



- US jobs data provides mixed signal as hiring slows but unemployment rate ticks down ([link](#))
- Total bank borrowing from the Fed's liquidity facilities continues to decline ([link](#))
- US corporate debt issuance slows significantly in March amid banking turmoil ([link](#))
- Falling European bank equity prices could lead to tighter lending standards ([link](#))
- Defaults on China's property sector bonds are expected to remain elevated this year ([link](#))
- S&P downgrades Ukraine's foreign debt rating to CCC with a negative outlook ([link](#))

[Mature Markets](#)








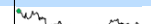



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Central bank policy outlook back in focus amid resilient US jobs data

With many major markets closed for the Easter holiday, investor focus turned to the March US jobs report this morning that indicated a rebalancing of labor market conditions may still have some ways to go. Yesterday, global equities capped off a holiday-shortened week mostly in positive territory, despite some recent data prints that pointed to softer economic activity and has fueled fears of recession. However, this morning's highly anticipated US employment report for March showed a slightly above consensus gain of 236k jobs and an unemployment rate that ticked down to 3.5%. The largely in line US jobs data has so far sustained the recent flattening trend in major advanced economy sovereign bond yield curves over the last day as policy-sensitive 2-year yields in the US initially jumped over 10 bps and 10-year yields are higher by about 5 bps. Still, contacts noted many markets around the globe are closed today for the Easter holiday, and thin pre-holiday liquidity was cited as exacerbating bond moves. Market-implied FOMC policy rate expectations also moved higher following the release of the US jobs data with now about a 70% probability of a 25 bp hike at the upcoming May meeting, up from less than 50% earlier this week. Weekly data from the Fed also showed a further modest decline in total bank borrowing from its emergency liquidity facilities, indicating the banking sector strains are gradually normalizing.

Key Global Financial Indicators

Last updated: 4/7/23 8:52 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		4105	0.4	1	3	-9	7	-3
Eurostoxx 50		4309	0.3	1	1	13	14	8
Nikkei 225		27518	0.2	-2	-2	2	5	4
MSCI EM		39	0.4	0	2	-12	4	-17
Yields and Spreads			bps					
US 10y Yield		3.35	4.1	-12	-62	69	-53	135
Germany 10y Yield		2.18	0.1	-19	-57	154	-39	196
EMBIG Sovereign Spread		493	2	8	52	97	41	81
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.4	0.0	-1	0	-5	1	-5
Dollar index, (+) = \$ appreciation		102.2	0.4	0	-3	2	-1	6
Brent Crude Oil (\$/barrel)		85.1	0.2	7	-1	-16	-1	-12
VIX Index (% change in pp)		18.4	-0.7	-1	-1	-3	-3	-13

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

Bank borrowing from the Fed's emergency liquidity facilities fell further. In the week through April 5, borrowing from the discount window fell to \$69.7 bn from \$88.2 bn previously, while borrowing from the bank term funding program (BTFP) increased to \$79 bn from \$64.4 bn. Fed loans to bridge banks established by the FDIC fell to \$174.6 bn and FIMA borrowing fell to \$40bn. In addition, FHLB issuance activity has remained negative since mid-March.

Federal Reserve lending outstanding, selected programs

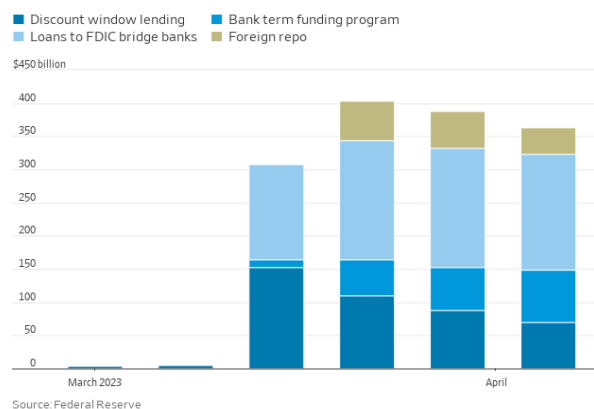
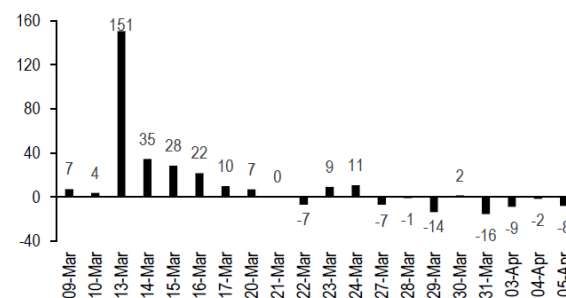


