



- Spread between US and German rates falls to multi-year lows ([link](#))
- Speculators place record bearish bets on US Treasuries ([link](#))
- Short-dated US T-bills rally on looming debt ceiling concerns ([link](#))
- Inflation expectations for Brazil are on the rise ([link](#))
- China's repo rates fall alongside central bank liquidity injection ([link](#))
- Despite disinflationary trend, some analysts see rate cuts in Poland only in 2024 ([link](#))

[Mature Markets](#)










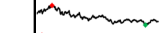

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## Bank earnings leave a sour taste as US rates diverge from peers

**Risk sentiment sours this morning.** Bank earnings have been underwhelming the market and in particular further revelations about the scale of deposit flight at troubled institutions last month. Both Credit Suisse and First Republic disclosed very substantial declines in customer deposits last quarter, with the latter shedding more than \$100 billion, which corresponds to a -41% quarterly deposit decline. The Treasury yield curve bull-flattened with 10-years down by -6 bps on Monday and a continuation of 4-week T-Bills richening relative to overnight rates and longer-dated T-Bills as the debt ceiling issue continues to loom. For the impending ECB decision next week, market contacts point at the importance of next Tuesday's flash estimates for April core euro area inflation for ECB Governing Council members to calibrate the impending interest rate decisions later next week, while others point to potential one-off inflation adjustments that could complicate the April inflation data interpretation. In Hungary, this morning Magyar Nemzeti Bank left its policy rate unchanged at 13%. On Monday, the People's Bank of China injected +95 bn yuan into the money market.

Key Global Financial Indicators

Last updated: 4/25/23 8:36 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		4137	0.1	0	4	-4	8	-2
Eurostoxx 50		4382	-0.5	0	6	17	16	10
Nikkei 225		28620	0.1	0	5	7	10	8
MSCI EM		39	-0.2	-2	1	-7	3	-18
Yields and Spreads			bps					
US 10y Yield		3.43	-5.7	-14	6	61	-44	144
Germany 10y Yield		2.46	-5.1	-2	33	162	-11	223
EMBIG Sovereign Spread		495	6	18	-8	77	43	83
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.4	-0.2	-1	0	-4	1	-5
Dollar index, (+) = \$ appreciation		101.5	0.2	0	-2	0	-2	6
Brent Crude Oil (\$/barrel)		82.2	-0.7	-3	10	-20	-4	-15
VIX Index (% change in pp)		17.5	0.6	1	-4	-10	-4	-14

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

## Mature Markets

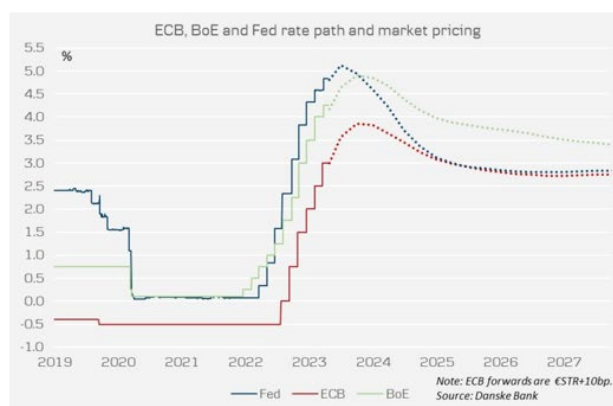
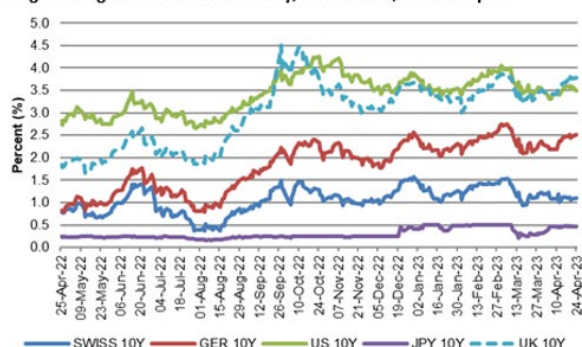
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### International Bond Markets

#### US rates fall, narrowing the spread to their spread over EU, Switzerland, UK and Japanese rates.

The Atlantic spread—which is the yield differential of Treasuries relative to German Bunds—declined at the 10-year maturity point to below 100 bps while similar developments also hold true relative to Gilts (left chart below). Some European market contacts attribute this to the potential resurgence of a risk-off shock that could be related to the US debt ceiling dynamics, which could become potentially worse than in 2011. Other market contacts see the decline in US rates as temporary, noting that either the Fed is priced with too aggressive rate cuts or the ECB/BoE are priced for 'too high for too long' (right chart below), taking solace in the former view.

