



- **Commercial real estate vulnerable to higher interest rates** ([link](#))
- **REITS in US could see higher distressed asset sales** ([link](#))
- **China offshore bond issuance hits new record** ([link](#))
- **High inflation keeps Egyptian real rates negative** ([link](#))
- **Norway inflation higher than expected** ([link](#))





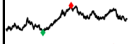






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Markets rally after Easter break

Stocks in Europe were higher in post-holiday trading. Markets in other regions also rallied, but US equity were little changed. Government bond yields were slightly lower ahead of the US CPI inflation report, while currencies were trading in narrow ranges. The two-year US Treasury yield slipped back below 4% after rising sharply on Monday, while the 10-year yield traded at 3.41%. Oil was down for a second day, with West Texas Intermediate trading below \$80/barrel. The US Q1 corporate earnings season kicks off on Friday with the spotlight on the banking sector as JP Morgan, Citi and Wells Fargo report their results. Market participants will be looking for clues about the impact of the recent banking sector volatility on the large US banks. In other news, inflation in Norway was higher than expected. Meanwhile, the IMF will release its World Economic Outlook and the widely followed Global Financial Stability Report later today.

Last updated: 4/11/23 8:04 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
Equities			%				%	
S&P 500		4109	0.1	0	6	-7	7	-3
Eurostoxx 50		4330	0.5	0	1	14	14	9
Nikkei 225		27923	1.0	-1	-1	6	7	6
MSCI EM		39	0.1	0	4	-11	4	-17
Yields and Spreads			bps					
US 10y Yield		3.41	-0.8	7	-29	63	-47	142
Germany 10y Yield		2.27	8.5	2	-24	145	-30	204
EMBIG Sovereign Spread		487	0	7	13	90	35	74
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.3	0.1	-1	0	-5	1	-5
Dollar index, (+) = \$ appreciation		102.1	-0.4	0	-2	2	-1	6
Brent Crude Oil (\$/barrel)		84.0	-0.3	-1	1	-15	-2	-13
VIX Index (% change in pp)		19.2	0.2	1	-6	-5	-2	-12

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

Mature Markets

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United States

Higher interest rates pose a significant threat to commercial real estate (CRE). The recent banking sector volatility brought the vulnerability of CRE to attention of the broader market, but sector insiders have been worried for some time that the higher interest rate environment could make conditions much more difficult for the market. In 2022, CRE outperformed the equity and bond markets as investors saw the sector as a hedge against inflation because higher inflation resulted in greater rental revenues for commercial properties. CRE delivered a 5.5% compared to the -15.8% delivered by a 60/40 equity (S&P 500) and bond (Bloomberg Aggregate Index) portfolio. However, the rapid rise in CRE valuations has led investors to question whether further gains are likely when interest rates are so much higher. Rising vacancy rates and slowing growth of rental income are among the other challenges facing the sector. Tighter bank lending standards and refinancing risks are also a major concern.

Exhibit 4: CMBS spreads have materially underperformed in recent weeks

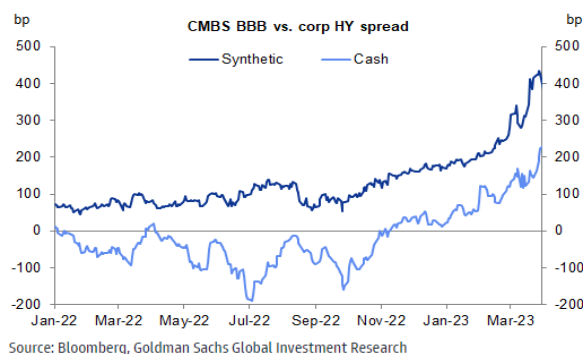
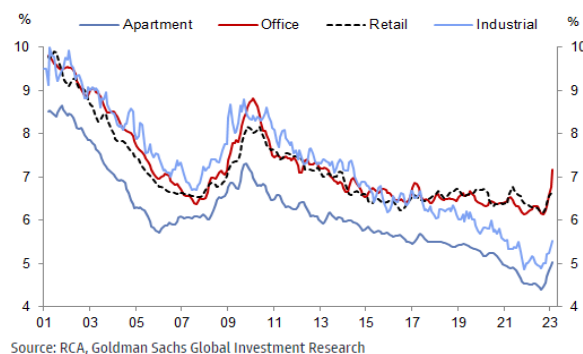


