GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 19, 2023

- **Relative allocation to equities vs bonds is at its lowest level in a decade** (link)
- **Investors reiterate concerns regarding US debt ceiling negotiations** (link)
- **Goldman Sachs analysts revised ECB terminal rate estimate up to its pre-SVB level** (link)
- **EU Commission announces reform of deposit insurance framework** (link)
- **Gilt yields and terminal rate estimates sharpy up in the UK on upside inflation surprise** (link)
- **BOJ Governor Ueda ruled out any need to change the 2013 joint statement** (link)
- **Poland and Ukraine reach agreement on grain exports** (link)
- **Chilean peso appreciates following $3 bn investment in copper mine** (link)

Mature Markets | Emerging Markets | Market Tables

Assessing policy paths and earnings

Global equities are lower as investors continue to assess corporate earnings results and the future path for central bank tightening, with inflation back into focus. While earnings results from major US lenders have been mixed so far, policy makers have mostly continued to strike a hawkish tone. With both the Fed and ECB meetings now two weeks away, markets appear to have firmed up expectations for 25 bps increases from both central banks. Also, in the UK expectations for a 25 bps hike by the BoE in May have continued to firm up, and analysts have revised terminal rate expectations higher, after inflation surprised on the upside this morning, with the headline print remaining in double digits and core remaining unchanged. In EMEA, traders expect the SARB to hike 25 bps at the May meeting after South African headline inflation surprised to the upside. In the meantime, investors are reiterating concerns regarding the lack of progress in the US debt ceiling negotiations.

Key Global Financial Indicators

Last updated: 4/19/23 12:05 PM	Level Last 12m	Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities				%			%	
S&P 500		4155	0.1	1	6	-7	8	-2
Eurostoxx 50		4381	-0.3	1	8	14	15	10
Nikkei 225		28607	-0.2	2	5	6	10	8
MSCI EM		40	-0.1	0	6	-9	5	-16
Yields and Spreads				bps				
US 10y Yield		3.62	4.4	23	19	68	-26	163
Germany 10y Yield		2.52	3.9	15	41	161	-6	229
EMBIG Sovereign Spread		480	3	-8	-30	77	28	67
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		50.5	-0.4	0	2	-5	1	-5
Dollar index, (+) = $ appreciation		102.1	0.3	1	-2	1	-1	6
Brent Crude Oil ($/barrel)		83.0	-2.1	-5	14	-23	-3	-14
VIX Index (%, change in pp)		17.5	0.7	-2	-8	-4	-4	-14

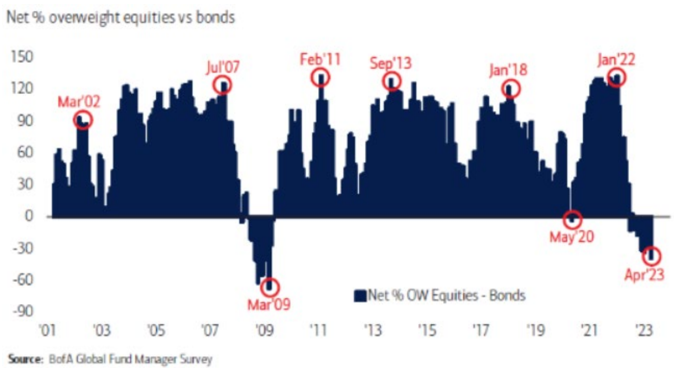
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets back to top

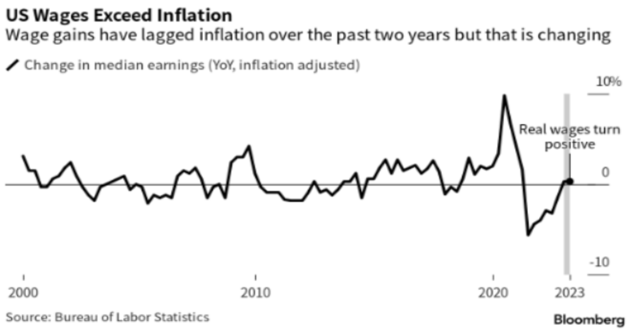
United States

Yesterday, US stocks and bonds closed little changed: the S&P 500 closed +0.1% while US Treasury 10Y yields fell by 3 bps. The US dollar depreciated 0.4% versus major currencies.

