GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 5, 2023

- **Weaker than expected job openings in the United States weigh on sentiment** (link)
- **Index of contingent convertible bank bonds back at mid-March levels** (link)
- **New Zealand hikes rates more than expected in a slowing economy** (link)
- **Romania leaves rates unchanged in line with expectations** (link)
- **Colombian sovereign yields continue to rally on higher oil prices** (link)
- **Mexican Peso sees volatility dropping** (link)
- **Special Feature: Total EM and Frontier issuance increased to $15.5 bn YTD in March**

Mature Markets | Emerging Markets | Market Tables

Conflicting Signals in Advanced Economies

The JOLTS report, which showed fewer job openings in The United States than expected for February when released yesterday, hit sentiment globally, rekindling recession fears. Equities fell in the US yesterday and in Europe this morning, while treasury yields dropped. At the same time, final PMI services data in Europe show robust activity. As a result, front-end markets continue to price in cuts by the Fed later in 2023 but the ECB is not expected to lift its terminal rate much above 3.5%. Signs that the markets are normalizing somewhat continue nonetheless, with the index of contingent bank bonds back at mid-March levels, and volatility in EM currencies dropping. Earlier this morning, the Reserve Bank of New Zealand shocked markets by hiking 50 bps, more than the 25 bps that was expected, even though the economy is already slowing. Finally, please note today's special feature on EM and Frontier issuance.

Key Global Financial Indicators

Last updated: 4/5/23 1:26 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4101	-0.6	3	1	-9	7
Eurostoxx 50		4309	-0.1	2	0	10	14
Nikkei 225		27813	-1.7	0	-2	2	7
MSCI EM		40	0.0	1	0	-14	4
Yields and Spreads					bps		
US 10y Yield		3.31	-3.4	-26	-64	76	-57
Germany 10y Yield		2.22	-3.0	-11	-50	161	-35
EMBIG Sovereign Spread		486	5	-6	35	94	34
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		50.7	0.1	0	0	-5	2
Dollar index, (+) = $ appreciation		101.6	0.0	-1	-3	2	-2
Brent Crude Oil ($/barrel)		84.7	-0.3	8	-1	-21	-1
VIX Index (%, change in pp)		19.8	0.8	1	1	-1	-2

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

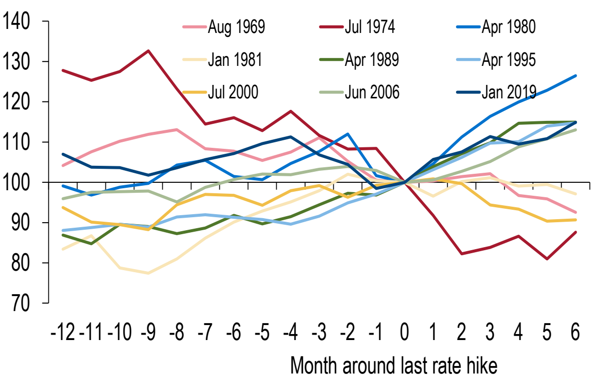
Treasuries gained and equities pulled back after weaker than expected job openings in the United States weighed on sentiment. Stocks had managed a comeback after the collapse of SVB, with the NASDAQ up 8.8% and S&P500 up 6.5% since March 10. Despite the strong index performance, some investors have voiced concerns that market breadth is low, as indicated by the crowded positioning in a handle of large and growth-sensitive companies. The lack of breadth makes the market vulnerable to changes in economic and policy outlook.

Not a broad-based rally in the S&P500

Source: Bloomberg, Apollo Chief Economist.

