



- Risk-off sentiment dominates US markets as a recession nears ([link](#))
- US sovereign CDS hit another record high on default concerns ([link](#))
- Unusually low VIX might have reflected an increasing number of option sellers ([link](#))
- Major central banks retract emergency dollar swap operations ([link](#))
- Swedish Krona depreciates after dovish 50 bps Riksbank hike ([link](#))
- Mexico's central bank could stop hiking cycle at the May meeting ([link](#))
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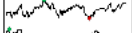








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Risk-off sentiment and mixed earnings fuel recession concerns

Risk-off sentiment in US markets came to the fore. Analysts become concerned that the Covid stimulus sugar high is fading, led by underperformance in US banks amid mixed earnings results and lingering concerns over the outlook for the global banking system. The Treasury yield curve steepened as 2-year yields fell below 4%, reflecting a growing consensus a credit crunch could bring forward the arrival of a recession, while US CDS spreads have hit another record high reflecting the debt ceiling concerns. Euro area bank stocks followed the downward move of their US peers. Euro Area yields decline as concerns over the financial sector loom despite latest consumer confidence data for France and Germany having surprised on the upside. In Sweden, Riksbank has raised its policy rate by another 50 bps with a dovish message that send the krona tumbling against the euro. Hungarian assets continued to rally after yesterday's central bank decision that left the base rate unchanged while reducing the top rate of the interest rate corridor. The Brazil central bank reaffirmed that the institution envisions no rate cuts until inflation risks are under control, while Banxico might consider halting its interest rate hiking cycle in May.

Key Global Financial Indicators

Last updated: 4/26/23 9:50 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities								
S&P 500		4080	-1.6	-2	3	-2	6	-3
Eurostoxx 50		4336	-0.9	-1	5	17	14	9
Nikkei 225		28416	-0.7	-1	3	8	9	7
MSCI EM		38	0.0	-3	-1	-6	1	-20
Yields and Spreads								
			bps					
US 10y Yield		3.39	-0.4	-20	2	67	-48	140
Germany 10y Yield		2.38	-0.9	-14	25	156	-20	215
EMBIG Sovereign Spread		498	2	18	-5	69	46	85
FX / Commodities / Volatility								
			%					
EM FX vs. USD, (+) = appreciation		50.4	0.3	0	0	-3	1	-5
Dollar index, (+) = \$ appreciation		101.1	-0.8	-1	-2	-1	-2	5
Brent Crude Oil (\$/barrel)		79.5	-1.5	-4	6	-24	-7	-18
VIX Index (% change in pp)		18.7	-0.1	2	-3	-15	-3	-12

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

Mature Markets

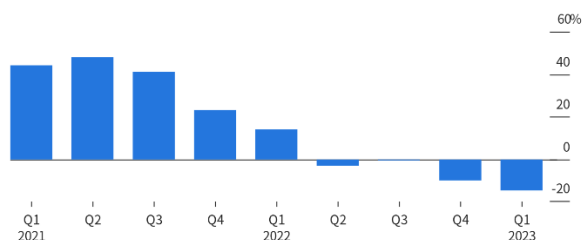
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United States

This morning, March durable goods orders were stronger than expected. Durable goods grew at a +3.2% m/m (expected +0.7%). Boeing received 60 aircraft orders in March, up from 5 in February, which was boosting top-line growth. Notwithstanding this, orders ex-transportation also grew at a remarkable +0.3% m/m pace (expected -0.2%). Market reactions so far has been limited so far. Treasury 10-year yields edged fractionally higher on the day, whereas Equity futures are almost unchanged. The dollar index fell by -0.5%.

Markets went lower as risk-off sentiment came to the fore. U.S. equity markets sold off broadly with the S&P 500 down -1.5% and the KBW bank index down -3.5%, with First Republic Bank stocks leading the decline with a -49.6% daily loss. The bank, which saw larger-than-expected deposit outflows in the first quarter, is exploring a divestiture of up to \$100 bn long-dated mortgages and securities as a part of a rescue plan. The spread on high-yield corporate bond spreads widened by 17.5 bps to 496 bps. In after-hours trading, upbeat and better than expected earnings reports from Microsoft and Alphabet propelled large tech stocks. Notwithstanding this, overall, the Q1 earnings season has been disappointing, raising concerns among analysts that the Covid stimulus sugar high is fading.

