GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, FEBRUARY 8, 2023

- **Divergence between markets and Fed driven by differing views about inflation** (link)
- **Good economic news could be bad news for US markets** (link)
- **ECB raises rates on deposits to boost liquidity** (link)
- **US loan officer survey shows tightening lending standards** (link)
- **Türkiye stock exchange suspends trading in aftermath of earthquake** (link)
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Markets take a breather after days of uncertainty

Markets interpreted Fed Chair Powell's remarks at a widely watched interview as moderately dovish, allowing stocks to rally in the US yesterday and in Europe and Asia this morning. In addition, US Treasury yields are down, although US index futures lost ground in early trading today. Despite the perceived reprieve, investors remain worried about the divergence between the Fed and the market about future interest rate policy. Tightening standards for loans by US banks highlighted the potential headwinds confronting the US economy, as did a report showing that used car prices were up again. In the euro area, the ECB surprised markets by increasing its interest rate on deposits to help improve liquidity in local markets. Türkiye was forced to suspend trading in the stock exchange after continued losses pushed the major local index into bear market territory. Ghana was forced to postpone its bond restructuring yet again due to insufficient adoption by investors.

Key Global Financial Indicators

Last updated: 2/8/23 8:03 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		4164	1.3	2	7	-8	8	-1
Eurostoxx 50		4226	0.4	1	5	2	11	6
Nikkei 225		27606	-0.3	1	6	0	6	4
MSCI EM		40	0.4	-2	1	-18	7	-15
Yields and Spreads				bps				
US 10y Yield		3.65	-2.3	23	9	169	-22	166
Germany 10y Yield		2.37	1.7	8	16	210	-21	214
EMBIG Sovereign Spread		433	3	-11	-36	52	-19	20
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		50.8	0.1	-2	1	-5	2	-4
Dollar index, (+) = $ appreciation		103.2	-0.2	2	-1	8	0	7
Brent Crude Oil ($/barrel)		84.2	0.5	2	7	-7	-2	-13
VIX Index (%, change in pp)		18.9	0.2	1	-2	-3	-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

Divergence between market and Fed driven by differing assumptions about the future. According to surveys conducted by the New York Fed, investors expect slower growth and lower inflation than forecasted by the Fed based on the last Staff Economic Projections (SEP) in December. Investors think that multiple rate hikes delivered by the Fed will do the job, bringing inflation down and slowing the economy. They think supply chain disruptions will be resolved, further easing inflationary pressures. As a result, investors think policy rates will return to normal faster than what is the predicted by the Fed's dot plot. The flow of data in the next few weeks will go a long way towards deciding which view is correct.

Figure 4. Market participants expect lower growth and inflation than the Fed projects

December FOMC		2023	2024	2025
Q4/Q4 real GDP growth	Fed	0.5	1.6	1.8
	Consensus	-0.3	1.7	1.9
Unemployment rate	Fed	4.6	4.6	4.5
	Consensus	4.7	5.0	4.6
Core PCE	Fed	3.5	2.5	2.1
	Consensus	3.0	2.3	2.0

Real GDP growth is calculated as the GDP level in Q4 of a given year vs. Q4 of the prior year. Unemployment rate is the Q4 average. Core PCE inflation is on a Q4/Q4 basis.

Source: New York Fed, Barclays Research

Figure 7. Rates investors therefore see a faster return to "normal" policy rates

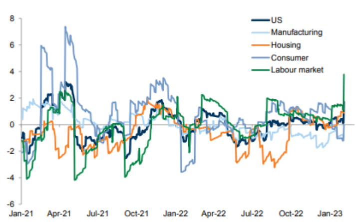
	NY Fed Surveys			
	Fed dots	Dealers	Asset Managers	Market
Jun-23		5.1	4.8	5.0
Dec-23	5.1	4.8	4.8	4.6
Jun-24		4.0	4.1	3.6
Dec-24	4.1	3.3	3.1	3.1
Jun-25		2.8	2.6	3.0
Dec-25	3.1	2.6	2.6	2.9

Using New York Fed surveys as of the December FOMC meeting.

