- **US inflation data higher than expected** (link)
- **Financial conditions in US have tightened** (link)
- **Stronger UK data expected to lead to tighter policy** (link)
- **Money market funds cutting T-Bill holdings ahead of debt ceiling negotiations** (link)
- **People's Bank of China continues to withdraw liquidity** (link)
- **Persistent inflation to keep central bank of Mexico hawkish** (link)

Mature Markets | Emerging Markets | Market Tables

Markets wary ahead of key US inflation data

Global equity markets were mostly lower today ahead of key US inflation data, with investors worried that inflation may be on the rise again, forcing the Fed to stay hawkish longer than currently expected. US equity index futures were down after US markets posted modest gains yesterday, while Treasury yields were higher. Most European markets are also down after Asia posted a negative session overnight. The dollar was stronger as geopolitical worries came to the fore after market participants were disappointed by China's Ukraine peace proposal and on news of further G-7 sanctions on Russia. The yen weakened after BOJ nominee Ueda indicated in Parliamentary testimony that monetary policy would remain easy. German GDP for Q4 was revised down more than expected to -0.4%, increasing the worries about Europe's largest economy. Stronger than expected UK consumer confidence data reinforced expectations of tighter monetary policy from the Bank of England. Markets in South Africa were under pressure after the US placed the country on its money laundering watchlist.

Key Global Financial Indicators

Last updated: 2/24/23 8:00 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		4012	0.5	-3	0	-6	5	-5
Eurostoxx 50		4235	-0.5	-1	2	11	12	7
Nikkei 225		27453	1.3	-1	0	4	5	4
MSCI EM		39	0.5	-2	-7	-16	3	-17
Yields and Spreads					bps			
US 10y Yield		3.91	3.5	10	46	195	4	192
Germany 10y Yield		2.51	3.0	7	35	234	-6	228
EMBIG Sovereign Spread		448	-8	5	11	36	-4	36
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.1	-0.5	-1	-2	-5	0	-6
Dollar index, (+) = $ appreciation		104.9	0.3	1	3	8	1	9
Brent Crude Oil ($/barrel)		82.9	0.9	0	-4	-16	-3	-14
VIX Index (%, change in pp)		21.8	0.7	2	3	-9	0	-9

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

Mature Markets

United States

The latest core PCE deflator, the Fed's favored measure of inflation, came in higher than expected. Personal spending was also much stronger than expected (1.8% vs. 1.4%). The data reinforced worries that the Fed may have to stay hawkish for longer than currently expected. Treasury and eurodollar futures yields were higher immediately following the data, while the dollar appreciated, and US equity index futures extended their losses.

US Inflation Data 8.30am EST

Source: Bloomberg

| Data Point	Consensus Forecast	Actual Outcome
PCE Deflator month-on-month	0.5%	0.6%
PCE Deflator year-on-year	5%	5.4%
Core PCE Deflator mom	0.4%	0.6%
Core PCE Deflator yoy	4.3%	4.7%