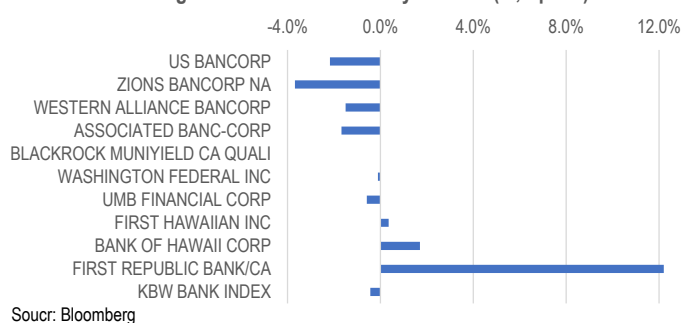
Falling rates tighten the US to Germany, Switzerland, UK and Japan



### United States

**Ahead of mega-cap earnings reports and Q1 GDP, stocks started the week little changed.** On the earnings front, overall, bank earnings have come slightly better than feared, while bank stocks were softer with the KBW Bank Index declining -0.4%. Zions Bancorp declined -3.4% on the day while First Republic Bank (FRC) gained 12.3%. Nevertheless, FRC's shares lost these intraday gains following the release of its latest Q1 earnings report., which revealed that FRC's deposits fell 41% in 1Q, or 58% excluding a \$30 billion deposit injection from the largest US banks. These developments have shaken market confidence as FRC's stock price declined -19% after the earnings release in post-market trading.

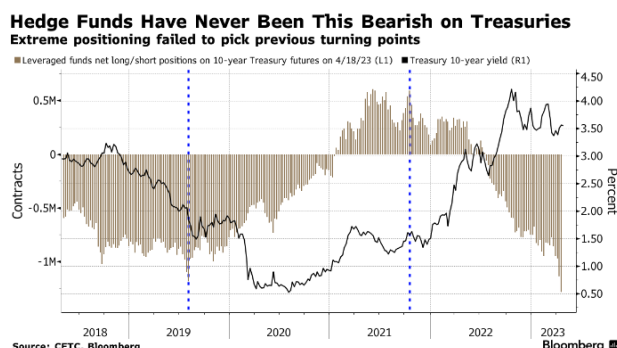
Regional Banks' Shares Daily Returns (% , Apr 24)



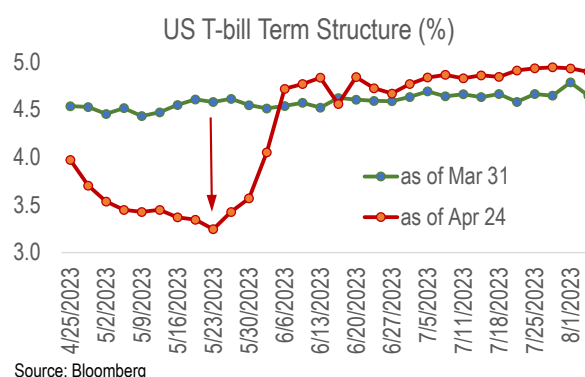
**The VIX finished the day up +0.1 pp at 16.9, while the 1-Day VIX, just launched Monday, was down -3.5 pp to 9.7.** CBOE has no immediate plans to start tradeable products linked to the 1-Day Volatility Index.

**Hedge funds place record bearish bets on Treasuries.** The Commodity Futures Trading Commission (CFTC) positioning data shows that net-short positions in 10-year Treasury futures by leveraged investors

were at a record large as of last week, implying intense buyback pressures that could exaggerate a yield decline. Notwithstanding this, market participants also note that partially, the positioning may be attributable to relative value and not merely a bet on a rise in longer-dated yields. Nevertheless, the Treasury yield curve bull-flattened with 10-years down by -6 bps on Monday.



**Short-dated T-Bills continued to rally on the back of looming debt ceiling concerns.** Money market investors have shifted to short-dated maturities, pushing 1-month bill yields lower. For example, the T-Bill maturing on 18 May 2023 rallied over -130 bps month-to-date to 3.3%, overly richening over both overnight rates and longer-dated T-Bills as market contacts note that some MMFs have reached their counterparty limit at the Fed's ON-RRP facility, prompting them to pour money into short-dated T-Bills given MMFs reluctance to further term out investments.



