Global Markets Monitor

WEDNESDAY, MARCH 15, 2023

- **Credit Suisse equities plunge after top investor rules out further investment** (link)
- **Some analysts expect ECB to hike 25 bps tomorrow** (link)
- **Direct contagion from SVB crisis to European banks seen as limited** (link)
- **Analysts lean towards no Fed hike at March FOMC meeting** (link)
- **Vietnam unexpectedly cut rates to support growth** (link)
- **Ghana set to pay investors who did not participate in domestic debt exchange** (link)
- **Foreign investors sharply reduce local bond holdings in Colombia** (link)
- **Special Feature: EM Issuance Monitor (attached)**

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European bank stocks under pressure

Shares of large European banks sold off sharply after a shareholder in Credit Suisse said that it will not provide further assistance. The failure of Silicon Valley Bank may pose little direct contagion to European banks but has focused minds on bank business models, funding risks, potential regulatory changes, and response of policymakers. While several analysts still expect the ECB to hike 50 bps tomorrow, some are now calling for a hike of 25 bps, compared to 34 bps priced at time of writing. Meanwhile, many analysts lean towards no hike (or even a cut) in the next Fed meeting pointing to financial stability concerns.

Key Global Financial Indicators

Last updated: 3/15/23 12:47 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3919	1.6	-2	-6	-8	2
Eurostoxx 50		4061	-2.8	-5	-5	9	7
Nikkei 225		27229	0.0	-4	-2	6	4
MSCI EM		38	0.1	-2	-5	-9	0
Yields and Spreads				bps			
US 10y Yield		3.48	-21.0	-51	-33	134	-40
Germany 10y Yield		2.21	-21.1	-44	-27	188	-36
EMBIG Sovereign Spread		479	-6	35	37	-8	27
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		49.7	-1.1	-1	-2	-3	0
Dollar index, (+) = $ appreciation		104.6	1.0	-1	1	6	1
Brent Crude Oil ($/barrel)		76.0	-1.9	-8	-11	-24	-12
VIX Index (%, change in pp)		26.9	3.2	8	9	-3	5

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

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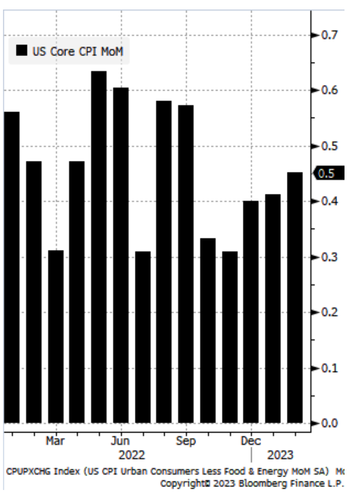
United States

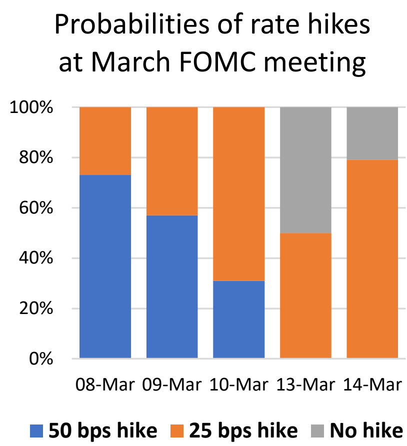
This morning, US rates traded 20–30 bps lower as the US dollar gained. Yesterday, the S&P 500 rose by 1.7%, with all sectors advancing, and financial stocks being among the leaders.

