



- Wholesale funding costs increase notably in March for US and European banks ([link](#))
- Forward rates markets see ECB and Fed nearing end of tightening cycle ([link](#))
- ECB calls for more oversight of major global crypto asset companies ([link](#))
- Markets price peak in policy rate as Reserve Bank of India pauses in surprise decision ([link](#))
- National Bank of Poland holds policy rate as expected and stresses data dependence ([link](#))
- Brazil sells \$2.25 bn of US dollar bonds in first external debt issuance since 2021 ([link](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Core sovereign bond yields decline as recession worries resurface

Concerns over a looming economic slowdown has come to the forefront over the last day, sending core sovereign bond yields lower. Some weaker than expected labor market data out of the US over the last two days has investors putting recession fears back in the spotlight and has markets suggesting the FOMC's tightening cycle may be closer to taking a pause. Market implied expectations for the upcoming May FOMC meeting are now pricing in less than a 50% probability for a 25 bp policy rate hike and over 75 bps of cuts through the end of 2023. All eyes are now shifting to tomorrow's US nonfarm payrolls report for March as another key data point in helping to inform the committee's decision. The subdued risk sentiment has driven declines in advanced economy sovereign bond yields across most maturities, with 10-year US Treasury yields now at lows not seen since last September. Equity market performance has been mixed overnight and this morning with major Asian bourses closing mostly lower, while European equities and S&P 500 futures are trading marginally higher. US banking sector stocks recovered into the close yesterday as worries over a specific regional bank eased following news deposit outflows had slowed and normalized by mid-March. In emerging markets, the National Bank of Poland kept its policy rate unchanged as expected while the Reserve Bank of India surprised by keeping its policy stance on hold. Brazil tapped external US dollar bond markets for the first time since 2021 amid strong demand.

Key Global Financial Indicators

Last updated: 4/6/23 8:02 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		4090	-0.2	2	1	-9	7	-3
Eurostoxx 50		4307	0.2	1	0	13	14	8
Nikkei 225		27473	-1.2	-1	-3	2	5	4
MSCI EM		39	-0.8	0	0	-13	4	-17
Yields and Spreads			bps					
US 10y Yield		3.28	-3.4	-27	-68	68	-60	129
Germany 10y Yield		2.14	-3.9	-23	-61	150	-43	192
EMBIG Sovereign Spread		492	6	4	41	105	40	79
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.5	0.0	-1	0	-5	1	-5
Dollar index, (+) = \$ appreciation		101.9	0.0	0	-2	2	-2	6
Brent Crude Oil (\$/barrel)		85.2	0.2	7	-1	-16	-1	-12
VIX Index (% change in pp)		19.4	0.3	0	1	-3	-2	-12

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

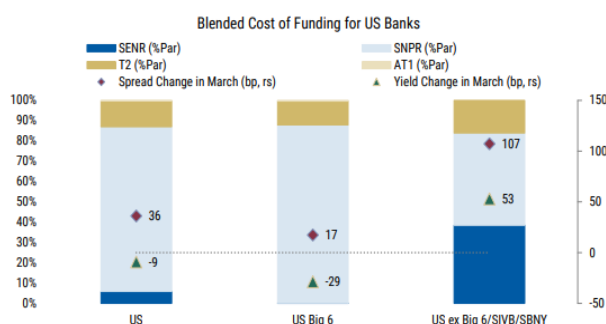
Mature Markets

[back to top](#)

United States

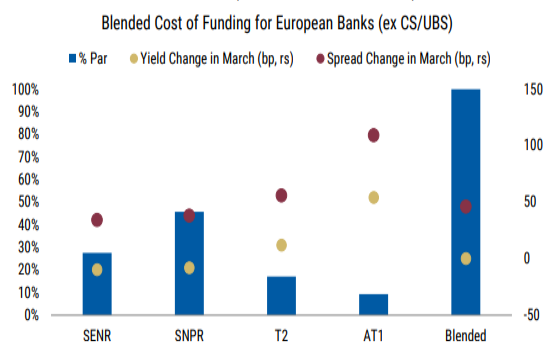
Wholesale funding costs increased notably in March for smaller banks and riskier funding instruments. Wholesale funding cost for US banks widened 40 bps in spread terms. Funding rates for large banks dropped 29 bps thanks to the recent decline in benchmark interest rates, but rates increased by 50–60 bps for regional banks. In Europe, the dispersion is more pronounced across the capital structure, with larger increases for riskier instruments. Potential regulatory tightening and efforts to diversify funding mix may further increase funding costs.