Figure 3: ... and FHLB net issuance has been negative since mid-March

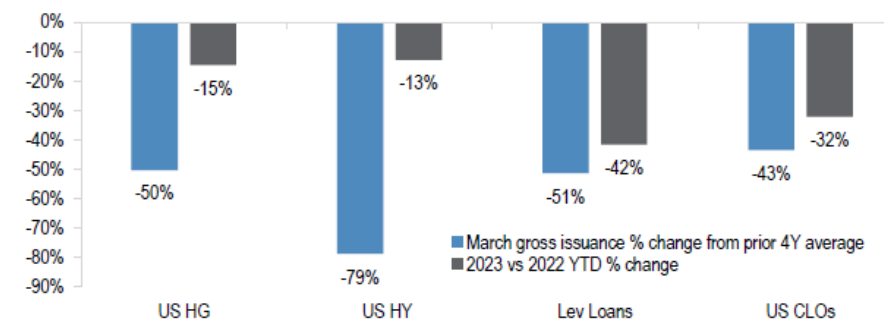
Daily FHLB net issuance; \$bn



In data releases this morning, the nonfarm payroll report came in largely in line with expectations. Nonfarm payrolls added 236K jobs in March, marginally above the expected 218K. The prior reading was revised up by 15K to 326K. Private payrolls came in under expectations by 29K, falling to 189K from 266K, while manufacturing payrolls held up better than fear, contracting by 1K vs 4K expected. Average hourly earnings increased 0.3% sequentially, with the annual rate down slightly more than expected to 4.2%. The unemployment rate edged down to 3.5% with labor force participation rate steady at 62.6%. Two-year Treasury yields rose 8 bps to 3.92% and 10-year yield increased 5 bps. S&P 500 futures gained 0.3%.

US corporate debt issuance dropped significantly in March amid the regional banking crisis and elevated market volatility. Despite some recovery since the week after the SVB collapse, total issuance across IG, HY, leveraged loan and CLO markets dropped nearly 40% m/m to \$134 bn for March, of which more than 70% was for refinancing. European CLO market remains closed with no new issuance coming to market since mid-March. On the other hand, the share of US CLO issuance that are EU risk-retention compliant has increased to 27%, from 16% last year, indicating more interest from European investors.

Figure 1: Supply in March underwhelmed across US credit markets



Across key global credit markets, a significant share of index-eligible debt is set to mature by 2025, according to Morgan Stanley estimates. Refinancing risks are imminent for US commercial real estate, followed by US leveraged loans. Asian credits have more front-loaded maturities, but refinancing risks appear manageable outside of the HY sector which are largely skewed towards the Chinese property sector. Lower-rated EM sovereign credits will likely be challenged, with around 20% of EM HY sovereign credit expected to have problems accessing markets due to elevated funding costs.

