



- Tentative signs that inflows into money market funds (MMF) are slowing ([link](#))
- Markets have repriced the tail risks for short term interest rates ([link](#))
- ECB speakers indicate possibility of a 50bp hike in May ([link](#))
- China's megabanks to launch domestic bond sales to address TLAC requirements ([link](#))
- Singapore's monetary authority kept FX policy setting unchanged ([link](#))
- NDFs indicate heightened depreciation expectations in Egypt ([link](#))
- Details on debt restructuring weigh on Ghanaian assets ([link](#))
- Peru's central bank holds policy rate at 7.75% ([link](#))

[Mature Markets](#)






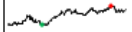



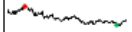

[Emerging Markets](#)

[Market Tables](#)

Volatility continues to fall

While global equity markets are mixed this morning, measures of implied volatility are easing further. Yesterday, the VIX index of implied US equity volatility fell to its lowest level in a year, while the MOVE index of interest rate volatility, while still high historically, is at its lowest level since February. This morning, European shares are rising for a fifth straight trading day even as expectations for ECB policy is turning more hawkish as a few officials have discussed the possibility of a 50 bp hike at the bank's May meeting. The US banking sector received positive news this morning as both JP Morgan and Wells Fargo reported better than expected first quarter results. Shares of JP Morgan are 6% higher in pre-market trading as results indicated a sharp rise in net interest income as well as an increase in deposits. Wells Fargo shares are also higher in pre-markets, but to a lesser degree as its results were marred by a rise in provisions for losses in its CRE portfolio, as well as an 8% decline in deposits. Emerging market currencies are mostly higher this morning. Bloomberg's dollar index fell yesterday to its lowest level in a year after US inflation data came in lower than expected.

Key Global Financial Indicators

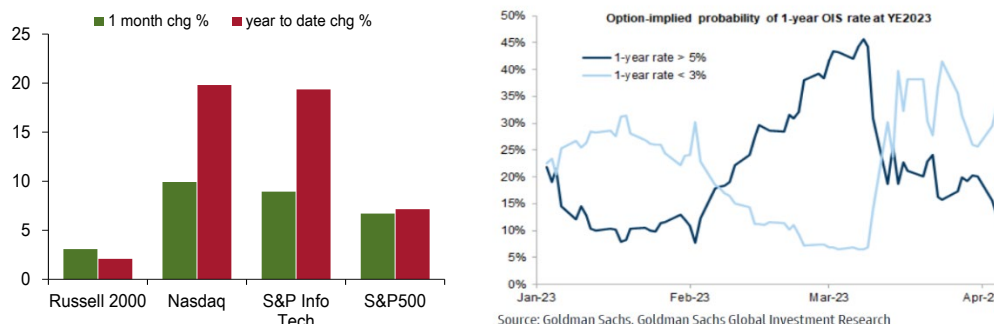
Last updated: 4/14/23 8:07 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4146	1.3	1	6	-6	8	-2
Eurostoxx 50		4385	0.5	2	5	14	16	10
Nikkei 225		28493	1.2	4	4	5	9	8
MSCI EM		40	1.4	2	5	-10	5	-16
Yields and Spreads			bps					
US 10y Yield		3.46	1.3	7	-23	63	-42	147
Germany 10y Yield		2.37	-0.1	19	-5	153	-20	214
EMBIG Sovereign Spread		486	-3	-8	0	74	34	73
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.9	0.0	1	1	-4	2	-4
Dollar index, (+) = \$ appreciation		101.0	0.0	-1	-3	1	-2	5
Brent Crude Oil (\$/barrel)		86.3	0.2	1	11	-23	0	-11
VIX Index (% change in pp)		17.9	0.1	0	-6	-5	-4	-13

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

Mature Markets

[back to top](#)

US markets gained 1.3% for their best gain in nearly two weeks. The Treasury curve steepened, with 10y yields up 6 bp to 3.45% while 2y yields were little changed. **US tech stocks have outperformed, with the Nasdaq up 10% over the last month, compared to 3% for the Russell 2000.** The dovish repricing of policy rates amid recent bank stress likely has supported large cap tech and growth stocks that are less interconnected with banks and make up a large share of the benchmark index. **Markets have repriced the tail risks for short term interest rates**, as the option implied probability of 1y OIS rates rising above 5% has fallen below 15%. Conversely, the probability of rates below 3% has risen to nearly 40%.