Source: Federal Reserve, New York Fed, Barclays Research

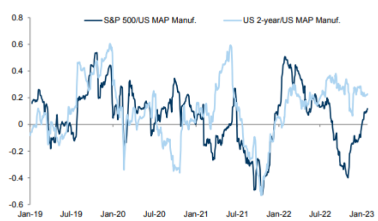
Good news on the US economy may turn out to be bad news for markets. Analysis by Goldman finds that equity markets and other risk assets have an unexpected response to good US economic, selling off when the data are strong and rallying when the data are weak. This is especially true for US employment data, as seen by the market response to last Friday's very strong jobs report, which sparked a selloff in both equities and Treasuries. The reason is that markets are fixated on future Fed interest rate policy, hopeful for rate cuts in the second half of 2023 but fearful that a stronger economy and higher inflation will force the Fed to keep rates higher for longer. Any sign of strength in the economy increases fears of a more hawkish Fed, causing markets to sell off. Next week's CPI report will be the next key milestone for markets in trying to guess what Fed policy will be.

Exhibit 1: Sharply positive turn in US macro surprises driven by the labor market
Macro surprises (MAP scores)



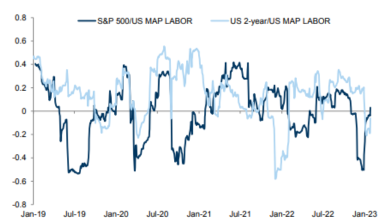
Source: Goldman Sachs Global Investment Research

Exhibit 2: 'Bad news' on the manufacturing side have been 'good news' for equities
3-month correlation of weekly returns



Source: Datastream, Goldman Sachs Global Investment Research

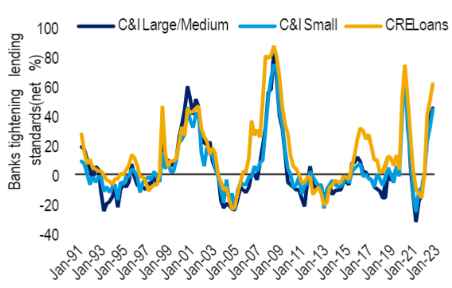
Exhibit 3: Labor market strength was 'bad news' for risky assets
3-month correlation of weekly returns



Source: Datastream, Goldman Sachs Global Investment Research

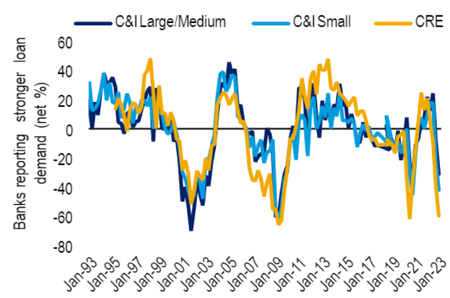
The Fed's Senior Loan Officers' Survey found that banks are tightening their credit standards for making commercial and industrial (C&I) loans, tightening financial conditions for companies that are more reliant on banks for financing. The survey applies to credit condition in the fourth quarter of last year. 45% of banks reporter higher credit standards for large and middle-sized corporations in Q4, up from 39% in Q3. For small companies, the Q4 number was 44% compared to 32% in Q2. In response, banks reported that loan demand from corporations had weakened. Although there has been a lot of discussion of loosening financial conditions this year in response to the overall market rally, the survey is a reminder that financial conditions are different for different parts of the market, and that a broad overall trend can conceal wide divergences. Critics would respond that the survey is backward looking, while financial conditions indexes are more responsive to current conditions because they are based on market prices.

Figure 1: Lending standards: C&I loans
Banks tightened standards on C&I loans in January.



Source: Federal Reserve
BofA GLOBAL RESEARCH

Figure 2: Loan demand: C&I loans
Demand was weaker across C&I and CRE loans in January.

