GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MARCH 13, 2023

- **European bank stocks under pressure after US policy intervention** (link)
- **US regulators set up new financial backstop, protecting bank depositors** (link)
- **Markets revise ECB terminal rate sharply lower ahead of Thursday's meeting** (link)
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Bank stocks under pressure and core rates sharply lower after US intervention

Risk-off sentiment prevails after US regulators announced that "all depositors" in Silicon Valley Bank, the 16th largest US bank, would be paid back. The Fed also set up a new facility big enough to protect uninsured deposits in the US banking system. Nevertheless, bank stocks traded lower whereas money markets repriced core terminal rates sharply lower. Goldman Sachs, for example, does not even expect the Fed to deliver a rate hike next week with "considerable uncertainty beyond March." There had been warnings about Silicon Valley Bank but the speed of the collapse took most by surprise and drew attention to bank business models, liquidity conditions, and unrealized losses. The US dollar fell across the board as market expectations for monetary policy tightening by the Fed were scaled back materially.

Key Global Financial Indicators

Last updated: 3/13/23 12:08 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3862	-1.4	-5	-7	-8	1
Eurostoxx 50		4114	-2.7	-5	-3	12	8
Nikkei 225		27833	-1.1	-1	1	10	7
MSCI EM		38	-0.5	-4	-7	-11	0
Yields and Spreads					bps		
US 10y Yield		3.48	-21.6	-47	-22	149	-39
Germany 10y Yield		2.22	-29.2	-53	-15	197	-36
EMBIG Sovereign Spread		473	13	23	29	-25	22
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		50.2	0.0	-1	-1	0	1
Dollar index, (+) = $ appreciation		104.2	-0.4	0	1	5	1
Brent Crude Oil ($/barrel)		80.5	-2.7	-7	-7	-29	-6
VIX Index (%, change in pp)		28.1	3.3	9	8	-3	6

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

Aside from developments in the banking sector, key everts this week are US February CPI (Tuesday) and the ECB's policy meeting with outlook update (Thursday). Central banks in Indonesia and Russia are expected to leave rates unchanged.

Mature Markets

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United States

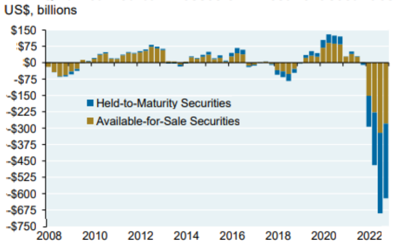
On Friday, S&P 500 lost 1.4%, with smaller-capitalization banks and real estate investment trusts being hit the most by the failure of Silicon Valley Bank (SIVB). US 2-yr yields fell by 28 bps; 10-yr yield fell by 20 bps. The US dollar depreciated 0.6% versus major currencies. US Investment Grade and High Yield credit spreads widened by 8 and 31 bps correspondingly.

This morning, markets were pricing a Fed hike of 25 bps with a probability of 55% next week. Goldman Sachs no longer expects the Fed to deliver a rate hike at its 22 March meeting with “considerable uncertainty beyond March.”

On Sunday, US regulators set up a new financial backstop to strengthen public confidence and stem stability risks, protecting “all depositors” in SIVB including those exceeding the $250k threshold for FDIC insurance. The joint statement by the Treasury, the Fed and FDIC, came after the dramatic collapse of the SIVB. The facility will be big enough to protect uninsured deposits in the wider US banking system, backstopped by up to $25 bn from the Exchange Stabilization Fund. Under the new program, which provides loans of up to one year against high quality securities, collateral will be valued at par.

