GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JUNE 12, 2023

- **Amid US Stock Valuations Rising, Earnings Forecasts also show Signs of Recovery** (link)
- **Corporate Fundamentals in the US Remain Healthy Despite Challenges** (link)
- **ECB expected to hike as data disappoint and banks repay TLTROs** (link)
- **Japan's PPI Inflation Moderates to the Slowest Pace in two Years** (link)
- **Czech Republic's Inflation Eases Less than Expected Driven by Food Prices** (link)
- **Colombian Peso Overtakes Mexican Peso as Strongest Currency against Dollar** (link)
- **Strains in China's Local Government Financing Continue as Housing Demand Peaked** (link)
- **Suspension of Nigeria's Central Bank Governor Triggers Bearish Bets on Naira** (link)

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Crucial Week on the Horizon: Markets Await Fed, ECB & Bank of Japan decisions

Economic news over the weekend has been light ahead of this week's major scheduled events. European equities opened higher ahead of US CPI data tomorrow and monetary policy meetings of the Fed, ECB, and Bank of Japan later this week. Unlike for the Fed, where expectations are for a pause at the Fed's meeting on Wednesday, and for a hike at the ECB's meeting on Thursday. The Eurogroup and the ECOFIN meetings are also taking place on Thursday and Friday, which has the review of fiscal rules, the assessment of the national Stability Programs and the Capital Markets Union on the agenda. Speculation that the People's Bank of China may cut its medium-term lending facility rate has intensified given the further deceleration of both consumer and producer prices. In Japan, PPI inflation continued to moderate to the slowest pace in two years. Global oil prices remained under pressure, dropping around 5% in the past days. The Bank of Korea has flagged growing financial sectors risks amid a rise in real estate loan delinquencies. Following the suspension of Nigeria's central bank governor, analysts see a higher probability of the Nigerian naira devaluing to achieve a sustainable current account balance.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close					Since
6/12/23 8:37 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		4299	0.1	0	4	10	12	2
Eurostoxx 50		4315	0.6	0	0	20	14	9
Nikkei 225		32434	0.5	1	10	17	24	23
MSCI EM		40	0.5	1	3	-3	5	-16
Yields and Spreads					bps			
US 10y Yield		3.74	0.2	6	28	59	-13	175
Germany 10y Yield		2.36	-1.8	-2	8	84	-21	213
EMBIG Sovereign Spread		456	-5	-8	-27	-7	4	43
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		49.8	0.0	0	-2	-4	0	-6
Dollar index, (+) = $ appreciation		103.3	-0.3	-1	1	-1	0	7
Brent Crude Oil ($/barrel)		73.2	-2.1	-5	-1	-40	-15	-24
VIX Index (%, change in pp)		14.6	0.8	0	-2	-13	-7	-16

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

In a busy week ahead, the headline release will be Tuesday's CPI report in the United States, with consensus expecting 4.1% y/y (0.2% m/m) and 5.2% y/y core (0.4% m/m). The next FOMC decision is on Wednesday, with surveys expecting no change, while markets are pricing in about 30% probability of a hike. Thursday sees the release of retail sales, PPI, and jobless claims. Friday sees the latest update from the University of Michigan's consumer sentiment and inflation expectations survey. In Europe, the ECB meets on Thursday, with a 25bps hike expected by both surveys and markets. The Bank of Japan will also meet at the end of the week. In emerging markets, India, Argentina, Ghana, Nigeria, and Poland will release inflation data.

