



- **US CPI lower than expected** ([link](#))
- **Smaller US companies face higher funding costs as banks reduce lending** ([link](#))
- **Q2 US corporate earnings expected to fall by 9%** ([link](#))
- **Speculation mounts that BOJ could change yield curve control policy** ([link](#))
- **Low inflation in Brazil prompts rate cut expectations** ([link](#))
- **Zambia makes progress on debt restructuring** ([link](#))
- **Special Feature: Emerging and Frontier Markets Issuance Monitor** ([link](#))

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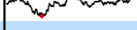





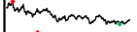

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## US inflation data drive markets

**US CPI came in below forecasts, boosting markets.** Earlier, markets rallied across the globe on hopes that inflation data in the US would prove to be benign. The Stoxx 600 index in Europe was up for the fourth day in a row as technology and bank stocks outperformed. Technology stocks in China also did well after the authorities unexpectedly praised the technology sector for its contributions to the economy, but the broader CSI 300 index continued to lag. In the euro area, peripheral spreads remain contained despite rising interest rates, although faster quantitative tightening could create problems. There is growing speculation that the Bank of Japan will change its Yield Curve Control policy at its next meeting on July 28 by switching its yield target from 10-year JGBs to five-year JGBs. Lower inflation in Brazil supported the view that many Latin American countries may be moving closer to central bank rate cuts. News that Zambia made progress on talks with private creditors spurred optimism about the G-20 Common Framework for debt restructuring.

Key Global Financial Indicators

Last updated: 7/12/23 8:07 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		4439	0.7	0	2	16	16	5
Eurostoxx 50		4328	1.0	-1	0	24	14	9
Nikkei 225		31944	-0.8	-4	-3	21	22	21
MSCI EM		40	1.0	0	0	2	5	-16
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.94	-2.8	1	21	97	7	195
Germany 10y Yield		2.65	0.1	17	26	152	8	242
EMBIG Sovereign Spread		428	-9	2	-27	-124	-23	16
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		49.0	0.0	0	-2	-1	-2	-8
Dollar index, (+) = \$ appreciation		101.5	-0.2	-2	-2	-6	-2	6
Brent Crude Oil (\$/barrel)		79.6	0.3	4	11	-20	-7	-18
VIX Index (% change in pp)		14.7	-0.2	0	0	-13	-7	-16

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

The latest CPI data for June were lower than expected, with headline annualized CPI falling to its lowest level since 2021. The Treasury market rallied strongly on the news, while the dollar depreciated. US equity index futures were slower to respond.

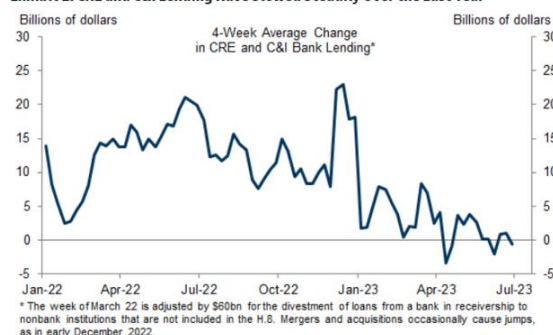
#### US CPI Report 8.30 am

Source: Bloomberg

Indicator	Consensus Forecast	Actual Data Print
CPI month-on-month	+0.3%	+0.2%
Core CPI mom	+0.3%	+0.2%
CPI year-on-year	+3.1%	+3%
Core CPI yoy	+5.0%	+4.8%

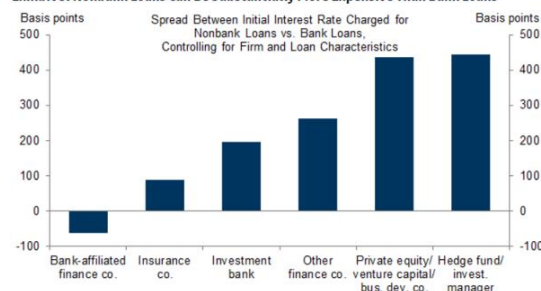
**Smaller US companies are likely to face higher funding costs as banks reduce their lending and tighten credit standards.** The latest Fed data show that bank lending for commercial real estate (CRE) and commercial and industrial (C&I) lending are down sharply. The slowdown in lending is expected to have the most impact on medium and small companies who lack access to the corporate bond market and to whom banks are more reluctant to lend. These companies will have to rely on more nonbank lenders and financial companies such as hedge funds or private equity firms. Research cited by Goldman suggests that these lenders charge 200 bps more on average than equivalent bank loans, with some charging even higher rates than that. However, the research also suggests that most companies are less sensitive to funding costs when planning capital expenditure (capex) projects, and that capex volumes are not likely to fall as much as expected.