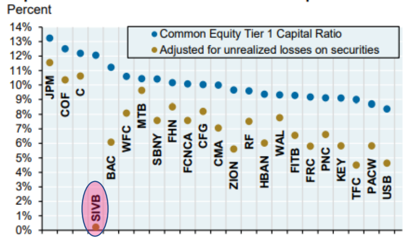
A sharp accounting revaluation of securities remains a threat to other banks besides SIVB. For many banks, a large chunk of the inflow of deposits during the Covid pandemic has been invested into long-term securities booked as Held-To-Maturity (HTM) with no Mark-to-Market revaluation: meaning no accounting impact of rising yields, but a significant economic loss, calculated as if the bonds were to be sold now (left chart below). **JPM analysts estimated that should the unrealized losses be reflected in the balance sheet, it would result into a meaningful drop in capital ratios for many banks** (middle chart). The collapse of SVB was triggered by its extreme idiosyncratic balance sheet structure—low sticky deposits, high ratio of loans&securitites to total deposits (right chart), and undiversified overreliance on a niche of venture capital clients—but several other banks are disproportionally exposed to similar types of risks; in particular, a liquidity shock that translates into a loss of capital due to the sudden Mark-to-Market revaluation due to the liquidation of HTM securities.

FDIC Q4 unrealized bank losses on investment securities
US$, billions



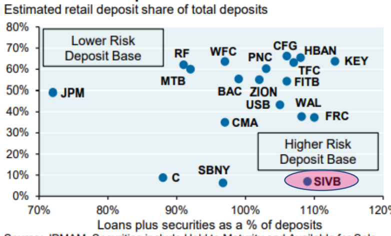
Source: FDIC. Q4 2022.

Impact of unrealized securities losses on capital ratios
Percent



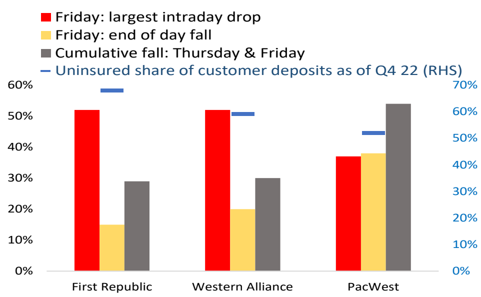
Source: JPMAM, Q4 2022.

US bank loan-to-deposit ratios
Estimated retail deposit share of total deposits



Source: JPMAM. Securities include Hold to Maturity and Available for Sale categories. Q3 2022.

On Friday, the collapse of SIVB spilled over into other markets. A number of banks with considerably high shares of uninsured deposits faced a massive intraday drop of equity prices (left chart below)—up to 50% of their value. A similar dynamic—but at a lower scale—was visible for other small and undiversified financial institutions, including regional banks and REITs. This was exacerbated by the fact that the negative sentiment around regional banks has been building up recently: e.g., the open interest of short sellers of regional banks’ equities reached almost 80% of shares outstanding in recent days, according to Bloomberg.



Source: Bloomberg, JPMAM

Some clients of SVB were under pressure on Friday: e.g., Circle's USDC stablecoin broke its 1:1 peg to the US Dollar as a portion of its collateral was held at SVB. The temporary loss of value by USDC was counterbalanced by the appreciation of Tether due to the flight to quality.

Japan

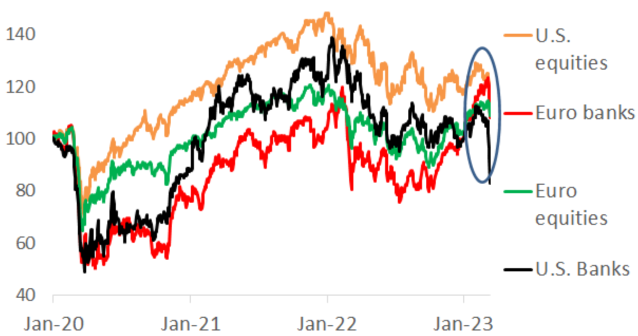
The 10-year JGB yield fell to 0.295% (-10.4 bps) as lower US treasury yields eased pressure on the yield curve control. Longer-end JGB yields also declined (30-year: -9.8 bps). The 10-year JGB yield fell notably last Friday as some traders rushed to cover their positions following the no surprise at the Bank of Japan's policy meeting. The Japanese yen appreciated (+0.4%).

