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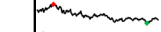

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EMs Breathing a Sigh of Relief: Malaysia's Inflation Eases, Uruguay Cuts Rates

Yesterday, US equities closed nearly flat after recovering from a sell-off caused by mixed earnings reports and higher-than-anticipated UK inflation data. Tesla's stock fell over 5% due to lower-than-expected Q1 profits. The Fed's Beige Book survey indicated a slowdown in the US economy, with hiring and inflation slowing and lending standards tightening. US Speaker Kevin McCarthy proposed a bill to raise the debt ceiling by \$1.5tn, while the results of the 4-month T-Bill auction reflected market participant apprehension over the US Treasury's cash reserves as reflected by the elevated 5.06% award yield and muted primary dealer take-up given that the auctioned bill matures at a time when the US Treasury might have exhausted its cash and extraordinary measures. In the Euro Area, hawkish speak emerged from officials, which prompted 10-year German bund yields to rise +30 bps to 2.46% in the last 10 days as the narrative shifts back to inflation. For today, market participants await the release of the March ECB meeting minutes for hints about the duration of the tightening cycle. In Japan, the March trade deficit unexpectedly narrowed, while the Bank of Japan showed concerns over changes in the Yield Curve Control framework. Emerging markets saw early signs of inflation topping out, with Malaysia's March CPI moderating and Uruguay's central bank unexpectedly cutting its policy rate, which some analysts view as a start of a wider policy rate cutting cycle among central banks in Latin America.

Key Global Financial Indicators

Last updated: 4/20/23 8:53 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		4155	0.0	2	5	-7	8	-2
Eurostoxx 50		4370	-0.5	0	6	12	15	10
Nikkei 225		28658	0.2	2	6	4	10	8
MSCI EM		39	-1.0	0	4	-10	4	-17
Yields and Spreads			bps					
US 10y Yield		3.54	-5.3	9	5	71	-34	155
Germany 10y Yield		2.47	-4.5	10	35	161	-10	224
EMBIG Sovereign Spread		485	5	-3	-24	80	33	73
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.5	0.2	-1	2	-5	1	-5
Dollar index, (+) = \$ appreciation		101.9	-0.1	1	-1	1	-2	6
Brent Crude Oil (\$/barrel)		81.8	-1.6	-5	11	-23	-5	-16
VIX Index (% change in pp)		17.6	1.1	0	-7	-3	-4	-13

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

This morning, initial and continuing jobless claims came in broadly in line with expectations: initial 245k (expected 240k) and continuing 1865k (expected 1825k). The Philadelphia Fed Business Outlook Survey Diffusion Index unexpectedly fell to -31.3 (expected -19.3), prompting 10y Treasury yields to fall by 3 bps to 3.54% and the US Dollar to fractionally appreciate while the S&P 500 futures pre-market gained +0.1% following the release.

Yesterday, US stocks and bonds remained virtually unchanged. The S&P 500 closed flat while US Treasury 10Y yields rose by 1 bps. The Fed's Beige Book suggested that the US economy stalled in recent weeks, with the slowing hiring and inflation and the narrowing access to credit.

The pace of rating downgrades from investment grade to speculative is the highest since 2020. In 1Q23, a total of \$11.4 billion of bonds were downgraded to high yield status, a figure that's about 60% of 2022's full-year total (left chart with projections for the whole 2023 year). However, overall, credit rating upgrades keep exceeding downgrades (right chart), but by a lower amount than before.

