



- Rising deposit costs may inhibit bank lending in advanced economies ([link](#))
- US equity markets remain resilient despite banking turmoil ([link](#))
- Corporate bond markets in US to face more credit downgrades ([link](#))
- China's reserves rise to highest since February 2022 ([link](#))
- Ruble under pressure in Russia ([link](#))
- **Special Feature: EM Capital Flows** ([attached](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Waiting for inflation

Many markets remain closed for the Easter holidays. Some Asian markets were open today and posted modest gains in low volume holiday-affected trading. US markets are also open, but equity index futures have barely moved ahead of tomorrow's key US CPI report. Treasury yields are slightly lower this morning after a noticeable selloff on Friday sparked by the robust US jobs report. The 10-year Treasury yield rose by 10 bps and the two-year yield shot up by as much as 15 bps on Friday. Central banks around the globe are expected to end their rate hike cycles this year, with 20 of the 23 largest expected to cut rates in 2023 according to Bloomberg. Policy rates are expected to peak on average at 6% in Q3 and are expected to decline to 4.9% by December. Markets are pricing a 70% chance of a 25 bps rate hike at the FOMC meeting on May 3. Meanwhile, newly installed BOJ governor Ueda said that the policy of yield curve control remained appropriate given current circumstances in the Japanese economy.

Key Global Financial Indicators

Last updated: 4/10/23 7:50 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		4105	0.4	1	3	-9	7	-3
Eurostoxx 50		4309	0.3	1	1	13	14	8
Nikkei 225		27634	0.4	-2	-2	3	6	4
MSCI EM		39	0.4	0	4	-12	4	-17
Yields and Spreads			bps					
US 10y Yield		3.37	-2.4	-5	-33	67	-51	138
Germany 10y Yield		2.18	0.0	-11	-51	150	-39	196
EMBIG Sovereign Spread		486	-7	3	42	91	34	74
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.3	-0.2	-1	0	-5	1	-5
Dollar index, (+) = \$ appreciation		102.2	0.1	0	-2	2	-1	6
Brent Crude Oil (\$/barrel)		85.0	-0.1	7	3	-17	-1	-12
VIX Index (% change in pp)		19.5	1.1	1	0	-2	-2	-12

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

In the wake of yet another robust US jobs report on Friday, tomorrow's CPI inflation report is likely to draw even more scrutiny than usual, as will Wednesday's PPI inflation report. The widely followed retail sales report is also due on Wednesday. China releases export data on Wednesday and the UK comes out with February GDP on the same day. India is scheduled to report trade data on Friday. The World Bank-IMF spring meetings begin today, and the G-20 finance ministers and central bank governors are scheduled to meet in Washington later this week. The Bank of Canada is expected to keep its policy rate unchanged at 4.5% this week. Friday will see the start of the US Q4 earnings season, with JP Morgan, Wells Fargo, and Citi due to report their results. Market participants will be paying special attention to see what impact the recent banking sector turmoil will have on the major US banks.

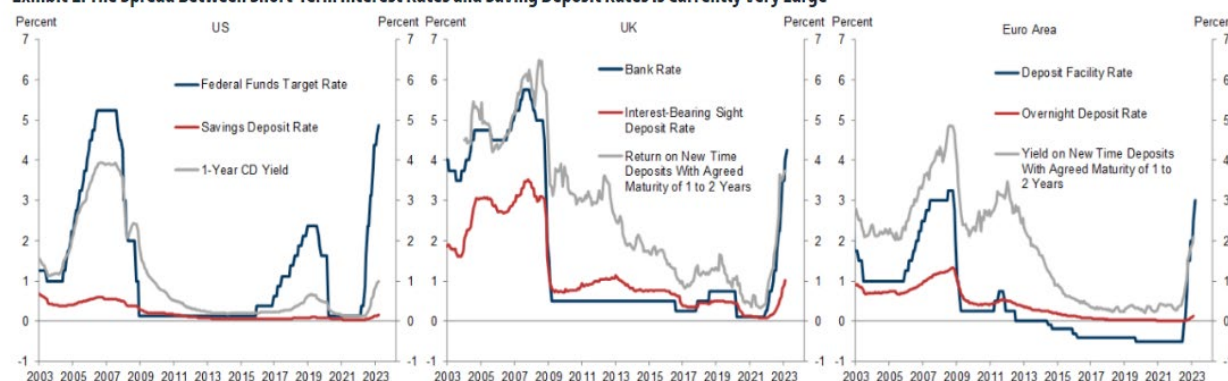
Mature Markets

[back to top](#)

