



- Markets now price multiple Fed and ECB rate cuts by the end of the year ([link](#))
- Fed discount window borrowing sets new record ([link](#))
- PBOC surprises with 25 bps cut in reserve requirement ([link](#))
- Pullback from lending by smaller US banks could tighten financial conditions ([link](#))
- Argentina hikes by 300 bps ([link](#))
- US money markets show impact of banking sector volatility ([link](#))

[Mature Markets](#)











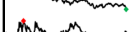
| [Emerging Markets](#)

| [Market Tables](#)

Banks still under pressure in spite of support measures

Shares of the US regional lender First Republic Bank were down 15% in pre-market trading this morning, despite the \$30 bn aid package announced yesterday. Other US regional bank shares were also down, although less severely. Bank borrowing from the Fed's discount window has soared past the highest levels seen during the GFC, with nearly \$165 in new borrowing and with little apparent regard for the stigma normally associated with the discount window. The data also showed \$12 bn in borrowing from the new Bank Term Funding Program. Sentiment remains bleak, with most European markets and US equity index futures losing ground. Treasury and bund yields are down as investors hedge against another day of potential losses. In the euro area and the UK, markets are lowering their expectations of future rate hikes as worries grow about the impact of the problems in the banking sector on the broader economy. In one of the few positive developments this morning, Credit Suisse's share price is higher after the support measures announced earlier in the week by the Swiss authorities.

Key Global Financial Indicators

Last updated: 3/17/23 8:09 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		3960	1.8	1	-3	-10	3	-6
Eurostoxx 50		4119	0.0	-3	-4	6	9	4
Nikkei 225		27334	1.2	-3	-1	2	5	3
MSCI EM		38	1.5	-1	-5	-15	0	-20
Yields and Spreads			bps					
US 10y Yield		3.50	-8.1	-20	-32	133	-38	150
Germany 10y Yield		2.20	-9.5	-31	-25	181	-38	197
EMBIG Sovereign Spread		495	-9	35	52	26	43	82
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.8	-0.2	-1	-2	-4	0	-6
Dollar index, (+) = \$ appreciation		104.2	-0.2	0	0	6	1	8
Brent Crude Oil (\$/barrel)		75.0	0.4	-9	-10	-30	-13	-23
VIX Index (% change in pp)		23.7	0.7	-1	4	-2	2	-7

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

Mature Markets

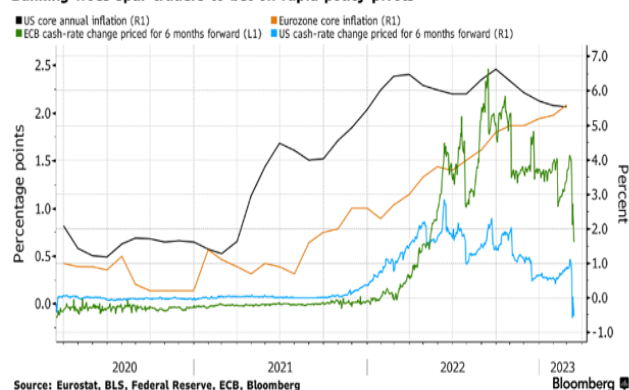
[back to top](#)

Central Bank Policy Expectations

The recent turbulence in the banking sector has led investors to dramatically revise their expectations for central bank policy rates. Prior to the Silicon Valley Bank collapse, markets were pricing a US terminal rate of more than 5.5% and an ECB terminal rate of 4%. Once the news broke, investors sharply lowered their expectations, with markets pricing multiple rate cuts by the end of the year due to rising worries about financial stability. Some analysts think this is a mistake, as inflation remains too high for central banks to turn dovish. They think central banks can use other tools to address financial stability, as the Fed and Swiss National Bank have done, while still using rate hikes to tame inflation.