## Euro Area

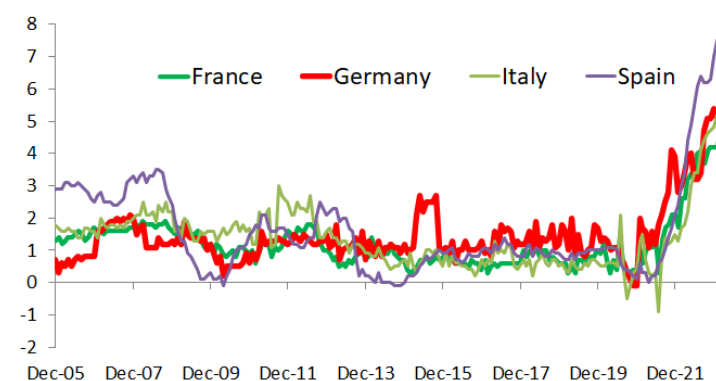
**In cautious trading, Equities partially recovered from bigger losses earlier in the session while the euro edged lower.** In the current trading session, Equities are -0.7% lower with the Banking sector remaining under scrutiny after shares in First Republic Bank in the US fell as much as 20% after the bank said that it will explore “strategic alternatives” and did not take questions in its earnings call.

**Banks underperformed the broader market as UBS and Santander reported their quarterly earnings.** Bank shares lost -2%, driven by UBS's -1.8% decline on the back of a net profit amounting to \$1.0 bn (\$1.7bn expected), which was entirely due to US RMBS litigation costs. Despite \$23 bn inflows, revenues in UBS wealth management fell short of estimates as UBS points to “subdued” client activity that could continue into Q2. In terms of the takeover of Credit Suisse, UBS expects to close it in May. Shares in Santander fell -4% as the bank is meeting profit targets but saw steeper deposit outflows in Spain -6% q/q and disappointing profits in Brazil.

### Next week's April flash euro area core inflation prints will turn decisive for the May ECB decisions.

Next Tuesday sees the release of April flash euro area core inflation data ahead of the ECB meeting next week Thursday. Market contacts expect that these datapoints will be a crucial component for ECB governing council members to calibrate the next interest rate decision. Citi analysts also warn that incoming inflation data could send conflicting signals across countries. Changes in the methodology for German package holidays prices and the earlier timing of Easter could lead to a drop in core inflation, while Citi analysts warrant caution that this decline might be a one-off effect and not a signal of a starting decline. Furthermore, other analysts note at base effects related to German train discounts in June last year that they see as likely to push core inflation back up again in June and July.

Euro area: Core inflation (% , yoy)



Source: Bloomberg, and IMF staff

## Emerging Markets

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**Asian stocks and currencies are mixed Tuesday morning.** Equities in Malaysia and India are up +0.22% and +0.12% are up while -1.64% down in Taiwan, -1.37% in South Korea, and -0.32% China. The Philippine peso and South Korean won have appreciated +0.44% and +0.20%, while the rest of the region depreciated against the dollar.

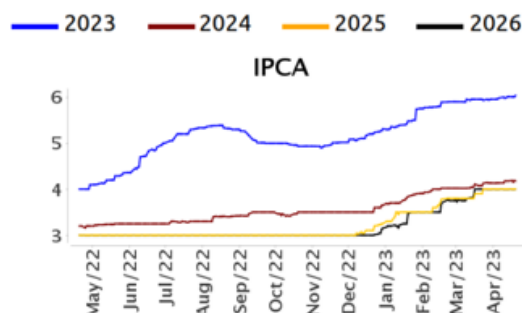
**In EMEA, stock markets traded mostly lower, and currencies broadly weakened.** Local currency yields in Hungary increased by +8bps to 8% at the 10-year maturity. In its latest interest rate decision, Hungary's central bank meets left its policy rates as expected unchanged at 13% and updated its monetary policy outlook.

**In Latin America, stock markets rebounded, and most currencies appreciated.** Chile, Colombia, Mexico, and Peru saw their stock markets rebounding. The Brazilian real and Mexican peso appreciated against the U.S. dollar. According to the Central Bank of Chile, April's CPI, to be published on May 8, is estimated at 0.3% MoM, as 1-yr ahead inflation expectations fell to 4.1% y/y from 4.8% y/y previously.

## Brazil

**The weekly trend for inflation expectations continued to increase.** According to the weekly survey results released by the Central Bank of Brazil, Inflation expectations in 2023 further increased, up +3 bps to 6.04% from 6.01%. This was slightly lower than analyst consensus expectations. For 2024, 2025 and 2026, inflation expectations remained steady at 4.18%, 4% and 4%, respectively.