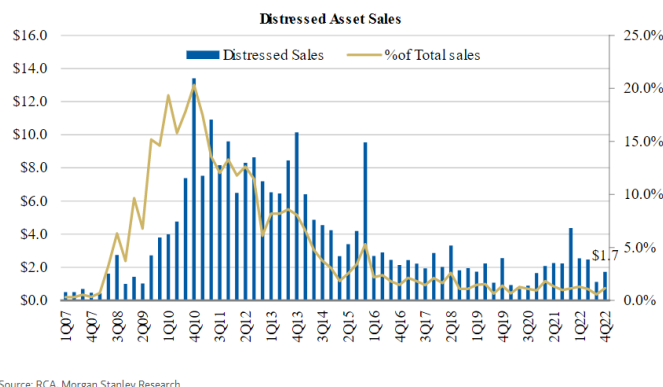
Exhibit 5: The rapid run-up in CRE valuations over the past two years has many market participants questioning vulnerability to a higher for longer funding cost environment



Real Estate Investment Trusts (REITs) could see rising distressed asset sales as higher interest rates erode profitability.

Challenges to office complexes and shopping malls are a particular concern for the REIT sector as the work from home trend and increased internet shopping take their toll on those types of properties. Investors have fled the REIT market in droves, while tighter bank lending standards are another potential headwind. So far, distressed sales have been very low, at just \$1.7 bn or 1.2% of sales in Q4 2022. During the global financial crisis, distressed asset sales were as high as 20.3% of all sales in Q4 of 2010, according to Morgan Stanley. While distressed sales are not expected to reach that level, analysts think there is scope for much higher levels, especially if there is a recession. Investors are pessimistic on the sector, with REIT redemption requests up significantly.

Exhibit 1: Distressed Sales



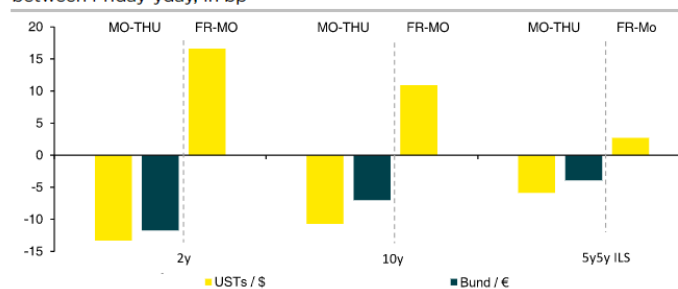
Euro Area

European equities were trading in the green with the Stoxx 600 Europe index up 0.5%. Gains were broad-based across sectors this morning with the mining sector (+2.5%) outperforming. On the data front, a euro area investor confidence index rose in April, but February retail sales data fell.

Sovereign yields increased (10-yr bund +7 bps to 2.25%) as markets opened for the first trading day since the US jobs report last Friday. The ECB continued to indicate expectations for further tightening. ECB Governing Council (GC) member De Cos said that if the ECB's latest inflation forecasts materialize the ECB would have to continue hiking interest rates. GC member Knot last week said that the ECB is not done with hiking and noted that he sees rate cuts towards the end of 2023 as very unlikely. Markets are now pricing in roughly 24 bps of tightening for the ECB meeting in May (compared to roughly 22 bps at the end of March), with roughly 60 bps of tightening priced in by September.