Japanese equities declined (NIKKEI: -1.1%) as investors assessed SVB risks. Bank stocks declined (-4.0%). Reportedly, SoftBank Group could be among one of the most exposed firms to SVB; its share price dropped (today: -1.7%; Friday: -6.3%).

Europe

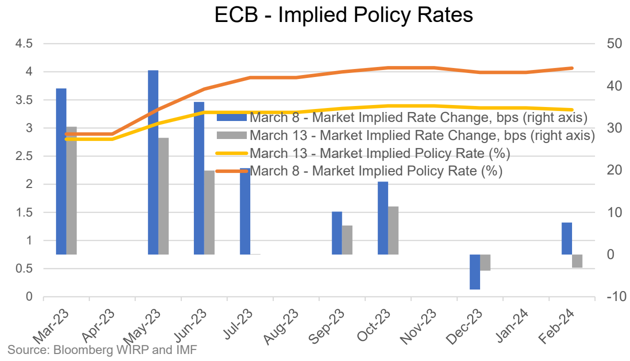
Stocks were sharply down this morning. The Stoxx Europe 600 was losing 2.5%, and the banking sector was down 5.8%—having lost 10.3% since last Thursday. Shares in Credit Suisse fell 13%. **The euro was strengthening** 0.3% vs. the dollar, to 1.07/$. **Bond yields continued to plunge**, with German 10y bund yields down 21 bps to 3%. Bund yields have lost 34 bps since last Wednesday. Italian spreads are up 8 bps to 189 bps.

European and U.S. bank equities (Jan 2020: 100)



Source: Bloomberg and IMF

Markets have repriced the ECB terminal rate down sharply ahead of the ECB meeting on Thursday (+50 bps expected to 3%). It is now priced in at 3.4% in October, or about 67 bps lower than last Wednesday.



United Kingdom

Asset price moves in the UK were in line with global trends. 10-yr gilt yields are down 31 bps since last Wednesday (March 8) before SVB developments. Markets have also repriced down the BOE terminal rate by 50 bps since last Wednesday, to 4.36% by September.

HSBC bank bought the UK arm of SIVB Financial group. On Friday, the authorities had placed SVBUK into a bank insolvency procedure—today's announcement supersedes that action. **The BOE said in a statement today that all depositors' money is safe and secure as a result of this transaction and that SVBUK's business will continue to be operated normally by SVBUK and that clients should not see any disruptions.** The statement says that this action has been taken to stabilize SVBUK, ensuring the continuity of banking services, minimizing disruption to the UK technology sector and supporting confidence in the financial system. **Chancellor of the Exchequer Jeremy Hunt said SIVB's depositors will be protected with no taxpayer support.** The authorities had announced over the week end that they were working on a plan with the aim of protecting the UK tech and life science companies. The FT reports that SVB UK had 3,300 clients. The BOE, Chancellor of the Exchequer and Prime Minister have all make public statements asserting that the collapse of SIVB's UK Bank did not present a systemic contagion risk and that the UK overall financial system is sound.

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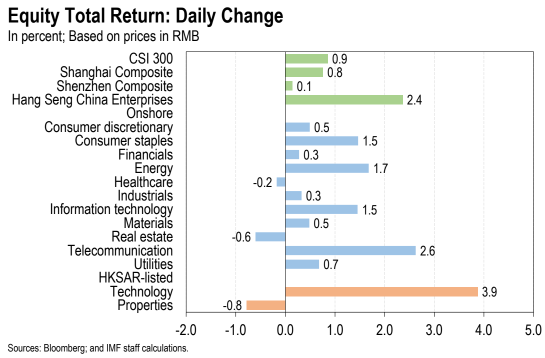
Asian equities were mixed, up 2.1% on net as market expectations for more aggressive monetary policy tightening by the Fed, ECB and Bank of Japan were scaled back. Hong Kong (+1.9%) and Chinese (CSI 300: +1.0%) equities gained, while share prices dropped in Singapore (-1.1%), Malaysia (-0.8%) and India (-0.8%). Asian currencies appreciated, led by Korean won (+1.7%) and Thai baht (+1.2%), Long-end government bond yields declined, with 10-year yields falling in the Philippines (-14.7 bps), Indonesia (-8.8 bps) and Singapore (-8.5 bps), following a sharp drop in US treasury yields. **Equities in EMEA were mostly trading lower.** Equities in the Czech Republic (-2.4%) and Poland (-2.3%) were underperforming. **Most currencies gained against the dollar with the South African rand (+0.6%) outperforming, while CEE currencies were trading marginally weaker against the euro.** Local currency yields fell (Hungarian 10-yr yields -19bps, Polish 10-yr yields -14bps) with Romanian yields seeing a relatively smaller decline (-10bps) after February inflation data surprised on the upside (+15.5%y/y vs expected 15.25% from 15.1%). **Latin American assets fell in line with global markets on Friday.**