Fallen Angels on the Rise

US blue-chip bonds downgraded to junk on track for highest since 2020

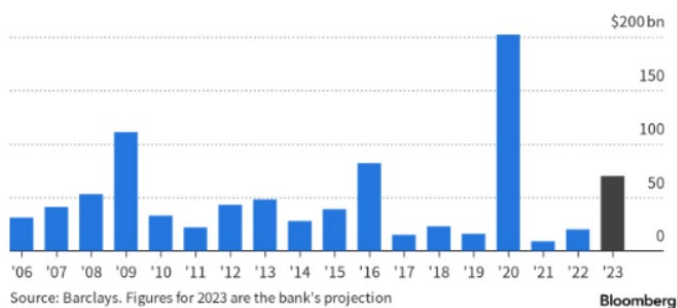
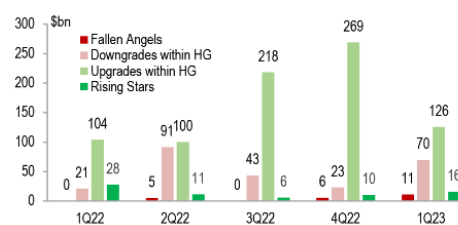
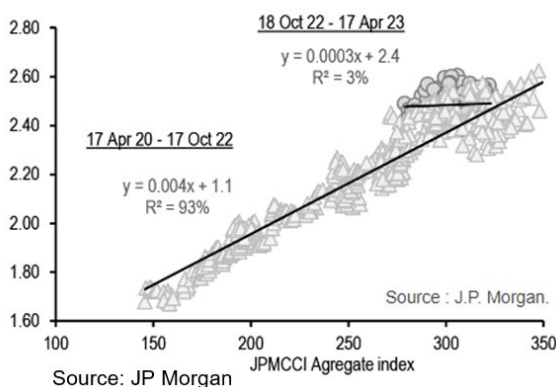


Figure 144: Upgrades in 1Q23 exceeded downgrades once again, but by a lower amount than in 2H22



Market-based medium-term inflation expectations have decoupled from commodity prices. JPMorgan analysts point out that the 5y5y forward rates embedded in inflation swaps have left their previously tight empirical relationship to commodity prices. The current levels of medium-term forward inflation have stabilized in the 2.4-2.6% range (right chart), only slightly above the long-term inflation target

Figure 3: 5Yx5Y inflation swaps have decoupled from commodity price moves over the past 6 months



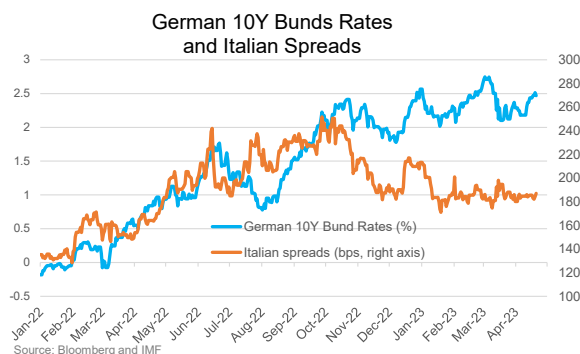
Euro Area

In a quiet trading session so far, European markets declined with the exception of bond markets.

The broad equity market (Stoxx Europe 600) is losing -0.4%, with Germany's stock market leading the decline with a contraction of -0.8%. The Euro traded flat against the US Dollar and German 10y bund yields declined by -5 bps to 2.46% while Italian spreads are up +2 bps to 186 bps. Analysts will be looking for hints about the duration of the tightening cycle in today's release of the March ECB meeting minutes.

ECB officials continue hawkish speak as the narrative shifts back from banking turmoil to inflation.

During the last 10 days, receding fears of the banking turmoil have gone hand in hand with the focus shifting back to inflation, prompting German 10y Bund yields to snap back by almost +30 bps to 2.46%. Yesterday, Dutch governor Knot stated that the ECB might need to raise interest rates in May, June and July, and that it appeared too early to contemplate a pause. He added that he would need to see a convincing reversal in underlying-inflation dynamics for a pause, and that he is "not uncomfortable" with the current market pricing of the terminal rate, which is for 75–80 bps of additional hikes to land at a terminal rate of 3.75%. Spanish governor De Cos further stated that the ECB will have to continue raising rates if the baseline scenario of the March projections is confirmed. ECB official Isabel Schnabel strokes a somewhat different tone, stating that elevated uncertainty makes the outcome of the next ECB meeting hard to predict, and that of the following meetings even harder. She suggested said that it would be careful to monitor the additional impact on landing that could be brought about by the uncertainty in the banking sector. Today, additional remarks from Isabel Schnabel, Austrian governor Holzman and Portuguese governor Visco will be released.