Exhibit 3: Wide dispersion in cost of funding between banks in US...



Source: ICE, Bloomberg, Morgan Stanley Research

Exhibit 4: ...and across capital structure in Europe

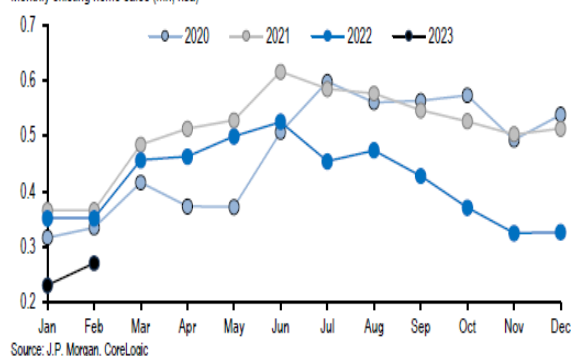


Source: ICE, Bloomberg, Morgan Stanley Research

In data releases this morning, jobless claims rose more than expected to 228K last week, and the prior reading was revised up by 48K. Continuing claims rose to 1823K two weeks ago, with a 128K upward revision to prior reading. Market reaction was limited so far.

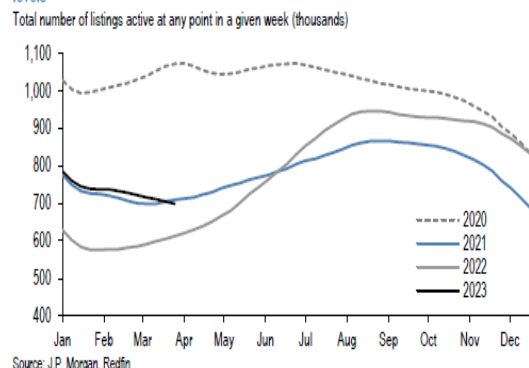
US home price appreciation slowed further in February due to low demand. The CoreLogic HPI rose 0.8% m/m in February, after 7 consecutive monthly declines, as affordability improved on the margin. However, the annual price gains decelerated to 4% y/y from January's 5.1% y/y. Demand remains well below levels seen over the last 3 years while supply moderated to 2021 levels. Rental prices continue to moderate in the largest cities as well as at the national level. The MBA 30-year fixed mortgage rate dropped to 6.4% yesterday, 70 bps below the recent peak in November.

Exhibit 5: Demand remains at an all-time low, declining 23% YoY in February



Source: J.P. Morgan, CoreLogic

Exhibit 7: Active listings as of February end decreased 1.4% from January, and are retracing 2021 levels



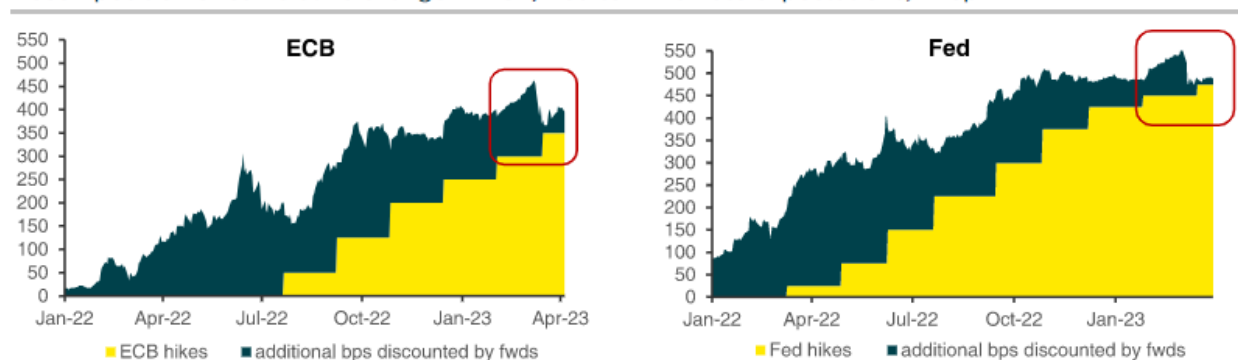
Source: J.P. Morgan, Redfin

Euro area

Equities (+0.4%) and bank shares (+1.5%) gained as core rates fell around 3 bps and expectations for further hikes by the ECB and Fed continue to recede. Nevertheless, ECB Chief Economist Lane highlighted the risk of further rate hikes this morning. Contacts expect that the bar is relatively high for the market to price in further US hikes following disappointing US data releases this week, even if US payrolls data are in line with expectations.