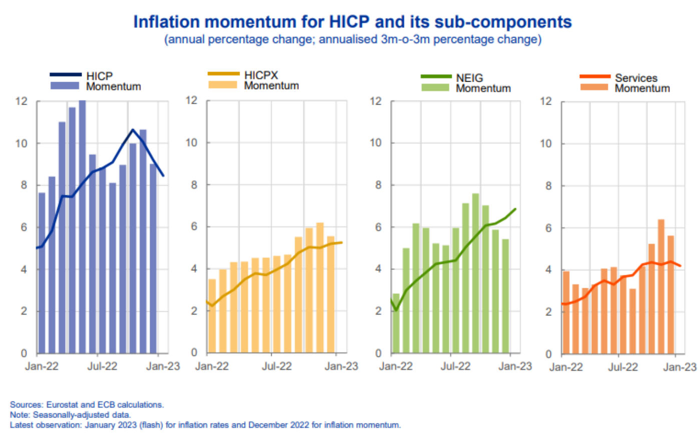


Source: Federal Reserve
BofA GLOBAL RESEARCH

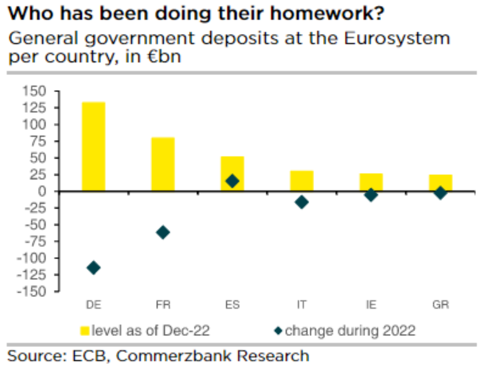
Euro Area

Bank stocks (+0.5%) gained after the euro area's top banking regulator Enria said that distribution plans of the large banks are sustainable. An ECB review found that most banks would remain above relevant capital thresholds even in an "a sufficiently conservative adverse scenario" for the economy and their balance sheets. **Large banks in the euro area plan to distribute 51% of their 2022 gross profits to shareholders this year.** European bank stocks have gained a stunning 17% so far in 2023.

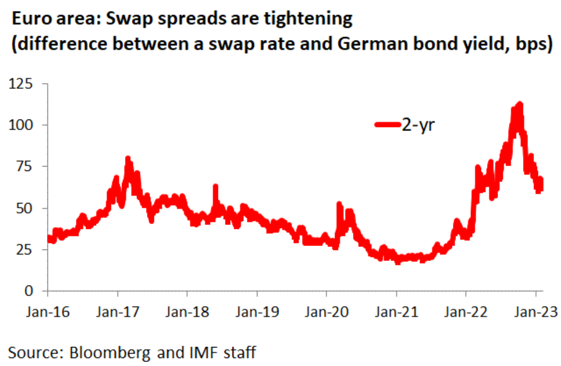
German 10-yr bund yields are little changed ahead of German inflation data tomorrow. ECB Governing Council member Schnabel emphasized that momentum in euro area inflation remains high, especially for services. Nevertheless, some contacts point out that median services inflation in the euro area has been decelerating on a seasonally adjusted annualized basis.



The ECB unexpectedly adjusted its remuneration of government deposits to a rate of 20 bps below the euro short-term €STR rate. This is expected to boost liquidity in local markets. In September 2022, the ECB had temporarily removed the 0% interest rate ceiling for these deposits until 3 April, paying €STR for government deposits. Yesterday's decision will take effect from May 1, 2023, and will "be monitored and adjusted if necessary." At present, the government deposits at the ECB are around €353 bn.

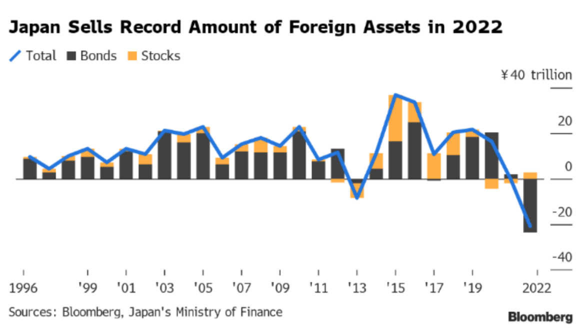


Euro area swap spreads have been tightening in recent months and tightened another 5 bps yesterday. Given yesterday's ECB decision on the ceiling on government deposits, analysts do not expect a meaningful shift out of government deposits into reverse repos or high-quality collateral, which should ease collateral conditions further. **Commerzbank believes that more drastic changes could still be considered during the upcoming review of the operational framework, such as Fed-style reverse repos (opening the balance sheet to non-bank financial institutions) or ECB bills, which could lead to an erosion of the premium on bunds.**



Japan

Prime Minister Kishida said that he will carefully consider the market impact while choosing a new Bank of Japan governor. He is expected to reveal his pick next week. **Japanese investors offloaded a record amount of overseas bonds last years** as hedging costs rose and speculation regarding BOJ policy normalization gained ground. U.S., French and German bonds were the main assets being sold by Japanese funds. Hedging costs for Japanese investors soared last year as central banks around the world raised interest rates.



