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Markets cautious ahead of US nonfarm payrolls tomorrow

Major markets traded in relatively narrow ranges this morning as investors continued to digest Powell comments ahead of the release of key US employment data tomorrow. In the second day of his testimony to the US congress, Fed chair Powell told lawmakers that while no decision had been made on the pace of the next move, an acceleration in tightening was still on the table and rates may go higher than anticipated should economic data warrant. In advanced economy sovereign bond markets, US Treasury and bund yields traded moderately higher. Amongst central banks, there was a flurry of monetary policy rate decisions. Central banks in Canada, Poland and Malaysia kept rates unchanged, as expected. In the CEE region, Serbia increased rates by 25 bps, also in line with consensus expectations. Looking ahead, the Bank of Japan is expected to keep its stimulus unchanged tomorrow at the last policy meeting before governor Kuroda is set to step down.

Key Global Financial Indicators

Last updated: 3/9/23 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3992	0.1	1	-2	-7	4
Eurostoxx 50		4269	-0.5	1	0	13	13
Nikkei 225		28623	0.6	4	3	11	10
MSCI EM		39	0.4	0	-4	-12	3
Yields and Spreads			bps				
US 10y Yield		4.00	0.8	-6	34	205	12
Germany 10y Yield		2.69	3.9	-7	38	247	11
EMBIG Sovereign Spread		449	5	1	9	-77	-3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.4	0.0	0	0	0	1
Dollar index, (+) = \$ appreciation		105.5	-0.2	0	2	8	2
Brent Crude Oil (\$/barrel)		82.8	0.1	-2	-2	-26	-4
VIX Index (% change in pp)		19.6	0.5	0	-1	-13	-2

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

Mature Markets

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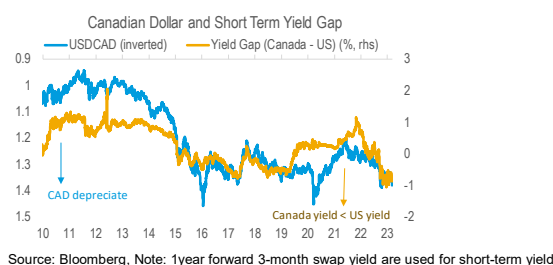
United States

On Wednesday, the S&P 500 closed up marginally after fluctuating between gains and losses. US Treasury yields increased after erasing earlier rallies, with the 2-year yield up 6 bps to another record high of 5.07%. While moves in nominal yields looked relatively benign, real yields rose sharply, with the 2, 5, and 10-year real yields rising 19-37 bps during the past two days as breakeven rates were down by 17–22 bps across tenors. The yield curve continued to flatten. A weak Treasury auction weighed on markets as the 10-year auction closed 2.7 bps above the pre-auction level, recording the first tail this year with a bid-to-cover ratio below the one-year average.

In the second day of his testimony to Congress, Fed chair Powell stressed that while the Fed had not made any decision for its March meeting, “if the totality of the data were to indicate that faster tightening is warranted, we’d be prepared to increase the pace of rate hikes.” Powell indicated the FOMC is awaiting some potentially important data, referencing Friday’s jobs report and inflation data next week. Separately, the US job data released yesterday came in stronger than expected, highlighting persistent tightness in the labor market, likely reinforcing a higher for longer narrative. ADP employment change was 242k (vs 200k consensus) and JOLT jobs openings was 10.8 mn (vs. 10.5 mn expected). Citi analysts changed their call and now expect a 50 bp hike in March and a terminal rate of 5.5–5.75%.