Exhibit 2: CRE and C&I Lending Have Slowed Steadily Over the Last Year



Source: Federal Reserve Board, Goldman Sachs Global Investment Research

Exhibit 3: Nonbank Loans Can Be Substantially More Expensive Than Bank Loans

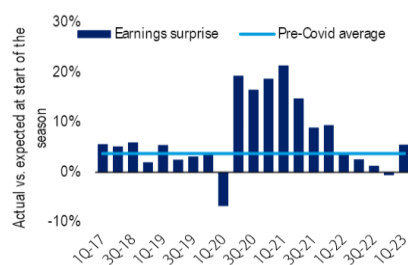


Sergey Chernenko, Isil Erel, and Robert Prilmeier, "Nonbank Lending," 2018.

**The consensus forecast is that US corporate earnings in Q2 will be down 9% from the previous year.** However, most analysts also predict that earnings will do better than the forecasts. Companies retain considerable pricing power, which has enabled them to retain strong profit margins. In addition, many expect that the US economy could avoid a recession altogether and absorb the higher interest rates imposed by the Fed, leading to faster growth in the coming quarters even as inflation trends lower. Moreover, the overall aggregate forecasts include very unfavorable comparisons for energy companies, which did very well during the commodity price surge of 2022 but have done much more poorly this year. Excluding energy companies, the rest of the corporate sector could have good results. In Q1, positive earnings and revenue surprises were well above the pre-Covid averages.

**Figure 3: Earnings surprise for US IG issuers**

Earnings surprise was above the +3.7% pre-Covid average in 1Q-2023.

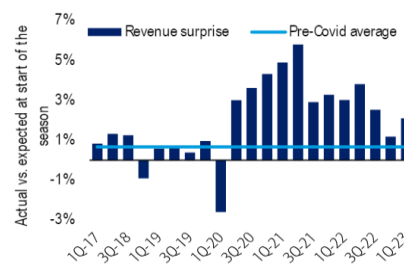


Source: BofA Global Research, FactSet

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**Figure 4: Revenue surprise for US IG issuers**

Sales beat expectations by 2.1% in 1Q-2023, well above +0.7% pre-Covid average.



Source: BofA Global Research, FactSet

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## Euro Area

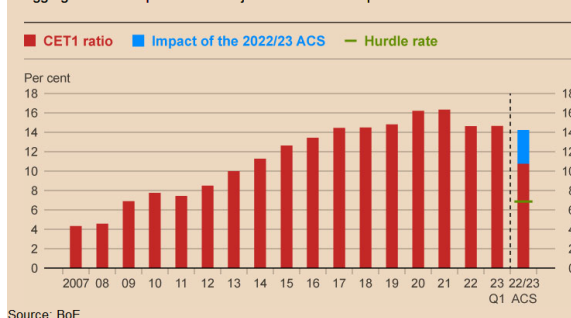
European equities were higher (Stoxx 600 +0.9%) while sovereign bond yields were edging lower, with the 10y bund trading at around 2.65%.

**Euro area peripheral spreads remain contained despite rising interest rates and quantitative tightening (QT) by the ECB.** For example, spreads between 10y Italian debt and its German equivalent currently amount to roughly 170bps, compared to over 200bps seen a year ago, while 10y bund yields have increased from 1.3% a year ago to over 2.6% today. Barclays analysts attribute this to the front-loading of peripheral supply early in the year, with issuance to slow in the months ahead. However, the outlook for peripheral spreads could change if the ECB accelerates QT in order to compromise over rate hikes, as ECB members are divided over how much further tightening is required. ECB hawks could demand faster QT in exchange for a more moderate policy on interest rates.

## United Kingdom

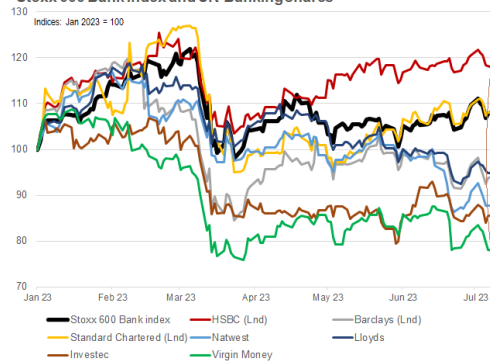
**UK banking shares gained after stress tests show that the largest eight banks would remain resilient in a significantly worse economic environment.** The BoE released its Annual Cyclical Scenario results this morning. The stress scenario incorporated persistently higher inflation in advanced economies, higher global interest rates, simultaneous and deep recessions in the UK and global economies together with higher employment, and sharp declines in asset prices. The BoE said that the stress tests support the Financial Policy Committee's (FPC) judgement that the UK banking system has the capacity to support households through a period of higher interest rates. Equity prices of UK banks increased this morning, with Virgin Money UK Plc for example up roughly 7%. The Financial Policy Summary and Record for July, also published this morning, noted that the **FPC agreed to maintain the UK countercyclical capital buffer at 2%.**

