



- Bank deposits costs may need to double from current levels ([link](#))
- Equity market volatility has eased significantly over the last two weeks ([link](#))
- ECB reportedly converging on hike of 25 bp in May ([link](#))
- Spread between US and German yields continues to tighten ([link](#))
- Czech assets supported by declining inflation and hawkish central bank comments ([link](#))
- Green transition expected to fuel demand for copper and aluminum ([link](#))
- PPI inflation moderated across most Asian countries ([link](#))

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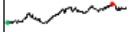



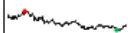

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Inflation fears continue to ease

Yesterday's US CPI release provided further confidence that the Fed is likely to begin cutting interest rates later this year. While the inflation data gave mixed signals, it was sufficient to push down longer-term implied policy rates. In the near term however, markets still price roughly a 75% chance of a 25 bp hike by the Fed next month. This morning's March PPI data also came in below expectations, further pushing down yields over the next couple of years. There have also been positive signs from inflation data in Asian, with sharp declines in the recently released March data in many countries. The lower outlook for US rates, especially relative to the ECB—where 3 more hikes are still priced—has driven weakness in the dollar, with Bloomberg's dollar index at its lowest level since early February. Equity markets are little changed so far this morning, continuing with a recent trend of relatively small daily changes that has helped push the VIX index back below 20.

Key Global Financial Indicators

Last updated: 4/13/23 8:14 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		4092	-0.4	0	6	-8	7	-3
Eurostoxx 50		4350	0.4	1	6	14	15	9
Nikkei 225		28157	0.3	2	3	4	8	6
MSCI EM		39	-0.7	0	4	-12	4	-17
Yields and Spreads			bps					
US 10y Yield		3.44	4.5	13	-14	74	-44	144
Germany 10y Yield		2.39	2.0	21	13	162	-18	216
EMBIG Sovereign Spread		488	1	-3	15	77	36	76
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.8	0.2	1	1	-5	2	-4
Dollar index, (+) = \$ appreciation		101.4	-0.1	0	-2	2	-2	5
Brent Crude Oil (\$/barrel)		87.0	-0.3	2	8	-20	1	-10
VIX Index (% change in pp)		19.0	-0.1	0	-7	-3	-3	-12

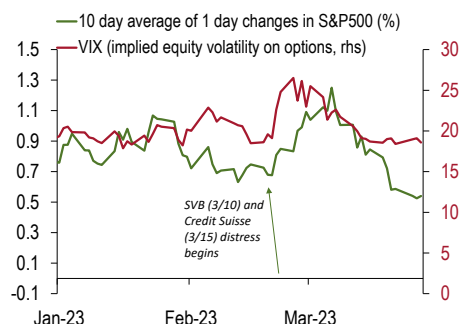
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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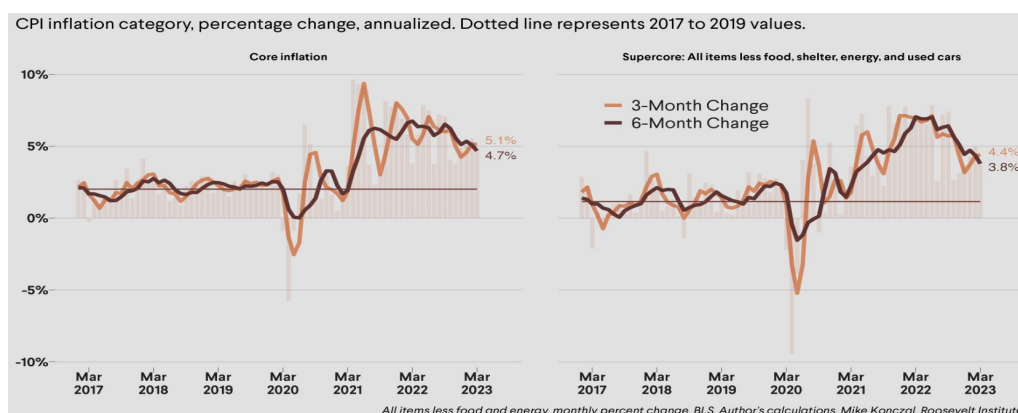
United States

US markets edged lower (-0.3%) following the March CPI print, continuing the recent pattern of modest price moves in US equity markets. The S&P500 has moved 0.6% or less in seven consecutive sessions. **Realized and implied equity volatility have eased significantly over the last 2 weeks**, with the VIX falling back below 20, following the brief spike driven by distress in the banking sector.