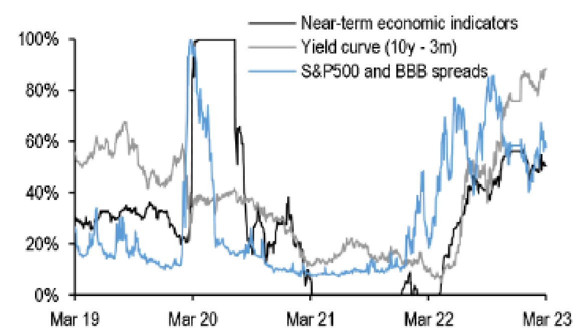
In past instances, US equities generally performed poorly when the economy fell into recession around the end of tightening cycles, such as in 1970, 1973, 1981, and 2001. Currently, recession probabilities implied by the prices of safe and risky assets continue to diverge, but even on the more optimistic outlook from the equity and credit investors, the recession probability remains above 60%, in line with consensus forecasts. Furthermore, earnings growth is unlikely to support equities in the near term, with S&P500 EPS growth expected at 1% for 2023 and 5% in 2024. In contrast, EPS grew 9% on average at the end of the past 5 non-recession hiking cycles.

S&P500 Performance during Past Tightening Cycles
(Index to last rate hike)



Note: legend correponds to month of last rate hike. Source: Bloomberg;

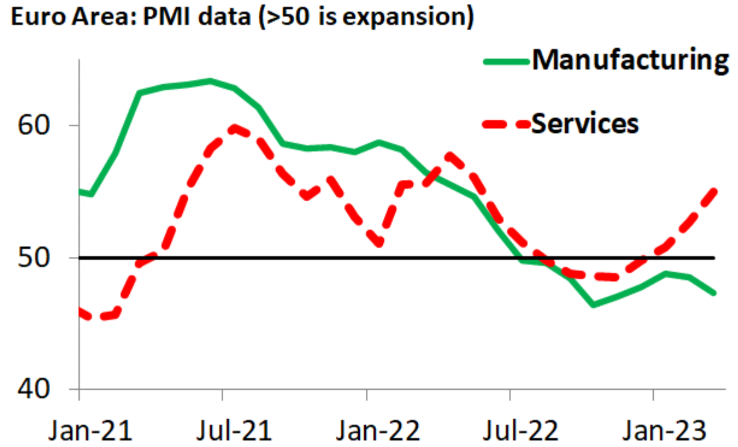
Probabilities of recession within 1 year from near-term economic indicators*, 3m/10y yield curve, and S&P 500/HG credit spreads**; %



Source: J.P. Morgan. * Based on regression models. Indicators enter the

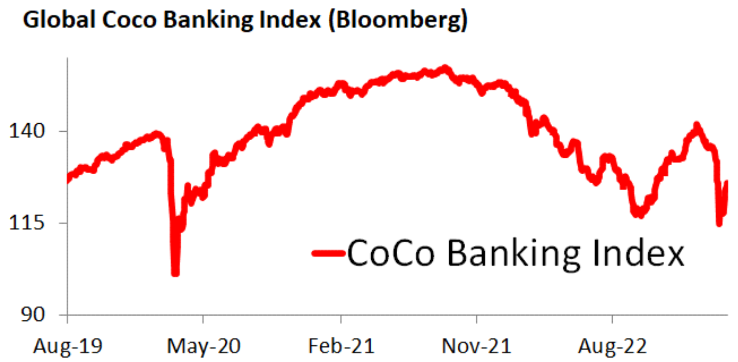
Euro Area

European equities (-0.3%) and bank shares (-0.6%) fell in line with a broader shift in risk sentiment after US data (such as JOLTS job survey and factory orders) disappointed yesterday. Euro area 10-yr core rates are 4–5 bps higher as final euro area services PMI data confirm robust growth (at 55 compared to 55.6 expected) in March. The services PMI in Spain even rose to 59.