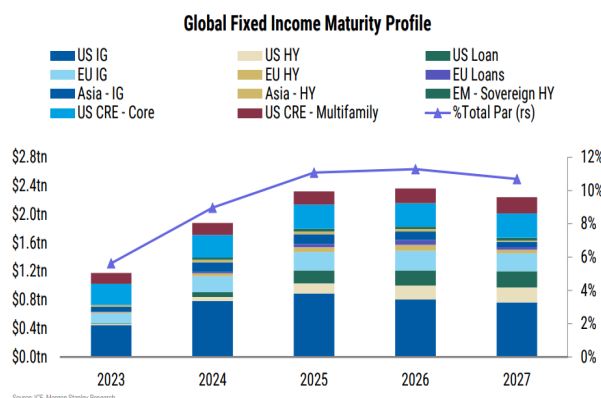
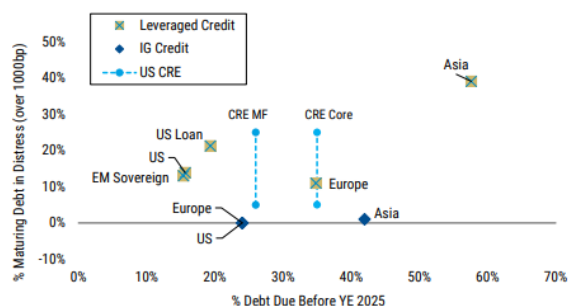


Exhibit 8: Cost of refinance vs need to refinance across sectors



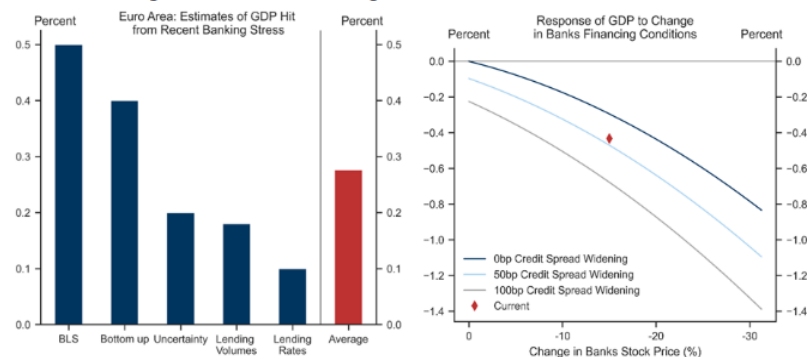
Euro area

Euro area and UK markets are closed due to the Good Friday holiday. Yesterday, local equities posted moderate gains and government bond yields were higher as markets held steady ahead of the US jobs report this morning.

Significant declines in the equity prices of European banks could eventually lead to tighter lending standards and downward pressure on growth.

Analysis by Goldman finds that the recent episode of banking turmoil and decline in bank equity prices could reduce GDP by 0.3%, although the range of outcomes is very wide. A further 15% price decline from current levels could lower GDP by a full percentage point. Tighter lending standards mean that less credit is provided to the economy and GDP suffers as a result. Periods of bank stress also cause the cost of capital for banks to rise significantly, which further constrains their ability to lend. Goldman thinks the ECB will hike by just 25 bps in May and will deliver a final 25 bp hike in June.

Exhibit 1: A Manageable Hit from the Banking Stresses, but with Non-linear Effects



Emerging Markets

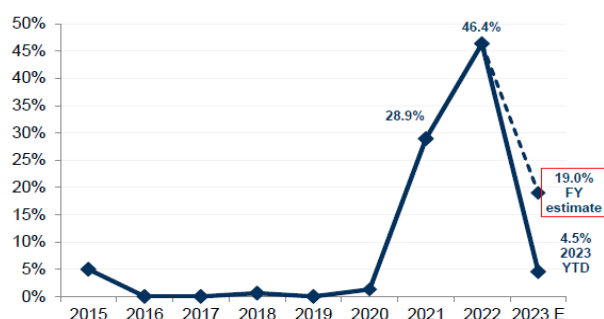
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Most major EM markets are closed today for Good Friday. In Latin America yesterday, Chilean equities outperformed in the region after data showed consumer prices posted their biggest monthly increase since August and core inflation accelerated. In Asia, Korean and Chinese stocks gained following news from Samsung that boosted shares of other semiconductor producers and tech sector shares more broadly. Markets in EMEA were little changed across equities and currencies.

