



- Financial conditions tighten, but markets and policymakers diverge on measuring them ([link](#))
- French and Spanish inflation surprise on the upside ([link](#))
- British Pound strengthens after the UK and EU reach an agreement on Northern Ireland ([link](#))
- The JGB yield curve flattened on speculation the BOJ's stimulus may not end soon ([link](#))
- Analysts expect subdued emerging market issuance in 2023 ([link](#))
- S&P raises Ghana's local currency rating on completed debt exchange ([link](#))

[Mature Markets](#)




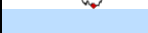






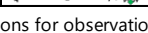
| [Emerging Markets](#)

| [Market Tables](#)

Markets stall on hot French and Spanish inflation

European stocks failed to gain traction and euro-area sovereign bond yields rose following the release of high-than-expected inflation in France and Spain. This raises the specter that euro-area wide inflation, which will be released on Thursday, will be higher than expected. Euro-area sovereign bond yields rose as a result, with markets revising up their estimates of the ECB terminal rate. Across the pond, US Treasury yields also rose and the dollar was little changed. Elsewhere, the British pound has appreciated about 1% since the announcement of a trade deal on Northern Ireland between the UK and the EU late yesterday afternoon. In emerging markets, S&P raised Ghana's local currency sovereign credit ratings from selective default (SD) to CCC+/C, following the delivery of new instruments to bondholders under the local currency exchange. The good news came after the same rating agency upgraded Costa Rica's ratings from B to B+ last week.

Key Global Financial Indicators

Last updated: 2/28/23 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3982	0.3	-2	-2	-9	4
Eurostoxx 50		4262	0.3	0	2	9	12
Nikkei 225		27446	0.1	0	0	2	5
MSCI EM		39	0.5	-3	-7	-18	2
Yields and Spreads			bps				
US 10y Yield		3.93	1.6	-2	43	210	6
Germany 10y Yield		2.64	6.0	11	40	251	7
EMBIG Sovereign Spread		444	0	-9	6	15	-8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.1	0.0	-1	-2	-3	0
Dollar index, (+) = \$ appreciation		104.6	0.0	0	2	8	1
Brent Crude Oil (\$/barrel)		83.6	1.4	1	-1	-17	-3
VIX Index (% change in pp)		20.8	-0.2	-2	1	-9	-1

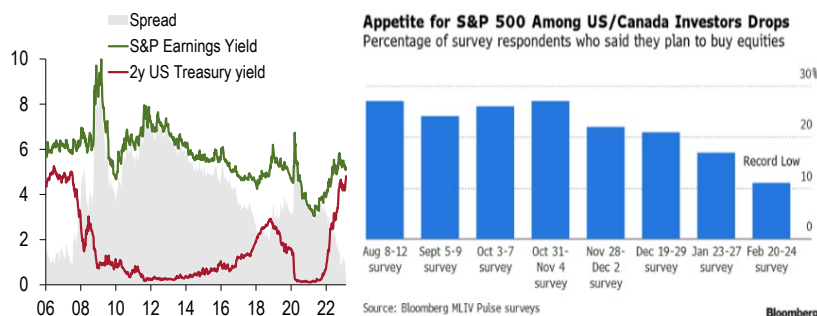
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

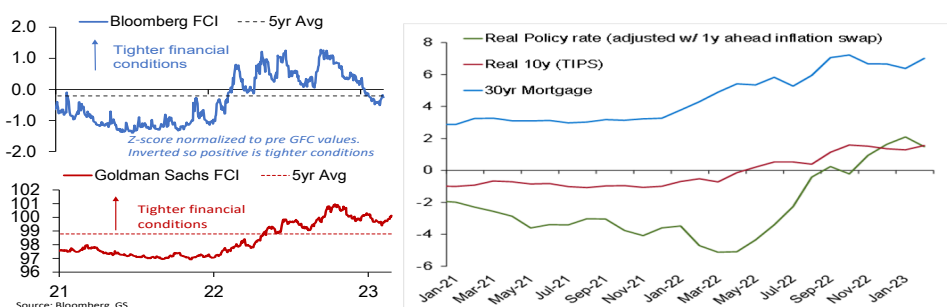
[back to top](#)