End of the cycle: Hikes no longer boost hike expectations!

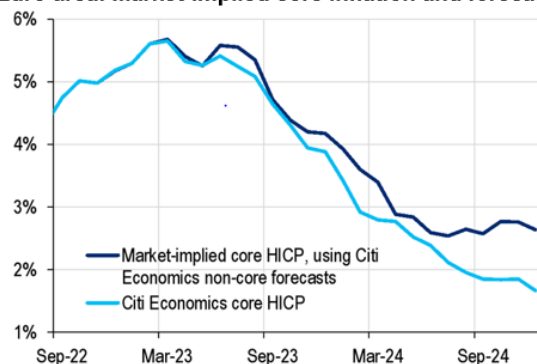
Decomposition of cumulative change in ECB/Fed terminal rate expectations, in bp



Source: Bloomberg, Commerzbank Research

Analysts at Citi expect euro area core inflation to remain sticky above 5% until the end of summer, in line with market pricing. The recent pick-up in oil prices will lift headline inflation slightly but does not materially change its steep downward trajectory. Citi believes that the turnaround in core goods and food inflation is likely as upstream price pressures have eased but services inflation will not show “convincing signs of easing” until at least the end of summer. **Citi believes that the euro area aggregate negotiated wage measure is tracking at 4.6% y/y for 2023Q1, up from 2.9% in Q4 and sees 5% growth possible for 2023 plausible (given 2022 inflation) but still compatible with a slowdown in core inflation in 2024 on the view that wage deals are front-loaded.**

Euro area: Market-implied core inflation and forecasts of Citi



© 2023 Citigroup Inc. No redistribution without Citigroup's written permission.
Source: Citi Research, as of 5pm CET

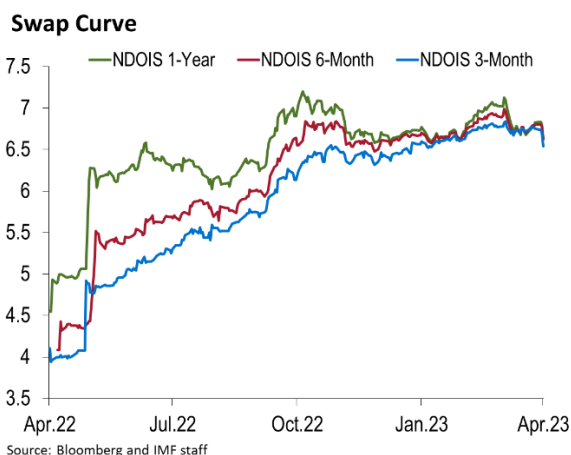
ECB Supervisory Board member McCaul said that major global crypto companies like FTX and Binance need tougher rules and more international regulatory cooperation. The ECB sees “gaps” in the incoming EU crypto framework that will allow the biggest crypto players to escape stricter supervision. The European Union’s Markets in Crypto Assets regulation (MiCA) is not expected to fully address the problem of complex international structures, or “ecosystem” companies that claim to have no headquarters.