China

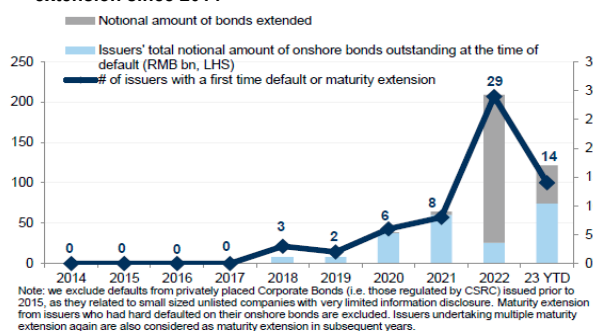
Property sector bonds remain fraught with challenges. As per a market report, only 35% of the outstanding offshore bonds (estimated at \$170 bn) of China's property sector are from issuers that have not either defaulted or renegotiated the original servicing terms. Of this, 15% are investment grade, while 20% high-yield (HY). Thus far, the pace of default in the HY segment is much slower so far this year at 4.5% (vs 46.4% in 2022 and 28.9% in 2021), however, given the uneven recovery in the property market and sluggish land sales, analysts expect more defaults in the coming months. Overall, the segment's default rate in 2023 is expect at 19%. On the other hand, in the onshore bond market, 2023 (outstanding estimated at \$257 bn) has already seen more cases of defaults and maturity extensions (14) than last year (8). Given that, and the fact that a larger proportion of bonds with renegotiated maturities or defaulted issuers are set to come due this year, analysts expect stress in 2023 to be relatively higher, albeit it is expected remain concentrated in the private sector.

Figure 1: Default ratio of China offshore property HY bond market (weighted by notional amount outstanding)



Source: Bloomberg, S&P, Moody's, Goldman Sachs Global Investment Research

Figure 2: China onshore property bond defaults and maturity extension since 2014



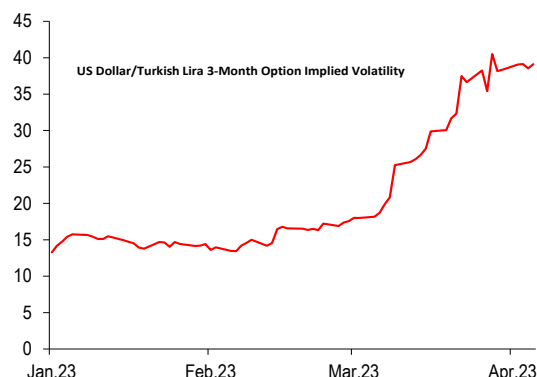
Source: Wind, Bloomberg, Company announcements, Goldman Sachs Global Investment Research

Türkiye

Despite lower-than-expected inflation data earlier this week, market contacts remain worried about the medium-term outlook for inflation in Türkiye. Analysts at Barclays are concerned about the medium-term inflation outlook due to a variety of factors, arguing that the country needs a very efficient, tight, and credible monetary and fiscal policy combination on a sustainable basis in order to eventually return to single-digit inflation. Amongst these factors, the authorities announced a series of election-related policies ranging from early retirement salaries to a mid-year hike to the minimum retirement salary, which are expected to exert pressure on inflation. Also, analysts expect the earthquake to impact the country's fiscal deficit, which could affect the inflation outlook negatively. Moreover, the upcoming election has intensified investor uncertainty as reflected in the implied volatility on the lira, which is trading at elevated levels.