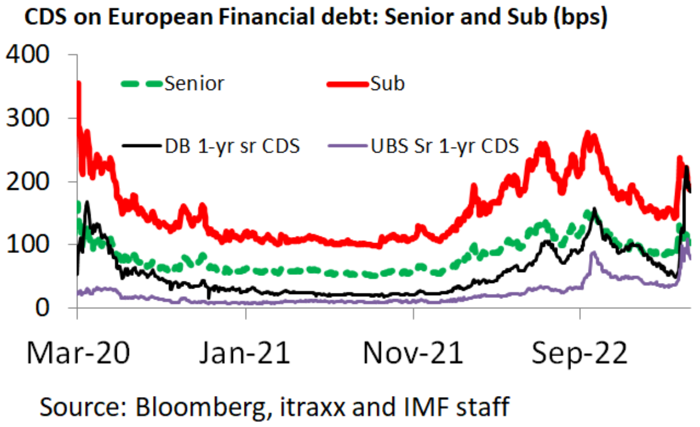
Source: Bloomberg, Markit and IMF staff

Contingent convertible bonds issued by banks have rebounded back to mid-March levels before all of Credit Suisse's CoCo debt was wiped out as part of the state-led rescue. Nevertheless, CDS spreads of several banks continue to trade above levels observed earlier in 2023. JP Morgan CEO Jamie Dimon also said that the US banking crisis is not over yet and will be felt for years.



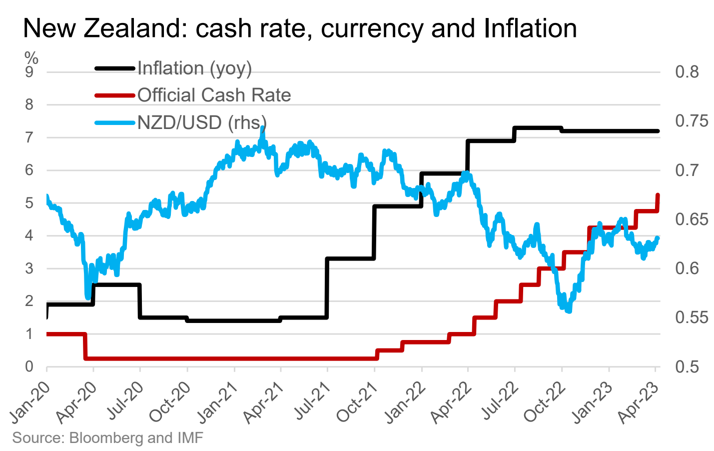
Note: Index includes 233 members and has market value of €213 bn.
Source: Bloomberg, and IMF staff

UBS shares were little changed after UBS chair Kelleher said that the integration of Credit Suisse could take 3–4 years and analysts said that the outcome of a buyback offer signaled confidence in UBS. UBS had also launched a buyback of two euro-denominated notes issued on March 9. Holders of about €454 mn ($498 mn) of 2028 maturity notes and €273 mn of 2032 notes opted to tender them, leaving about €1.046 bn and €977 mn of the securities outstanding respectively.



New Zealand

This morning, the Reserve Bank of New Zealand (RBNZ) surprised with a 50 bps hike to 5.25%, larger than the 25 bps expected, even though the economy is already slowing. The statement acknowledges the slowing in the economy has played out faster than expected but also states that the official cash rate needs to be at a level that will reduce inflation and inflation expectations—inflation was 7.2% y/y in Q4. However, forward guidance that more tightening is needed was removed and instead signaled data dependence going forward. JP Morgan analysts writ that the decision conveys a clear willingness to err on the side of doing too much and then undo it later, rather than delivering a more consistent, grinding adjustment in financial conditions. Local rates fell with some contacts believing that the central bank may be tightening too much.



Emerging Markets

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In Asia, with markets closed in China for a holiday, equity markets were mixed. Equity markets were up in South Korea (+0.6%) and India (0.9%), but down in Thailand (-1.4%) and Indonesia (-0.2%). Currencies were generally trading in a narrow range, with the exception of Thai baht appreciating (+0.6% to 33.8/$). Local bond yields were mostly unchanged.

