



- Funding stress for US banks abates somewhat ([link](#))
- ECB highlights financial stability risks of real estate market funds ([link](#))
- Blackstone limits redemption on its flagship REIT fund for 5th straight month ([link](#))
- Eurozone consumer inflation expectations continue to ease ([link](#))
- Colombian peso appreciates on higher oil prices ([link](#))
- Israel slows tightening pace in line with expectations ([link](#))

[Mature Markets](#)


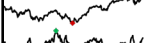






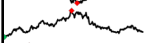


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Shrugging Off Oil Output Cuts for Now

Despite a complicated backdrop, financial markets are in a tentative risk-on mode, with equities gaining and bond yields higher. Markets are trying to navigate the contradictory signals of lower than expected manufacturing data in the US yesterday, with sticky and high core inflation, while the ECB Survey shows declining consumer expectations for euro area inflation. At the same time, markets seem to be shrugging off OPEC+ 's decision to cut production for the moment, and do not seem to think that it will have a significant inflationary impact or force further monetary tightening even though oil prices continue to rise today. While concerns about the resilience of the banking sector have receded from crisis levels, they are still very much present with JPMorgan CEO Jamie Dimon's writing in his annual letter to shareholders that the crisis is "not yet over" and will be felt for years. Concerns about risks from the real estate market are also mounting, as Blackstone restricted redemptions on its flagship REIT (real estate income trust) for a 5th straight month, and the ECB warning that investment funds active in the commercial real estate market could pose financial stability risks.

Key Global Financial Indicators

Last updated: 4/4/23 1:25 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4125	0.4	4	2	-10	7
Eurostoxx 50		4343	0.7	4	1	10	14
Nikkei 225		28287	0.4	3	1	2	8
MSCI EM		40	0.2	3	0	-15	4
Yields and Spreads			bps				
US 10y Yield		3.46	4.9	-11	-49	107	-41
Germany 10y Yield		2.32	6.5	3	-40	181	-25
EMBIG Sovereign Spread		480	-4	-9	29	82	28
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.7	0.0	0	0	-6	2
Dollar index, (+) = \$ appreciation		102.0	-0.1	0	-2	3	-1
Brent Crude Oil (\$/barrel)		85.5	0.7	9	0	-20	0
VIX Index (% change in pp)		18.8	0.2	-1	0	0	-3

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

Banks' borrowing from the Fed's facilities dropped, indicating a stabilization of funding stress. Fed H.4.1 data for the week through March 29 showed reductions in borrowing across the Fed's facilities. However, reserves increased by \$34bn, primarily driven by money market funds (MMFs) cutting overnight RRP (reverse repo) and TGA (Treasury General Account) paydown. Meanwhile, BofA estimates that Federal Home Loan Banks (FHLB) net issuance declined \$23bn on Friday, a significant slowdown from \$156bn at the start of the banking turmoil. Total FHLB issuance since March 10 amounted to \$274bn. Lower FHLB debt issuance will likely lead to MMFs shifting into overnight RRP. Indeed, the take-up of overnight RRP increased \$104bn on Friday, largely in line with past non-year-end quarter-end pattern.

Exhibit 11: Fed balance sheet, selected assets & liabilities (\$bn, Wednesday comparison data)

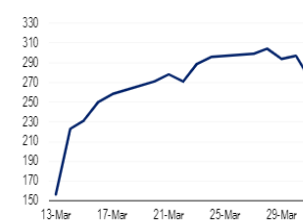
Reduction in Fed assets and liquidity programs came primarily out of ON RRP and TGA

Dates	Assets						Liabilities						Total
	Securities	Repo	Discount Window	BTFF	FDIC bank credit extension	CB Liquidity Swaps	Currency	Foreign RRP	ON RRP	TGA	Reserves		
3/29/2023	7,506	55	88	64	180	1	2,304	368	2,265	163	3,402		8,756
Change from 3/8-3/15	-8	0	148	12	143	0	3	0	-137	-34	441		258
Change from 3/15-3/22	-3	60	-43	42	37	0	8	3	224	-78	-74		54
Change from 3/22-3/29	-10	-5	-22	11	0	0	5	-3	-15	-37	32		-28
Net change from 3/8-3/29	-22	55	84	64	180	0	16	1	12	-149	399		364