Investors' allocation to equities relative to bonds fell to its lowest level since the GFC due to the fears of looming recession, as reported by Bloomberg based on Bank of America Corp.'s global fund manager survey. The relative allocation to bonds was supported by the fears of a credit crunch and a global recession as well as factors like a systemic credit event (potentially from US/European commercial real estate) and worsening geopolitics.



Median weekly earnings of full-time wage and salary workers was higher than the pace of inflation in the first quarter of 2023, according to the Bureau of Labor Statistics. Wage gains stood at 6.1%y/y in Q1 versus the corresponding CPI change at 5.8%, as employers are seeking to attract or retain employees. Analysts point out that an increase in consumers' purchasing power may underpin the necessity for an additional hike by the Fed in May FOMC meeting.



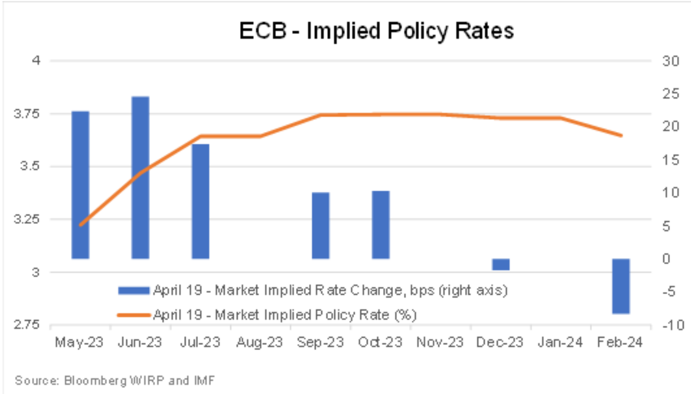
Investors reiterate concerns regarding the lack of progress in the US debt ceiling negotiations. JPMorgan analysts note that the current political backdrop is complicated, as a Republican majority in the House alongside a Democrat in the White House should make for a more contentious debate than was seen in recent years, and something more in line with 2011 or 2013. The estimates of the critical date vary significantly, with Goldman Sachs analysts pointing out that weak tax collections may pull forward the point at which the US government will exhaust its borrowing authority under the federal debt ceiling—to somewhere around early June. Other analysts argue that the tensions have already impacted the yield on three-month Treasury bills and may affect even the intermediate Treasury yields in a flight-to-quality fashion as we approach the critical date for a technical default without resolution.

Japan

Governor Ueda ruled out any need to change the key accord between the Bank of Japan and the government. In response to the parliamentary inquiry yesterday, Governor Ueda indicated that the 2013 joint statement was appropriate, pointing to a continuity of policy ahead of his first policy meeting next week. The 10-year JGB yield edged up to 0.476% (+0.7 bps), while longer-end JGB yields dropped (30-year: -1.0 bps). The Japanese yen depreciated (-0.6%) as US Treasury yields edged up during the Asia trading hours amid renewed speculation of a more hawkish Federal Reserve. Japanese equities declined (NIKKEI: -0.2%).