Retail sales contracted in March and came in significantly below expectations, though the control group and measures ex. auto and gas were not as weak as expected. Headline advance retail sales was -1% m/m (vs -0.5% expected), the control group for retail sales was -0.3% m/m (vs -0.5%), and retail sales ex. auto and gas were -0.3% m/m (vs -0.6%). Spending at gas stations (excluded from the control group) fell 5.5% m/m, the largest m/m decline across categories. Two-year Treasury yields rose as much as 11 bp on the release.

The divergence between interest rate and equity volatility has remained elevated, though some analysts expect it to ease going forward. The MOVE index (rates) remains above the 95th percentile range historically (since 2010), while the VIX index (equities) has been between the 50–60th percentile. However, as growth and earnings uncertainty begin to take over from inflation and policy uncertainty as dominant market narratives, equity volatility is likely to rise, according to Goldman Sachs. Conversely, markets have removed the tail risk of much higher policy rates, as some expect tighter lending standards to effectively replace large further rate hikes, which should help lower interest rate volatility to some extent.

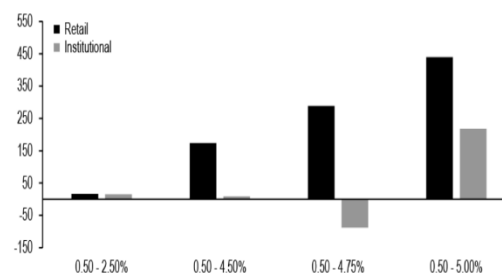
There are tentative signs that inflows into money market funds (MMFs) are slowing, with small outflows last week, though the sector has seen net inflows of over \$500 bn since March 2022. Flows were sluggish during the early part of the hiking cycle, particularly for institutional investors, which suggests the recent flood of inflows may be more related to a flight to safety narrative rather than yield pick-up, with the latter more prominent for retail investors. Since March 10 alone, the assets under management of MMFs has increased by \$366 bn, according to JPM data.

Weekly change to MMF AUMs by investor type (\$bn)

	Institutional	Retail
Week ending 3/10	-1.1	22.7
Week ending 3/17	110.6	25.4
Week ending 3/24	93.4	11.3
Week ending 3/31	67.4	14.5
Week ending 4/6	-30.3	15.3
Current week as of 4/11	50.5	7.8
Cumulative change	290.5	97.0

Source : Crane Data, J.P. Morgan

Cumulative change to retail and institutional MMF AUMs during the current tightening cycle* (\$bn)



Source : Crane Data, J.P. Morgan

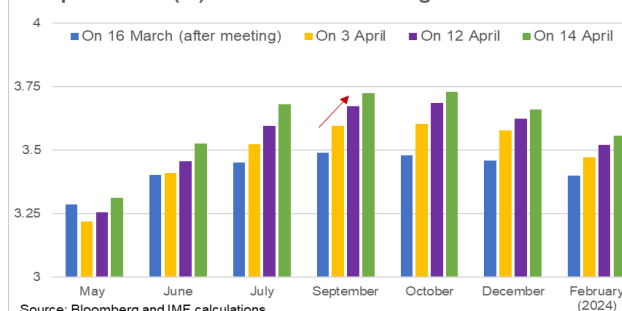
* Bars represent cumulative change from when tightening cycle began (fed funds target range upper bound = 0.50% up until time of indicated upper bound (%))

European equities were gaining (Stoxx 600 Europe index +0.4%) with the real-estate sector (+1.9%) outperforming. Sovereign bond yields were little changed while the euro continued to strengthen against the dollar (+0.1% to 1.106).

Markets continue to scale up ECB hiking expectations amid hawkish ECB commentary.