Source: BofA Global Research, Federal Reserve

Exhibit 13: Cumulative growth in FHLB debt since March 10 (\$bn)

FHLB debt is \$274bn higher since March 10



Source: BofA Securities

Investors in securitized markets remain cautious amid uncertainty around the disposition of SVB and Signature Bank's securities portfolio. MBS and CMBS spreads remain elevated, in contrast to broader credit spreads that have retraced more than half of the widening (Monday's GMM). On Friday, FDIC reportedly hired advisors (unnamed) to sell the security portfolios of the two institutions, including \$91bn from SVB and \$29bn from Signature Bank. Contacts noted that the uncertainty regarding the approach and timing of the potential FDIC sale has kept investors on the sideline. Several options were mentioned by market participants. Bulk sales through bidding process could minimize the market value risk for the bidders but could potentially limit the participation to large institutions only and requires large liquidity premia. Disposal through auctions over time could spread out the duration and liquidity impact of the sales and broaden the investor base.

Remaining securities breakout of SVB and Signature using bank call report data, in amortized cost less
Call report data from 22Q4 was used, with SVB's AFS portfolio subtracted out

Securities Breakout	AFS Securities (CB) Signature	HTM Securities (CB) SVB + Signature	AFS+HTM Total
Agency MBS Conv PTs	6.7	49.8	56.5
Agency MBS GN PTs	0.1	9.3	9.4
Agency MBS CMOs	9.8	14.2	24.1
Agency CMBS	0.0	14.5	14.5
Non-Agency CMBS	0.1	0.0	0.1
Non-Agency RMBS	1.0	0.0	1.0
ABS	0.0	0.0	0.0
CLOs	0.0	0.0	0.0
Treasuries	0.2	0.0	0.2
Agency Debt	1.2	3.1	4.3
Munis	0.3	7.4	7.7
Other Domestic Debt	1.4	0.8	2.2
Other Foreign Debt	0.0	0.0	0.0
Total	20.8	99.1	119.9

Source: J.P. Morgan, Bank call reports

Blackstone restricted redemptions on its flagship REIT (real estate income trust) for a 5th straight month, as withdrawal requests increased due rising concerns about the real estate markets. Shareholders of the \$70bn fund, called BREIT, asked to redeem \$4.5bn in March, of which only \$666mn or 15% were approved. This followed \$3.9bn withdrawal request in February and \$5bn request in January. The firm restricts withdrawals to 2% each month and 5% each quarter. The Financial Times reported that

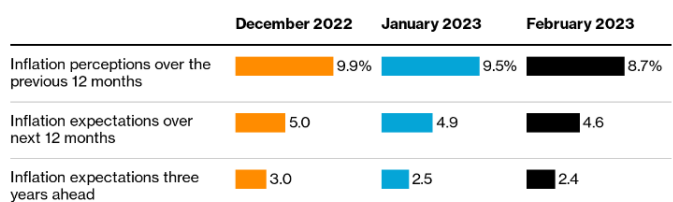
Blackstone has paid out \$5bn to redeeming investors since Nov 30, and over the past year, non-US investors have cut their RIET exposure by half, led by Asian investors. An index of US public REITs lost 2.5% in March, following 6% loss in February.

Euro Area

European equities were trading in the green with the Stoxx 600 Europe index up 0.7%. Gains were broad-based across sectors, with the real estate sector (+1.5%) outperforming. **The euro appreciated (+0.2%) against the dollar.** On the data front Euro area PPI eased to 13.2%y/y in February (versus expected 13.3% from 15.1%). **Sovereign yields increased (10-yr bund +6bps to 2.31%), retracing moves seen yesterday.**

Consumer expectations for euro area inflation continued to decline according to the ECB consumer expectations survey. Median expectations for inflation over the next 12 months fell to 4.6% in February (from 4.9%), and expectations for inflation three years ahead declined to 2.4% (from 2.5%). Expectations for nominal income growth over the next 12 months edged lower while expectations for nominal spending increased slightly. The survey also showed that economic growth expectations for the next 12 months continued to improve (to -0.9% from -0.2%) and the unemployment rate in 12 months is seen marginally lower (11.5% from 11.6%).