USTs changed direction over Easter

Change in yields/rates, Monday-Thursday last week vs. US Easter trading between Friday-yday, in bp

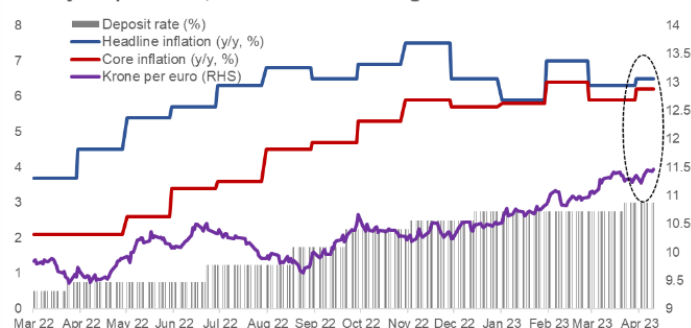


Source: Bloomberg, Commerzbank Research

Norway

Expectations for further rate hikes persist following an upside headline inflation surprise. Norway's headline inflation surprised on the upside in March (+6.5%/y vs expected 6.1% from 6.3%) while underlying inflation increased in line with expectations (+6.2%/y from 5.9%). JPMorgan analysts cautions that current wage negotiations could see pressure from higher headline inflation and expects the central bank to raise the policy rate by 25 bps at the upcoming monetary policy meeting in May. Nordea analysts still see the terminal rate at 3.75% during the summer, given continued high inflation and weak Norwegian Krone. This morning the Norwegian Krona depreciated against the euro (-0.3%), with the currency now roughly 15% weaker than in April 2022, driven by lower oil prices.

Norway: Deposit rate, inflation and exchange rate

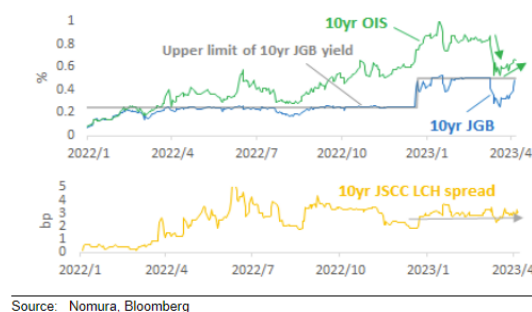


Source: Bloomberg and IMF calculations

Japan

Japanese stocks gained +0.8%, supported by news that Buffett is weighing further investment in trading houses. **Analysts thought the dovish stance from the Bank of Japan (BOJ) could be short-lived**, despite Governor Ueda's support for yield curve control at his inaugural press conference on Monday. Nomura noted that while US interest rates declined sharply starting in mid-March, 10yr JGB yields and 10yr JPY overnight index swap rates trended in the opposite direction and rose in April. This could be a sign that investors are reestablishing positions designed to benefit from revisions to the BOJ's YCC.

Market focused on a rise in 10yr yields
accompanying changes to YCC



Emerging Markets

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EMEA equities were generally higher in the first day of trading after the Easter holidays, but **currencies** were mixed. Interest rates were fairly stable. **Stocks in Asia** also rallied. South Korea's central bank kept its benchmark seven-day repurchase rate at 3.5% as expected. Central bank of Philippines Governor Medalla signaled the monetary authority could soon end its most aggressive tightening in two decades as inflation slows down. **LATAM equities rose on Monday, with Mexico (+1.1%) and Brazil (+1%) seeing the largest gains.** However, the performance of regional currencies was mixed.

EM bond issuance

EM bond issuance volumes came in at \$12 bn last week, decelerating mildly from \$13.4 bn the week before. Sovereign issuances continued to dominate with \$7.9 bn, up from \$6.5 bn in the week before. Issuance by financials (\$1.8 bn) and corporates (\$2.3 bn) were relatively small. On the regional front, most of the issuances were from the CEEMEA region (\$8.3 bn), while Latam and EM Asia ex-China saw bond issuance of \$2.2bn and \$1.6 bn, respectively. With this, the YTD EM bond issuance stand at \$167.5bn.

