



- Global fund manager survey shows rising recession fears amid banking turmoil ([link](#))
- Canada's inflation decelerates in February, supporting the pause in policy tightening ([link](#))
- Markets raise odds for BoE rate hike as February inflation surprises to the upside ([link](#))
- Japan to allocate an additional \$15 bn in aid to ease inflation impact on households ([link](#))
- South African policy rate expectations shift lower amid uncertain outlook ([link](#))
- Brazilian president criticizes central bank ahead of policy rate decision ([link](#))

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Global market volatility subsides ahead of FOMC meeting

The risk-on tone that reverberated throughout markets over the last day has stabilized this morning as focus starts to shift to the key FOMC policy decision later today. Risk assets rallied yesterday as equities closed higher in the US, with the tech-heavy Nasdaq gaining over 1.5%, and Asian equity indices maintained the risk-on momentum overnight before steadying this morning with European stocks and S&P 500 futures flat to slightly higher. With today's FOMC policy rate decision and update to the committee's projections for the economy and path of policy on top of investors' minds, optimism surrounding the recent banking sector uncertainties has remained intact, with the KBW US regional bank equity index up over 6% so far this week. US authorities and ECB officials have reiterated their readiness to maintain financial stability and to ensure the financial system avoids liquidity strains. The receding banking system worries have sustained the move higher in core sovereign bond yields with 2-year US and German yields up 15 to 25 bps and 10-year yields up 10 to 15 bps over the last day. A higher-than-expected UK inflation print this morning has added further support to the move higher in yields and increased the odds of a 25 bp hike by the BoE tomorrow. For today's FOMC decision, markets are pricing about an 80% probability for a 25 bp hike with the updated "dot plot" of policy rate projections a key focus as investors wrestle with how the committee will weigh financial stability versus inflation risks.

Key Global Financial Indicators

Last updated: 3/22/23 8:10 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4003	1.3	2	0	-11	4	-5
Eurostoxx 50		4198	0.4	4	-1	7	11	6
Nikkei 225		27467	1.9	1	1	-2	5	4
MSCI EM		38	0.9	0	-2	-16	1	-20
Yields and Spreads			bps					
US 10y Yield		3.63	1.7	17	-29	124	-25	164
Germany 10y Yield		2.38	8.9	25	-14	188	-19	215
EMBIG Sovereign Spread		493	-15	14	40	41	41	80
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.1	0.2	1	-1	-3	0	-6
Dollar index, (+) = \$ appreciation		103.1	-0.2	-2	-1	5	0	7
Brent Crude Oil (\$/barrel)		75.0	-0.5	2	-7	-35	-13	-23
VIX Index (% change in pp)		21.7	0.3	-4	-1	-1	0	-9

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

Yesterday, the S&P 500 rose by 1.3%, as major tech shares drove the gains, while both large and regional banks' stocks also increased. As risk sentiment recovered, other risk assets also posted gains, with both IG and HY corporate bond spreads tightening. US Treasury yields went higher, with 2-year and 10-year yields up 18 bp and 10 bps, respectively. Volatility declined in both equity and rates markets.

Recession fears have intensified amid the recent banking turmoil. According to BofA's global fund manager survey conducted March 10–16th, 42% of respondents expect a recession in the next 12 months, a notable increase from 24% in the last month. BofA analysts note the S&P 500 has been flat over the same period, suggesting equity markets have yet to be affected by the deteriorating macro-outlook. Financial market stability risks also rose sharply as the underlying indicators spiked to the highest level since last November, the largest monthly increase since the outbreak of the Russian war in Ukraine. Counterparty risk climbed to the highest since May 2020. On potential tail risks, investors are increasingly concerned about systemic credit events more than persistent inflation. As for the source of systemic credit events, investors cited US shadow banking the most, followed by US corporate debt markets.

Chart 11: Risk perception worsened this month across all categories
Components of the FMS Financial Market Stability Risks Indicator

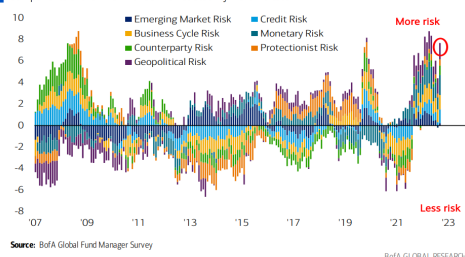


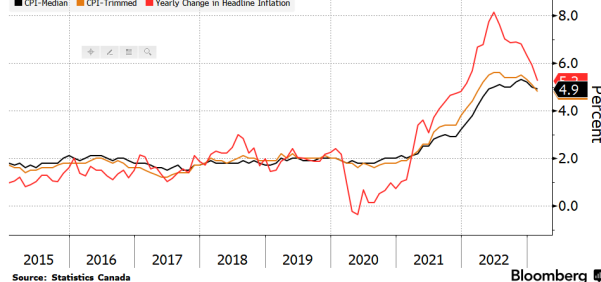
Chart 13: "Systemic credit event" overtakes "inflation stays high" as biggest tail risk
What do you consider the biggest "tail risk"?



