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- European bank shares rally after Swiss National Bank announcement ([link](#))
- US bank equity prices take another beating ([link](#))
- Stocks in US at risk of further declines ([link](#))
- Regional US banks face potential threat from commercial real estate ([link](#))

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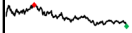

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Markets await ECB decision

Markets appear to be stabilizing after a week of extremely high volatility. Yesterday's panic over the viability of Credit Suisse gave way to a strong rally in the bank's stock price after it tapped \$54 bn in liquidity from the Swiss National Bank, offered to buy back debt and received a pledge of support from the head of the Saudi National Bank, its largest investor, a day after his negative comments triggered the selloff. Other European bank stocks also gained ground, although US equity index futures were mixed. Meanwhile, markets await the ECB's interest rate decision later this morning. The ECB had telegraphed a 50 bps hike in previous weeks, but the recent turmoil in the global banking sector may lead to a different outcome. Some think concerns over inflation will make the ECB stick to its guns, while others think financial stability concerns will lead to a more dovish move, with either a 25 bps move or no change at all.

Key Global Financial Indicators

Last updated: 3/16/23 8:12 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		3892	-0.7	-3	-5	-11	1	-8
Eurostoxx 50		4075	1.0	-5	-5	5	7	3
Nikkei 225		27011	-0.8	-6	-2	1	4	2
MSCI EM		37	-1.7	-4	-7	-17	-2	-21
Yields and Spreads			bps					
US 10y Yield		3.44	-1.1	-46	-42	126	-43	145
Germany 10y Yield		2.24	11.3	-40	-24	185	-33	202
EMBIG Sovereign Spread		504	24	55	59	17	52	91
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.7	0.0	-1	-2	-4	0	-7
Dollar index, (+) = \$ appreciation		104.4	-0.2	-1	1	6	1	9
Brent Crude Oil (\$/barrel)		73.9	0.3	-9	-13	-25	-14	-24
VIX Index (% change in pp)		26.6	0.5	4	6	0	5	-4

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

The latest core US economic data were much stronger than expected. Much better than expected data on the housing market attracted the most attention. Treasuries gave up some of their early gains in the immediate aftermath of the data and US equity index futures also lost ground. The data highlight the dilemma facing the Fed over whether inflation remains the key concern or whether worries over financial stability should lead to a more dovish policy stance.

Selected US Economic Data 8.30am EST

Source: Bloomberg

Data Release	Consensus Forecast	Actual Outcome
Jobless claims	205K	192K
Continuing claims	1709K	1684K
Housing starts month-on-month	+0.1%	+9.8%
Building permits mom	+0.3%	13.8%

The bank equity selloff resumed as worries about Credit Suisse spilled over to other banks on both sides of the Atlantic. The stocks of the large US banks such as JP Morgan (-4.7%) and Citi (-5.4%) were down sharply yesterday, but it is the smaller regional midsize banks that are under the most scrutiny, as the price moves of their shares from March 7 (the day before Silicon Valley Bank crisis began) demonstrate. On the one hand, some contacts say that the extraordinary measures taken by the US authorities last weekend greatly reduced fears of a bank run. Now that all depositors at Silicon Valley Bank are being made whole, depositors in other mid-sized banks do not have to worry about their balances at those banks, on the assumption that the authorities would guarantee all their deposits as well. Other contacts were less sanguine, worrying about further mark-to-market losses on banks' bond holdings or taking the view that the authorities might not make all depositors whole in all cases. They also noted that with tighter regulation almost guaranteed in the near future, the business prospects for smaller banks could take a major hit if they are required to hold larger reserves, making their stocks less attractive.

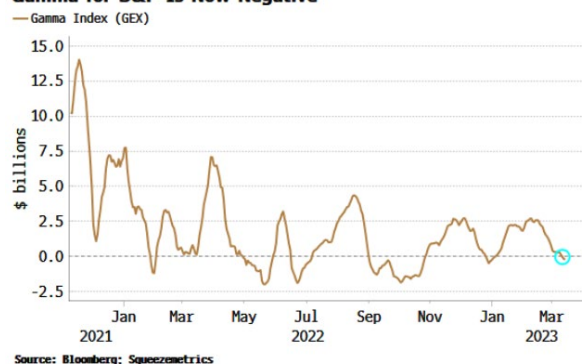
Recent Market Moves for Selected Midsized US Banks (March 15 close)