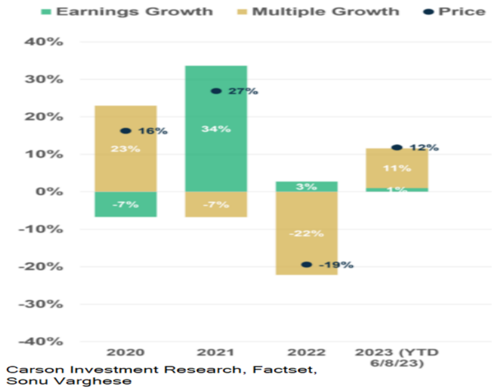
Mature Markets back to top

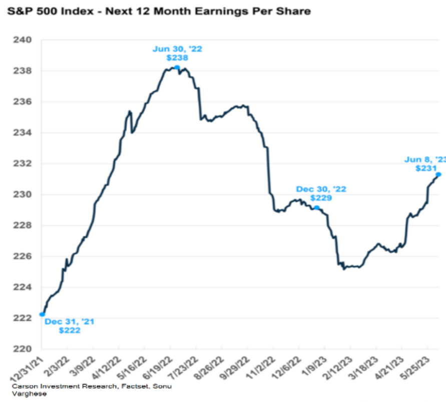
United States

US markets edged up 0.2% to close the week 0.4% higher. Equity markets have been quiet, with the VIX (implied volatility from options) falling below 14, as tail risks from the debt ceiling have faded.

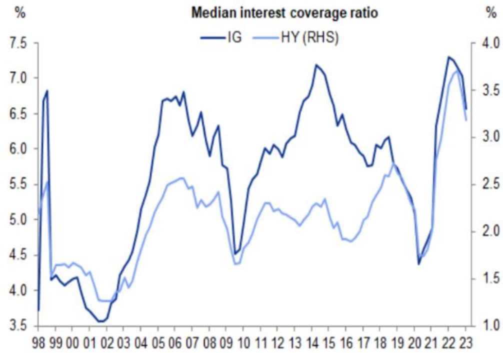
Regional bank stocks rose 3.2% last week, up 19% from the lows, but still down 20% ytd. Total bank deposits rose $47 bn in the last week of May to the highest since March 15. 2y Treasury yields rose 8 bps to 4.6% on Friday, with the 10y yield unchanged. Treasury market volatility has also fallen, though not to the same extent, with upcoming FOMC meetings in June and July still leading to material price swings.

Rising valuations have underpinned stock gains, albeit earnings forecasts have also started to recover. The benchmark S&P500 has gained 20% above its October lows but remains 10% below its previous highs. Forward price to earnings ratios (multiple growth) have risen 11% ytd after falling sharply in 2022. Despite the recent increase in valuations, some equity analysts view recent index levels as sustainable assuming the Fed's hiking cycle draws to a close, from the viewpoint that rapidly rising rates were the main headwind for valuations and the market in 2022. Better than expected earnings amid resilient growth also have been supportive, with earnings forecasts also starting to move higher. On the downside, tech firms have played an outsized role in recent gains for both prices and forecasts.

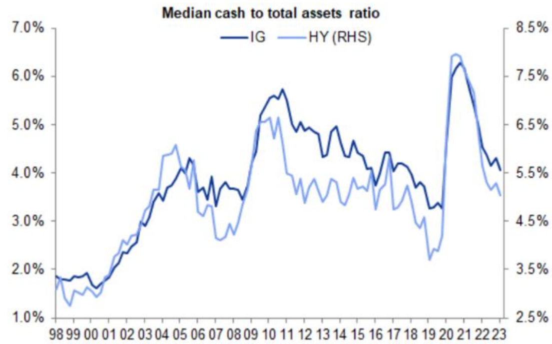




Corporate fundamentals have faded while remaining healthy. Goldman Sachs analysts note that despite straying from near record highs, interest coverage ratios and cash balances retain their favorable standing compared to historical records amidst a slight decline. They note that absent a large deleveraging push, declining cash balances could drive a pick-up in bond issuance in the coming quarters. On the liability side, median net debt (to earnings) among investment grade (IG) and high yield (HY) issuers was close to flat in the first quarter at around 2.5 and 3.3 respectively from the second half of 2022. Both HY and IG corporate bonds have posted small losses over the last month but have returned 2.6% and 4.7% ytd, respectively.