Australia

The Reserve Bank of Australia (RBA) will implement major changes after an independent review.

The findings of this independent review, which marks the first in 40 years, have been announced today. Treasurer Jim Chalmers announced that in principle, all 51 recommendations to improve the RBA's monetary policy decision-making, governance, communication, accountability, and culture will be adopted. Among the most important recommendations are those pertaining to the RBA's organizational set-up, which recommend two boards. Namely, a new specialist monetary policy board will be comprised of independent experts, seeking to ensure that the views of RBA officials can be tested and challenged. Separately, a new governance board will be created to oversee the RBA's operations, including in areas such as technology, human resources, and risk. The Australian dollar appreciated (+0.1%); equities were little changed meanwhile long-end government bond yields dropped (10-year: -1.9 bps).

Japan

Japan's March trade deficit narrowed for a second month as import costs fell on easing fuel prices.

In contrast to an expected widening to ¥1294 bn (\$9.6 bn), the trade deficit shrank to ¥754 bn (\$5.6 bn) from a slightly upward revised ¥898 bn (\$6.7 bn) in February. Imports grew 7.3% y/y, the smallest increase in two years, thanks to and falling commodity prices. Meanwhile, exports grew 4.3% y/y, led by car shipments.

Long-end JGBs yields edged up after a weaker-than-expected bond auction. A 20-year bond auction drew a lower-than-expected cut-off price, coinciding with 20- and 30-year JGB yields increasing by +0.6 bps and +2.1 bps to XYZ and XYZ.

Bank of Japan officials are wary of tweaking the yield curve control at the policy meeting next week. While the recent global banking stress clouded the economic outlook, a Bloomberg article states that Bank of Japan appear apprehensive to adjustments of the currently applicable +/- 0.5% range band for the 10-year maturity yield. Analysts noted that markets may have unwound their bets on a policy tweak. The 10-year JGB yield dropped by -1.1 bps to 0.465%.

Bank of Japan 10-Year YCC Band Ueda says changes will likely be gradual

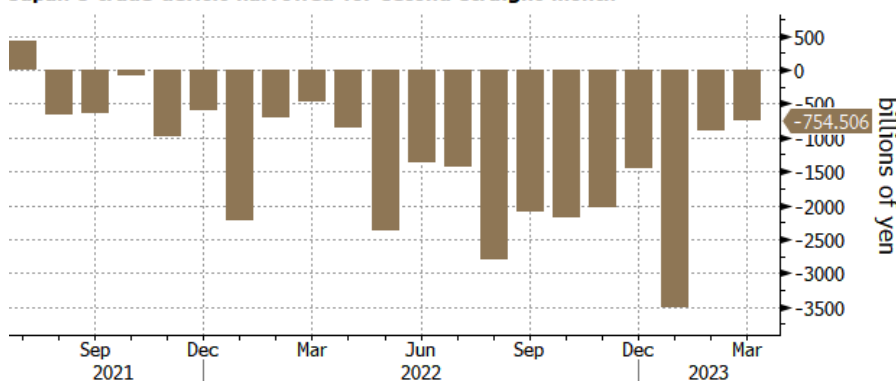


Source: Bloomberg

Prime Minister Kishida ruled out sales tax hikes. He indicated that his government has no intention to raise the sales tax to boost military spending and provide financial incentives to help lift the birthrate. The Japanese yen appreciated by +0.1% versus the US dollar while Japanese equities gained +0.2%.

