

## Summary

A very weak US payroll report at the end of last week was received with dovish messages from all the major central banks in the HIDCs (Heavily Indebted Developed Countries). Further verbal easing helped to re-price fixed income higher and restore optimism in equity markets, but does nothing to address the underlying structural challenge facing the HIDCs – too much debt.

## Global

The lurch towards massive further easing in Japan and dovish comments from ECB President Mario Draghi last week were complemented by dovish commentary from Federal Reserve Chairman Ben Bernanke on Friday. This means that the FOMC triumvirate of Bernanke-Yellen-Dudley have all confirmed their preference for continuing the current policy of Quantitative Easing (QE), despite calls for a scaling down of QE in other quarters. Their dovish policy stance appeared vindicated by continuing weakness in US data. US payrolls came at 88K versus 190K expected, while participation rates in the US labour market dropped to the lowest level since 1979. Late in the week, however, as bullish sentiment returned to the US stock markets – up 2.2% on the week – 10-year US Treasury yields drifted higher to currently trade at 1.79%. VIX dropped from 13.89 to 12.36. In Japan, Nikkei rallied 7.2% in the past week, but then JGB yields began to spike: The 5-year JGB yield rose 7bps to 0.20, while 10-year JGB yields rose by 10bps to 0.55%, prompting Japan's new central bank governor Kuroda to signal that the Bank of Japan has done all it can for now as USDJPY approaches 100, up from 80 less than a year ago. France, Germany, and Japan all had worse than expected trade balance numbers, though French and German manufacturing data improved marginally. Portugal's highest court rejected government austerity measures, forcing the government to come up with new measures, which is likely to be difficult, though Portugal is likely to get further lenience from her European partners. EURUSD nevertheless rose about 1.1% over the week to trade at 1.3085. Europe's main vulnerability – apart from weak growth and high public debt – is the undercapitalisation of the banking system. Indications this week that European politicians are now considering inflicting losses on interbank loans for failing banks will only raise concerns further, in our view, particularly after the haircut inflicted on depositors in the recent Cypriot bail out. In the commodity space, oil fell 1% on the week to \$105, while metals rose about 2%. Soft commodities rose 1.5% on the week. Against this backdrop, all Emerging Market asset classes rallied with Corporate debt up 30bps, currencies and dollar sovereign debt 1.2%, local currency government bonds 2.9%, and Emerging Market equities a sizzling 4.4% on the week.

## Latin America

In **Argentina**, the main focus remains the conflict between holdout investors and the government with the ball now in the former's court. Holdout investors have been asked by the judges in the New York Appeals Court to respond to a proposal from the Government of Argentina to offer terms similar to the previous two exchanges. **Brazilian** inflation was marginally lower in March than expected, rising 0.47% mom versus 0.5% expected. Part of the easing in inflation is due to declining public sector prices as the government continues to lower taxes on food. **Chile's** March trade surplus reached \$1.1bn versus \$0.25bn expected. Core bi-weekly inflation in **Mexico** was just 0.02% in the second half of March versus 0.15% expected, while Gross Fixed Investment rose at a pace of 4.6% yoy in January (higher than the 3.9% yoy pace expected). Manufacturing PMI was also stronger than expected. Polls issued ahead of the **Venezuelan** elections on 14th April show government candidate Nicholas Maduro leading the opposition candidate Henrique Capriles Radonsky by a significant, albeit shrinking margin.

## Asia

The outbreak of bird flu in **China** has so far failed to turn into a pandemic on account of more open and proactive stance by the authorities. Headlines in the region continue to be dominated by tensions in **North Korea**. In **China**, CNY fixed at a new low of 6.2548 against the US dollar, while trade data pointed to healthy domestic demand. In particular, imports rose more than expected in March, though this may partly be due to residual distortions from the Chinese New Year. Nevertheless, other data such as new loans also pointed in the direction of better economic performance. At the same time, Chinese inflation dropped to just 2.1% yoy in March. Finally, the central bank's FX reserves rose to a new all-time high of \$3.44trn. Exports and industrial production in the **Philippines** took a breather after a long period of strong outperformance. **Indonesia** tapped the external debt markets with a \$2.5bn dollar bond issue. **Malaysian** exports and industrial production declined in February, probably as businesses scale back output ahead of upcoming elections. We do not expect these elections to have a material impact on the investment climate in Malaysia. Bank of **Korea** left rates unchanged at 2.75%, but widened access to credit to small and medium sized industries. **India's** government is looking to open the economy further to foreign direct investment.

## Eastern Europe, Africa, and Middle East

**Romanian** inflation slowed to 5.3% yoy in March versus 5.7% in February. The result was also well below expectations (5.5%). The IMF left **Ukraine** following a review of the government policies, noting good progress, but without agreement. **Qatar** extended \$3bn of fresh financing to the **Egyptian** government. **Poland's** central bank left rates unchanged at 3.25%. **Turkey** issued dual tranche 10-year and 30-year bonds to the tune of \$3bn in the past week against a backdrop of stronger Industrial Production (after appropriate day count adjustment). **Nigerian** central bank foreign exchange reserves rose to \$48.7bn as of 3rd April, up 11% since the start of the year. The **Serbian** government rejected an accord on the future of Kosovo, and thus put in to jeopardy talks about EU accession. **Hungary's** one remaining independent member of the central bank's monetary policy committee resigned in the past week. **Lithuania's** sovereign bond rating was raised to BBB+ from BBB by Fitch (outlook stable).

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