GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 12, 2023

- **US inflation comes in on target** (link)
- **Markets and analysts disagree on Fed policy** (link)
- **Banking turmoil in US could hit SMEs disproportionately** (link)
- **Green bond issuance in Europe up sharply** (link)
- **Bond yields decline in China on hopes of easier policy** (link)
- **Brazil inflation cools further** (link)
- **Hungarian yields shoot up as inflation comes in higher than expected** (link)

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Markets cautious ahead of US CPI data

Stocks in Europe posted modest gains and US equity futures were flat higher ahead of the all-important US CPI inflation report. US Treasury yields had a slight upward bias, and the euro and yen held steady against the dollar. The benchmark US two-year yield is back above 4%. The FOMC minutes will be released later today, providing more information about the central bank's policy outlook. Markets predict that there is a 73% chance of a 25 bps rate hike at the next FOMC meeting on May 3rd. For the ECB, a 25 bps hike is fully priced in for its next meeting on May 4, with a further 25 bps predicted with a probability of 85% at the June 15, meeting. The Q1 US earnings season is scheduled to begin on Friday as JP Morgan, Citi and Wells Fargo report their earnings. Analysts predict that their deposits may have fallen by over $500 billion as a result of the fallout from the failure of Silicon Valley Bank and Key Bank. The Bank of Canada is expected to keep its policy rate unchanged at 4.5% later today, despite signs that the economy is doing much better than expected.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close					Since
4/12/23 8:04 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		4109	0.0	0	6	-7	7	-3
Eurostoxx 50		4336	0.1	1	3	13	14	9
Nikkei 225		28083	0.6	1	1	5	8	6
MSCI EM		40	0.6	0	5	-10	5	-16
Yields and Spreads					bps			
US 10y Yield		3.44	1.7	13	-26	72	-43	145
Germany 10y Yield		2.32	0.9	14	-19	153	-25	209
EMBIG Sovereign Spread		487	1	2	14	84	36	75
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.4	0.0	0	0	-5	1	-5
Dollar index, (+) = $ appreciation		102.1	-0.1	1	-2	2	-1	6
Brent Crude Oil ($/barrel)		85.6	0.0	1	3	-18	0	-12
VIX Index (%, change in pp)		19.3	0.2	0	-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

The latest CPI report came in on target, with the actual numbers very close to consensus forecasts. US Treasuries rallied in the immediate aftermath of the data, while the dollar weakened. US equity index futures were higher.

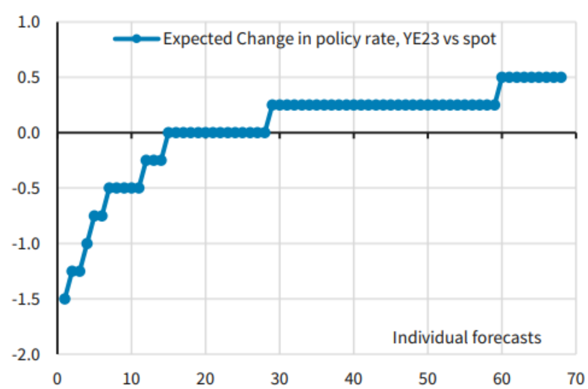
US CPI Report 8.30 am

Source: Bloomberg

Data Point	Consensus Forecast	Actual Data
CPI month-on-month	0.2%	+0.1%
CPI ex-food and energy mom	0.4%	+0.4%
CPI year-on-year	5.1%	+5%
CPI ex-food and energy yoy	5.6%	+5.6%