Source: Haver Analytics, Barclays Research



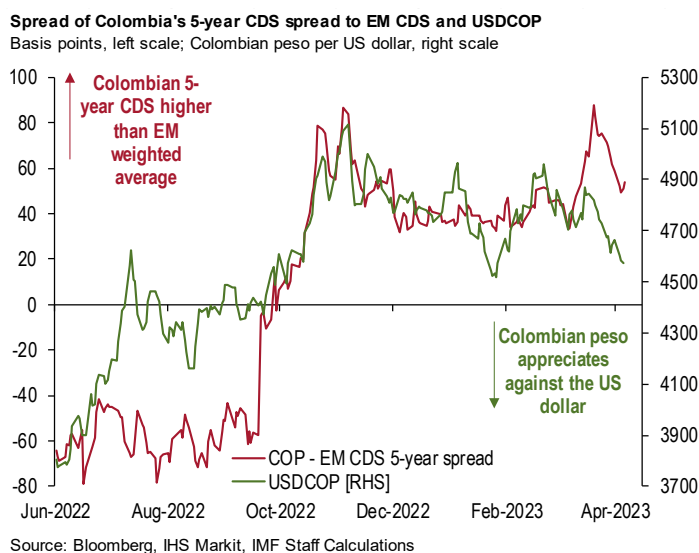
Source: Bloomberg Finance L.P.

Ukraine

S&P downgraded Ukraine's long-term foreign currency debt rating yesterday to CCC from CCC+, with a negative outlook. Its long-term local currency debt rating was affirmed at CCC+. Its outlook was also downgraded to negative from stable. S&P noted that the Ukrainian government has announced a plan to restructure its external debt by mid-2024 and they believe it is "likely that Ukraine will enter a distressed exchange on its external commercial obligations without an unforeseen positive development". S&P also said that its negative outlook "reflects risks to Ukraine's commercial debt service, given the government's debt restructuring plan." Other credit agencies such as Moody's and Fitch rate Ukraine's long-term foreign currency debt at Ca and CC, respectively. Ukraine's sovereign debt spreads are the third widest globally, only behind Lebanon and Zambia, with their weighted average spread exceeding 5500 bps yesterday.

Colombia



















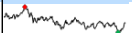

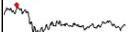






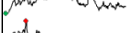
Colombia's 5-year CDS spread is still higher compared to an average across emerging markets despite recent gains in local assets. The Colombian peso has been the best performer across emerging markets since OPEC's announcement to cut oil production last weekend (+2% as of Wednesday before the Easter holiday). While Colombian assets performed strongly this week, the same cannot be said for the country's CDS. Colombia's 5-year CDS spread to the average emerging market CDS spread has only tightened marginally since the start of the week and remains positive (+53 bps). This might be related to the country's dependence on oil that makes up a significant portion of the country's exports.



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Global Financial Indicators

Last updated: 4/7/23 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4105	0.4	1	3	-9	7	-3
Europe		4309	0.3	1	1	13	14	8
Japan		27518	0.2	-2	-2	2	5	4
China		4123	0.7	2	4	-3	6	-11
Asia Ex Japan		68	0.4	0	2	-9	5	-14
Emerging Markets		39	0.4	0	2	-12	4	-17
Interest Rates			basis points					
US 10y Yield		3.30	-0.6	-17	-66	64	-58	131
Germany 10y Yield		2.18	0.1	-19	-57	154	-39	196
Japan 10y Yield		0.47	-0.2	12	-3	24	5	27
UK 10y Yield		3.43	0.4	-9	-43	173	-24	195
Credit Spreads			basis points					
US Investment Grade		163	-0.8	-3	20	26	5	20
US High Yield		499	-6.0	4	87	126	19	93
Europe IG		88	0.0	4	13	11	-2	17
Europe HY		459	0.0	23	65	93	-15	107
Exchange Rates			%					
USD/Majors		101.96	0.1	-1	-3	2	-2	6
EUR/USD		1.09	-0.1	1	3	0	2	-3
USD/JPY		131.7	-0.1	-1	-4	6	0	14
EM/USD		50.3	-0.1	-1	0	-5	1	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		85.1	0.2	8	-1	-7	0	2
Industrials Metals (index)		155	0.2	-3	-2	-27	-6	-17
Agriculture (index)		68	0.0	1	0	-8	-1	-3
Implied Volatility			%					
VIX Index (% change in pp)		18.4	-0.7	-0.6	-1.2	-3.2	-3.3	-12.6
US 10y Swaption Volatility		133.7	-0.8	7.1	0.8	12.8	8.0	39.4
Global FX Volatility		10.2	0.0	-0.2	0.3	1.1	-0.5	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		191	0.4	-2	10	-23	-14	-49
Italy		185	1.6	4	1	20	-29	14
Portugal		87	2.4	4	0	-4	-14	-5
Spain		105	1.8	3	2	6	-5	1