Euro Area

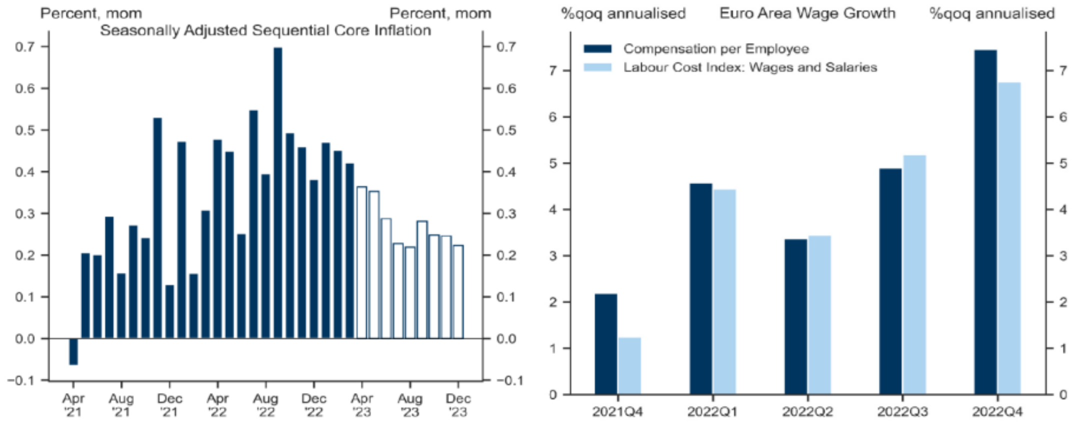
European markets are down, in line with global markets. The equity market (Stoxx Europe 600) is losing 0.4%, with banking stocks down 0.3%. The euro is weakening 0.4% vs. the dollar, to 1.09/$. German 10y bund yields are up 3 bps to 3.46%, while Italian spreads are flat at 183 bps. The final inflation reading for March in the Eurozone was confirmed at 6.9% y/y (core at 5.7%), matching exactly the previously released flash estimate.



Estimates of the ECB terminal rate continue to inch up as ECB officials continued to express hawkish views. Markets are now pricing in a terminal rate of 3.75%, 6 bps higher than yesterday. ECB Chief economist Philip Lane said yesterday that another increase in interest rates is appropriate next month, with data due in the coming weeks to determine the size of the move. He pointed out that financial-sector tensions, supply bottlenecks and energy prices have all eased, but that a more detailed picture of inflation is needed, along with the specifics on credit growth from a quarterly survey of bank lending. He emphasized that he was in a data-dependent mood and said that "what we do in June is what the data tell us between now and June." Dutch governor Knot and Spanish governor De Cos are expected to speak later today.

Goldman Sachs analysts switched back to their pre-SVB forecast of 3.75% (from 3.5%) for the ECB's terminal deposit rate given receding banking tensions, strong indicators of underlying inflation and generally hawkish ECB commentary in recent days, with a clear bias for additional monetary tightening. They see the ECB hiking by 25 bps in May, June and July, but think that the choice between 25 and 50 bps in May is a close call and possible with stronger data such as limited signs of a further deterioration of bank lending conditions and a firmer April inflation print (due May 2, two days before the ECB meeting).

Exhibit 2: Strong Underlying Inflation Pressures



Source: Goldman Sachs Global Investment Research, Haver Analytics, ECB

The European Commission published yesterday a legislative proposal for a reform of the bank crisis management and deposit insurance framework (CMDI). This was in response to a request from member states about a year ago, before the recent banking turmoil. The goal is to make sure that failing banks can be resolved effectively, rather than being dealt with outside the established EU system and make it harder for countries to use taxpayer money to rescue failing banks, while also better protecting depositors. The

Wall Street Journal points out that the current rules, which impose losses on a bank's shareholders, bondholders and even some depositors before tapping any public money, have been used in just one major case of Spanish lender Banco Popular Español SA in 2017. They point out that medium-size and small banks also often do not have enough equity and bonds to wipe out, meaning uninsured depositors could get burned if the government stayed on the sidelines. **Under the revised plan, national deposit-guarantee programs would be tapped to fund the transfer of deposits from the failing bank to a healthy one, in a "bridge mechanism" with strict conditions**. The plan however does not include a eurozone deposit-insurance program (deposits up to EUR100,000 are insured in the eurozone, but each country is responsible for its own pool of funds, which cannot be transferred to another country). The proposal needs to be approved by the European Parliament and member states.

