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- Euro-area sovereign bond yields increase following Germany's upside inflation surprise ([link](#))
- Italian sovereign spreads little changed after significant revision to budget deficits ([link](#))
- BoE governor says further hikes may be needed, but are not guaranteed ([link](#))
- The functioning of the JGB market has worsened this year ([link](#))
- Chinese stocks rally on strong manufacturing activity data ([link](#))
- Hungarian forint strengthens after central bank leaves policy rate unchanged ([link](#))
- Colombian markets sell-off due to political uncertainties ([link](#))
- Latam borrowers expected to raise up to \$40 bn in sustainable bonds in 2023 ([link](#))

[Mature Markets](#)











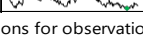
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Markets cautious amid opposing forces

European bourses gained modestly and US equity futures ticked higher this morning, with optimism on strong manufacturing data in China offset by the ongoing concerns about sticky inflation and hawkish monetary policy by central banks. Euro-area sovereign bond yields rose following the release of higher-than-expected German CPI data. US Treasury yields also rose but the UK was the exception, with gilt yields lower following comments from BoE's governor Bailey. In Japan, JGB yields were little changed amid reports that the functioning of the JGB market has worsened this year. In emerging markets, Chinese stocks rallied on the strong manufacturing data and the Hungarian forint continued to outperform after the central bank left its benchmark unchanged and manufacturing PMI data came in also better than expected.

Key Global Financial Indicators

Last updated: 3/1/23 8:24 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3970	-0.3	-1	-4	-8	3
Eurostoxx 50		4266	0.7	1	2	13	12
Nikkei 225		27517	0.3	0	0	4	5
MSCI EM		38	-0.7	-2	-9	-17	1
Yields and Spreads			bps				
US 10y Yield		3.94	2.0	2	52	221	6
Germany 10y Yield		2.70	5.0	18	42	277	13
EMBIG Sovereign Spread		447	2	-6	8	-23	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.5	0.6	0	-2	-2	1
Dollar index, (+) = \$ appreciation		104.2	-0.7	0	3	7	1
Brent Crude Oil (\$/barrel)		83.2	-0.3	3	0	-21	-3
VIX Index (% change in pp)		20.3	-0.4	-2	2	-13	-1

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

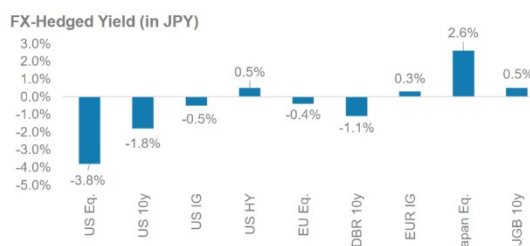
Mature Markets

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United States

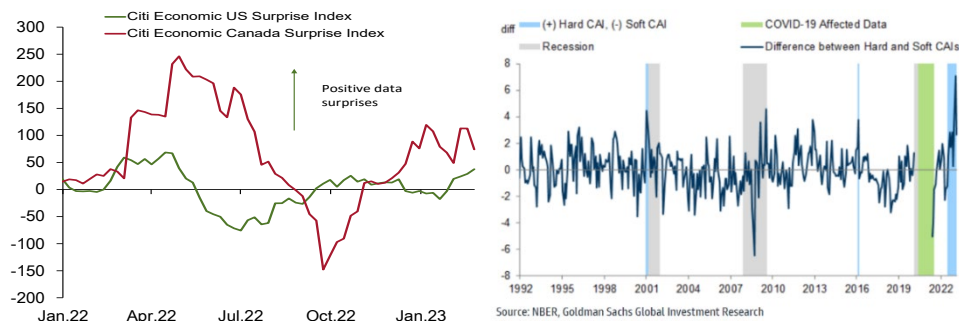
US stocks edged lower (-0.3%) in what has been a quiet week so far. House prices on the S&P Case Shiller index fell 0.5% m/m, but still rose 4.7% y/y. Consumer confidence (Conference Board) declined to 102.9 from 106 previously, while the labor market differential increased to a 9-month high, indicating more respondents view jobs as plentiful, traditionally a sign of labor market strength.