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

Emerging Market Financial Indicators

Last updated: 4/7/2023 7:52 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		6.87	0.1	0.1	1	-7	0		3.1	-1.4	-3	-13	27	2
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	0.1	-26	-49	-22	-18
Philippines		54	0.1	0.1	1	-6	2		6.0	0.0	0	-3	70	-5
Thailand		34	-0.6	0.4	1	-2	2		2.6	-1.0	-1	-8	14	-6
Malaysia		4.40	-0.1	0.3	2	-4	0		3.9	0.9	-3	-16	-11	-17
Argentina		211	-0.2	-1.4	-6	-47	-16		89.0	0.0	-353	85	3944	74
Brazil		5.06	-0.5	0.7	2	-7	4		12.8	8.0	-17	-94	133	21
Chile		819	-1.0	-3.5	-3	-2	4		5.2	1.5	3	-50	-118	-19
Colombia		4569	0.3	1.0	3	-18	6		8.6	6.5	-15	-109	90	-119
Mexico		18.25	0.0	-1.1	-1	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	-68	50	-53
Uruguay		39	0.0	0.5	1	7	3		10.3	0.2	6	8	129	-36
Hungary		344	-0.1	1.9	4	1	9		8.2	0.0	-23	-8	142	-140
Poland		4.29	0.0	0.7	4	-1	2		5.3	0.0	-16	-50	14	-87
Romania		4.5	-0.1	0.9	3	0	2		7.2	-1.4	-8	-27	100	-52
Russia		81.6	-0.1	-4.8	-7	-2	-9							
South Africa		18.3	-0.1	-2.6	1	-19	-7		9.1	-0.6	0	-20	111	-11
Turkey		19.26	0.0	-0.4	-2	-23	-3		10.3	-35.0	-17	-153	-1543	49
US (DXY; 5y UST)		102	0.1	-0.6	-3	2	-2		3.37	-0.4	-20	-94	66	-63

	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		4123	0.7	2	4	-3	6		194	5	29	-13	17
Indonesia		6793	0.0	0	0	-5	-1		164	9	27	4	24
India		59833	0.0	4	-1	1	-2		165	-2	22	14	23
Philippines		6489	0.0	-2	-3	-9	-1		137	7	26	26	40
Thailand		1577	0.4	-2	-1	-6	-5						
Malaysia		1427	0.2	0	0	-11	-5		99	-3	6	-13	-1
Argentina		252849	0.5	2	0	178	25		2480	167	429	767	275
Brazil		100822	-0.2	-3	-3	-15	-8		283	11	24	1	9
Chile		5274	0.7	-1	-2	6	0		150	4	16	9	18
Colombia		1194	1.3	7	-3	-27	-7		406	12	17	85	34
Mexico		53498	-1.3	-1	-1	-3	10		403	9	38	64	22
Peru		21916	-0.3	0	0	-11	3		196	2	18	35	16
Hungary		44218	0.0	6	2	6	1		240	3	32	102	18
Poland		58539	0.0	0	-4	-8	2		87	12	22	84	14
Romania		12375	0.3	2	0	-2	6		263	3	33	56	7
South Africa		77114	0.0	1	-2	4	6		432	33	87	94	65
Turkey		4909	-0.1	2	-9	109	-11		519	46	63	-18	79
Ukraine		507	0.0	0	0	-2	-2		5069	119	367	2090	990
EM total		39	0.0	0	2	-12	4		421	8	41	53	46

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

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