Euro-Zone Consumers' Inflation Expectations Continue to Moderate



Source: European Central Bank

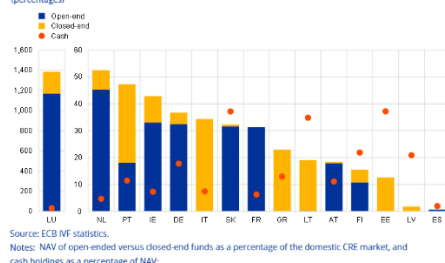
Bloomberg

ECB General Council (GC) member Holzmann yesterday said that a 50bps hike in May is “still on the cards,” emphasizing that it would be difficult to go back to 50bps increments if the ECB were to decrease its tightening pace to 25bps. Separately GC member Simkus said that as regards interest rate hikes, the ECB is “not there yet,” but added that the “larger part” of the ECB’s rate-hike path has been covered. **Market expectations for ECB rate hikes were little changed, with roughly 22bps priced in for the ECB’s meeting in May.**

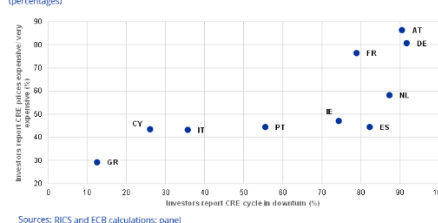
Investment funds active in commercial real estate (CRE) market could pose financial stability risks, according to the ECB. According to the ECB’s latest macroeconomic bulletin, real estate investment funds (REIFs) accounts for 40% of CRE markets in the euro area and have a large footprint in several euro area countries. However, it cautions that the CRE outlook has deteriorated significantly and that the stability of the CRE market could be undermined by REIFs, when these funds offer frequent redemptions while holding illiquid real estate assets. In this regard authors show that in some euro area countries, for example Portugal and Italy, the vulnerability is expected to be lower as cash levels are higher and more REIFs are closed ended. However, in other countries, for example France, Netherlands and Ireland, REIFs account for a large share of the CRE market while the majority of the REIFs have an open-ended structure and low cash buffers. The authors also highlight that the liquidity mismatch could cause procyclical behavior, while CRE price corrections in one country could spill over into other CRE markets as a result of cross-border investments by euro area REIFs.

While there are large variations across the euro area, some countries have a large share of open-ended funds but relatively low cash buffers

Share of CRE market and cash holdings
(percentages)



Investors surveyed reporting market in downturn and overvaluation
(percentages)



Emerging Markets

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Asian markets were mixed. Equity markets were up in South Korea (+0.3%), and mixed in China (CSI 300: +0.3%; Hong Kong SAR-listed: -0.66%), and down elsewhere, with the Philippines losing 0.9%. Currencies were also mixed, led by the Indonesian rupiah (+0.45% to 14,903/\$) and the Malaysian ringgit (+0.3% to 4.4/\$), while the South Korean won was down 0.3% (to 1,315/\$). Hong Kong SAR intervened in FX markets for the first time in 7 weeks. The HKMA bought HK\$7.1bn on Monday after the local currency breached the upper trading band. Selling pressure on the HK dollar intensified as interbank rates staying below the US rates prompted carry trades.

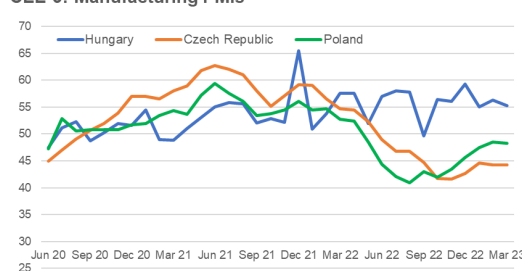
In EMEA, currencies were mixed while equities were mostly higher, with stocks in Hungary outperforming (+1.8%). The Romanian leu was little changed against the euro ahead of the central bank meeting later today, where consensus expects the benchmark rate to remain unchanged at 7%.