Higher short-term rates, hedging costs, and an inverted yield curve have made US assets less appealing to foreign investors. Higher cash rates also reverse the opportunity cost of investing or not investing in risky assets that was seen in the lower for longer world of yesteryear.



Source: Bloomberg, Morgan Stanley Research; Note: We use a 12-month FX forward as a hedge.

Data show resilience but divergence between hard and soft indicators remains high. Economic data has surprised to the upside in recent weeks, contributing to the sell-off in bond yields as inflation data has also been strong. Citi surprise indices in the US (and Canada) have moved well into positive territory, the highest since the second quarter of 2022. However, the divergence between stronger *hard* indicators (ex. retail sales, IP, payrolls) and weaker *soft* (ex. survey PMIs) has been at record levels, according to Goldman Sachs (GS) current activity indicators. GS analysts believe excessive pessimism (“vibecession”) about the outlook is driving surveys lower than they otherwise should be. However, if *soft* data is more accurate, it may suggest credit spreads and GDP forecasts are overly optimistic, and could lead to larger sell off in risk assets down the road.



Euro-area

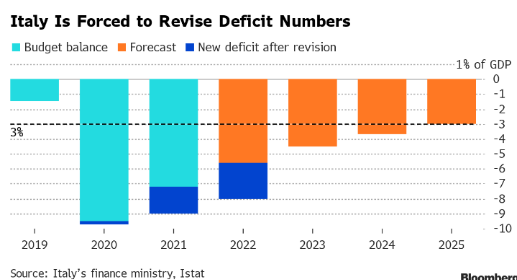
Euro-area sovereign bond yields increased after an upside surprise in Germany’s preliminary February inflation print ahead of euro area inflation data due tomorrow. The EU-harmonized German national inflation reading for February increased to 9.3% from 9.2% y/y while a slight decline to 9.0% y/y was expected. This follows an upside surprise in French and Spanish inflation data released yesterday. Markets are focused on the **euro area wide inflation print that is due to be released tomorrow**, with Commerzbank analysts highlighting that above-target long-term inflation expectations are becoming more pronounced with 5-year/5-year inflation swaps trading at multi-year highs, reaching 2.63% yesterday but easing to 2.5% this morning. Markets are pricing in roughly 90 bps of tightening by May. **European equities**

were trading higher (Stoxx 600 +0.3%) with market sentiment boosted by robust Chinese manufacturing PMI data, while the euro strengthened against the dollar (+0.9%). On the data front final eurozone manufacturing PMI data for February confirmed earlier estimates (48.5).



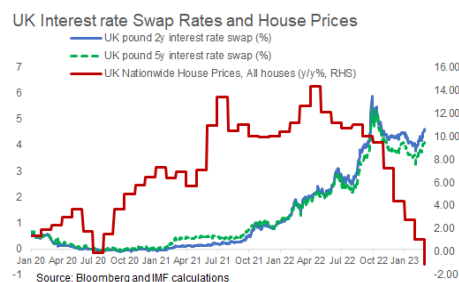
On the central bank front, **ECB Governing Council (GC) member Villeroy expressed a desire that the terminal rate is reached by September at the latest**, while emphasizing the ECB's commitment to bring inflation down to 2% by the end of 2024. He noted that ECB forecasts see inflation peaking in H1 and could halve by end-2023. In separate comments, GC member Muller cautioned against expectations that the ECB would cut interest rates quickly after they have peaked.

Italian sovereign bond spreads were little changed after the country's budget deficits from 2020–2022 were revised significantly higher after a reassessment of pandemic tax breaks. This follows on a ruling by the EU's statistics agency Eurostat regarding the manner in which tax credits are accounted for in state accounts. As a result of the revisions, transferable tax credits aimed at boosting economic growth during the pandemic are accounted for upfront in national economic data as opposed to trickling through over many years. The 'superbonus' was one of the most prominent measures, a tax break aimed at stimulating green building renovations, which amounted to 110% of the amount spent. PM Meloni stopped the policy in February. Italy's budget deficit for 2020 was revised up slightly to 9.7%, while bigger revisions were made to the deficit in 2021 (now 9%) and 2022 (now 8%).