United Kingdom

Gilt yields are sharply higher, and markets have revised estimates of the terminal rate higher after March inflation surprised on the upside. March headline inflation came in at 10.1% y/y, above expectations (9.8%). While headline inflation was slightly lower than in February (10.4%), core inflation was unchanged from February at 6.2% y/y, also ahead of expectations (6%). Gilt yields reacted strongly with the 2y gilt up 14 bs to 3.84%, and 10y yields increased 9 bps to 3.84%. Over the last two days, after wage growth data also surprised on the upside yesterday, 2y gilt yields have gone up 24 bps and 10y gilt yields 15 bps. Markets are pricing in 29 bps in hikes for the May BOE meeting, 7 bps more than yesterday. Markets are also now fully pricing in a 25 bps hike in June, and the terminal rate is now seen at 4.95%, 17 bps higher than yesterday.

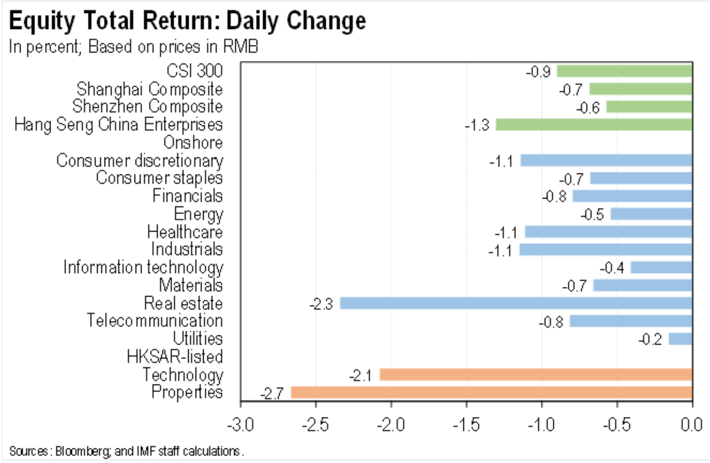
Emerging Markets

back to top

Asian markets declined amid weakening market sentiment. Asian equities fell, led by Hong Kong (-1.4%), Chinese (CSI 300: -0.9%) and Thai (-0.8%) equities. Asian currencies also depreciated, led by Thai baht (-0.6%) and Korean won (-0.5%) amid the broad-based strengthening of US dollar. Market sentiment weakened amid expectations of a more hawkish Federal Reserve and due to an uneven economic recovery in China. Long-end government bond yields generally increased, with 10-year yields rising in Singapore (+2.9 bps). **Equities and currencies in EMEA generally traded lower in line with European markets**. Traders expect the SARB to hike 25 bps on 25 May after South African headline inflation surprised to the upside at 7.1% y/y or 1% m/m in March with core inflation lower than expected at 5.2% y/y or 0.8% m/m. **Latin American stocks and currencies were mixed.** Equities in Argentina (+1.1%) gained for the eight straight day, bringing its year-to-date gains to above 40%. Equities in Mexico (-0.7%) and Colombia (-0.2%) saw the biggest losses. Currencies in Chile (+0.6%) appreciated, but those of Colombia (-1.2%), Brazil (-0.9%), Argentina (-0.2%), and Mexico (-0.2%) depreciated.

China

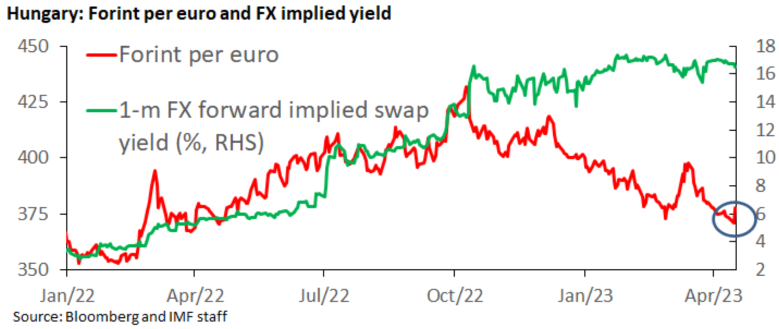
Chinese equities declined as an uneven economic recovery capped investor enthusiasm (CSI 300: -0.9%; Hong Kong SAR-listed: -1.6%). Market participants see that the economic recovery will likely be gradual, while hopes for further policy stimulus have been dampened. Market sentiment was also weakened by the news that major shareholders of dozens of big listed companies plan to reduce their stakes. Chinese yuan depreciated (-0.3%), broadly in line with other Asian currencies. **Haitong Securities plans to revamp its Hong Kong investment banking operations after a record loss last year.** Haitong International, a subsidiary based in Hong Kong SAR, said in March