Source: Bloomberg, Factset, Goldman Sachs Global Investment Research



Source: Bloomberg, Factset, Goldman Sachs Global Investment Research

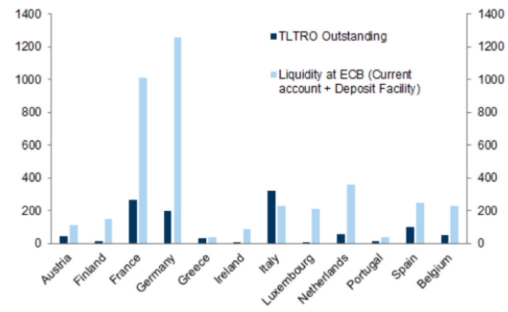
Euro area

With the ECB rate hike expected, forward guidance and balance sheet policy take center stage. Commerzbank analysts see a hike of 25bps "*a done deal*" while the expectation is that updated ECB's inflation projections for 2024 and 2025 remain above 2%, mirroring the European inflation risk premium that Goldman Sachs analysts portray at a historical high (left chart). Around €477 bn (43%) of €1.1tn of TLTRO loans are set to mature in June, while market contacts expect repayments to amount to around €600 bn as TLTROs with a maturity of less than six months due in September or December can no longer serve to satisfy Net Stable Funding Ratio requirements (right chart). Considering these TLTRO repayments, market participants are attentive to communication around balance sheet policies as the ECB might also unveil its plan to stop APP purchases in July. Turning to the PEPP program, 83% of analysts in a Bloomberg survey thinking that the ECB will pull forward the current commitment to "*reinvest maturing bonds until the end of 2024*." The median expectation is that it the reinvestments will be brought forward to Q2 2024. Finally, recent weaker data prints prompt expectations on updated forward guidance and potential signals of another rate hike in July.

Exhibit 3 : European inflation risk premium is at historical highs

Source: Goldman Sachs Global Investment Research

Exhibit 4 : Italian banks have the highest TLTRO repayments, with low deposits at the ECB



Source: ECB

Switzerland

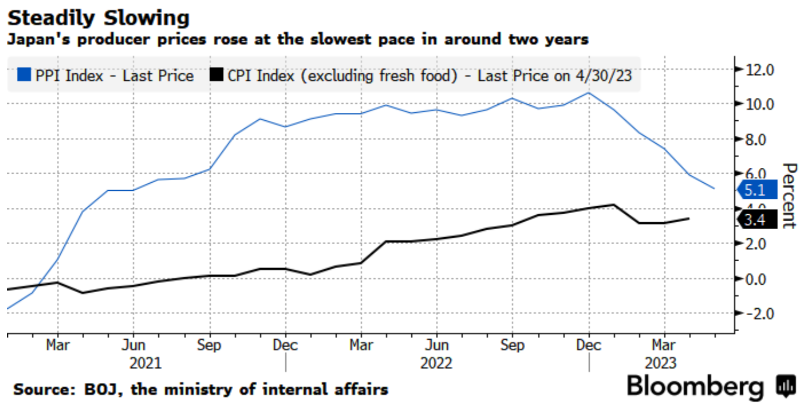
UBS stocks (+0.4%) edger higher as the bank completed the acquisition of Credit Suisse. UBS communicated in a separate statement that it expects its CET1 ratio to be around 14% in the second quarter of 2023 and for the rest of the year. UBS shares have gained 7.6% in 2023, similar to the gains in the Euro Stoxx bank index. Shares of Credit Suisse will no longer trade tomorrow, though the bank will continue to operate with its own branches and subsidiaries "pending further integration."

Japan

Growing Short Positions on Yen Accompanied by Inflows into Japanese Stocks. Leveraged fund and asset managers further increased their short yen positions based on CFTC data ending on June 6.

Conversely, Japan's stock market continued to attract fund inflows as shown by data from the Japanese Ministry of Finance that continues to show equity inflows since late March. Japanese yen appreciated by +0.2% to 139.16/dollar and JGB yields edged up (10-year: +0.2 bp; 30-year: +1.0 bp), with the 10-year tenor yielding 0.423%. Japanese equities gained, up +0.5%.