United Kingdom

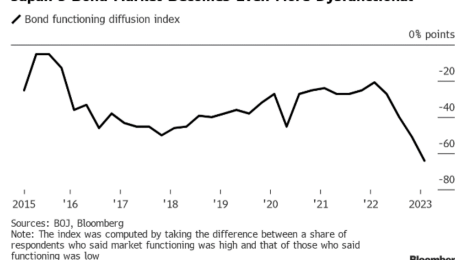
BoE Governor Bailey this morning noted that the UK economy is evolving largely as expected and said that while some further monetary policy tightening might be appropriate, this is not guaranteed. He noted that inflation was only slightly weaker than expected while activity and wages were only slightly stronger, and pointed out that another set of data would be released and assessed ahead of the upcoming monetary policy meeting on March 23. A 25 bps hike is close to fully priced in for the March meeting, while the terminal rate is now priced at roughly 4.7%, compared to 4.8% priced in yesterday. **Data released this morning showed price increases in UK stores accelerating to 8.4% y/y in February (from 8.0%). A separate data release showed house prices decreasing for the sixth consecutive month in February**, while mortgage approvals data for January fell to the lowest level in almost three years (39.6k versus expected 38.5k from an upwardly revised 40.5k in December). **10-year gilt yields eased (-3bps) as markets scaled back BoE hiking expectations, while the pound was marginally stronger against the dollar (+0.2%) and weaker against the euro (+0.6%).**



Japan

Japanese equities (+0.2%) gained modestly today. Jubin Bank manufacturing PMI improved marginally to 47.7 (previous: 47.4). Separately, the **functioning of the JGB market has worsened since Bank of Japan (BOJ) policy revision in December 2022 policy tweak.** Nomura noted that the broadening gap between futures and underlying JGB prices shows that it has become more difficult to hedge JGB positions using futures contracts. The BOJ's diffusion index, which is based on a survey of 70 respondents on bid-ask spreads and trading volumes, has continued to deteriorate. The survey was conducted between Feb 1–7, before Ueda was nominated to replace Kuroda as BOJ governor in April. Separately, **Japan's credit markets had their busiest start since 2009 so far this year.** Japanese corporate borrowers sold over ¥2.1 tn (\$15.4 bn) of local notes in January-February, Bloomberg estimated. The Yen appreciated marginally, 10-year bond yields were little changed.

Japan's Bond Market Becomes Even More Dysfunctional



Japan's credit spreads are bucking global tightening trend



Emerging Markets

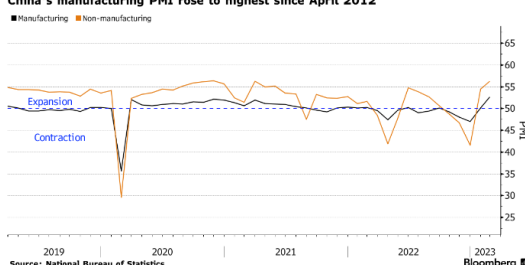
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Asian stocks rallied +1.9% after three days of losses on robust PMI data. Hong Kong SAR jumped +4.2%, Mainland China was up 1.4%. In contrast, Malaysia (-0.2%) underperformed. **Asian currencies appreciated.** Thai baht strengthened +1.7%, followed by Chinese renminbi (onshore +0.7%, offshore +0.9%). **10-year yields were little changed.** Standard Chartered estimated Asian local currency markets performance has faded amid strong US economic data and the market's repricing of a higher peak Fed rate. Despite a strong start in 2023, unhedged total returns have shrunk to just about +1%, following gains of +5.3% in January. In **Indonesia**, core inflation eased to a 6-month low (+3.1%, previous: +3.3%); while headline inflation inched up in February driven by food prices. The government reaffirmed its plan to require exporters to bring at least 30% of their earnings (for proceeds worth at least \$250k) into the country, with a set of new policy tools to be introduced in March. In **EMEA, equities and currencies generally opened the month stronger.** Manufacturing PMI data remains in contractionary territory in Poland and South Africa whereas manufacturing PMI data was better than expected at 56.5 in Poland. **Egypt is in the spotlight as Eurobond yields have shifted higher in past days, with its 5-year CDS seeing a 57-bps increase to 1049 bps just today.** Last week, Egypt raised \$1.5 bn via a 3-year sukuk at a yield of 11%. **Latam markets were mixed on Tuesday.** Stock markets were up in Chile (+0.7%) and Peru (+0.1%), while others finished in the red. The Chilean peso (+0.7%), the Peruvian sol (+0.4%), and the Mexican peso (0.3%) appreciated against the dollar while others depreciated.