Advanced Economy (AE) Banks

There are growing worries that the need to increase bank deposit rates will make banks tighten their credit standards and reduce lending to corporations and households. This could increase the risk of recession in the US, euro area and UK. Despite the massive policy rate hikes from AE central banks in 2022 and 2023, the deposit rates offered to bank customers remain very low. However, the recent banking sector volatility in the US and Europe sparked a major outflow from bank deposits to money market funds and brokerage accounts that offer much higher returns. In order to hang on to or attract new deposits, AE banks will have to pay higher rates, which will cut into their profit margins. The steep decline in bank share prices is another challenge, as it raises the cost of capital for banks.

Exhibit 1: The Spread Between Short-Term Interest Rates and Saving Deposit Rates Is Currently Very Large



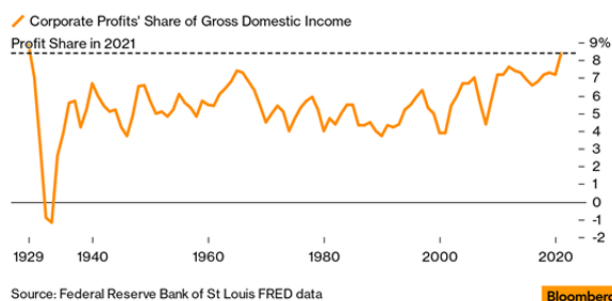
Source: Haver Analytics, Goldman Sachs Global Investment Research

United States

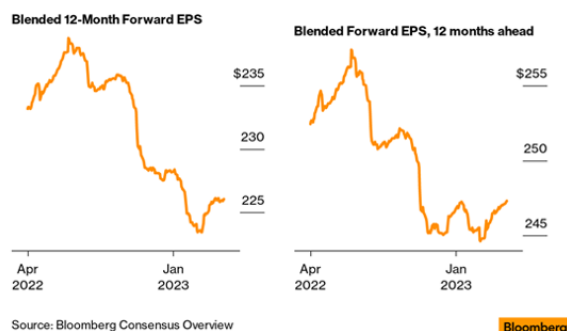
US equity markets have remained resilient despite the recent banking turmoil. The S&P 500 is down less than 2% since March 8, the day before the Silicon Valley Bank crisis began. In contrast, the KBW index of bank stocks is down by 33% since March 8. Contacts attribute this trend to several factors. Banks have a much smaller share of market capitalization compared to the period before the Global Financial Crisis and are therefore less important to the overall market. In addition, US corporate profits remain at historically high levels as 2021 saw the largest share of profits to GDP since 1929. Despite widespread fears about a recession, analyst profit forecasts are starting to increase again. With short term interest rate markets predicting multiple Fed rate cuts by the end of the year, and the growing belief that inflation is headed lower, the US equity market could have good reason for optimism.

The Biggest Share for Profits Since 1929...