Profits for S&P 500 Tech Companies Are Slumping
Year-over-year change in earnings



Source: Bloomberg Intelligence
Q1 2023 data is based on estimates

Bloomberg

The Treasury yield curve steepened, prompted by 2-year yields falling -14 bps to below 4%. There is growing consensus that a recession is near, fueled by signs of a credit crunch as exemplified by the quarterly results from First Republic and UBS. A drop in US consumer confidence to the lowest since July last year could be an initial response to tighter lending standards as the Conference Board's consumer confidence gauge for April declined to 101.3 (expected 104.0 from downward revised 104.0). Interest rate volatility increased with the implied volatility of 1-year ahead overnight swap rates with a 1-year maturity surged to the highest since the March banking turmoil.

The debt ceiling concerns prompt the US credit default swap spreads to hit another record high. For the 1-year maturity point, the spread increased to 157 bps. Analysts see that tax revenues have been weaker than expected. Analysts expect the Treasury to issue new guidance in the coming days on when the extraordinary measures might be exhausted based on tax revenue data.

US 1-year Sovereign CDS Spread (bps)

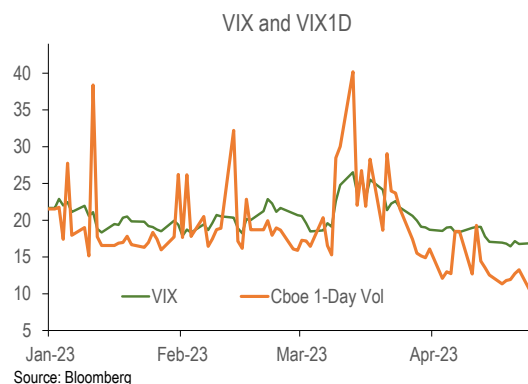


Source: Bloomberg

With the currently incoming tax payments, Wrightson ICAP analysts note that "a late-July debt ceiling crunch remains the most likely outcome, but there is still perhaps a 20% chance that the x-date might sneak up on us in the second week of June instead."

Unusually low VIX readings might be reflective of an increasing number of option sellers. The equity market's implied volatility gauge VIX fell to sixteen points in recent days, which was the lowest year-to-date, which prompted pundits to contemplate whether the index might reflect a false sense of calm. A number of analysts argued that the reasons for the low volatility were primarily technical, as the market saw more

option sellers than option buyers. The increasing number of option sellers was reflective of market expectations for a less volatile market ahead after the March market turmoil, even though the overall macro-fundamental backdrop remained fragile. This dampened implied volatility, which in turn, prompted volatility targeting or risk parity funds to mechanically increase their equity allocations. These dynamics suppressed the perceptions of rising macro fundamental risks, such as recession fears. Rising implied volatility in recent days indicates that traders are bracing for a potentially turbulent period for US equities, with option buyers re-entering the market to hedge against the risk of declining stock prices.

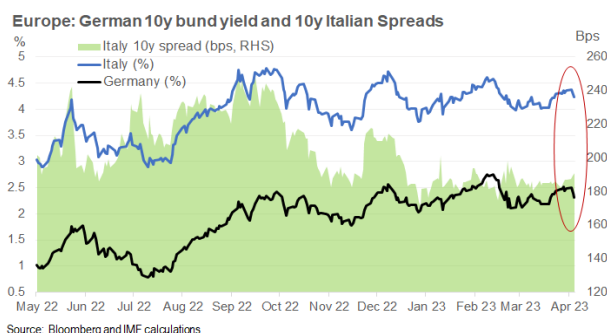


AE central banks had announced earlier Tuesday that they would revert to only weekly USD funding operations from daily, given the recently relaxed market conditions. However, they stand ready to re-adjust the provision of US dollar liquidity as warranted by market conditions. The new arrangement will take effect on May 1.

