GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JUNE 8, 2023

- **US recession risk seen as receding** (link)
- **Data revisions put euro area in technical recession** (link)
- **Canada hikes by 25 bps to 4.75%** (link)
- **Reserve Bank of India maintains tightening bias** (link)
- **GDP in Japan stronger than expected** (link)
- **Downward inflation surprise in Hungary reinforces easing expectations** (link)

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Markets confront potentially tighter central bank policies

Rate hikes in Australia and Canada this week have forced markets to face the possibility that the hiking cycle for global central banks may not yet be over due to persistently high inflation. Government bond yields are sharply higher in the US and euro area this week as well in as many emerging markets on worries that further rate hikes could be on the horizon. The Reserve Bank of India added fuel to the fire today by maintaining a tightening bias. US equity index futures are fractionally lower in early trading although stocks in Europe are higher. Oil prices were up slightly, with analysts surprised that Saudi Arabia's one million barrel per day supply cut has not had a bigger impact on markets. The economic news was mixed, with the US and Japan seen as doing well but the euro area technically in a recession.

Key Global Financial Indicators

Last updated: 6/8/23 8:09 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	
S&P 500		4268	-0.4	2	3	4	11	1
Eurostoxx 50		4302	0.2	1	-1	14	13	8
Nikkei 225		31641	-0.9	2	8	12	21	20
MSCI EM		39	-0.4	3	0	-8	4	-17
Yields and Spreads					bps			
US 10y Yield		3.81	2.0	22	31	79	-6	182
Germany 10y Yield		2.47	0.9	22	15	111	-11	224
EMBIG Sovereign Spread		453	-9	-24	-36	1	1	40
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		49.7	0.1	0	-2	-6	0	-6
Dollar index, (+) = $ appreciation		103.8	-0.3	0	2	1	0	8
Brent Crude Oil ($/barrel)		77.6	0.8	4	1	-37	-10	-20
VIX Index (%, change in pp)		14.1	0.2	-2	-3	-10	-8	-17

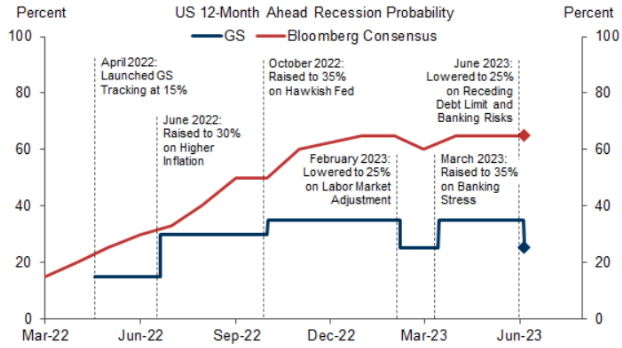
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets [back to top]

United States

Recession risk in the US is receding, according to forecasts by multiple analysts. Analysts at Goldman downgraded their estimated probability of recession from 35% to 25%. One key reason for the change is the successful resolution of the debt ceiling, with the resulting deal expected to have negligible impact on fiscal stimulus over the next two years. Another reason is that the US regional bank crisis is forecasted to have a much more limited impact on the US economy than originally feared. Goldman estimates that it will reduce GDP by just 40 bps in 2023. This optimistic view on the US economy appears to be shared by markets, with US stocks making strong gains from the lows reached in October last year. Investors remain undeterred despite much higher than expected US Treasury yields.