Canada

The Bank of Canada (BoC) maintained its policy rate at 4.5%, as widely expected. In the statement, the BoC noted that “overall, the latest data remains in line with the bank’s expectation that CPI inflation will come down to around 3% in the middle of this year”. The BoC noted that Q4 GDP growth was lower than the bank’s forecast and inflation eased to 5.9% in January, reflecting a slower increase in energy, durable goods, and some services. The labor market also remains very tight, with wage growth at 4–5%, putting pressure on price stability. The statement emphasized the negative impacts of restrictive monetary policies on households and businesses. For the forward guidance, the BoC reiterates that the rate hike pause is contingent on economic development evolving broadly in line with the bank’s outlook, noting it is prepared to increase rates further if needed. With the statement seen as dovish, the Canadian dollar weakened as low as C\$1.38 /USD, the lowest since last November, and the 2-year yield declined as much as 6 bps before retracing most of the moves. The BoC became the first major central bank that pauses its policy rate increase. However, the future rates path looks complicated: analysts see that the BoC can only comfortably lag the policy rate of the US (currently at 4.5–4.75%) by about 100 bp to keep the currency stable. According to Bloomberg, analysts see the bank holding rates steady through the rest of this year, while traders were pricing in another 25 bp hike at some point in 2023.

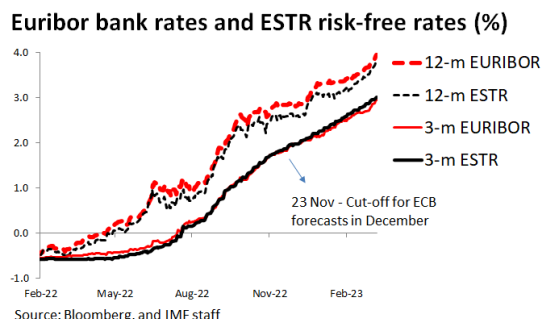


Euro area

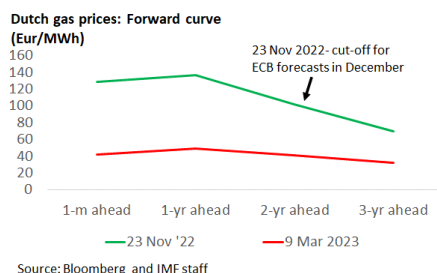
European equities (-0.5%) fell in line with global markets as investors turned more cautious ahead of US employment data tomorrow, the ECB and Fed meetings on March 16 and 22, respectively.

Euro area 10-year core rates traded 2–3 bps higher this morning with the curve steepening somewhat as contacts wonder to what extent next week's ECB meeting will provide guidance on hikes in 2023. There is a broad consensus that the ECB will hike 50 bps next week, but contacts point to more open disagreements within the ECB governing council after for example Bank of Italy governor Visco emphasized that the ECB had decided to go "meeting by meeting" rather than advertise a path of hikes.

Market contacts expect that the ECB's macroeconomic projections next week are likely to include a downward revision of the ECB's inflation projections for 2024 and 2025 given a firmer euro, materially lower energy prices and significantly higher interest rates. In the ECB's December outlook, inflation was expected to decline to an average of 3.4% in 2024 and of 2.3% in 2025.



The European Commission plans to extend emergency gas demand reduction measures until next year, with natural gas prices trading 11% lower in March. The current voluntary target to cut consumption by 15% will end this month. EU countries managed to reduce demand by almost 20% but the EU will have to rebuild storage over the summer. **Contacts pointed out that a relatively mild winter in Europe but also in Asia has led to the sharp drop in prices.** The EU received around 20 bn cubic meters of LNG from Russia last year.



Switzerland

Shares of Credit Suisse traded 5% lower after the bank delayed the publication of its annual report after the Securities and Exchange Commission (SEC) raised questions on previous statements. According to Bloomberg, the SEC often raises questions to banks over their disclosures, though the delay of an annual report is unusual.