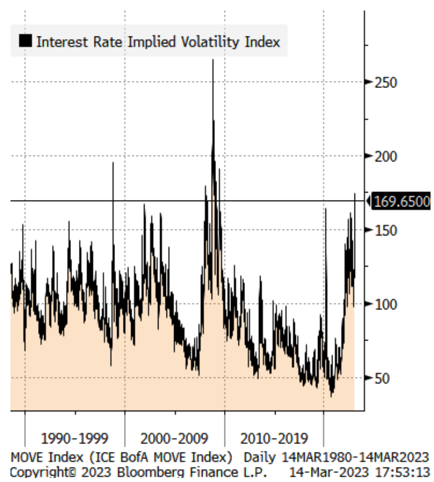
US Empire State Manufacturing Survey General Business Conditions dropped to -24.6 points, much more than the expected decline to -7.9—contracting for a fourth-straight month as orders and shipments declined.

This morning, producer prices were significantly below expectations, indicating an easing of cost pressures: Final Demand -0.1% MoM (vs expected 0.3%) and Ex Food and Energy 0.0% MoM (vs exp. 0.4%); annual change, Final Demand YoY 4.6% (vs exp. 5.4%) and Ex Food and Energy 4.4% (vs exp. 5.2%). Retail Sales Advance MoM was in line with expectations (-0.4%). **The market reaction immediately upon the data release suggested a moderate increase in equity prices accompanied by a moderate fall in Treasury yields and the US Dollar.**

Contacts are trying to assess how the Fed will weigh price pressures, growth risks and financial stability concerns. MoM Core CPI release (0.5%) was higher than expected (0.4%), making it the fourth consecutive month of its increases (left chart below) and underscoring the importance of continuing aggressive hikes to curb inflation. **On the other hand, multiple investment bank analysts lean towards no hike (or even a cut) in the next FOMC meeting due to financial stability concerns.** The current events are perceived as more impactful by those investors who have been convinced in the recent weeks that the US had already been one step away from recession. As banking stocks began recovering today, the priced-in probability of "no hike" scenario dropped to 20% from 50% yesterday (middle **chart). However, there is still stark uncertainty regarding the future policy rate path: interest rate implied volatility remains at historically high levels—exceeded only during the GFC and LTCM crises (right chart)—which translates into tighter financial conditions as rate-related risk premia dominates the pricing of long-term instruments (e.g., 30-year mortgage).**





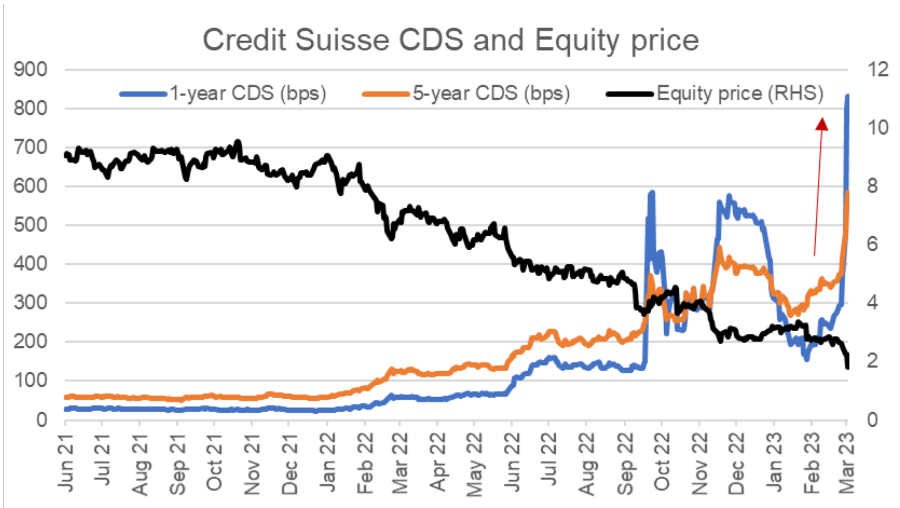


Moody's Investors Service placed First Republic Bank and five other US lenders on review for downgrade, citing concerns over the lenders' reliance on uninsured deposit funding and unrealized losses in their asset portfolios. As venture- and crypto-friendly banks left the market, a rising number of companies in the digital-asset sector are reportedly reaching out to asset managers such as Fidelity Investments to invest their cash in products like Treasuries.