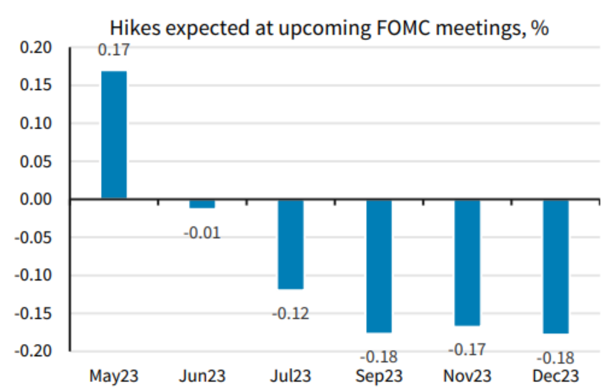
Financial markets and analysts disagree about the future course of Fed policy. Most analysts do not expect any rate cuts from the Fed this year, in keeping with recent remarks from FOMC officials. However, short term interest rate futures markets predict that the Fed policy rate will peak near 5.1% in May with a 70% chance of a 25 bps rate hike, and that rate cuts will follow immediately afterwards. More than three rate cuts of 25 bps each predicted by the end of the year, and further rate cuts are predicted for 2024 with the new terminal rate close to zero again. This more dovish turn grew even more pronounced after the recent banking turmoil. Some are worried that markets have gone too far in the dovish direction and are at risk of high volatility if expectations are forced to change.

FIGURE 13. **Most forecasters do not expect the Fed to cut rates this year**



Source: Bloomberg, Barclays Research

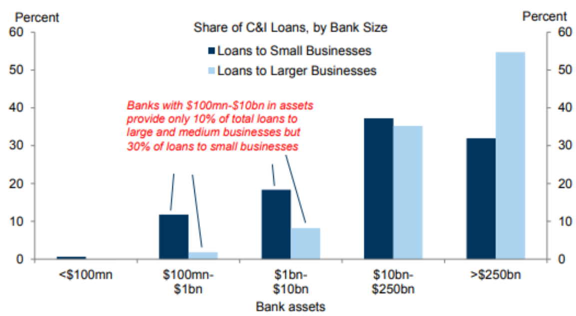
FIGURE 14. **Markets are pricing in the easing cycle to begin soon**



Source: Bloomberg, Barclays Research

There are widespread worries that the recent volatility in the banking sector, which had a much higher impact on smaller banks, could have a disproportionately negative impact on lending to small and medium enterprises (SMEs). Small banks dominate lending to SMEs, with banks having assets of $10 bn or less providing 30% of lending to small businesses, compared to 10% for larger borrowers. However, the recent turmoil could force smaller banks to tighten their lending standards, creating problems for SMEs. In addition, the collapse in equity prices for small and regional banks raises their cost of capital, further constraining their appetite for lending. Tighter credit conditions have the potential to retard growth for the entire US economy.

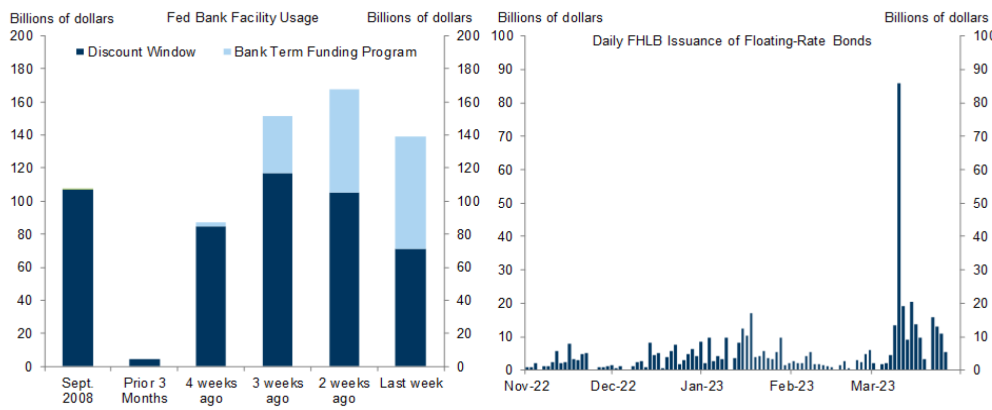
Exhibit 2: Small Businesses Rely More on Small Banks Than Other Businesses



Source: Federal Deposit Insurance Corporation, Goldman Sachs Global Investment Research

Meanwhile, stresses in the broader banking sector have started to subside. The usage of the Bank Term Funding Program is falling, and borrowing from Federal Home Loan banks, which surged after the collapse of Silicon Valley bank, has subsided. The outflow of deposits has slowed. However, bank equity prices have yet to recover, with the S&P 500 up 3% since March 7 (the day before the crisis began) but the KBW bank index still down over 20%.

