GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 16, 2023

- **Strong US data lifted the dollar index to its highest level since early January** (link)
- **Energy stocks are missing the rally, as prospects for oil price rises look dim** (link)
- **Sponsored repo surges as money market rates rise** (link)
- **Europe could still face gas shortages in 2023 according to the IEA** (link)
- **Bank Indonesia kept the policy rate unchanged at 5.75% as expected** (link)
- **Bangko Sentral ng Pilipinas (BSP) raised the policy rate by 50 bps to 6.0% as expected** (link)
- **Polish banks' stocks drop after ECJ advisor's opinion** (link)

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Persistent inflation pressures weigh on sentiment

The sentiment is the US has turned negative with equity futures pointing to a weak opening following this morning's PPI data. Futures were already moving lower ahead of this morning's release, but fell further after producer prices were reported higher than expected**.** This comes after yesterday's 1% rise in the S&P 500. European equities meanwhile are up for the fourth consecutive day, as strong corporate earnings more than offset the impact from higher yields. Banks are outperforming after Commerzbank reported an optimistic outlook for 2023 earnings, continuing a string of positive releases from the sector. With this morning's move, the Stoxx 600 index is back to levels last seen a year ago**.** Emerging market currencies are mixed this morning.

Key Global Financial Indicators

Last updated: 2/16/23 8:09 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		4148	0.3	1	4	-7	8	-2
Eurostoxx 50		4304	0.6	1	4	4	13	8
Nikkei 225		27696	0.7	0	6	2	6	5
MSCI EM		40	-0.8	-1	-3	-19	6	-16
Yields and Spreads					bps			
US 10y Yield		3.80	-0.8	14	29	176	-8	181
Germany 10y Yield		2.48	0.8	18	31	221	-9	226
EMBIG Sovereign Spread		445	3	5	-6	64	-7	32
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.5	-0.2	0	-2	-6	1	-5
Dollar index, (+) = $ appreciation		103.8	-0.1	1	2	8	0	8
Brent Crude Oil ($/barrel)		85.3	-0.1	1	1	-10	-1	-12
VIX Index (%, change in pp)		18.7	0.5	-2	0	-6	-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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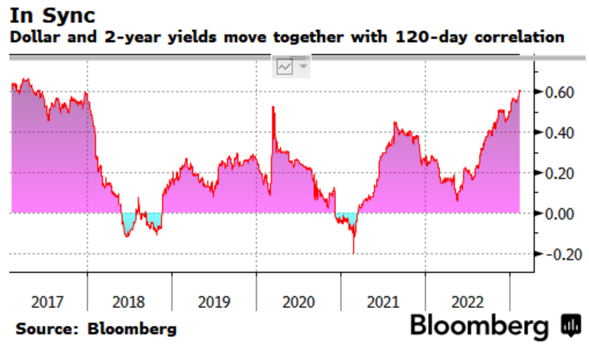
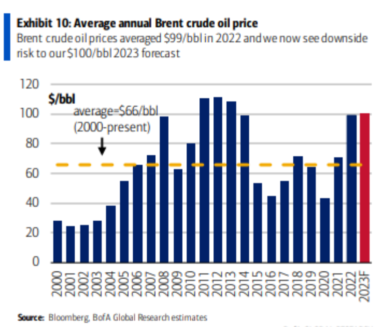
United States

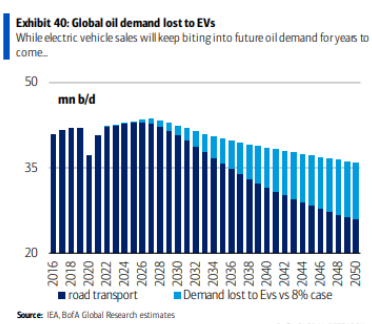
Strong US data lifted the dollar index to its highest level since early January. Stronger than expected retail sales in January bolstered expectations for higher growth and with it the no-landing scenario. The Atlanta Fed ratcheted up their GDP nowcast and some market analysts also started to revise their Q1 growth forecasts upwards. At the same time, higher growth increases the need to recalibrate monetary policy expectations, a process that has been ongoing in equity markets in the last couple of weeks. The market discord on how to weigh the developments is ongoing. Higher growth was not the main story for bond markets, while higher rates resonated relatively little with stock markets. While it is still unclear where the balance will tilt, the dollar appears to benefit from both. Market analysts point to the rising correlation between the dollar index and the 2-year yield during the recent period of repricing of monetary policy expectations, but also argue that a robust US outlook supports the dollar.