Source: Bloomberg

Bank	Price Change Since 3/7	Total Assets (Q4 2022)
First Republic	-73.76%	\$213 bn
Western Alliance	-57.68%	\$68 bn
Comerica	-34.22%	\$85 bn
Zion Bankcorp	-34.92%	\$90 bn
Key Corp	-35.58%	\$190 bn
KBW US Bank Index	-22.62%	

Stocks in the US are at risk of more deep declines as the net gamma position for options on the S&P 500 index has turned negative. Gamma is the rate of change of the option delta when the price of the underlying asset moves. An investor is long gamma when they are long an option and short gamma when they are short an option. The negative turn for gamma for options on the S&P 500 means that investors are short options on a net basis. This can be dangerous when markets are falling, as option sellers are forced to sell more equities to delta hedge their short option positions, thereby reinforcing the downward momentum. There were multiple negative delta episodes in 2022 when risk assets as a whole took heavy losses.

Gamma for S&P Is Now Negative



Regional US banks could face a threat from the commercial real estate (CRE) sector, where credit conditions are deteriorating. Lending to the sector has surged in recent years, with banks adding \$725 bn in new CRE lending, taking the aggregate volume of bank funded CRE debt to \$5.3 tn, according to Bloomberg and the Federal Reserve. Regional midsize banks are major players in the CRE market, and the Silicon Valley Bank episode has led investors to ask if there are any areas of vulnerability for midsize regional banks. The CRE sector will see \$1.1 tn of commercial mortgages mature in 2023 and 2024, and refinancing costs are up sharply. The mortgages maturing in 2023 and 2024 have a weighted average interest rate of 4.6%, according to Morgan Stanley. Recent deals have seen average rates of 6.5%. Some borrowers may be unable to meet their obligations in these conditions, raising the risk of higher defaults.

Exhibit 12 : Regional/local banks play an important role in providing debt capital to CRE industry

Composition of US debt market by lender group across properties; 1H2022

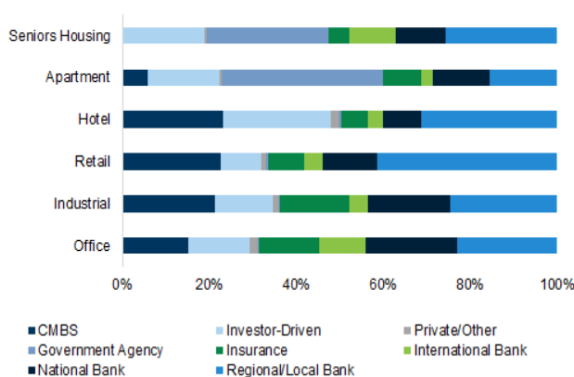
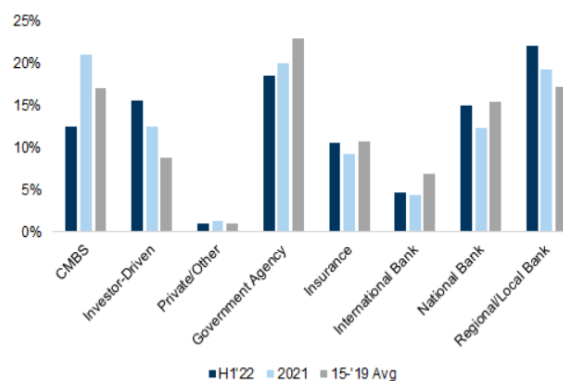


Exhibit 13 : Regional/local bank is the largest lender group in CRE debt market in 1H22, and its market share has been increasing in recent years