Smaller Gap

Japan's trade deficit narrowed for second straight month



Source: Ministry of Finance

Bloomberg

Emerging Markets

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In Asia, most stock markets fell whereas currencies appreciated. Except for the Philippine stock market, which rose by 1.1%, most stock markets in Asia fell as Taiwan Semiconductor Manufacturing Company reported a worse-than-expected revenue forecast for the current quarter. Asian currencies, including the Philippine peso, Thai baht, and Korean won, appreciated. The Malaysian ringgit rose by 0.1% as March CPI inflation was moderating to 3.4% y/y (expected 3.6%) from 3.7% y/y in February.

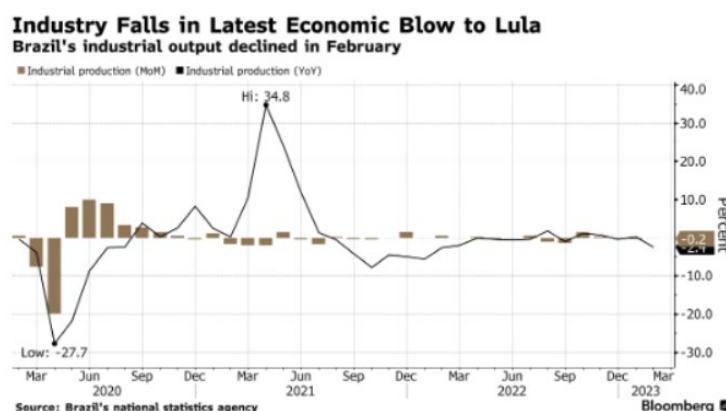
In EMEA, Equities and currencies generally edged higher in quiet trading. In Hungary, the forint little changed following the central bank's signal yesterday that it plans to start a "multi-step" interest

normalization process. Hungary's government is reportedly also planning to force large food retailers to cut the prices of some basic items. Kenya canceled an auction of a re-opened 15-yr local bond sale in response to low investor demand and high-yield bids from investors.

Most Latin American stock markets finished in the red while currencies were mixed. Equities had the greatest losses in Argentina, Brazil and Chile, declining -3.1%, -2.1% and -1.0%, respectively. The Brazilian real, Colombian peso, and Argentine peso depreciated by -1.8%, -0.7%, and -0.3%, respectively, whereas the Chilean peso appreciated by +0.2% and the Mexican peso remained flat.

Brazil

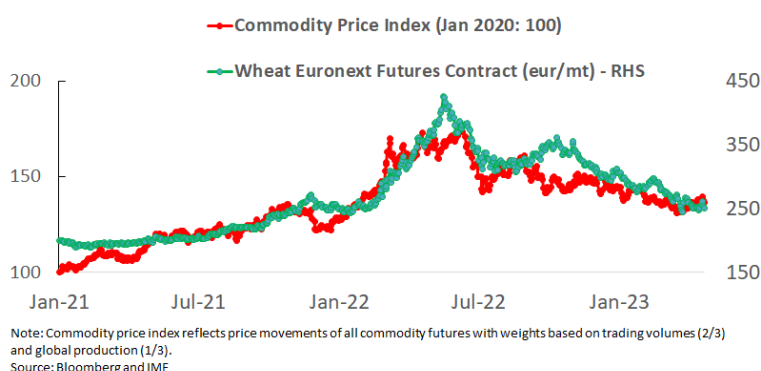
Brazilian assets sink after new fiscal framework and lower-than-expected industrial production. President Lula sent a bill for a new fiscal framework regarding his public spending plan to congress Tuesday, revealing some unease of investors. Furthermore, February industrial output declined -2.4% y/y (expected -2.1%). Brazilian assets fell Wednesday, with the Ibovespa Index contracting -2.1% and the Brazilian real underperforming regional peers by declining -1.8%.