China

China-related stocks rallied (Hang Seng China Enterprise index +5.1%, CSI +1.4%) after **China's manufacturing activity recorded its highest monthly improvement since 2012 in February**. Manufacturing PMI rose to 52.6 from 50.1 in January. Output improved to 56.7 (previous: 49.8); new orders rose to 54.1, the highest since September 2017; a sub-index of new export orders reached 52.4, highest since March 2011. Separately, **President Xi announced plans to consolidate the Communist Party's control over the economy and more influence within private companies**. In a speech on Tuesday ahead of the annual National People's Congress legislative session, Xi said the party would roll out plans for "deepening structural reform" in the financial sector and exercise more control over science and technology work. He also said his administration would "step up party-building work" in private companies and "give specific requirements on party-building" in industry associations and chambers of commerce. The **Chinese renminbi strengthened (onshore +0.7%, offshore +0.9%), 10-year bond yields were little changed**.

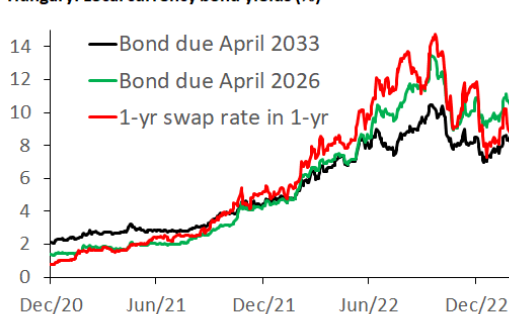
China's manufacturing PMI rose to highest since April 2012



Hungary

The forint (+1% to 374 per euro) continued to outperform after the central bank (NBH) left its benchmark unchanged at 13% yesterday and manufacturing PMI data came in better than expected at 56.5 today. The NBH indicated that its 1-day deposit rate will remain unchanged at 18%. Nevertheless, Morgan Stanley argues that the NBH could cut this 1-day deposit rate later in March if the currency continues to appreciate. **Markets continued to price sharp easing in the months ahead**.

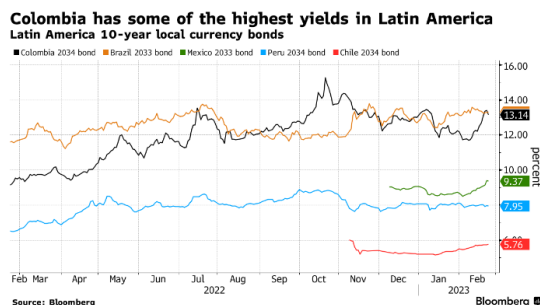
Hungary: Local currency bond yields (%)