In Latin America, Chile and Colombia saw the largest market moves yesterday, largely reflecting their oil importing/exporting status. While the Chilean peso lost against the dollar (-1.8%), the Colombian peso gained the most across emerging markets (+1.3%). In Colombia, the sovereign curve shifted lower and the 20-year yields rallied by as much as 35bps and equities also ended the day higher (+1.1%).

Central and Eastern Europe

Average manufacturing PMI for Hungary, Poland and the Czech Republic (CEE-3) was marginally lower in March. While the largest decline was seen in Hungary, data still surprised on the upside (55.3 vs expected 54.0 from 56.3). Manufacturing PMI in the Czech republic was unchanged at 44.3, coming in slightly below the expected 44.9, while it eased marginally in Poland (to 48.3 vs expected 48.1 from 48.5).

CEE-3: Manufacturing PMIs



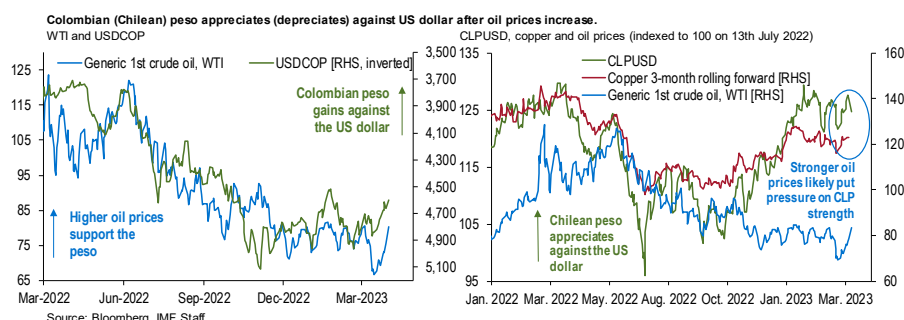
Chile

The Chilean peso depreciated against the US dollar as oil prices surged and mining activity weakened. While the peso was one of the largest beneficiaries of China's re-opening back in November, copper prices have since stalled, and so has the appreciation of the peso vs. the dollar. Chile being a net

oil importer, the peso depreciated the most against the dollar (+1.8%) in the region yesterday after OPEC+'s decision to cut down production.

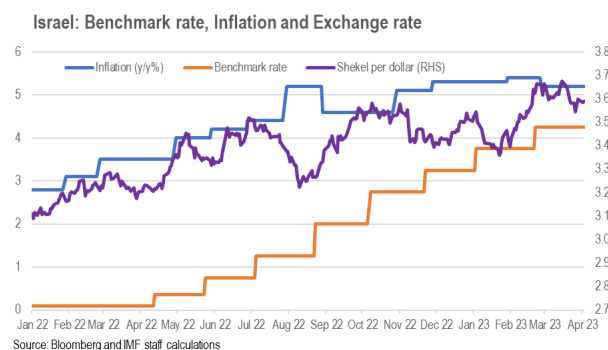
Colombia

The Colombian peso gained the most (+1.3%) among emerging markets following as oil prices increased yesterday. The peso offers high carry as the central bank continued its hiking cycle last week, albeit at a lower pace of 25bps, following hikes of 100bps and 75bps in December and January respectively.