United States

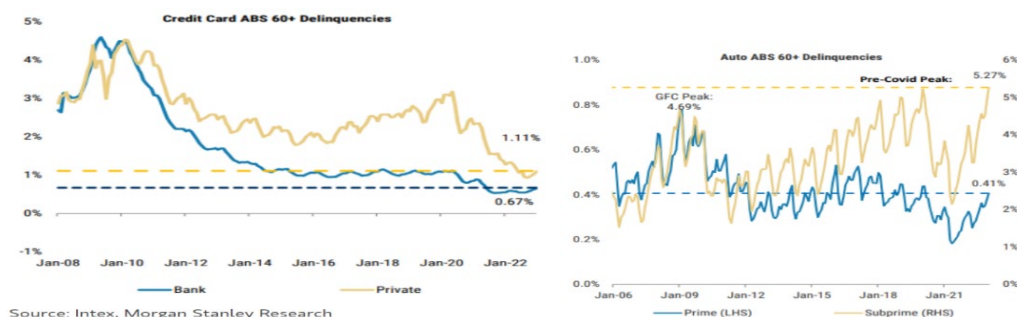
US markets stabilized on Monday, with stocks gaining 0.3%. US Treasury rallied 3–4 bps, bring the 2-year and 10-year yields to 4.78% and 3.91% respectively. The dollar weakened, with its trade-weighted index dropping 0.5%. Enthusiasm for stocks has faded, with the gap between earnings yield and short-term bond yields the smallest since the global financial crisis. Bloomberg surveys also suggest waning appetite among investors for stocks.



Financial conditions have tightened, though markets and policymakers may diverge on how to measure them. Financial condition indicators (FCIs) have tightened in recent weeks, reversing about 40% (GS) and 15% (BBG) of the easing seen from Q4 through January. However, more generally, analysts assessing the state of financial conditions have noted the divergence between comments from Fed officials on the state of financial conditions and that implied by private sector FCIs. Notably, Fed officials have often cited interest rate sensitive metrics—what they control most directly—to claim financial conditions have tightened, while other indicators that incorporate credit spreads, volatility, and other market driven indicators have shown easier conditions. Real policy rates, 10-year TIPS yields, and mortgage rates have moved much higher, while the perspective from broader indices looks more nuanced.

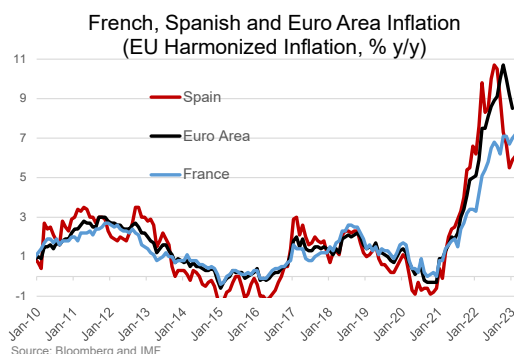


Consumer financing stress has started to deteriorate, but only slowly. Household debt servicing costs (consumer and mortgage) reached their pre-COVID levels in Q3 2022 and are expected to rise in 2023, according to Morgan Stanley. Among asset backed securities, **subprime auto delinquencies have risen to pre-COVID peaks** as new car loan rates have increased to their highest since 2010. **Credit card delinquencies have only just started to tick higher, and remain low compared to the past decade**, let alone during periods of stress. Delinquencies among prime auto ABS have risen but also remain below pre-pandemic levels. Thus far, consumer stress appears concentrated among younger borrowers, who may be more exposed to floating rates (via credit cards) and have less savings, while older borrowers continue to fare relatively well.