Composition of US debt market by lender group – Current vs. Historical

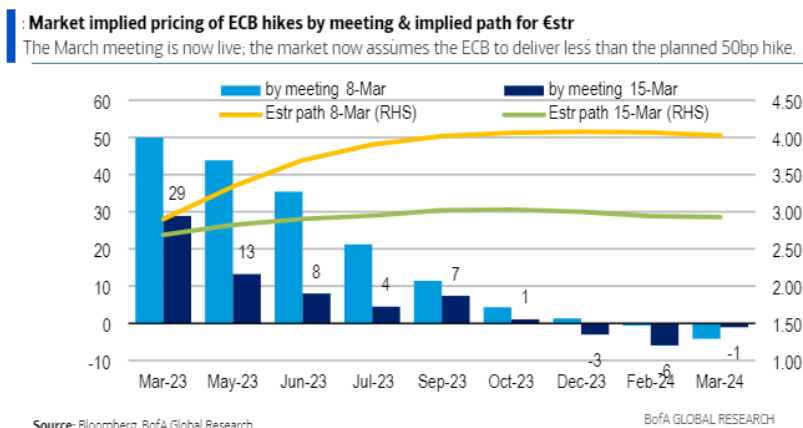


Europe

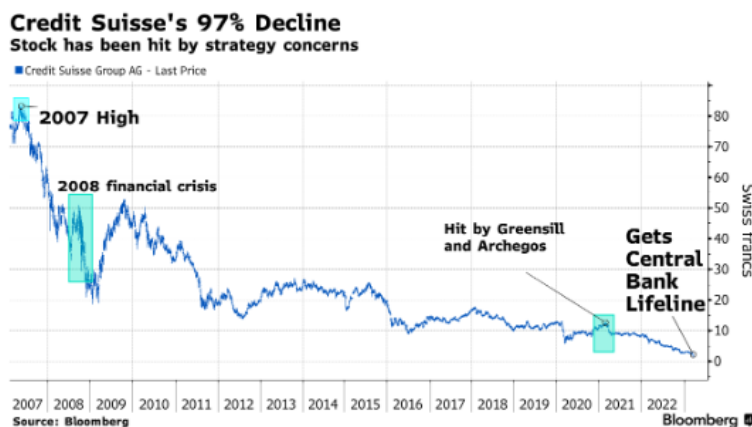
European equities opened in the green (Stoxx 600 +0.5%) with banking stocks rebounding (+1.4%) as risk sentiment was boosted by announcements related to Credit Suisse from the Swiss authorities. Yesterday the European banking index closed roughly 7% lower with Société Générale (-12.2%) and BNP Paribas (-10.1%) underperforming. **Ahead of the ECB meeting later today, the euro appreciated (+0.3%) against the dollar and euro area sovereign yields increased (10-yr bund +15bps; 2-yr +21bps) to retrace some of yesterday's moves.** Yesterday, amid broad-based risk aversion, sovereign yields fell steeply, notably at the front-end, as ECB hiking expectations were scaled back.

Ahead of the ECB meeting later today, there are divergent views on the expected ECB decision. While the ECB had previously telegraphed a 50bps hike, the recent market turmoil cast doubts on what the central bank will do. Goldman Sachs analysts expect that if financial stability concerns convince the

Governing Council to move away from the signaled 50 bps hike, then leaving rates unchanged is more likely than a 25 bps hike. **Markets are pricing in 36bps of tightening for the ECB meeting later today**, compared to +28 bps yesterday and +50 bps last week. The terminal rate is priced at around 3.25%.



Credit Suisse equity prices rebounded (+24%) and credit default swaps (CDS) eased this morning following earlier news that the bank would borrow up to 50bn Swiss Francs from a Swiss National Bank (SNB) liquidity facility and repurchase up to roughly 3bn CHF worth of senior debt securities. Yesterday Credit Suisse (CS) equity shares fell 24% to the lowest level on record after the bank's largest shareholder the Saudi National Bank said that it will not provide further investment. After the European markets closed, the SNB and the Swiss regulator FINMA in a joint statement said that that Credit Suisse meets the higher capital and liquidity requirements applicable to systemically important banks and that a liquidity backstop would be offered to CS if needed.