Europe

Stocks (-2.8%) sold off with bank stocks (-8.5%) under severe pressure with sharp losses for French banks BNP (-11%) and SocGen (-13%). The euro depreciated (-0.5%) against the dollar. The 10-yr bund was -7 bps lower while 2-yr bund yields fell -15 bps.

Credit Suisse near-term credit default swaps (CDS) surged while equities plunged to a record low this morning. Saudi National Bank, a significant shareholder, said that it will not provide further assistance, according to the Saudi National Bank chairman. **The share price of Credit Suisse fell a further 22% this morning to a record low, bringing the total losses this year to 34%.** The chairman of Credit Suisse noted that government assistance "isn't a topic", emphasizing that the bank has strong capital ratios and a strong balance sheet. **Over the past week the cost of insuring bonds of the Credit Suisse group against default increased significantly, with CDS curve now inverted as the costs to protect against an immediate failure exceeded costs to protect against a default further in the future.** One-year CDS increased to over 800 bps (roughly 500 bps higher than one week ago) while 5-yr CDS has increased to roughly 600 bps (roughly 230 bps higher than one week ago).

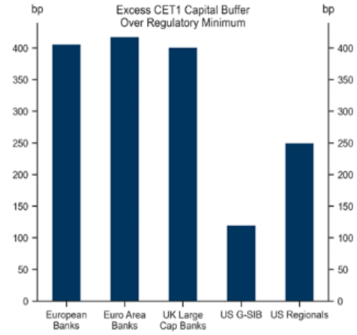


Source: Bloomberg and IMF calculations

Goldman Sachs analysts see limited direct contagion risk from the SVB collapse to European banks, but caution that economic growth could be weighed down by bank lending and a tightening in financial conditions. Analysts highlight that euro area banks have limited exposure to US deposit holders and even though data on indirect exposure to US institutions via the interbank lending channel is limited, analysts see a low risk of direct contagion. **This is based on European banks' capital levels that are significantly higher than the regulatory minimum, strong funding and liquidity positions, significant excess deposits and unrealized losses on hold-to-maturity securities are estimated to be low.** However, analysts highlight downside risks to economic growth, as the financial sector tensions could result in meaningfully tighter bank lending conditions and could also see tighter financial conditions in Europe.

While several analysts still expect a 50 bps move, Deutsche Bank analysts yesterday revised expectations for the ECB meeting this week citing renewed uncertainty in the aftermath of the SVB collapse and now see a 25 bps hike as more likely than a 50 bps hike. Nevertheless, analysts still expect further hikes later this year and still sees the terminal rate at 3.5% and 4%. Markets are pricing in roughly 36 bps of tightening for the ECB meeting tomorrow, compared to 43 bps yesterday and 49bps last week.

Limited Direct Banking Contagion Risk

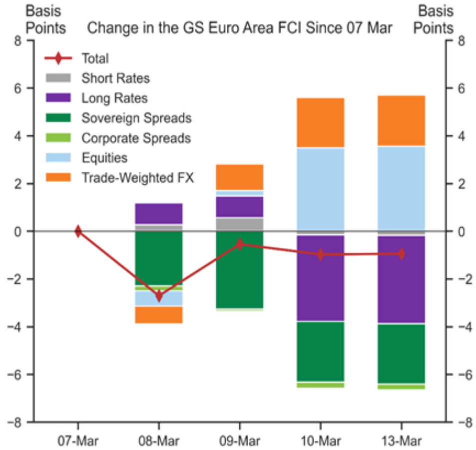


Metric		European Banks	Euro Area Banks	UK Large Cap Banks
Liquidity Coverage Ratio (100% required)	Mean	153%	158%	148%
	Min.	126%	134%	132%
Net Stable Funding Ratio (100% required)	Mean	128%	130%	138%
	Min.	109%	113%	130%
CET1 Capital Ratio (bp Above Regulatory Min.)	Mean	406bp	418bp	401bp
	Min.	140bp	276bp	263bp
Unrealized Losses on HTM Securities (Headwind to CET1 Capital Ratio)	Mean	29bp	19bp	64bp
	Max.	143bp	143bp	121bp