Financial conditions in the US have tightened over the past few weeks after several months of easing conditions. This is confirmed by widely followed measures such as the Bloomberg Financial Conditions Index, which shows tighter conditions at lower numbers, as well as the Goldman Financial Conditions Index, which shows tighter conditions with higher numbers. Analysis by Morgan Stanley shows that rising Treasury yields and a stronger dollar were the main drivers of tighter financial conditions. On the other hand, lower oil prices and stable credit spreads are working in the opposite direction. All eyes are on the psychologically important 4% level for the benchmark 10-year yield. A decisive break above 4% could cause financial conditions to tighten further. The 10-year has remained below 4% since early November, which is when the year-end global rally began.
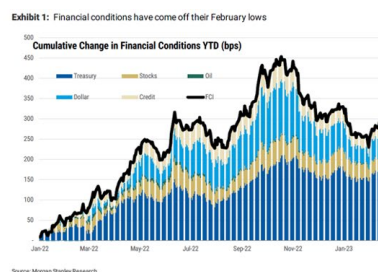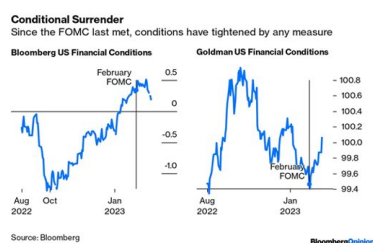
Money market funds (MMFs) may reduce their investment in US Treasury bills (T-Bills) until the debt ceiling has been resolved. Traditionally the largest investors in T-Bills, MMF managers are wary of the potential volatility induced by negative political news on the debt ceiling negotiations because they are sharply focused on keeping their net asset values (NAVs) stable. Deviations from NAV are very unpopular among those who invest in MMFs, and unstable NAVs could prompt withdrawals. As a result, MMF managers will go to extraordinary lengths to avoid changes in their NAVs. However, demand for T-Bills remains strong among entities that do not have access to the Fed's balance sheets, such as corporations. As a result, T-Bills are expensive relative to other money market rates such the Secured Overnight Funding Rate (SOFR), with the exception of those T-Bills maturing in late August, when the debt ceiling is expected to be reached.

Figure 2: We estimate that investors that do not have access to the Fed's balance sheet held 63% of total T-bills as of December-end, versus 48% from a year ago

Holdings of investors with access to the Fed's balance sheet versus no access to the Fed's balance sheet (%)
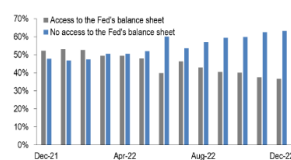
Source: Crane Data, TIC data, Federal Reserve Bank of New York, Fitch, Company 10-Qs and other disclosures, J.P. Morgan

Figure 3: Despite T-bills being so rich, as reflected in their negative spread to SOFR, investors with no access to the Fed's balance sheet still bought T-bills

T-bills to SOFR matched maturity spread (bp)
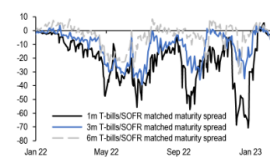
Source: J.P. Morgan

Euro Area

European equities were lower and sovereign bond yields were little changed while the euro weakened marginally against the dollar ahead of the US inflation data release. ECB governing council (GC) member Nagel said that robust ECB rate increases could be needed in Q2, arguing that recession fears are fading while core inflation remains too high. **On the data front, the final Q4 German economic growth print came in weaker than previously estimated** (-0.4% q/q versus previously estimated -0.2%).

The decline in Euribor spreads continued with the 3-month Euribor-ESTR spread reaching a new record low of -15bps yesterday. Commerzbank analysts point out that Euribor fixings have increased at a slower pace than other money market rates since the ECB started hiking rates in mid-2022. Analysts argue that lower Euribor rates are related to lower deposit rates while ESTR swaps and commercial paper (CP) rates have increased amid expectations of higher overnight rates. This view is supported by analysis showing that ESTR swaps and CP rates have traded in a synchronized manner, while Euribor fixings and Money Market Statistical Reporting (MMSR or transaction-based data on unsecured interbank and wholesale deposits published by the ECB) have lagged. Commerzbank analysts think a level-effect is likely the key reason for the lower Euribor-ESTR spread as banks are slow to change the pricing of their wholesale deposits. Extremely negative levels of the spread are expected to diminish when the ECB reaches the end of their tightening cycle and as excess liquidity declines.

