



- Euro area headline inflation below expectations but core in line ([link](#))
- Swiss National Bank publishes details of emergency assistance ([link](#))
- US bank shares underperform on profitability concerns ([link](#))
- US Jobless claims at the state level show signs of deterioration ([link](#))
- Canada plans to change the tax rules for dividends targeting banks and lifers ([link](#))
- Central Bank of Egypt resumes tightening with a hike of 200 bps ([link](#))
- South African Reserve Bank surprises with a hike of 50 bps ([link](#))
- Mexico raises its key rate to 11.25%, shifting to neutral language ([link](#))
- Brazil outlines new fiscal plan ([link](#))

[Mature Markets](#)










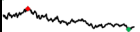

| [Emerging Markets](#)

| [Market Tables](#)

March set to close on an optimistic note

Global equities rose as data releases were generally seen as risk positive and US bank borrowing from the Fed via the discount window or Bank Term Funding Program fell \$11 bn from last week. The US PCE deflator was slightly lower than expected. China's non-manufacturing PMI rose to its highest level since 2011. Euro area core inflation was in line with expectations, but headline had an even sharper drop than expected. Japanese equities outperformed as retail data were better than expected whereas Japanese bond yields rose as Tokyo CPI data was above expectations. **Central bank actions in emerging markets served as a reminder that the global tightening cycle is not over yet**, with hikes in Egypt (+200 bps to 18.25%), Colombia (+25 bps to 13%), Mexico (+25 bps to 11.25%) and South Africa (+50 bps to 7.75%). Nevertheless, contacts believe that monetary policy statements signal that Colombia and Mexico are ready to conclude their tightening cycle.

Key Global Financial Indicators

Last updated: 3/31/23 1:25 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				
S&P 500		4051	0.6	3	2	-11	6
Eurostoxx 50		4302	0.4	4	1	10	13
Nikkei 225		28041	0.9	2	0	1	7
MSCI EM		40	1.0	2	3	-12	4
Yields and Spreads			bps				
US 10y Yield		3.55	-0.8	17	-37	121	-33
Germany 10y Yield		2.37	-2.5	24	-29	182	-21
EMBIG Sovereign Spread		485	-3	-15	38	47	33
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.8	-0.1	1	1	-5	2
Dollar index, (+) = \$ appreciation		102.4	0.3	-1	-2	4	-1
Brent Crude Oil (\$/barrel)		79.3	0.4	6	-6	-27	-8
VIX Index (% change in pp)		19.2	0.1	-3	-2	-1	-2

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

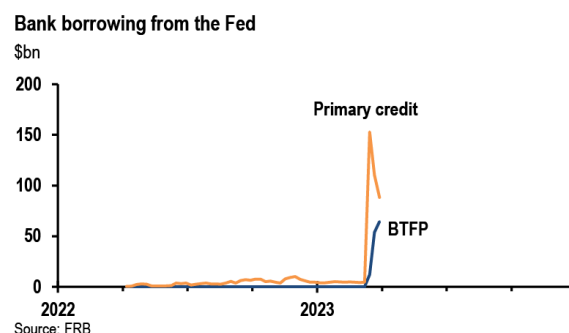
Mature Markets

[back to top](#)

United States

This morning, February PCE deflator was slightly lower than expected (Headline 5.0%yoy vs. 5.1% consensus; Core 4.6%yoy vs. 4.7% consensus). Personal spending was also weaker (0.2%mom vs. 0.3% consensus), while personal income came higher than expected (0.3%mom vs. 0.2% consensus). In financial markets, Treasury yield declined 2–4 bps with curve steepening, and the dollar weakened marginally. Market-implied May policy rate was initially up to 4.97% but backed to 4.95% immediately.

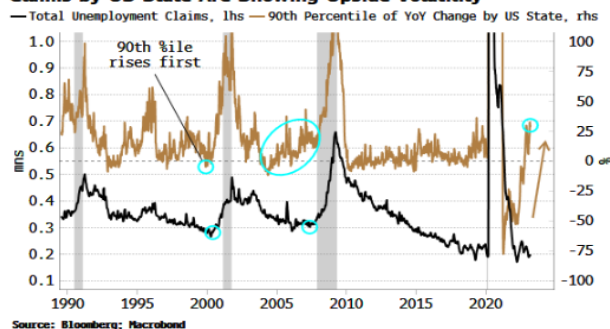
The S&P500 closed 0.6% higher in somewhat volatile trading, but the KBW bank index fell 1.2% as bank CDS spreads narrowed. The market-implied May policy rate increased by 2 bps to 4.95%, while 10-year Treasury yields traded lower by 2 bps to 3.54%. Bank borrowing from the Fed as of yesterday via discount window or the BTFP facility fell to \$153 bn, down \$11 bn from a week ago.