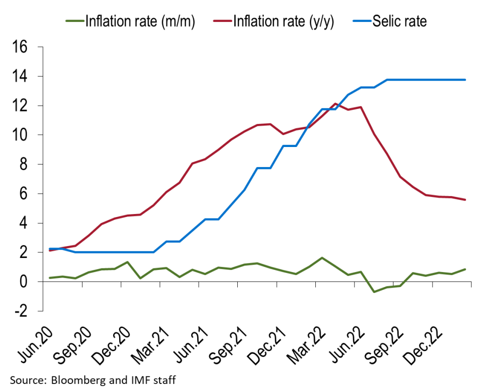
China

China kept key officials in place to ensure economic policy continuity. In a surprise move, Governor Yi Gang of the People's Bank of China and Finance Minister Liu Kun were confirmed to remain in their posts. Both were widely expected to step down after passing the usual retirement age. **Market confidence was boosted by the perception that Beijing is taking a pragmatic approach to ensure a smooth government transition.** Chinese equities gained (CSI 300: +1.0%; Hong Kong SAR-listed: +2.1%), outperforming regional peers that faced downward pressure following the Silicon Valley Bank (SVB)'s collapse. RMB appreciated (+0.2%). **Share prices of real estate firms declined, following a series of profit warnings (onshore: -0.7%; Hong Kong SAR-listed: -1.4%).** Country Garden, the country's largest property developer, warned of a potential loss in a magnitude of 5.5–7.5 bn yuan ($0.8–$1.1 bn)in 2022, its first full-year loss since its listing in 2007. The stock of Shanghai Pudong Bank declined by 2.9% since Friday owing to its connection with SVB. The bank has a banking joint venture with SVB. The joint-venture bank issued a statement that it has independent governance structure and balance sheet. Analysts noted that the joint-venture bank could face some funding pressure as about 70% of its deposits will mature within one month.



Brazil

Brazil consumer prices slowed to 5.60% y/y in February from 5.77% in January. But it is higher than the 5.53% median estimation. Monthly inflation sped up to 0.84% from 0.53%, also above expectations, and it was the fastest monthly pace since April. The central bank has kept the key interest rate at 13.75% to control inflation expectations since September. The annual inflation rate has eased for eight straight months from last year's peak of over 12%. It is still well above the central bank's 3.25% target for 2023 and 3% goal for 2024. Interest rate swap contract due in January 2024 rose 9 basis points after the data was released.



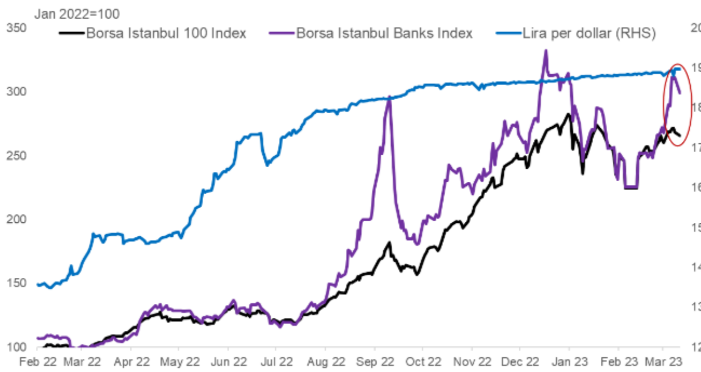
Mexico

Mexico's nominal wages rose 8.4% y/y in February compared to 11.1% in January and remain well above the 7.62% consumer price increase of the month for the fourth consecutive month. It presents an upside risk to the inflation outlook. Analysts now increased the year-end inflation estimation to 5.30% from a forecast of 5.02% in early January. Analysts also increased their 2023 forecast for the central bank's key rate to 11.5% from 10.25% in late December.