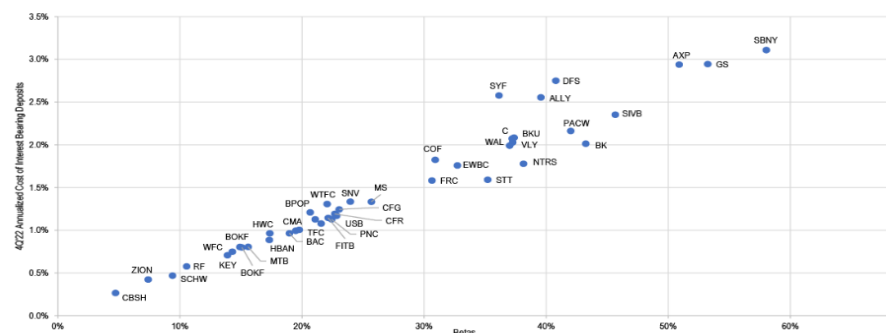
This morning's PPI data for March came in below expectations at -0.5% m/m (vs 0.0% expected), bringing the y/y figure to 2.7% (vs 3.0% expected). The 2-year treasury yield fell as much as 5 bp on the release but recovered slightly afterward.

The initial market reaction to CPI included a steep bond rally, with 2y yields down as much as 18 bp. However, markets faded the move as the debate over inflation continues to rage. Some noted that core and 'supercore' inflation remain elevated at 5.1% and 4.4% respectively on a 3-month annualized basis, while others pointed to easing shelter (lowest m/m since April 22) and falling trimmed mean inflation. 2y and 10y yields ended the day 6 bp and 2 bp lower respectively. **Market implied policy expectations fell 5–10 bp for 2023–2024, though the probability (~75%) for a May hike was little changed**



Bank deposit costs would need to double from current levels based on historical experience. Market analysts have shifted their focus from immediate liquidity concerns to profitability as funding costs are expected to rise substantially through deposits, equity, and other borrowing. Typically, the cost of deposits for US banks tends to peak at around half the level of the federal funds rate. Despite large heterogeneity, the current average of 1.14% would need to reach around 2.5%, assuming a terminal rate of 5–5.25%. The deposit beta for regional banks has been particularly low. In a scenario analysis to model deposit flows and costs, JPM analysts project that GSIBs could see limited impact on their return on average equity, while large regional banks and small regional banks could see it fall by 4.5 percentage points and 7 percentage points respectively.

Figure 1: Cost of Deposits and Betas Among U.S. Banks

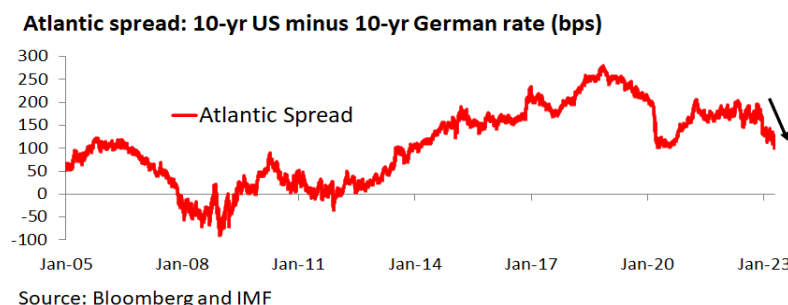


Euro area

Equities (+0.2%) were little changed as the euro (+0.2%) crossed the psychological level of 1.10 per U.S. dollar, in line with broader US dollar weakness after yesterday's US CPI report. USD positioning has turned more negative in recent weeks, but bearish positioning was slightly cut back last week as US recession fears persist.