Exhibit 2: Banks' Borrowing from the Fed and Federal Home Loan Banks Has Stabilized, Suggesting That They Have Had Less Need for Additional Liquidity Over the Last Two Weeks

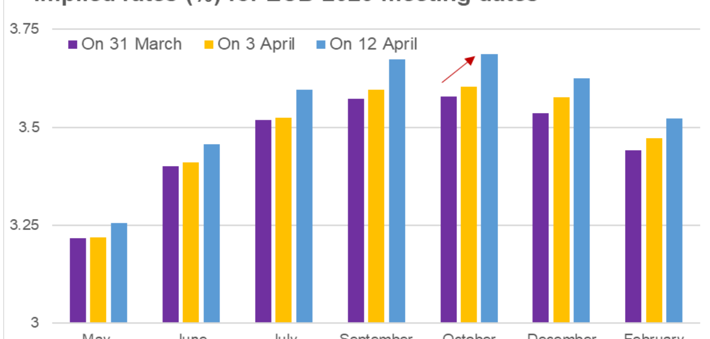


Source: Federal Reserve, FHLB, Goldman Sachs Global Investment Research

Euro Area

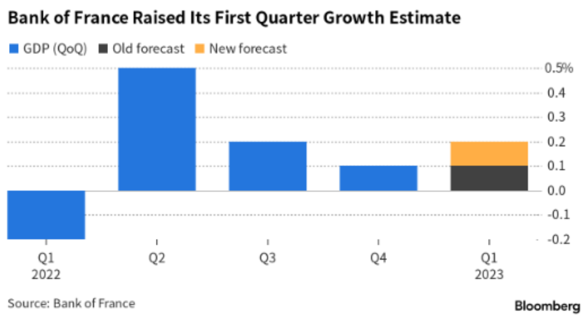
European equities were edging higher (Stoxx 600 Europe index up 0.3%) in muted trading ahead of the US CPI print later today, with sovereign bond yields and the euro little changed. In the latest ECB commentary General Council member Villeroy yesterday warned of "risks of entrenched inflation," noting that price pressures have become more widespread and possibly more persistent. **Markets are now fully pricing in a 25 bps ECB rate hike in May.** Markets have scaled up ECB hiking expectations with the peak rate now priced at close to 3.7%, roughly 10bps higher than at the start of the month.

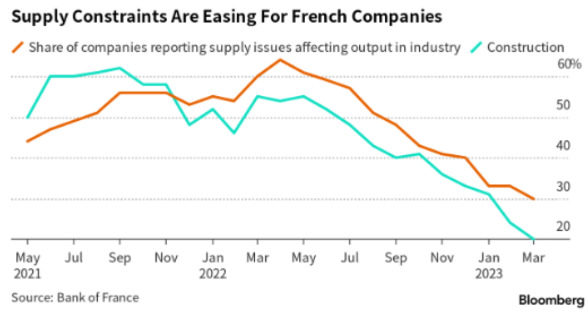
Implied rates (%) for ECB 2023 meeting dates