**Chart 3.1: Major UK banks start the 2022/23 ACS with a robust aggregate capital position, which remains well above the aggregate hurdle rate at the low point (a) (b)**  
Aggregate CET1 capital ratio of major UK banks and impact of the 2022/23 ACS



Source: BoE

**Stoxx 600 Bank Index and UK Banking shares**



Source: Bloomberg and IMF calculations

## Japan

**Speculation is mounting that the Bank of Japan (BOJ) may change its yield curve control policy at the meeting later this month.** The JGB yield curve has steepened, with the five-year/10-year yield spread at its highest since 2015, reflecting the view that the BOJ may shift the target to from 10-year to five-year JGB yields. Long-end JGB yields increased, with 10-year yield at 0.467% (+1.5 bps) and 30-year yield at 1.331% (+2.3 bps). **PPI deflation moderated to 4.1% y/y in June** from 5.1% in May, lower than expected (consensus: +4.4%).



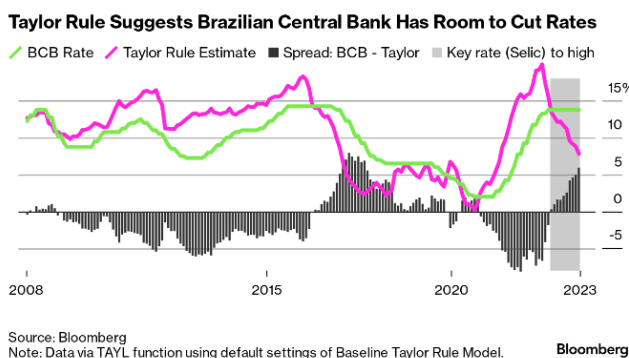
## Emerging Markets

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**Equity markets are up significantly in EMEA, led by Romania (+2.8%),** with Türkiye an outlier (-1%). Currencies are generally trading in a narrow range. **Latam markets continued to do well as inflation falls.** Local currencies have performed well against the dollar. **Equities in Asia were higher, but China continued to lag.** Local currencies appreciated against the dollar.

## Brazil

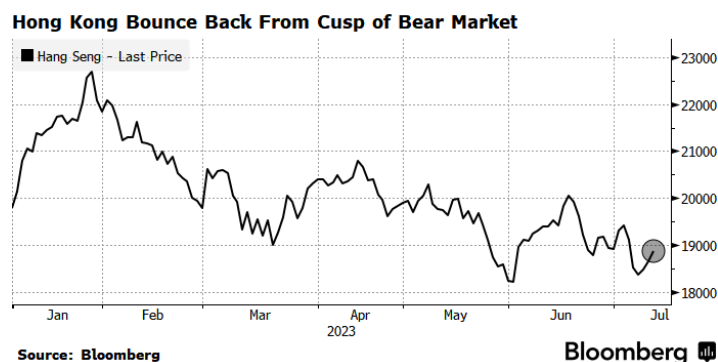
**Inflation in Brazil is in decline.** Prices in Brazil rose 3.16% y/y in June (from 3.94%), the lowest since September 2022 and below the Brazilian Central Bank's target rate of 3.25%. Inflation has come a long way from its peak in Brazil of 12.13% y/y in 2022 and is also falling across many Latin American economies. The data release shows a clear path for Banco Central do Brazil to cut rates during their next meeting on August 2<sup>nd</sup>. Their Selic target rate has been at 13.75% since August 2022 and is expected to fall later this year and into next year. The Taylor Rule, a popular economic model for monetary policy rates, suggests that the central bank has more than enough room to cut interest rates. Brazilian sovereign one-year bonds rose 2 bps to 12.28% and 10-year bonds fell 6 bps to 10.63% for the day.