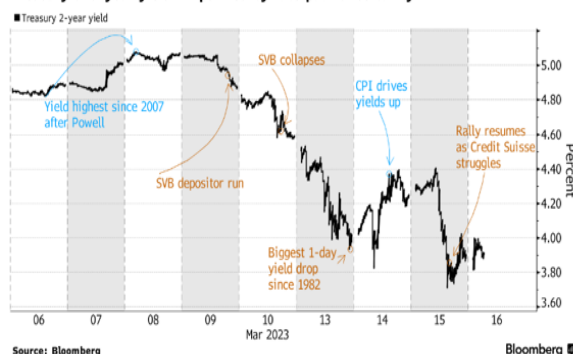
Elevated Inflation Makes Rate Bets Look Too Low

Banking woes spur traders to bet on rapid policy pivots



From SVB to Credit Suisse, a Wild Week for Markets

Treasury two-year yield whipsawed by rate path uncertainty



United States

Smaller banks with assets under \$250 bn play a major role in lending markets and have a majority or near majority for all sectors with the exception of consumer lending. Their share of commercial real estate (CRE) accounts for almost the entire market. Many market participants are worried that the failure of Silicon Valley Bank and Signature Bank will force other smaller regional banks to sharply curtail their lending and raise lending standards to address the regulatory scrutiny that is all but inevitable. This could tighten financial conditions significantly and accelerate the onset of recession. Moreover, problems in the CRE market could pose another threat to the balance sheets of these smaller banks, compounding the challenges of potential deposit flight.

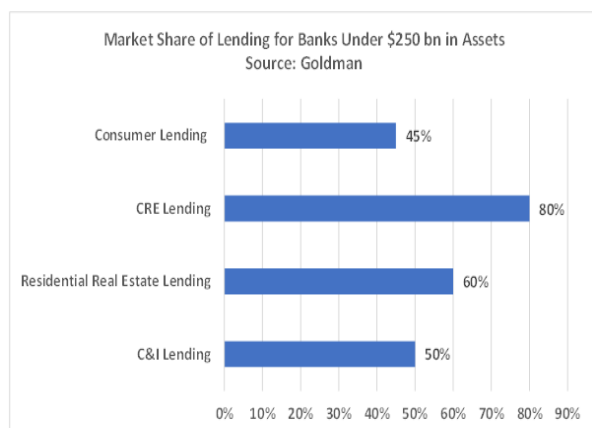
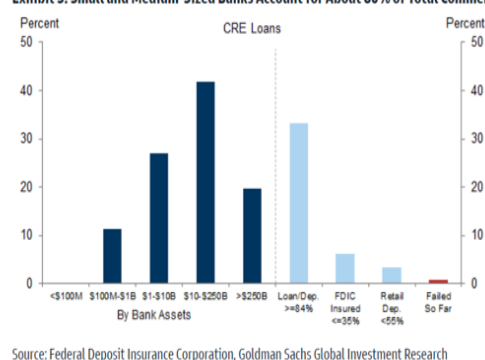


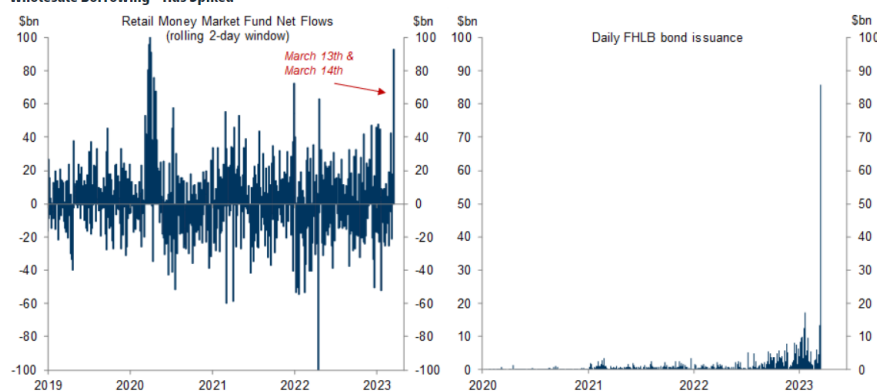
Exhibit 3: Small and Medium-Sized Banks Account for About 80% of Total Commercial Real Estate Lending



The collapse of Silicon Valley Bank and Signature Bank is having an impact on US money markets.

Large inflows to money market funds in recent days indicates that investors with deposits at medium sized banks may have transferred cash from their deposit accounts to MMFs as a precaution. In addition, there is a surge in the issuance of bonds by the Federal Home Loan Banks (FHLBs) as they raise funds to meet the demand for funding by the banking sector. The equity prices of regional midsize banks remain in free fall, and a widening LIBOR-OIS spread signals tensions in money markets. However, there are other signs that money markets are functioning in an orderly fashion despite the volatility in the banking sector. The overnight repo market is showing no sign of stress, and the commercial paper market is also working normally.