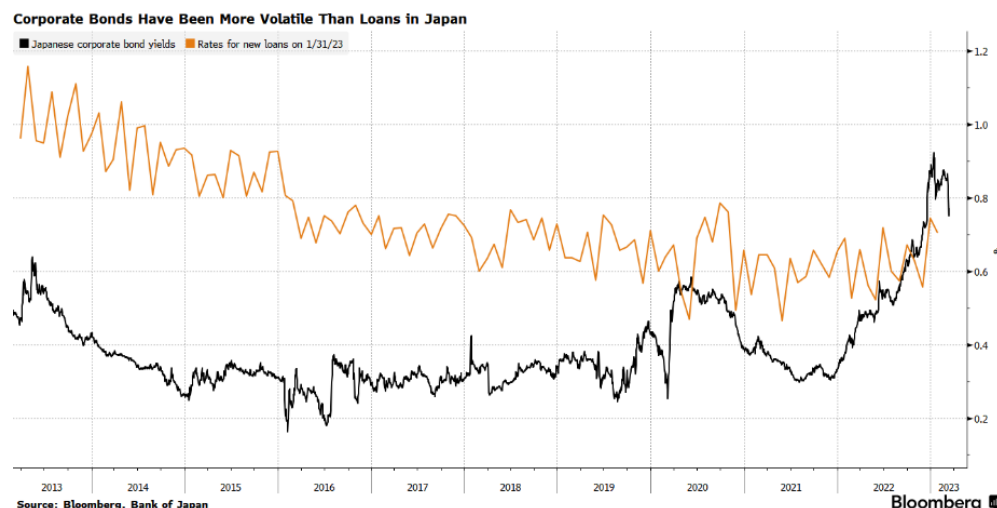
Australia and New Zealand

In Australia, the labor market remained tight. The unemployment rate fell to 3.5% in February from 3.7% in January (consensus: 3.6%). Employment also increased more than expected. Despite the strong labor market data, markets still expect less aggressive monetary policy tightening. **In New Zealand, the economy contracted more than expected in Q4 2022.**

Japan

Bank stocks fell 3.3% overnight in the wake of worries about the global banking system, but the fallout was not as bad as expected after US markets rallied off their intraday lows yesterday. The accumulative decline for bank stocks stands at 16% since last Friday when concerns about Silicon Valley

Bank emerged. Given recent market turbulence, Japanese firms are reportedly choosing bank loans over bonds for longer-term funding needs as investors position for the end of the era of ultra-easy monetary policy. **Core machine orders, a leading indicator for business investment, increased 9.5% m/m in January, stronger than expected** (consensus: +1.4%). **The trade deficit was smaller than expected in February**, narrowing to 0.9 tn yen (\$6.8 bn) from 3.5 tn yen (\$26.3 bn) in January. February trade data came out weaker than expected. Exports grew 6.5% y/y (consensus: +7.0%), while imports grew 8.3% y/y (consensus: +12.4%).



United Kingdom

The Chancellor of the Exchequer announced a more expansionary budget than many had expected. Energy subsidies will be extended until June and defense spending is to be increased, among other stimulative measures. The Office of Budget Responsibility (OBR), a non-partisan watchdog, forecasts that inflation will be lower than originally expected and that a technical recession may be avoided, but Bank of America analysts think the OBR is too optimistic.

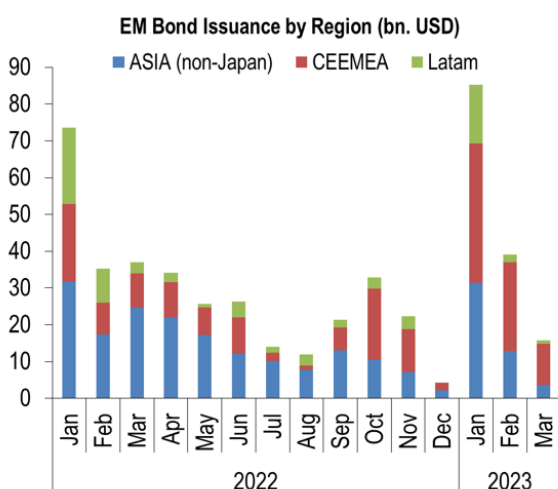
Emerging Markets

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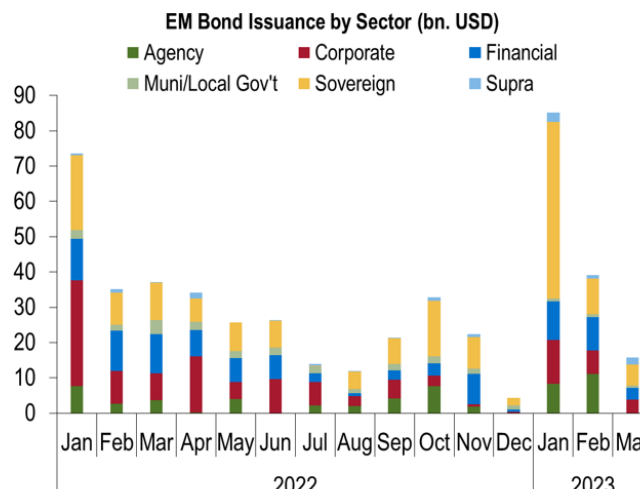
In EMEA, markets are mixed as some of the panic over Credit Suisse subsides, with Czech and Turkish stocks higher but Poland losing ground. Most Asian equity markets were down overnight, with India among the few to buck the trend. Currencies were generally weaker. Some analysts see the potential for larger open market operations by the central bank of China (PBoC) to support interbank liquidity after China's overnight repo rate rose 19 bps to 2.3, close to the 2-year high. Today, the PBoC injected 106 bn yuan (\$15 bn) via reverse repos, the largest move so far in March. Indonesia stayed on hold at 5.75% as expected. **Latin American assets also fell over market concerns about the global banking system.** Local currencies depreciated as commodity prices fell. The Chilean peso was weaker by almost 3%, the largest one-day move in six months. In Peru, GDP declined by 1.12% in January, more than expected and the first negative print in 22 months. Social protests have been a drag on the economy and remain a potential threat in the future.