Weekly survey of inflation expectations in Brazil

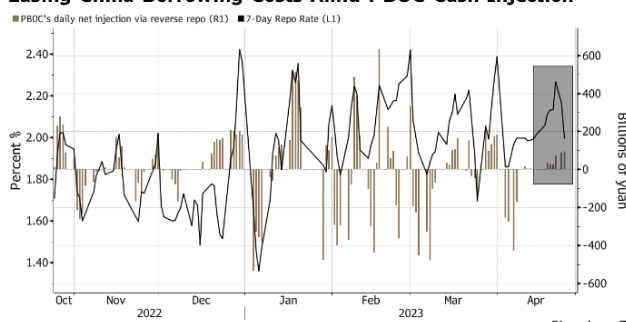


Source: Central Bank of Brazil.

## China

**China's repo rates have been falling alongside with the central bank liquidity injection.** The People's Bank of China (PBoC) injected +95 bn yuan into the money market on Monday, causing the overnight repo rate and the 7-day repo rate to fall by -15 bps and -10 bps, respectively. Year-to-date, PBoC has drained 1.332 tn yuan from the market, but over the last 7 days has injected a total of 342 bn yuan. Chinese equities (-0.78%) declined while currencies weakened slightly Monday.

Easing China Borrowing Costs Amid PBOC Cash Injection



Source: Bloomberg

Bloomberg

## Mexico

**In the first half of April, Mexico's CPI declined.** Mexico's national statistical office INEGI attributes the decline to a seasonal government subsidy to electricity tariffs, a decline in prices for fruits and vegetables, and lower gas prices (see table below). The -0.16% biweekly decline to a 6.24% y/y pace was in line with analyst expectations. Headline and core inflation declined to 6.24% y/y and 7.75% y/y with expectation to trend lower. For year-end, analyst consensus is for headline and core inflation to converge to 5.3% y/y and 5.6% y/y, respectively.

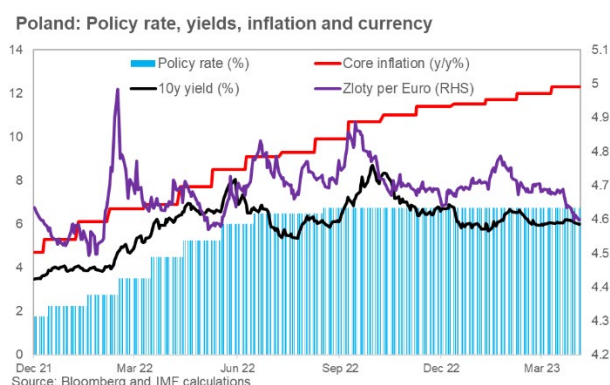
Mexico's inflation during first Half of April 2023 in pp

	2023	
	Biweekly	Annual
CPI	-0.16	6.24
Core	0.18	7.75
Non Core	-1.22	1.82
Fruits and vegetables	-1.40	2.83
Energy and Tariffs Authorized by the Government	-2.18	-1.21

Source: INEGI.

## Poland

The backdrop of persistent core inflation prompts some analysts to see rate cuts only in 2024, despite recent data pointing at disinflation and a deceleration of growth. Data released earlier this week showed real retail sales disappointing in March with a -7.3%y/y decline (expected -6.2% from -5.0%), and industrial output below expectations with a contraction of -2.9% y/y (expected -2.1% from -1.2%) and PPI easing by more than expected +10.1% y/y (expected +11.0% from +18.2%). Whereas market pricing anticipates interest rate cuts by the end of 2023, ING analysts expect the first rate cuts to occur only by end Q3 2024, arguing that core inflation is likely to remain sticky and thus would require rates to remain at the current levels for a longer period of time. The latest inflation data released on April 14 and April 17 showed headline CPI easing to +16.1% y/y in March (from +16.2%), while core CPI increased to 12.3%/y/y (expected 12.2% from 12.0%).



*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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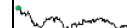


























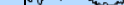
## Global Financial Indicators

4/25/23 8:35 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4131	0.1	-1	4	-4	8
Europe		4382	-0.5	0	6	17	16
Japan		28620	0.1	0	5	7	10
China		3963	-0.5	-5	-2	5	2
Asia Ex Japan		66	-0.5	-3	-1	-5	2
Emerging Markets		39	-0.2	-2	1	-7	3
<b>Interest Rates</b>			basis points				
US 10y Yield		3.43	-5.7	-14	6	61	-44
Germany 10y Yield		2.46	-5.1	-2	33	162	-11
Japan 10y Yield		0.48	0.6	0	16	23	6
UK 10y Yield		3.74	-4.6	-1	45	189	6
<b>Credit Spreads</b>			basis points				
US Investment Grade		159	0.7	4	-14	5	0
US High Yield		485	6.9	21	-57	80	5
<b>Exchange Rates</b>			%				
USD/Majors		101.53	0.2	0	-2	0	-2
EUR/USD		1.10	-0.2	0	2	3	3
USD/JPY		134.1	-0.1	0	2	5	2
EM/USD		50.4	-0.2	-1	0	-4	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		82.2	-0.7	-3	10	-9	-3
Industrials Metals (index)		153	-2.0	-6	-3	-24	-8
Agriculture (index)		67	-0.7	-5	2	-12	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.5	0.6	0.7	-4.3	-9.5	-4.2
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	9.7	7.0
Global FX Volatility		9.0	0.0	-0.1	-2.0	-0.7	-1.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		181	1.7	-5	-15	-33	-25
Italy		189	1.4	6	0	15	-26
Portugal		83	0.4	0	-4	-20	-18
Spain		104	0.7	2	-2	5	-5