Canada

Canada's inflation pressures eased, with CPI rising 0.4% m/m or 5.2% y/y in February, down from 0.5% m/m or 5.9% y/y in January and falling more than expected (0.5% m/m or 5.4% y/y). The median core rate, the Bank of Canada's (BoC) preferred measure, dropped to 4.9% from 5.0%. Telephone services, followed by mortgage interest cost and rent, are the main upward contributors to monthly changes, while lower energy prices ease pressures. Analysts see that the data as confirming inflation is coming down, and reaffirming the BoC's decision to pause its tightening cycle. The Canadian dollar depreciated, and 2-year government bond fell immediately after the releases. Separately, a group of small financial institutions asked the government to increase the limit on deposit insurance (currently C\$100,000 (\$73,200)), arguing that it would send a strong signal about financial stability and reduce the risk of bank failures. The group said that while the banking system in Canada looks solid and it has not seen deposit flight so far, adjusting the deposit limit to a level more comparable to the US (currently \$250,000) would strengthen the financial system in Canada.

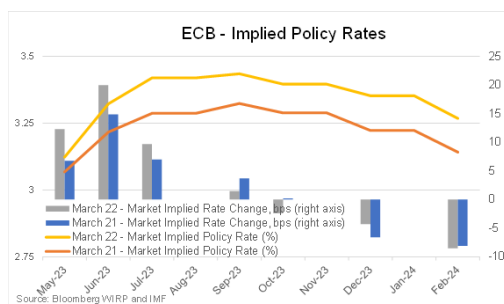
Core Inflation Decelerates
Underlying momentum in Canadian price pressures eases



Euro area

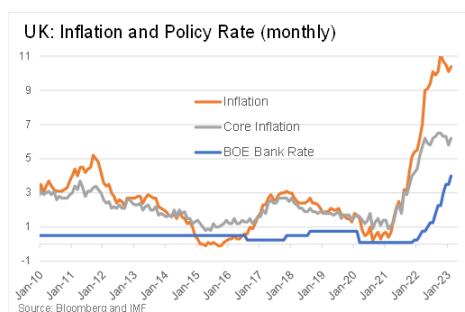
Euro area markets are subdued this morning after yesterday's rally, but banking sector stocks continue to recover (+1.9%). The Stoxx Europe 600 is up 0.3%. The euro is gaining 0.2% vs. the dollar, to 1.08/\$. Bond yields are rising, with German 10y bund yields up 4.8 bps to 2.34%.

After the hawkish interventions from ECB president Lagarde and other ECB officials this morning, the markets have upgraded their expectations for rate hikes in the eurozone. They are now pricing in almost a full 25 bps by the ECB in May (22 bps), from 18 bps yesterday, and the terminal rate is now seen at 3.4% in July, 10 bps higher than yesterday. At the ECB watcher conference in Frankfurt this morning, ECB president Lagarde said that ECB will take a “robust” approach to respond to inflation risks but also to aid financial markets if threats emerge. She repeated that bringing inflation back to 2% over the medium term is non-negotiable, and that the ECB will do that by following a robust, data dependent strategy. She added that she does not see any clear evidence that underlying inflation is trending down. She also repeated the language of last week's ECB press conference, saying that if the ECB's “baseline” holds, then the ECB will have “ground to cover” in its monetary policy. She added that the ECB will keep a close eye on bank lending in the coming months to gauge credit conditions which are part of the tightening mechanism. At the same conference, ECB chief economist Philip Lane also said “absolutely there's more to do” if the ECB baseline projections hold up. In an interview with the FT published earlier this morning, Bundesbank president Nagel said that the ECB must be stubborn in its fight against inflation. He thinks that there is still some way to go for raising rates, but that the ECB is approaching restrictive territory.



