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### MXN: Risk appetite improving?

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Last week we mainly saw some peso unwinds from leveraged accounts. However, in the last two trading sessions we started to see fresh inflows from models and HFs.

### Daborn's Week Ahead - Not so Dove Island

C Thomas Daborn 22 Jan 2024 15:40 WIB

A number of G10 central banks meet for the first time this year in the week ahead. The BOJ would have taken centre stage but expectations of any policy normalisation have been pushed out. BoC and ECB meet too, along with Norges. Look to Poltiics wi...

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Asia Afternoon FX Wrap 22nd Jan 2024

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Morning Rundown with news, trading comments and market updates.

### Europe Open - Feeling good

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## US Consumer Price Index

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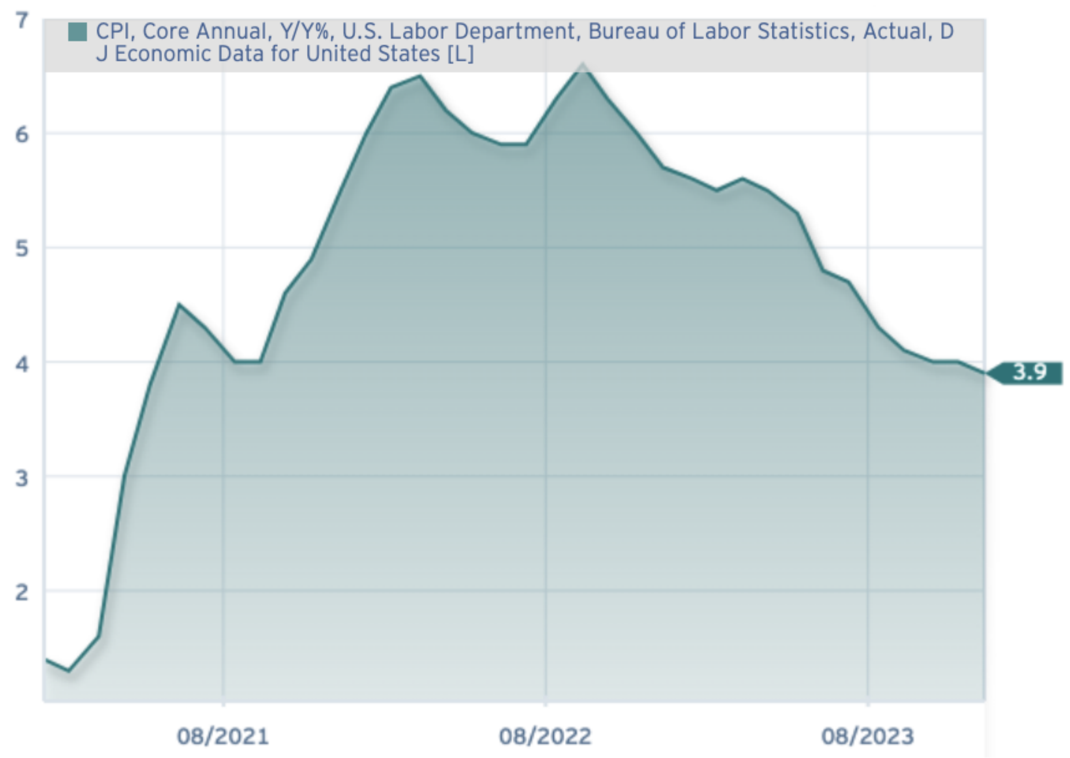