Figure 1. EM bond issuance, by sector (bn. USD)

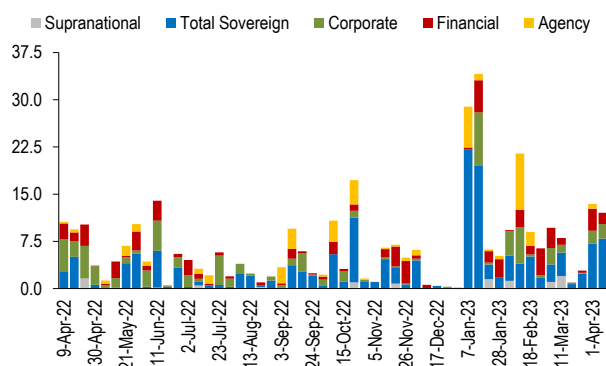
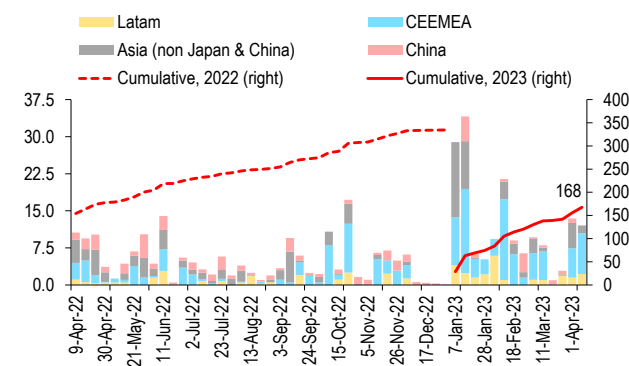


Figure 2. EM bond issuance, by region (bn. USD)

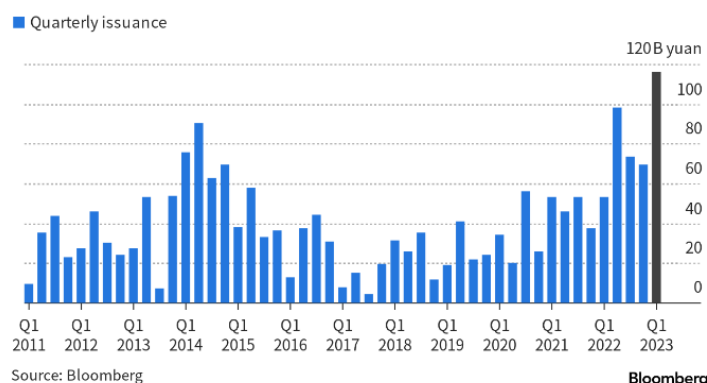


China

China will reportedly broaden the participant group of Southbound Bond Connect system for both domestic and overseas investors. A China Foreign Exchange Trade System (CFETS) official said at a conference that CFETS will promote the transparency of the system by developing a price display board for investors to trade more conveniently. To further develop China's bond market, there are plans to launch a Swap Connect system to trade interest rate swaps. Separately, **issuance of offshore yuan bonds hit a record 116 bn yuan (\$16.9 bn) in 1Q2023**, Bloomberg estimated. The issuance was boosted by lower

yuan funding costs as other major central banks continued to hike interest rates. Meanwhile, **China's consumer and producer inflation weakened in March**. CPI rose +0.7% y/y (consensus and previous: +1%), PPI declined -2.5% (previous: -1.4%), the lowest since June 2020. Core inflation, which excludes volatile food and energy prices, climbed slightly to +0.7% from +0.6%. **Chinese stocks, renminbi and 10Y bond yields were little changed.**