This morning's data releases confirm the resilience of the US economy. Producer prices rose 0.7% in January, the most since June bolstered by higher energy costs. The reading is well above the expected 0.4% rise, following the December's 0.5% decline. The index decelerated less than expected on an annual basis to 6% (consensus 5.4%). Excluding the volatile food and energy components, core PPI advanced 0.5% in January and 5.4% on the year. Weekly jobless claims fell by 1K to 194K versus an expectation for 200K. The news, following the CPI and retail sales earlier this week, underscore a resilient economy with persistent inflationary pressures. **Treasury yields jumped on the news** and equity futures sunk, suggesting that the need for the Federal reserve to pursue further interest-rate increases in the months ahead is sinking in also for stock markets.

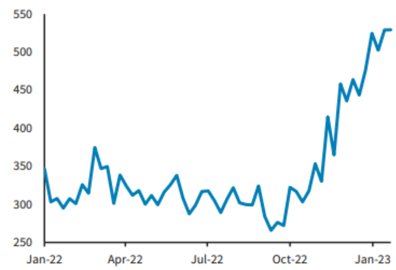
Energy stocks are missing the rally, as prospects for oil price rises look dim. Energy stocks remain under pressure and are quickly losing 2022's winning status largely due to gradually declining oil prices. BofA analysts see limited chances for a pike in crude oil prices in 2023, despite an expected rise in demand. So far demand underwhelmed in China and Europe, but with the impact of Covid fading in China and with growth prospects rising in Europe, the pullback could be temporary. However, with US and EU sanctions not materially binding Russian oil production and inventories building up, BofA analysts see downside risks to crude oil prices in 2023, despite slowing US shale oil output growth and a cut back in production by OPEC +. In addition, they see demand for electric vehicles visibly denting oil demand by 2027, when sales of EV are expected to rise further. This is of course subject to availability of critical minerals that will determine the speed of transition.





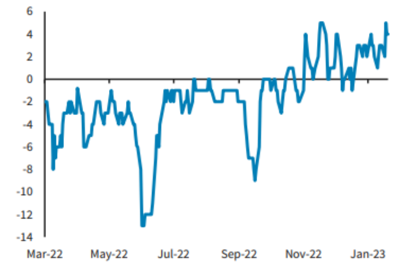
Sponsored repo surges as money market rates rise. Sponsored repo volumes -a type of bilateral private repo, cleared by a central counterparty which helps preserve dealer balance sheet capacity- increased since last October in volumes and as a share of overall repo activity. Much of this increase comes from MMFs, which provide most of the cash flowing into sponsored repo. As cleared bilateral repo rates rose higher compared to the RRP rate, part of the MMF balances with the Fed (RRP) appears to have shifted to sponsored repo. Going forward, market analysts note that, as money market rates will be rising, more of their RRP cash may shift into private sector cleared repo. This should support a smoother QT process.

FIGURE 1. Sponsored repo activity ($bn)



Note: Sum of repo and reverses.
Source: FICC, Barclays Research

FIGURE 3. Cleared bilateral repo less RRP (bp)



Note: Median rate
Source: Barclays Research

Euro Area

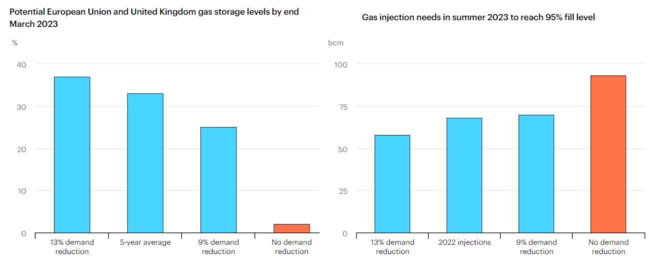
European equities gained amid improved risk appetite following positive corporate earnings reports with the Stoxx 600 (+0.4%) back at levels last seen in February 2022. Standard Charteerd gained (+2.2%) as the bank announced a bigger-than-expected buyback and higher forecast returns. Year to date, the technology sector has seen the largest gains (+20%), while the banking sector has increased by 17.7%. Analysts argue that the appeal of so-called value stocks is set to increase amid expectations of more appressive monetarly policy tightening, as growth stocks could be weighed down by higher interest rates.