Emerging Markets

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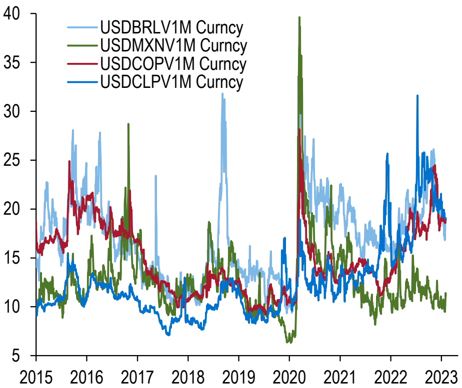
EMEA equity were mostly trading higher but Türkiye (-7%) was a notable exception, posting steep losses before trading was suspended. Currencies were mixed against their reference currencies. **In Asia,** stocks were higher on a net basis. The People's Bank of China injected more liquidity into the system. **In Latin America,** markets were mixed but the appreciation in the Chilean peso continued after it posted its largest trade surplus since 2007.

Brazil

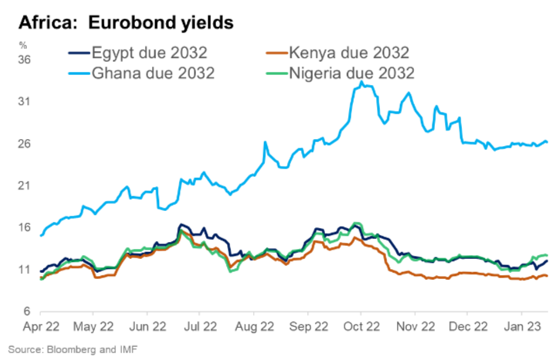
Real implied volatility remains elevated amidst worries about political uncertainty. Newly elected President Lula recently questioned the importance of central bank independence and criticized the high level of high interest rates. The head of the central bank defended its independence in a meeting with journalists yesterday.

One-month implied volatility of BRL, CLP, COP, MXN against the USD



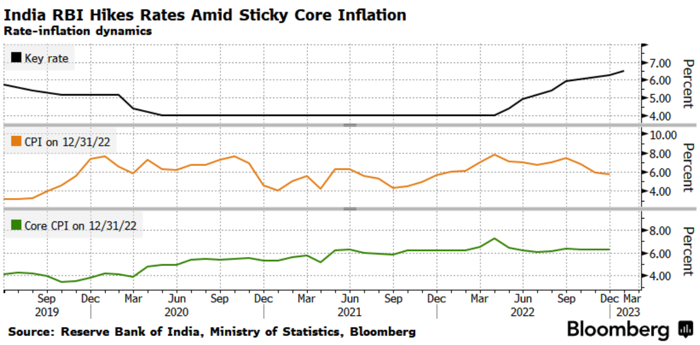
Ghana

Yields on Ghana's Eurobonds due 2032 are little changed after the government extended the deadline for its debt restructuring for a fifth time in February 10. Ghana is seeking to restructure 137 billion cedi ($11.2 billion) domestic bonds under a voluntary debt exchange program. Authorities are aiming for an 80% participation in the domestic debt exchange, but the uptake from investors has been below expectations.