Exhibit 2: Money Market Funds—a Likely Destination for Outflows from Bank Deposits—Have Seen a Jump in Inflows, and FHLB Issuance—a Proxy for Banks' Wholesale Borrowing—Has Spiked



Source: Morningstar, FHLB

Euro Area

Local stocks fell as global risk sentiment turned negative. Core government bond yields are lower on safe haven trading as US and European banking worries continue to bedevil markets. Following the ECB's 50 bps hike yesterday, markets are now pricing in 24 bps in hikes in May from 28 bps yesterday and 42 bps a week ago, and 10 bps in June from 33 bps a week ago. The terminal rate is now seen at 3.25% by July, from about 4% in October a week ago. **Today, hawkish governors from Estonia, Lithuania, and Slovakia suggested the ECB should continue to tighten after the global financial turmoil fades.**

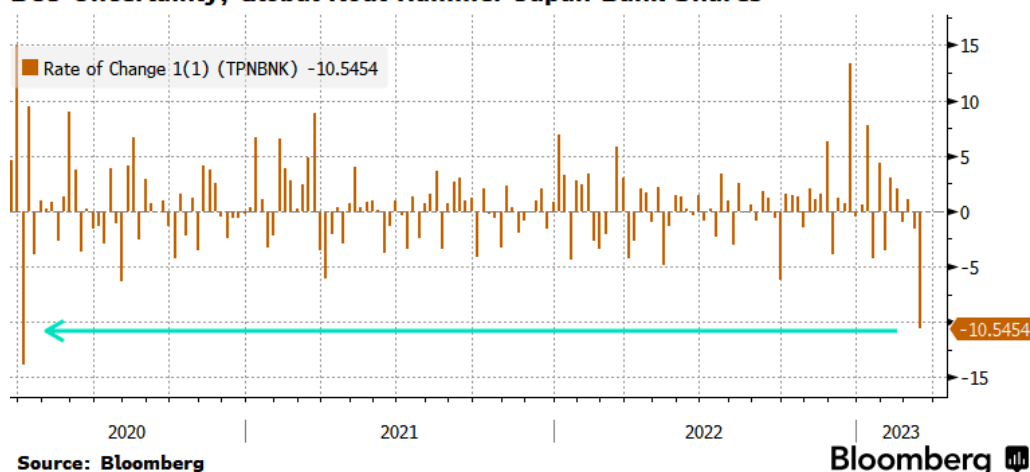
ECB Rate Expectations from Selected Bank Analysts

Analysts	ECB Terminal Rate	Rate Path
HSBC	Keep at 3.5%	More cautious with two 25bp rate rises in May and June rather than a 50bps hike in May.
JP Morgan	Keep at 3.75%	50bp in May, 25bp in June, but even in that case the May call has become close between 50bp and 25bp and our calls are very data-dependent.
ING		two more 25bp hikes before the summer.
BoAML	Keep at 4%	
Credit Suisse	Keep at 4%	
Goldman Sachs	3.5% from 3.75%	25 bps hike in May, vs. 50 basis points before, and 25 bps in June, unchanged.
Morgan Stanley	3.75% from 4%	25 bps rate hike in May rather than 50 bps, and maintain call of 25 bps in June and July.
Commerzbank	3.5%	
Rabobank	Keep at 3.5%	Main call of 2 further 25 bps hikes.

Japan

The Japanese Trade Union Confederation (JTUC) called for the largest wage increase in decades. Known as Rengo in Japanese, the JTUC is the country's largest labor union federation. It released a report on preliminary wage negotiations, showing an average increase in base wages at around about 2.3%, up from 0.6% last year. The overall increase in total wages could be closer to 4%, the highest in decades. **Meanwhile, local bank stocks have more than 10% over the past week in step with the global bank selloff.** Uncertainty about the future course of BOJ policy also played a role.