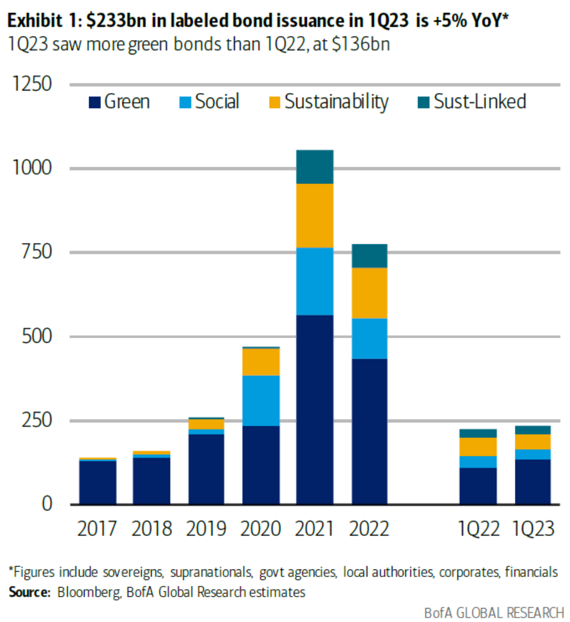
Source: Bloomberg and IMF calculations

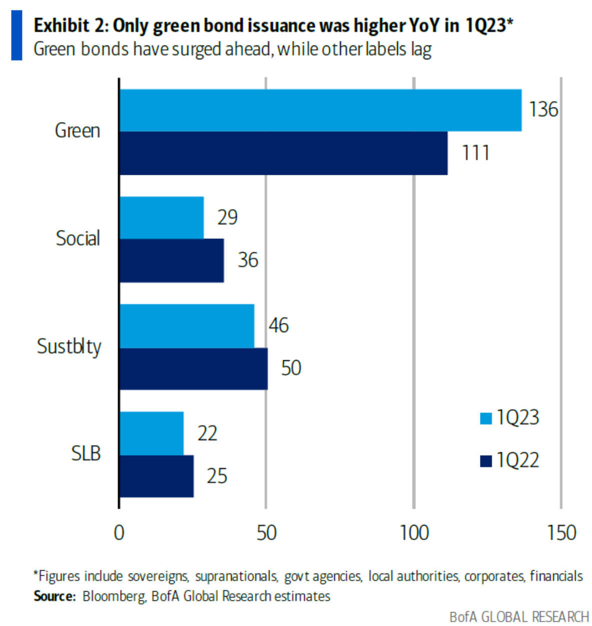
The Bank of France increased its Q1 GDP growth estimates following stronger-than-expected activity in early 2023. The central bank now sees economic growth of +0.2% in Q1, compared to previous estimates of +0.1%. Bloomberg reports that the central bank's measure of uncertainty also stabilized somewhat in March, while business leaders saw supply constraints easing and reported less concern about energy prices weighing on industrial activity.





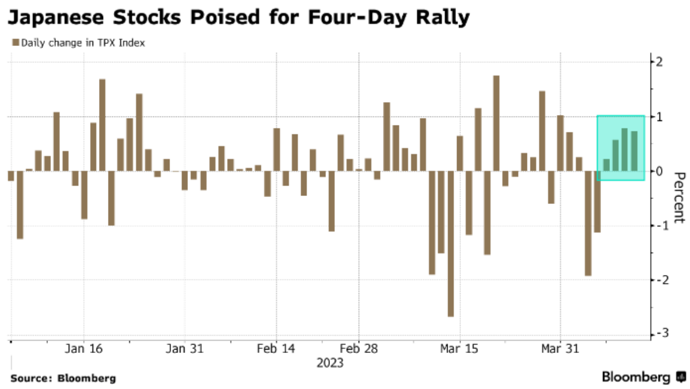
Issuance of green bonds increased by 22% in Q1. Bank of America analysts highlighted that growth in green bonds issuance could possibly be a result of increasing regulation in Europe relating to climate change. Labeled bond issuance (i.e., green, social, sustainability, and sustainability-linked bonds/SLBs) amounted to $233 bn in Q1 2023, and **analysts expect $1.1 trn labeled bond issuance this year**, which would be similar to levels seen in 2021, and represent a 42% increase compared to 2022.