Analysts highlight that the latest ECB commentary opened the door to a 50 bp May hike, with GC member Holzmann saying a 50 bp hike "could be in the ballpark", GC member Vasle saying a 50 bp hike is possible if warranted by data, amid receding concerns over the health of the financial system. GC member Kazaks also noted no reason to slow down interest rate increases any time soon. GC member Wunsch spoke in favor of further tightening, with a 25 bp hike or a 50 bp hike possible at the upcoming ECB meeting and saw market expectations for 75 bp of tightening this year as "reasonable". Wunsch also spoke in favor of faster quantitative tightening. Markets are now pricing in 31 bp of ECB rate hike in May with the peak rate now priced at close to 3.75%, roughly 15 bp higher than at the start of the month.

Implied rates (%) for ECB 2023 meeting dates

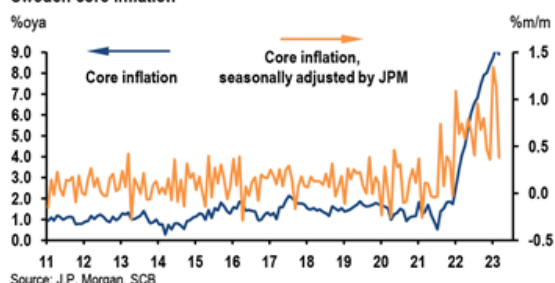


Source: Bloomberg and IMF calculations

Sweden

Analysts continue to expect further tightening by the Riksbank despite downside surprise in inflation. Data released this morning showed Sweden's CPIF easing to 8%/y in March (versus expected 8.3% from 9.4%) and core inflation easing to 8.9% (versus expected 9.1% from 9.3%). JPMorgan analysts point out that, on a seasonally adjusted basis, several inflation components continued to see strong gains and expect that price pressures will remain in the near term, while indicators show a sharp disinflation in the medium term. Analysts continue to expect a 50 bp rate hike at the upcoming central bank meeting later this month.

Sweden core inflation



Source: J.P. Morgan, SCB

Sweden core inflation forecast



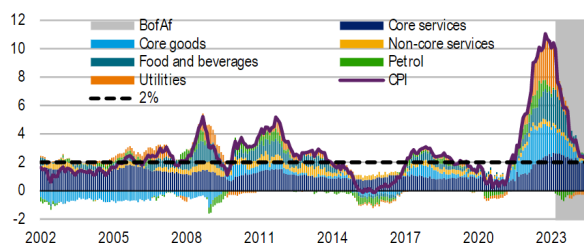
Source: J.P. Morgan, SCB, Riksbank

United Kingdom

Analysts are focused on labor market and inflation data due next week for further insights on whether the BoE will hike rates in May. ING analysts expect the committee to leave rates unchanged at 4.25% but highlight that comments from the BoE chief economist related to the UK possibly experiencing a positive demand shock as indicative that further monetary policy tightening is in the cards. BofA analysts, however, argue that core inflation likely peaked in September 2022 and expect headline inflation to ease sharply going forward. As such analysts expect the BoE to remain on hold in its May meeting, but flag high uncertainty around the decision. Markets are pricing a roughly 80% chance of a 25 bp hike at the BoE's next meeting on 11 May.

Exhibit 20: CPI inflation compared to BoE forecasts

Services close to BoE forecasts, goods stronger



Source: BofA Global Research, ONS.

BofA GLOBAL RESEARCH

Emerging Markets

[back to top](#)

Asian equities rose 0.5%, with most Asian markets gaining amid softening inflation and expectations that global central banks will hold off from further policy tightening. Taiwan Province of China (POC) was up 0.8%, Vietnam underperformed (-1.1%). **Asian currencies broadly strengthened.** The South Korean won firmed further +0.9%; Indonesian rupiah (+0.4%) rallied to the strongest level since June 2022; Singapore dollar weakened 0.3% as the Monetary Authority of Singapore kept its FX policy settings unchanged. A Taiwan POC official stated in an interview that an economic blockade by China is one possible option, while a scenario of a direct military attack on the island is less likely. The three-month implied volatility of the Taiwan dollar slipped to the lowest since September as geopolitical tensions eased. **EMEA markets were mixed.** Equities were firmly up, led by Hungary (+1.1%), the Czech Republic (+0.8%) and South Africa (+0.7%). Currencies were generally weakening however, with the South African rand losing vs the dollar (-0.2% to 18.08/\$), and the Czech koruna down 0.5% to the euro (to 23.37/euro). Local bond yields in central and eastern Europe were little changed. **LatAm markets were mostly up Thursday.** Regional currencies generally appreciated against the dollar. The Chilean peso saw the largest gains (+1.1%) followed by the Colombian peso (+0.7%) and Mexican peso (0.3%). LatAm equities mostly closed higher. In Brazil, however, equities (-0.4%) and the currency (-0.2%) both weakened.