BOJ Uncertainty, Global Rout Hammer Japan Bank Shares

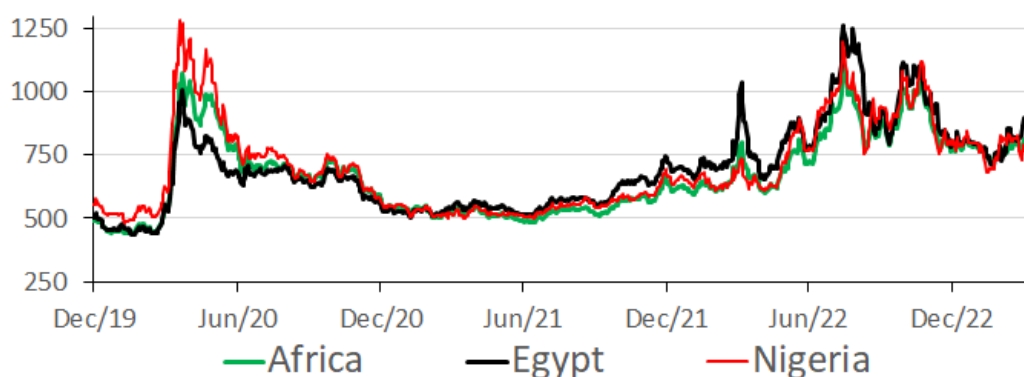


Emerging Markets

[back to top](#)

EMEA currencies traded with a cautious tone and swap yield were higher, but equities gained 1–2% in several countries. Contacts point out that investment-grade EM Eurobonds have traded relatively well in the past week but spreads on frontier bonds show more stress and are up 100 bps in Africa. **Asian markets rallied as global market sentiment improved.** Asian equities gained 1.8% on net. **In Thailand**, the parliament was dissolved for elections in May. **In Korea**, electronics stocks gained after Japan decided to remove export restrictions on key semiconductor materials. **In India**, moderating oil and food prices are expected to ease pressure on the RBI to hike. **Latin American stocks also saw their first gains after a series of negative sessions.**

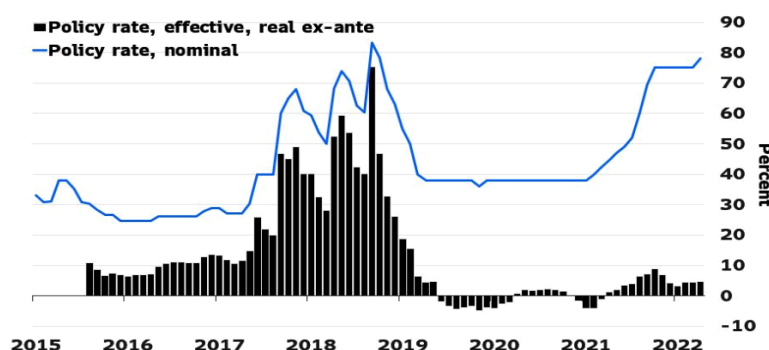
Africa: EMBIG spreads on U.S. dollar bonds (bps)



Source: Bloomberg and IMF staff

Argentina

The central bank of Argentina raised its benchmark Leliq rate by 300 basis points to 78%, after holding the rate at 75% for six months after inflation that reached 102.5% in February. The move does not do much to compensate for the impact of rising inflation expectations on the real rate. Analysts estimated the effective real rate in the next 12 months will still stay low at around 4.8%. Stocks staged a major 6.46% rally in response.

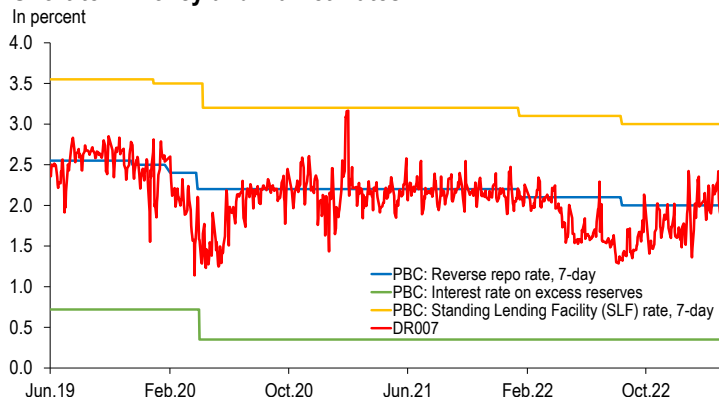


Source: BCRA, Bloomberg Economics. Note: Effective rate through 2019 is a BE estimate.