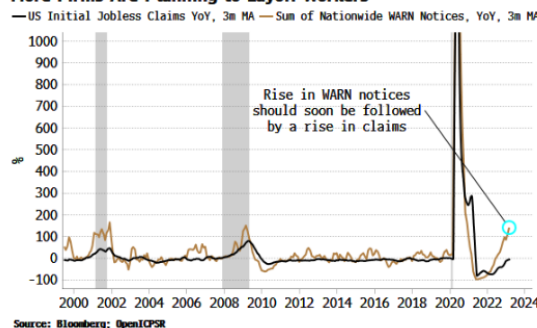
With the initial confidence crisis over 'Available-for-Sale' or 'Held-to-Maturity' securities portfolios averted, the market focus has shifted to concern over profitability and the negative trajectory of net interest margins as US banks may face higher funding costs. Jefferies' earnings report released Wednesday offered an early hint to foresee how the big banks' 1Q earnings would look like; Solid performance in equities and fixed-income trading failed to offset a slump in investment banking due to a significant decline in M&A activity and a slow IPO and leveraged finance transactions. On the regulatory policy front, Treasury Secretary Yellen warned that deregulatory efforts that watered down some post-2008 reforms may have gone too far and contributed to the recent banking crisis.

Jobless claims at the state level show signs of deterioration. The latest headline jobless claims Thursday morning remained very low. Nevertheless, the top end of the annual changes in state-level claims is progressively higher. Analysts see this often precedes a rise in the nationwide number. Consistently, Worker Adjustment and Retaining (WARN) notices are also picking up. The WARN Act obliges employers with more than 100 full-time employees to provide written notice to the state and the workers at least 60–90 days ahead of planned plant closings and mass layoffs.

Claims by US State Are Showing Upside Volatility



More Firms Are Planning to Layoff Workers



Canada

Finance Minister Freeland plans to raise CAD3.2 bn from banks and insurance companies by changing the tax rules for dividends they receive from domestic firms. Dividends will be treated as business income, effectively closing a tax loophole to address the deteriorating fiscal outlook and a slowing economy. The Canadian dollar strengthened by 0.25% for the day.

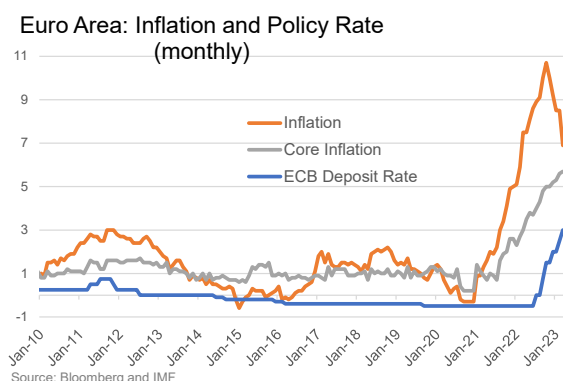
Japan

10-yr government bond and swap yields traded 2 bps higher after Tokyo CPI inflation data was a bit stronger than expected (at 3.3% yoy vs 3.2% expected) in March with retail sales also stronger than expected in February, growing 1.4% mom (0.3% mom expected).

Euro area

The equity market (Stoxx Europe 600) is up 0.3%, and banking stocks are losing 0.2%. The euro is losing 0.2% vs. the dollar, to 1.09/\$ and German 10y bund yields are up just 1 bp to 2.38%, after dropping 6 bps immediately after the inflation data release. Italian spreads are down 4 bps to 182 bps. Bloomberg reports that some large asset managers are buying European AT1 bonds (additional tier 1 bonds) after their sharp price fall following Credit Suisse's collapse creates a "once in a decade" bond buying opportunity.

Core yields are broadly unchanged in the Eurozone after inflation data for March showed a mixed picture. Headline inflation came in at 6.9% y/y, sharply lower than February (8.5% y/y), and slightly lower than expectations (7.1%). Core inflation however remains sticky, and met expectations at 5.7% y/y, but accelerated from its February level (5.6% y/y). Core inflation has not yet shown signs of peaking in the eurozone yet. Market pricing of the ECB terminal rate increased by about 5 bps compared to yesterday, to 3.53% by October.