that it could post a loss of about $800 million for 2022 due to losses related to equity and debt investments, including in private credit. **The People's Bank of China injected interbank liquidity of 25 bn yuan ($3.6 bn) today;** the key interbank repo rate (DR007) edged up to 2.13% (+2 bps), staying above the target at 2%.

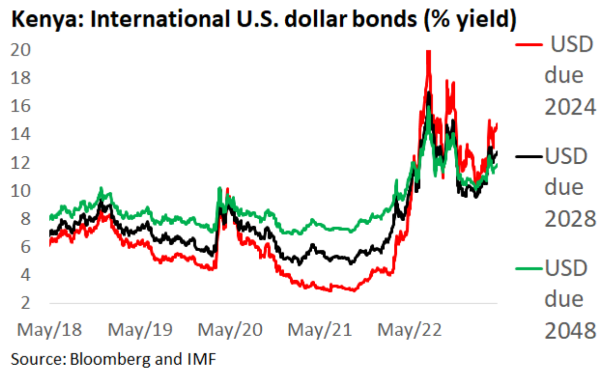
Hungary

The Hungarian forint (-1.8%) underperformed after central bank deputy governor Virag said that the central bank may change the top end of its interest-rate corridor at its meeting next week, while changes to the key policy rate at 18% could be discussed next month. Being long forint has been a popular carry trade, with gains of 6% against the euro so far in 2023. **Local yields fell sharply, with 2-yr swap rates 50 bps lower at 12.45%.**



Kenya

Kenya reportedly plans to return to international markets to refinance the $2 bn Eurobond maturing in June 2024. According to the Treasury's 2023 Budget Policy Statement, the government plans to raise foreign financing of KES110bn and KES270bn in FY2022/23 and FY2023/24 through a sovereign bond or other commercial sources. **Yields on Kenya Eurobonds due 2024 have risen +100 bps in April as strategists warn that the outlook for African sovereign credit could remain cloudy given reduced risk appetite and a negative outlook for fund flows.**

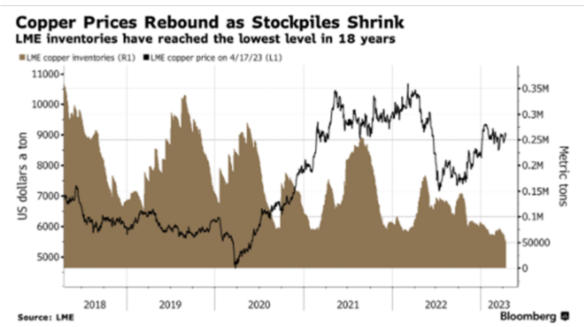


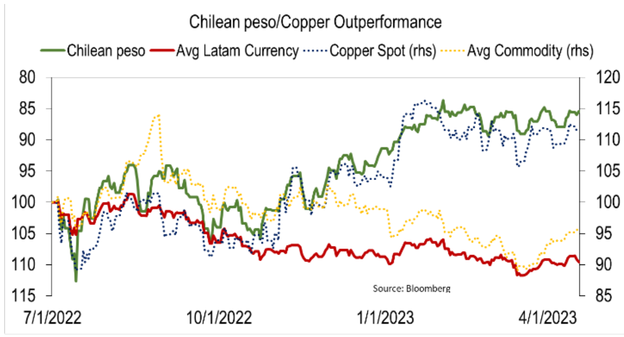
Ukraine

Poland and Ukraine have successfully concluded talks on the transit of grains products from Ukraine through Poland. The EU suspended import tariffs for Ukraine following Russia's invasion in 2022 to help Ukraine access global markets, but onward transportation through Poland had been stalled leaving ports overloaded. Plans are reportedly in place for 4 million tons of Ukrainian grain to be forwarded on by July.