Japan

Japanese stocks rose +0.8% supported by a weaker yen and expectations of unchanged monetary policy. On **data releases**, producer prices moderated to +7.2% y/y in March from an upwardly revised +8.3% y/y in February and remained unchanged on a monthly basis. Core machine orders accelerated above expectations to +9.8% (previous: +4.5%, consensus: +4.6%). Growth in bank lending softened to +3% y/y in March (previous: +3.3%) with credit demand driven by the ongoing economic recovery and rising raw materials costs, Bloomberg reported.



Emerging Markets

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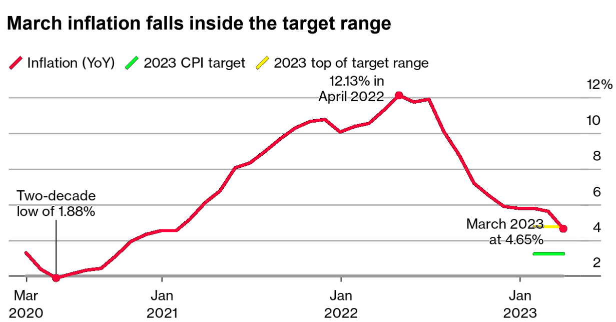
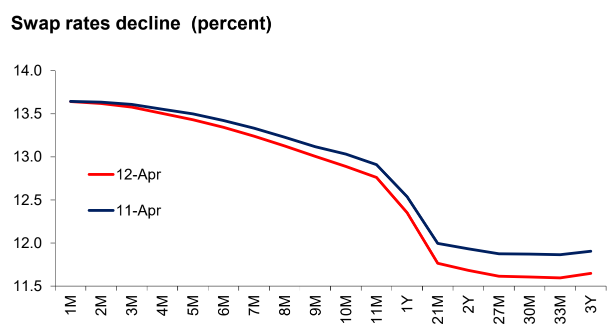
Most EMEA stock markets were down, while currencies had a depreciating bias. Asian equities fluctuated in narrow ranges, down -0.2% on net. India's central bank will allow banks to raise 'green deposits' from June in order to boost allocation of funds towards renewable energy and clean transportation projects. **Latam markets closed higher.** Markets in Brazil rallied on lower-than-expected inflation print as equities and the real gained 4.3% and 1.3%, respectively.

Brazil

Inflation continued to decline in March, printing at 4.65% y/y down from 5.6% y/y in Feb and below the market estimates of 4.71%. The deceleration was broad based as both core inflation (4.5% y/y) and core services inflation (4.3% y/y) slowed. This is the first time since early 2021 that all the three measures have come within the inflation target band (upper limit of 4.75%) of the country's central bank. Despite that, analysts expect the central bank's monetary policy to be driven by long-term inflation expectations, and fiscal prudence and public debt outlook. However, the rates on the one-year swap contract moved lower by 19bps on Tuesday, and the local markets rallied with equities and the currency gaining 4.3% and 1.2%, respectively.