Emerging Markets [back to top](#)

In **Latin America** yesterday, Colombian equities outperformed (+1.2%) while Mexican (-1.1%) and Brazilian (-0.9%) equities underperformed. The Mexican peso was the worst performer across currencies (-0.9%) in contrast to the Brazilian real, which traded back to levels at the start of the week (+0.6%). The Colombian peso continued to appreciate against the dollar at a more modest pace since the OPEC decision (+0.3%). There was a modest rally (-10 bps) in Brazilian yields around the intermediate and the long end of the curve. In **Asia**, equity markets generally traded lower with South Korea (-1.4%) leading the declines. Ten-year local bond yields were lower across the region led by Indian bonds following the RBI's surprise decision to keep its policy stance unchanged. **China's Caixin PMI composite improved** to 54.5 in March from 54.1 in February. The services PMI component rose to 57.8 from 55 in February, the highest since Nov. 2020. Both the business activity index and the new order index of the services industries improved. **EMEA markets are generally up with currencies broadly stable.** Equity markets are gaining, led by Hungary and the Czech Republic (both +1.2%). Currencies are range bound, except for the South African rand (-1.1% to 18.24/\$). Local bond yields are inching down in central and eastern Europe, with Polish yields down 5 bps (to 6%) after the central bank left rates unchanged at 6.75% as expected yesterday. Today the Serbian central bank hiked rates 25 bp to 6%, as expected and the central bank of Uganda left rates unchanged at 10%.

India

Reserve Bank of India unexpectedly held its benchmark repo rate at 6.50%, against the consensus for a 25 bp policy rate hike. RBI also pledged to hike again, if necessary, as inflation is still above its target ceiling of 6%. There had been signs before the announcement that the central bank might hold the policy rate, as swap curve has been pointing to rates being close to the peak level. In addition, borrowing costs in India's corporate bond market have declined by the most in the last four months and short-term local bond yields fell by 11 to 15 bps in March. Ten-year local bond yields declined 7 bps after the announcement, while local equities posted modest gains (+0.25%) and the rupee was little changed.

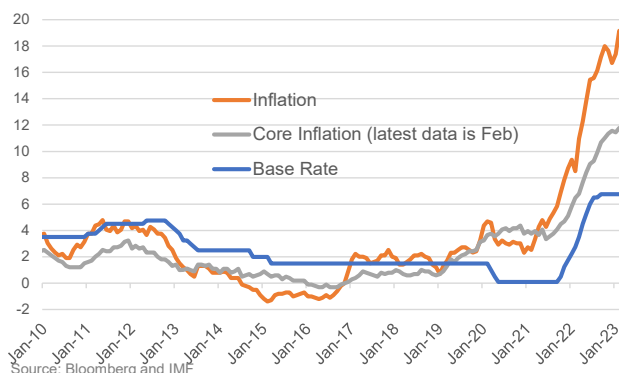


Poland

The Polish zloty is broadly stable (4.68/euro), and 10-year yields are down 5 bps (to 6%) after the Polish central bank left rates unchanged at 6.75% yesterday as expected. The statement was broadly unchanged noting that decelerating activity and the earlier monetary policy tightening together with falling commodity prices should support a gradual return to the inflation target (+2.5% +/- 1%). The March flash inflation release showed prices rising 16.2% y/y down from 18.4% y/y in February. While waiting for more guidance on the monetary policy outlook at today's press conference, Goldman Sachs analysts point out that there has been a divergence recently in the NBP's communication. While in the

past governor Glapinski has repeatedly stated that he hopes that there can be rate cuts later this year, Goldman Sachs analysts see the latest March *Inflation Report* projections as hawkish, showing that inflation will return to the NBP's target only in 2025Q4 under the assumption of unchanged rates at +6.75% throughout the forecast horizon. They do not think that economic conditions will leave much room for rate cuts this year, although given that this is an election year, they see risks that a token rate cut could be delivered.