Switzerland

The Swiss National Bank published the costs that are being charged for emergency liquidity assistance to Credit Suisse and UBS. When UBS purchased Credit Suisse on March 19, the Swiss National Bank (SNB) offered a 100 bn CHF liquidity assistance to UBS (and the government is granted a 9 bn-franc guarantee for potential losses from assets UBS was taking over). **In an interview with the NZZ, SNB vice president Schlegel said that without the SNB's willingness to grant ELA-Plus assistance, Credit Suisse would have collapsed.** The EFF/ELA will be charged at the SNB policy rate (currently 1.5%) plus 50 bps; the ELA+ and the PLB (public liquidity backstop) will be charged at the SNB policy rate +300 bps. In addition, the federal government will receive a commitment premium of 25 basis points, which is based on the maximum amount of the default guarantee.

United Kingdom

The Nationwide index of house prices showed that prices fell 3.1% y/y in March (-0.8% m/m), more than the 2.2% drop that was expected. House prices have declined mom every month since September.

Emerging Markets

[back to top](#)

Emerging market equity markets were mostly trading higher while currencies were mixed this morning. Hungarian equities were outperforming (+1.4%), while Turkish equities (-0.8%) and South African equities (-0.8%) underperformed. CEE currencies were mixed against the euro while the South African rand appreciating against the dollar (+0.3%). Local currency bond yields were mixed. Yesterday, the stock market in Colombia outperformed (+2.4%), with Brazil (+1.9%) and Mexico (+0.6%) also finishing in the green, while down in Chile (-0.1%). The Peruvian sol and Colombian peso were both down by -0.2%, followed by the Argentine peso (-0.1%). **Colombia's central bank hiked its rate hike by 25 bps to 13%, reaching a 24-year high to tame inflation.**

China

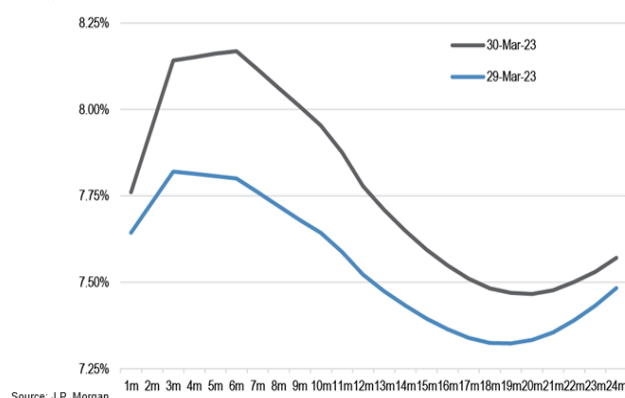
Equities (+0.4%) closed higher as services PMI data was much better than expected (at 58 compared to 55 expected) while the manufacturing PMI was just a touch above expectations. Bond yields and repo yields were little changed.

South Africa

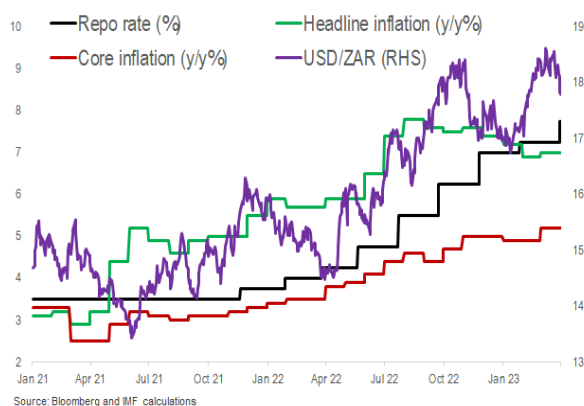
The central bank (SARB) surprised markets with a hike of 50 bps to take the repo rate to 7.75%. Broad consensus had expected a 25bps hike after the MPC had surprised markets with a smaller-than-expected 25bps hike at the previous MPC meeting in January. JPMorgan analysts argue that the SARB's focus on persistent upside risks to inflation from the rand and other sources likely tilted the decision in favor of 50bps. The 2023 headline inflation forecast was revised upwards to 6% (from 5.4%) largely on food inflation and a weaker rand. **The South African rand outperformed emerging-market peers yesterday, closing +1.6% stronger against the dollar after the decision and continued to appreciate this morning, but remains one of the worst-performing emerging market currencies YTD.** Against this backdrop contacts expect the SARB to keep rates on hold for the remainder of the year but note that upside core inflation surprises together with a further weakening of the rand and could see further tightening. JPMorgan analysts argue that the hawkish MPC surprise is likely to reassure the market of the SARB's commitment to tame inflation which could enable more cuts to be priced in the future. **As such, JPMorgan analysts expect the first rate cut in Q1 2024, while forward rate agreements (FRAs) are around 7.5% in 18 months' time.**