Euribor spreads hit new lows as rates hit new highs
3M €STR-Euriboor spread, in bp, and ECB depo rate, in %

Source: Bloomberg, Commerzbank Research

Euribors slipping vs €STR and CP, but so far not vs MMSR deposits
3M Euribor vs. €STR swaps, MMSR deposits and financial CPs, in bp
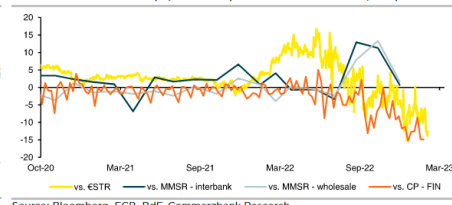
Source: Bloomberg, ECB, BdF, Commerzbank Research

United Kingdom

UK consumer confidence was stronger than expected in February. While remaining at historically low levels, the GfK index of consumer confidence (a measure of people's view of their personal finances and wider economic prospects), increased to -38 (versus expected -43 from -45), the best level in a year. This adds to the run of mixed UK data that has made the future BoE rate path less certain according to contacts. This week saw strong PMI data while last week saw softer labor market and inflation data prints. While several analysts expect a final 25bps hike in, markets are pricing in the terminal rate at around 4.7% relative to the current level of 4%, with a 25bps hike in March close to fully priced in following hawkish comments from the BOE's Monetary Policy Committee member Mann yesterday. Mann said that "I believe that more tightening is needed, and caution that a pivot is not imminent", and added that "I don't think we are in a restrictive stance particularly." As regards the lag for rate hikes to fully feed through to the real economy, Deutsche Bank analysts estimate that 30% of the BOE's rate hikes have fed through to the economy, with 75% of rate hikes expected to have fed through by the end of the year.

Implied rates (%) for BoE meeting dates

Source: Bloomberg and IMF calculations
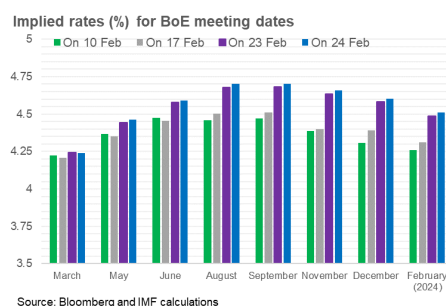
Japan

At his parliamentary confirmation hearing, Kazuo Ueda, Bank of Japan (BOJ) Governor nominee, said that the BOJ should continue with stimulus for now, but policy normalization should be considered if inflation returns to the 2% target. Based on Ueda's remarks, market participants expect a continuation of easy monetary policy with adjustments to yield curve control to come in the future. Meanwhile, **headline CPI increased by 4.3% yoy in January,** in line with expectations. Core CPI excluding food and energy rose 3.2% yoy, slightly below expectations. Overall, inflation continued to accelerate in Japan.
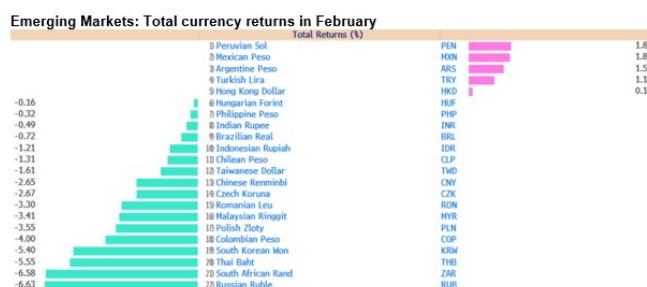
Emerging Markets   back to top

Eastern European equities ticked lower as contacts see no imminent resolution to the war in Ukraine. South African assets underperformed as the country was included in the gray list of the US Financial Action Task Force. **Asian markets were lower ahead of key US inflation data.** Asian equities dropped 2.3% on net, led by Hong Kong SAR (-1.7%). **In India,** the Reserve Bank of India conducted a variable rate reverse repo auction of $6 bn on with the aim of draining liquidity from the banking system today; the announcement was made on Thursday. **Latam markets were mixed, with the Chilean peso underperforming.**
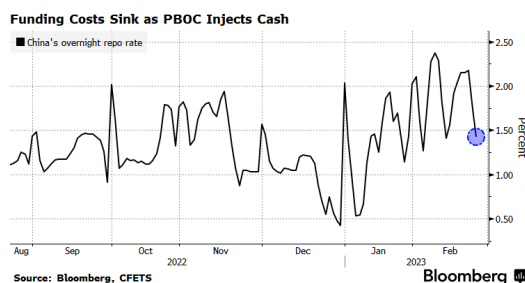
EM Currencies in February

After a strong start to the year, most EM currencies have weakened in February, posting negative returns even after including carry associated with higher policy rates. Latin American currencies such as the Peruvian sol and Mexican peso managed to buck the trend.