Chile

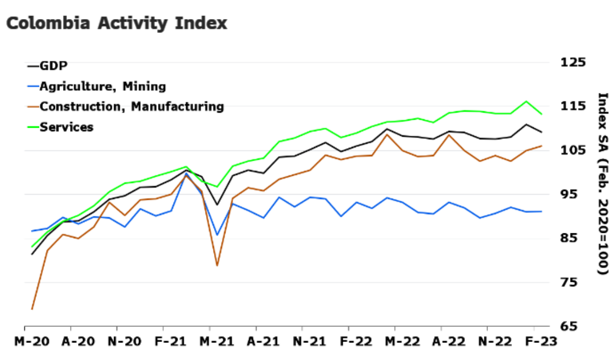
Chilean peso appreciates following $3bn investment in copper mine. Chilean ministers approved the investment in Los Bronces copper mine, owned by Anglo American Plc, to boost production. The peso outperformed regional peers, appreciating by +0.6%, and the IPSA Index (+0.09%) gained slightly Tuesday. A decline in inventories along with increasing demand have been able to keep copper prices elevated, and since the middle of July, the copper spot price has risen 25.3%, while the peso has appreciated by 31.8%. The growing Chinese economy is expected to continue supporting copper prices.





Colombia

Colombian peso depreciates after stronger than expected economic activity. Colombian economic growth for February came in at 3%y/y (2.8% expected), down from 5.9% in January. Growth has declined slower than expected due to the outperformance of services and an increase in construction and manufacturing. The Colombian peso (-1.2%) saw the largest losses in Latin America on Tuesday following the release. Bloomberg analysts expect the central bank to hike interest rates at the next meeting due to the resilient activity. Colombia has hiked interest rates by 11.25% since October 2021. The current rate is at 13%, which is the highest level since 1999.



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Global Financial Indicators

4/19/23 12:04 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4155	-0.2	1	6	-7	8
Europe		4382	-0.3	1	8	14	16
Japan		28607	-0.2	2	5	6	10
China		4125	-0.9	1	4	0	7
Asia Ex Japan		68	-0.2	0	5	-6	5
Emerging Markets		40	-0.1	0	6	-9	5
Interest Rates					basis points		
US 10y Yield		3.62	4.4	23	19	68	-26
Germany 10y Yield		2.52	3.8	15	41	161	-6
Japan 10y Yield		0.48	0.8	1	20	24	6
UK 10y Yield		3.87	12.1	30	58	190	20
Credit Spreads					basis points		
US Investment Grade		155	-1.7	-6	-27	7	-4
US High Yield		464	-0.5	-17	-76	71	-17
Exchange Rates					%		
USD/Majors		102.08	0.3	1	-2	1	-1
EUR/USD		1.09	-0.4	-1	2	1	2
USD/JPY		134.9	0.6	1	3	5	3
EM/USD		50.5	-0.4	0	2	-5	1
Commodities					%		
Brent Crude Oil ($/barrel)		83.1	-2.0	-5	14	-10	-2
Industrials Metals (index)		159	-1.9	1	3	-26	-4
Agriculture (index)		70	-0.7	2	5	-9	2
Implied Volatility					%		
VIX Index (%, change in pp)		17.5	0.6	-1.6	-8.0	-3.9	-4.2
US 10y Swaption Volatility		114.6	2.0	-5.3	-47.9	-5.9	-11.1
Global FX Volatility		9.1	0.0	-0.5	-1.7	-0.1	-1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		181	-4.7	-7	-24	-25	-25
Italy		183	1.0	-1	-11	20	-31
Portugal		84	0.1	-1	-9	-13	-18
Spain		102	0.5	-2	-10	9	-7