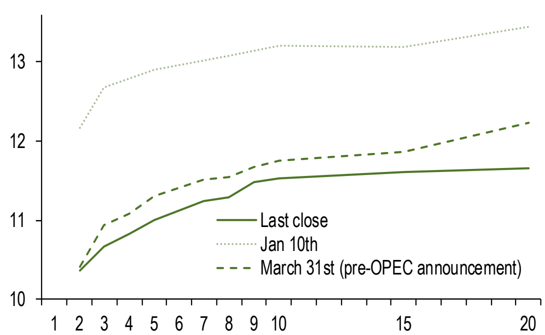
In EMEA, equity markets were mostly trading higher while currencies were mixed this morning. Hungarian equities were outperforming (+0.8%) while equities in Nigeria (-2%) and South African (-0.6%) underperformed. Currencies in central and eastern Europe were mixed against the euro. The Polish zloty and Polish local currency bond yields were little changed ahead of the central bank meeting later today, where Poland is expected to leave its base rate unchanged at 6.75%.

Markets were mixed in Latin America. In equities, the major Chilean equity index was the worst performer (-1.3%) while Mexbol performed well (+0.8%). Most currencies in the region were unchanged against the dollar, with the exception of the Mexican peso (-0.5%). Sovereign yields were mostly unchanged. Colombian assets have performed well since OPEC+'s decision to cut oil output. The Colombian peso continued to strengthen against the dollar (+0.4%), and sovereign yields continued to rally. Yesterday, Chile's central bank unanimously decided to keep its policy rate unchanged (+11.25%) in line with expectations. The committee signaled that policy rates will be held "until macroeconomic conditions indicate that the process of convergence of inflation to the 3% target has consolidated."

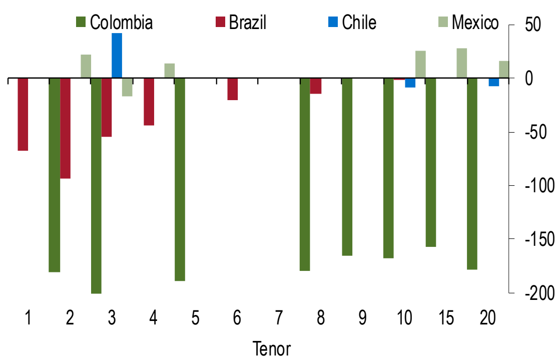
Colombia

The Colombian sovereign curve continued to rally as oil prices increased. While the rally was across most tenors of the curve, the largest movement this week has been in the 20-year tenor (-57 bps). The two-day rally in the 20-year tenor makes up roughly a third of the rally in yields since January (-178 bps). The price action across the Colombian curve continues to stand out from other major bond markets in the region. Note that significant risk premia was priced into Colombian assets last year when the country held elections.

Colombia's yield curve has rallied around 150bps since January 10th
Percent



Change in sovereign yields since January 10th across other major LATAM markets
Basis points

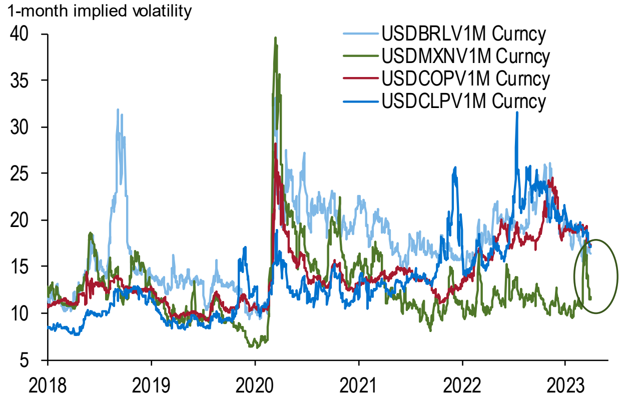


Source: Bloomberg, IMF Staff Calculations

Mexico

The Mexican peso's 1-month implied volatility is back to pre-SVB levels. While the peso has retraced some of its losses against the US dollar, its 1-month implied volatility has also been converging back to its pre-SVB levels. The peso was one of the most heavily positioned currencies, along with the Hungarian forint this year. The pick-up in market volatility saw investors exiting these positions, leading the peso and the forint to depreciate more than other currencies. In recent months, the Mexican peso had exhibited lower volatility than other high carry major emerging market currencies.