PPI inflation moderated in May. Today, May producer prices printed at 5.1% y/y (expected +5.6% from 5.8%), On a m/m basis, PPI declined 0.7%. This data reveals a notable deceleration in cost pressures, marking the slowest pace observed in approximately two years. Amidst a prolonged period of a weaker Japanese yen since last summer, analysts highlight that companies have persistently passed on costs to customers. However, they caution that this ongoing process might approach its final phase.



Emerging Markets

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Asian equities generally gain, and currency markets trade range bound. Among stock markets, Malaysian and Taiwanese equities lead today's performance, up +0.9% and +0.4%, respectively, whereas Korea's stock markets dropped -0.4% as Governor Rhee of the Bank of Korea flagged growing financial sectors risks amid a rise in real estate loan delinquencies. Asian currencies traded in a tight range where the Korean won appreciated +0.3% while Indonesian rupiah depreciated -0.2%.

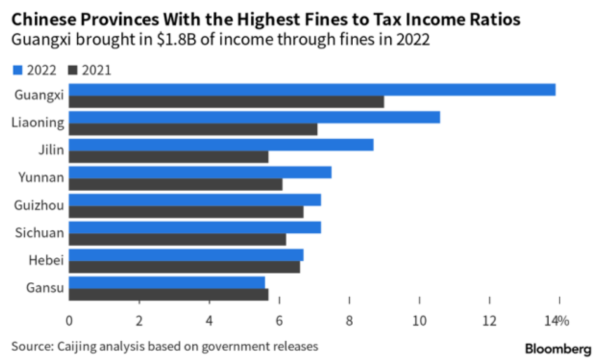
In EMEA, stock gained and currencies were trading stronger against the dollar. Equities in Serbia and Türkiye outperformed, up +2.5% and +1.6%, while equities in South Africa lagged, declining by -0.3%. CEE currencies were little changed against the euro.

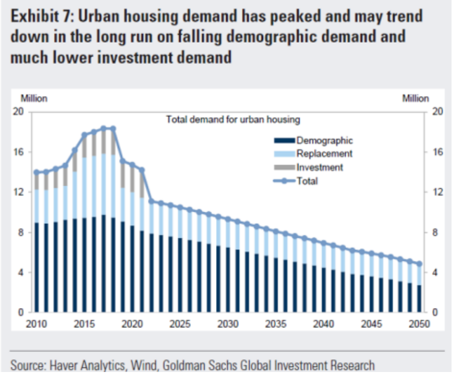
Latin American Currencies Rise, Stock Markets Exhibit Mixed Performance. The Chilean peso was the only currency to decline down -0.2% while the rest experienced gains, with the Brazilian real leading the trend up +0.9%. In terms of equities, Brazilian stock markets stood out with a notable +1.3% gain, while markets in Peru and Colombia showed relative weakness, down -1.1% and -0.6%, respectively.

China

Chinese equities gained onshore (CSI 300: +0.2%) but decline slightly in Hong Kong SAR (-0.1%). RMB depreciated (-0.1%), while the People's Bank of China continued showing its tolerance for the weaker RMB, with daily RMB fixings still broadly in line with expectations.

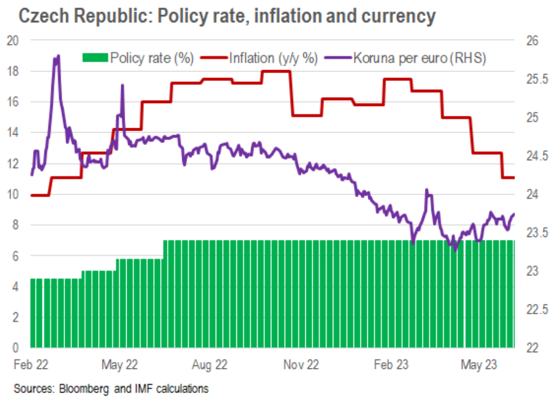
Local government financing shows continued signs of strains as housing demand reaches a peak. Lately, there were high-profile scandals that showed local governments' attempt of using fines to bolster their revenues. For example, in the Guangxi province, fines accounted for 14% of the province's tax income in 2022. Goldman Sachs analysts predict that urban housing demand has peaked and may trend downward over the medium term, driven by demographic factors, weaker housing affordability and a policy shift to support strategic sectors. Housing-related investment and spending could drag on China's economic growth for multiple years.