"European Banks" comprises our equity research team's coverage. "Euro Area Banks" comprises all stocks within their coverage in Benelux, France, Germany, Ireland, Italy, and Spain. "UK Large Cap Banks" comprises Barclays, HSBC, Lloyds Banking Group, Natwest Group, and Standard Chartered. "G-SIB" refers to globally systemically important banks. Data not available for all companies for unrealized losses on held-to-maturity securities.

Source: Goldman Sachs Global Investment Research

Little Net Spillover into European Financial Conditions So Far



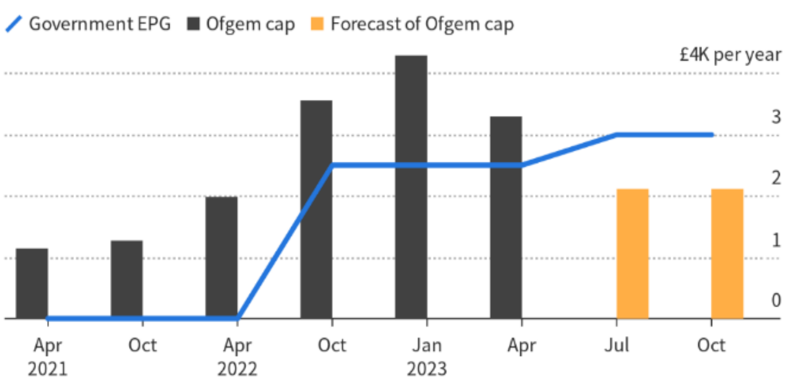
Source: Goldman Sachs Global Investment Research

United Kingdom

The pound was trading weaker (-0.3%) against the dollar but stronger against the euro (+0.2%) ahead of the spring budget statement later today. This morning the government confirmed that the UK's energy price guarantee will be kept at £2500 for another three months (up to June), a move that is estimated save the average household £160. Contacts note that this could lead to a further easing in inflation.

UK Keeps Energy Bill Subsidy Level for Another Three Months

The government will extend the £2,500 ceiling until wholesale costs fall further



Source: Ofgem, Cornwall Insights forecasts for dual-fuel direct debit cap

Bloomberg

Emerging Markets

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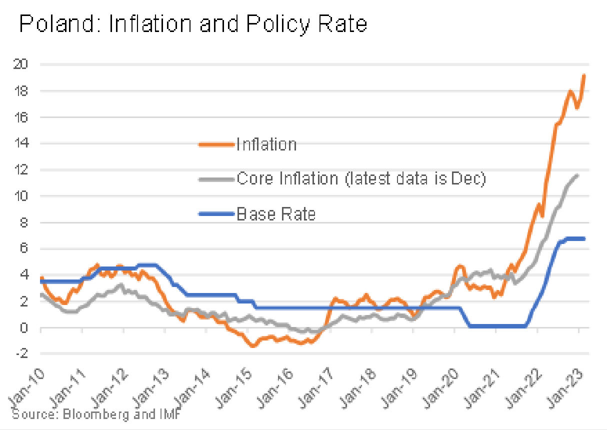
Asian equities were little changed whereas stocks traded more cautiously in EMEA markets. Currencies are generally trading in a narrow range, with the exception of the Hungarian forint, which is weakening 0.7% (to 392.2/euro) and the South African rand (-0.8% to 18.18/$). Yields on local bonds in central and eastern Europe are broadly flat and back at their levels of mid-last week after the violent moves of the past few days. Yesterday, **Latin American equities continued to retreat but currencies advanced.** Stocks lost in Chile (-0.73%), Mexico (-0.60%) and Brazil (-0.18%), while Peru and Colombia equity markets rose 0.82% and 0.18%, respectively. Currencies appreciated in Mexico (1.70%), Colombia (0.60%), Chile (0.35%) and Peru (0.30%), while the Brazilian real weakened against the US dollar by 0.12%. Argentina's CPI rose 102.5% y/y in February.