Ukraine

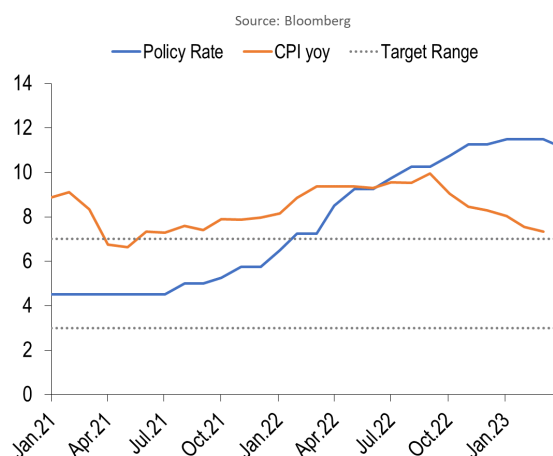
The European Commission (EC) will reportedly limit Ukraine's grain exports to neighboring EU countries to transit purposes only. According to media reports, the EC is planning an additional support package of €100 mn for farmers in all of Ukraine's five neighboring countries. Yesterday, Bulgaria became the latest country to temporarily ban the import of Ukrainian grain to protect its domestic farmers. Wheat futures prices on Euronext have dropped over 20% so far this year and are trading close to levels observed before Russia's invasion of Ukraine (see chart below).

Commodity and wheat futures



Uruguay

In an unexpected decision, Uruguay's central bank has cut policy rate 25 bps to 11.25%. Consensus expected the central bank to leave its policy rate unchanged at 11.5%. With its latest decision, Uruguay's central bank becomes the bellwether for rate cuts in Latin America. The policy rate was left unchanged in February after hiking by 7% since August 2021. The central bank cut its interest rate as the decline in CPI since September has been approaching the 7% upper bound of the target range. This was preceded by the release of the March CPI on April 3, which came in at 7.33% y/y, the lowest level since July 2021.



China

The loan prime rates (LPRs) stayed unchanged as expected, with 1-year LPR at 3.65% and 5-year LPR at 4.3%. The People's Bank of China (PBC) pledged to ensure that interest rates are appropriate, and that credit remains stable. Today, the PBC injected interbank liquidity in an amount of 25 bn yuan (\$3.6 bn), while the key interbank repo rate (DR007) was little changed at 2.13%. Separately, mortgage rates will decline further as 83 cities lowered the first-home mortgage rate floor, while other 12 cities removed the floor. **In Liaoning province, the government plans to issue special bonds to replenish capital of local banks.** The bond issuance would amount to 25 bn yuan (\$3.6 bn). Equities declined (CSI 300: -0.3%); Chinese yuan appreciated (+0.1%).

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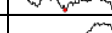




















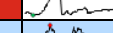

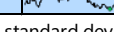




Global Financial Indicators

4/20/23 8:23 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4138	0.0	0	5	-7	8
Europe		4370	-0.5	0	6	12	15
Japan		28658	0.2	2	6	4	10
China		4113	-0.3	1	3	3	6
Asia Ex Japan		68	-0.9	0	4	-6	4
Emerging Markets		39	-1.0	0	4	-10	4
Interest Rates			basis points				
US 10y Yield		3.57	-1.7	13	9	74	-30
Germany 10y Yield		2.49	-2.4	12	37	163	-8
Japan 10y Yield		0.47	-1.1	0	22	22	5
UK 10y Yield		3.84	-2.0	26	53	192	16
Credit Spreads			basis points				
US Investment Grade		159	1.3	-1	-21	10	0
US High Yield		474	6.4	4	-62	89	-6
Exchange Rates			%				
USD/Majors		102.07	0.1	1	-1	2	-1
EUR/USD		1.09	-0.2	-1	2	1	2
USD/JPY		134.8	0.1	2	3	5	3
EM/USD		50.5	0.0	-1	1	-5	1
Commodities			%				
Brent Crude Oil (\$/barrel)		81.9	-1.5	-5	11	-12	-3
Industrials Metals (index)		160	-0.5	1	4	-24	-3
Agriculture (index)		69	-1.2	0	3	-11	0
Implied Volatility			%				
VIX Index (% change in pp)		17.5	1.0	-0.3	-6.7	-2.9	-4.2
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	14.6	7.0
Global FX Volatility		9.2	0.0	-0.3	-1.9	0.0	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		184	2.4	-6	-14	-20	-21
Italy		188	3.2	3	2	23	-26
Portugal		85	1.8	-1	-3	-13	-16
Spain		104	1.3	0	-3	10	-5