Figure 2: ZAR FRAs not pricing enough easing

ZAR FRAs, %



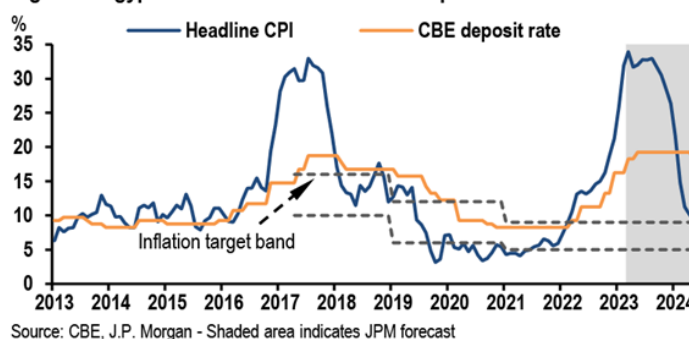
South Africa - Inflation and currency



Egypt

The Central Bank of Egypt (CBE) resumed monetary policy tightening with a 200 bps hike, taking its key deposit rate to 18.25%, after an unexpected pause in February. The MPC statement highlighted the volatility against a backdrop of recent financial sector issues in developed markets and reiterated how both supply and demand factors were contributing to domestic inflationary pressures. The MPC recognized the need of more tightening, after upside surprises in both core and headline inflation prints so far this year, a dynamic that analysts partly attribute to FX passthrough. **JPMorgan analysts expect another 100 bps hike in May given elevated risks around inflation and the exchange rate** but see the possibility for a larger increase.

Figure 1: Egypt CPI headline and CBE O/N deposit rate



Brazil

Brazil proposed a trajectory of small but growing budget surpluses as part of its new fiscal plan, which aims to achieve an expansion of public revenue through either growth or higher taxes. The new fiscal framework aims to eliminate the primary fiscal deficit in 2024, excluding interest payments. It also targets a primary fiscal surplus of 0.25–0.75% of GDP for 2025 and 0.75–1.25% of GDP for 2026. **The plan proposed a ceiling for the expansion of public expenditures, limiting it to 70% of the revenue growth, as well as a floor of 50% when the government fails to meet its budget surplus targets.** Investors cautiously welcomed the proposal as it still needs to be approved by congress. The Brazilian real was up by 0.8% on Thursday.

Mexico

The central bank raised its key rate by 25 bps to 11.25%, in line with market expectations, but also changed the forward-looking language to a neutral language by suggesting that it was now data dependent. “For its upcoming decision, the Board will take into account the inflation outlook, considering the monetary policy stance already attained,” wrote in its statement on Thursday. Markets now expect Banxico very close to a terminal rate considering the decelerating inflation in the country and the recent US banking crisis. Mexico’s swap rates fell, and the peso erased its earlier advance after the decision.

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), Aurelie Martin (Senior Economist-London 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), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), 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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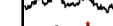








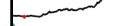










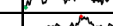




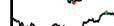








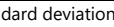
Global Financial Indicators

3/31/23 1:25 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4047	0.6	2	2	-11	5
Europe		4302	0.4	4	1	10	13
Japan		28041	0.9	2	0	1	7
China		4051	0.3	1	-2	-5	5
Asia Ex Japan		68	0.9	1	4	-9	5
Emerging Markets		40	1.0	2	3	-12	4
Interest Rates			basis points				
US 10y Yield		3.55	-0.8	17	-37	121	-33
Germany 10y Yield		2.37	-2.5	24	-29	182	-21
Japan 10y Yield		0.35	1.7	4	-15	13	-7
UK 10y Yield		3.56	2.9	28	-27	195	-11
Credit Spreads			basis points				
US Investment Grade		166	-2.3	-8	19	28	7
US High Yield		493	-11.0	-50	54	119	13
Europe IG		86	-2.1	-11	6	13	-5
Europe HY		444	-9.3	-52	30	105	-31
Exchange Rates			%				
USD/Majors		102.43	0.3	-1	-2	4	-1
EUR/USD		1.09	-0.2	1	3	-2	2
USD/JPY		133.3	0.4	2	-2	9	2
EM/USD		50.8	-0.1	1	1	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		79.3	0.0	6	-5	-13	-7
Industrials Metals (index)		158	-0.9	0	-2	-26	-5
Agriculture (index)		67	-0.2	2	-1	-8	-3
Implied Volatility			%				
VIX Index (%, change in pp)		19.2	0.1	-2.6	-1.5	-1.4	-2.5
US 10y Swaption Volatility		129.5	0.3	-22.7	6.8	23.6	2.9
Global FX Volatility		10.5	0.0	-0.5	0.7	1.6	-0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		190	-1.6	-5	11	-22	-15
Italy		182	-4.5	-7	-1	32	-33
Portugal		83	-1.7	-4	-3	3	-18
Spain		102	-1.6	-4	7	13	-8