Euro Area

European equities were trading lower (Stoxx 600 -0.7%) amid mixed earnings results and lingering concerns over the outlook for the global banking system. The real estate sector gained +1.2%, whereas the banking sector fell -0.6%. Following better than expected earnings results for Q1, Standard Chartered stocks showed a nimble +0.3% gain. The euro is trading marginally stronger against the dollar, up +0.3%. Data released yesterday showed that Spain's PPI data turning negative in March, down -2.2%/y/y (from +2.3% y/y), while this morning, latest consumer confidence data for France and Germany surprised on the upside.

As concerns over the financial sector loom, sovereign yields continue to decline. Yesterday, 10-year bund yields ended the day -12 bps lower and have been trading further -3 bps lower this morning at 2.35%. ING analysts point out that bonds benefitted from safe-haven demand amid growing concerns that stress in the financial sector could spill over into the real economy. Other analysts also point out that many investors for now remain on the sidelines given the uncertainty around the upcoming inflation releases, the banking sector survey and central bank meetings. For the ECB meeting on May 4, markets are now pricing in about +31 bps of tightening, which compares to +33 bps at the end of last week.



Sweden

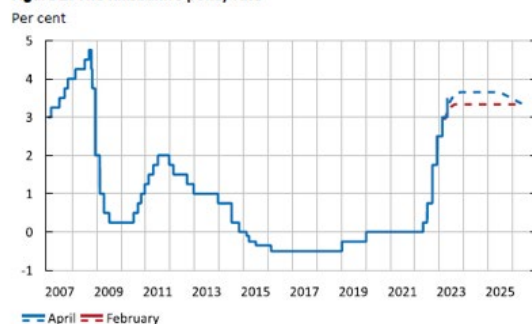
Following the Riksbank's latest interest rate hike, the krona weakened against the euro. The Riksbank today hiked its policy rate by another 50 bps to 3.5% with a dovish message that send the krona tumbling against the euro by -1% to 11.43. Morgan Stanley analysts note that two executive board members were in favor of a 25 bps hike, and that the previous policy meeting in February also contained a more currency-focused message. Today's press release emphasized that the central bank perceives that inflation remains too high, motivating an upward revision of the envisioned rate path and forward guidance for another 25 bps hike in either June or September. Riksbank expects inflation to ease this year and to

stabilize next year close to 2 per cent. Separately, data released this morning showed that the unemployment rate in Sweden declined to 7.7% in March (from 8.2%).

Sweden: Inflation and currency



Figure 2. The Riksbank's policy rate



Note. Solid line refers to outcome, dashed line represents the Riksbank's forecast. Outcomes are daily rates and the forecasts refer to quarterly averages.

Emerging Markets

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EMEA markets have been mixed, with Hungarian assets outperforming. Equity markets were mostly down, with Turkish equities underperforming, down -1.1%. While most currencies were trading in a narrow range and local bond yields were mostly stable, Hungarian assets were an exception. After the central bank cut the top rate of the interest rate corridor as expected yesterday, the equity market is up marginally higher, the forint is appreciating +0.5% to 375.7/euro. Hungary's, 10-year bond yields declined by another -18 bps to 7.8%.

Asian equities and currencies posted mixed results. Share prices rose in Indonesia (+1.3%) and Hong Kong SAR (+0.7%) but fell in the Philippines (-0.8%) and Malaysia (-0.8%). Asian currencies also posted mixed results. Thai baht (+0.5%) and Singaporean dollar (+0.3%) appreciated, while Korean won depreciated (-0.3%). A surprise trade surplus in March supported the Thai baht. Most long-end government bond yields declined, with 10-year yields falling in Indonesia (-10.2 bps) and Singapore (-5.6 bps).

In the Latin American region, stock markets and currencies in Brazil and Mexico underperformed. The Brazilian real and Mexican peso depreciated against the U.S. dollar, and sovereign CDS spreads widened for both countries. During a summit organized by the Colombian government with representatives from 19 countries and the European Union, a top U.S. official stated that the U.S. is ready to lift sanctions if Venezuela returns to democracy by *"taking meaningful steps and ultimately holding free and fair elections."*