## Inflation Surprise Index

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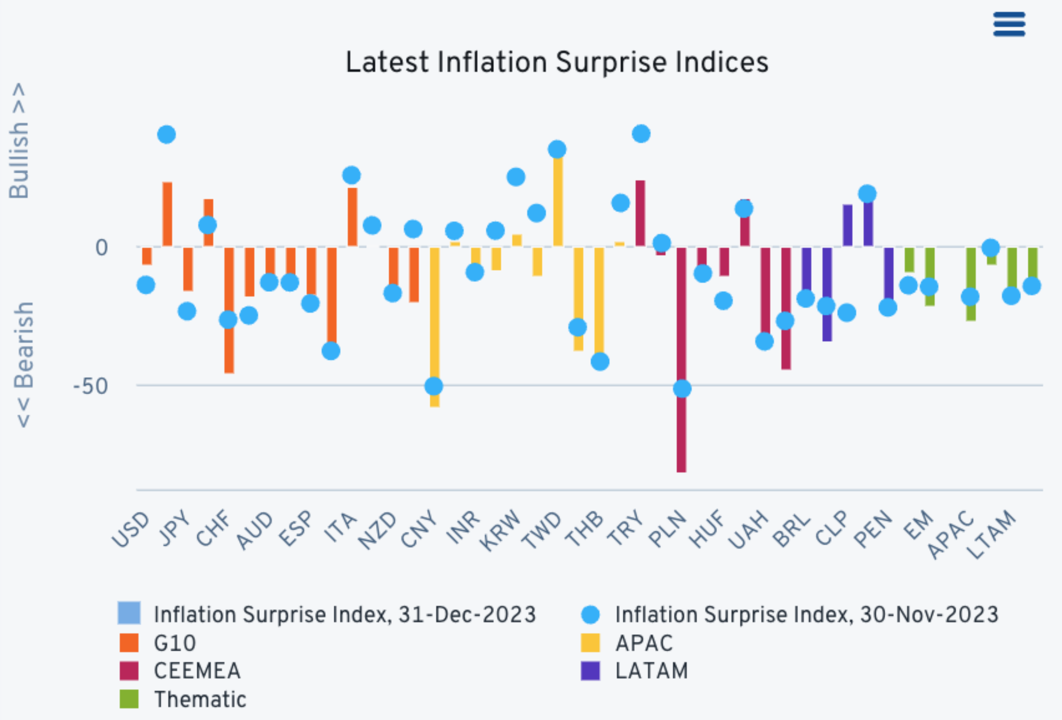
1 Month




Source:Citi. As of: 31-Dec-2023

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# Daborn's Week Ahead - Not so Dove Island

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R William O'Donnell Nov 9, 2023 14:34 MSK

## citi Daborn's Week Ahead



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## WEEK AHEAD

**A number of G10 central banks meet for the first time this year in the week ahead. The BOJ would have taken centre stage but expectations of any policy normalisation have been pushed out. The BoC meet and may lean hawkish after last week's hotter CPI print while the ECB may too talk tough given there is still someway to go on inflation. Despite the bank signaling chances of a 25bps hike in Q1, recent NOK appreciation should see the bank retain hawkishness, but have no hike. Important too for G10 will be SEK Prospera Inflation expectations, NZD CPI, EUR PMIs and US GDP along with US Core PCE. A number of EM central banks meet too with SARB (no change) and CBT (250bps hike). Finishing with politics, after winning the Iowa caucuses, former President Trump is leading polls for the New Hampshire primary taking place on January 23rd.**

**Less fanfare around the BOJ meeting this week** as hopes of policy normalisation have been pushed further back since the turn of the year. Citi Economics expects no change in policy and forward guidance on Tuesday, and no signals on NIRP termination. We think the press conference will focus on the repercussions of the Noto Peninsula earthquake, and wage price spiral effects. Later in the week on Thursday, BoJ minutes are due along with Tokyo CPI, where Citi Economics forecasts easing towards 3.3% vs 3.5% prior, helped by base effects.

**Canada sees its first central bank meeting of the year.** Last week's hotter core inflation and upside surprise to home sales perhaps slows down the BoC's fight against inflation. Citi's Veronica Clarke still expects the explicit hawkish bias to be removed in next week's policy statement but communication will likely err on the hawkish side. Look out for any concerns with the pick up in inflation and strong wage growth seen in December. The January meeting will also feature an updated Monetary Policy Report. As a reminder, our house call is for the first rate cut in July. Looking at the curve, Citi STIRT think that paying March outright remains attractive, and the downside seems limited. A cut before April is unlikely given (i) wage growth remains a headache, and (ii) the BoC needs to keep a lid on the housing market, yet easing too soon might lead to a re-acceleration in demand.