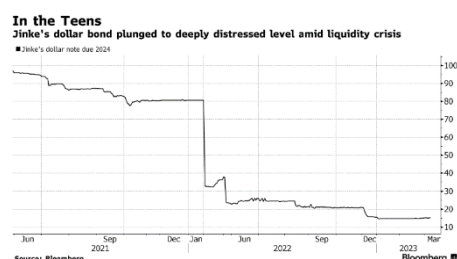
Emerging Markets [back to top](#)

Asian markets were mixed, with equity markets mostly down, and currencies fairly muted this morning. Chinese equities lost steam (CSI 300: -0.4%; Hong Kong SAR-listed: -0.6%) while India (-0.9%) and the Philippines (-1.5%) underperformed. Indonesian equities were up 0.4%. Currencies were mixed, but trading in narrow ranges. The **Malaysian ringgit** was broadly unchanged after the **central bank held the policy rate unchanged at 2.75%**. The Thai baht and Indonesian rupiah were roughly flat (at 35/\$ and 15441/\$ respectively) while the Philippine peso was slightly stronger (+0.2%). The **Sri Lankan rupee** was the

exception, appreciating +1.4%. It has appreciated about 13% in March, on the news that the IMF Executive Board will examine the program request on March 20. Local bond yields were broadly stable, with the 10-year yield on Indonesian bonds registering the largest move (-6 bps to 6.97%). **EMEA equities and currencies were also mixed.** Turkish equities (+0.7%) outperformed while equities in Hungary fell (-1%). CEE currencies were also trading slightly weaker against the euro - with the Hungarian forint (-0.4%) continuing to underperform. Local currency yields ticked marginally higher. On the central bank front, **Serbia hiked the repurchase rate** by 25 bps to 5.75% this morning, in line with consensus expectations. **Latin American stocks retraced some of the losses from Tuesday yesterday.** There were notable gains in Brazil (+2.2%), Argentina (+1.8%), and Mexico (+0.6%). Currencies were mixed, appreciating in Brazil (+1.1%) and Mexico (+0.7%), but depreciating in Colombia (-0.2%) and Argentina (-0.2%). **Chilean markets** were quiet after lower-than expected CPI results. The results come after central bank governor Costa expressed earlier this week that the economy is taking longer than expected to adjust and highlighted the importance of keeping rates higher for longer. This is the first lower-than-expected CPI print since October, marking the fourth time since January 2022.

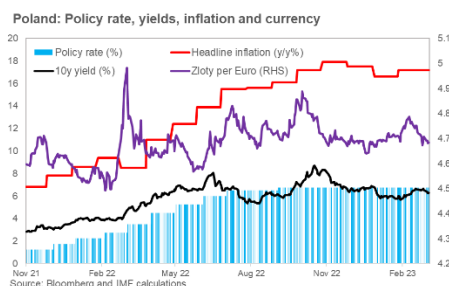
China

Creditors of Chinese property developer Jinke Properties Group have asked regulators for help. The company, which is headquartered in Chongqing, missed a final deadline to make a coupon payment on a \$325 mn dollar bond that was owed to investors back in December. According to Bloomberg, lawyers representing some of Jinke's creditors sent a letter asking for officials at the Shenzhen stock exchange "to supervise repayment of offshore notes." The investors involved with the letter stated that if the company does not pay or present a payment plan by March 31, they will seek redress from courts in China. If this occurs, it will set a new precedent, with offshore dollar bond investors coming to domestic courts for the first time. Widespread defaults in the property sector over the past 2–3 years have forced investors to find new ways to get their money back.



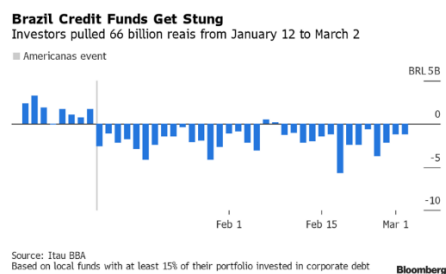
Poland

The polish zloty was little changed against the euro this morning while local yields retraced part of the decline seen yesterday (10-year +4 bps) after the central bank left its policy rate unchanged at 6.75% yesterday, as expected. The central bank also released updated inflation and economic growth projections, with 2023 inflation projections slightly lower while projections for 2024–25 were little changed. GDP projections were marginally higher compared to the November forecasts. ING analysts expect that the next change in rates would be a cut, but do not expect this to occur before 2024. Similarly **JP Morgan analysts continue to expect rates to remain unchanged for the remainder of the year, but flag the possibility of rate cuts towards the end of 2023.**