China / Hong Kong SAR

China's top four banks to launch bond sales to address TLAC requirements.

The banks will allegedly tap domestic debt markets to sell at least 40 bn yuan (\$5.8 bn) of total loss-absorbing capacity (TLAC) bonds as soon as June, Bloomberg reported. The initial deadline for China's global systemically important banks (G-SIBs) to meet TLAC requirements is January 1, 2025, but banks have not yet begun issuing TLAC paper, according to JPM. Estimates of the amount of TLAC-eligible bonds that need

to be issued go into the trillions of yuan, JPM said, so distributing this over a longer time horizon may minimize market volatility. Analysts noted that Chinese issuers continue to prefer the domestic market for issuing capital securities. Separately, **China's high yield dollar debt is extending declines after the**

Shrinking Interbank Liquidity Leads to Volatile Hibor



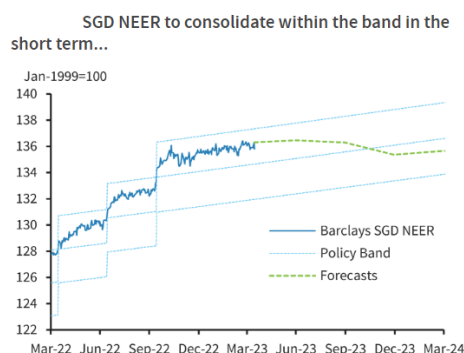
Source: Bloomberg

Bloomberg

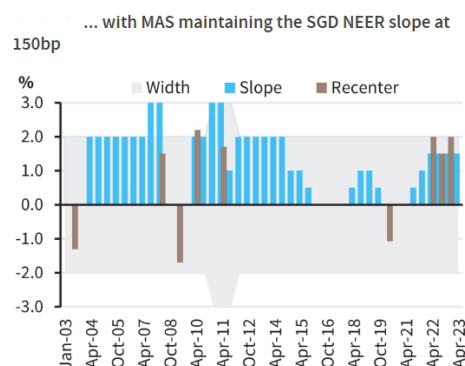
worst slump in five months. A Bloomberg index of HY dollar notes, dominated by real estate firms, edged down in April after falling 3.7% in March. Bloomberg reported many investors remain skeptical about the immediate benefits of a string of developments last month on debt restructurings at delinquent firms from China Evergrande Group to Sunac China Holdings Ltd. Meanwhile, **Moody's downgraded China Huarong's long-term rating** to Baa3 from Baa2 with a stable outlook and withdraw the rating from some bonds guaranteed by Fosun. **Chinese equities gained 0.6%, renminbi strengthened 0.3%, 10Y yield was little changed.** Hong Kong SAR's interbank liquidity approached a three-years low following a series of intervention by the central bank to defend the local currency's peg to the dollar.

Singapore

The Monetary Authority of Singapore (MAS) left its FX policy settings unchanged. Analysts were split before the meeting. MAS projected GDP growth to be below trend in 2023, between 0.5%-2.5% as compared to 3.6% in 2022. The advance estimates released by the Ministry of Trade and Industry showed GDP contracted by 0.7% q/q sa in Q1 2023 (previous: +0.1%). MAS Core Inflation is expected to average 3.5–4.5% and moderate to 2.5% by the year. When the impact of the GST increase is excluded, core inflation would be even lower, and closer to the historical average. CPI-All Items inflation is forecast to come in higher at 5.5–6.5%, reflecting the tight supply of vehicle certificates and firm accommodation costs. MAS operates a basket, band, and crawl exchange rate-based monetary policy framework in which the S\$NEER is managed against an undisclosed basket of currencies. Analysts estimate the current slope of the MAS' S\$NEER at about +1.5–2%. **The Singapore stock market gained +0.3%, and the Singapore dollar depreciated 0.3%; the 10Y yield was little changed.**