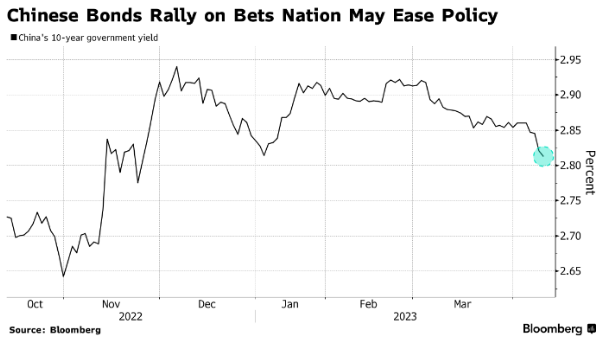




Source: Bloomberg, and staff calculations

China

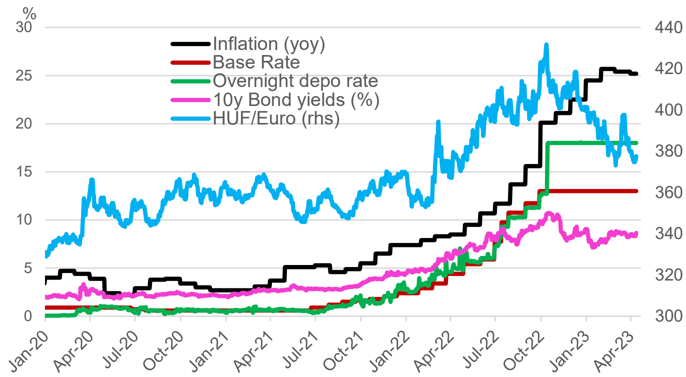
Stocks held steady with CSI 300 volatility dropping to the lowest level in 16 months. Separately, **Chinese regulators are reportedly reviewing problematic practices in the primary corporate debt market**. The National Association of Financial Market Institutional Investors, an entity governed by China's central bank that oversees interbank bond sales, asked underwriters to review bond underwriting problems, including large price gaps between the primary and secondary markets, and the practice of charging underwriting fees below market rates, Bloomberg reported. The Shanghai Stock Exchange is allegedly also conducting similar studies. **10Y bond yields continued to decline** on hopes for further monetary easing, down -12bps from this year's peak.



Hungary

Hungarian bond yields increased 30 bps to 8.62% after March inflation came in higher than expected at 25.2% y/y (25% expected), and only slightly lower than in February (25.4% y/y). Monthly inflation (0.8% m/m) was unchanged from February and 0.2% higher than anticipated, showing that although inflation likely peaked at 25.7% y/y in January, it has remained very sticky. Goldman Sachs analysts point out that the inflation in core services is moderating at a very gradual pace and that combined with high wage growth, it points to a prolonged inflation target overshoot. The Hungarian Forint was slightly weaker (-0.2% to 377/euro) as it remains supported by higher interest rates compared to neighboring countries, and by hawkish rhetoric from the National Bank of Hungary pushing back against market expectations of rate cuts. The Forint is the best performing emerging market currency YTD vs both the dollar (+8.39%) and the euro (+6.16%).

Hungary: Policy Rates, Forint and Inflation



Source: Bloomberg and IMF

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Global Financial Indicators

	Level		Change				
4/12/23 8:06 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4108	0.0	0	6	-7	7
Europe		4336	0.1	1	3	13	14
Japan		28083	0.6	1	1	5	8
China		4097	-0.1	0	2	-1	6
Asia Ex Japan		68	0.3	0	5	-7	5
Emerging Markets		40	0.6	0	5	-10	5
Interest Rates					basis points		
US 10y Yield		3.44	1.7	13	-26	72	-43
Germany 10y Yield		2.32	0.9	14	-19	153	-25
Japan 10y Yield		0.47	0.6	-1	6	22	5
UK 10y Yield		3.53	-1.0	10	-11	173	-14
Credit Spreads					basis points		
US Investment Grade		161	-0.1	-3	0	16	2
US High Yield		479	-1.9	-27	2	80	-2
Exchange Rates					%		
USD/Majors		102.12	-0.1	1	-2	2	-1
EUR/USD		1.09	0.1	0	2	1	2
USD/JPY		133.8	0.1	2	0	7	2
EM/USD		50.4	0.0	0	0	-5	1
Commodities					%		
Brent Crude Oil ($/barrel)		85.6	0.0	1	4	-9	1
Industrials Metals (index)		154	-0.5	-1	-2	-27	-7
Agriculture (index)		69	0.1	1	3	-10	0
Implied Volatility					%		
VIX Index (%, change in pp)		19.3	0.2	0.3	-5.5	-5.0	-2.4
US 10y Swaption Volatility		127.7	0.1	-12.1	-39.1	8.7	2.0
Global FX Volatility		9.9	0.0	-0.4	-0.5	0.9	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		188	-0.3	-3	5	-18	-17
Italy		183	-2.8	0	2	21	-31
Portugal		86	-0.1	1	-2	-1	-16
Spain		104	-1.0	1	0	12	-5