## China

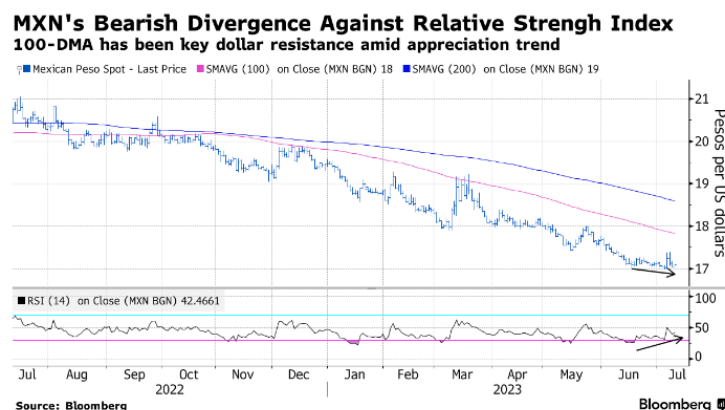
**Hong Kong SAR-listed Chinese tech stocks gained for a third day** (up 1.3% today and up 4.6% for the

week). The rally started after the news broke that Chinese authorities were wrapping up regulatory probes of Ant Group over the weekend. The rally has also been supported by news of a meeting between officials and key companies, which in turn created optimism for a more supportive stance toward the tech sector. Separately, the National Development and Reform Commission (NDRC) praised major online platforms for supporting China's innovation, including in semiconductor and AI sectors, an unusual act from the top economic planning body. The NDRC also pledged support for these firms to play an active role in bolstering economic growth and creating jobs.



## Mexico

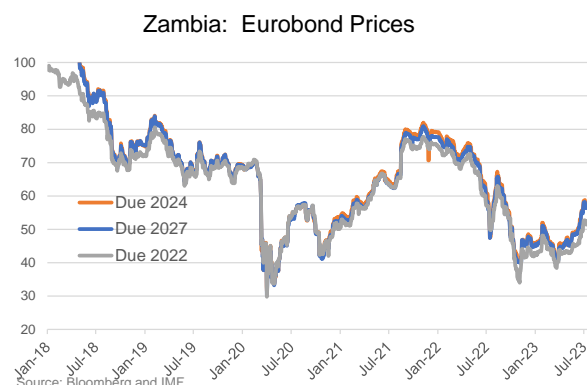
**The Mexican Peso is up 13% YTD against the USD and is one of the best performing currencies in the world.** The currency has attractive carry trade support and is boosted by high remittance volumes, but analysts at Oxford Economics claim the currency to be overvalued by 20%. Investors could lose interest if market sentiment wavers or if Mexico's economy begins to underperform. They also claim that carry trade support for the Peso will soon fade as Banxico is expected to cut rates later this year.



## Zambia

**Zambia eurobond prices advanced after Reuters reported that the government made important progress in negotiations with bondholders.** Zambia defaulted on its external debt in November 2020 and reached an agreement in June with its official bilateral creditors and agreed to obtain comparable treatment from its private creditors. Citing unidentified sources, Reuters reports that bondholders have entered in non-disclosure agreements (NDAs) with the government today, marking the beginning of formal talks to restructure Zambia's Eurobonds (three bonds due in '22, '24 and '27 for a total of \$ 3bn). The NDAs restrict bondholders from trading the bonds while they get access to non-public information on Zambia's latest macroeconomic framework. Reuters also reports that creditors are debating the inclusion of state-contingent debt instruments in the restructured bonds. Market participants are keeping a close eye on

Zambia's debt restructuring, as it perceived to be setting precedent for other debt treatments under the G20 Common Framework.



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist-London Representative), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Benjamin Mosk (Senior Financial Sector Expert), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), 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), Dalila Mujevic (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.*

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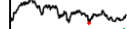







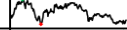
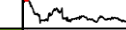










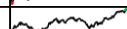


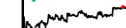











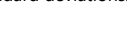
## Global Financial Indicators

7/12/23 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4444	0.7	0	2	16	16
Europe		4328	1.0	-1	0	24	14
Japan		31944	-0.8	-4	-3	21	22
China		3843	-0.7	-1	-1	-11	-1
Asia Ex Japan		67	1.0	-1	-1	0	4
Emerging Markets		40	1.0	0	0	2	5
<b>Interest Rates</b>			basis points				
US 10y Yield		3.94	-2.8	1	21	97	7
Germany 10y Yield		2.65	0.1	17	26	152	8
Japan 10y Yield		0.47	1.5	8	4	23	5
UK 10y Yield		4.61	-5.2	12	27	254	94
<b>Credit Spreads</b>			basis points				
US Investment Grade		148	0.8	2	-15	-27	-10
US High Yield		431	-1.0	-1	-33	-130	-50
<b>Exchange Rates</b>			%				
USD/Majors		101.51	-0.2	-2	-2	-6	-2
EUR/USD		1.10	0.1	2	2	10	3
USD/JPY		139.6	-0.6	-4	0	2	6
EM/USD		49.0	0.0	0	-2	-1	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		79.6	0.3	4	11	-6	-4
Industrials Metals (index)		143	1.1	1	0	-2	-14
Agriculture (index)		68	0.4	0	1	6	-2
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		14.7	-0.2	0.5	-0.3	-12.6	-7.0
US 10y Swaption Volatility		110.0	0.0	0.0	1.8	-29.4	-15.7
Global FX Volatility		8.2	0.0	0.1	0.2	-3.4	-2.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		143	-1.1	11	10	-92	-62
Italy		172	-4.7	3	5	-26	-42
Portugal		72	-3.9	-1	4	-38	-30
Spain		103	-3.5	-2	8	-6	-6