Türkiye

Banking stocks in Türkiye were trading roughly 3.9% lower this morning, with Bloomberg pointing to pressure from the Central Bank of the Republic of Türkiye (CBRT) on lenders to lower interest rates charged on consumer loans. With the average consumer loan rate currently at around 27%, Bloomberg reports seeing CBRT documents requiring commercial lenders that charge compound interest rates on consumer loans between 18.56% and 20.62% to set aside lira-denominated government bonds amounting to 20% of the new credit created. The requirement thus makes it more expensive for lenders to extend loans that have higher interest rates, with the ratio of lira-denominated bonds to be set aside reportedly increasing to 90% for higher interest rates. Separately, balance of payment data released this morning showed Türkiye's current account deficit widening by less than expected in January (-$9.85bn versus expected -$10.10bn from -$5.1bn). **Turkish equities were trading roughly 1.4% lower this morning while the lira was little changed against the dollar. Local currency bond yields fell (10-yr -28bps).**

Türkiye: Equity and Currency



Source: Bloomberg and IMF staff calculations

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Global Financial Indicators

Last updated: 3/13/23 12:57 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3866	-1.4	-5	-7	-8	1
Europe		4114	-2.7	-5	-3	12	8
Japan		27833	-1.1	-1	1	10	7
China		3269	1.2	-2	-1	1	6
Asia Ex Japan		65	-0.5	-5	-7	-9	0
Emerging Markets		38	-0.5	-4	-7	-11	0
Interest Rates					basis points		
US 10y Yield		3.48	-21.6	-47	-22	149	-39
Germany 10y Yield		2.22	-29.2	-53	-15	197	-36
Japan 10y Yield		0.35	-6.3	-16	-16	16	-7
UK 10y Yield		3.39	-24.8	-47	-1	190	-28
Credit Spreads					basis points		
US Investment Grade		168	7.2	25	25	2	9
US High Yield		510	33.3	98	69	71	30
Europe IG		90	7.6	16	13	10	-1
Europe HY		460	34.1	75	59	79	-14
Exchange Rates					%		
USD/Majors		104.17	-0.4	0	1	5	1
EUR/USD		1.07	0.3	0	0	-2	0
USD/JPY		133.0	-1.5	-2	0	12	1
EM/USD		50.2	0.0	-1	-1	0	1
Commodities					%		
Brent Crude Oil ($/barrel)		81	-2.7	-7	-7	-29	-6
Industrials Metals (index)		155	-0.8	-4	-6	-33	-6
Agriculture (index)		66	-0.9	-3	-6	-11	-4
Implied Volatility					%		
VIX Index (%, change in pp)		28.1	3.3	9.4	7.7	-2.7	6.4
US 10y Swaption Volatility		147.2	11.4	19.3	36.9	40.0	20.6
Global FX Volatility		10.6	0.1	0.7	0.1	1.0	-0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		208	24.9	32	24	-26	2
Italy		190	8.9	7	10	30	-24
Portugal		92	4.5	6	7	6	-9
Spain		108	4.4	13	14	9	-1