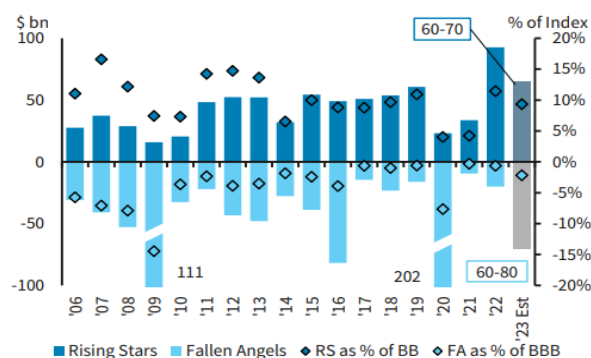
In 2021, profits took their greatest share of the economy since the Great Crash

**S&P 500 Earnings Expectations Are Perking Up (???)**

Bloomberg survey shows forecasts for the next 12 months turning up



The US corporate bond market is expected to see more credit downgrades in 2023. Barclays expects the volume of fallen angels (formerly investment grade companies downloaded to junk status) to reach the \$60–80 bn range. The first quarter has already seen \$11.4 bn of fallen angels, which is 60% of the volume in 2022 and 20% more than the entire volume of 2023. On the brighter side, the volume of rising stars (formerly junk rated companies raised to investment grade) was more than double the volume of fallen angels in Q1. Barclays expects \$60–70 bn of rising stars in 2023, second only to the record-breaking year of 2022. Default rates may increase slightly in 2023, but the overall default rate is expected to stay low by historical standards.

FIGURE 1. Rising star and fallen angel forecast**FIGURE 2. Year-to-date rising stars and fallen angels**

Rising Star	Amt Out (\$mn)	Fallen Angel	Amt Out (\$mn)
NFLX	8,900	NSANY	9,750
WES	6,254	FRC	800
MSCI	4,200	CXT	550
LNG	2,000	AX	325
BAH	1,200		
NOKIA	1,000		
Rising Stars	23,554	Fallen Angels	11,425

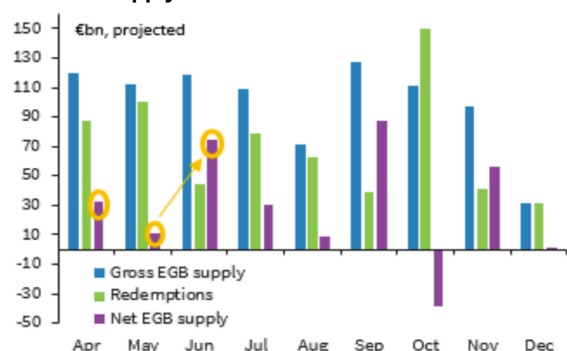
Note: Through March 31, 2022.
Source: Bloomberg, Barclays Research

Euro Area

Over the Easter Monday holiday, trading in most markets remained closed in Europe, but currencies are trading, and the Norwegian and Swedish currencies and the pound appreciated against the US dollar. The euro was also slightly stronger and the Swiss Franc slightly weaker.

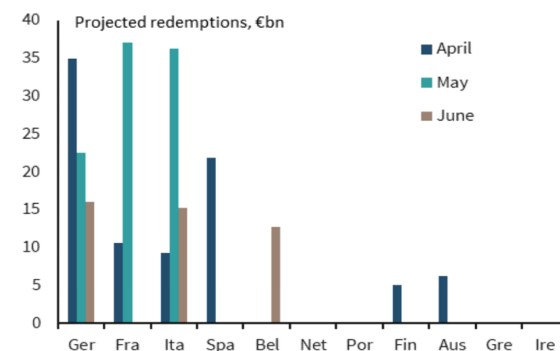
April and May see heavy EGB redemptions, which are expected to dampen net issuance supply. European Government Bond (EGB) issuers have already completed about 35% of their planned gross bond funding for the year, ahead of last year's pace. The near-term cash flow outlook for the EGB market is relatively supportive, with around €160 bn in redemptions to be paid in April and May, followed by €40 bn in June. This suggests the net supply burden over the two months to be comparatively small, for which Barclays analysts project EUR 30 bn of net issuance in April and EUR 10 bn in May. Among the larger issuers, Germany and France are ahead of last year's pace by about 4–5 ppt, while Italy is ahead by around three ppt after issuing an 8-year green deal this week for €10 bn. Despite the daunting medium-term net supply outlook in EGBs as the ECB reduces its footprint in the market, the lower net supply over the next two months could prove supportive for sovereign spreads in the near-term.

April and May Redemptions Suggest Reduced Near-Term Net Supply...