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

## Emerging Market Financial Indicators

Last updated: 4/25/2023 8:35 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		6.92	-0.4	-0.6	-1	-5	0		3.1	-1.0	-2	1	26	6
Indonesia		14845	-0.4	0.3	3	-3	5		6.7	1.1	2	-23	-31	-27
India		82	0.0	0.1	1	-6	1		7.2	-10.0	-22	-21	(53.0)	-21
Philippines		56	0.5	1.1	-2	-6	0		6.0	0.0	0	0	65	-5
Thailand		34	0.0	-0.3	0	-1	1		2.6	0.5	-7	10	-18	-7
Malaysia		4.45	-0.3	-0.4	-1	-2	-1		3.8	-6.7	-11	-11	-49	-27
Argentina		220	0.0	-1.5	-6	-48	-20		89.9	14.8	-92	-171	3788	167
Brazil		5.06	-0.5	-1.5	3	-4	4		12.6	-7.2	11	-57	51	2
Chile		818	-0.6	-2.8	-2	3	4		5.2	0.0	-8	14	-122	-12
Colombia		4483	0.7	-1.0	6	-12	8		8.7	-0.4	-27	-5	39	-113
Mexico		17.96	0.1	0.5	2	12	9		8.4	-3.0	-11	-11	-42	-33
Peru		3.8	0.3	0.9	1	1	1		7.4	0.0	-7		-54	-52
Uruguay		39	0.3	0.2	0	5	3		10.2	0.0	-7	4	63	-50
Hungary		341	0.0	-0.6	5	2	10		8.0	16.0	-53	-1	133	-163
Poland		4.16	0.0	1.2	4	4	5		5.5	-7.4	-6	9	-21	-68
Romania		4.5	-0.3	0.5	2	3	3		7.2	-0.4	-2	10	76	-47
Russia		81.6	-0.2	0.3	-6	-8	-9							
South Africa		18.3	-0.7	-0.6	0	-14	-7		9.4	-8.5	6	30	113	19
Turkey		19.42	-0.1	-0.1	-2	-24	-4		12.1	7.0	-3	-2	-960	231
US (DXY; 5y UST)		102	0.2	-0.2	-2	0	-2		3.50	-6.8	-18	10	64	-50

	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		3963	-0.5	-5	-2	5	2		195	1	4	-12	18
Indonesia		6822	0.0	0	2	-5	0		154	17	-11	-18	14
India		60131	0.1	1	5	5	-1		158	5	-17	-8	16
Philippines		6593	-0.1	1	0	-6	0		128	16	-12	-1	31
Thailand		1540	-1.1	-3	-3	-8	-8		0	0	0	0	0
Malaysia		1425	0.2	-1	2	-11	-5		101	0	-6	-16	1
Argentina		299422	2.9	6	37	228	48		2632	206	76	854	427
Brazil		103947	-0.4	-2	5	-6	-5		276	7	-14	-7	2
Chile		5297	1.3	-3	1	11	1		142	6	-12	-21	10
Colombia		1225	0.8	-2	11	-22	-5		405	6	-16	54	33
Mexico		54714	1.0	0	4	4	13		389	2	-25	18	8
Peru		22346	0.3	0	4	0	5		186	3	-12	1	6
Hungary		43390	-0.6	-1	4	3	-1		233	6	-8	87	11
Poland		62445	-0.2	0	11	5	9		87	7	1	78	14
Romania		12418	-0.2	-1	4	-5	6		260	7	-2	51	5
South Africa		78017	-0.1	-2	4	12	7		430	25	11	89	63
Turkey		4993	-0.6	-1	-1	101	-9		538	56	64	37	98
Ukraine		507	0.0	0	0	-2	-2		5214	112	304	1703	1135
EM total		39	-1.2	-2	1	-7	3		427	19	-1	31	51

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

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