The spread between 10-yr US rates and 10-yr German bund rates has dropped 40 bp from its 2023 high as contacts focus on potential divergence in inflation, growth, and policy. Whereas markets are pricing in around 3 more hikes of 25 bp for the ECB, no more rate tightening is expected from the Fed after May. Fed staff's projection at the time of the March FOMC meeting also included a mild recession starting later this year, with a recovery over the subsequent two years.



Euro area rates were little changed (just 1–2 bp higher) this morning as ECB policymakers are reportedly converging on a hike of 25 bp hike in May. According to Reuters, several factors are driving a potential stepdown from 50 bp hikes, including elevated uncertainty after last month's financial sector

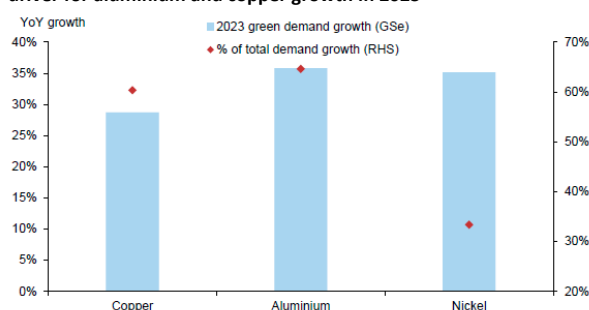
volatility, the transmission of previous tightening still taking place, and a preference to proceed on the “last mile” in small steps. Some ECB policymakers would prefer the ECB not to provide any guidance about its June move. Reportedly there are also some advocates for no change in May (mostly the same Southern European policymakers who did not support last month’s 50 bp increase) while others—also a small group—argue for another hike of 50 bp. In any case, wage growth remains a prime concern because labor markets are tight. This could fuel demands from workers who lost a large portion of real earnings the past two years.

Commodities

Green transition is expected to be a key driver of copper and aluminum demand, going forward.

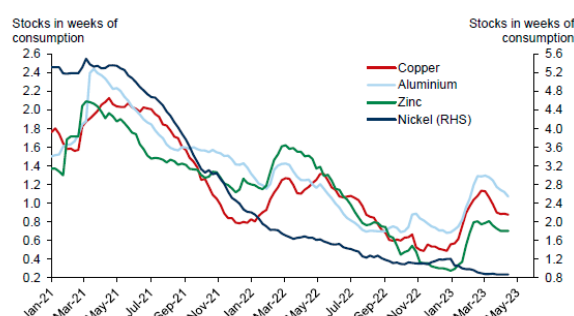
While demand for the two metals is likely to increase in 2023 with normalization of economic activity in China, transition to green technology is expected to play an incrementally bigger role going forward, as per a market report. It is estimated that the majority of incremental demand for copper (58%) and aluminum (65%) will be in the form of green demand growth. Further, green demand will be distributed across geographies including China, the Euro area and the US. However, owing to supply constraints and declining inventories, the market for these commodities is expected to remain tight.

Figure 1. Green channels (EVs and renewables) to remain the main driver for aluminium and copper growth in 2023



Source: Goldman Sachs Global Investment Research

Figure 2. Visible metal stock cover has fallen sharply from seasonal high in late February



Japan

Japanese stocks were broadly flat. Foreign investors bought a net ¥2.4t yen (\$18 bn) of Japanese stocks during the week ended April 7, the largest purchase on record. Separately, **Governor Ueda once again highlighted the risk of inflation slowing below the central bank’s target.** During a media meeting, Ueda reiterated it’s appropriate to conduct monetary policy by focusing on this risk. **Yields on 10Y bonds and the yen were little changed.**