**Across the border, lighter week for the US in terms of data with Q4 GDP due along with core PCE.** Last week's data suggested ongoing expansion with higher retail sales, a drop in jobless claims and upward movement in consumer expectations, and so we now turn our attention to GDP on Thursday. MIs and Durable goods are also due. Citi US Economics see activity coming in around 2% QQ. Core PCE inflation, out on Friday, should increase by 0.19%MoM, which would be somewhat stronger than in recent months but notably softer than core CPI. Softer PCE will be welcome news by Fed officials, who have been acknowledging the progress in inflation but also have been careful not to declare victory yet. As a reminder, our first Fed rate cut is pencilled in for June. Moving to politics, after winning the Iowa caucuses, former President Trump is leading polls for the New Hampshire primary taking place on January 23rd.

**Europe sees the ECB** and without new forecasts, the discussion could center on the risks around the December Staff Projections, both from weaker growth and inflation data but also from easing financial conditions due to lower market rate cut expectations. Pre-meeting speeches suggest our house call or a June start to the rate cut cycle is shared by the council consensus. April meeting had priced a 25bp cut just three weeks ago but that has now retraced to just 14bp (56%). These developments would tilt next week's meeting to a more hawkish tone in their efforts to bring inflation back to target. Citi STIRT Trading continue to believe that 100bp cuts are fair this year with 50% chance in April. Earlier in the week, on Tuesday we see ECB Bank Lending Survey, where we will keep an eye on credit trends to give an insight into the health of the consumer. The following day sees European PMIs.

**The Norges also meet.** Despite the bank signaling chances of a 25bps hike in Q1, recent NOK appreciation should see the bank retain hawkishness, but have no hike. Global FX Strategy have taken profit on their long NOKSEK trade. Staying in the Scandies, we see Prospera Swedish Inflation on Wednesday.

**Down under, NZ sees key CPI data on Tuesday.** Citi Economics forecasts 0.4% QoQ vs 1.8% QoQ, significantly below RBNZ Nov forecasts (0.8%). Inflation is moderating more quickly than expected, which reinforces Citi's base case of cuts from May. That said, STIRT like to fade any cuts pricing up to the May meeting, while receiving monthly steps further down the curve.

**We are due a number of EM central banks in the week ahead.** Starting with Asia, SGD Monetary Policy Statement is released January 22-29. The policy bias continues to be hawkish. Citi Economics' base case is for a rate hold through 2024. On Wednesday, UAH central bank meet with no change expected. Thursday sees SARB and also the CBT. For the former, while no change is expected, there are hawkish risks given inflation persistence - in fact, we are due ZAR CPI the day prior to the meeting. Turkey has become more in vogue with some looking to receive further out the curve, while we look to a CBT hike of 250bps to bring the policy rate to 45%. Geopoltiics and Red Sea tensions continue to simmer on - listen out for our call on Tuesday at 3pm London: Israel Political and Security Outlook with Political Analyst Ilan Jonas

## KEY EVENTS

**22 Mon**: CN LPR (*1Y - Citi/Mkt: Unchanged, Prev.: 3.45% / 5Y - Citi: 4.10%, Mkt.: Unchanged, Prev.: 4.20%*), MY CPI, TW Export Orders, HK CPI, EU foreign ministers meet

**23 Tues**: AU NAB Business Confidence (Dec'23), JP MPM (*Policy Rate - Citi/Mkt.: Unchanged, Prev. :-0.10%*), LK CBSL Meet (*Lending Rate - Prev..: 10.00%*), SG CPI, TW IP, UK PSNB, EA Consumer Confidence

**24 Wed:** NZ CPI (4Q23 (%YoY), *Citi: 4.6%, Mkt.: 4.7%, Prev.: 5.6%*), JP Trade, MY BNM Policy Rate (*Citi/Mkt.: Unchanged, Prev.: 3.00%*), The Asia Financial Forum in HK, EA, GE & UK PMI, US S&P PMI