Euro Area

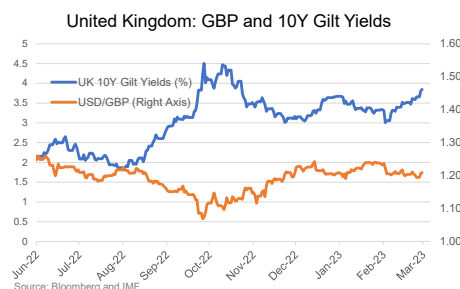
Euro-area markets reacted negatively to higher-than-expected inflation for February in France and Spain but later pared some of their earlier losses. French inflation came in at 6.2% y/y (EU harmonized inflation at 7.2% y/y), above consensus (6.1%) and January's level (6%). This was a 0.9% m/m increase, up from 0.4% in January. In Spain, February inflation estimate printed at 6.1% y/y, significantly above consensus (5.8%) and January (5.9%)—or at about 1% m/m. These higher-than-expected releases raise the probability that eurozone-wide inflation, which will be released on Thursday, will also surprise on the upside. At the moment, markets expect that eurozone headline inflation will drop from 8.6% y/y in January to 8.3% in February (+0.5% m/m) and that core inflation will remain unchanged from January at 5.3% y/y. German inflation will be released tomorrow. **Equity markets were broadly flat**, with the Stoxx Europe 600 unchanged from yesterday. **Bond yields were up**, with German 10-year bund yields increasing 6 bps to 2.64%, their highest level in two decades. **Markets have revised up their estimates of the ECB terminal rate by 7 bps since yesterday, to 3.83% by December.**



Before these releases, ECB Chief economist Lane said in a Reuters interview that the ECB has started to win the inflation fight, but might hold borrowing costs at a high level for some time—“a fair number of quarters”—once they reach their peak. He noted that inflation pressures have begun to ease, including for core prices, as higher rates are working their way through the economy, but that the ECB will not end rate hikes until it is confident that inflation is going back to the 2% target. He outlined three criteria for the ECB to top hiking rates: 1) the ECB needs lower inflation projections through its three-year forecasting horizon; 2) progress in lowering actual underlying inflation; and 3) the ECB needs to conclude that monetary policy is working. Yesterday, Croatian governor Vujcic, whose country joined the euro area in January, said that the ECB must persevere with monetary policy tightening while price pressures, especially core inflation, endure. He added that he does not think that anyone knows the level of the terminal rate at this point.

United Kingdom

The British pound strengthened about 1% since the announcement that the UK and the EU had reached an agreement on Northern Ireland, the “Windsor Framework”, yesterday afternoon. Importantly, the Northern Irish unionist party (DUP) said that it will study the deal in detail before deciding whether to back it. Finalizing Northern Ireland’s post-Brexit trading arrangements has been a pending issue following the withdrawal agreement that the UK and the EU agreed in 2019. Britain’s departed from the EU single’s market in 2021, but under the so-called Northern Ireland Protocol, Northern Ireland remained in the single market with a de facto customs border put in the Irish Sea, complicating trade within the UK. The agreement entails, among other things, 1) a “green” and “red lane” system, with goods traveling from Great Britain to Northern Ireland requiring less onerous checks and paperwork than those destined for the EU; 2) removal of existing requirements on trade from Northern Ireland to Great Britain; 3) the ability of the UK government to make decisions on value added tax and excise changes that could apply in Northern Ireland as well as Great Britain; 4) a “Stormont” break, named after the Northern Irish Parliament (Stormont), which would allow the Northern Ireland Assembly to oppose revised or amended EU goods rules through a “petition of concern” mechanism, requiring the support of 30 Northern Irish Assembly members from at least two parties. Subject to a number of procedures and rules involving the UK and the EU, the UK government could then decide whether to veto the application of that new EU rule. Markets have welcomed the agreement, mostly because it might signal more constructive relations between the UK and the EU going forward. Although the pound strengthened on the news, market contacts do think that it will make a major difference to the Pound or UK growth in the medium term. The UK FTSE 100 was down 0.3% this morning, and 10-year gilt yields were up 3 bps at 3.83%.