European and US Stock indices, Jan 2022 = 100

Source: Bloomberg and IMF calculations calculations

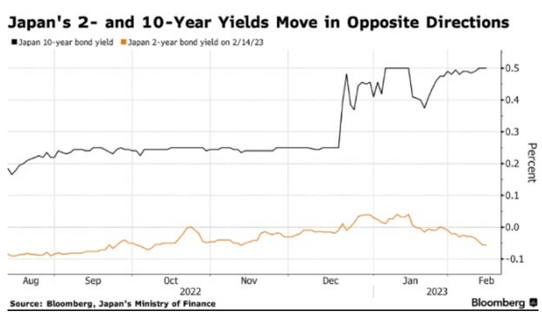
Sovereign bond yields were little changed while the euro was trading marginally stronger against the dollar (+0.1%) with contacts focussed on talks by ECB officials. Yesteday ECB President Lagarde reiterated the ECB's intention to hike rates by 50bp at the policy meeting in March, after which the subsequent monetary policy path would be evaluated. ECB executive board member Panetta argued that moving in small steps would allow for better calibration of the extent and duration of monetary policy restriction. ECB chief economists Lane is set to deliver a lecture at the NIESR in London later today, titled 'The euro area hiking cycle: An Interim Assessment." Contacts are watching to see if Lane pushes back against the roughly 115bp of ECB tightening priced in by mid-2023.

The International Energy Agency (IEA) warned that gas balances in 2023 could face challenges unless demand is reduced further, while faster deployment of renewables, heatpumps and energy efficiency measures can mitigate the enery crisis risk. While refilling European gas storage sites in 2022 was supported by several factors including flows via Russian pipelines during the summer and lower LNG imports by China, the IEA warns that these factors might not repeat this year. As a result, there is a risk of a demand-supply gap that could be as large as 30bn cubic meters during summer 2023—a key period for refilling gas storage this year—which in turn would jeopardise preparations for next winter. A faster deployment of heat pumps, renewables and energy efficiency measures could mitigate risks related to an energy crisis, but such moves would require immediate government action according to the IEA. This morning European natural gas prices continued to fall (1-m ahead -3.3%, now roughly 30% lower than at the start of the year).



Japan

The trade deficit widened to 3.5 trn yen ($26.1 bn) in January, smaller than expected. The yen appreciated (+0.2%), and Japanese equities gained (NIKKEI: +0.7%). Core machine orders, a leading indicator for business investment, disappointed in December, only increasing by 1.6% m/m (consensus: +2.8%). Long-end JGB yields were mixed (10-year: -0.2 bp; 30-year: +0.6 bp). **The JGB market signaled that the Ueda-led Bank of Japan (BOJ) would keep the negative rate policy.** The 2-year JGB yield has fallen since mid-January, while the 10-year JGB yield has stayed close to the BOJ's limit at 0.5%. In the foreign exchange market, traders see implied volatility peaking around Kuroda's last policy meeting in March before easing into Ueda's first policy meeting in April. Market participants appeared cautious about a surprise decision from Kuroda's last policy meeting.



Emerging Markets

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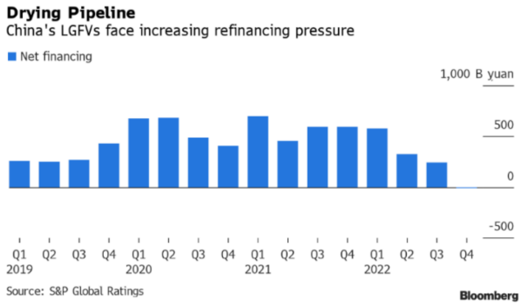
Most Asian equities gained, up 1.0% on net, led by Singaporean (+0.9%), Hong Kong (+0.8%) and Taiwan (+0.8%) equities. Meanwhile, share prices dropped in China (CSI 300: -0.7%). Asian currencies were mixed. Korean won appreciated (+0.3%), while Malaysian ringgit (-0.2%) and Korean won (-0.2%) depreciated. Long-end government bond yields were also mixed. **EMEA markets are generally down, with the exception of some equity markets.** Equity markets are up in Türkiye (+1.6%) for the second day after reopening, and in South Africa (+1.2%). The Polish equity market is losing 0.8%, led by bank equities (-2.6%), after an advisor to the European Court of Justice published a non-binding opinion on FX mortgages that is negative for banks. Currencies are generally down vs. their reference currencies, with the Hungarian forint losing the most (-0.5%). Central and Eastern European yields are broadly stable, except in Hungary (+14 bp to 8.3%). **Latin American stock markets were mixed Wednesday, while currencies were mostly down.** Stocks gained in Brazil (+1.6%), Mexico (+1.4%) and Chile (+1.4%), while Colombian and Peruvian stocks fell by 0.3% and 0.2%, respectively. The Colombian peso fell 2.6% and was the weakest EM currency of the day. Other currencies also depreciated against the US dollar in Chile (-1.0%), Brazil (-0.6%), Mexico (-0.3%) and Peru (-0.1%).