China

The selloff of Chinese equities eased (CSI 300: -0.1%; Hong Kong SAR-listed: +0.8%). Onshore equities saw a limited decline today after falling by about -4% over the past week. Market participants are increasingly worried about geopolitical issues. Domestic investors are concerned about the lack of *"animal spirits"* and additional policy support, while foreign investors question the attractiveness of Chinese assets amid deteriorating economic ties between the US and China. Investors are looking for positive catalysts, with all eyes turning to earnings

Reopening Rally Broken

US-listed Chinese stocks have given back all gains since December



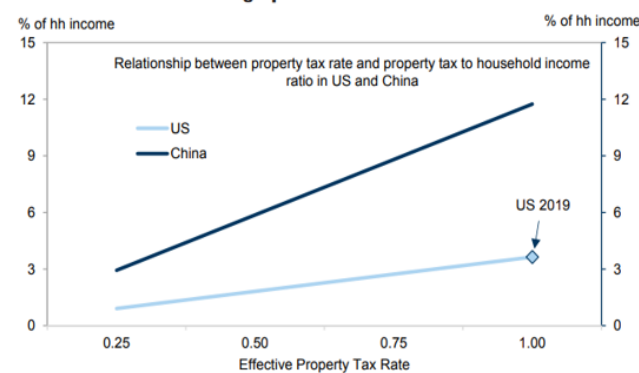
Bloomberg

and the April Politburo meeting. The Renminbi appreciated, up +0.1% to 6.92/dollar. In China, the use of renminbi in cross-border payments and receipts rose to a record high at 48% of total in March, surpassing the US dollar share for the first time.

China has completed the development of a nationwide real estate registration system.

This marks the milestone of a decade of work, which will enhance transparency in property ownership. While speculation on the introduction of property tax heated up again as the database infrastructure will overcome a major hurdle, many analysts view that it is not the right time to roll out the property tax given that the property market remains weak. Separately, China urged banks to cut deposit rates this month to channel its vast deposit pool into consumption and productive investments and to ease pressure on banks' net interest margins, which have narrowed by some 30 bps in the past three years to 1.9% as of Q4 last year.

Even a low tax rate implies a significant burden on households due to the high price-to-income ratio in China

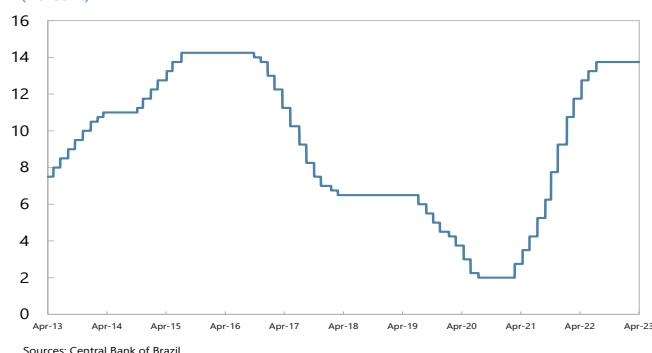


Brazil

Brazil central bank president reaffirms no rate cuts until inflation risks are under control.

Brazil's central bank president appeared before the senate's Economic Affairs committee and reaffirmed policymakers will not begin an easing cycle until inflation risks are under control. Senators questioned him over the central bank's decision to hold the benchmark rate at 13.75% even as inflation declined. The central bank starting hiking interest rates in March 2021, increased its benchmark by +1175 bps to 13.75% rate from March 2021 to August 2022, and has held the rate steady at 13.75%.

Brazil's policy rate (SELIC) (Percent)

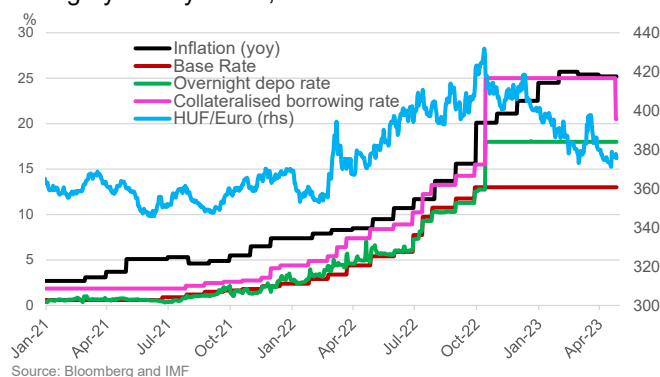


Hungary

Hungarian assets rally after yesterday's central bank decision.