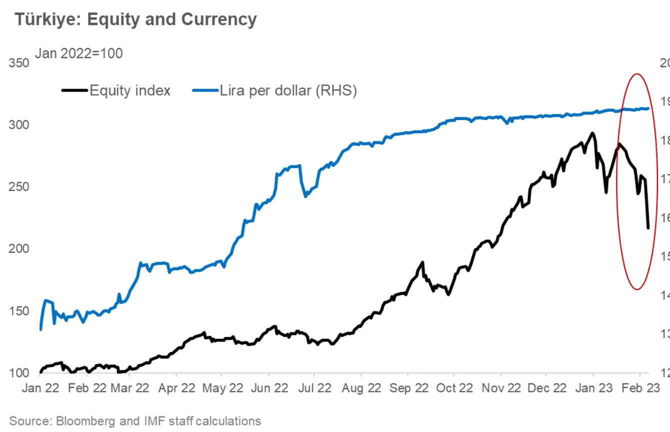
India

The Reserve Bank of India (RBI) increased the repurchase rate by 25 bps to 6.5% as expected. The RBI expects core inflation to remain sticky. Based on its latest forecast, economic growth will slow to 6.4% for the next fiscal year (starting from April), while inflation will moderate to 5.3%. The RBI also announced a proposal to allow lending and borrowing of Indian government bonds in an effort to further deepen the local debt market development. Governor Das insisted that India's banking system is stable and resilient in response to a question on the impact of the problems with the Adani Group.



Türkiye

Trading on the stock exchange was suspended after the selloff deepened in the aftermath of two earthquakes. This morning the Turkish stock exchange halted trading in equities, futures and options markets after the Borsa Istanbul 100 Index extended losses for the third day and two automatic circuit breakers were triggered. It was not specified when trading would resume. Bloomberg reports that it is the first time in 24 years that trading was suspended**.** The index closed in technical bear market territory yesterday, roughly 20% lower than its peak in January.



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), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan, 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), Johannes S Kramer (New York Representative), 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), 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.

Global Financial Indicators

2/8/23 8:06 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities					%		%	%
United States		4162	1.3	1	7	-8	8	-1
Europe		4223	0.3	1	5	2	11	6
Japan		27606	-0.3	1	6	0	6	4
China		4076	-0.4	-3	2	-12	5	-12
Asia Ex Japan		70	0.5	-2	1	-15	7	-12
Emerging Markets		40	0.4	-2	1	-18	7	-15
Interest Rates					basis points			
US 10y Yield		3.65	-2.5	23	9	169	-23	166
Germany 10y Yield		2.36	1.5	8	15	210	-21	214
Japan 10y Yield		0.50	-0.1	1	-1	28	8	30
UK 10y Yield		3.31	-0.7	0	-16	182	-36	183
Credit Spreads					basis points			
US Investment Grade		138	0.4	-2	-23	12	-20	-4
US High Yield		421	2.4	-20	-46	38	-59	14
Europe IG		75	-0.7	-4	-5	11	-16	3
Europe HY		392	-5.3	-17	-26	84	-82	41
Exchange Rates					%			
USD/Majors		103.24	-0.2	2	-1	8	0	7
EUR/USD		1.07	0.1	-2	0	-6	0	-5
USD/JPY		131.1	0.0	2	-1	13	0	14
EM/USD		50.8	0.1	-2	1	-5	2	-4
Commodities					%			
Brent Crude Oil ($/barrel)		84.1	0.4	1	7	4	-2	0
Industrials Metals (index)		168	0.3	-4	3	-8	2	-10
Agriculture (index)		69	0.4	0	4	5	1	-1
Implied Volatility					%			
VIX Index (%, change in pp)		18.9	0.2	1.0	-2.2	-2.6	-2.8	-12.1
US 10y Swaption Volatility		103.4	-0.5	1.8	-14.9	23.0	-22.3	9.1
Global FX Volatility		10.5	0.0	0.2	-0.3	3.0	-0.3	3.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		186	1.4	-16	-30	-37	-19	-54
Italy		187	-1.1	-14	-15	29	-27	16
Portugal		84	-1.2	-7	-16	4	-18	-8
Spain		93	-0.5	-7	-13	7	-16	-10