Source: Barclays

...which Particularly Applies for the Four Largest Euro Area Countries.

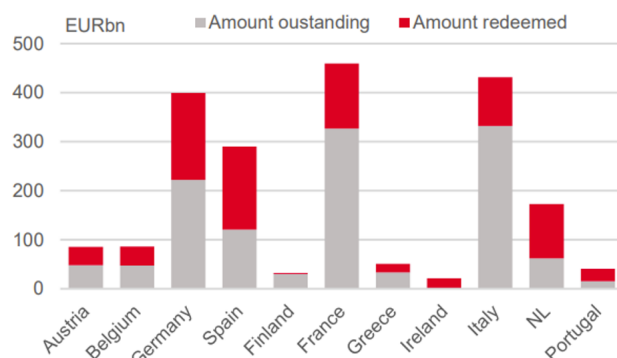


Source: Barclays

Italian banks may face TLTRO redemption challenges, which could affect the BTP repo market.

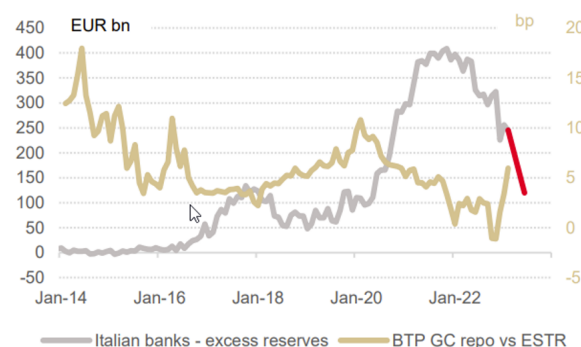
Redemptions of TLTROs by Italian banks have so far been slower than in other countries, which raises the question whether potential fragmentation of liquidity conditions across Italian banks could resurface. Société Générale analysts point out that Italian banks have fewer excess reserves than what is needed for redeeming the TLTRO loans, of which the majority comes due in June 2023 and March 2024. Specifically, Italian banks hold around € 330 bn outstanding TLTRO loans whereas excess reserves only amount to around €250 bn. This leaves Italian banks with a gap of around €80 bn, which either needs to be bridged by tapping the interbank and/or covered bond funding markets or by reducing their asset base. If the latter takes place by selling domestic government bonds, it could potentially create tensions in the BTP repo market and drive-up rates.

Redemptions of TLTROs by Italian banks have so far been slower than in other Euro Area countries,...



Source: Société Générale

...so that Italian banks' balance sheets face potential contraction as excess reserves are set to dwindle.