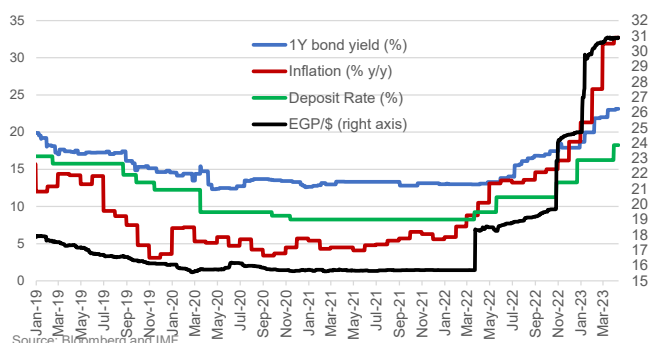
Offshore Yuan Bond Issuance Set a Record in Q1



Egypt

Egypt's one year local bond yields have increased 445 bps YTD (to 23.1%) but are still negative in real terms. Inflation for March came in lower than expected yesterday, at 32.7% y/y (34.1% expected). While inflation was still higher than in February (31.9% y/y), analysts note that m/m inflation dropped significantly to 2.7%, down from 6.5% in February and 4.7% in January. Core inflation, which excludes fresh food and administered prices, decreased marginally to 39.5% y/y in March down from 40.2% in February. Goldman Sachs analysts think some of the inflationary impulse from a weakening

Egypt: Inflation, Currency and Rates








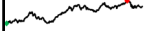
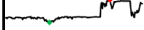









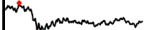

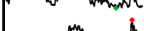

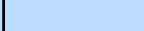


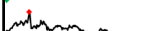


Pound had already been reflected in price rises earlier this year. However, they expect inflation to remain a problem and see the risk of a re-acceleration of headline inflation as high, due to ongoing FX liquidity constraints and uncertainty regarding the trajectory of the currency. They forecast inflation to peak at 35% in Q3, but see risks as skewed to the upside in the absence of near-term relief in FX pressures. The Egyptian central bank hiked 200 bps to 18.25% at its latest meeting on March 30, saying that achieving a tight monetary stance is a necessary condition to attain its upcoming inflation targets of 7% ($\pm 2\%$) on average by 2024 Q4 and 5% ($\pm 2\%$) on average by 2026 Q4.

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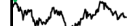



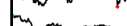

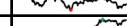





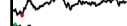



















Global Financial Indicators

4/11/23 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4104	0.1	0	6	-7	7
Europe		4330	0.5	0	1	14	14
Japan		27923	1.0	-1	-1	6	7
China		4100	-0.1	0	3	-2	6
Asia Ex Japan		68	0.2	0	5	-7	5
Emerging Markets		39	0.1	0	4	-11	4
Interest Rates			basis points				
US 10y Yield		3.41	-0.8	7	-29	63	-47
Germany 10y Yield		2.27	8.5	2	-24	145	-30
Japan 10y Yield		0.46	-0.5	4	5	22	4
UK 10y Yield		3.53	9.5	9	-11	168	-15
Credit Spreads			basis points				
US Investment Grade		162	0.3	-1	1	20	3
US High Yield		488	2.2	-7	11	97	8
Exchange Rates			%				
USD/Majors		102.14	-0.4	0	-2	2	-1
EUR/USD		1.09	0.5	0	2	0	2
USD/JPY		133.2	-0.3	1	0	6	2
EM/USD		50.3	0.1	-1	0	-5	1
Commodities			%				
Brent Crude Oil (\$/barrel)		83.9	-0.3	-1	2	-8	-1
Industrials Metals (index)		155	0.1	-2	-1	-26	-7
Agriculture (index)		68	0.4	0	2	-9	-1
Implied Volatility			%				
VIX Index (% change in pp)		19.2	0.2	0.6	-5.6	-5.2	-2.5
US 10y Swaption Volatility		131.2	-0.1	-5.5	-35.6	1.2	5.5
Global FX Volatility		10.1	0.0	0.0	-0.3	1.1	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		190	-1.1	-1	7	-16	-15
Italy		185	0.1	-2	4	20	-29
Portugal		87	-0.7	1	-1	-1	-15
Spain		105	0.4	2	1	11	-4