Japan

The JGB yield curve flattened as markets became less concerned about an immediate change in the Bank of Japan’s policy easing. Shinichi Uchida, a candidate for the Bank of Japan (BOJ) deputy governor, said at the parliamentary hearing that it would be more appropriate for the new BOJ leadership to take time to conduct a wide-ranging review. He suggested for a longer-term approach to conduct a policy review, similar to the Federal Reserve and the ECB. The 10-year JGB yield was little changed at 0.5%, while longer-end JGB yields declined (30-year: -7.3 bps). The Japanese yen depreciated (-0.4%). Nevertheless, traders reportedly continued to take positions with a view that the change of the BOJ leadership will be a catalyst for more policy tweaks that boost Japanese yen. **Industrial production declined 4.6% m/m in January**, larger than expected (consensus: -2.9%). **Retail sales expanded 1.9% m/m**, stronger than expected (consensus: +0.4%). Equities gained (NIKKEI: +0.1%).

Emerging Markets

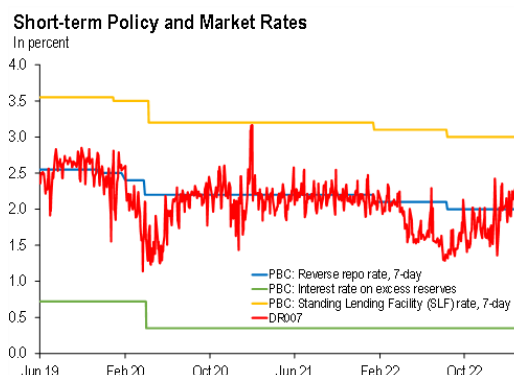
[back to top](#)

Asian markets lacked a clear direction today. Asian equities declined 0.8% on net. Share prices dropped in Hong Kong SAR (-0.8%), the Philippines (-0.7%), and India (-0.8%) but rose in China (CSI 300: +0.6%). Asian currencies were mixed. The Thai baht depreciated (-0.7%) as the country posted a surprise current account deficit. Meanwhile, the Philippine peso appreciated (+0.4%). Long-end government bond yields were mixed, with 10-year yields rising in Korea (+11 bps) while falling in Vietnam (-20 bps) and Singapore (-4 bps). In **Sri Lanka**, the currency trading band was widened. After the adjustment, the Sri Lankan rupee would be allowed to trade at a maximum of 5 rupee from the middle rate (previously, 2.6 rupee). The Sri Lankan rupee appreciated (+0.7%), and government bond yields declined (10-year: -47 bps) as markets viewed the change made the country a step closer to secure an IMF program. In **India**, a derivative trade that boosted demand for India’s sovereign bonds is at risk from a proposed tax, piling pressure on a market that is already strained by record government borrowings. Long-end government bond yields edged up (10-

year: +0.5 bp; 30-year: +1.8 bps). **EMEA equities were mostly trading higher while currencies were mixed against reference currencies.** Equities in Hungary were little changed (+0.1%) while the Hungarian forint weakened (-0.2%) against the euro and local currency bond yields increased (10-year +19 bps) ahead of the central bank policy decision later today, where rates are expected to remain unchanged. On the data front Q4 economic growth data surprised on the upside Türkiye (+0.9% q/q versus expected +0.7% from -0.1%) while Poland's final Q4 GDP print was in line with earlier estimates (-2.4% q/q). The unemployment rate in South Africa eased to 32.7% in Q4 (versus expected 32.6% from 32.9%). **Latam markets were mixed on Monday.** Equities traded lower in Peru (-0.2%) and Brazil (-0.1%) while others finished in the green. The Colombian peso (+1.7%) appreciated against the dollar for the fourth consecutive day, while the Chilean peso (-0.8%) continued to depreciate.