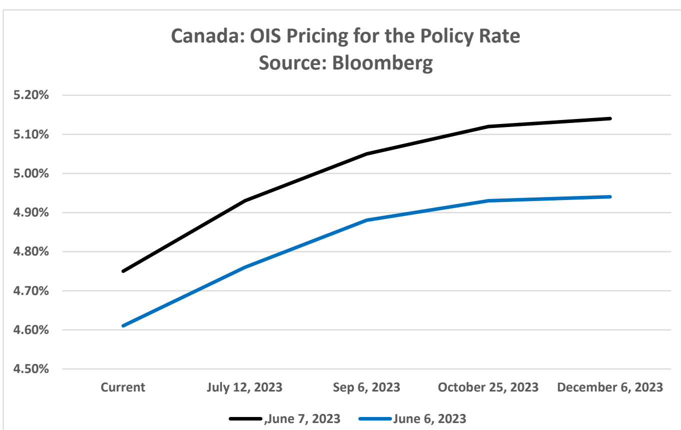
Exhibit 1: Recession Risk Recedes Anew



Source: Bloomberg, Goldman Sachs Global Investment Research

Canada

Stronger economic data prompted the Bank of Canada to hike by 25 bps to 4.75% yesterday, which was not entirely unexpected by markets although, unsurprisingly, most economists were surprised by the outcome. Policymakers did not provide much detail on what to expect in the months ahead. The overnight index swap (OIS) market shifted up significantly in response, upgrading its estimate for the policy rate to 5.15% by December. The Bank of Canada's actions sent local interest rates higher and strengthened the loonie, while also pushing US Treasury yields 3-5 bps higher across the curve. Canada's action came after Tuesday's surprise decision by the Reserve Bank of Australia to hike by 25 bps to address persistently high inflation in that country. The Bank of Canada was the first major advanced economy central bank to announce a pause to its rate hike cycle earlier in the year, so yesterday's rate decision led to speculation about which other central banks might have to become more hawkish with regard to future policy rates.



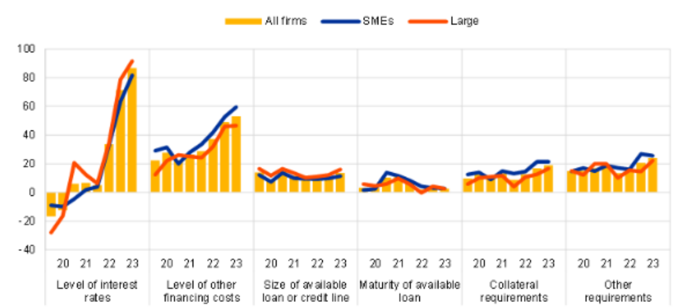
Europe

German rates have traded 20 bps higher across the curve in the past week but were little changed after revised data put the euro area in a technical recession with a 0.1% qoq drop in GDP. ING prefers the term “broad stagnation” to describe current conditions in the euro area. Equities (+0.2%) gained, with banks (+1.2%) outperforming.

Meanwhile, the ECB Survey on Access to Finance of Enterprises shows that tight monetary policy is being transmitted through the system. The survey reports a rise in bank interest rates alongside a considerable increase in other costs of financing, with net percentages at the highest observed levels since the survey began in 2009. The rise in bank interest rates was reported more broadly by large firms, whereas the increase in other costs of bank loans was signaled more often by smaller enterprises. **Looking ahead, firms expect a decline in the availability of bank loans and credit lines.**

Changes in the terms and conditions of bank financing for euro area enterprises

(net percentages of respondents)

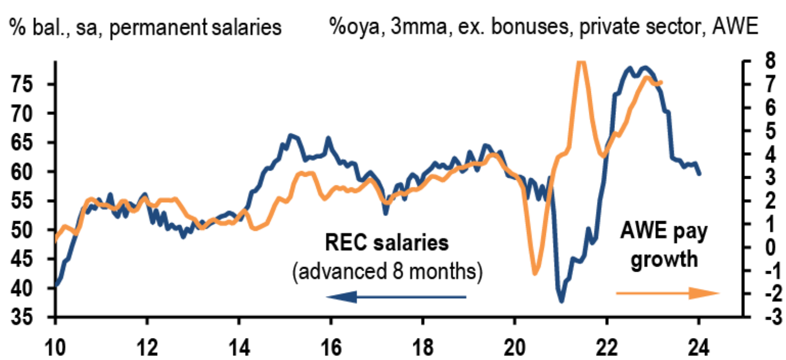


Base: Enterprises that had applied for bank loans (including subsidised bank loans), credit lines, or bank or credit card overdrafts. The figures refer to rounds 21-28 of the survey (April 2019-September 2019 to October 2022-March 2023).
Notes: See the notes to **Chart 3**. The data included in the chart refer to Question 10.

United Kingdom

2-yr gilt yields edged lower after the REC jobs survey indicates weaker hiring, rising staff availability and moderating pay pressures. JP Morgan writes that the REC salaries reading suggests a clear moderation in wage growth towards 3% or so by year end. This is below other surveys but would mark a return to pre-pandemic levels**.**