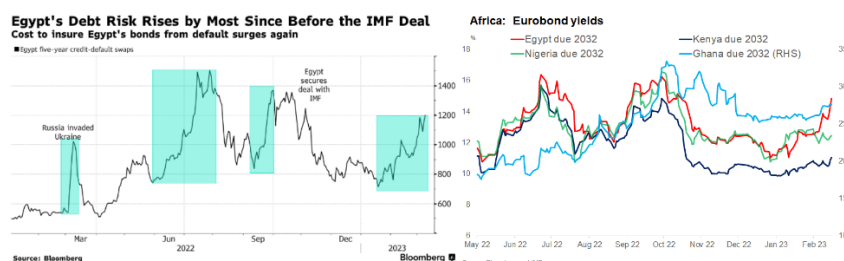
Brazil

Brazilian credit fund outflows continued amid rising recession risks. Credit markets have worsened since local retailer Americanas SA's CEO resigned after revealing a billion-dollar accounting discrepancy. The company filed for bankruptcy days after the announcement. One of the former Brazil central bank directors, Tony Volpon, suggested the bank should “change the balance of risks” at the next meeting and indicated rate cuts starting in May, following the shakeup. Credit fund outflows continued, equating to about BRL 66 bn over the past few weeks.



Egypt














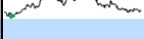







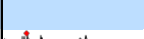






Credit default swaps (CDS) and Eurobond yields continued to increase amid concerns over the country's progress in pursuing asset sales and Egypt's commitment to a more flexible exchange rate, according to Bloomberg. Since the start of February, Egypt's 2032 Eurobond yield has increased by roughly 330 bps while the 5-year sovereign CDS has increased to roughly 1200 bps, from 720 bps in January.



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Global Financial Indicators

3/9/23 8:00 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3985	0.1	0	-2	-7	4
Europe		4269	-0.5	1	0	13	13
Japan		28623	0.6	4	3	11	10
China		4020	-0.4	-2	-2	-6	4
Asia Ex Japan		66	0.1	-1	-5	-10	3
Emerging Markets		39	0.4	0	-4	-12	3
Interest Rates			basis points				
US 10y Yield		4.00	0.8	-6	34	205	12
Germany 10y Yield		2.69	3.9	-7	38	247	11
Japan 10y Yield		0.51	0.1	0	1	34	8
UK 10y Yield		3.80	3.7	-8	51	228	13
Credit Spreads			basis points				
US Investment Grade		147	2.0	1	7	-20	-12
US High Yield		422	7.2	-14	-6	-19	-58
Europe IG		77	1.5	-3	2	-1	-13
Europe HY		404	7.9	-12	10	31	-70
Exchange Rates			%				
USD/Majors		105.47	-0.2	0	2	8	2
EUR/USD		1.06	0.1	0	-2	-5	-1
USD/JPY		136.3	-0.8	0	4	18	4
EM/USD		50.4	0.0	0	0	0	1
Commodities			%				
Brent Crude Oil (\$/barrel)		82.8	0.1	-2	-2	-5	-3
Industrials Metals (index)		158	-0.6	-2	-7	-31	-5
Agriculture (index)		68	0.1	-1	-2	-10	-2
Implied Volatility			%				
VIX Index (% change in pp)		19.6	0.5	0.0	-1.2	-12.9	-2.1
US 10y Swaption Volatility		128.7	-0.2	4.8	26.1	20.1	3.0
Global FX Volatility		10.1	0.0	0.3	-0.3	0.8	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		179	-1.9	0	-7	-39	-27
Italy		179	0.7	-8	-3	33	-35
Portugal		87	0.2	-1	2	8	-15
Spain		102	0.3	5	9	9	-7

