



- **Unexpectedly strong US business activity data reignites inflation concerns** ([link](#))
- **FSOC proposes tighter oversight of nonbanks posing systemic risk** ([link](#))
- **The Chicago Board of Exchange launches the One-Day VIX** ([link](#))
- **German public-sector wage settlement to increase wage growth** ([link](#))
- **Chinese domestic jet fuel demand has recovered to pre-pandemic level** ([link](#))
- **Mexico returns to capital markets, issuing 30-year bonds** ([link](#))

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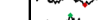
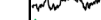

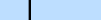




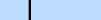
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US Regional Lenders Face Rocky Waters After Moody's Downgrades

Moody's downgrades US regional lenders, while inflation concerns resurface. In the US, Moody's Investors Service downgraded eleven regional lenders, suggesting higher interest rates and recent bank failures have ushered in greater instability. The Financial Stability Oversight Council proposes tighter oversight of nonbanks, effectively changing Trump-era guidance while on the data front, the strength in latest PMIs reignited inflation concerns. At the 1-month maturity point, T-Bills have richened as they are seen as relatively immune to debt ceiling issue while market contacts note that some MMFs have surpassed their counterparty ceiling at the Fed's Overnight Reverse Repo Facility. In Europe, German's public sector staff reached a settlement in their wage negotiations, which reflects a large wage increase by historical standards, which some market contacts some analysts perceive as portending an entrenchment of wage growth that becomes skewed to the upside. S&P upgraded its credit outlooks for the UK and Greece while reaffirming that for Italy. Hungary local bond yields sharply declined ahead of the central bank's meeting tomorrow. In other parts of the world, Chinese domestic jet fuel demand has recovered to pre-pandemic level while Mexico returned to international capital markets with a 30-year bond issuance.

Key Global Financial Indicators

Last updated: 4/24/23 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		4134	0.1	0	4	-3	8	-2
Eurostoxx 50		4408	0.0	1	7	15	16	11
Nikkei 225		28594	0.1	0	4	8	10	8
MSCI EM		39	-0.9	-2	1	-8	3	-18
Yields and Spreads			bps					
US 10y Yield		3.53	-3.8	-7	16	64	-34	154
Germany 10y Yield		2.49	0.6	1	36	152	-8	226
EMBIG Sovereign Spread		490	-2	12	-3	79	38	77
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.5	-0.1	0	0	-4	1	-5
Dollar index, (+) = \$ appreciation		101.7	-0.1	0	-1	0	-2	6
Brent Crude Oil (\$/barrel)		81.5	-0.2	-4	9	-24	-5	-16
VIX Index (% change in pp)		17.5	0.7	1	-4	-11	-4	-14

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

In the week ahead, market participants are attentive to Q1 GDP in the US (Thu) and in the euro area (Fri). US investors focus on US corporate earnings, especially among tech giants, including Alphabet, Microsoft, and Meta Platforms. Analysts expect tech profits to drop the most since the GFC, with the economy cutting spending on IT services amid higher inflation and elevated funding costs. Meanwhile, cost cutting, including layoffs, and the potential impact of AI on creating corporate value can serve as supporting factors. On the monetary policy front, new BoJ Governor Kazuo Ueda presides over his first meeting on Friday. Most analysts do not expect any policy change, but some speculate a policy tweak on yield curve control as new forecasts will probably include a higher inflation view for FY23 and FY24 with recognition of higher wage settlements. Elsewhere, central bankers will meet in Sweden (Wed), Turkey (Thu), Ukraine (Thu), Russia (Fri), and Colombia (Fri).

Mature Markets

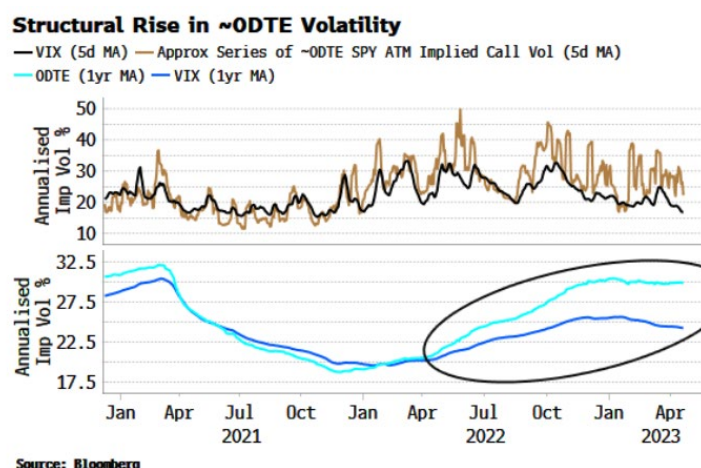
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United States

Latest PMI data reignites inflation concerns. The latest April data release of the S&P Global US composite PMI that on Friday amounted to 53.5 (expected 51.2). It reflects an eleven-month high, and inflation concerns resurfaced following the release as exemplified by Treasury yields, which rose to finish the week higher. At the 2-year maturity point, yields jumped by 10 bps following the headlines, and the market-implied December 2023 Fed Funds rate increased by 10 bps to 4.6%. Equities were initially lower but recovered later in the day, finishing the week almost unchanged. High yield corporate bond spreads narrowed for the day but ended the week 8 bps wider.