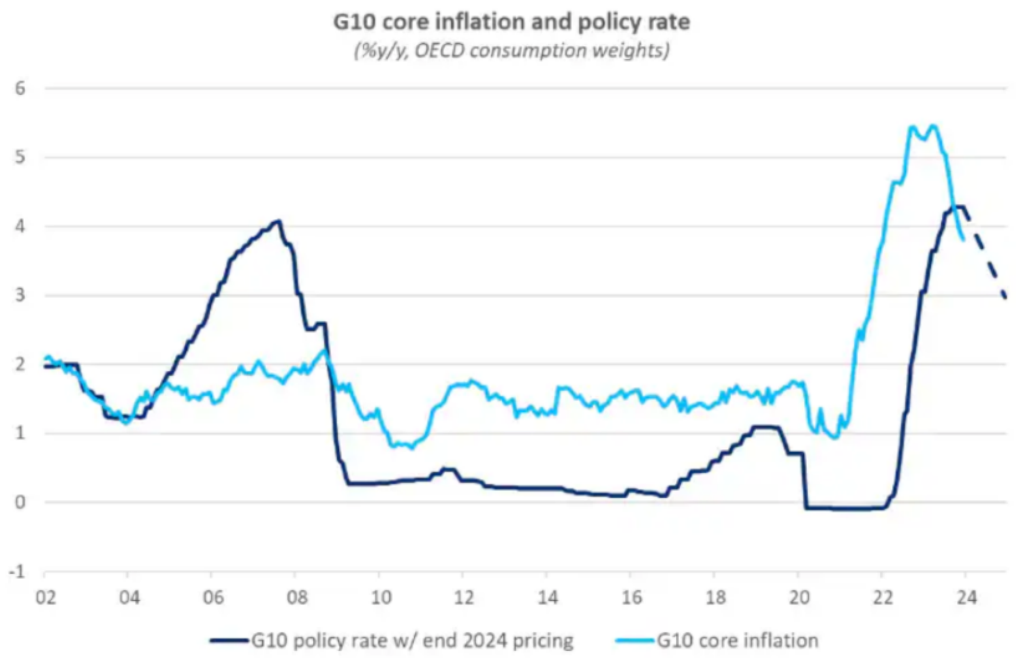
**25 Thu**: KR GDP, HK Trade, ECB Meet (*Main Refinancing Rate - Citi/Mkt.: Unchanged, Prev.:4.50%*), GE Ifo Business Climate, US GDP (4Q23 (%SAAR), *Citi: 2.0%, Mkt: 1.9%, Prev.: 4.9%*), Trade, Durable Goods Orders, Initial / Continuing Jobless Claims & New Homes Sales

**26 Fri**: JP Tokyo CPI (Jan'24 (%YoY), *Headline - Citi/Mkt: 2.0%, Prev: 2.4%*), BOJ MPM Minutes, PH Trade, SG IP, EA Money Supply, GE & UK Consumer Climate, US Personal Income, Spending & PCE Deflator (Dec'23 (%MoM), *Citi/Mkt.: 0.2%, Prev.: -0.1%*)

**During The Week**: TH Trade, SG MAS Jan'24 Monetary Policy Statement

## CHARTS OF THE WEEK

**G10 core inflation still falling, but not as fast as expected. See Jim's Weekly Note:** Weekly Macro Brief




Source: Citi

(Click image to enlarge)

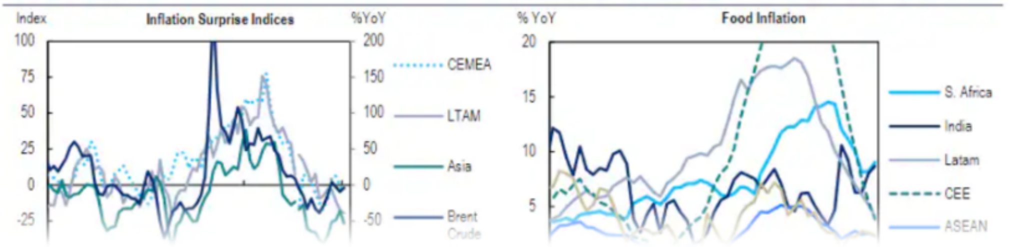
## CITI RESEARCH

China Economics - Why Can't Interest Rates Go to Zero? The PBoC again turned out to be very "conservative" in its rates decision as reflected in the unchanged LPRs today. This is despite all the needs and conditions for PBoC to cut more, such as deflationary pressures, growth weakness and easing exchange rate constraints. What's holding it back could be financial stability concerns as well as the need to preserve banks' capacities for "national services" in risk resolution and for loan supply to drive the economy. As banks' NIMs become increasingly tight, deposit rate cut should precede policy/lending rate cut going forward. The rigidity of deposit rates essentially means limited space for policy rate reduction. For 2024E, we realistically pencil in 50bps RRR cut and 20bps policy rate cut. We see a fiscal and quasi-fiscal-led policy mix and expect an investment-led growth stabilization with support especially from infrastructure investment