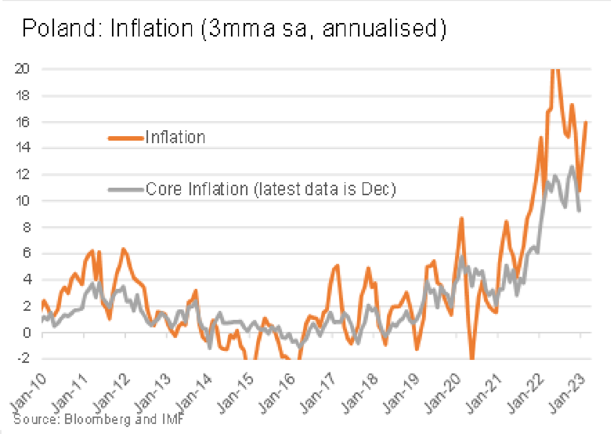
Vietnam

The central bank unexpectedly cut key rates to boost economic growth, making Vietnam the first country in Asia to cut interest rate. The discount rate will be lowered by 100 bps to 3.5% while the refinancing rate is kept unchanged at 6%. The overnight interbank rate and the interest rate for loans made by the central bank in clearing transaction with domestic banks will be lowered by 100 bps as well. The cap on the lending interest rate for short-term loans is reduced by 50 bps. The central bank said while inflation is under control (CPI 4.5% in Feb), the economy is facing many difficulties, and the authority will stay vigilant to external conditions with many countries still in the tightening cycle. Separately, Vietnam has formed a steering committee led by the prime minister on the restructuring of financial insitutions. The stock index gained 1% with the currency little changed.

Poland

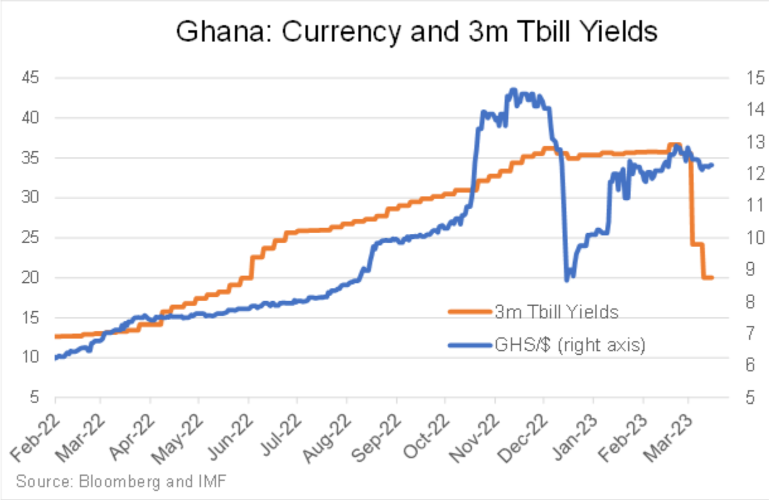
Polish inflation increased in February as expected (18.4% y/y, slightly below 18.5% consensus) but sequential inflation was stronger than expected. The January print is somewhat difficult because the statistical agency has updated the CPI basket weights since the start of the year in this release. Last week, after the MPC left rates unchanged at 6.75% for the 6th consecutive time, central bank governor Glapinski said that inflation will slow to 10% by September**. He also said that he hoped that the inflation slowdown would allow the central bank to cut rates in Q4.**





Ghana

In Ghana, the payment of outstanding "old" bonds to those who did not participate in the domestic debt exchange program last month commenced on Monday, according to the ministry of Finance. The voluntary domestic debt exchange program, which concluded on February 14, was designed to improve Ghana's debt sustainability. Investors exchanged 87.8 billion cedis out of 130 billion eligible of existing bonds for new ones. The government will initially pay coupons and principal on securities that matured February 6 and February 13 and will communicate payment dates for subsequent maturities later. **Yesterday, the Ghana Individual Bondholder's Forum said in a press statement that Ghana had failed to pay. The ministry of finance later clarified that payments would be made within 48 hours.** Following the domestic debt exchange, yields on 3m Tbills dropped sharply to 20%, their lowest level in 10 months, and the cedi has broadly stabilized since mid-January.