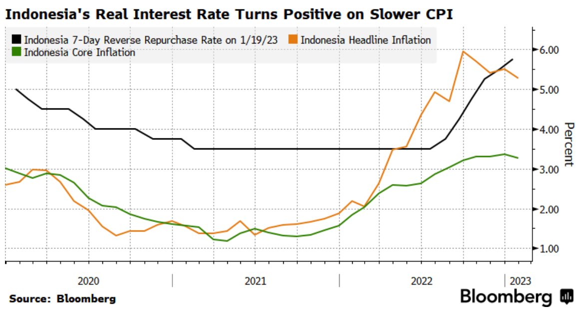
China



Net bond financing of local government financing vehicles (LGFVs) turned negative in 2022Q4 for the first time in at least four years according to S&P. While net bond issuance turned positive again in January, the figure was still down 83% from a year earlier. Concerns about LGFV debt renewed after a construction firm in Guizhou province extended its loan repayment by 20 years. Surging yields and rising investor concerns have prompted firms, including LGFVs to pull planned bond sales worth 150 bn yuan ($21.9 bn) since November. Chinese equities declined (CSI 300: -0.7%). A sudden fall took place in the afternoon as market participants became concerned that China's ties with Iran could prompt a backlash from the United States. President Xi accepted an invitation to visit Iran. RMB was little changed. The People's Bank of China injected liquidity of 34 bn yuan ($5 bn) to ease interbank funding pressure. Repo rates increased (DR007: +12.0 bp).

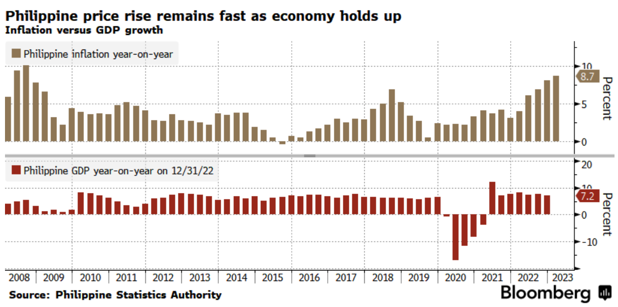
Indonesia

Bank Indonesia (BI) kept the policy rate unchanged at 5.75% as expected. Governor Perry said that inflation has eased due to the policy tightening and that no more rate hikes are needed. BI expects that the economy will grow 4.5%–5.3% in 2023, while inflation will be in the 2%–4% range. The rupiah appreciated (+0.3%). Government bond yields dropped about 5 bp. Equities declined (-0.3%). BI will offer competitive rates on new FX term deposits, effective March 1, in an effort to lure exporters' dollar earnings back onshore. BI is also in talks with the government on plans to require exporters to keep 30% of their earnings onshore for at least three months; mandatory conversion of export earnings into rupiah is up for discussion.



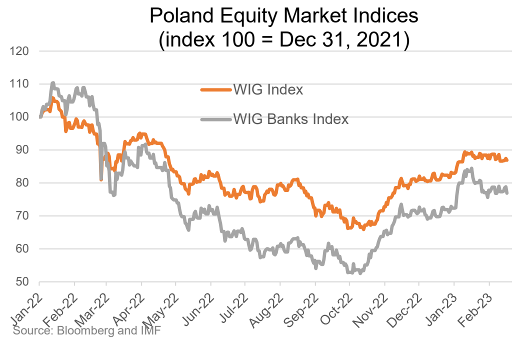
Philippines

Bangko Sentral ng Pilipinas (BSP) raised the policy rate by 50 bps to 6.0% as expected. Governor Felipe Medalla indicated that more rate hikes are possible at the next policy meeting in March while a pause is unlikely. Further monetary policy tightening is necessary to prevent inflation expectations from drifting away from the target. CPI inflation accelerated in January, reaching 8.7% y/y. The BSP raised its inflation forecast to 3.1% for 2024 from 2.8%. The Philippine peso appreciated (+0.2%). Long-end government bond yields edged up (10-year: +3.5 bp). Equities declined (-0.1%).