United Kingdom

UK assets are reacting strongly to the large upside surprise in inflation for February. Headline inflation came in at 10.4% y/y, much higher than expectations (9.9%) and even higher than the January print (10.1%). That's 1.1% m/m (0.6% expected), the highest m/m reading since October. The surprise in core inflation was of the same magnitude, reaching 6.2% y/y, much above the 5.7% market expectation, and higher than the 5.8% of January. As a result, the British pound is strengthening 0.6% vs the dollar (to 1.23 £/\$) and yields on 10y gilts are up 10 bps to 3.46%. Markets are almost fully pricing in a 25 bp hike at the BoE meeting tomorrow (23 bps), up from 14 bps yesterday, when the market was still split on whether the BoE would hike or pause. The BoE terminal rate is now seen at 4.53% in August, up from 4.28% yesterday. The equity market (FTSE 100) is little changed.



Japan

Japanese stocks surged 1.7% as global risk appetite recovered. **Japan will allocate more than ¥2 tn (\$15.1 bn) in additional aid to ease the impact from high inflation.** The outlays will come from reserve funds already budgeted for the fiscal year ending this month, Economy Minister Shigeyuki Goto told reporters Wednesday. The measures will reportedly include handouts for low-income households and their children, and support for households that use liquefied petroleum gas. Nomura noted that additional support comes ahead of the local elections scheduled in April; and they also expected the latest measures to shave 0.3 ppt off consumer prices, while lifting nominal GDP by 0.09%. The government previously estimated the existing measures would suppress inflation by 1.2 ppt. **Yields on 10Y benchmark notes increased +6.8 bps to 0.32%; the yen traded in narrow range** and was little changed.



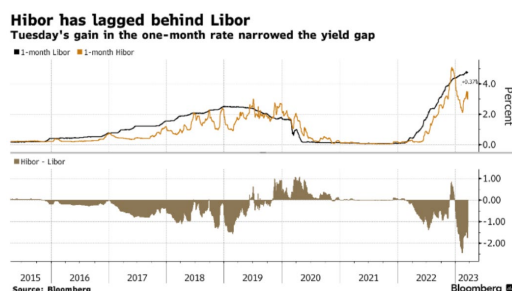
Emerging Markets

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Most Latin American bourses posted gains yesterday in line with the recovery in global risk assets. The Mexican peso stood out as it resumed its earlier appreciation against the dollar. **Asian stocks continued to rally +1.2%** led by tech and financial firms. Taiwan Province of China and Singapore gained +1.6%, followed by South Korea and Indonesia (+1.2%). **Asian currencies were mixed.** South Korean won appreciated +0.3%, Thai baht weakened further -0.3%. **Sri Lanka's rupee appreciated +2.8%** after the IMF announced a 48-month program. Governor Weerasinghe stated the arrangement would help reduce nation's borrowing costs as part of the \$3 bn bailout package could be used to cover government spending. **EMEA markets were mixed.** Equity markets were generally up, led by Türkiye (+1.2%), Hungary (+0.8%) and South Africa (+0.9%). Central European currencies were generally range-bound vs. the euro, while the South African rand was strengthening 0.4% vs the dollar (to 18.5/\$). Local bond yields were broadly stable.

China / Hong Kong SAR

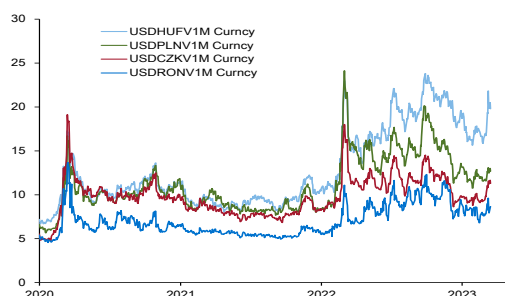
Chinese equities gained (Shanghai +0.3%, Shenzhen +0.6%, Hang Seng China Enterprises +1.4%). In February, China received the first cargo of Australian coal since Beijing imposed an unofficial ban in late 2020, Bloomberg reported based on customs data. Meanwhile, **the US tightened restrictions on new operations in China by chipmakers that get federal funds to build in the US.** The \$50 bn CHIPS and Science Act will now bar firms that win grants from expanding output by 5% for advanced chips and 10% for older technology. The Commerce Department also outlined other measures including a \$100,000 spending cap on investments in advanced capacity in China. Separately, **Moody's put China's Huarong Asset Management on review for a downgrade in the wake of projected 2022 losses.** Moody's said that Huarong's forecast reflected the firm's "weakness in risk management," while the company's "profitability and asset quality face intense strain due to the correction in the property market and volatile capital markets." Huarong's dollar bonds turned lower on the news, down to 90.7 cents Bloomberg reported. **Renminbi weakened -0.2%. 10Y bond yields were little changed.** Separately, Hong Kong's overnight cost of borrowing fell on Wednesday as the cash crunch eased. The overnight interbank rate, Hibor, tumbled 175 bps to 2.4%, the one-month cost dropped 13 bps to 3.37%.