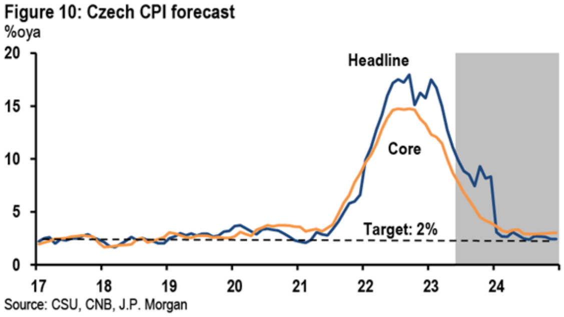




Czech Republic

Latest inflation data reinforces expectations for early 2024 rate cuts. Today, headline inflation for May printed at 11.1% y/y (expected 10.8% from 12.7%). Analysts from JP Morgan highlight that food prices and other non-core price pressures drove the upside surprise in the data. According to their estimates, core inflation had eased for the eight consecutive month, and could ease into low single digits early next year, allowing for Czech's central bank to start cutting interest rates as early as February 2024. The central bank had left rates unchanged at 7% at their May meeting and market contacts the central bank to remain on hold at their next meeting later this month. The Czech koruna traded marginally weaker against the euro this morning (-0.2%).



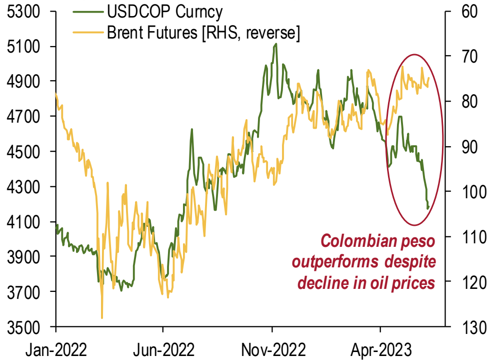


Colombia

The Colombian peso overtakes the Mexican peso as the strongest currency against the dollar. The Colombian peso now ranks as the strongest performer against the US dollar (+16.4% year-to-date). The appreciation of the currency particularly picked up steam throughout last week (+2.7%) surpassing its lead against its incumbent, the Mexican peso. Last year, the Colombian peso was one of the worst performers across the expanded universe of major currencies (-29.3%) on the back of declining oil prices and political uncertainty (left chart). The rebound in the currency's performance has stood in contrast to the continuing decline in oil prices – the country's main export good. Also, the Colombian peso offers the highest interest return differential for carry trade investors (right chart).

The rally defies declining oil prices

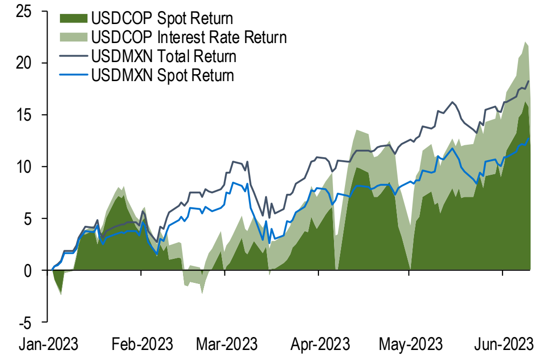
Colombian peso per US dollar; Brent future price