EM Bond Issuance

Bond issuance slightly declined compared with the week before. The EM bond market priced \$8.0 bn of new issuance last week, of which \$3.2 bn was sovereign, \$2.0 bn was supranational and \$2.3 bn was corporate/financial issuance. The issuance was evenly distributed between investment grade and high yield. Turkey was the biggest issuer with \$2.2 bn in sovereign bond issuance. YTD total issuance now stands at \$140.1 bn.



Sources: Bond Radar and IMF staff calculations



Sources: Bond Radar and IMF staff calculations

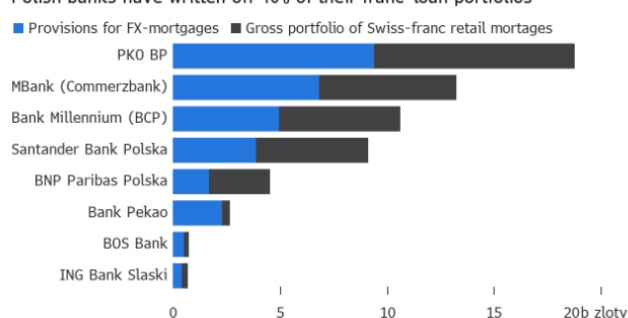
Poland

Local banks face higher costs after a ruling by an EU court.

A key issue facing Polish banks remains the legacy FX (Swiss francs) mortgages extended before 2008. Banks had extended mortgages denominated in Swiss Francs to take advantage of the low Swiss interest rates at the time, but the Global Financial Crisis caused a sharp deterioration in the zloty versus the franc, making the cost to consumers much higher. Poland is working on a bill to resolve this and end the wave of lawsuits (more than 80,000) that holders of Swiss-franc loans have taken out against their banks, forcing the banks to boost provisions. However, a recent EU court ruling held that banks are not allowed to charge their customers higher fees if the interest payments were held to be unfair. In fact, if mortgage deals are overruled by domestic courts, banks are only entitled to claim repayment of the principal amount, without interest payments. Meanwhile, Polish banks have already written off a large part of their franc loans.

Legacy Loan Provisions

Polish banks have written off 40% of their franc-loan portfolios



Source: Banks' reports
Data for end-Dec. or end.-Sept. 2022 depending on availability

Bloomberg

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), Tom Plontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan, 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), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), 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

3/16/23 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3895	-0.7	-1	-5	-11	1
Europe		4072	0.9	-5	-5	5	7
Japan		27011	-0.8	-6	-2	1	4
China		3939	-1.2	-2	-2	-7	2
Asia Ex Japan		64	-1.6	-4	-7	-15	-1
Emerging Markets		37	-1.7	-4	-7	-17	-2
Interest Rates			basis points				
US 10y Yield		3.44	-1.3	-46	-42	126	-43
Germany 10y Yield		2.25	11.6	-40	-23	185	-33
Japan 10y Yield		0.32	-1.4	-19	-19	10	-11
UK 10y Yield		3.36	4.1	-43	-14	173	-31
Credit Spreads			basis points				
US Investment Grade		180	0.5	27	37	24	21
US High Yield		537	2.4	90	89	116	57
Europe IG		102	-1.9	26	26	28	11
Europe HY		502	-5.3	105	108	152	28
Exchange Rates			%				
USD/Majors		104.41	-0.2	-1	1	6	1
EUR/USD		1.06	0.3	0	-1	-4	-1
USD/JPY		132.5	-0.7	-3	-1	12	1
EM/USD		49.7	0.0	-1	-1	-4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73.9	0.3	-9	-13	-12	-13
Industrials Metals (index)		153	0.1	-3	-7	-31	-8
Agriculture (index)		67	0.4	0	-4	-8	-3
Implied Volatility			%				
VIX Index (%, change in pp)		26.7	0.5	4.0	6.5	0.0	5.0
US 10y Swaption Volatility		177.3	0.4	48.7	66.6	78.4	51.6
Global FX Volatility		11.6	0.0	1.8	1.4	2.4	0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		204	-6.0	27	24	-23	-1
Italy		193	-5.1	18	8	43	-21
Portugal		94	-1.6	9	6	14	-7
Spain		111	-1.9	11	15	17	2