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

Emerging Market Financial Indicators

Last updated: 4/12/2023 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.88	0.0	-0.1	-1	-8	0		3.1	6.0	-3	-5	29	6
Indonesia		14880	0.0	0.3	3	-3	5		6.6	-0.9	-5	-31	-24	-29
India		82	0.1	-0.1	0	-7	1		7.4	0.7	-8	-19	(43.2)	-8
Philippines		55	-0.6	-1.5	0	-6	1		6.0	0.0	0	-8	70	-5
Thailand		34	0.1	-0.9	1	-2	1		2.6	0.5	-3	10	-4	-8
Malaysia		4.41	0.2	-0.2	2	-4	0		3.9	-0.9	-3	-9	-21	-19
Argentina		214	-0.4	-1.4	-6	-47	-17		89.3	18.2	56	29	3879	111
Brazil		5.00	0.1	0.6	5	-7	6		13.0	39.7	30	-11	115	43
Chile		806	1.6	0.2	0	1	5		5.3	0.0	14	11	-121	-9
Colombia		4509	1.1	1.7	6	-17	8		8.8	0.0	24	-55	90	-96
Mexico		18.13	0.3	1.0	4	9	8		8.3	-0.5	4	-37	-41	-39
Peru		3.8	0.0	-0.2	0	-2	1		7.5	-0.1	7	-60	30	-46
Uruguay		39	0.1	0.0	2	7	3		10.3	6.7	0	0	103	-36
Hungary		344	0.1	0.2	6	1	8		8.5	22.0	24	28	206	-110
Poland		4.27	0.2	0.6	2	0	2		5.5	8.8	12	27	12	-68
Romania		4.5	0.1	0.1	1	1	2		7.2	3.2	0	-5	74	-49
Russia		82.4	-1.0	-2.8	-8	3	-10							
South Africa		18.4	-0.2	-2.1	-1	-21	-8		9.2	1.0	23	7	121	5
Turkey		19.32	-0.1	-0.3	-2	-24	-3		12.7	26.0	244	110	-1171	285
US (DXY; 5y UST)		102	-0.1	0.5	-2	2	-1		3.56	2.8	18	-41	87	-45

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4097	-0.1	0	2	-1	6		193	-1	22	-11	16
Indonesia		6799	-0.2	-1	0	-6	-1		152	-12	-14	-8	12
India		60393	0.4	2	4	4	-1		164	-2	11	1	22
Philippines		6469	-0.2	0	-1	-7	-1		127	-14	-7	13	30
Thailand		1593	-0.3	0	1	-5	-5		0	0	0	0	0
Malaysia		1435	-0.1	0	1	-10	-4		99	0	3	-14	-1
Argentina		259963	1.3	6	10	188	29		2439	75	142	715	234
Brazil		106214	4.3	5	3	-9	-3		279	4	-1	-8	5
Chile		5307	0.5	2	-2	8	1		144	-6	-9	-3	12
Colombia		1221	1.8	3	3	-25	-5		406	15	-16	70	34
Mexico		54605	1.0	1	3	1	13		396	0	0	48	15
Peru		22274	0.7	1	3	-7	4		191	-3	-3	12	11
Hungary		44078	-0.7	3	2	6	1		233	-8	-3	85	11
Poland		59636	0.2	1	0	-7	4		79	-9	-8	76	6
Romania		12437	-0.1	1	1	-1	7		259	-3	2	62	4
South Africa		77794	-0.3	2	2	5	6		427	15	33	92	60
Turkey		5165	0.8	5	-4	110	-6		504	5	26	-28	64
Ukraine		507	0.0	0	0	-2	-2		5083	69	283	2077	1004
EM total		40	-0.3	0	5	-10	5		416	1	7	37	41

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

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