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

Emerging Market Financial Indicators

Last updated: 4/11/2023 8:12 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	0.0	-0.1	-1	-7	0		3.1	-9.5	-9	-11	20	-1
Indonesia		14886	0.1	0.1	3	-3	5		6.7	-3.3	-7	-30	-20	-28
India		82	-0.2	0.2	0	-8	1		7.4	1.8	-14	-20	(35.8)	-8
Philippines		55	-0.9	-0.7	0	-5	2		6.0	0.0	0	-3	70	-5
Thailand		34	0.4	-0.6	1	-2	1		2.6	-2.0	-7	10	-5	-8
Malaysia		4.42	-0.2	-0.3	2	-4	0		3.9	1.9	-3	-8	-17	-17
Argentina		213	-0.8	-1.2	-6	-47	-17		89.1	18.8	130	11	3889	93
Brazil		5.05	0.4	0.5	4	-7	5		12.9	9.0	11	-22	114	31
Chile		819	-0.1	-1.3	-3	0	4		5.2	0.0	13	7	-141	-13
Colombia		4558	0.3	1.0	3	-18	6		8.8	0.0	31	-54	83	-95
Mexico		18.14	0.2	0.0	4	10	8		8.3	-2.8	1	-39	-43	-41
Peru		3.8	-0.3	-0.3	0	-2	1		7.5	0.5	2	-61	42	-47
Uruguay		39	-0.1	-0.3	1	7	3		10.3	-6.8	4	-7	96	-42
Hungary		344	0.5	0.2	6	1	9		8.3	8.0	-9	6	163	-132
Poland		4.28	0.9	-0.2	2	0	2		5.4	7.5	-4	16	-5	-79
Romania		4.5	0.3	-0.5	1	0	2		7.2	-0.3	-5	-9	90	-53
Russia		82.1	-0.4	-3.4	-8	2	-10							
South Africa		18.3	1.3	-1.8	0	-20	-7		9.2	11.5	7	3	110	1
Turkey		19.29	-0.1	-0.4	-2	-24	-3		12.3	194.0	200	68	-1261	243
US (DXY; 5y UST)		102	-0.4	0.1	-2	2	-1		3.51	-1.0	12	-46	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		4100	-0.1	0	3	-2	6		195	2	24	-10	18
Indonesia		6811	0.6	0	1	-6	-1		156	-5	-10	-2	16
India		60158	0.5	2	2	3	-1		167	1	14	10	25
Philippines		6480	-0.1	-2	-2	-6	-1		132	-1	-2	21	35
Thailand		1597	0.2	0	0	-5	-4		0	0	0	0	0
Malaysia		1436	0.5	0	0	-10	-4		100	0	4	-13	0
Argentina		256748	1.5	2	9	183	27		2430	146	133	716	225
Brazil		101847	1.0	0	-2	-13	-7		280	8	0	-3	6
Chile		5281	0.1	-1	-2	7	0		146	0	-7	4	14
Colombia		1200	0.6	4	1	-26	-7		404	26	-18	79	32
Mexico		54075	1.1	0	2	-1	12		397	13	1	57	16
Peru		22112	0.9	1	2	-9	4		192	2	-2	17	12
Hungary		44324	0.2	5	2	6	1		231	-10	-5	82	9
Poland		59341	1.4	1	-2	-7	3		70	-15	-17	70	-3
Romania		12432	0.1	1	1	-2	7		254	-10	-3	54	-2
South Africa		77723	0.8	2	-1	5	6		422	20	28	99	55
Turkey		5113	0.4	3	-5	109	-7		505	17	27	-26	65
Ukraine		507	0.0	0	0	-2	-2		5055	62	255	2101	976
EM total		39	1.5	0	4	-11	4		415	5	7	44	40

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

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