Israel

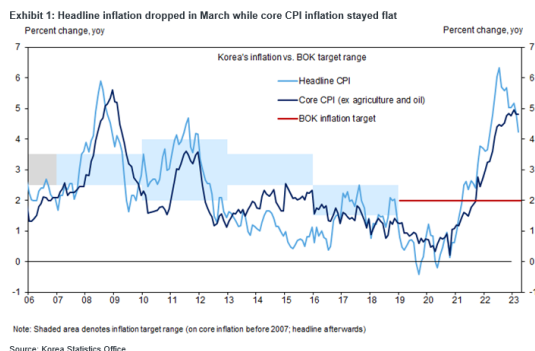
The Bank of Israel (BoI) slow the tightening pace to 25bps, as expected, with new forecasts showing higher inflation and marginally lower GDP growth. Yesterday the BoI hiked its benchmark rate to 4.5%, the ninth consecutive increase since it began its tightening cycle in 2022. Goldman Sachs analysts highlight that the central bank removed hawkish bias from its guidance by removing language that future rate hikes will be data dependent and instead noting that the rate path would be data dependent. Moreover the BoI noted that the labor markets were easing slightly, but remain tight and noted sighs of a moderation in inflation. The central bank also published its forecast update—which showed a higher average inflation forecast for Q4 2023 (now seen at 3.9%) and a higher model-based policy rate in one year (4.75% from previously forecast 4.0%). The forecast update also sees 2023 GDP growth slightly lower (+2.5% from previously forecast +2.8%). The central bank also quantified the macroeconomic impact of a scenario where the government's plan to dilute the power of the court increases country-risk premia in a persistent manner, estimating that the potential impact on growth could amount to 2.8% lower growth over the next three years. **Goldman Sachs analysts expect that the central bank will continue to face hawkish pressure against a backdrop of sticky inflation, depreciation pressures on the Israeli Shekel, and political risks.**



South Korea

South Korean assets moves were limited as inflation for March was mixed. Headline inflation dropped more than expected to 4.2% y/y and was significantly below its February level (4.8% y/y) on lower energy




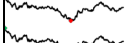

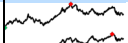



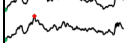
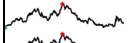


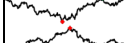

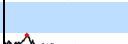


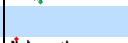






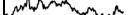
prices, but core inflation held steady at 4.8% yoy (no expectation data). The KOSPI index gained 0.3% with the Korean won weakening 0.4% (to 1,315/\$). The Bank of Korea will meet next week, after holding rates unchanged at 3.5% in February but keeping the door open to further rate increases. Analysts expect BoK to stay on hold but maintain a hawkish bias, considering weaker currency and higher oil prices following the OPEC+ supply cut.



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Global Financial Indicators

4/4/23 1:26 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4130	0.4	4	2	-10	8
Europe		4343	0.7	4	1	10	14
Japan		28287	0.4	3	1	2	8
China		4103	0.3	3	-1	-4	6
Asia Ex Japan		68	0.3	3	0	-12	5
Emerging Markets		40	0.2	3	0	-15	4
Interest Rates			basis points				
US 10y Yield		3.46	4.9	-11	-49	107	-41
Germany 10y Yield		2.32	6.5	3	-40	181	-25
Japan 10y Yield		0.43	3.4	7	-8	21	0
UK 10y Yield		3.51	7.7	5	-34	196	-17
Credit Spreads			basis points				
US Investment Grade		160	-1.4	-13	17	25	1
US High Yield		477	-5.3	-46	60	111	-4
Europe IG		84	-1.4	-11	10	14	-6
Europe HY		441	-4.1	-45	56	109	-33
Exchange Rates			%				
USD/Majors		102.04	-0.1	0	-2	3	-1
EUR/USD		1.09	0.1	1	2	-1	2
USD/JPY		132.8	0.3	1	-2	8	1
EM/USD		50.7	0.0	0	0	-6	2
Commodities			%				
Brent Crude Oil (\$/barrel)		85.5	0.7	9	0	-10	1
Industrials Metals (index)		158	-0.5	-2	-3	-27	-5
Agriculture (index)		68	-0.5	2	0	-7	-1
Implied Volatility			%				
VIX Index (% change in pp)		18.8	0.2	-1.2	0.3	0.2	-2.9
US 10y Swaption Volatility		129.8	3.3	-12.3	1.8	24.5	4.1
Global FX Volatility		10.3	0.0	-0.4	0.5	1.4	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		190	-4.3	-1	12	-21	-16
Italy		186	1.0	1	4	29	-29
Portugal		85	2.6	-2	-1	0	-17
Spain		103	0.6	-1	8	8	-7