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

Emerging Market Financial Indicators

Last updated: 4/19/2023 12:06 PM	Exchange Rates: Level, Last 12m	Level, Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.90	-0.3	-0.3	0	-7	0		3.1	0.0	3	11	27	8
Indonesia		14845	-0.4	0.3	3	-3	5		6.7	1.1	2	-23	-31	-27
India		82	-0.2	-0.2	0	-7	1		7.5	0.7	9	7	(29.8)	1
Philippines		56	-0.2	-1.8	-3	-7	-1		6.0	0.0	0	-3	70	-5
Thailand		34	-0.6	-0.7	-1	-2	0		2.7	3.5	11	30	7	4
Malaysia		4.44	-0.2	-0.7	1	-4	-1		3.9	-1.3	1	-6	-28	-17
Argentina		217	-0.2	-1.4	-6	-48	-18		89.8	-95.4	52	-107	3957	163
Brazil		4.99	-0.9	0.4	5	-7	6		12.5	6.7	-12	-73	47	-8
Chile		795	0.6	1.3	4	3	7		5.3	0.0	9	32	-109	-4
Colombia		4491	-1.2	0.4	7	-17	8		8.9	0.0	15	-15	75	-86
Mexico		18.13	-0.4	-0.3	4	10	8		8.5	-1.5	15	-8	-28	-24
Peru		3.8	0.2	0.1	0	-1	1		7.5	-1.8	0	-23	4	-46
Uruguay		39	0.3	-0.5	1	6	3		10.3	2.0	-5	-8	97	-41
Hungary		346	-2.2	-1.6	6	0	8		8.3	-21.0	-28	-11	176	-131
Poland		4.23	-0.5	0.0	4	2	3		5.6	4.5	11	30	8	-58
Romania		4.5	-0.3	-0.4	2	2	2		7.3	7.4	12	7	88	-38
Russia		81.8	0.0	0.6	-6	-2	-9							
South Africa		18.3	-0.7	0.7	1	-18	-7		9.4	7.0	17	44	110	21
Turkey		19.40	0.0	-0.4	-2	-24	-4		12.2	0.0	-51	76	-1022	234
US (DXY; 5y UST)		102	0.3	0.6	-2	1	-1		3.73	5.4	27	23	82	-27

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
								basis points					
China		4125	-0.9	1	4	0	7		196	3	14	-11	19
Indonesia		6822	0.0	0	2	-5	0		145	-7	-21	-17	5
India		59568	-0.3	-1	3	5	-2		158	-6	-19	-13	16
Philippines		6446	-0.3	0	0	-8	-2		120	-7	-17	6	23
Thailand		1581	-0.8	-1	1	-6	-5		0	0	0	0	0
Malaysia		1425	-0.5	-1	1	-10	-5		102	3	-1	-13	2
Argentina		284299	1.1	9	28	209	41		2531	92	134	854	326
Brazil		106163	0.1	0	4	-8	-3		268	-11	-28	-4	-6
Chile		5475	0.1	3	7	11	4		139	-5	-17	-3	7
Colombia		1255	-0.2	2	13	-22	-2		400	-6	-49	57	28
Mexico		54386	-0.7	0	5	0	12		387	-9	-36	39	6
Peru		22511	0.5	1	5	-4	6		185	-6	-13	21	5
Hungary		43302	-1.0	0	6	1	-1		228	-5	-31	90	6
Poland		62194	-0.5	3	11	-2	8		77	-2	-32	64	4
Romania		12476	-0.2	0	2	-4	7		254	-6	-29	61	-2
South Africa		78380	-1.2	1	8	6	7		407	-20	-25	79	40
Turkey		4999	-0.4	-3	-3	98	-9		491	-13	0	-17	51
Ukraine		507	0.0	0	0	-2	-2		5101	18	163	1833	1022
EM total		40	-1.5	0	6	-9	5		413	-3	-21	37	37

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

back to top