Dollar-Yen Moves In Tandem With US Yield



Source: Bloomberg

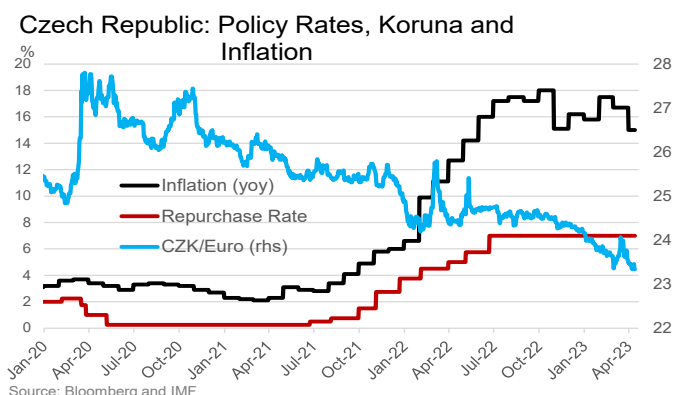
Bloomberg

Czech Republic

Czech assets were little changed despite a favorable inflation release and hawkish comments from Czech National Bank (CNB) board members. Inflation for March in the Czech Republic dropped to 15% y/y from 16.7% in February, meeting expectations and falling to its lowest level in 11 months.

Importantly, m/m inflation dropped to 0.1%, down from 0.6% in February. In media interviews today, two CNB board members, Jan Kubicek and Jan Prochazka, said that the CNB will continue to discuss whether to keep

rates unchanged or raise them further (the policy rate is currently 7%). Both emphasized the importance of labor market data for the outlook, with Kubicek saying that he would not be worried about wage growth below 10% but that a higher reading for all of this year would be an inflationary risk to which the CNB will have to react. Prochazka added that rates would need to rise, maybe at the next meeting, if activist policies by the Fed and ECB led to a narrowing of interest rate differential vs the euro that could weaken the koruna, which the CNB does not want. He added that the CNB should not ease monetary policy too soon and needs to keep rates elevated for a long time to cool the economy. The koruna is the fourth best performing emerging market currency this year, having appreciated 6.6% vs the dollar and 3.57% vs the euro.



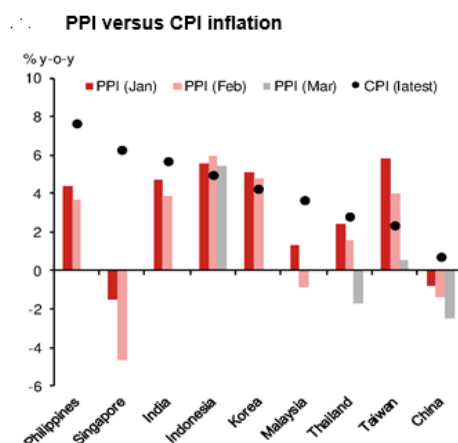
Emerging Markets

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Asian equities edged higher (+0.2%) on net. Chinese equities declined (Shanghai -0.3%, Shenzhen -0.9%) dragged by tech stocks on continued news reports that some foreign investors may be trimming their stakes in China's tech giants. **Asian currencies broadly gained.** The South Korean won strengthened 1.2%, followed by Indonesian rupiah (+0.9%). **South Korean FX authorities and the National Pension Service signed a FX swap agreement** that would enable NPS to ease FX volatility that comes from investing overseas. The FX swap deal of up to \$35 bn will last until the end of 2023 and aims to manage foreign funds more efficiently, the Bank of Korea and finance ministry said. **EMEA markets are subdued today.** Equity markets are subdued but with a positive tone, with South Africa (+0.5%) and Hungary (-1.4%) exceptions at both ends of the spectrum. While the South African rand is appreciating noticeably vs the dollar (+1.1% to 18.22/\$), other currencies in the region are trading in a very narrow range vs. their reference currencies. Local bond yields in central and eastern Europe are broadly stable, with Hungarian yields down 5 bp to 8.6% after shooting up more than 30 bp yesterday after inflation data for March surprised on the upside. **LatAm markets were up on Wednesday**, buoyed by the lower-than-expected US inflation print. The currencies of Brazil and Colombia outperformed their regional peers, appreciating another 1.8% and 1.3%, respectively, and closing at their highest levels since mid-2022. Other currencies also gained against USD. Most regional equities closed 0.6–0.9% higher, except in Mexico (-0.5%).

