



- US high-yield bond spreads seen as narrow relative to bank lending standards ([link](#))
- Bank of Canada hints quantitative tightening program to end in two years ([link](#))
- European sovereign yields fall after downside Spanish inflation surprise ([link](#))
- European banking shares gain following comments from ECB ([link](#))
- Analysts see European banking stress as contained ([link](#))
- China's Vice Premier He Lifeng to oversee finance and housing sectors ([link](#))
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- Kenyan Central Bank surprises with a rate hike of 150 bps ([link](#))
- Credit growth slowing for Brazilian companies ([link](#))

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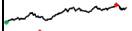



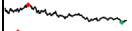

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## Risk sentiment continues to improve

Global equities rose as concerns about risks to the banking sector continue to ease in relatively quiet end-of-quarter trading with no significant surprises in US data releases. The ECB said that banks in the euro area have not seen deposit outflows amid recent financial market turbulence, even though there has been a shift from overnight deposits to time deposits. Euro area yields are higher after German headline inflation was higher than expected (at 1.1% m/m). In contrast, Spain's preliminary inflation surprised on the downside earlier. Emerging market currencies edged higher.

Key Global Financial Indicators

Last updated: 3/30/23 1:37 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>							
S&P 500		4028	1.4	2	1	-12	5
Eurostoxx 50		4286	1.3	2	1	8	13
Nikkei 225		27783	-0.4	1	1	0	6
MSCI EM		39	0.3	2	2	-15	3
<b>Yields and Spreads</b>							
US 10y Yield		3.57	1.0	15	-35	122	-30
Germany 10y Yield		2.37	3.9	17	-28	172	-20
EMBIG Sovereign Spread		488	-4	-16	41	48	36
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		50.8	0.4	1	1	-5	2
Dollar index, (+) = \$ appreciation		102.3	-0.4	0	-2	5	-1
Brent Crude Oil (\$/barrel)		78.8	0.6	4	-6	-31	-8
VIX Index (% change in pp)		19.0	-0.2	-4	-2	0	-3

## Mature Markets

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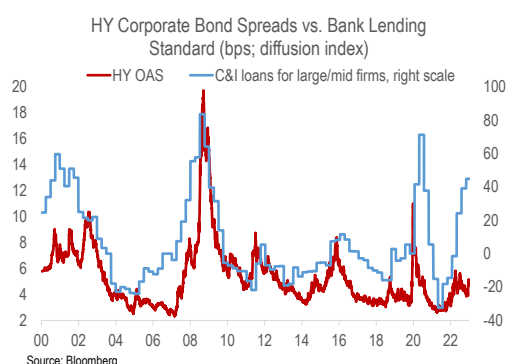
### United States

**There was no surprise from Thursday morning data:** Initial claims were 198K (vs. 196K consensus) and 4qGDP (Third) was 2.6% qoq (vs. 2.7% consensus) with weaker personal consumption (1.0% vs. 1.4% consensus). Core PCE was marginally higher than expected (4.4%qoq vs. 4.3% consensus). Market reaction was limited.

**On Wednesday, equities traded higher as risk sentiment improved amid another relatively quiet session**, with S&P 500 finishing above 4,000. The market rally was broad-based, with technology and real estate sectors outperforming most. The VIX declined to 19.2.

**The KBW bank index ended the day higher despite a report that Federal Deposit Insurance Corp is considering turning to large banks to help cover the \$23 bn in costs from the recent bank failures.** Rates volatility continued to decrease. Treasury yields were range-bound; 10-year yields finished the day at 3.57%, with the market-implied May policy rate almost unchanged at 4.93%.

**US high-yield corporate bond spreads are significantly narrow relative to tighter bank lending standards.** Analysts still see the holdover from quantitative easing and lots of money floating that seeks yield. Also, some investors appear to be complacent about credit risks, possibly expecting a "central bank put" once again in case of stress.



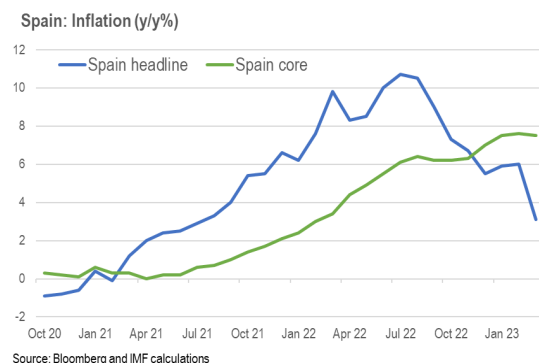
## Canada

**Bank of Canada Deputy Governor Gravelle said in his speech that the quantitative tightening program will end in late 2024 or early 2025** once settlement balances have reached a range of CAD20 bn to CAD60 bn, or about 1% or 2% of GDP, from the current level of CAD200 bn. At that point, the central bank would start buying assets again. Gravelle also said they are ready to act in the event of severe market-wide stress and provide liquidity support to the financial system. Markets did not react much: 10-year government bond yield was almost unchanged for the day.