Source: Bloomberg

Colombian peso takes the baton from the Mexican peso

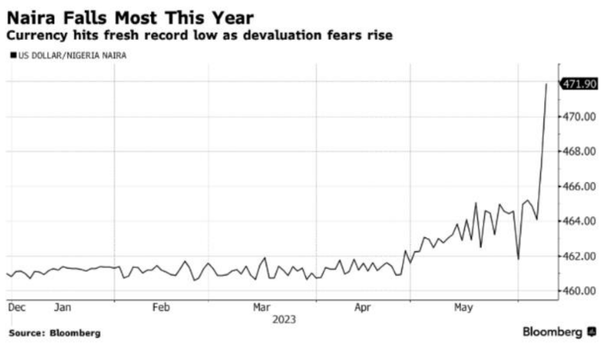
Colombian and Mexican peso's (spot+interest)=total return against the US dollar



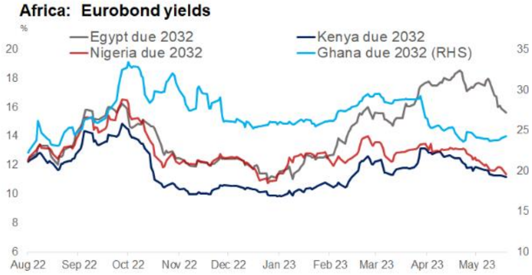
Source: Bloomberg, IMF Staff Calculations

Nigeria

Following the suspension of the central bank governor, analysts expect the naira to devalue. President Bola Tinubu's Friday announcement drew attention by revealing the immediate suspension of Godwin Emefiele, who was appointed to serve as the Central Bank Governor until 2024. News reports indicate that following his suspension, the governor has been taken into custody for investigative purpose with the statement pointing to "*the ongoing investigation of his office and the planned reforms in the financial sector of the economy*". Goldman Sachs analysts estimate that a naira adjustment to between 700-750/$ is necessary for Nigeria to achieve a sustainable current account balance, taking the current oil prices and a phasing-out of fuel subsidies into consideration. Conversely, these adjustments could prove supportive for the country's creditworthiness. This morning, the naira has weakened to a new record low against the dollar, losing 1.4% last week to 471.9/$, and is now roughly -2.4% weaker ytd. Yields on Nigeria's 2032 Eurobonds eased by -40bps to 11.4%.



Africa: Eurobond yields



Source: Bloomberg and IMF

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy 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), Aurelie Martin (Senior Economist-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 Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), 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.

Global Financial Indicators

6/12/23 8:37 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4299	0.1	0	4	10	12
Europe		4315	0.6	0	0	20	14
Japan		32434	0.5	1	10	17	24
China		3844	0.2	0	-2	-9	-1
Asia Ex Japan		67	0.3	0	3	-4	4
Emerging Markets		40	0.5	1	3	-3	5
Interest Rates					basis points		
US 10y Yield		3.74	0.2	6	28	59	-13
Germany 10y Yield		2.36	-1.8	-2	8	84	-21
Japan 10y Yield		0.43	0.4	0	4	18	1
UK 10y Yield		4.26	1.9	5	48	181	59
Credit Spreads					basis points		
US Investment Grade		163	0.0	4	-7	10	5
US High Yield		462	-8.9	-9	-42	11	-18
Exchange Rates					%		
USD/Majors		103.29	-0.3	-1	1	-1	0
EUR/USD		1.08	0.3	1	-1	4	1
USD/JPY		139.1	-0.2	0	3	4	6
EM/USD		49.8	0.0	0	-2	-4	0
Commodities					%		
Brent Crude Oil ($/barrel)		73.2	-2.1	-5	-1	-28	-12
Industrials Metals (index)		144	-0.7	1	-2	-20	-13
Agriculture (index)		67	0.7	3	1	-12	-3
Implied Volatility					%		
VIX Index (%, change in pp)		14.6	0.8	-0.1	-2.4	-13.1	-7.0
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	23.9	7.0
Global FX Volatility		8.2	0.1	-0.3	-0.8	-2.5	-2.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		133	4.2	-4	-42	-155	-72
Italy		171	-3.2	-5	-20	-54	-44
Portugal		70	-2.0	1	-13	-58	-32
Spain		97	-1.3	-2	-11	-29	-12