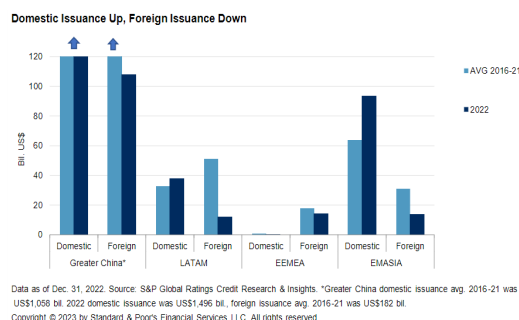
China

The People's Bank of China (PBC) injected liquidity to ease interbank funding pressure. Today, the PBC injected liquidity of 331 bn yuan (\$47.7 bn). The key interbank repo rate (DR007) increased to 2.42% (+13 bps), the highest level since December 2021, as liquidity demand increased at the end of the month. Meanwhile, spreads of exchange-traded repos narrowed, reflecting no acute liquidity stress among nonbank borrowers. Equities gained (CSI 300: +0.6%).



Emerging Market Issuance

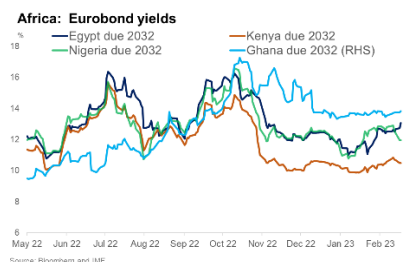
Analysts expect emerging market issuance to remain subdued in 2023 amid higher financing costs, lower refinancing needs and lower investment against a backdrop of slowing economic activity. This follows after EM issuance (excluding China) declined by 24% in 2022 to \$166 bn, the lowest level in six years, as investor sentiment deteriorated and hard-currency borrowing costs increased significantly. While acknowledging geographical differences, S&P analysts highlight that domestic markets have remained a feasible refinancing option, with data showing that domestic issuance have exceeded historical levels. Analysts also highlight that fixed rates are favored by issuers, mitigating the risk of rate increases: in 2022 95% of issuance was fixed-rate, compared to 90% in 2021 and 85% between 2017 and 2020. Looking ahead, while China could see more debt issuance as Covid-19 restrictions are eased and the economy reopens, analysts highlight that companies in LATAM are likely to avoid tapping international capital markets amid high borrowing costs. Moreover, in the Gulf Cooperation Council region, financing needs for energy exposures has been reduced by relatively high oil prices. In Asian emerging markets analysts see potential for an increase in investment-grade rated companies, while issuance by lower-rated entities is expected to remain subdued in H1 2023.



Ghana

S&P raised Ghana's local currency sovereign credit ratings from selective default (SD) to CCC+/C, following the delivery of new instruments to bondholders under the local currency exchange.

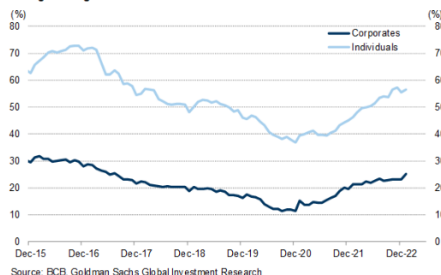
Ghana settled its local currency Domestic Debt Exchange Program (DDEP) on February 21. On Friday, S&P raised its long- and short-term local currency sovereign credit rating for Ghana, while affirming the long- and short-term foreign currency ratings in SD and lowering the foreign currency issue ratings to default (from 'CC') on three Eurobonds. The rating agency said that the stable long-term local currency rating outlook reflects the government's improved refinancing profile and lower debt cost following the domestic debt restructuring. The rating agency, however, also highlighted that the domestic and external liquidity conditions remain challenging, together with very high inflation, FX volatility and uncertainty around the external debt restructuring process. Yesterday, FM Ofori-Atta said that the government will, on March 13, restart coupons and principal payments on old bonds following the conclusion of the DDEP.