Despite keeping its base rate steady, Hungary's central bank lowered the top rate of its interest rate corridor by 450 bps to 20.5% on Tuesday, a move that Vice Governor Barnabas Virag had hinted at with prior communication last week. 10-year government bonds yields have been declining almost -90 bps in a week to 7.8%. The central bank's monetary policy committee had widened the interest rate corridor in October 2022 in response to the depreciation of the currency. The central bank now thinks that the risk environment, especially the risk of extreme scenarios, has improved, allowing it to reduce the top rate of the corridor. Notwithstanding this, the central bank left the base rate left unchanged at 13% to maintain tight

Hungary: Policy Rates, Forint and Inflation

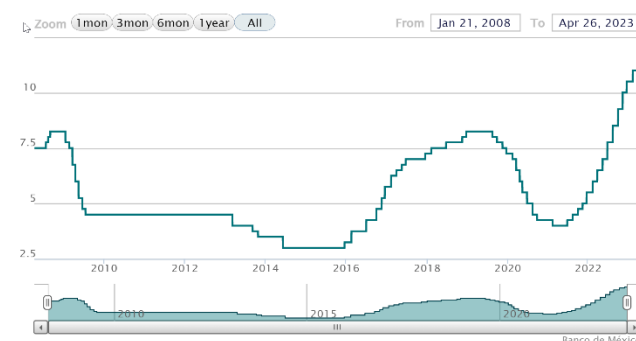


monetary conditions to achieve price stability. The one-day deposit rate, which is the effective rate, was also left unchanged at 18%. In the press conference, Vice Governor Barnabas Virag mentioned that any rate cut decision will come only at a rate-setting meeting, even for the overnight tools. He also noted that a merging of the base rate and the effective rate by autumn, as priced by the market, seemed to be a fair assumption. JP Morgan analysts argue that this cut is irrelevant from an effective policy standpoint given that the market is operating with massive amounts of excess liquidity, but that it carries a signaling content. They expect first cuts to the one-day deposit rate in June, with significant risks of a move towards May. Analysts at Bank of America think that the central bank could start cutting the one-day deposit rate in May in 100 bps increments and that a synchronization with the base rate will come in September, with the pace of rate cuts slowing to 50 bps thereafter.

Mexico

Banxico might consider halting its interest rate hiking cycle at its next meeting in May.

Banxico's governor told Mexican senators as part of scheduled testimony that the central bank will discuss *"whether it's the moment to stop the increase in rates"* at the next meeting on May 18. According to Bloomberg analysts, it was unusual for the governor to offer guidance that went beyond a prepared monetary policy statement. Banxico has increased the key policy rate by 725 bps since June 24, 2021.



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

4/26/23 9:51 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4080	-1.6	-2	3	-2	6
Europe		4337	-0.9	-1	5	17	14
Japan		28416	-0.7	-1	3	8	9
China		3959	-0.1	-4	-1	2	2
Asia Ex Japan		66	1.4	-2	-1	-4	2
Emerging Markets		39	1.1	-2	0	-6	2
Interest Rates			basis points				
US 10y Yield		3.39	-0.6	-20	2	67	-48
Germany 10y Yield		2.38	-0.7	-14	25	156	-19
Japan 10y Yield		0.47	-1.4	-2	15	22	4
UK 10y Yield		3.70	0.4	-16	42	190	3
Credit Spreads			basis points				
US Investment Grade		163	-0.1	5	-11	7	4
US High Yield		494	1.3	27	-48	78	14
Exchange Rates			%				
USD/Majors		101.10	-0.7	-1	-2	-1	-2
EUR/USD		1.11	1.1	1	3	4	4
USD/JPY		133.2	-0.5	-1	1	5	2
EM/USD		50.4	0.3	0	0	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		79.6	-1.5	-4	7	-13	-6
Industrials Metals (index)		152	0.5	-5	-3	-25	-8
Agriculture (index)		67	0.1	-3	2	-12	-2
Implied Volatility			%				
VIX Index (% change in pp)		18.8	0.0	2.3	-3.0	-14.8	-2.9
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	10.2	7.0
Global FX Volatility		9.2	0.0	0.0	-1.8	-0.6	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		184	0.1	2	-12	-34	-22
Italy		189	-0.5	4	1	15	-26
Portugal		85	1.7	1	-3	-19	-17
Spain		106	1.2	3	0	7	-4