Colombia

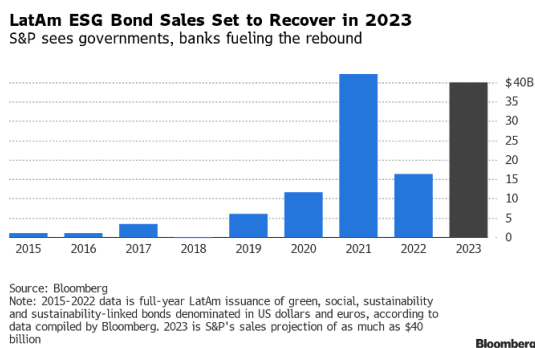
Colombian markets sold-off on Tuesday after the announcement of three ministers' ousting. Markets worried about more radical reforms by President Petro after this cabinet shakeup and reacted with a sell-off on Tuesday following the announcement Monday evening. The Colombian peso depreciated by 2%, the most in the region. The country's primary stock market index was down by 1.6%. The yield on peso-dominated bonds maturing in 2034 rose 13 bps to 13.2% and 5-year CDS soared. The government issued

a reassurance that the current Finance Minister will not leave to prevent an even larger sell-off, according to Bloomberg.



LATAM Bond Issuance






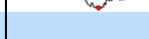


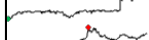










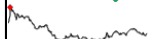

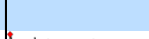



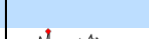
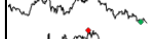

Latam borrowers are expected to raise \$30 bn to \$40 bn in sustainable bonds in 2023, according to S&P Global Ratings. S&P expects the ESG debt share of the Latin American market to account for 30% to 35% this year, dominated by sustainability bonds. Governments and financial institutions will be leading issuers. According to Bloomberg, Brazil is planning to issue ESG-linked bonds in the international market later this year, and Chile may issue gender policy-related social bonds. Analysts believe Colombia, Peru, Mexico, and other Latam countries are also making progress to establish national green financing taxonomies and consider issuing sustainability-linked bonds.



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.

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Global Financial Indicators

3/1/23 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3974	-0.3	0	-4	-8	3
Europe		4271	0.8	1	2	13	13
Japan		27517	0.3	0	0	4	5
China		4127	1.4	0	-1	-10	7
Asia Ex Japan		65	-0.7	-3	-9	-16	1
Emerging Markets		38	-0.7	-2	-9	-17	1
Interest Rates			basis points				
US 10y Yield		3.93	1.0	1	51	220	6
Germany 10y Yield		2.69	4.0	17	41	276	12
Japan 10y Yield		0.51	0.1	0	1	33	8
UK 10y Yield		3.80	-2.4	20	50	267	13
Credit Spreads			basis points				
US Investment Grade		146	-0.5	0	5	-4	-13
US High Yield		437	-1.4	-24	-4	16	-43
Europe IG		78	-1.2	-2	0	1	-12
Europe HY		408	-6.1	-11	0	29	-67
Exchange Rates			%				
USD/Majors		104.15	-0.7	0	3	7	1
EUR/USD		1.07	1.0	1	-3	-4	0
USD/JPY		135.5	-0.5	1	5	18	3
EM/USD		50.5	0.6	0	-2	-2	1
Commodities			%				
Brent Crude Oil (\$/barrel)		83.1	-0.4	3	1	-2	-3
Industrials Metals (index)		164	1.8	-1	-6	-16	-1
Agriculture (index)		68	0.3	-3	-2	-7	-1
Implied Volatility			%				
VIX Index (%, change in pp)		20.3	-0.4	-2.0	2.4	-13.1	-1.4
US 10y Swaption Volatility		122.7	0.0	5.5	21.1	5.0	-3.0
Global FX Volatility		9.9	0.0	-0.4	-0.4	1.2	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		178	-1.2	-13	-24	-61	-27
Italy		182	-0.6	-12	-19	35	-32
Portugal		86	-0.7	-4	-6	5	-16
Spain		94	-0.6	-4	-5	1	-15