## Euro area

**Equities opened in the green (+ 1%) while the euro (+0.2%) strengthened.**

**Sovereign yields initially fell after some of Germany's regional inflation prints for March showed inflation easing and Spain's preliminary inflation surprised on the downside.** Spain's inflation surprised on the downside with the headline EU harmonized measure falling to +3.1% (versus expected 3.7% from 6.0% in February) as energy prices eased, and core inflation easing marginally to +7.5%/y/y (versus expectations to remain unchanged at 7.6%). ING analysts see the easing in core inflation as a sign that the pass-through of higher energy prices into higher consumer prices is losing momentum, even though inflationary pressures remain elevated. Sovereign yields retraced in later trade and were little changed by mid-morning. **Markets are focused on the euro area wide inflation print to be released tomorrow**, with expectations that the preliminary print will show headline inflation easing to +7.1%/y/y (from +8.5%) and core inflation increasing to +5.7% (from 5.6%). **Separate data released this morning showed economic-industrial and services confidence surprised on the downside in March.**

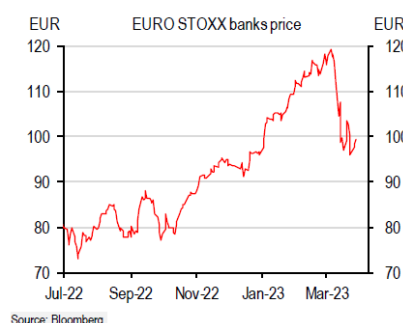


**The STOXX 600 banking index was up +1.7%**, adding to yesterday's +1.9% gain. UBS equities increased by 3.7% yesterday following news that former CEO Sergio Ermotti was being brought back to oversee the acquisition Credit Suisse.

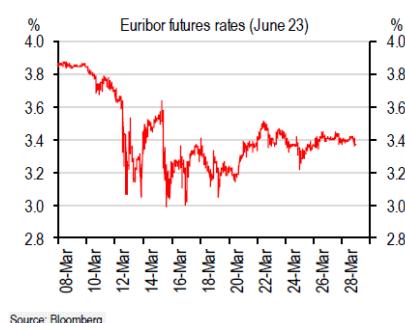
**Banks in the euro area have not seen deposit outflows amid recent financial market turbulence, according to the ECB's executive board member Schnabel.** Schnabel highlighted that there was no general deposit outflow but added that there has been a shift from overnight deposits to time deposits. Schnabel emphasized that the banking sector appears rather resilient and cautioned that credit conditions could tighten. Schnabel expects this to have a disinflationary effect but noted uncertainty about the extent.

**Several analysts expect the recent banking sector stress in Europe to continue easing and see further ECB tightening.** For example, CACIB analysts expect the recent developments in the banking sector, that has seen a significant decline in the ECB's terminal rate, to fade and thus expect a reversion in the ECB's terminal rate pricing in the coming weeks. HSBC analysts expect markets to stabilize in their central case and expect the ECB deposit rate to peak at 3.5% in June, noting that the ECB could pause sooner if markets do not stabilize or if there are dovish economic developments. On the other hand, if inflation remains high and financial stability concerns subside, analysts think the ECB could hike through the summer. Barclays analysts argue that in Europe recent stress reflected in the widening of European banks' CDS, is a contained problem. Analysts expect the ECB to terminate its hiking cycle at 3.75%, with three additional 25 bps hikes, and then keep rates unchanged through 2023. **Markets are pricing in roughly 20bps of tightening for the May ECB meeting with two hikes of 25 bps fully priced in by October.**

1. Bank stock prices fell sharply from mid-March...



2. ...prompting investors to scale back expectations for policy rate rises



## Japan

**The one-day repurchase rate for transactions starting the next business day fell to minus 1.2%**, the lowest since at least 2007. Analysts thought the slump reflected a shortage of Japanese government bonds for collateral record due to fiscal year-end activity and strong demand for short-term notes during

the months, including from foreign investors. **The 10-yr yield was up +1.4 bps. Stocks declined -0.6%. The yen strengthened +0.3%.**