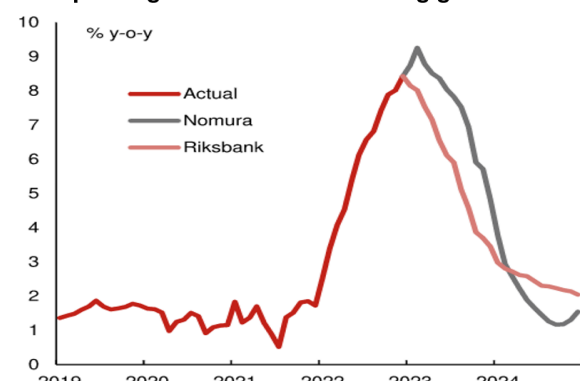


Source: Société Générale

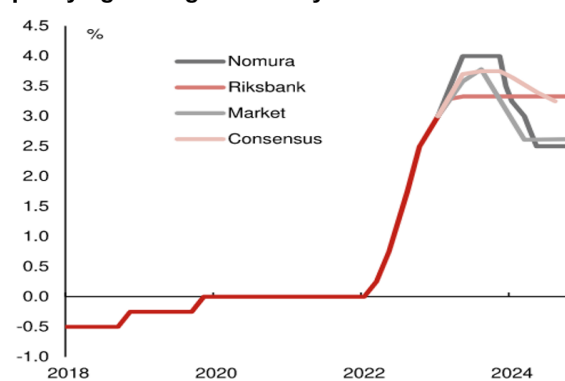
Sweden

Sweden's economy faces inflation and recession challenges. Sweden's economy has been severely affected by global supply chain disruptions and a weaker currency, which so far rendered the Riksbank's efforts to curb inflation largely ineffective. However, leading indicators suggest that inflationary pressures may soon subside, and that the Riksbank's relatively late hiking cycle could tighten financial conditions faster due to a higher proportion of floating rate liabilities in the private sector than other advanced economy peers. However, high household debt and weak consumption, coupled with slowing construction activity in the housing market, pose headwinds for economic growth and amplify a recessionary contraction. As a response to the weakening growth outlook, Nomura analysts expect the Riksbank to loosen monetary policy with a 50bp cut at the start of 2024 after two more 50 bps rate hikes in 2023.

Riksbank expected to revise core inflation forecasts amid peaking inflation and worsening growth outlook...



... so that analysts question Riksbank's monetary policy tightening as unlikely to last.



Emerging Markets

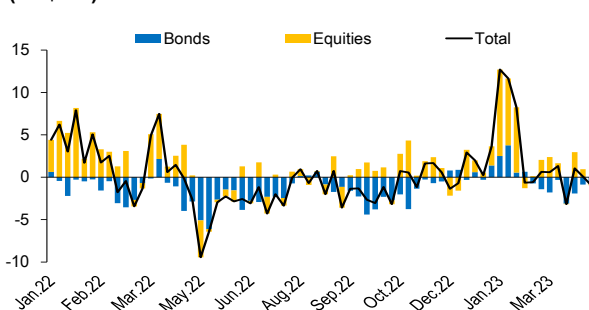
[back to top](#)

Most emerging markets were closed for the Easter holidays.

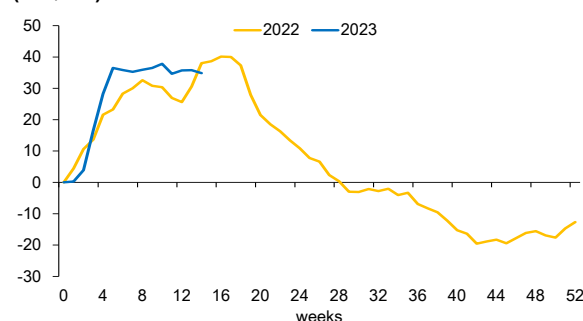
EM fund flows

EM fund flows were negative (-\$1 bn) again in the week ending on 5th April, as ETFs saw outflows (-\$1.3 bn). However, there was some deceleration in bond funds outflows (-\$0.5 bn vs -\$0.9 bn in the week before). EM equity fund flows, which had remained positive over the last seven quarters, also turned negative (-\$0.5 bn). With this, the YTD EM fund flows stand at \$34.8 bn, as per EPFR data.

Emerging market weekly fund flows (US\$ bn)



Cumulative flows (US\$ bn)

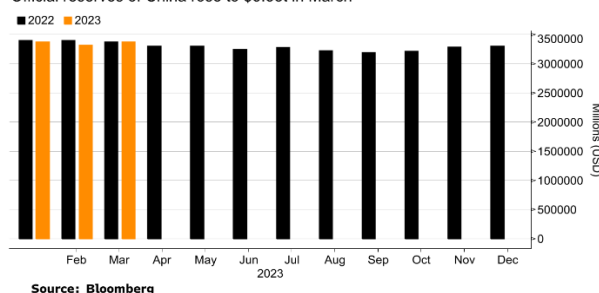


China

China's end-March official reserve assets rose 1.9% from the previous month to the highest level since February 2022. China expanded its gold reserves for a fifth consecutive month. According to the data published at the end of last week by the central bank, total stockpiles increased to 2068 tons, after growing by about 102 tons in the past four months before March. The gold price reached its highest in more than one year last Wednesday, due to the growing concern about global growth that boosted demand for the safe haven metal. Meanwhile, China's foreign currency reserves also rose more than expected by \$50.7 bn to almost \$3.2 tn in March.