REC jobs report vs. official pay growth



Source: Markit, ONS, KPMG, REC

Japan

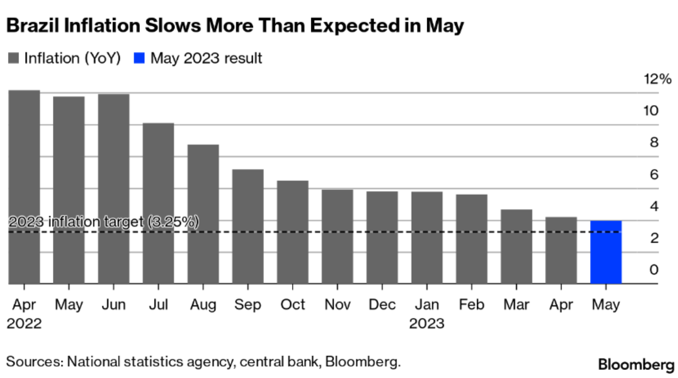
Japan's economy grew stronger than expected in Q1 2023. The latest reading of GDP data showed that the economy expanded 0.7% q/q, up from 0.4% in the preliminary reading. The upward revision came from strong business spending on both capital investment and inventory buildup. Meanwhile, private consumption was revised downward. **Market watchers pushed back their forecasts for the timing of the Bank of Japan's policy adjustments.** Earlier surveys suggested that a policy change was expected to take place in June. However, after Governor Ueda's repeated signaling of the continued need for monetary stimulus, market participants pushed back their timing to July and beyond.

Emerging Markets back to top

EMEA equities and local currency bond yields were mixed, while currencies were mostly trading stronger against the dollar. The Turkish lira continued to weaken (-0.5% to 23.34/$) to yet another record low versus the dollar after plunging 7% yesterday. **Asian equities were mixed,** falling 0.3% on net. **In the Philippines,** the central bank will lower large banks' reserve requirement ratio by 250 bps to 9.5%, effective June 30. Smaller reductions will also apply to other types of banks. The move reflected a more active and flexible approach to liquidity management through market-based operations. **Latin American currencies and stocks were mixed on Wednesday.** Uruguay was upgraded to BBB by Fitch, following S&P (BBB+) in April and Moody's (Baa2) in May.

Brazil

Analysts do not see a June rate cut despite slower-than-expected inflation. Brazilian equities (+0.77%) outperformed Latin America and the real depreciated (-0.30%) following May inflation coming in lower than expected. May CPI reached its lowest level since October 2020, at 3.94% yoy (expected 4.04%) and 0.23% mom (expected 0.33%). Bloomberg analysts said the print is not enough for a rate cut this month but is more likely in September. Seven out of nine baskets of goods and services had prices increases in May, with only transportation costs (-0.57%) and household goods (-0.23%) decreasing.



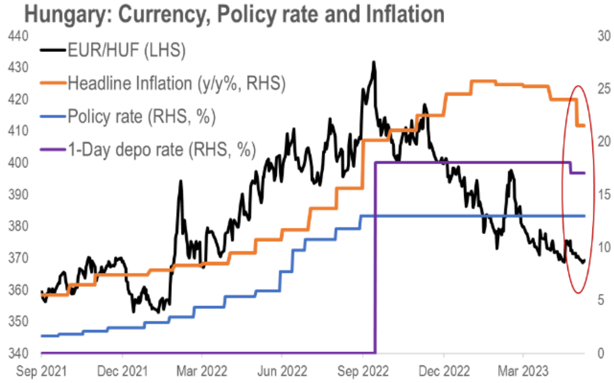
China

Chinese equities gained, led by financial stocks (CSI 300: +0.8%), following policy messages at the Lujiazui Forum in Shanghai. The securities market regulator said that it will encourage investment funds to increase their allocation towards equities, while the National Financial Regulatory Administration (the new financial regulator) vowed to continue opening up China's financial system to foreign banks and investment firms. Separately, asset managers were reportedly asked to stop real-time display of estimated net value of mutual funds, a move intended to prevent speculative trading and reduce market fluctuation. Originally, the service was introduced as a way to boost sales, but it has become a source of market volatility driven by retail investors whose sentiment may be affected by the estimates. **Rating agencies warned that at least 84 local government financing vehicles (LGFVs) may face repayment pressures this year, with their maturing onshore and offshore bonds amounting to about $39 bn and $25 bn, respectively.**

Hungary

Local currency sovereign bond yields eased (10y -12bps to 7.17%) and the forint weakened marginally against the euro (-0.2% to 369.4/€) after May inflation data surprised on the downside. Headline inflation eased to 21.5% y/y (versus expected 22.3% from 24%) and declined in monthly terms for the first time since 2020 (-0.4%m/m versus expected +0.5% from +0.7%). The central bank in May became the first central bank in Central and Eastern Europe to ease monetary policy, cutting the overnight rate by 100bps to 17%. **JPMorgan analysts expect the central bank to continue with a 100bps/month easing cycle up to September,** when the overnight deposit rate would be equal to the base rate at 13%. Thereafter analysts expect the central bank to keep rates on hold, with base rate cuts only expected in early 2024.