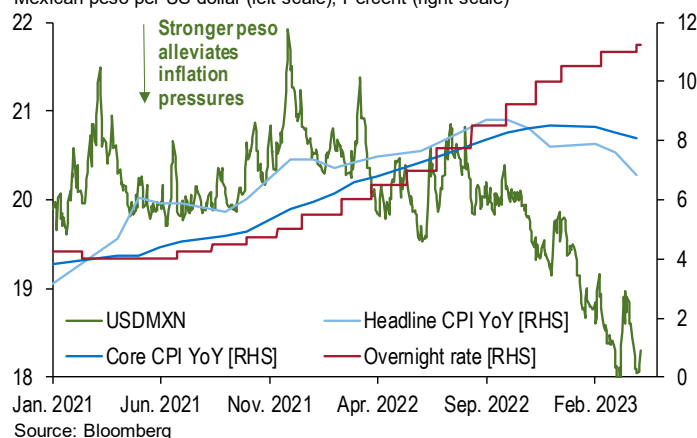
Poland: Inflation and Policy Rate



Mexico

The Mexican peso depreciated, and local equities underperformed following the March inflation print. Headline (+0.27% m/m) and core (+0.52% m/m) figures were near economists' expectations, while core-services inflation continued to accelerate. The central bank could be nearing the end of its hiking cycle as the decline in the headline has come in line with Banxico's forecasts. At its last meeting, the MPC had reduced its pace of hikes from 50 bps to 25 bps and signaled that it will remain data dependent. Following the release of the print, the peso depreciated against the US dollar (-0.9%) while local equities declined (-1.1%). Despite the peso's depreciation on the day, the currency has been one of the best performers against the US dollar since the start of the global monetary policy tightening cycle.

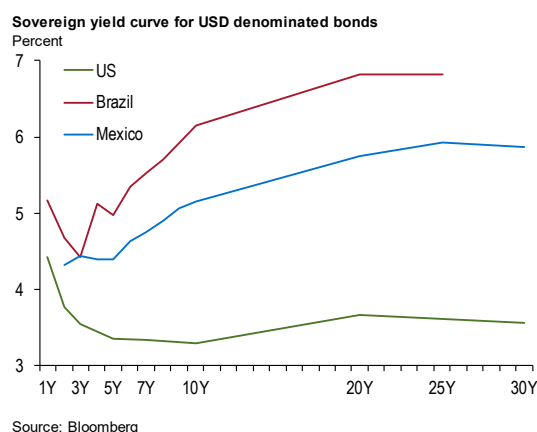
Headline inflation continues to come down as Banxico might be nearing the end of its tightening cycle
Mexican peso per US dollar (left scale); Percent (right scale)



Brazil

Brazil sold its first US dollar denominated bond since 2021. The expected issuance of the 10-year hard currency bond will be the first under President Lula's new term. The offered amount was increased from \$1.5 bn to \$2.25 bn due to strong demand, according to Bloomberg. While Brazil has the lowest external debt within the region, the yields on Brazil's hard currency bonds continue to trade at a premium above



















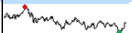

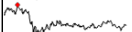





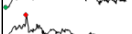

Mexico's. While Brazil (BB-) has a lower median credit rating than Mexico (BBB), risk premia were priced into Brazilian assets last year concerning political uncertainty around the election period. Volatility in Brazilian assets persisted following President Lula's criticism of the central bank's tight monetary policy.



This monitor is prepared under the guidance of Charles Cohen (Acting 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.

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.*






















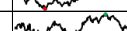


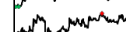











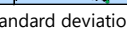
Global Financial Indicators

Last updated: 4/6/23 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4087	-0.2	1	1	-9	6	-3
Europe		4307	0.2	1	0	13	14	8
Japan		27473	-1.2	-1	-3	2	5	4
China		4097	-0.2	2	1	-3	6	-11
Asia Ex Japan		67	-0.8	0	0	-10	4	-15
Emerging Markets		39	-0.8	0	0	-13	4	-17
Interest Rates			basis points					
US 10y Yield		3.28	-3.4	-27	-68	68	-60	129
Germany 10y Yield		2.14	-3.9	-23	-61	150	-43	192
Japan 10y Yield		0.47	-0.9	14	-3	23	5	28
UK 10y Yield		3.41	-1.8	-11	-46	171	-26	193
Credit Spreads			basis points					
US Investment Grade		164	1.1	-4	22	30	5	21
US High Yield		505	10.5	-1	89	147	25	99
Europe IG		89	-1.6	1	14	13	-2	17
Europe HY		465	-7.6	12	79	105	-9	113
Exchange Rates			%					
USD/Majors		101.87	0.0	0	-2	2	-2	6
EUR/USD		1.09	0.1	0	2	0	2	-3
USD/JPY		131.5	0.1	-1	-3	6	0	14
EM/USD		50.5	0.0	-1	0	-5	1	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		85.2	0.2	8	-1	-7	0	2
Industrials Metals (index)		155	0.4	-2	-4	-27	-6	-17
Agriculture (index)		68	-0.1	1	-1	-8	-1	-3
Implied Volatility			%					
VIX Index (% change in pp)		19.4	0.3	0.3	0.8	-2.7	-2.3	-11.7
US 10y Swaption Volatility		135.2	-4.6	6.0	7.2	13.5	9.5	40.9
Global FX Volatility		10.3	0.0	-0.3	0.5	1.2	-0.4	2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		192	1.8	0	17	-18	-13	-48
Italy		184	0.9	-2	2	19	-30	13
Portugal		86	1.1	1	0	-6	-16	-6
Spain		104	1.1	1	9	5	-5	0