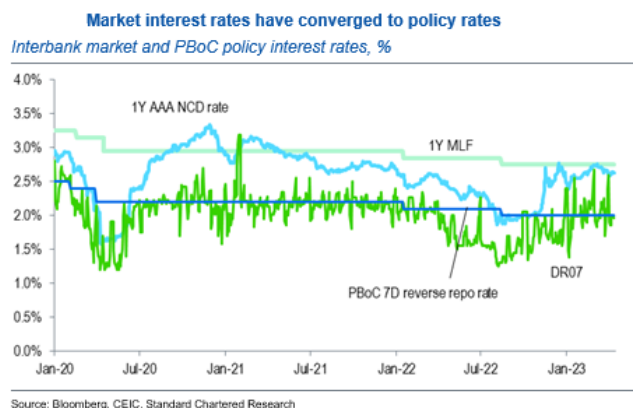
Asia

Disinflation in Asia is set to continue, and even accelerate suggesting that the monetary policy tightening cycle is over in Asia, according to Nomura. PPI inflation has been abating across most Asian countries and, in three of the four that have released March data, it has fallen sharply. Moreover, it recently sunk into deflation in Singapore, Malaysia, Thailand, and China. The cost benefits from falling producer prices (PPI) are likely to materialize in future CPI readings, barring the Philippines, and the window to policy easing could open later in the year.



China

Chinese equities declined (Shanghai -0.3%, Shenzhen -0.9%) dragged by tech stocks on continued news reports that some foreign investors may be trimming their stakes in China's tech giants. Separately, **China's exports unexpectedly rose in March +14.8% y/y** in US dollar terms (previous: -1.3%; consensus: -7.1%) as demand from most Asian countries and Europe improved and as the nation's factories resumed production, boosting the economy's outlook. Exports to ASEAN led with a 35.4% jump. **10Y yields and the renminbi were little changed**. Standard Chartered projected that a faster economic recovery and a largely stable banking system should support a solid CNY, more than offsetting the drag from weaker exports and lower rates as compared to advanced economies. Also, the yield gap between CNH CGBs and onshore peers is likely to narrow further on the front end.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy 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), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist-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 Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), 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.

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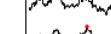










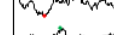






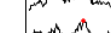

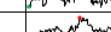












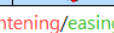
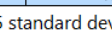
Global Financial Indicators