Mexican peso's volatility continued to drop back down
1-month implied volatility

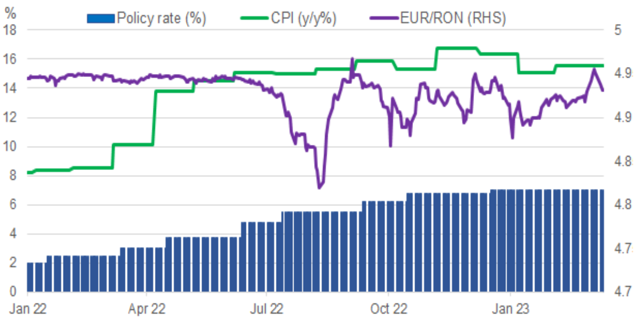


Source: Bloomberg

Romania

The National Bank of Romania yesterday kept its policy rate on hold at 7%, as expected, with analysts no longer expecting further tightening in their baseline scenario. This is the second consecutive meeting at which the central bank left rates unchanged, with the statement noting expectations that the inflation rate would decelerate at a faster pace in coming months against a backdrop of lower commodity prices and price caps on energy, with base effects also playing a role. JPMorgan analysts argue that the central bank is in a comfortable position regarding inflation relative to the region, as Romania has the lowest regional headline and core inflation rates. While the central bank has not formally ended its hiking cycle, **JPMorgan analysts, who previously had anticipated 50bps of tightening in 2H 2023, now see further hikes as unlikely unless FX becomes under pressure or inflation eases less than anticipated**. Even in such a scenario analysts point out that the central bank might tighten liquidity as opposed to hiking interest rates—given high levels of excess Romanian leu reserves.

Romania: Headline CPI, policy rate and 10-yr local bond yields



Source: Bloomberg and IMF calculations

Romania, liquidity deficit (-)/surplus(+)

RON billion, daily average

Source: NBR, J.P. Morgan

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Global Financial Indicators

4/5/23 1:26 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4101	-0.6	2	1	-9	7
Europe		4309	-0.1	2	0	10	14
Japan		27813	-1.7	0	-2	2	7
China		4103	0.3	3	-1	-4	6
Asia Ex Japan		68	-0.1	1	0	-11	5
Emerging Markets		40	0.0	1	0	-14	4
Interest Rates					basis points		
US 10y Yield		3.31	-3.4	-26	-64	76	-57
Germany 10y Yield		2.22	-3.0	-11	-50	161	-35
Japan 10y Yield		0.48	5.6	16	-3	26	6
UK 10y Yield		3.43	-0.1	-4	-42	178	-24
Credit Spreads					basis points		
US Investment Grade		164	0.6	-5	21	30	5
US High Yield		498	3.4	-8	82	140	18
Europe IG		88	0.8	-2	14	14	-3
Europe HY		459	3.4	-3	74	111	-15
Exchange Rates					%		
USD/Majors		101.60	0.0	-1	-3	2	-2
EUR/USD		1.10	0.0	1	3	0	2
USD/JPY		131.1	-0.5	-1	-4	6	0
EM/USD		50.7	0.1	0	0	-5	2
Commodities					%		
Brent Crude Oil ($/barrel)		84.7	-0.3	9	-1	-10	0
Industrials Metals (index)		155	-0.5	-3	-4	-28	-6
Agriculture (index)		68	-0.4	1	-1	-9	-2
Implied Volatility					%		
VIX Index (%, change in pp)		19.8	0.8	0.6	1.3	-1.3	-1.9
US 10y Swaption Volatility		139.1	2.4	2.8	11.1	26.0	13.4
Global FX Volatility		10.2	0.0	-0.5	0.4	1.3	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		191	-0.9	0	13	-15	-15
Italy		184	-2.3	2	3	19	-30
Portugal		86	-0.1	1	0	-4	-16
Spain		103	0.1	2	9	5	-6