Treasury Secretary Yellen announced a proposal that may classify nonbanks as systemic. The proposal by the Financial Stability Oversight Council would revise the way nonbank firms are designated as systemically important institutions, effectively changing Trump-era guidance. The current designation process could take six years to complete. She said it is an unrealistic timeline that could prevent the council from addressing an emerging risk to financial stability before it is too late.

The CBOE will launch a One-Day volatility index (VIX1D) today, giving investors a better picture of short-term risks in the stock market. The VIX reached its lowest at 16.2 since 2021, while volatility embedded in zero day to expiry (0DTE) options has been structurally rising versus VIX. According to Bloomberg analysts, the VIX has become unrepresentative of short-dated market risks as trading in 0DTE options has overtaken the trading activity in longer-dated option maturities that the VIX captures. They compare this phenomenon to a serene duck floating on a pond, while ignoring the frantic paddling of its legs under the water. As outlined in this year's Spring GFSR, this trend raises financial stability concerns as traders can increase their leverage through 0DTE options without clear margin regulations.



Euro Area

This morning, the Euro and European equities traded flat whereas sovereign spreads tightened.

The euro fractionally strengthened to the dollar by +0.2%. At sectoral level, stocks in the financial services sector gained +1.0% whereas the telecommunications and energy sectors saw the largest declines, declining -0.7% and -0.6%, respectively. Sovereign spreads slightly tightened this morning following S&P raising the credit outlook for Greece to positive from stable and while affirming Italy's outlook as stable.

ECB officials continued their hawkish commentary. The ECB's Governing Council member Pierre Wunsch cautioned that investors are underestimating the extent of future ECB hiking and hinted at the possibility that the deposit rate could reach 4%. According to an FT article, he would only agree to stop raising rates once wage growth starts to ease. Separately, ECB's Executive Board member Fabio Panetta also warned that geopolitical shocks could result in persistent volatility of output and inflation. Market contacts generally expect a 25 bps hike at the upcoming ECB meeting on May 4 but point out that the size of the hike is likely to depend on April inflation data as well as the ECB bank lending survey—set to be published two days ahead of the ECB meeting. This compares to a 33 bps rate hike being currently priced in for the ECB's meeting on May 4 and a terminal rate at 3.75%.

German public-sector wage negotiations reached a settlement. It is seen as likely that wage increases will significantly increase average wage growth. While public sector staff is set to receive no permanent wage increase this year, they will receive staggered one-time payments totaling €3000 through February 2024. From then onwards, salaries are set to increase by €200 and then a 5.5% increase on the new wage. As the public sector staff is comprised by 2.5 mn employees, Barclays analysts highlight the importance of the negotiations and see the settlement equivalent to a public sector wage growth of 5% y/y, which corresponds to a relatively high wage increase by historical standards. While uncertainty remains about the extent to which the settlement will affect wage growth on aggregate, some analysts perceive that it portends that entrenchment of wage growth becomes skewed to the upside.

Figure 1. At face value, the agreement stipulates no regular pay growth until 2024...



Source: Barclays Research

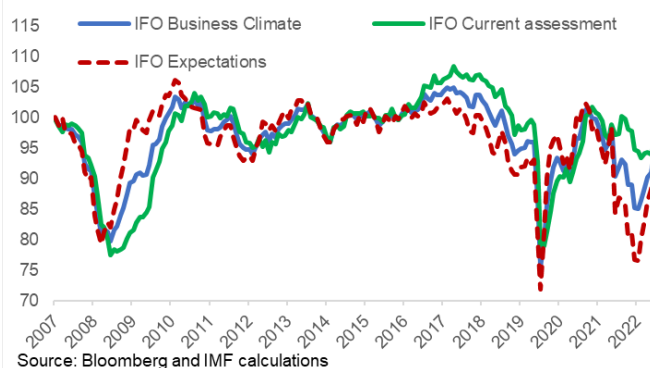
Figure 2. ...however, we think it is more economically meaningful to redraw the line between one-offs and regular pay



Source: Barclays Research

Germany's Ifo business expectations component further improved. While the assessment of current conditions deteriorated, the expectations component improved for the sixth consecutive month. Market contacts caution that despite the improvement, the index remains at historically tepid levels that have been seen rather during recessions or downturns.