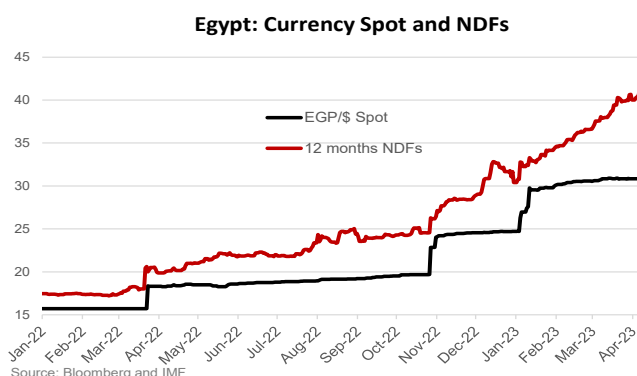
Note: Barclays estimates for the SGD NEER and band
Source: MAS, Barclays Research



Note: Assuming MAS shifted to a 1.5% slope in April 2022
Source: MAS, Barclays Research

Egypt

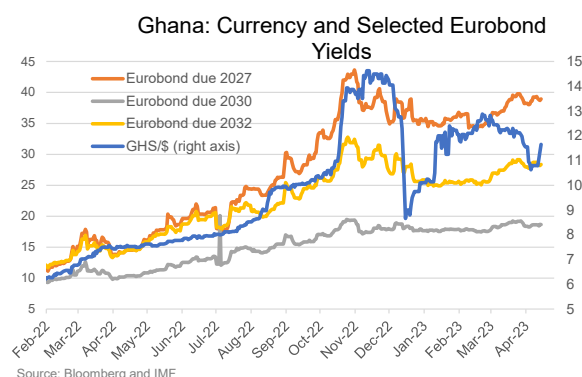
In Egypt, the gap between non-deliverable forwards contracts (NDFs) and the currency widened sharply, indicating heightened market expectations for a depreciation of the Egyptian pound. While the Egyptian pound (EGP) trades at 30.9/USD in the spot market, 12 months NDFs now show 42.8 pounds per US dollar. The Egyptian pound was devalued three times since March last year and losing about half of its value vs. the dollar.



Source: Bloomberg and IMF

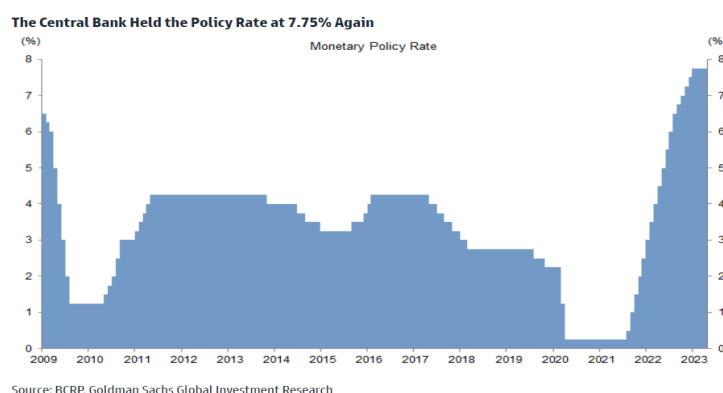
Ghana

The Ghana cedi weakened more than 7% this week and yields on the World Bank partially guaranteed Eurobond due in 2030 increased 24 bp to 18.7% yesterday, while yields on other Eurobonds remained broadly stable, after policymakers announced yesterday in a call with investors that this bond will be restructured along with the rest of Ghana's external debt. In an open call with investors yesterday, Ghana's finance minister and governor provided an update on the country's latest economic developments, with focus on the debt restructuring process. Ghana announced in December that it would default on its external debt and restructure its domestic debt. The finance minister reiterated that he expects the IMF-supported program to be approved no later than May (Staff level agreement was reached in December). He also expects the Paris Club to give financing assurances, necessary for the approval of the IMF-supported program, in the coming week. On other debt-related issues, the authorities said that they plan to meet again with independent power producers who have so far rejected the government's proposal to restructure debt owed to them (\$1.6 bn). The minister added that after the domestic debt exchange program in February, which targeted about GHS 98bn of domestic debt, there will be another phase of domestic restructuring that could impact pension fund holdings, cocoa-bills, local currency loans and other instruments. The minister reiterated that T-bills will not be included in order to preserve financial stability and ensure government funding.