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

Emerging Market Financial Indicators

Last updated: 4/4/2023 1:27 PM	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	1	-8	0		3.1	0.5	3	-8	30	9	
Indonesia		14900	0.5	1.3	3	-4	4		6.7	-4.9	-7	-25	-2	-21	
India		82	-0.2	0.0	0	-8	0		7.5	0.1	-1	-27	15.5	5	
Philippines		54	0.5	0.0	1	-6	2		6.0	0.0	0	-3	70	-5	
Thailand		34	0.5	0.2	1	-2	1		2.6	3.0	13	-14	23	-1	
Malaysia		4.40	0.3	-0.1	2	-4	0		3.9	-0.4	3	-14	-1	-13	
Argentina		210	-0.6	-1.4	-6	-47	-16		87.8	74.7	-408	-54	3859	-37	
Brazil		5.06	0.1	2.1	2	-9	4		13.1	19.8	-2	-64	191	50	
Chile		809	-1.7	-0.4	-1	-4	5		5.1	0.0	-3	-53	-99	-20	
Colombia		4605	0.4	1.8	4	-20	5		8.6	0.0	-23	-112	96	-123	
Mexico		18.04	0.1	1.1	0	10	8		8.4	-2.5	-16	-68	11	-38	
Peru		3.8	-0.2	0.0	0	-3	1		7.5	0.1	-3	-64	75	-44	
Uruguay		39	0.1	0.6	2	7	3		10.2	-10.6	-13	-3	119	-46	
Hungary		345	0.3	1.7	2	-3	8		8.5	-0.5	42	22	248	-108	
Poland		4.28	0.1	0.7	3	-2	2		5.5	3.0	8	-39	63	-68	
Romania		4.5	0.2	1.0	2	0	2		7.2	-0.9	9	-26	127	-48	
Russia		79.3	-1.1	-2.7	-5	5	-6		10.4	2.0	-1	-15	-360	-145	
South Africa		17.8	0.1	1.8	2	-18	-4		9.2	3.5	6	-6	132	0	
Turkey		19.23	-0.2	-0.6	-2	-24	-3		10.3	-6.0	-91	-130	-1517	43	
US (DXY; 5y UST)		102	-0.1	-0.4	-2	3	-1		3.55	4.6	-13	-70	100	-46	

	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		4103	0.3	3	-1	-4	6		193	5	30	-18	16		
Indonesia		6833	0.1	1	0	-4	0		161	10	16	-11	21		
India		59106	0.0	3	-1	-2	-3		166	-6	21	18	24		
Philippines		6472	-0.9	-2	-3	-10	-1		133	6	15	10	36		
Thailand		1594	-0.4	-1	-1	-6	-4		0	0	0	0	0		
Malaysia		1430	-0.3	1	-2	-10	-4		100	-5	6	-18	0		
Argentina		254697	3.7	9	4	173	26		2284	-255	178	562	79		
Brazil		101506	-0.4	2	-2	-16	-7		272	-4	14	-17	-2		
Chile		5309	0.0	1	-2	6	1		146	3	8	-4	14		
Colombia		1183	2.2	6	-3	-27	-8		378	-31	-18	32	6		
Mexico		53884	0.0	2	-1	-4	11		384	-22	12	41	3		
Peru		21998	0.5	2	-1	-12	3		190	0	7	31	10		
Hungary		43789	1.9	4	-1	-4	0		241	13	27	106	19		
Poland		59431	0.7	5	-1	-10	3		85	16	15	76	12		
Romania		12271	0.3	1	-1	-4	5		264	13	20	60	8		
Russia		2506	1.3	3	10	-10	16								
South Africa		77254	0.8	2	-1	2	6		402	-2	33	43	35		
Turkey		4877	0.8	1	-6	111	-11		488	33	6	-43	48		
Ukraine		507	0.0	0	0	-2	-2		4993	95	279	2179	914		
EM total		40	-0.1	3	0	-15	4		410	-5	20	40	34		

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

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