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

Emerging Market Financial Indicators

Last updated: 6/12/2023 8:37 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		7.14	-0.2	-0.6	-3	-5	-3		2.8	-3.4	-7	-7	-11	-30
Indonesia		14865	-0.2	0.2	-1	-1	5		6.3	-1.9	-7	-8	-88	-62
India		82	0.0	0.3	0	-5	0		7.4	1.1	-1	28	(59.6)	-2
Philippines		56	0.1	-0.2	0	-5	-1		5.9	0.0	-1	6	46	-9
Thailand		35	0.1	-0.2	-2	1	0		2.7	4.5	12	12	-28	10
Malaysia		4.62	-0.1	-0.9	-3	-4	-5		3.7	0.1	3	8	-50	-31
Argentina		245	0.0	-1.0	-6	-50	-28		110.7	22.5	41	1334	5247	2252
Brazil		4.88	0.9	1.6	2	1	8		11.3	-6.0	-19	-120	-144	-130
Chile		789	-0.2	1.4	0	5	8		5.0	-10.5	-18	-25	-146	-34
Colombia		4170	0.0	4.3	9	-8	16		8.1	-12.5	-50	-74	-97	-171
Mexico		17.29	0.0	1.0	2	18	13		8.4	1.0	-10	1	-58	-38
Peru		3.7	0.1	1.0	1	3	4		7.2	-5.9	-4	2	-60	-77
Uruguay		39	0.4	0.1	1	2	3		9.9	0.1	-12	-10	-77	-79
Hungary		341	0.3	1.0	0	13	9		7.4	0.0	-39	-38	-83	-216
Poland		4.12	0.3	1.5	1	8	6		5.1	-8.0	-18	-9	-226	-105
Romania		4.6	0.2	0.7	-1	3	0		6.7	-1.4	-13	-43	-163	-102
Russia		82.4	0.3	-1.9	-6	-30	-10							
South Africa		18.6	0.9	3.7	4	-13	-8		9.8	-6.0	-18	0	76	66
Turkey		23.65	-1.0	-10.1	-17	-27	-21		15.6	13.0	218	127	-674	579
US (DXY; 5y UST)		103	-0.3	-0.7	1	-1	0		3.92	0.4	10	47	66	-9

	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	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3844	0.2	0	-2	-9	-1		188	-1	-10	-9	11
Indonesia		6722	0.4	1	0	-5	-2		147	3	5	-36	7
India		62725	0.2	0	1	16	3		136	-6	-25	-28	-6
Philippines		6507	0.0	0	-1	0	-1		118	5	1	-9	21
Thailand		1551	-0.2	1	-1	-5	-7		0	0	0	0	0
Malaysia		1387	0.8	0	-3	-7	-7		95	-1	-7	-26	-5
Argentina		381764	0.2	8	19	328	89		2396	-169	-132	350	191
Brazil		117019	1.3	6	8	11	7		255	-8	-19	-62	-19
Chile		5691	0.3	1	2	9	8		132	1	0	-23	0
Colombia		1184	-0.6	3	2	-23	-8		368	-29	-54	-8	-4
Mexico		54512	0.3	2	-1	12	12		396	2	-6	11	15
Peru		22001	-1.1	1	2	9	3		174	1	-7	-4	-6
Hungary		49744	0.9	3	8	28	14		230	5	15	-1	8
Poland		66638	0.2	1	5	23	16		138	2	9	61	65
Romania		12263	0.1	1	2	-1	5		247	4	-5	-12	-9
South Africa		76733	-0.3	0	-2	13	5		407	-30	-20	8	40
Turkey		5702	1.3	6	19	124	4		491	-38	-32	-163	51
Ukraine		507	0.0	0	0	-2	-2		5061	64	-316	1605	982
EM total		40	0.1	1	3	-3	5		398	-9	-19	0	22

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

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