Peru

Central bank leaves the policy rate unchanged at 7.75% for the third consecutive time, in line with market expectations. The central bank, however, cautioned against considering this as an end of the tightening cycle as it would remain data dependent and ensure "a return of inflation to the target range over the policy horizon." Peru has seen a steep tightening cycle that began in Aug 2021 and was paused in Feb 2023, primarily to avert an economic slowdown. While analysts largely expect the policy rates to remain unchanged for next few meetings, they do acknowledge additional inflationary pressures, due to unrest, weather or other such factors, could cause the tightening to resume.



Brazil

Coco bonds of Brazilian banks have yet to fully recover since the Credit Suisse (CS) episode. As investors review the rules governing coco bonds across jurisdictions, Brazil has emerged as the largest issuer of these securities with permanent write-down rules, outside Switzerland. According to a Bloomberg article, the country has \$10 bn in coco bonds. While clarifications from the central bank of Brazil and the issuers are awaited, and even though the possibility of a write-down being triggered is considered remote, coco bonds of major banks in Brazil are still trading at a discount compared to their pre-CS episode levels.

Here Are the Key Rules on Writing Down Brazilian CoCo Bonds

The notes can be wiped out, according to their terms, if:

The bank's principal capital ratio falls below 5.125% for AT1s or 4.5% for T2s

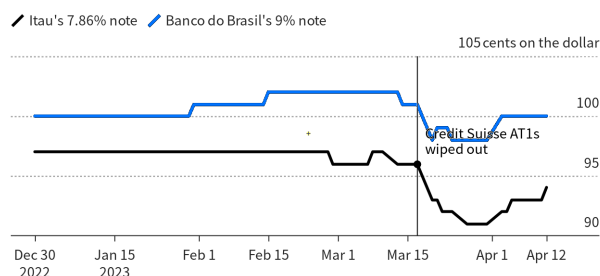
There's a public-sector injection of capital to the bank

The central bank determines, in writing, to wipe them out

Source: Bloomberg

Risky Brazilian Bank Bonds Linger Just Off 2023 Lows

















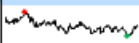





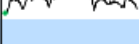



The CoCos plunged after Swiss regulators wrote down Credit Suisse AT1s



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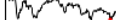




























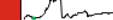



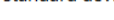


Global Financial Indicators

4/14/23 8:07 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4140	1.3	1	6	-6	8
Europe		4385	0.5	2	5	14	16
Japan		28493	1.2	4	4	5	9
China		4092	0.6	-1	3	-2	6
Asia Ex Japan		68	1.6	1	5	-6	6
Emerging Markets		40	1.4	2	5	-10	5
Interest Rates			basis points				
US 10y Yield		3.46	1.3	7	-23	63	-42
Germany 10y Yield		2.37	-0.1	19	-5	153	-20
Japan 10y Yield		0.48	0.4	1	20	24	5
UK 10y Yield		3.58	0.7	15	9	169	-9
Credit Spreads			basis points				
US Investment Grade		161	0.8	-3	-7	17	2
US High Yield		471	0.5	-28	-21	83	-9
Exchange Rates			%				
USD/Majors		101.00	0.0	-1	-3	1	-2
EUR/USD		1.11	0.1	1	3	2	3
USD/JPY		132.6	0.0	0	-1	5	1
EM/USD		50.9	0.0	1	1	-4	2
Commodities			%				
Brent Crude Oil (\$/barrel)		86.3	0.2	1	12	-11	2
Industrials Metals (index)		161	1.4	4	3	-24	-3
Agriculture (index)		69	0.1	1	3	-10	0
Implied Volatility			%				
VIX Index (% change in pp)		17.9	0.1	-0.5	-5.8	-4.8	-3.7
US 10y Swaption Volatility		110.5	0.2	-16.9	-49.6	-7.6	-15.2
Global FX Volatility		9.5	0.0	-0.6	-1.4	0.6	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		189	-0.1	-2	-2	-18	-16
Italy		185	-0.5	0	0	20	-30
Portugal		85	-0.7	-2	-4	-14	-16
Spain		104	-0.7	-1	-3	10	-5