Colombia

Foreign investors sold Colombia's local peso bonds at the fastest pace on record in February. Institutions sold $880 million of TES, led by Singapore's central bank and government ($304 million). Ninety-One Plc and Dutch Pension funds also sold more than $100 million. Kuwait's sovereign wealth fund was the largest foreign buyer ($131 million). Meanwhile, Colombian pension funds bought a net of $616 million. The government is considering sending a pension reform bill to cut the role of private pension funds, which hold about ¼ of the outstanding TES. This could significantly impact the peso bond market. Colombian local bonds were among the worst-performing bonds in February but have reversed the losses this month.

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), Frank Hespeler (Senior Financial Sector Expert), 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.

Global Financial Indicators

Last updated: 3/15/23 12:58 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3898	1.6	-2	-6	-9	2
Europe		4039	-3.4	-6	-6	8	6
Japan		27229	0.0	-4	-2	6	4
China		3263	0.6	-1	0	3	6
Asia Ex Japan		65	0.1	-2	-5	-6	0
Emerging Markets		38	0.1	-2	-5	-9	0
Interest Rates					basis points		
US 10y Yield		3.46	-22.7	-53	-34	132	-41
Germany 10y Yield		2.20	-21.8	-44	-27	187	-37
Japan 10y Yield		0.33	5.5	-18	-18	12	-9
UK 10y Yield		3.33	-15.9	-44	-16	175	-34
Credit Spreads					basis points		
US Investment Grade		179	11.7	32	38	15	20
US High Yield		532	39.5	110	95	87	52
Europe IG		101	11.4	26	26	22	11
Europe HY		507	49.6	111	112	129	33
Exchange Rates					%		
USD/Majors		104.67	1.0	-1	1	6	1
EUR/USD		1.06	-1.6	0	-1	-4	-1
USD/JPY		132.6	-1.2	-3	-1	12	1
EM/USD		49.7	-1.1	-1	-2	-2	0
Commodities					%		
Brent Crude Oil ($/barrel)		76	-2.4	-9	-11	-24	-12
Industrials Metals (index)		154	-2.0	-3	-5	-32	-7
Agriculture (index)		67	-0.6	-2	-4	-11	-3
Implied Volatility					%		
VIX Index (%, change in pp)		28.1	4.3	8.9	9.8	-1.8	6.4
US 10y Swaption Volatility		164.8	4.7	35.9	58.1	64.3	38.2
Global FX Volatility		10.9	0.0	0.8	0.5	1.1	0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		205	13.3	24	27	-28	-1
Italy		195	10.1	16	9	38	-20
Portugal		94	4.0	7	6	10	-8
Spain		112	5.1	10	15	13	2