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

Emerging Market Financial Indicators

Last updated: 3/1/2023 8:17 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)										
	Level		Change (in %)					YTD	Since 23-Feb-22	Level		Change (in basis points)						
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m			Latest	1 Day	7 Days	30 Days	12 M	YTD			
	vs. USD		(+) = EM appreciation						% p.a.									
China		6.87	1.0	0.4	-2	-8	0	-8		3.3	0.5	3	6	36	19			
Indonesia		15235	0.2	-0.2	-2	-6	2	-6		6.9	-3.7	9	20	35	-8			
India		83	0.2	0.4	-1	-9	0	-10		7.7	-0.8	7	36	114.5	28			
Philippines		55	0.6	0.4	-1	-7	1	-7		6.0	-2.5	0	5	85	-5			
Thailand		35	1.6	-0.2	-5	-6	0	-7		2.7	-2.0	3	22	55	12			
Malaysia		4.47	0.3	-0.6	-5	-6	-2	-6		3.9	0.5	2	13	26	-12			
Argentina		198	-0.2	-1.3	-5	-46	-10	-46		88.2	-8.8	36	101	3981	0			
Brazil		5.20	0.7	-0.7	-3	-1	2	-4		13.5	13.0	15	37	188	96			
Chile		814	1.6	-1.9	-3	-1	4	-3		5.6	4.0	11	33	-6	30			
Colombia		4822	0.8	1.5	-4	-19	1	-19		10.1	-8.0	21	87	212	27			
Mexico		18.24	0.4	0.6	2	13	7	11		9.0	0.0	-11	74	110	23			
Peru		3.8	0.4	1.0	1	0	0	-2		8.1	0.0	13	5	187	11			
Uruguay		39	0.0	0.0	0	9	2	9		10.1	22.7	31	4	196	-57			
Hungary		350	2.3	2.9	1	-3	7	-9		8.4	14.0	3	43	342	-116			
Poland		4.37	1.7	2.4	-2	-2	0	-7		6.0	3.0	1	68	226	-18			
Romania		4.6	1.2	0.7	-3	-3	0	-5		7.6	11.2	4	39	203	-14			
Russia		75.2	-0.3	0.2	-7	44	-1	9		10.6	0.0	0	14	-617	-128			
South Africa		18.1	1.2	0.6	-6	-15	-6	-17		9.2	-4.4	-9	53	149	0			
Turkey		18.89	0.0	-0.2	0	-26	-1	-27		10.5	33.0	-9	-26	-1384	66			
US (DXY; 5y UST)		104	-0.7	-0.4	3	7	1	8		4.20	1.6	5	68	260	19			

	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		4127	1.4	0	-1	-10	7	-11		167	1	-16	-47	-10		
Indonesia		6845	0.0	1	-1	0	0	-1		139	-9	-10	-71	-1		
India		59411	0.8	-1	-1	7	-2	4		147	4	2	-23	5		
Philippines		6607	0.8	-3	-5	-10	1	-10		117	-12	-1	-46	20		
Thailand		1620	-0.1	-2	-4	-4	-3	-5		0	0	0	0	0		
Malaysia		1450	-0.3	-1	-3	-9	-3	-9		95	-5	-10	-51	-5		
Argentina		247459	-1.2	-1	-1	181	22	171		1973	-218	144	159	-232		
Brazil		104933	-0.7	-2	-6	-7	-4	-6		261	-4	-11	-70	-13		
Chile		5397	0.7	3	2	22	3	23		140	9	5	-43	8		
Colombia		1188	-1.6	0	-6	-23	-8	-21		397	-25	27	14	25		
Mexico		52758	-0.5	-1	-4	-1	9	3		367	3	17	0	-14		
Peru		21576	0.0	-1	-4	-11	1	-8		181	1	-7	-11	1		
Hungary		45149	0.8	0	0	16	3	-5		202	-17	-9	24	-20		
Poland		60668	0.8	3	0	1	6	-3		67	-5	-18	5	-6		
Romania		12312	0.0	0	1	-1	6	-7		234	-16	-10	-21	-21		
Russia		2277	1.1	3	2	-8	6	-26		#N/A	#N/A	#N/A	#N/A	#N/A		
South Africa		78936	1.5	1	-1	2	8	5		371	-14	17	-41	4		
Turkey		5323	1.6	5	13	170	-3	164		490	-32	-10	-107	50		
Ukraine		507	0.0	0	0	-2	-2	-2		4675	108	578	1479	596		
EM total		38	3.2	-2	-9	-17	1	-19		387	-6	20	-170	11		

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

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