Hungary: Currency, Policy rate and Inflation

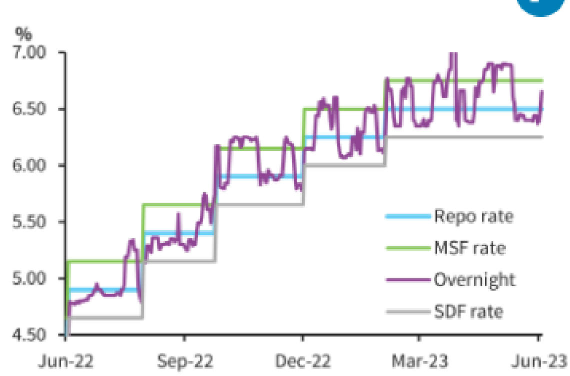


Source: Bloomberg and IMF calculations

India

The Reserve Bank of India (RBI) kept the repurchase rate unchanged as expected at 6.5% in a unanimous decision. The RBI will continue to focus on withdrawal of policy accommodation, with Governor Das indicating that the policy decision was a pause, not a pivot. The RBI still wants to ensure that inflation is moderating on a sustainable basis. The RBI revised its inflation forecast to 5.1% (previously, 5.2%) for the fiscal year ending March 2024, while its growth forecast was kept at 6.5%. Governor Das also indicated that the RBI would remain nimble in its liquidity management. In recent weeks, the RBI has intensified its operations to withdraw liquidity from the banking system, draining about 1.5 tn rupees ($18.2 bn). Long-end government bond yields rose as the RBI maintained its tightening bias.

Figure 3. Active liquidity management to keep overnight rates closer to the repo rate

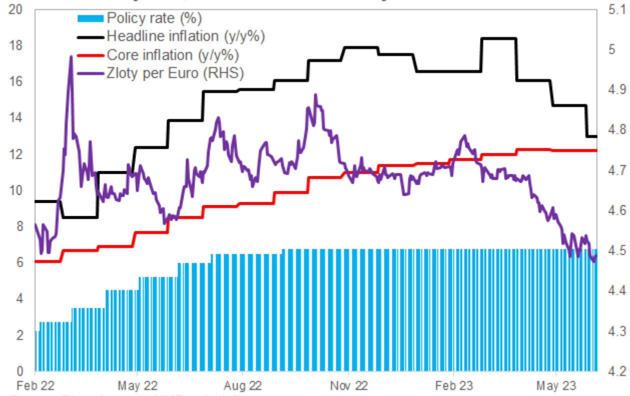


Source: Bloomberg, Barclays Research

Poland

Analysts see higher odds for a rate cut in Poland following a dovish press conference by the National Bank of Poland governor yesterday. Earlier this week the central bank left interest rates unchanged at 6.75%, in line with expectations. In the press conference held on Wednesday, the governor emphasized the decline in inflation since it peaked in February. ING analysts forecast inflation to fall below 10% y/y in September, and based on recent data and central bank rhetoric, think the odds of a rate cut around the start of Q4 have increased to 50% from around 30-40%. However, other analysts warned that such a decision would be premature, noting uncertainty around the long-term inflation outlook. **The zloty closed marginally weaker against the euro yesterday (-0.3%) and was little changed this morning.**

Poland: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

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Global Financial Indicators

	Level		Change				
6/8/23 8:11 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4267	-0.4	1	3	4	11
Europe		4302	0.2	1	-1	14	13
Japan		31641	-0.9	2	8	12	21
China		3820	0.8	0	-5	-9	-1
Asia Ex Japan		67	-0.6	3	-1	-8	3
Emerging Markets		39	-0.4	3	0	-8	4
Interest Rates					basis points		
US 10y Yield		3.81	2.0	22	31	79	-6
Germany 10y Yield		2.47	0.9	22	15	111	-11
Japan 10y Yield		0.44	1.1	1	2	19	2
UK 10y Yield		4.29	4.1	18	51	205	62
Credit Spreads					basis points		
US Investment Grade		163	0.1	-1	-6	13	5
US High Yield		470	1.0	-27	-33	27	-11
Exchange Rates					%		
USD/Majors		103.80	-0.3	0	2	1	0
EUR/USD		1.07	0.4	0	-2	0	0
USD/JPY		139.7	-0.3	1	3	4	7
EM/USD		49.7	0.1	0	-2	-6	0
Commodities					%		
Brent Crude Oil ($/barrel)		77.6	0.8	4	1	-24	-7
Industrials Metals (index)		143	-0.1	0	-7	-24	-13
Agriculture (index)		66	0.7	2	-3	-14	-4
Implied Volatility					%		
VIX Index (%, change in pp)		14.1	0.2	-1.5	-2.9	-9.8	-7.6
US 10y Swaption Volatility		101.4	-3.4	-11.0	-19.9	-4.4	-24.3
Global FX Volatility		8.4	0.0	-0.4	-0.7	-2.0	-2.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		128	-5.2	-20	-48	-134	-78
Italy		180	-3.0	-4	-12	-22	-35
Portugal		71	0.1	-1	-14	-44	-31
Spain		100	-1.9	-4	-9	-13	-9