Germany: IFO Business surveys

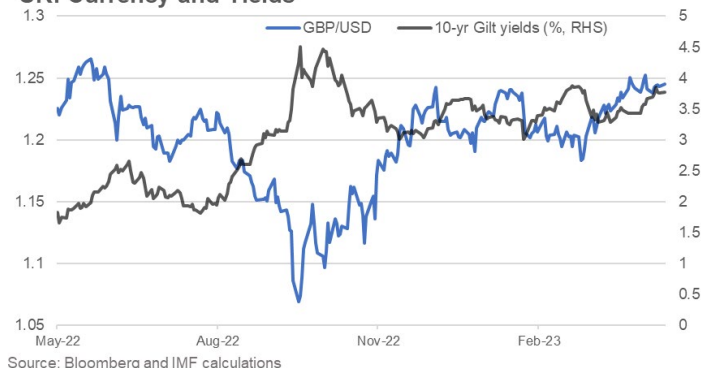


United Kingdom

This morning, the pound appreciated, and Gilt yields edged higher at the 10-year maturity point. The pound strengthened +0.1% to 1.245 while Gilt yields increased +2 bps to 3.78%.

Because of moderating fiscal risks, S&P increased UK's credit outlook to stable from negative. The rating agency noted on Friday that the government's decision to abandon a large part of the unfunded budgetary measures that were proposed in September 2022 strengthened the fiscal outlook, with lower energy prices also leading to significantly lower costs of the government energy support scheme. S&P forecasts the general government deficit to amount to 3.7% relative to GDP on average over 2023–25 (compared to a 5.5% forecast in September 2022). The rating agency sees a modest contraction in the UK economy in 2023 with reduced near-term downside economic risks, while medium-term growth is expected to remain below historical averages.

UK: Currency and Yields

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Asia's markets were flat, except for the Indonesian Rupiah that depreciated -0.4% against the U.S. dollar and stock markets that declined -1.2% by in China while gaining 1.2% in Philippines.

EMEA markets traded subdued. Currencies traded narrow with an appreciating bias. Equities increased in Turkey and South Africa by +0.8% and +0.55% while contracting in Hungary and Poland -1.1% and -0.2%.

Latin American equity markets underperformed, and CDS spreads widened on Friday. In currency markets, the Brazilian real and Mexican peso depreciated against the U.S. dollar.

Emerging Market Fund Flows

Flows to EM bonds and equities totaled \$1.7 bn last week, and \$41.6 bn year-to-date. EM bonds reported inflows of \$0.4 bn for the first time in nine weeks, with inflows totaling \$2.6 bn year-to-date, driven by local-currency bond funds in EM ex-China. EM equity inflows of \$1.3 bn accelerated this week compared to last week, and totaled \$39 bn YTD, driven by inflows into Brazil, Indonesia, and South Africa (left and right chart), according to JP Morgan analysts.

Exhibit 1: Weekly Cross-Asset Flows

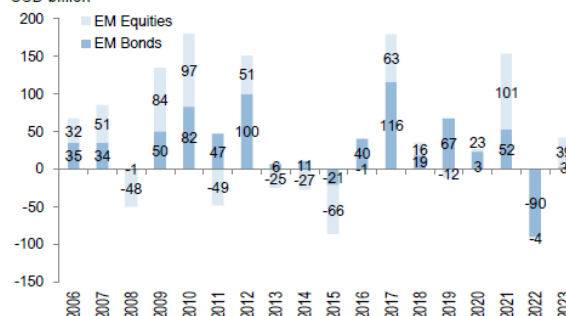
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	1.7	1.7	41.6
EM Bonds	0.4	0.4	2.6
Hard Ccy	-0.1	-0.1	2.6
Local Ccy ^A	0.6	0.6	0.0
o.w. EM ex-China	0.6	0.6	1.3
o.w. China	-0.1	-0.1	-2.2
EM Equities	1.3	1.3	39.0
US HG	3.8	3.8	97.7
US HY	3.1	3.1	-4.4
Global Equities	0.0	0.0	-28.2
EM Bond and Equity ETFs	1.7	1.7	26.0
EM Bond ETFs	0.3	0.3	0.2
EM Equity ETFs	1.4	1.4	25.8
Non-resident EM flows*	0.2	0.2	21.7