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

Emerging Market Financial Indicators

Last updated: 2/8/2023 8:08 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	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		6.79	0.0	-0.6	0	-6	2	-7		3.2	1.0	-2	11	43	12	32
Indonesia		15096	0.3	-0.8	3	-5	3	-5		6.7	-6.5	-1	-33	15	-29	15
India		82	0.2	-0.7	0	-9	0	-10		7.4	4.2	3	4	67.9	-5	
Philippines		55	0.5	-0.6	1	-6	2	-7		5.9	0.0	0	-15	123	-10	93
Thailand		34	0.1	-2.0	0	-2	3	-4		2.6	-1.0	12	11	44	2	42
Malaysia		4.30	0.1	-0.7	2	-3	2	-3		3.8	-2.2	0	-24	10	-24	13
Argentina		190	-0.2	-1.4	-5	-44	-7	-44		85.6	4.0	-170	9	3571	-259	3766
Brazil		5.19	0.3	-2.6	1	1	2	-3		13.5	9.5	35	80	178	94	200
Chile		790	0.8	0.2	6	5	8	0		5.4	10.0	6	25	-51	3	-55
Colombia		4733	-0.1	-2.3	3	-17	2	-17		8.9	0.0	-33	-120	154	-92	98
Mexico		18.91	0.0	-1.6	1	9	3	7		8.4	9.5	1	30	86	-33	56
Peru		3.8	0.1	0.0	-1	0	-1	-3		7.9	-0.1	-9	4	185	-3	194
Uruguay		39	0.0	-1.0	2	11	2	8		10.0	0.0	-12	-70	142	-70	183
Hungary		361	1.1	-1.8	2	-14	3	-11		7.8	-30.0	-26	-20	310	-185	294
Poland		4.41	0.4	-3.0	-1	-10	-1	-8		5.4	-10.5	9	30	150	-77	147
Romania		4.6	0.1	-2.0	1	-5	1	-4		7.4	11.2	9	-4	234	-29	225
Russia		72.3	-0.8	-3.5	-4	4	3	13		10.3	-20.0	-19	-160	92	-161	-93
South Africa		17.6	-0.2	-3.2	-4	-13	-3	-14		8.8	-1.0	16	17	112	-37	121
Turkey		18.83	-0.1	-0.2	0	-28	-1	-27		11.4	-25.0	68	286	-1119	160	-1099
US (DXY; 5y UST)		103	-0.2	2.0	-1	8	0	7		3.81	-2.4	29	11	199	-19	191

	Equity Markets								Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Since	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		4076	-0.4	-3	2	-12	5	-12		172	-10	-11	-30	-5	-36
Indonesia		6940	0.1	1	4	2	1	0		135	-16	-39	-48	-5	-50
India		60664	0.6	2	0	4	0	6		146	-9	0	1	4	-8
Philippines		6923	0.6	-2	2	-8	5	-6		112	-10	-30	-11	15	-25
Thailand		1670	-0.6	-1	-1	-2	0	-2		0	0	0	0	0	0
Malaysia		1471	-0.4	-2	-2	-5	-2	-7		99	-5	-5	-25	-1	-34
Argentina		246804	1.3	-3	15	180	22	170		1923	92	-206	144	-282	186
Brazil		107830	-0.8	-4	-1	-4	-2	-4		254	-20	-29	-62	-20	-77
Chile		5292	-0.3	0	3	15	1	21		131	-9	-27	-26	-1	-43
Colombia		1270	0.1	0	-4	-17	-1	-16		366	-13	-19	3	-6	-26
Mexico		53336	-1.3	-2	3	2	10	4		350	-4	-37	7	-31	-20
Peru		22319	0.3	0	0	-5	5	-5		181	-13	-20	9	1	-9
Hungary		45966	1.7	2	1	-13	5	-4		192	-26	-69	55	-30	39
Poland		61117	1.0	1	2	-10	6	-3		64	-20	-39	52	-9	48
Romania		12288	-0.4	1	1	-8	5	-7		223	-32	-72	13	-32	-9
Russia		2258	-0.4	1	5	-36	5	-27		3411	-577	938	3228	3234	2897
South Africa		79614	0.1	0	4	5	9	6		350	-15	-20	-24	-17	-39
Turkey		4186	-7.1	-11	-22	109	-24	108		504	-6	26	-53	64	-59
Ukraine		507	0.0	0	-1	-2	-2	-2		4231	67	50	3385	152	2758
EM total		40	0.6	-2	1	-18	7	-15		370	-5	-21	-45	-6	-88

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

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