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

Emerging Market Financial Indicators

Last updated: 13/03/2023 12:59 PM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.86	0.9	1.1	-1	-7	1	-8		3.2	0.5	-7	2	35	10	31
Indonesia		15377	0.5	-0.5	-1	-7	1	-7		6.8	-11.7	-10	10	12	-10	34
India		82	-0.1	-0.3	1	-7	1	-9		7.6	-23.6	-21	11	68.6	11	
Philippines		55	0.3	-0.2	0	-5	1	-7		6.0	2.5	5	10	100	3	105
Thailand		35	0.6	-0.1	-2	-3	0	-7		2.5	-13.0	-30	-29	15	-18	23
Malaysia		4.49	0.6	-0.4	-3	-6	-2	-7		3.9	0.2	-9	7	28	-9	28
Argentina		201	-0.2	-1.2	-5	-46	-12	-47		89.0	30.3	65	228	4088	82	4107
Brazil		5.27	-1.0	-2.1	-2	-3	0	-5		13.1	-18.4	-60	-39	42	54	160
Chile		808	-1.4	-1.1	-2	1	5	-2		5.1	-27.0	-59	-40	-94	-25	-83
Colombia		4715	0.7	1.5	2	-19	3	-17		9.5	0.0	-16	38	130	-27	164
Mexico		19.02	-2.7	-5.3	-2	10	3	6								
Peru		3.8	0.0	0.0	2	-2	1	-1		8.0	-12.8	-16	4	131	1	198
Uruguay		39	0.1	0.2	0	9	2	8		10.3	-2.0	8	52	193	-35	217
Hungary		367	-1.8	-3.7	-3	-7	2	-13		8.2	-5.0	-10	23	241	-140	339
Poland		4.39	0.1	0.0	2	-1	0	-8		5.3	-29.3	-63	-22	65	-94	136
Romania		4.6	0.4	0.2	-1	-2	0	-5		7.3	-11.0	-23	-13	121	-44	210
Russia		75.3	1.2	0.4	-2	61	-1	9		10.6	-0.5	2	21	-2070	-129	-61
South Africa		18.2	0.8	0.5	-2	-17	-6	-17		9.1	-14.5	-10	30	105	-4	154
Turkey		18.97	0.0	-0.4	-1	-22	-1	-27		11.1	-44.0	-72	-22	-1457	131	-1128
US (DXY; 5y UST)		104	-0.4	-0.2	1	5	1	8		3.62	-34.3	-63	-29	168	-38	172

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		4009	1.0	-2	-3	-4	4	-13		171	8	-2	-55	-6	-37
Indonesia		6787	0.3	0	-2	-2	-1	-2		166	21	28	-38	26	-19
India		58238	-1.5	-3	-5	3	-4	2		153	8	8	-44	11	-1
Philippines		6544	-0.7	-2	-4	-4	0	-11		134	16	19	-14	37	-3
Thailand		1573	-1.7	-2	-5	-5	-6	-7		0	0	0	0	0	0
Malaysia		1422	-0.8	-2	-4	-9	-5	-10		96	2	-5	-52	-4	-37
Argentina		236419	-4.5	-4	-8	166	17	159		2297	191	325	472	92	560
Brazil		103618	-1.4	0	-5	-7	-6	-7		280	22	15	-48	6	-51
Chile		5352	-0.8	-1	0	16	2	22		153	15	17	-25	21	-21
Colombia		1187	-1.9	-4	-4	-23	-8	-21		422	26	39	42	50	30
Mexico		52795	-1.2	-3	0	-1	9	3		396	24	33	23	15	26
Peru		21604	-0.7	-3	-2	-13	1	-8		194	11	7	3	14	4
Hungary		41667	-3.3	-6	-10	-3	-5	-13		236	22	27	64	14	83
Poland		57748	-3.1	-6	-4	-6	0	-8		87	17	10	13	14	71
Romania		12257	-0.8	-2	-1	2	5	-7		257	13	18	6	2	25
Russia		2256	-0.9	-1	0	-9	5	-27							
South Africa		74705	-2.4	-5	-6	1	2	0		394	25	27	11	27	5
Turkey		5287	-1.8	-2	17	157	-4	162		478	-4	-30	-168	38	-85
Ukraine		507	0.0	0	0	-2	-2	-2		4800	86	397	740	721	3327
EM total		38	-0.4	-4	-7	-11	0	-20		409	19	25	-189	33	-49

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

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