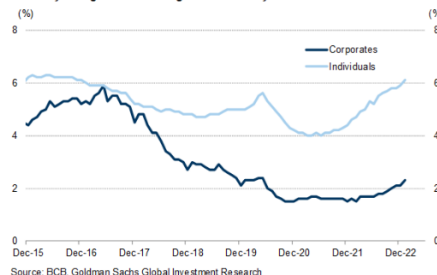
Brazil

Inflation expectations for 2023–26 deteriorated slightly in Brazil, according to the central bank's weekly survey. The median inflation expectation for year-end 2023 increased by 1 bp to 5.90%, for 2024 remained at 4.02%, for 2025 increased by 2 bps to 3.80%, and for 2026 rose by 5 bps to 3.75%. As a result of persistent high inflation, bank credit growth declined by 40 bps to 7.4% y/y in January. Lending rates rose to a very high level of 56.6% for individuals and 25.3% for corporate. Credit quality further deteriorated with the non-performing loans for individuals and corporates both rising by 20 bps to 6.1% and 2.3%, respectively.

Rising Lending Rates on Credit to Individuals








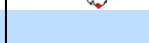


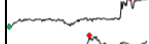









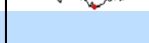



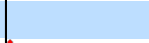



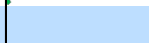

Gradually Rising Non-Performing Loans on Freely Allocated Credit to Individuals



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), 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), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), 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

2/28/23 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3985	0.3	0	-2	-9	4
Europe		4262	0.3	0	2	9	12
Japan		27446	0.1	0	0	2	5
China		4069	0.6	-2	-3	-12	5
Asia Ex Japan		66	0.7	-3	-7	-16	2
Emerging Markets		39	0.5	-3	-7	-18	2
Interest Rates			basis points				
US 10y Yield		3.93	1.6	-2	43	210	6
Germany 10y Yield		2.64	6.0	11	40	251	7
Japan 10y Yield		0.51	-0.2	0	1	31	8
UK 10y Yield		3.83	2.3	21	51	242	16
Credit Spreads			basis points				
US Investment Grade		145	-0.2	0	2	0	-13
US High Yield		440	-0.5	-27	-2	28	-41
Europe IG		79	-0.5	-3	-1	8	-12
Europe HY		409	-1.7	-16	-5	64	-65
Exchange Rates			%				
USD/Majors		104.63	0.0	0	2	8	1
EUR/USD		1.06	0.1	0	-2	-5	-1
USD/JPY		136.7	0.4	1	5	19	4
EM/USD		50.1	0.0	-1	-2	-3	0
Commodities			%				
Brent Crude Oil (\$/barrel)		83.6	1.4	1	-2	0	-2
Industrials Metals (index)		160	-0.1	-5	-10	-15	-3
Agriculture (index)		68	-0.4	-3	-3	-2	-1
Implied Volatility			%				
VIX Index (%, change in pp)		20.8	-0.2	-2.1	1.4	-9.4	-0.9
US 10y Swaption Volatility		121.1	0.5	1.5	16.5	21.6	-4.6
Global FX Volatility		10.1	0.0	0.0	0.0	1.9	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		180	-2.0	-10	-22	-59	-25
Italy		184	0.0	-10	-3	26	-31
Portugal		87	0.2	-2	-4	0	-15
Spain		96	-0.3	-3	-4	-3	-14