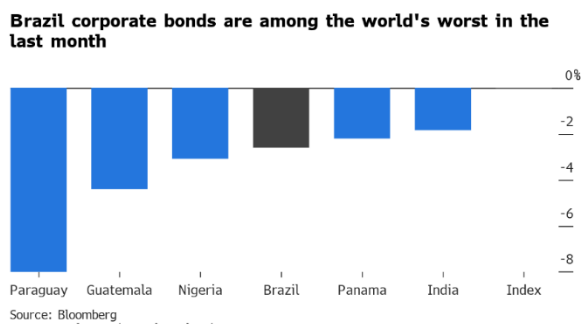
Poland

The Polish equity market is losing 0.8%, led by bank equities (-2.6%), after an advisor to the European Court of Justice published a non-binding opinion on FX mortgages that is negative for banks. This is regarding remaining legal issues related to some $12-billion worth of outstanding FX (mostly Swiss Franc) home loans extended before 2008. A landmark ruling by the European Court of Justice in 2019 opened the way to annulments of contracts that included unfair terms and the Polish banking industry has since booked over 37 billion zloty ($8.3 billion) in provisions. Today, the adviser said that in cases where contested mortgage deals are voided by local courts after being deemed unfair, lenders can't claim payments beyond reimbursements of the loan principal. Some banks had counter sued clients to compensate for lost interest and fees. Consumers affected by annulled mortgage deals, on the other hand, could go after the lenders for additional sums beyond the cost of capital already repaid, which hasn't been a common practice in these disputes till now. This would mean that banks would have to book additional one-off provisions by the end of the year. The regulator warned earlier that additional provisions of about 100 billion zloty would be needed in such a scenario.



Brazil

Investors are shying away from Brazil's domestic corporate bond, after Americanas filed for bankruptcy protection last month. Sales of local notes have fallen significantly. Brazilian firms have issued about 15.4 billion reais in domestic bonds this year, a 26% drop from the same period in 2022. The local corporate bonds index in Brazil has posted a 4.3% loss since Americanas revealed a sizable gap ($3.8 billion) in its balance sheet (January 11). Foreign currency corporate bonds from Brazil have fallen 2.6%, much worse than the global corporate emerging-market debt index (-0.1%).



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Global Financial Indicators

2/16/23 8:09 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		4144	0.3	2	4	-7	8	-2
Europe		4304	0.6	1	4	4	13	8
Japan		27696	0.7	0	6	2	6	5
China		4093	-0.7	-1	-1	-12	6	-11
Asia Ex Japan		69	-1.3	-1	-3	-17	6	-13
Emerging Markets		40	-0.8	-1	-3	-19	6	-16
Interest Rates					basis points			
US 10y Yield		3.80	-0.8	14	29	176	-8	181
Germany 10y Yield		2.48	0.8	18	31	221	-9	226
Japan 10y Yield		0.51	-0.2	1	-2	29	8	31
UK 10y Yield		3.50	1.5	21	12	198	-17	202
Credit Spreads					basis points			
US Investment Grade		141	0.2	0	-9	7	-17	-2
US High Yield		441	3.5	11	5	40	-40	34
Europe IG		75	-0.2	0	-4	9	-15	4
Europe HY		393	-2.0	0	-22	70	-81	42
Exchange Rates					%			
USD/Majors		103.80	-0.1	1	2	8	0	8
EUR/USD		1.07	0.1	0	-1	-6	0	-5
USD/JPY		133.9	-0.2	2	4	16	2	16
EM/USD		50.5	-0.2	0	-2	-6	1	-5
Commodities					%			
Brent Crude Oil ($/barrel)		85.3	-0.1	1	1	4	0	1
Industrials Metals (index)		163	0.5	-4	-6	-13	-2	-13
Agriculture (index)		70	0.0	1	3	4	1	-1
Implied Volatility					%			
VIX Index (%, change in pp)		18.7	0.5	-2.0	0.4	-5.6	-3.0	-12.3
US 10y Swaption Volatility		106.7	0.0	4.1	-9.2	16.0	-19.0	12.4
Global FX Volatility		10.4	0.0	0.0	-0.5	2.8	-0.3	2.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		179	1.8	-6	-19	-60	-26	-61
Italy		186	0.7	5	2	23	-28	15
Portugal		88	0.3	3	-2	1	-13	-4
Spain		97	0.4	3	-2	-3	-13	-7