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

Emerging Market Financial Indicators

Last updated: 3/9/2023 7:59 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		6.96	-0.1	-0.7	-3	-9	-1		3.2	-4.0	-9	3	29	14
Indonesia		15433	0.0	-1.0	-2	-7	1		7.0	-3.9	5	39	23	7
India		82	0.1	0.7	1	-7	1		7.8	-3.9	6	45	123.5	39
Philippines		55	0.1	-0.4	-1	-5	1		6.0	0.0	5	10	98	0
Thailand		35	-0.1	-0.8	-4	-6	-1		2.7	-3.0	-13	1	39	2
Malaysia		4.52	0.1	-1.0	-4	-7	-3		4.0	-1.9	4	22	35	-2
Argentina		200	-0.2	-1.2	-5	-46	-11		88.7	22.6	41	269	4005	46
Brazil		5.14	0.0	1.3	3	-3	3		13.5	-12.6	-13	13	102	92
Chile		804	-0.2	1.1	0	0	6		5.6	-0.5	-22	24	-27	24
Colombia		4777	-0.2	1.1	0	-21	2		9.5	0.0	-65	57	139	-24
Mexico		17.94	0.2	1.1	5	17	9		9.0	-6.0	3	64	69	30
Peru		3.8	-0.1	-0.5	2	-2	0		8.1	0.0	-5	12	144	14
Uruguay		39	0.3	-0.7	0	9	2		10.2	0.0	0	26	185	-43
Hungary		359	-0.1	-1.2	0	-5	4		8.4	5.0	-29	73	281	-123
Poland		4.43	0.2	0.1	0	-3	-1		5.7	-1.7	-38	37	135	-46
Romania		4.7	0.1	-0.2	-2	-4	-1		7.4	-3.9	-14	5	124	-30
Russia		75.8	0.3	-0.5	-4	80	-2		10.6	0.4	0	27	-1803	-128
South Africa		18.6	0.1	-2.1	-5	-19	-8		9.4	9.0	9	60	132	22
Turkey		18.95	-0.1	-0.5	-1	-23	-1		11.8	-2.0	110	44	-1390	200
US (DXY; 5y UST)		105	-0.3	0.3	2	8	2		4.34	-0.7	3	48	246	34

	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		4020	-0.4	-2	-2	-6	4	-13		165	-1	-11	-60	-12
Indonesia		6800	0.3	-1	-1	-2	-1	-2		145	8	4	-75	5
India		59806	-0.9	1	-1	8	-2	4		140	-8	-9	-68	-2
Philippines		6609	-1.5	0	-4	-7	1	-10		120	6	4	-50	23
Thailand		1614	0.1	0	-3	-2	-3	-5		0	0	0	0	0
Malaysia		1450	-0.4	0	-2	-8	-3	-9		93	-3	-6	-61	-7
Argentina		250912	1.8	1	1	188	24	175		2117	68	187	138	-88
Brazil		106540	2.2	2	-1	-6	-3	-5		264	5	2	-79	-10
Chile		5416	0.2	0	1	16	3	24		139	1	2	-49	7
Colombia		1241	0.4	4	0	-19	-3	-18		399	-1	27	-7	27
Mexico		53389	0.6	0	1	-1	10	4		379	9	21	-10	-2
Peru		22072	0.5	0	-1	-11	3	-6		184	2	-1	-17	4
Hungary		42689	-1.1	-4	-7	-1	-3	-11		216	11	8	31	-6
Poland		60725	-0.6	2	-1	1	6	-3		58	-6	-21	-15	-15
Romania		12506	0.8	1	2	4	7	-5		240	3	2	-44	-15
Russia		2285	-0.4	0	1	-7	6	-26						
South Africa		77024	-0.9	-1	-4	6	5	3		357	-8	-5	-54	-10
Turkey		5479	0.8	4	22	168	-1	172		455	-22	-60	-231	15
Ukraine		507	0.0	0	0	-2	-2	-2		4747	70	495	-127	668
EM total		39	-1.1	0	-4	-12	3	-18		387	-2	9	-245	11

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

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