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

Emerging Market Financial Indicators

Last updated: 4/14/2023 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.85	0.2	0.2	0	-7	1		3.1	-0.5	4	-2	29	7
Indonesia		14705	0.3	1.4	5	-2	6		6.7	2.9	-1	-8	-28	-29
India		82	0.3	0.1	0	-7	1		7.3	0.1	5	-20	(44.5)	-12
Philippines		55	0.1	-1.5	0	-5	1		6.0	2.5	0	-3	70	-5
Thailand		34	-0.2	0.4	2	-1	2		2.6	0.5	-3	10	-4	-8
Malaysia		4.40	0.0	0.0	2	-4	0		3.8	-0.4	-3	-3	-20	-21
Argentina		215	-0.2	-1.6	-6	-47	-17		89.7	18.3	74	35	3955	148
Brazil		4.92	0.1	2.8	7	-4	7		12.5	9.8	-27	-74	44	-6
Chile		795	1.1	3.0	1	1	7		5.2	0.0	3	-7	-128	-16
Colombia		4410	1.0	3.6	8	-16	10		8.8	0.0	16	-66	85	-103
Mexico		18.05	-0.2	0.5	3	11	8		8.4	3.5	7	-33	-31	-36
Peru		3.8	0.0	-0.2	1	-1	1		7.5	-0.2	4	-40	19	-49
Uruguay		39	-0.2	-0.2	1	7	3		10.3	-3.3	-3	-4	99	-39
Hungary		338	0.1	1.8	7	3	10		8.4	0.0	17	2	214	-123
Poland		4.20	-0.1	2.1	4	2	4		5.6	2.3	28	19	27	-58
Romania		4.5	0.0	1.2	3	2	3		7.2	1.0	7	10	80	-45
Russia		81.6	0.2	-0.5	-7	1	-9							
South Africa		18.0	0.1	0.9	1	-19	-5		9.2	2.0	14	-1	113	3
Turkey		19.37	-0.2	-0.6	-2	-25	-3		12.5	-52.0	216	123	-1160	265
US (DXY; 5y UST)		101	0.0	-0.8	-2	1	-2		3.51	1.0	1	-34	72	-49

	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		4092	0.6	-1	3	-2	6		197	3	24	-12	20
Indonesia		6819	0.5	0	2	-6	0		146	-18	-22	-27	6
India		60431	0.0	1	4	4	-1		164	-1	2	-6	22
Philippines		6482	0.5	0	0	-7	-1		121	-16	-14	-5	24
Thailand		1593	0.0	0	1	-5	-5		0	0	0	0	0
Malaysia		1435	0.1	1	2	-10	-4		102	3	4	-13	2
Argentina		270329	1.3	7	23	197	34		2384	-96	53	675	179
Brazil		106458	-0.4	5	3	-8	-3		275	-8	-14	-11	1
Chile		5365	0.2	2	1	9	2		142	-8	-14	-6	10
Colombia		1240	0.7	4	7	-23	-4		402	-4	-30	55	30
Mexico		54696	0.7	1	4	1	13		392	-11	-12	46	11
Peru		22456	0.8	2	3	-5	5		187	-9	-9	17	7
Hungary		43353	1.6	-1	4	1	-1		235	-5	-1	78	13
Poland		61310	0.6	5	5	-4	7		82	-5	-19	75	9
Romania		12460	0.0	1	0	-3	7		258	-5	4	50	2
South Africa		79011	0.7	3	5	8	8		419	-13	23	79	52
Turkey		5132	-0.1	4	-1	107	-7		492	-27	4	-38	52
Ukraine		507	0.0	0	0	-2	-2		5094	25	272	1908	1015
EM total		40	-0.1	2	5	-10	5		412	-9	-3	28	37

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

[back to top](#)