## Emerging Markets

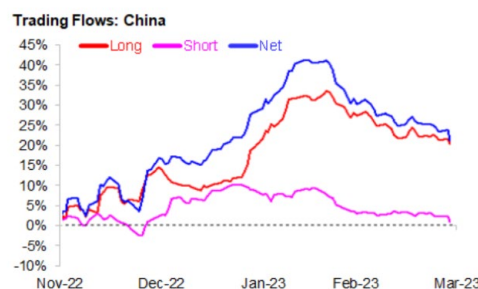
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**Asian stocks were mixed.** Mainland China gained (+0.8%), Singapore down (-0.3%). **Asian currencies gained.** South Korean won appreciated +0.3%, Thai baht underperformed -0.2%. **South Korea's** parliament approved measures to boost the country's semiconductor industry. The legislation known as the "K-Chips Act" would increase the tax credit to 15% from the current 8% for major companies investing in manufacturing facilities, while SMEs would see the tax break go to 25%, up from the 16% now. **Equity markets were generally up in EMEA, except in Hungary (-0.2%).** Currencies are strengthening vs. their reference currencies, except for the Hungarian forint (-0.14% to 381/euro), and the Turkish lira (-0.15% to 19.16/\$). Local bond yields are broadly unchanged in central and eastern Europe, with Czech yields down 5 bps (to 4.5%) after the Czech National Bank held rates at 7% as expected yesterday. Yesterday, the Kenyan central bank also surprised markets by hiking rates 75 bps, 50 bps more than expected, to 9.5%. Later today, the South African Reserve Bank (SARB) is expected to hike rates 25 bps to 7.5%, and the central bank of Egypt is expected to hike its deposit rate 200 bps to 18.25%. **Latam markets closed higher yesterday.** The Colombian peso (+1.4%) led the appreciation against the dollar, followed by the Mexican peso (+0.8%) and Brazilian real (+0.6%). Equities were all traded higher in the region with Argentina up by +2.8%, Chile and Mexico both by +1.3%, and Brazil by +0.6%.

## China

**China's Vice Premier He Lifeng will reportedly oversee finance and housing sectors.** He Lifeng, 68, will allegedly have all the financial regulators, including the People's Bank of China and the newly-created super financial watchdog, under his purview, Bloomberg reported. He will also assume the supervision of the housing ministry, which is a change from previous five years, as well as take on a public-facing role promoting foreign direct investment into China. He previously headed China's planning agency, the NDRC, and was made a member of the Communist Party's 24-member Politburo in 2022. Separately, **PM Li Qiang called China an "anchor for world peace" and said it will continue to open its market to global investors.** In his first major public speech after he took over the premiership earlier this month, Li Qiang said China's economy improved in March compared with January and February, and described consumer prices as stable. **Chinese stocks gained +0.8%.** Hedge funds have steadily cut positions in Chinese stocks over the past two months, while global mutual funds have also trimmed China exposure, cutting their holdings to 8.1% of their assets as of end-February, Bloomberg reported based on Goldman Sachs analysis. **Renminbi appreciated +0.2%, 10Y bond yields were little changed.**

**HF flows: HFs have now sold half of the net buying we saw in Nov-Jan period, although the pace of selling has been lower in March vs. last month**



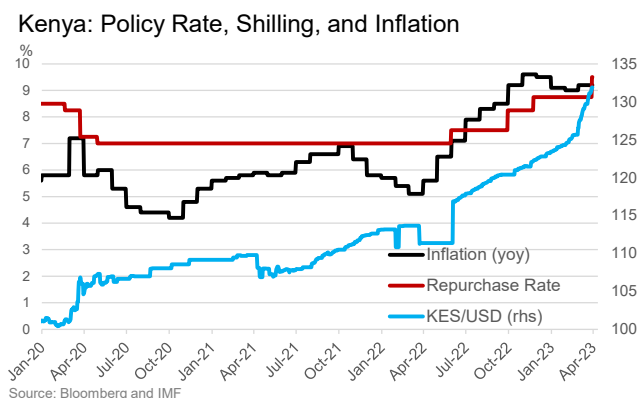
Source: Goldman Sachs Prime Services

## Czech Republic

The Czech koruna (+0.2% to 23.5/euro) edged higher and 10-yr yields fell 5 bps to 4.5% after the Czech National Bank (CNB) left rates unchanged at 7% yesterday, as expected. Market participants focused on the three following sentences from the statement, which are an important hawkish tweak in the CNB's communication: "The Bank Board still stands ready to raise rates, especially if the risk of a wage-price spiral increases. From this point of view, market expectations that rates have peaked may not materialize. We consider the market expectations regarding the timing of the first decrease in CNB rates to be premature." **JP Morgan analysts labelled the meeting as a "metamorphosis" with the Michl-led board, pre-announced as dovish, pushing an increasingly hawkish message.** They acknowledged risks that expected easing might be delayed.