Emerging Markets: Total currency returns in February
Total Returns (%)

Rank	Currency	Code	Return
1	Peruvian Sol	PEN	1.83
2	Mexican Peso	MXN	1.80
3	Argentine Peso	ARS	1.53
4	Turkish Lira	TRY	1.12
5	Hong Kong Dollar	HKD	0.16
6	Hungarian Forint	HUF	-0.16
7	Philippine Peso	PHP	-0.32
8	Indian Rupee	INR	-0.49
9	Brazilian Real	BRL	-0.72
10	Indonesian Rupiah	IDR	-1.21
11	Chilean Peso	CLP	-1.31
12	Taiwanese Dollar	TWD	-1.61
13	Chinese Renminbi	CNY	-2.65
14	Czech Koruna	CZK	-2.67
15	Romanian Leu	RON	-3.30
16	Malaysian Ringgit	MYR	-3.41
17	Polish Zloty	PLN	-3.55
18	Colombian Peso	COP	-4.00
19	South Korean Won	KRW	-5.40
20	Thai Baht	THB	-5.55
21	South African Rand	ZAR	-6.58
22	Russian Ruble	RUB	-6.63

China

The People's Bank of China (PBOC) continued withdrawing liquidity as interbank funding pressure eased. Today, the liquidity withdrawal amounted to 365 bn yuan ($52.6 bn). The overnight interbank repo rate has fallen by more than 80 bps since Tuesday. Analysts expected an increase in the volatility of short-term funding costs this year due to banks' lower excess reserves. Separately, China plans to introduce rules to govern the use of artificial intelligence across industries. Chinese equities declined (CSI 300: -1.0), led by tech stocks. Major Chinese tech firms reported weak earnings in recent days.

Funding Costs Sink as PBOC Injects Cash
■ China's overnight repo rate
Source: Bloomberg, CFETS
Bloomberg

Mexico

Core inflation proved persistent and printed at 8.38% yoy for 1H Feb, down 8bps sequentially. This lends credence to the central bank's concerns about core inflation that were cited in the minutes of its latest meeting. On 9th Feb Banxico hiked the policy rate by 50bps in a unanimous decision, surprising the markets that were expecting a smaller hike (25 bps) given that the headline inflation had been on a downward trajectory lately. This was the first time that Mexico deviated from US Fed's pace of tightening in the current cycle. Going forward, the guidance is for a policy path that ensures anchoring inflation expectations rather than matching the Fed's moves. Further, most members agreed to take monetary policy lags into consideration for future rate decisions, and hence, analysts expect a smaller hike (25bps) at the March meeting.

Mexico: Policy rate and Inflation
— Banco de Mexico Key Rate
-- Mexico CPI Yearly Percent Change Biweekly
Source: Bloomberg
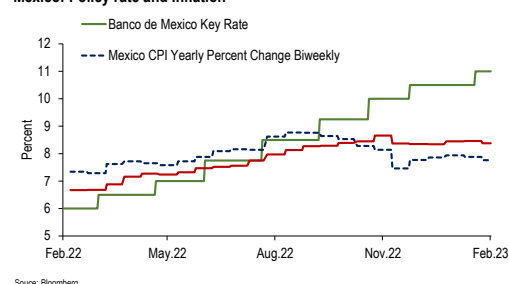
Russia