Hungary

The Hungarian forint continued to retrace losses following the recent market turmoil (+1.9%). The currency had depreciated by as much as -6.8% against the dollar following the initial global banking sector stress. While its year-to-date total-return remains as one of the best among other regional currencies (+7.1%), the volatility of the forint stands out from its neighbors in the region. One possible reason for the currency's recent episode of high volatility is investors had been heavily positioned in long forint trades to reap its high carry (interest rate return). However, as market volatility surged, investors exited these positions, fueling depreciation pressure on the currency.

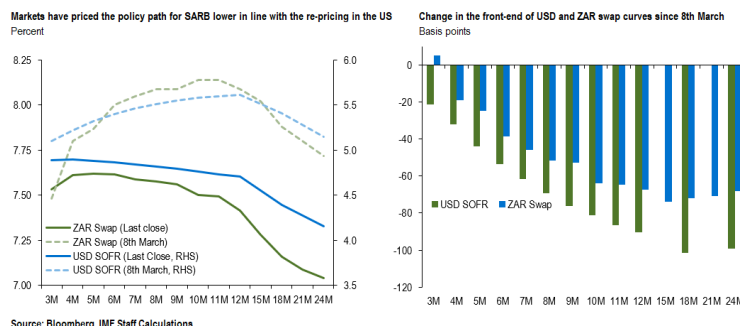
1-Month Implied Volatility of HUF, PLN, CZK, RON Against the USD



Source: Bloomberg

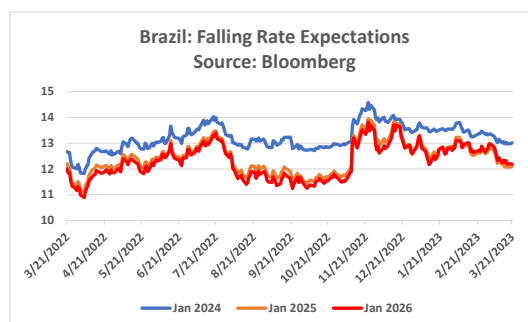
South Africa

South African policy rate expectations have broadly re-priced lower ahead of the central bank meeting next week. The local swap curve has broadly moved in line with movements lower in the short end of the US SOFR curve since the collapse of Silicon Valley Bank. Analysts at BofA and Goldman Sachs expect the SARB to end its hiking cycle with a 25 bp hike next week, though potential risks to the inflation outlook persist. At the last central bank meeting in January, SARB delivered a dovish surprise with a hike of 25 bps (+50 bps was expected). Since then, the rand has been one of the worst performing major currencies against the US dollar and has weakened over 8% year-to-date.



Brazil

President Lula da Silva renewed his criticism of the central bank, which has kept the benchmark SELIC rate at 13.75%, the highest in six years. The bank is expected to stay on hold today. According to press reports, recent comments by the President and key cabinet members has reignited worries about the central bank's independence among some members of the investor community. Although inflation remains a threat, the President thinks the central bank should lower its policy rate to boost the economy. Brazil's GDP contracted at the end of 2022 and most analysts do not expect growth to get much beyond 1% this year. The interest rate futures market is projecting nearly 75 bps of rate cuts by next January.



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Global Financial Indicators

Last updated: 3/22/23 8:11 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3999	1.3	3	0	-11	4	-5
Europe		4198	0.4	4	-1	7	11	6
Japan		27467	1.9	1	1	-2	5	4
China		3999	0.4	0	-3	-6	3	-13
Asia Ex Japan		66	0.9	1	-2	-14	1	-17
Emerging Markets		38	0.9	0	-2	-16	1	-20
Interest Rates			basis points					
US 10y Yield		3.63	1.7	17	-29	124	-25	164
Germany 10y Yield		2.38	8.9	25	-14	188	-19	215
Japan 10y Yield		0.33	7.8	0	-18	11	-9	13
UK 10y Yield		3.55	17.8	22	-6	184	-13	207
Credit Spreads			basis points					
US Investment Grade		167	0.6	-13	20	24	8	24
US High Yield		503	0.8	-32	42	112	23	96
Europe IG		88	-2.7	-16	7	11	-2	17
Europe HY		459	-12.6	-54	40	96	-15	107
Exchange Rates			%					
USD/Majors		103.05	-0.2	-2	-1	5	0	7
EUR/USD		1.08	0.3	2	2	-2	1	-4
USD/JPY		133.0	0.3	0	-1	10	1	16
EM/USD		50.1	0.2	1	-1	-3	0	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		75.0	-0.5	2	-7	-19	-12	-10
Industrials Metals (index)		155	0.8	2	-6	-23	-6	-17
Agriculture (index)		66	-0.3	-1	-6	-12	-4	-6
Implied Volatility			%					
VIX Index (% change in pp)		21.7	0.3	-4.5	-0.6	-1.3	0.0	-9.4
US 10y Swaption Volatility		140.3	-4.5	-36.6	23.1	33.3	14.6	46.0
Global FX Volatility		11.0	0.0	-0.7	0.7	2.0	0.3	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		188	-3.3	-23	-3	-36	-18	-52
Italy		185	2.9	-13	-9	34	-29	14
Portugal		86	1.8	-10	-4	7	-16	-6
Spain		105	0.6	-9	6	13	-5	1