Emerging Market Financial Indicators

	Equity Markets								Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Since	Level		Change (in basis points)				Since
	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	23-Feb-22
									basis points						
China		3987	0.1	-1	-3	-4	3	-14		175	10	4	-53	-2	-33
Indonesia		6628	-0.2	-2	-4	-5	-3	-4		158	19	15	-44	18	-27
India		57556	-0.6	-5	-6	1	-5	1		161	21	16	-36	19	7
Philippines		6466	1.1	-4	-5	-8	-2	-12		133	20	16	-20	36	-4
Thailand		1565	2.7	-3	-6	-6	-6	-8		0	0	0	0	0	0
Malaysia		1404	0.7	-3	-5	-11	-6	-11		102	9	2	-43	2	-31
Argentina		220447	-2.1	-11	-14	162	9	141		2334	272	351	526	129	597
Brazil		102932	-0.2	-3	-6	-6	-6	-8		279	15	16	-46	5	-52
Chile		5287	-0.2	-2	-2	14	0	21		147	10	11	-25	15	-27
Colombia		1156	0.2	-7	-5	-24	-10	-23		425	31	41	52	53	33
Mexico		52692	-0.6	-1	-1	-1	9	3		397	24	34	28	16	27
Peru		21770	0.8	-1	-1	-10	2	-7		189	6	6	4	9	-1
Hungary		41807	0.0	-4	-10	-3	-5	-12		233	16	22	77	11	80
Poland		56931	-2.5	-7	-6	-6	-1	-9		88	30	22	36	15	72
Romania		12257	-1.3	-1	-1	0	5	-7		252	13	10	9	-4	19
Russia		2267	-1.0	-1	5	-8	5	-26							
South Africa		72802	-2.9	-6	-8	3	0	-3		392	36	28	24	25	3
Turkey		5105	-1.9	-6	3	146	-7	153		477	34	-44	-142	37	-86
Ukraine		507	0.0	0	0	-2	-2	-2		4822	103	387	908	743	3349
EM total		38	-2.1	-2	-5	-9	0	-20		409	25	27	-180	33	-49

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

Last updated:	Exchange Rates								Local Currency Bond Yields (GBI EM)							
15/03/2023	Level		Change (in %)					Since	Level		Change (in basis points)					Since
1:08 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation						% p.a.							
China		6.90	-0.4	0.8	-1	-8	0	-9		3.1	-0.5	-10	-2	24	8	28
Indonesia		15382	0.0	0.4	-1	-7	1	-7		6.8	3.7	-28	1	1	-17	27
India		83	-0.1	-0.7	0	-7	0	-10		7.4	-9.2	-45	-3	42.2	-2	
Philippines		55	0.3	0.6	0	-5	1	-7		6.0	0.0	-3	8	95	-3	100
Thailand		35	-0.2	1.2	-1	-3	0	-7		2.5	0.0	-22	-31	17	-17	24
Malaysia		4.48	0.0	0.9	-2	-6	-2	-7		3.9	1.3	-16	-2	19	-17	21
Argentina		202	-0.4	-1.2	-5	-46	-12	-47		89.7	31.1	120	154	4169	144	4169
Brazil		5.29	-0.6	-2.7	-1	-2	0	-5		13.4	12.0	-11	0	88	80	186
Chile		814	-1.5	-1.3	-3	0	5	-3		5.1	-18.5	-52	-41	-86	-27	-85
Colombia		4747	-0.1	0.6	4	-19	2	-18		9.4	0.0	-14	-10	141	-38	153
Mexico		18.95	-1.9	-5.1	-2	10	3	7								
Peru		3.8	0.3	0.3	2	-1	1	-1		7.9	1.0	-22	-12	121	-8	189
Uruguay		39	0.1	0.1	0	9	2	8		10.3	0.0	8	63	193	-35	217
Hungary		376	-3.5	-4.5	-5	-10	-1	-15		8.3	-5.0	-2	8	251	-130	349
Poland		4.45	-1.6	-0.3	0	-3	-2	-9		5.3	-7.5	-51	-17	82	-91	139
Romania		4.7	-1.7	-0.1	-2	-3	-1	-6		7.3	12.7	-17	-11	127	-43	211
Russia		76.0	-0.3	0.1	-2	39	-2	7		10.6	0.0	0	25	-2420	-128	-60
South Africa		18.3	-1.1	1.5	-2	-18	-7	-17		9.1	-9.5	-19	4	108	-7	151
Turkey		18.98	-0.1	-0.2	-1	-23	-1	-27		11.2	-1.0	-61	-9	-1460	141	-1118
US (DXY; 5y UST)		105	1.0	-0.9	1	6	1	9		3.58	-27.5	-77	-46	147	-43	168

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