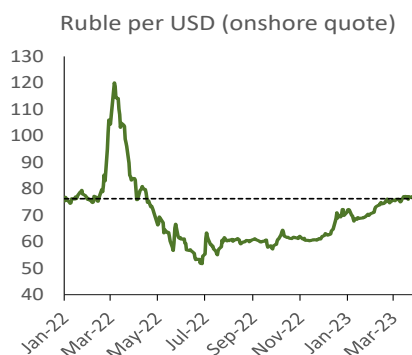
China Official Reserves

Official reserves of China rose to \$3.38t in March



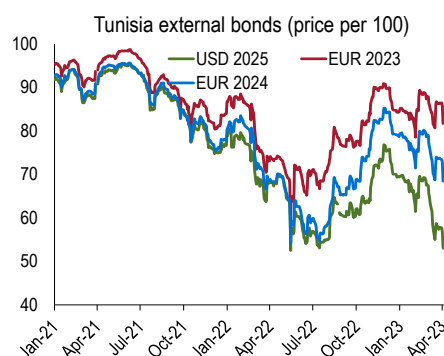
Russia

Russian GDP declined 2.7% y/y in the fourth quarter (vs -3.5% expected), bringing the full year contraction to 2.1%. Wholesale and retail trade continued to be the weakest sector, down 17.3% y/y, while increased military spending propped up public administration and defense at 7.6% y/y growth in the quarter. **The ruble had depreciated 7% over the last month before stabilizing on Friday**, bringing the exchange rate back above its pre-war levels for the first time. The ruble had performed better than expected in 2022 on a record current account surplus, better than expected growth, and capital controls.



Tunisia



















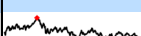

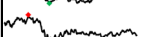
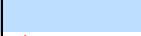



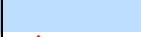


Tunisian bonds have sold off further into distressed territory after comments by authorities cast doubt on accessing IMF financing, according to press reports. The USD bond maturing in 2025 dropped nearly 5 pts over the last week to trade at 53 cents on the dollar after President Saied suggested he would reject the staff level agreement for an Extended Fund Facility from October (which has yet to be approved).



This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan, Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

4/10/23 7:51 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4105	0.4	0	3	-9	7
Europe		4309	0.3	1	1	13	14
Japan		27634	0.4	-2	-2	3	6
China		4105	-0.4	1	3	0	6
Asia Ex Japan		68	0.4	0	5	-9	5
Emerging Markets		39	0.4	0	4	-12	4
Interest Rates			basis points				
US 10y Yield		3.37	-2.4	-5	-33	67	-51
Germany 10y Yield		2.18	0.0	-11	-51	150	-39
Japan 10y Yield		0.47	-0.2	8	6	24	5
UK 10y Yield		3.43	0.0	-6	-39	170	-24
Credit Spreads			basis points				
US Investment Grade		163	-0.8	-3	20	26	5
US High Yield		499	-6.0	4	87	126	19
Europe IG		88	0.0	3	7	10	-2
Europe HY		461	-0.3	19	41	87	-13
Exchange Rates			%				
USD/Majors		102.23	0.1	0	-2	2	-1
EUR/USD		1.09	-0.1	0	2	0	2
USD/JPY		132.7	0.4	0	-2	6	1
EM/USD		50.3	-0.2	-1	0	-5	1
Commodities			%				
Brent Crude Oil (\$/barrel)		85.0	-0.1	6	4	-9	0
Industrials Metals (index)		155	-0.1	-3	-2	-27	-6
Agriculture (index)		68	0.2	0	0	-8	-1
Implied Volatility			%				
VIX Index (% change in pp)		19.5	1.1	0.8	-0.1	-2.0	-2.2
US 10y Swaption Volatility		127.4	-7.1	0.8	-5.5	6.5	1.7
Global FX Volatility		10.2	0.1	-0.1	-0.3	1.1	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		191	0.0	-3	8	-28	-14
Italy		185	0.0	0	4	16	-29
Portugal		87	0.0	5	0	-6	-14
Spain		105	0.0	2	1	5	-5