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

Emerging Market Financial Indicators

Last updated: 3/16/2023 8:18 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.90	0.1	1.0	-1	-8	0		3.1	-0.5	-10	-2	24	8
Indonesia		15389	0.0	0.3	-1	-7	1		7.0	19.0	-6	26	19	2
India		83	-0.2	-0.9	0	-8	0		7.5	10.1	-31	9	51.0	8
Philippines		55	0.1	0.6	0	-5	2		6.0	0.0	-3	8	93	-3
Thailand		34	0.7	1.8	0	-3	1		2.5	-0.5	-19	-25	14	-17
Malaysia		4.50	-0.4	0.3	-2	-7	-2		3.9	3.2	-9	4	24	-12
Argentina		203	-0.2	-1.3	-5	-46	-13		89.6	-0.9	97	250	4160	143
Brazil		5.27	0.3	-2.1	-1	-4	0		13.2	-2.3	3	-31	70	66
Chile		820	0.5	-3.0	-3	-3	4		5.1	3.0	-46	-45	-92	-28
Colombia		4871	-2.6	-1.9	1	-21	0		9.3	0.0	-34	-22	131	-46
Mexico		19.03	-0.3	-3.5	-3	8	2		8.6	-6.0	-40	-13	8	-10
Peru		3.8	-0.5	-0.2	2	-2	0		7.7	0.0	-38	-31	105	-24
Uruguay		40	-0.7	-0.9	-1	8	1		10.3	0.0	8	63	193	-35
Hungary		374	0.3	-3.1	-4	-10	0		8.3	0.0	-3	-28	255	-130
Poland		4.43	0.4	0.1	1	-5	-1		5.3	2.8	-40	-36	80	-90
Romania		4.6	0.2	0.1	-1	-3	0		7.3	7.4	-5	-2	140	-35
Russia		76.4	0.2	-0.6	-2	28	-3							
South Africa		18.4	0.2	1.0	-1	-19	-7		9.2	1.5	-17	8	116	2
Turkey		19.00	-0.1	-1.0	-1	-23	-2		11.4	10.0	-45	44	-1468	156
US (DXY; 5y UST)		104	-0.2	-0.8	1	6	1		3.54	-0.9	-65	-53	136	-46

	Equity Markets						Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	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	YTD
								basis points					
China		3939	-1.2	-2	-2	-7	2		179	14	8	-52	2
Indonesia		6566	-0.9	-3	-5	-6	-4		170	25	26	-36	30
India		57635	0.1	-4	-6	0	-5		167	27	20	-37	25
Philippines		6405	-0.9	-3	-6	-10	-2		136	16	14	-19	39
Thailand		1555	-0.7	-4	-6	-8	-7		0	0	0	0	0
Malaysia		1392	-0.9	-4	-6	-13	-7		104	11	5	-40	4
Argentina		209824	-4.8	-16	-18	140	4		2399	282	381	584	194
Brazil		102675	-0.3	-4	-7	-8	-6		294	30	31	-31	20
Chile		5197	-1.9	-4	-5	11	-1		157	18	21	-16	25
Colombia		1112	-3.8	-8	-9	-27	-14		450	51	57	89	78
Mexico		52086	-1.2	-2	-4	-2	7		419	40	54	47	38
Peru		21430	-1.6	-3	-2	-13	0		200	16	17	14	20
Hungary		41518	-0.7	-4	-10	-3	-5		252	36	44	93	30
Poland		56021	-1.4	-8	-8	-10	-3		104	46	35	51	31
Romania		12288	0.6	-1	-1	-1	5		276	36	39	33	20
South Africa		72626	-0.4	-6	-9	-1	-1		427	70	59	54	60
Turkey		5202	1.6	-4	4	149	-6		504	49	-13	-88	64
Ukraine		507	0.0	0	0	-2	-2		4863	115	421	981	784
EM total		37	0.4	-4	-7	-17	-2		430	43	46	-153	54

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

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