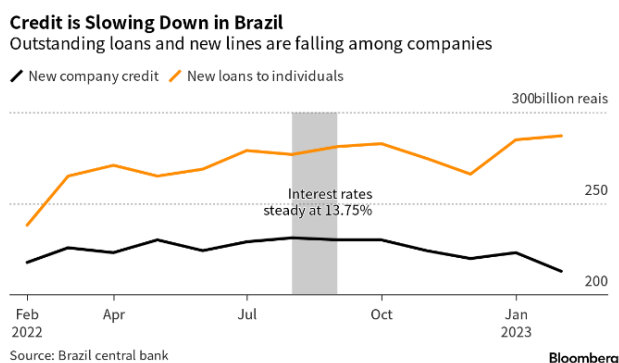
## Kenya

The shilling did not move much after the Central Bank of Kenya (CBK) surprised markets by hiking rates 75 bps, 50 bps more than expected, to 9.5%. The committee cited sustained inflationary pressures, elevated global risks, and their impact on the economy, as well as the need to anchor inflation expectations as the rationale for the move. Headline inflation increased from 9% y/y in January to 9.2% in February, reversing the declining trend that had started in November. This was the CBK's first hike since tightening by 50bps in November. Absa analysts note that given their view that inflation will moderate in the coming months, they expect the MPC to keep the policy rate unchanged through 2023, though the risk of further tightening remains. Goldman Sachs analysts note that the shilling (KES) depreciation against the dollar has accelerated significantly since February (-5.8% since the start of February to 132/\$) and think that this sharper FX adjustment reflects a change in the central bank reaction function to the exchange rate, potentially in response to declining FX reserves and/or reported FX shortages in the local market.



## Brazil

**Credit growth slowed down for Brazilian companies in February.** Bank credit growth declined by 90bp to 6.7% y/y in February due to falling activity and high interest rates. Credit growth to corporates declined significantly to 0.3% y/y from 2.1% in January, driven by non-earmarked dropped to -0.6% y/y from 2.3% y/y one month ago. On the supply side, credit by private banks eased significantly to 5.8% y/y (7.3% in January). NPLs rose driven by corporate NPLs and default rates worsened, suggesting continued credit quality deterioration. Lending rates rose, driven by rates on credit to individuals. Analysts expect further tightening in credit conditions in the coming months.



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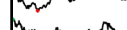







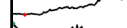



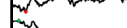
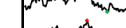




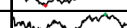
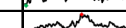

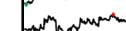











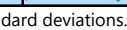
## Global Financial Indicators

Last updated: 3/30/23 1:36 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4036	1.4	2	2	-12	5
Europe		4286	1.4	2	1	8	13
Japan		27783	-0.4	1	1	0	6
China		3261	0.7	-1	-1	0	6
Asia Ex Japan		67	0.3	2	3	-12	4
Emerging Markets		39	0.3	2	2	-15	3
<b>Interest Rates</b>			basis points				
US 10y Yield		3.57	-1.3	14	-35	122	-30
Germany 10y Yield		2.37	-1.7	17	-29	172	-21
Japan 10y Yield		0.33	1.0	1	-17	11	-9
UK 10y Yield		3.50	-3.8	14	-32	184	-17
<b>Credit Spreads</b>			basis points				
US Investment Grade		167	-4.3	-6	21	29	8
US High Yield		505	-15.6	-28	66	129	25
Europe IG		88	-1.7	-7	8	15	-3
Europe HY		454	-8.4	-34	40	117	-20
<b>Exchange Rates</b>			%				
USD/Majors		102.41	-0.2	0	-2	5	-1
EUR/USD		1.09	0.6	1	3	-2	2
USD/JPY		132.7	-0.1	1	-3	9	1
EM/USD		50.7	0.2	1	1	-5	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		79	0.7	4	-6	-31	-8
Industrials Metals (index)		160	0.2	2	-1	-25	-3
Agriculture (index)		68	0.9	5	0	-8	-1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.0	-0.2	-3.7	-1.7	-0.4	-2.7
US 10y Swaption Volatility		136.0	-0.3	-6.9	13.3	27.4	9.4
Global FX Volatility		10.6	0.0	0.1	0.8	1.6	-0.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		190	-0.3	-5	11	-23	-15
Italy		185	2.6	-2	2	36	-30
Portugal		85	0.0	-2	-1	6	-17
Spain		102	0.7	-3	7	13	-7