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

Emerging Market Financial Indicators

Last updated: 4/10/2023 7:54 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		6.88	-0.1	0.0	1	-7	0		3.2	6.8	1	-1	30	9
Indonesia		14902	0.1	0.5	4	-4	5		6.7	2.2	-9	-27	-11	-25
India		82	-0.1	0.4	0	-7	1		7.4	8.7	-14	-44	(36.6)	-9
Philippines		54	0.2	0.1	1	-6	2		6.0	0.0	0	-3	70	-5
Thailand		34	-0.3	-0.3	1	-2	1		2.6	0.0	-2	-2	-3	-6
Malaysia		4.41	-0.2	0.2	3	-4	0		3.8	-2.4	-8	-11	-15	-20
Argentina		211	-0.2	-1.4	-6	-47	-16		89.0	0.0	186	50	3879	74
Brazil		5.06	-0.4	0.7	2	-7	5		12.8	8.0	-17	-94	133	21
Chile		819	0.0	-2.9	-2	-2	4		5.2	1.5	3	-50	-118	-19
Colombia		4571	0.3	0.9	3	-18	6		8.6	6.5	-15	-109	90	-119
Mexico		18.09	0.3	-0.2	2	10	8		8.3	0.0	-20	-74	-3	-43
Peru		3.8	0.1	-0.5	0	-2	1		7.4	-4.4	-10	-67	47	-53
Uruguay		39	0.0	0.1	2	9	3		10.3	0.1	0	8	129	-36
Hungary		344	0.0	0.8	5	1	9		8.2	0.0	-23	-8	142	-140
Poland		4.30	-0.2	-0.2	2	0	2		5.3	0.0	-16	-21	-12	-87
Romania		4.5	0.0	0.2	2	0	2		7.2	0.0	-6	-26	93	-52
Russia		82.0	-0.9	-4.4	-7	2	-9							
South Africa		18.4	-1.4	-3.2	-1	-21	-8		9.1	-0.6	0	-20	111	-11
Turkey		19.26	0.0	-0.3	-2	-24	-3		10.3	0.0	0	-126	-1510	49
US (DXY; 5y UST)		102	0.1	-0.3	-2	2	-1		3.46	-3.4	-4	-50	71	-54

	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		4105	-0.4	1	3	0	6		194	4	29	-10	17	
Indonesia		6771	-0.3	-1	0	-6	-1		160	0	21	5	20	
India		59847	0.0	3	1	1	-2		168	0	28	13	26	
Philippines		6489	0.0	-2	-3	-9	-1		134	2	21	28	37	
Thailand		1593	1.0	-1	0	-5	-5		0	0	0	0	0	
Malaysia		1428	0.1	0	0	-11	-5		100	-1	7	-12	0	
Argentina		252849	0.5	2	0	178	25		2463	150	401	758	258	
Brazil		100822	-0.2	-3	-3	-15	-8		278	5	14	-3	4	
Chile		5274	0.7	-1	-2	6	0		146	-2	9	7	14	
Colombia		1194	1.3	4	-3	-27	-7		400	15	6	80	28	
Mexico		53498	-1.3	-1	-1	-3	10		396	8	23	57	15	
Peru		21916	-0.3	0	1	-10	3		193	-1	10	28	13	
Hungary		44218	0.0	6	2	6	1		231	-8	14	84	9	
Poland		58539	0.0	0	-4	-8	2		71	-11	13	68	-2	
Romania		12435	0.6	2	1	-2	7		256	-7	17	52	0	
South Africa		77114	0.0	1	-2	4	6		424	21	68	96	57	
Turkey		5037	2.3	4	-6	110	-9		507	27	64	-27	67	
Ukraine		507	0.0	0	0	-2	-2		4962	-8	243	2008	883	
EM total		39	0.0	0	4	-12	4		414	0	31	47	39	

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

[back to top](#)