*High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows

USD billion

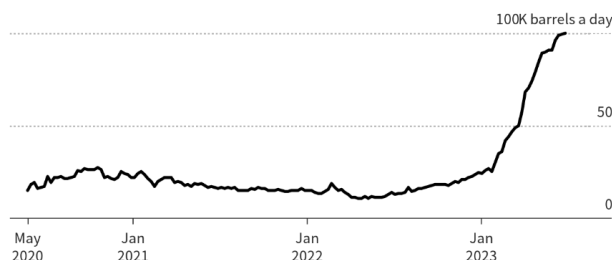


China

Chinese domestic jet fuel demand has recovered to pre-pandemic level and international demand recovered about 70%. As the May Golden Week holiday is close by, traders are closely monitoring the air travel recovery. Records show that overseas ticket searches are 120% of 2019 and actual bookings were more than ten times last year, as of April 18. Crude has fallen more than 5% last week, as the US economy stalls, and while analysts expect more rate hikes. Market contacts see China's jet fuel consumption as the single biggest driver of global oil demand growth this year. The significant increase in air travel demand in Golden Week holiday will indicate the recovery and support the bullish views that some analysts have on oil prices.

China's Jet Fuel Demand to Surge

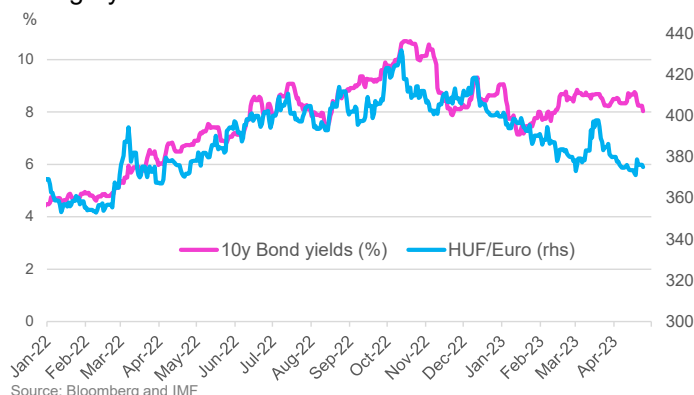
Demand from overseas flights to jump 74% this quarter



Hungary

Ahead of the central bank's meeting tomorrow, Hungary local bond yields sharply declined. Today, yields at the 10-year maturity point plummeted -21 bps to 7.97% today, continuing their trend from last week which was sparked by recent remarks by Vice Governor Barnabás Virag recently stating that Hungary's Central Bank could start cutting the top rate of its interest corridor while the central bank is set to meet tomorrow. At that occasion, market participants expect expect more clarity on the monetary policy outlook tomorrow. The move was further amplified this morning by Minister of Justice Judit Varga announcing that Hungary had reached a technical agreement with the EU on judicial reforms, which are a pre-requisite for the EU to disburse funding to Hungary (€22 billion in cohesion funds, €5.8 billion in Covid recovery funds and another €10 billion in recovery loans are at stake).

Hungary: Forint and Bond Yields



Mexico

Mexico returns with 30-year bonds. Mexico raised \$1.35 bn from the sale of new bonds due in 2053 to repurchase bonds worth \$1.96 bn to buy five series of notes that mature between 2041 and 2052. This was Mexico's second bond issuance in international capital markets this year. Brazil's central bank president, Campos Neto, defended central bank independence and pushed back against political criticism that interest rates are too high. The central bank has held the benchmark policy rate at 13.75% since August 2, 2022, even as headline inflation trended down. Campos Neto noted that rates are where they need to be to rein on demand-driven inflation. Bloomberg analysts note that while nominal rates may appear elevated, real rates are not appearing elevated by historical standards.

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

4/24/23 8:55 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4131	0.1	0	4	-3	8
Europe		4408	0.0	1	7	15	16
Japan		28594	0.1	0	4	8	10
China		3983	-1.2	-4	-1	4	3
Asia Ex Japan		67	-1.0	-2	0	-5	3
Emerging Markets		39	-0.9	-2	1	-8	3
Interest Rates			basis points				
US 10y Yield		3.53	-3.8	-7	16	64	-34
Germany 10y Yield		2.49	0.6	1	36	152	-8
Japan 10y Yield		0.47	0.0	-1	16	22	5
UK 10y Yield		3.77	0.8	8	48	180	9
Credit Spreads			basis points				
US Investment Grade		158	0.2	1	-16	4	-1
US High Yield		476	2.0	12	-67	83	-4
Exchange Rates			%				
USD/Majors		101.69	-0.1	0	-1	0	-2
EUR/USD		1.10	0.1	1	2	3	3
USD/JPY		134.7	0.4	0	3	5	3
EM/USD		50.5	-0.1	0	0	-4	1
Commodities			%				
Brent Crude Oil (\$/barrel)		81.5	-0.2	-4	9	-12	-4
Industrials Metals (index)		155	-1.1	-2	-2	-26	-6
Agriculture (index)		68	0.1	-3	3	-11	-1
Implied Volatility			%				
VIX Index (% change in pp)		17.5	0.7	0.6	-4.2	-10.7	-4.2
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	9.7	7.0
Global FX Volatility		9.1	0.0	-0.1	-1.9	-0.3	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		179	-4.5	-6	-17	-23	-27
Italy		186	-1.3	3	-2	16	-29
Portugal		83	0.4	-1	-5	-19	-19
Spain		103	-0.7	1	-3	7	-6