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

Emerging Market Financial Indicators

Last updated: 2/28/2023 8:15 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since 23-Feb-22	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		6.94	0.1	-0.8	-3	-9	-1	-9		3.2	0.0	2	6	39	19
Indonesia		15261	0.1	-0.5	-2	-6	2	-6		6.9	3.5	15	16	38	-4
India		83	0.2	0.2	-1	-9	0	-10		7.7	-1.0	12	30	115.4	29
Philippines		55	0.4	-0.5	-1	-7	1	-8		6.0	2.5	3	8	88	-3
Thailand		35	-0.8	-1.9	-7	-7	-2	-9		2.8	1.0	7	20	55	14
Malaysia		4.49	-0.2	-1.2	-5	-6	-2	-7		3.9	-1.2	5	13	26	-12
Argentina		197	-0.1	-1.9	-5	-45	-10	-46		88.3	5.3	45	110	3990	9
Brazil		5.21	-0.1	-0.9	-3	-1	2	-4		14.4	105.6	106	134	272	181
Chile		831	0.2	-3.4	-4	-4	2	-5		5.6	1.0	-9	28	-24	22
Colombia		4778	-0.3	3.9	-2	-18	2	-18		10.0	-1.0	-17	57	193	20
Mexico		18.31	0.3	0.8	3	12	6	11		8.9	0.5	-21	53	103	20
Peru		3.8	0.3	0.9	1	-1	0	-2		8.1	3.8	11	3	192	11
Uruguay		39	0.5	1.4	0	9	3	9		9.9	-1.1	9	-18	174	-80
Hungary		356	0.1	1.2	1	-7	5	-10		8.3	15.0	-55	23	312	-135
Poland		4.44	0.1	0.5	-2	-6	-1	-9		5.9	-2.5	-15	50	195	-30
Romania		4.6	0.1	-0.3	-2	-5	0	-6		7.4	2.4	3	28	201	-25
Russia		75.0	-0.2	-0.1	-6	40	-1	9		10.6	0.0	0	14	-425	-128
South Africa		18.4	0.0	-0.8	-5	-16	-7	-18		9.2	-1.5	-10	49	153	4
Turkey		18.89	0.0	-0.1	0	-27	-1	-27		10.5	-4.0	-4	4	-1395	62
US (DXY; 5y UST)		105	-0.1	0.4	2	8	1	9		4.17	0.5	0	56	246	17

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				Since		Level		Change (in basis points)			
	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
									basis points					
China		4069	0.6	-2	-3	-12	5	-12		168	-2	-15	-43	-9
Indonesia		6843	-0.2	0	0	-1	0	-1		146	-10	-3	-48	6
India		58962	-0.6	-3	-1	5	-3	3		149	2	4	-12	7
Philippines		6556	-0.7	-3	-7	-11	0	-11		121	-14	3	-26	24
Thailand		1622	-0.3	-3	-4	-4	-3	-4		0	0	0	0	0
Malaysia		1454	-0.1	-1	-2	-9	-3	-8		98	-2	-7	-40	-2
Argentina		250466	0.9	-3	-1	185	24	174		1971	-165	142	178	-234
Brazil		105711	-0.1	-3	-7	-7	-4	-6		260	-9	-12	-61	-14
Chile		5365	0.5	2	1	18	2	23		138	2	3	-36	6
Colombia		1206	1.1	1	-7	-21	-6	-20		392	-24	22	15	20
Mexico		53014	0.6	-2	-3	-1	9	3		357	-7	7	-1	-24
Peru		21566	-0.2	-2	-4	-9	1	-8		181	-2	-7	-4	1
Hungary		45032	0.2	0	-1	3	3	-6		199	-20	-12	31	-23
Poland		60040	1.1	1	-2	-2	4	-4		68	-9	-17	26	-5
Romania		12325	0.1	0	2	-3	6	-7		229	-21	-15	-7	-26
Russia		2252	0.5	3	1	-9	5	-27		3411	-577	938	3228	3234
South Africa		77988	0.6	-1	-2	2	7	4		368	-12	14	-25	1
Turkey		5248	1.0	2	5	170	-5	160		497	-29	-3	-83	57
Ukraine		507	0.0	0	0	-2	-2	-2		4651	137	554	2276	572
EM total		39	-0.7	-3	-7	-18	2	-19		385	-9	18	-102	9

[back to top](#)