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

Emerging Market Financial Indicators

Last updated: 4/5/2023 1:27 PM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.88	0.0	0.0	1	-8	0		3.1	0.5	3	-8	30	9
Indonesia		14925	-0.2	0.9	2	-4	4		6.7	-3.3	-13	-28	-6	-24
India		82	0.4	0.4	0	-8	1		7.5	-5.1	0	-32	4.4	0
Philippines		54	0.1	0.1	1	-6	2		6.0	0.0	0	-3	70	-5
Thailand		34	1.0	0.8	2	-1	2		2.6	-4.0	9	-18	19	-5
Malaysia		4.40	0.1	0.5	2	-4	0		3.9	-2.7	-3	-18	-6	-17
Argentina		211	-0.2	-1.4	-5	-47	-16		88.8	92.3	-345	38	3950	55
Brazil		5.06	0.2	1.4	2	-8	4		12.9	11.8	-21	-82	155	32
Chile		809	0.0	-1.4	-1	-4	5		5.1	4.0	-5	-55	-104	-21
Colombia		4582	0.5	1.9	3	-19	6		8.5	0.0	-22	-115	84	-126
Mexico		18.17	-0.2	-0.5	-1	10	7		8.3	-4.5	-21	-74	7	-43
Peru		3.8	-0.1	-0.2	0	-3	1		7.5	-0.9	-7	-69	60	-49
Uruguay		39	-0.3	0.2	1	7	3		10.3	10.6	-3	8	130	-36
Hungary		343	0.4	2.2	3	1	9		8.3	-12.0	13	-5	194	-135
Poland		4.27	-0.1	1.1	3	0	2		5.4	-0.7	-3	-48	45	-76
Romania		4.5	0.0	1.4	2	1	3		7.2	-1.4	1	-28	120	-49
Russia		79.3	0.0	-2.6	-5	6	-6		10.4	-1.9	-1	-17	-290	-147
South Africa		17.9	0.1	1.1	2	-18	-5		9.0	-8.0	-2	-21	111	-15
Turkey		19.25	-0.2	-0.6	-2	-24	-3		10.2	-10.0	-59	-140	-1544	33
US (DXY; 5y UST)		102	0.0	-1.0	-3	2	-2		3.34	-4.6	-34	-90	65	-66

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
								basis points						
China		4103	0.0	3	-1	-4	6		194	5	31	-16	17	-14
Indonesia		6820	-0.2	0	0	-4	0		164	9	19	-4	24	-21
India		59689	1.0	4	-1	0	-2		166	-4	21	17	24	12
Philippines		6489	0.3	-2	-3	-9	-1		141	11	23	23	44	4
Thailand		1571	-1.4	-2	-2	-8	-6		0	0	0	0	0	0
Malaysia		1430	0.0	1	-2	-11	-4		99	-5	5	-17	-1	-34
Argentina		251488	-1.3	4	2	174	24		2364	-141	258	666	159	627
Brazil		101869	0.4	1	-2	-14	-7		275	-1	17	-8	1	-56
Chile		5228	0.0	-2	-4	6	-1		150	4	12	8	18	-24
Colombia		1179	-0.4	5	-3	-28	-8		391	-19	-5	68	19	-1
Mexico		54176	0.5	2	0	-2	12		396	-14	24	60	15	26
Peru		21992	0.0	1	-1	-12	3		194	-1	11	42	14	4
Hungary		44172	1.2	4	-1	1	1		241	9	27	112	19	88
Poland		58646	-0.6	3	-3	-10	2		88	13	18	77	15	72
Romania		12330	0.3	2	-1	-4	6		262	7	19	66	7	30
Russia		2486	0.2	1	9	-7	15		#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#VALUE!
South Africa		77200	-0.3	1	-1	3	6		412	-1	43	60	45	23
Turkey		5013	0.6	1	-4	115	-9		499	36	17	-29	59	-64
Ukraine		507	0.0	0	0	-2	-2		5014	102	300	2223	935	3541
EM total		40	0.3	1	0	-14	4		415	-3	25	53	40	-43

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

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