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

Emerging Market Financial Indicators

Last updated: 3/22/2023 8:14 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		6.88	-0.1	0.3	0	-8	0		3.1	-0.5	-1	-10	22	7
Indonesia		15345	0.1	0.3	-1	-7	1		6.9	-0.6	17	15	19	-4
India		83	0.0	-0.2	0	-8	0		7.5	0.3	7	-17	26	5
Philippines		55	-0.1	0.8	1	-4	2		6.0	0.0	-3	0	78	-5
Thailand		34	-0.3	0.5	0	-3	1		2.4	3.5	-4	-29	9	-21
Malaysia		4.46	0.3	0.7	0	-5	-1		3.9	-0.3	4	3	19	-11
Argentina		205	-0.2	-1.4	-6	-46	-14		90.4	-11.4	78	259	4153	222
Brazil		5.24	0.0	0.9	-2	-6	1		14.3	105.8	105	92	214	174
Chile		821	0.1	0.4	-3	-3	4		5.1	7.0	7	-43	-113	-24
Colombia		4803	0.5	-1.3	3	-21	1		9.2	0.0	-18	-69	118	-63
Mexico		18.52	0.4	2.5	-1	10	5		8.6	7.5	-5	-49	42	-9
Peru		3.8	0.1	0.3	1	0	1		7.7	0.1	-6	-28	106	-30
Uruguay		39	0.6	0.8	0	9	2		10.4	0.0	3	56	190	-33
Hungary		359	0.5	4.4	0	-7	4		8.2	-18.0	-12	-23	212	-142
Poland		4.34	0.2	2.5	3	-2	1		5.4	10.0	19	-55	59	-74
Romania		4.6	0.3	2.0	2	-2	1		7.3	-0.3	-1	-26	148	-44
Russia		77.0	0.4	-0.6	-2	36	-4							
South Africa		18.4	0.9	0.2	-1	-20	-7		8.9	-0.5	-23	-33	78	-23
Turkey		19.04	0.0	-0.3	-1	-22	-2		12.2	59.0	87	158	-1465	233
US (DXY; 5y UST)		103	-0.2	-1.5	-1	5	0		3.78	3.1	23	-37	138	-22

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3999	0.4	0	-3	-6	3		180	5	14	-42	3
Indonesia		6692	0.0	1	-2	-4	-2		153	-5	5	-25	13
India		58215	0.2	1	-2	1	-4		172	11	29	11	30
Philippines		6546	0.2	1	-2	-7	0		128	-5	-1	-5	31
Thailand		1585	0.5	1	-4	-6	-5		106	4	6	-26	6
Malaysia		1412	0.4	1	-3	-12	-6						
Argentina		228790	3.5	4	-7	154	13		2355	21	164	561	150
Brazil		100998	0.1	-2	-6	-14	-8		277	-2	12	-25	3
Chile		5299	2.5	2	1	8	1		148	1	17	-7	16
Colombia		1130	1.7	-2	-5	-27	-12		425	0	3	79	53
Mexico		52653	1.4	-1	-1	-6	9		412	15	48	62	31
Peru		21654	1.0	-1	0	-15	2		191	2	11	20	11
Hungary		42441	0.7	2	-6	-4	-3		244	11	25	103	22
Poland		57480	0.3	1	-2	-11	0		85	-3	13	45	12
Romania		12053	-0.3	-1	-2	-5	3		268	17	18	66	13
South Africa		75032	1.0	0	-5	0	3		408	16	23	51	41
Turkey		4958	1.1	-3	-2	127	-10		462	-15	-60	-100	22
Ukraine		507	0.0	0	0	-2	-2		4972	150	405	1610	893
EM total		38	0.6	0	-2	-16	1		417	8	25	-122	41

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

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