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

Emerging Market Financial Indicators

Last updated: 4/6/2023 8:07 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		6.87	0.1	0.0	1	-7	0		3.1	-4.9	-3	-13	27	4
Indonesia		14913	0.1	0.9	3	-4	4		6.7	-2.9	-15	-27	-12	-27
India		82	0.1	0.5	0	-7	1		7.3	-18.3	-19	-50	-27	-18
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	0.0	0.5	2	-4	0		3.9	-1.9	-5	-18	-14	-18
Argentina		211	-0.2	-1.4	-6	-47	-16		89.0	18.8	-280	57	3941	74
Brazil		5.04	-0.2	1.0	2	-6	5		13.4	66.9	41	-35	192	80
Chile		811	-0.2	-2.1	-2	-3	5		5.1	3.0	-6	-56	-105	-22
Colombia		4569	0.3	1.0	3	-18	6		8.6	6.5	-15	-109	90	-119
Mexico		18.29	0.1	-1.1	-2	10	7		8.3	0.0	-20	-74	-3	-43
Peru		3.8	0.1	-0.5	0	-2	1		7.4	-4.5	-10	-71	51	-53
Uruguay		39	0.0	0.5	1	7	3		10.3	-0.2	-3	7	129	-36
Hungary		345	0.2	1.1	3	1	8		8.2	-4.0	0	-8	167	-138
Poland		4.29	0.1	-0.1	2	0	2		5.3	-4.3	-10	-56	29	-85
Romania		4.5	0.0	0.4	2	0	2		7.2	-1.9	-1	-29	107	-51
Russia		81.0	-1.2	-4.6	-7	2	-8							
South Africa		18.2	-1.0	-2.2	0	-20	-7		9.1	8.0	-1	-17	110	-11
Turkey		19.26	0.0	-0.4	-2	-24	-3		10.7	43.0	18	-119	-1553	84
US (DXY; 5y UST)		102	0.0	-0.3	-2	2	-2		3.32	-5.3	-37	-94	64	-69

	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		4097	-0.2	2	1	-3	6		193	5	30	-11	16	
Indonesia		6793	-0.4	0	0	-5	-1		164	8	19	8	24	
India		59833	0.2	4	-1	1	-2		163	-5	18	17	21	
Philippines		6489	0.0	-2	-3	-9	-1		139	9	21	33	42	
Thailand		1571	0.0	-2	-2	-8	-6							
Malaysia		1425	-0.3	0	-2	-11	-5		100	-4	6	-8	0	
Argentina		252849	0.5	2	0	178	25		2443	76	337	727	238	
Brazil		100978	-0.9	-1	-4	-15	-8		280	9	22	5	6	
Chile		5236	0.2	-1	-4	5	0		151	7	13	14	19	
Colombia		1194	1.3	7	-3	-27	-7		400	4	4	83	28	
Mexico		53498	-1.3	-1	-1	-3	10		403	0	31	69	22	
Peru		21916	-0.3	0	-1	-11	3		197	4	14	45	17	
Hungary		44381	1.1	7	0	7	1		238	3	24	114	16	
Poland		58617	0.1	0	-4	-9	2		83	8	13	74	10	
Romania		12358	0.2	3	-1	-3	6		263	7	19	65	7	
South Africa		77268	0.8	1	-2	4	6		427	19	58	91	60	
Turkey		4944	0.5	1	-8	113	-10		516	54	34	-4	76	
Ukraine		507	0.0	0	0	-2	-2		5036	117	322	2185	957	
EM total		39	0.3	0	0	-13	4		419	6	30	61	44	

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

[back to top](#)