4/13/23 8:15 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4092	-0.4	0	6	-8	7
Europe		4350	0.4	1	6	14	15
Japan		28157	0.3	2	3	4	8
China		4069	-0.7	-1	2	-3	5
Asia Ex Japan		67	-1.1	-1	4	-9	4
Emerging Markets		39	-0.7	0	4	-12	4
Interest Rates			basis points				
US 10y Yield		3.44	4.5	13	-14	74	-44
Germany 10y Yield		2.39	2.0	21	13	162	-18
Japan 10y Yield		0.47	0.2	0	12	23	5
UK 10y Yield		3.59	1.8	16	22	179	-8
Credit Spreads			basis points				
US Investment Grade		162	-1.1	-1	-14	17	3
US High Yield		481	-3.0	-18	-43	84	1
Exchange Rates			%				
USD/Majors		101.39	-0.1	0	-2	2	-2
EUR/USD		1.10	0.2	1	3	1	3
USD/JPY		133.3	0.1	1	0	6	2
EM/USD		50.8	0.2	1	1	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		87.0	-0.3	2	8	-10	3
Industrials Metals (index)		158	0.9	2	0	-25	-4
Agriculture (index)		69	0.7	2	4	-10	1
Implied Volatility			%				
VIX Index (% change in pp)		19.0	-0.1	0.0	-7.5	-2.8	-2.6
US 10y Swaption Volatility		127.7	7.8	-6.8	-39.1	11.4	2.0
Global FX Volatility		9.6	0.0	-0.5	-1.3	0.6	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		189	1.1	-2	-15	-18	-16
Italy		186	1.7	1	-6	25	-28
Portugal		86	1.1	-1	-8	-14	-16
Spain		105	1.0	1	-6	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: 4/13/2023 8:16 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	-0.1	0	-7	0		3.1	1.5	3	-3	30	7
Indonesia		14746	0.9	1.1	4	-3	6		6.6	-2.3	-4	-21	-31	-32
India		82	0.3	0.1	0	-7	1		7.3	-5.3	6	-24	(44.9)	-13
Philippines		55	-0.1	-1.6	-1	-6	1		5.9	-2.5	-3	-10	68	-8
Thailand		34	0.1	0.0	1	-2	2		2.6	0.5	-3	10	-4	-8
Malaysia		4.40	0.2	-0.1	2	-4	0		3.8	-3.5	-3	-7	-22	-21
Argentina		214	-0.2	-1.4	-6	-47	-17		89.5	19.1	56	48	3944	130
Brazil		4.92	0.0	2.8	7	-5	7		12.7	11.7	-8	-41	81	13
Chile		804	0.3	1.0	0	0	6		5.2	0.0	7	6	-114	-13
Colombia		4452	1.3	2.7	7	-16	9		8.8	0.0	19	-60	88	-101
Mexico		18.09	-0.1	0.9	5	9	8		8.3	0.0	4	-37	-37	-39
Peru		3.8	0.2	-0.2	1	-1	1		7.5	-0.4	3	-42	18	-50
Uruguay		39	0.0	0.0	2	7	3		10.3	0.0	0	0	103	-36
Hungary		340	0.2	1.1	8	2	10		8.4	-17.0	20	18	215	-120
Poland		4.20	0.7	2.0	4	1	4		5.6	10.6	29	37	35	-58
Romania		4.5	0.1	0.8	2	1	3		7.2	3.2	5	-2	78	-46
Russia		81.8	0.6	-0.3	-8	1	-9							
South Africa		18.2	1.5	0.5	0	-20	-6		9.2	1.0	15	7	117	5
Turkey		19.33	-0.1	-0.4	-2	-24	-3		12.9	21.0	222	165	-1103	306
US (DXY; 5y UST)		101	-0.1	-0.5	-2	1	-2		3.50	3.6	12	-20	85	-51

	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		4069	-0.7	-1	2	-3	5		195	2	24	-12	18
Indonesia		6786	-0.2	0	2	-6	-1		151	-13	-15	-23	11
India		60431	0.1	1	4	4	-1		167	4	14	2	25
Philippines		6449	-0.3	-1	1	-8	-2		126	-13	-8	5	29
Thailand		1593	0.0	0	1	-5	-5		0	0	0	0	0
Malaysia		1434	0.0	1	3	-10	-4		101	1	5	-14	1
Argentina		266850	2.6	5	18	193	32		2394	-49	97	660	189
Brazil		106890	0.6	5	4	-8	-3		280	0	0	-9	6
Chile		5353	0.9	2	0	9	2		144	-7	-9	-4	12
Colombia		1232	0.9	5	7	-24	-4		406	6	-16	64	34
Mexico		54333	-0.5	1	2	0	12		394	-9	-2	47	13
Peru		22283	0.0	2	3	-6	4		190	-7	-4	14	10
Hungary		42844	-1.2	-2	3	0	-2		238	0	2	78	16
Poland		60694	0.7	3	4	-5	6		84	1	-3	72	11
Romania		12462	0.2	1	2	-2	7		261	-2	4	56	5
South Africa		78151	0.5	1	4	7	7		428	1	34	88	61
Turkey		5182	0.7	5	-3	111	-6		504	-12	26	-36	64
Ukraine		507	0.0	0	0	-2	-2		5090	54	290	2002	1011
EM total		39	0.3	0	4	-12	4		416	-4	7	30	40

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

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