Emerging Markets Economic Outlook & Strategy - Higher for Not Much Longer Path to EM easing is supported by Fed pivot and two interrelated factors - path to disinflation and current monetary stance. We see EM inflation risks receding as the worst of the El Niño risks may be behind us, China's deflationary impulse on goods persisting, inflation expectations and core momentum looking well-anchored and meaningfully declining in some. At this juncture, real rates look too high in China, Chile, Czech, Colombia, Hungary and Mexico vs the estimated neutral and their inflation gap vs 'target'. Over the longer term, most of our EM terminal nominal and real rate forecasts ends up being much higher than pre-Covid with a higher wedge versus AE, but EM Asia (ex-Korea) and Mexico are notable exceptions.

Figure 2. EM inflation surprises have turned down alongside decline in oil prices

Figure 3. Except in a few pockets like India, S. Africa (recently Israel), food disinflation has been largely intact across EM




## Author

Atif Malik

Semiconductors & Components

DIRECTOR

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> Valuation

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## Related Articles

CITI IG Credit Daily Sector Commentary 1.19.2024

C Jan 20, 2024 7:30AM WIB

For Institutional Clients Only

Credit Talk: Strong End to Busy Week

C Jan 20, 2024 4:30AM WIB

US credit markets ended a busy week on a firm note, as stocks moved up to record levels. IG cash spreads were unchanged this session, while most spots moved 2-...

Credit Talk: Loan Repricings Continue

C Jan 20, 2024 1:35AM WIB

Loan market is unchanged at midday as it finds a little grounding after softening on Thursday when some high coupon paper came into the market. While the selling...

CITI HY EOD

C Jan 20, 2024 0:33AM WIB

SUMMARY Decent volumes into the end of the week here, with cash closing a touch lower on day in line with rates having been unchanged for much of the day....

## Rates Vol Monitor

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RFR Currency USD-SOFR

ATM Skew Surface

RATES FWD 1D CHANGE PREMIUM SPOT FWD VOL NORM REAL IMP/REAL

| EXP/TAIL | 1Y | Change | 2Y | Change | 5Y | Change | 10Y | Change | 30Y |
|---|---|---|---|---|---|---|---|---|---|
| 1M | 101.7 | 0.0 | 121.8 | 0.0 | 114.3 | 0.0 | 104.0 | 0.0 | 91.6 |
| 3M | 107.9 | 0.0 | 123.1 | 0.0 | 115.8 | 0.0 | 105.4 | 0.0 | 91.7 |
| 6M | 120.2 | 0.0 | 123.9 | 0.0 | 116.1 | 0.0 | 106.3 | 0.0 | 92.8 |
| 1Y | 128.4 | 0.0 | 125.0 | 0.0 | 115.1 | 0.0 | 106.6 | 0.0 | 92.9 |
| 2Y | 118.8 | 0.0 | 116.4 | 0.0 | 110.4 | 0.0 | 103.0 | 0.0 | 90.0 |
| 3Y | 112.5 | 0.0 | 111.5 | 0.0 | 105.7 | 0.0 | 98.6 | 0.0 | 86.2 |
| 4Y | 108.1 | 0.0 | 107.2 | 0.0 | 100.8 | 0.0 | 94.8 | 0.0 | 82.9 |
| 5Y | 105.4 | 0.0 | 102.9 | 0.0 | 97.8 | 0.0 | 92.1 | 0.0 | 80.6 |
| 7Y | 97.4 | 0.0 | 96.4 | 0.0 | 91.2 | 0.0 | 85.9 | 0.0 | 75.2 |
| 10Y | 89.4 | 0.0 | 87.6 | 0.0 | 82.1 | 0.0 | 77.5 | 0.0 | 68.1 |

Vol as of 22 Jan 2024 18:32 -03 Curve as of 22 Jan 20

## Economic Forecast

Widgets are tailored for this feed

Annual Economic Indicators | Quarterly Economic Indicators

| | 2020 | 2021 | 2022 | 2023F |
|---|---|---|---|---|
| **Annual Economic Indicators** | | | | |
| GDP, % YoY | -2.2 | 5.8 | 1.9 | 2.5 |
| Domestic Demand, % YoY | -1.5 | 6.6 | 1.7 | 2.2 |
| Consumption, % YoY | -2.5 | 8.4 | 2.5 | 2.2 |
| Business Investment, % YoY | -4.7 | 5.9 | 5.2 | 4.3 |
| Housing Investment, % YoY | 7.2 | 10.7 | -9.0 | -10.5 |
| Government Investment, % YoY | -- | -- | -- | -- |

