-70	-17
Exchange Rates			%				
USD/Majors		103.97	0.0	0	1	-1	3
EUR/USD		1.08	0.0	0	0	2	-2
USD/JPY		150.1	-0.4	0	2	10	6
EM/USD		46.6	0.0	0	-1	-7	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		83.5	-0.2	0	4	7	9
Industrials Metals (index)		137	0.4	0	-1	-15	-4
Agriculture (index)		58	-1.0	0	-5	-14	-7
Implied Volatility			%				
VIX Index (% change in pp)		14.1	0.3	-0.4	-0.2	-6.6	1.7
Global FX Volatility		6.6	0.0	0.0	-0.9	-3.3	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		105	-0.4	-2	0	-74	1
Italy		145	2.0	-3	-12	-38	-23
Portugal		71	0.1	-4	-9	-15	8
Spain		88	0.1	-2	-4	-7	-9

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

Emerging Market Financial Indicators

Last updated: 2/29/2024 8:05 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		7.19	0.0	0.0	0	-4	-1		2.4	1.0	-1	-4	-89	-17
Indonesia		15715	-0.2	-0.8	0	-3	-2		6.6	0.5	4	-3	-29	13
India		83	0.0	-0.1	0	0	0		7.2	1.0	1	7	(51.7)	1
Philippines		56	0.1	-0.9	0	-2	-1		5.4	2.4	0	-2	-54	-20
Thailand		36	0.5	-0.1	-1	-1	-5		2.6	0.7	4	-11	-19	-12
Malaysia		4.74	0.6	0.7	0	-5	-3		3.9	0.1	0	9	-4	14
Argentina		842	-0.1	-0.5	-2	-77	-4		74.4	-241.0	-68	-56	-1377	-1194
Brazil		5.00	-0.5	-0.6	-1	5	-3		10.9	0.1	6	28	-249	52
Chile		975	0.3	0.5	-5	-15	-10		5.2	1.5	12	38	-41	28
Colombia		3927	-0.1	0.0	0	24	-2		7.7	0.0	6	39	-243	6
Mexico		17.09	0.0	0.1	1	7	-1		8.7	1.5	3	8	-26	25
Peru		3.8	-0.2	0.0	0	0	-2		6.8	0.1	10	23	-123	17
Uruguay		39	-0.2	-0.3	0	0	-1		9.0	-3.5	-4	-27	-111	-53
Hungary		364	-0.2	-1.5	-2	-2	-5		6.2	10.0	30	27	-209	44
Poland		3.99	-0.2	0.1	0	11	-1		5.0	9.0	24	33	-99	48
Romania		4.6	-0.2	0.1	0	1	-2		6.4	2.6	9	13	-116	18
Russia		91.1	0.3	2.1	-1	-18	-2							
South Africa		19.3	-0.2	-0.7	-3	-5	-5		9.6	1.7	19	40	37	47
Türkiye		31.23	-0.1	-1.3	-3	-40	-5		26.8	-2.0	27	-74	1664	5
US (DXY; 5y UST)		104	0.0	0.0	1	-1	3		4.32	5.6	-1	33	13	47

Last updated: 2/29/2024 8:06 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		7.19	0.0	0.0	0	-4	-1		2.4	1.0	-1	-4	-89	-17
Indonesia		15715	-0.2	-0.8	0	-3	-2		6.6	0.5	4	-3	-29	13
India		83	0.0	-0.1	0	0	0		7.2	1.0	1	7	(51.7)	1
Philippines		56	0.1	-0.9	0	-2	-1		5.4	2.4	0	-2	-54	-20
Thailand		36	0.5	-0.1	-1	-1	-5		2.6	0.7	4	-11	-19	-12
Malaysia		4.74	0.6	0.7	0	-5	-3		3.9	0.1	0	9	-4	14
Argentina		842	-0.1	-0.5	-2	-77	-4		74.4	-241.0	-68	-56	-1377	-1194
Brazil		5.00	-0.5	-0.6	-1	5	-3		10.9	0.1	6	28	-249	52
Chile		975	0.3	0.5	-5	-15	-10		5.2	1.5	12	38	-41	28
Colombia		3927	-0.1	0.0	0	24	-2		7.7	0.0	6	39	-243	6
Mexico		17.09	0.0	0.1	1	7	-1		8.7	1.5	3	8	-26	25
Peru		3.8	-0.2	0.0	0	0	-2		6.8	0.1	10	23	-123	17
Uruguay		39	-0.2	-0.3	0	0	-1		9.0	-3.5	-4	-27	-111	-53
Hungary		364	-0.2	-1.5	-2	-2	-5		6.2	10.0	30	27	-209	44
Poland		3.99	-0.2	0.1	0	11	-1		5.0	9.0	24	33	-99	48
Romania		4.6	-0.2	0.1	0	1	-2		6.4	2.6	9	13	-116	18
Russia		91.1	0.3	2.1	-1	-18	-2							
South Africa		19.3	-0.2	-0.7	-3	-5	-5		9.6	1.7	19	40	37	47
Türkiye		31.23	-0.1	-1.3	-3	-40	-5		26.8	-2.0	27	-74	1664	5
US (DXY; 5y UST)		104	0.0	0.0	1	-1	3		4.32	5.6	-1	33	13	47

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