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

Emerging Market Financial Indicators

Last updated: 4/26/2023 9:54 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		6.92	0.1	-0.6	-1	-5	0		3.1	-3.5	-6	-3	21	3
Indonesia		14833	0.1	0.1	2	-3	5		6.5	-15.0	-15	-28	-48	-42
India		82	0.2	0.6	1	-6	1		7.2	-2.1	-25	-22	(50.8)	-23
Philippines		56	-0.2	1.1	-2	-6	0		6.0	2.5	3	3	68	-3
Thailand		34	0.5	0.8	1	0	1		2.6	1.0	-10	11	-18	-6
Malaysia		4.46	-0.2	-0.4	-1	-2	-1		3.7	-1.8	-13	-14	-56	-30
Argentina		221	0.0	-1.5	-6	-48	-20		90.3	46.8	50	-124	3826	213
Brazil		5.07	-0.3	0.2	3	-1	4		12.5	-10.3	-36	-72	22	-13
Chile		807	0.6	-1.6	0	4	5		5.1	-0.5	-18	4	-126	-22
Colombia		4542	-1.4	-0.5	3	-13	7		8.9	32.0	-5	19	57	-89
Mexico		18.13	-0.3	-0.5	1	13	8		8.3	-1.0	-24	-16	-50	-39
Peru		3.8	-0.1	0.6	0	1	1		7.4	-4.9	-12		-70	-57
Uruguay		39	0.1	0.7	0	6	3		10.2	0.0	-9	4	41	-50
Hungary		339	1.7	2.2	6	5	10		7.8	-8.0	-40	-15	113	-177
Poland		4.13	1.4	2.2	5	7	6		5.4	0.2	-20	5	-18	-73
Romania		4.5	1.0	1.0	3	4	4		7.2	-3.1	-13	7	73	-51
Russia		81.7	-1.0	0.0	-6	-8	-9							
South Africa		18.4	-0.3	-1.0	0	-14	-7		9.4	-2.0	8	36	117	25
Turkey		19.42	0.0	-0.1	-2	-24	-4		12.1	0.0	-3	-2	-934	231
US (DXY; 5y UST)		101	-0.7	-0.9	-2	-1	-2		3.44	-0.9	-26	3	71	-56

	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		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3959	-0.1	-4	-1	2	2		196	0	5	-13	19	
Indonesia		6910	1.3	2	3	-4	1		159	14	-6	-29	19	
India		60301	0.3	1	5	6	-1		160	2	-15	-9	18	
Philippines		6540	-0.8	1	-1	-5	0		132	12	-8	-14	35	
Thailand		1544	0.2	-2	-3	-7	-7		0	0	0	0	0	
Malaysia		1414	-0.8	-1	1	-11	-5		103	1	-4	-18	3	
Argentina		303058	1.2	7	38	238	50		2655	124	99	900	450	
Brazil		103163	-0.7	-3	4	-5	-6		284	16	-6	-1	10	
Chile		5306	0.1	-2	1	13	1		144	5	-10	-23	12	
Colombia		1199	-2.3	-4	8	-24	-7		403	3	-18	48	31	
Mexico		54381	0.0	0	3	4	12		393	6	-21	21	12	
Peru		22138	0.0	-2	3	0	4		185	0	-13	-4	5	
Hungary		43329	-0.3	0	4	4	-1		233	5	-8	78	11	
Poland		62230	0.1	0	11	6	8		89	12	3	71	16	
Romania		12379	-0.5	-1	3	-2	6		262	8	0	37	6	
South Africa		78107	0.3	-1	5	11	7		428	21	9	67	61	
Turkey		4797	-1.9	-4	-5	98	-13		535	44	61	19	95	
Ukraine		507	0.0	0	0	-2	-2		5249	148	339	1678	1170	
EM total		39	0.7	-2	0	-6	2		428	15	0	25	52	

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

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