Jan 20, 2024, 12:00:00 AM

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## US Consumer Price Index

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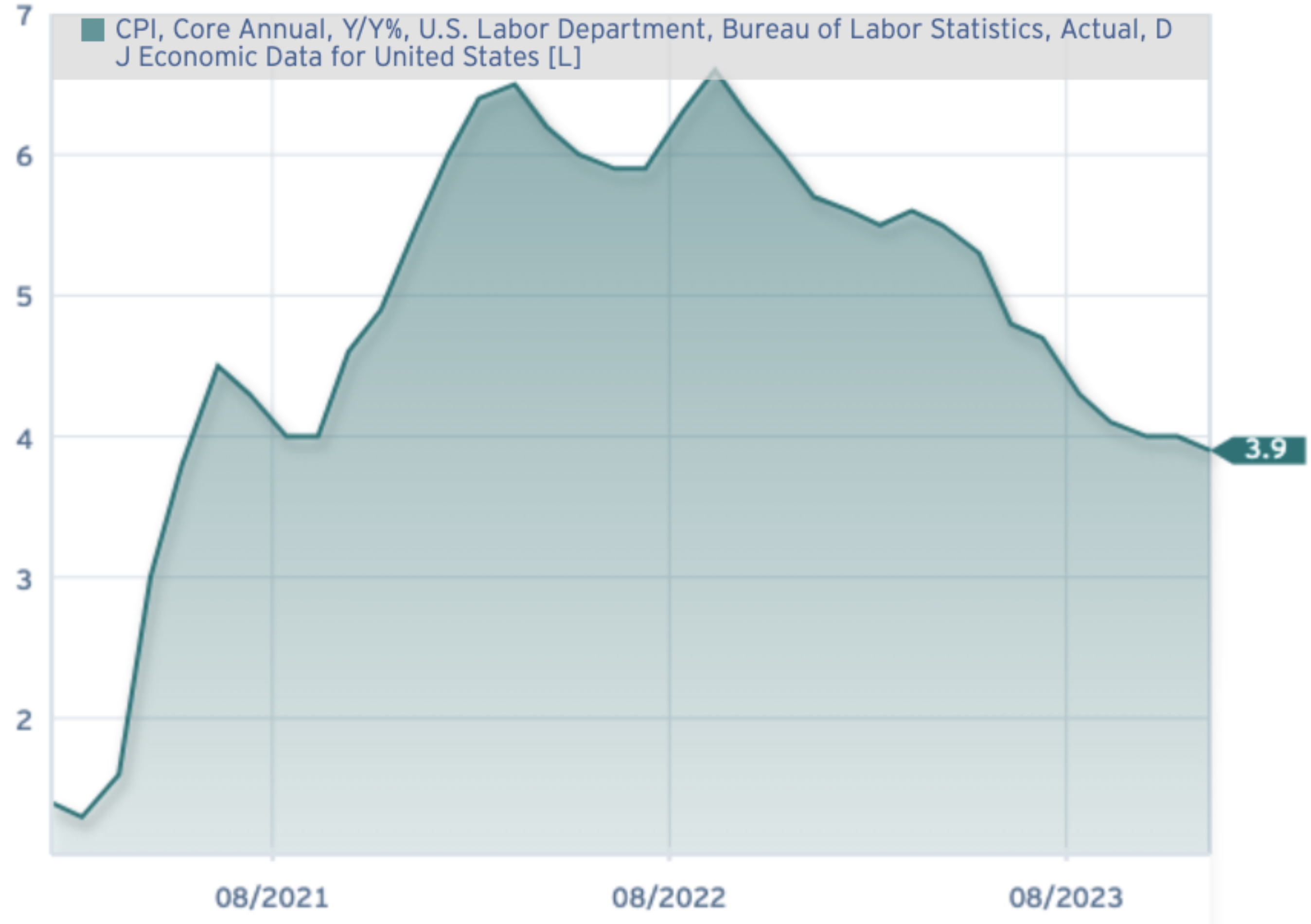


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