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

Emerging Market Financial Indicators

Last updated: 2/16/2023 8:10 AM	Exchange Rates: Level		Change (in %)					Since	Local Currency Bond Yields (GBI EM): Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.86	0.0	-1.0	-2	-8	1	-8		3.2	1.0	-1	-5	35	11	31
Indonesia		15159	0.3	-0.4	-1	-6	3	-5		6.7	-6.2	8	-6	18	-25	20
India		83	0.1	-0.2	-1	-9	0	-10		7.4	-1.9	5	1	80.9	-1	
Philippines		55	0.2	-1.1	-1	-7	1	-7		5.9	0.0	0	-10	93	-10	93
Thailand		34	-0.2	-2.2	-4	-6	1	-6		2.7	-6.0	7	19	49	8	49
Malaysia		4.40	-0.3	-2.0	-2	-5	0	-5		3.9	-0.3	9	-7	22	-15	22
Argentina		192	0.0	-1.1	-5	-45	-8	-44		87.1	-96.7	116	477	3828	-107	3918
Brazil		5.24	-0.5	0.6	-2	-2	1	-5		14.4	105.1	81	183	288	185	291
Chile		791	0.3	1.4	4	1	8	0		5.4	-3.5	10	35	-46	10	-48
Colombia		4925	-0.1	-3.8	-5	-20	-2	-21		9.5	0.0	53	24	171	-28	163
Mexico		18.56	0.1	1.1	1	9	5	9		8.8	-5.0	36	62	87	3	91
Peru		3.9	-0.1	0.1	-1	-2	-2	-3		8.0	0.0	2	1	196	4	201
Uruguay		39	0.6	0.1	2	10	2	9		9.7	0.0	-28	-82	152	-98	155
Hungary		358	-0.6	0.9	3	-13	4	-11		8.4	15.0	73	69	356	-123	356
Poland		4.47	-0.3	-0.8	-3	-11	-2	-9		5.6	13.3	25	29	156	-58	167
Romania		4.6	0.1	-0.6	-1	-5	1	-5		7.4	-2.0	2	6	219	-33	221
Russia		74.8	-0.4	-2.4	-8	0	-1	9		10.5	12.7	15	-140	60	-140	-72
South Africa		18.1	-0.5	-2.0	-6	-17	-6	-17		9.1	2.6	31	37	156	-8	150
Turkey		18.85	0.0	-0.1	0	-28	-1	-27		11.0	-35.0	-41	66	-1100	115	-1144
US (DXY; 5y UST)		104	-0.1	0.5	2	8	0	8		4.01	-2.3	16	40	210	1	211

	Equity Markets: Level		Change (in %)					Since	Bond Spreads on USD Debt (EMBIG): Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
										basis points					
China		4093	-0.7	-1	-1	-12	6	-11		171	-5	-14	-34	-6	-37
Indonesia		6896	-0.3	0	2	1	1	0		144	3	-24	-35	4	-41
India		61320	0.1	1	1	6	1	7		147	-2	-3	-8	5	-7
Philippines		6816	-0.1	0	-3	-8	4	-7		122	6	-12	-4	25	-15
Thailand		1658	0.7	-1	-1	-3	-1	-2		0	0	0	0	0	0
Malaysia		1484	-0.3	1	-1	-8	-1	-6		99	0	-4	-29	-1	-34
Argentina		254970	-1.4	2	2	181	26	179		2018	88	17	258	-187	281
Brazil		109600	1.6	1	0	-5	0	-2		263	1	-10	-53	-11	-68
Chile		5415	1.4	1	5	16	3	24		136	-1	-10	-19	4	-38
Colombia		1219	-0.3	-2	-9	-19	-5	-19		393	21	20	35	21	1
Mexico		53422	1.4	1	0	0	10	4		365	7	2	14	-16	-5
Peru		21882	-0.2	-2	-5	-9	3	-6		183	-2	-5	9	3	-7
Hungary		46237	-0.1	1	-1	-11	6	-3		208	0	-33	63	-14	55
Poland		60268	-0.5	-2	-3	-11	5	-4		69	-10	-28	63	-4	53
Romania		12411	0.2	1	4	-7	6	-6		237	-2	-31	30	-19	5
Russia		2169	0.1	-4	-3	-41	1	-30		3411	-577	938	3228	3234	2897
South Africa		80477	1.3	1	2	5	10	7		368	6	7	-9	1	-21
Turkey		5083	2.7	13	-2	149	-8	152		517	2	18	-16	77	-46
Ukraine		507	0.0	0	0	-2	-2	-2		4442	190	276	3537	363	2969
EM total		40	0.4	-1	-3	-19	6	-16		384	6	7	-29	8	-74

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

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