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

Emerging Market Financial Indicators

Last updated: 6/8/2023 8:12 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		7.13	0.1	-0.4	-3	-6	-3		2.8	3.5	3	-19	-4	-24
Indonesia		14895	-0.1	0.7	-1	-3	5		6.4	2.5	-1	-12	-81	-58
India		83	0.0	-0.2	-1	-6	0		7.4	8.0	8	20	(31.7)	-2
Philippines		56	0.0	0.3	-2	-6	-1		5.9	0.0	-1	6	46	-9
Thailand		35	0.0	-0.7	-3	-1	-1		2.7	5.8	4	10	-19	4
Malaysia		4.62	-0.5	-0.2	-4	-5	-5		3.7	3.8	2	3	-48	-32
Argentina		244	-0.2	-1.7	-7	-50	-27		111.0	22.5	156	1466	5458	2278
Brazil		4.93	-0.3	2.6	2	-1	7		11.3	10.8	-32	-102	-142	-124
Chile		792	0.5	2.3	1	4	7		5.2	-2.0	-8	-9	-115	-19
Colombia		4210	0.4	5.7	7	-10	15		8.4	0.0	-22	-42	-49	-140
Mexico		17.35	0.1	1.2	3	13	12		8.4	2.2	9	6	-44	-31
Peru		3.7	0.6	0.2	1	2	4		7.3	1.4	14	-4	-40	-65
Uruguay		39	0.0	-0.3	0	2	3		10.0	0.0	0	-4	-50	-67
Hungary		344	0.3	0.2	-2	7	9		7.7	-7.0	-16	-22	40	-192
Poland		4.17	0.5	0.7	-1	3	5		5.3	0.6	6	11	-138	-84
Romania		4.6	0.5	0.0	-3	0	0		6.8	-1.2	-4	-33	-131	-94
Russia		82.0	-0.2	-1.3	-5	-27	-10							
South Africa		18.9	0.8	3.6	-3	-19	-10		10.0	-3.5	-18	66	133	81
Turkey		23.37	-0.5	-11.0	-17	-27	-20		14.9	0.0	576	216	-1046	502
US (DXY; 5y UST)		104	-0.3	0.3	2	1	0		3.95	1.3	26	46	92	-5

	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		3820	0.8	0	-5	-9	-1		186	-8	-14	-13	9
Indonesia		6666	0.7	0	-2	-7	-3		138	-10	-8	-47	-2
India		62849	-0.5	1	2	14	3		139	-6	-25	-26	-3
Philippines		6539	-0.4	2	-1	-3	0		109	-10	-10	-18	12
Thailand		1560	1.7	2	0	-5	-7		0	0	0	0	0
Malaysia		1375	-0.3	-1	-4	-9	-8		94	-3	-10	-29	-6
Argentina		380431	-0.1	11	25	323	88		2349	-261	-240	418	144
Brazil		115488	0.8	7	9	7	5		253	-16	-28	-57	-21
Chile		5679	-0.6	3	1	8	8		130	-9	-9	-21	-2
Colombia		1200	0.5	7	4	-23	-7		369	-41	-57	25	-3
Mexico		54291	-0.3	3	-1	9	12		392	-9	-11	8	11
Peru		22103	0.2	4	-1	7	4		173	-11	-12	-1	-7
Hungary		48820	0.0	4	5	21	11		225	-14	4	4	3
Poland		66094	0.0	6	5	18	15		132	-11	-4	63	59
Romania		12257	0.6	0	0	-2	5		239	-18	-19	-11	-16
South Africa		77063	-0.1	2	-2	10	5		418	-48	-14	30	51
Turkey		5525	-0.7	11	21	117	0		476	-93	-52	-118	36
Ukraine		507	0.0	0	0	-2	-2		5011	22	-343	1635	932
EM total		39	-0.4	3	0	-8	4		394	-26	-29	9	18

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

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