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

Emerging Market Financial Indicators

Last updated: 4/20/2023 8:24 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	0.1	-0.2	0	-7	0		3.2	1.0	2	12	27	9
Indonesia		14845	-0.4	0.3	3	-3	5		6.7	1.1	2	-23	-31	-27
India		82	0.1	-0.4	1	-7	1		7.4	-10.8	3	-3	(38.8)	-9
Philippines		56	0.4	-1.3	-2	-6	-1		6.0	0.0	3	-3	68	-5
Thailand		34	0.3	-0.4	-1	-2	1		2.6	-2.5	9	27	3	1
Malaysia		4.44	0.1	-0.8	1	-3	-1		3.8	-3.6	0	-8	-36	-21
Argentina		217	0.0	-1.3	-6	-48	-19		89.1	-69.5	-37	-177	3867	94
Brazil		5.08	0.0	-2.9	3	-9	4		12.7	-8.1	31	-50	68	15
Chile		794	0.2	1.2	4	3	7		5.3	0.0	11	32	-112	-5
Colombia		4521	-0.7	-1.6	7	-17	7		8.9	0.0	19	-14	82	-85
Mexico		18.11	-0.3	-0.5	4	10	8		8.5	-4.0	17	-3	-16	-19
Peru		3.8	0.0	0.0	0	-2	1		7.5	0.0	4	-13	-3	-45
Uruguay		39	-0.4	-0.8	0	5	2		10.3	-0.7	-6	-9	85	-42
Hungary		346	-0.1	-2.3	6	-1	8		8.0	-21.0	-35	-38	149	-158
Poland		4.22	0.0	-0.5	4	1	4		5.6	-0.3	7	34	17	-53
Romania		4.5	-0.2	-0.9	2	1	2		7.3	-2.2	6	5	86	-40
Russia		81.7	0.1	0.1	-6	0	-9							
South Africa		18.1	0.4	-0.5	2	-17	-6		9.3	1.5	18	41	113	18
Turkey		19.40	0.0	-0.4	-2	-24	-4		12.2	0.0	-83	35	-979	234
US (DXY; 5y UST)		102	0.1	1.1	-1	2	-1		3.67	-2.8	17	8	81	-33

	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		4113	-0.3	1	3	3	6		194	-1	12	-12	17
Indonesia		6822	0.0	0	2	-5	0		149	-2	-17	-13	9
India		59632	0.1	-1	3	3	-2		157	-10	-20	-12	15
Philippines		6520	1.1	1	0	-8	-1		124	-2	-13	8	27
Thailand		1565	-1.0	-2	-1	-7	-6		0	0	0	0	0
Malaysia		1422	-0.2	-1	1	-11	-5		101	0	-2	-13	1
Argentina		275406	-3.1	3	25	198	36		2675	281	278	987	470
Brazil		103913	-2.1	-3	3	-9	-5		270	-10	-26	2	-4
Chile		5423	-0.9	1	5	9	3		141	-3	-15	-4	9
Colombia		1248	-0.6	1	12	-24	-3		401	-5	-48	57	29
Mexico		54308	-0.1	0	5	1	12		391	-3	-32	39	10
Peru		22501	0.0	1	5	-5	5		187	-3	-11	21	7
Hungary		43321	0.1	1	5	0	-1		232	-6	-27	92	10
Poland		62931	0.8	3	11	0	10		81	-3	-28	80	8
Romania		12430	-0.3	0	3	-4	7		257	-4	-26	62	1
South Africa		78601	-0.2	0	6	7	8		418	-10	-14	87	51
Turkey		5012	-1.0	-2	1	98	-9		503	-1	12	-9	63
Ukraine		507	0.0	0	0	-2	-2		5129	39	191	1716	1050
EM total		39	-0.4	0	4	-10	4		420	4	-13	40	44

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

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