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

## Emerging Market Financial Indicators

Last updated: 30/03/2023 1:34 PM	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	-0.9	1	-8	0		3.1	1.0	-1	-12	28	7
Indonesia		15047	0.1	2.0	1	-5	3		6.8	-0.6	-8	-8	7	-12
India		82	-0.2	0.4	0	-8	0		7.5	0.5	-1	-28	4.9	1
Philippines		54	0.1	-0.2	2	-4	2		6.0	0.0	0	-3	63	-5
Thailand		34	-0.1	-0.6	3	-3	1		2.5	4.0	15	-23	18	-10
Malaysia		4.42	0.0	-0.1	2	-5	0		3.9	1.8	3	0	2	-12
Argentina		208	-0.2	-1.4	-5	-47	-15		91.7	-46.3	0	354	4240	354
Brazil		5.14	0.6	2.0	2	-7	3		13.1	1.0	-5	-30	152	53
Chile		790	0.5	2.1	5	0	8		5.2	0.0	18	-43	-89	-17
Colombia		4614	1.4	3.5	5	-19	5		8.7	0.0	-3	-139	78	-104
Mexico		18.09	0.0	2.7	1	10	8		8.5	-1.0	-1	-46	22	-23
Peru		3.8	0.3	0.5	1	-1	1		7.5	-0.6	-10	-53	93	-42
Uruguay		39	0.0	0.3	0	6	3		10.4	0.1	0	24	152	-33
Hungary		351	0.1	1.0	2	-6	7		8.2	8.0	13	-10	213	-140
Poland		4.31	0.4	0.4	3	-3	2		5.4	-3.5	2	-53	62	-81
Romania		4.6	0.4	-0.1	2	-3	1		7.2	-0.1	-4	-35	128	-50
Russia		77.3	0.0	-1.6	-3	8	-4							
South Africa		18.0	0.3	0.3	2	-20	-6		9.0	0.0	10	-18	108	-13
Turkey		19.17	-0.2	-0.7	-1	-24	-2		10.5	-26.0	-167	33	-1514	66
US (DXY; 5y UST)		102	-0.2	-0.1	-2	5	-1		3.66	-1.9	22	-52	122	-34

	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		Last 12m	Latest	7 Days	30 Days	12 M		
			1 Day	7 Days	30 Days	12 M	YTD	basis points		7 Days	30 Days	12 M	YTD	
China		4039	0.8	0	-1	-4	4		188	2	21	-27	11	
Indonesia		6809	-0.4	2	-1	-4	-1		156	-13	17	-24	16	
India		57960	0.0	0	-2	-1	-5		168	-7	21	9	26	
Philippines		6645	0.2	2	1	-8	1		130	-14	13	-3	33	
Thailand		1605	-0.3	1	-1	-5	-4		0	0	0	0	0	
Malaysia		1425	0.3	1	-2	-10	-5		104	-1	9	-23	4	
Argentina		249104	2.8	9	1	174	23		2367	-108	394	635	162	
Brazil		101793	0.6	2	-3	-15	-7		271	-15	10	-20	-3	
Chile		5314	0.0	1	-2	9	1		144	-10	4	-3	12	
Colombia		1120	0.2	2	-6	-30	-13		396	-32	-1	67	24	
Mexico		53883	1.3	3	2	-3	11		403	-7	36	72	22	
Peru		21910	0.6	1	2	-13	3		193	-6	12	29	13	
Hungary		42181	-0.4	-2	-6	-8	-4		235	-19	33	95	13	
Poland		58367	2.1	2	-3	-11	2		75	-30	8	63	2	
Romania		12060	0.1	0	-2	-5	3		256	-22	22	54	0	
South Africa		77210	1.0	2	-1	2	6		408	-13	37	46	41	
Turkey		4987	0.9	-1	-5	124	-9		462	-27	-28	-67	22	
Ukraine		507	0.0	0	0	-2	-2		4919	-31	244	2347	840	
EM total		39	0.4	2	2	-15	3		414	-16	27	-99	38	

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

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