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

Emerging Market Financial Indicators

Last updated: 4/24/2023 8:56 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		6.89	0.0	-0.2	0	-5	0		3.1	-1.0	-2	5	27	7
Indonesia		14845	-0.4	0.3	3	-3	5		6.7	1.1	2	-23	-31	-27
India		82	0.2	0.1	1	-6	1		7.3	1.0	-8	0	(43.0)	-11
Philippines		56	0.4	0.1	-3	-6	0		6.0	0.0	3	-3	68	-5
Thailand		34	0.0	-0.1	-1	-1	1		2.6	-2.0	-2	16	-19	-8
Malaysia		4.44	0.1	-0.8	1	-3	-1		3.8	-3.6	0	-4	-36	-21
Argentina		218	0.1	-0.9	-6	-47	-19		89.7	14.3	-4	-71	3767	152
Brazil		5.07	-0.4	-2.5	4	-4	4		12.5	-18.5	11	-75	45	-4
Chile		814	-1.4	-1.7	0	4	5		5.3	0.0	-5	24	-119	-9
Colombia		4514	0.5	-2.2	6	-17	7		8.7	-4.5	-4	-41	60	-104
Mexico		18.00	0.0	0.1	2	12	8		8.5	-6.0	-1	-18	-25	-26
Peru		3.8	0.1	0.4	0	-1	1		7.5	0.9	-5	#####	-26	-49
Uruguay		39	0.0	-0.1	0	2	2		10.2	1.6	-9	-17	63	-50
Hungary		340	0.6	0.0	5	2	10		7.8	-15.0	-69	-18	116	-180
Poland		4.18	0.5	1.5	4	4	5		5.5	-0.8	-4	23	-14	-61
Romania		4.5	0.4	1.1	2	3	3		7.2	-5.5	-2	-3	76	-47
Russia		81.4	0.2	0.6	-5	-8	-9							
South Africa		18.1	-0.2	1.0	0	-14	-6		9.4	5.5	12	41	122	28
Turkey		19.41	0.0	-0.1	-2	-24	-4		12.1	-10.0	-10	-9	-970	224
US (DXY; 5y UST)		102	-0.1	-0.4	-1	0	-2		3.61	-5.2	-9	20	68	-39

	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		3983	-1.2	-4	-1	4	3		193	-1	13	-12	16
Indonesia		6822	0.0	0	2	-5	0		147	7	-6	-19	7
India		60056	0.7	0	4	6	-1		155	-1	-17	-9	13
Philippines		6598	1.2	2	0	-6	0		121	6	-7	1	24
Thailand		1558	0.0	-3	-2	-7	-7		0	0	0	0	0
Malaysia		1422	0.0	-1	1	-11	-5		99	-1	-7	-18	-1
Argentina		290891	3.2	6	33	217	44		2646	271	291	914	441
Brazil		104367	0.4	-2	3	-9	-5		272	3	-5	-4	-2
Chile		5227	-3.2	-4	0	7	-1		140	1	-8	-19	8
Colombia		1216	-2.3	-3	10	-25	-5		404	5	-21	62	32
Mexico		54175	-0.2	-1	3	2	12		388	2	-24	20	7
Peru		22282	-0.9	-1	4	-5	4		185	1	-6	4	5
Hungary		43593	-1.2	-1	4	1	0		230	-2	-14	85	8
Poland		62380	0.0	1	11	2	9		83	6	-2	77	10
Romania		12419	0.2	0	4	-5	6		255	0	-13	51	0
South Africa		78117	0.3	-1	5	8	7		422	15	14	87	55
Turkey		5037	0.5	-1	3	97	-9		519	42	57	22	79
Ukraine		507	0.0	0	0	-2	-2		5183	81	211	1670	1104
EM total		39	-0.3	-2	1	-8	3		422	15	5	34	47

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

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