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

## Emerging Market Financial Indicators

Last updated: 7/12/2023 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		7.19	0.2	0.8	-1	-6	-4		2.7	-0.3	-1	-5	-19	-35
Indonesia		15075	0.5	-0.4	-1	-1	3		6.2	-2.6	2	-13	-108	-75
India		82	0.1	0.0	0	-3	1		7.5	3.0	8	4	7.1	1
Philippines		55	0.6	0.8	2	3	1		5.9	1.3	1	1	28	-8
Thailand		35	-0.3	0.4	-1	4	-1		2.8	0.0	4	4	26	14
Malaysia		4.65	0.2	0.0	-1	-5	-5		3.9	-2.7	-3	13	-19	-18
Argentina		263	-0.3	-1.5	-6	-52	-33		91.9	-46.5	147	-1881	2256	371
Brazil		4.85	0.1	0.0	0	12	9		10.7	-6.0	-18	-57	-244	-186
Chile		816	-0.3	-2.1	-1	22	4		5.1	-1.0	2	9	-168	-28
Colombia		4185	-0.7	-1.2	0	9	16		7.5	0.0	11	-56	-230	-226
Mexico		17.00	0.3	0.1	2	23	15		8.3	0.0	20	-5	-61	-45
Peru		3.6	0.4	0.1	1	9	5		6.8	-0.1	15	-33	-145	-114
Uruguay		38	0.0	-1.5	1	6	5		9.5	-2.8	-8	-38	-158	-117
Hungary		342	0.6	2.9	0	19	9		7.2	11.0	37	-28	-144	-245
Poland		4.03	0.0	1.9	2	19	8		5.0	-9.8	-2	-22	-119	-120
Romania		4.5	0.1	1.6	3	10	3		6.6	-3.3	0	-6	-236	-107
Russia		90.7	-0.4	-0.3	-8	-32	-18							
South Africa		18.4	0.3	1.8	1	-8	-8		9.7	-2.3	13	-12	50	56
Turkey		26.14	-0.1	-0.2	-10	-34	-28		16.9	0.0	14	17	-210	704
US (DXY; 5y UST)		102	-0.2	-1.8	-2	-6	-2		4.19	-3.7	-6	30	117	19

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3843	-0.7	-1	-1	-11	-1		179	-2	-9	-28	2
Indonesia		6808	0.2	1	1	3	-1		133	3	-14	-89	-7
India		65394	-0.3	0	4	22	7		130	3	-6	-78	-12
Philippines		6467	1.1	-1	-1	3	-2		107	4	-11	-59	10
Thailand		1491	-0.4	-1	-5	-4	-11		0	0	0	0	0
Malaysia		1398	0.5	1	1	-1	-7		88	-3	-7	-51	-12
Argentina		422765	0.5	-4	11	310	109		1987	-29	-409	-687	-218
Brazil		117220	-0.6	-2	0	19	7		243	-5	-12	-124	-31
Chile		5995	0.7	3	5	18	14		121	-4	-11	-60	-11
Colombia		1148	1.5	2	-3	-15	-11		367	-1	-1	-70	-5
Mexico		54138	0.9	0	0	14	12		366	-3	-30	-86	-15
Peru		22558	-0.9	1	2	22	6		152	-4	-22	-53	-28
Hungary		51166	1.2	2	2	33	17		206	1	-24	-29	-16
Poland		68662	1.1	3	4	30	19		132	4	-6	56	59
Romania		13087	2.1	2	7	7	12		223	1	-24	-112	-32
South Africa		75849	1.3	0	-1	13	4		403	5	-4	-129	36
Turkey		6369	0.1	4	14	162	16		458	-21	-33	-301	18
Ukraine		507	0.0	0	0	-2	-2		4258	119	-803	-1777	179
EM total		40	0.8	0	0	2	5		382	-2	-16	-89	7

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

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