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

Emerging Market Financial Indicators

Last updated: 31/03/2023 1:23 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	-0.1	1	-8	0		3.1	-1.5	4	-13	25	6
Indonesia		14996	0.3	1.0	2	-4	4		6.8	-2.3	-1	-11	6	-15
India		82	0.2	0.4	1	-8	1		7.5	7.0	19	-21	26.6	8
Philippines		54	0.1	-0.1	2	-5	3		6.0	0.0	0	-3	65	-5
Thailand		34	-0.1	0.2	3	-3	1		2.6	3.5	18	-19	31	-6
Malaysia		4.42	0.1	0.3	2	-5	0		3.9	-0.4	3	-1	5	-13
Argentina		209	-0.1	-1.3	-5	-47	-15		92.5	73.7	90	428	4304	427
Brazil		5.09	0.8	4.0	3	-6	4		13.0	-15.0	-31	-45	129	38
Chile		792	-0.2	2.3	4	-1	7		5.2	0.0	16	-44	-86	-18
Colombia		4644	-0.7	2.2	5	-19	4		8.7	0.0	-2	-144	95	-109
Mexico		18.06	0.2	2.1	1	10	8		8.4	-8.5	1	-54	19	-31
Peru		3.8	-0.2	0.2	1	-1	1		7.6	1.3	-7	-52	99	-41
Uruguay		39	0.1	0.2	0	6	3		10.3	-9.1	-9	15	143	-42
Hungary		349	-0.3	2.3	2	-5	7		8.3	11.0	35	3	242	-127
Poland		4.30	-0.3	1.3	3	-2	2		5.5	9.0	16	-45	68	-74
Romania		4.6	-0.3	0.6	2	-2	1		7.2	5.2	9	-30	136	-45
Russia		77.7	-0.6	-0.6	-3	5	-5							
South Africa		17.8	0.3	2.2	3	-18	-4		9.1	7.0	10	-7	122	-3
Turkey		19.18	0.0	-0.6	-2	-24	-2		10.5	0.0	-167	33	-1487	66
US (DXY; 5y UST)		102	0.3	-0.7	-2	4	-1		3.68	-0.9	27	-51	122	-33

	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		4051	0.3	1	-2	-5	5		189	-1	22	-26	12	
Indonesia		6805	-0.1	1	0	-4	-1		155	-9	16	-17	15	
India		58992	1.8	2	-1	0	-3		167	-8	20	15	25	
Philippines		6500	-2.2	-2	-2	-9	-1		130	-9	13	8	33	
Thailand		1609	0.2	1	0	-5	-4		0	0	0	0	0	
Malaysia		1423	-0.1	2	-2	-11	-5		102	-4	7	-19	2	
Argentina		251639	1.0	12	2	177	25		2313	-196	340	579	108	
Brazil		103713	1.9	6	-1	-14	-5		272	-16	11	-15	-2	
Chile		5309	0.0	1	-2	8	1		146	-7	6	-1	14	
Colombia		1146	2.4	4	-3	-29	-11		394	-28	-3	65	22	
Mexico		54199	0.6	3	3	-4	12		394	-15	27	59	13	
Peru		21910	0.0	2	2	-12	3		194	-3	13	35	14	
Hungary		42256	1.6	1	-6	-6	-4		237	-8	35	96	15	
Poland		58670	0.1	5	-3	-10	2		75	-23	8	62	2	
Romania		12126	0.7	1	-1	-5	4		260	-7	25	52	4	
South Africa		76187	-0.7	2	-2	1	4		399	-14	28	35	32	
Turkey		4838	-1.2	-4	-8	117	-12		473	-1	-17	-59	33	
Ukraine		507	0.0	0	0	-2	-2		4950	51	275	2184	871	
EM total		40	0.0	2	3	-12	4		413	-14	26	-102	38	

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

[back to top](#)