Contacts do not believe that China's call for a cease-fire between Russia and Ukraine in a 12-point position note points to an imminent resolution to the war in Ukraine. The note called for unilateral sanctions unauthorized by the UN Security Council to be ended, a clear move in favor of Russia, which holds veto power in the Security Council. It also calls for a for Russian troops to remain in place, which is obviously unacceptable to Ukraine. **Meanwhile, the US and other G-7 countries are reported to be planning new export controls and a fresh round of sanctions on Russia.** Later today, the US government is expected to announce additional measures targeting Russia's defense and energy industries, financial institutions and more than two hundred individuals. Almost ninety companies in Russia, China and other countries will also be placed on the Commerce Department's entity list for sanctions evasion, according to news reports. **The ruble fell 0.5% as shares in Moscow ticked lower.**

Global Financial Indicators

2/24/23 8:03 AM	Level		Change				YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		23-Feb-22
Equities			%				%	%
United States		4002	0.5	-2	0	-7	4	-5
Europe		4233	-0.6	-1	2	11	12	7
Japan		27453	1.3	-1	0	4	5	4
China		4061	-1.0	1	-3	-11	5	-12
Asia Ex Japan		67	0.3	-2	-7	-14	3	-15
Emerging Markets		39	0.5	-2	-7	-16	3	-17
Interest Rates			basis points					
US 10y Yield		3.91	3.5	10	46	195	4	192
Germany 10y Yield		2.51	2.8	7	35	233	-7	228
Japan 10y Yield		0.50	-0.2	0	9	30	8	31
UK 10y Yield		3.61	2.6	10	34	217	-6	213
Credit Spreads			basis points					
US Investment Grade		146	0.1	4	-1	3	-13	3
US High Yield		448	-1.3	-8	-3	35	-33	41
Europe IG		80	0.1	3	1	6	-10	9
Europe HY		416	1.3	13	0	48	-58	65
Exchange Rates			%					
USD/Majors		104.91	0.3	1	3	8	1	9
EUR/USD		1.06	-0.3	-1	-3	-6	-1	-7
USD/JPY		135.8	0.8	1	4	18	4	18
EM/USD		50.1	-0.5	-1	-2	-5	0	-6
Commodities			%					
Brent Crude Oil ($/barrel)		82.9	0.9	0	-4	-1	-3	-2
Industrials Metals (index)		160	-1.1	-2	-10	-16	-3	-15
Agriculture (index)		70	-0.4	0	4	-1	1	-1
Implied Volatility			%					
VIX Index (%, change in pp)		21.8	0.7	1.7	2.6	-8.5	0.2	-9.2
US 10y Swaption Volatility		116.9	0.0	6.9	0.7	18.2	-8.8	22.6
Global FX Volatility		10.1	0.0	-0.2	0.0	1.9	-0.6	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		185	-4.9	-1	-25	-57	-21	-55
Italy		188	-2.7	2	12	23	-27	16
Portugal		86	-1.3	-2	0	-3	-15	-5
Spain		96	-1.0	-1	1	-5	-14	-8