China

The People's Bank of China (PBOC) unexpectedly cut the reserve requirement ratio (RRR) by 25 bps, effective on March 27. The cut will apply to almost all banks although some small banks will not benefit from the RRR cut as their RRRs are already at the lower limit of 5%. The RMB was weaker on the news. The PBOC also injected interbank liquidity in an amount of 165 bn yuan (\$24 bn). The key interbank repo rate (DR007) dropped to 2.11% (-9.4 bps). **President Xi will visit Russia from March 20–22, the first time since Russia invaded Ukraine.** President Xi is expected to discuss China's 12-point blueprint for ending the war with President Putin. In other news, traders were able to access widely used bond price feeds again after an abrupt suspension of the data earlier in the week, which roiled the bond market. Not all data platforms resumed their feeds as they have not received approval to offer bond price data.

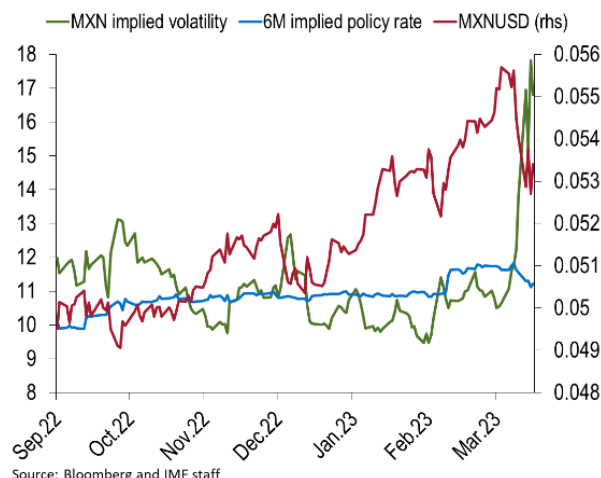
Short-term Policy and Market Rates



Sources: Bloomberg; and IMF staff calculations.

Mexico

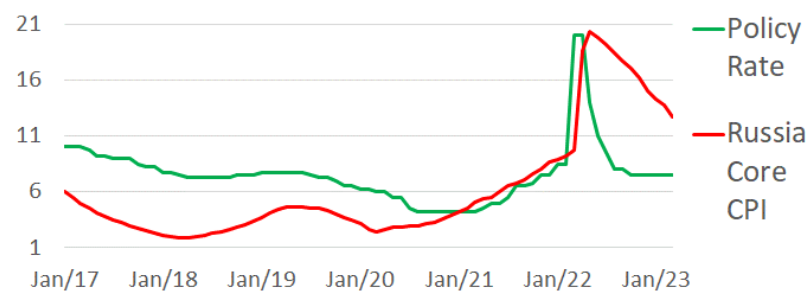
Markets are relatively sanguine about Mexico's banks, despite the global banking turmoil and the nearly 6% depreciation in the currency since March 9. The popular carry trade in the peso has suffered due to risk-off sentiment amidst the bank-related market volatility. Traders are also betting on the tightening cycle to end sooner. Markets are now pricing the implied policy rate six months from now at 11.12%, vs. 11.81% only one week ago.



Russia

The ruble (-2%) fell after the central bank (CBR) kept interest rates unchanged at 7.5% for a fourth straight meeting with inflation expected to fall back to target in coming months. The CBR reiterated its willingness to tighten if inflation risks intensify but contacts believe that a hike is less likely given slowing inflation even though the CBR is expected to maintain a hawkish tone given spending on the war in Ukraine.



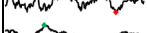


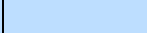



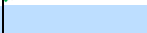



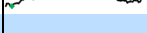





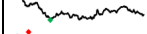






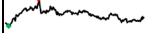

Russia: Core CPI (%yoy) and policy rate (%)



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 Piontek (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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