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

Emerging Market Financial Indicators

Last updated: 2/24/2023 8:05 AM	Exchange Rates (Level) Last 12m	Exchange Rates (Level) Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (Level) Last 12m	Latest	Change (bp) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.94	-0.5	-1.1	-2	-9	-1	-9		3.2	-1.5	7	2	36	17	38
Indonesia		15228	-0.2	-0.1	-2	-5	2	-6		6.8	1.2	6	18	29	-14	31
India		83	0.0	0.1	-1	-9	0	-10		7.7	4.0	16	25	105.6	25	
Philippines		55	-0.2	0.5	-1	-7	1	-7		6.0	0.0	5	0	98	-5	98
Thailand		35	-0.6	-1.4	-6	-7	-1	-8		2.7	-4.5	-9	25	49	5	45
Malaysia		4.44	0.0	-0.1	-3	-5	-1	-6		3.9	-1.0	2	17	24	-14	24
Argentina		195	-0.1	-1.2	-6	-45	-9	-45		88.1	85.1	-33	322	4017	-8	4017
Brazil		5.16	-0.6	0.0	0	-1	2	-3		13.4	2.9	12	31	180	86	192
Chile		815	-1.0	-3.2	-2	0	4	-3		5.5	-1.0	-2	32	-46	14	-44
Colombia		4866	-0.2	0.8	-7	-19	0	-20		9.7	-3.8	-9	7	179	-6	184
Mexico		18.47	-0.5	-0.5	2	11	6	10		8.9	0.0	9	70	102	20	109
Peru		3.8	0.2	1.3	2	-2	0	-2		7.9	0.1	-7	-10	191	-2	195
Uruguay		39	-0.1	1.3	1	11	3	9		9.9	0.0	10	-43	174	-79	174
Hungary		360	-0.2	-0.4	-1	-9	4	-11		8.3	-15.0	-43	60	333	-129	350
Poland		4.47	-0.2	-0.4	-3	-7	-2	-9		5.8	-10.5	11	52	190	-34	191
Romania		4.7	-0.4	-1.3	-3	-5	-1	-6		7.4	-3.9	-1	10	225	-29	225
Russia		76.2	-0.7	-3.3	-9	-11	-3	7		10.2	-34.5	-19	-53	-399	-165	-97
South Africa		18.5	-1.3	-2.2	-7	-17	-8	-18		9.3	1.0	18	56	158	14	171
Turkey		18.88	-0.1	-0.3	0	-26	-1	-27		10.5	0.0	-18	41	-1402	66	-1193
US (DXY; 5y UST)		105	0.3	1.0	3	8	1	9		4.15	4.4	12	58	229	15	225

	Equity Markets (Level) Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG) (Level) Last 12m	Latest	Change (bp) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		4061	-1.0	1	-3	-11	5	-12		167	-1	-17	-41	-10	-41
Indonesia		6857	0.3	-1	-1	0	0	-1		150	11	4	-35	10	-35
India		59464	-0.2	-3	0	6	-2	4		151	8	7	-3	9	-3
Philippines		6686	0.0	-2	-5	-7	2	-9		123	2	11	-14	26	-14
Thailand		1634	-1.1	-1	-3	-3	-2	-4		0	0	0	0	0	0
Malaysia		1457	-0.1	-1	-3	-8	-3	-8		98	-1	-9	-35	-2	-35
Argentina		248006	1.3	-4	-2	180	23	171		1990	-72	108	253	-215	253
Brazil		107593	0.4	-2	-5	-4	-2	-4		261	-3	-7	-70	-13	-70
Chile		5323	1.0	0	1	21	1	22		136	5	-2	-38	4	-38
Colombia		1192	0.4	-1	-9	-21	-7	-21		400	6	39	8	28	8
Mexico		53086	-0.2	-2	-3	3	10	3		357	-2	7	-13	-24	-13
Peru		21540	-0.8	-2	-7	-7	1	-8		182	4	-13	-8	2	-8
Hungary		45311	-0.2	-1	-3	5	3	-5		211	4	-10	58	-11	58
Poland		59274	-0.3	-2	-4	6	3	-6		73	4	-22	57	0	57
Romania		12361	0.2	0	1	-2	6	-6		239	4	-11	7	-16	7
Russia		2207	-0.2	2	1	-28	2	-28		3411	-577	938	3228	3234	2897
South Africa		77950	-1.3	-2	-3	6	7	4		368	1	9	-21	1	-21
Turkey		5080	-0.1	1	-5	174	-8	152		503	-7	6	-60	63	-60
Ukraine		507	0.0	0	0	-2	-2	-2		4668	203	548	3195	589	3195
EM total		39	-1.2	-2	-7	-16	3	-17		385	3	21	-73	9	-73

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

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