3/17/23 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3963	1.8	3	-3	-10	3
Europe		4119	0.0	-3	-4	6	9
Japan		27334	1.2	-3	-1	2	5
China		3959	0.5	0	-4	-7	2
Asia Ex Japan		65	1.5	0	-4	-13	0
Emerging Markets		38	1.5	-1	-5	-15	0
Interest Rates			basis points				
US 10y Yield		3.50	-8.1	-20	-32	133	-38
Germany 10y Yield		2.20	-9.5	-31	-25	181	-38
Japan 10y Yield		0.29	-2.7	-12	-22	8	-13
UK 10y Yield		3.29	-13.5	-35	-23	173	-38
Credit Spreads			basis points				
US Investment Grade		177	2.5	16	32	28	18
US High Yield		516	8.8	38	60	106	35
Europe IG		100	2.3	19	23	30	10
Europe HY		492	9.8	72	89	156	18
Exchange Rates			%				
USD/Majors		104.19	-0.2	0	0	6	1
EUR/USD		1.06	0.2	0	-1	-4	-1
USD/JPY		132.6	-0.8	-2	-1	12	1
EM/USD		49.8	-0.2	-1	-2	-4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		75.0	0.4	-9	-9	-15	-12
Industrials Metals (index)		155	1.4	-1	-5	-30	-6
Agriculture (index)		67	-0.2	0	-4	-9	-2
Implied Volatility			%				
VIX Index (%, change in pp)		23.7	0.7	-1.1	3.7	-1.9	2.1
US 10y Swaption Volatility		149.0	-2.0	13.2	39.0	57.5	23.3
Global FX Volatility		11.0	0.0	0.6	0.6	2.2	0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		201	1.0	19	16	-25	-4
Italy		191	1.2	10	5	39	-23
Portugal		94	2.1	7	6	13	-7
Spain		110	1.0	7	13	16	1

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

Emerging Market Financial Indicators

Last updated: 3/17/2023 8:15 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		6.89	0.2	0.4	0	-8	0		3.1	-0.5	-10	-2	24	8
Indonesia		15345	0.3	0.7	-1	-7	1		6.9	-5.0	-5	17	19	-3
India		83	0.2	-0.6	0	-8	0		7.5	-3.4	-31	-6	39.6	4
Philippines		55	0.3	0.8	1	-5	2		6.0	0.0	-5	5	93	-3
Thailand		34	0.7	1.6	1	-3	1		2.5	-1.0	-14	-31	18	-18
Malaysia		4.49	0.4	0.7	-1	-6	-2		3.9	2.8	-1	5	24	-10
Argentina		203	-0.2	-1.3	-5	-46	-13		90.6	94.8	186	214	4228	238
Brazil		5.24	-0.1	-0.5	-1	-4	1		14.4	105.1	107	105	191	180
Chile		825	0.0	-3.4	-4	-3	3		5.1	0.5	-25	-38	-80	-23
Colombia		4840	0.6	-1.9	2	-21	0		9.4	0.0	-9	-38	160	-35
Mexico		18.76	-0.2	-1.4	-2	9	4		8.6	-2.1	-19	-19	20	-12
Peru		3.8	0.5	-0.1	2	-2	1		7.7	#####	-38	-29	111	-24
Uruguay		39	0.1	-0.8	0	8	1		10.3	0.0	-2	53	193	-35
Hungary		372	-0.2	-3.3	-4	-10	0		8.4	10.0	15	-34	263	-120
Poland		4.43	0.0	-0.7	0	-5	-1		5.3	11.0	-16	-38	83	-83
Romania		4.6	0.2	-0.2	-1	-4	0		7.2	-14.7	-17	-22	128	-50
Russia		76.9	0.8	-1.0	-4	33	-4							
South Africa		18.4	0.2	-0.3	-2	-19	-7		9.2	-10.3	-13	3	113	-2
Turkey		19.01	0.0	-0.2	-1	-23	-2		11.4	2.0	-17	74	-1494	158
US (DXY; 5y UST)		104	-0.2	-0.4	0	6	1		3.65	-8.7	-32	-38	151	-35

	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		3959	0.5	0	-4	-7	2		178	9	10	-53	1
Indonesia		6678	1.7	-1	-3	-4	-3		156	3	17	-47	16
India		57990	0.6	-2	-4	0	-5		175	28	32	-23	33
Philippines		6470	1.0	-2	-4	-8	-1		134	6	13	-14	37
Thailand		1564	0.6	-2	-6	-7	-6		0	0	0	0	0
Malaysia		1412	1.4	-1	-4	-11	-6		104	9	5	-41	4
Argentina		223388	6.5	-10	-10	149	11		2334	169	272	553	129
Brazil		103435	0.7	-2	-5	-9	-6		284	13	20	-34	10
Chile		5198	0.0	-4	-2	9	-1		149	4	18	-23	17
Colombia		1118	0.6	-6	-8	-28	-13		438	28	44	86	66
Mexico		52506	0.8	-2	-2	-3	8		412	25	53	45	31
Peru		21376	-0.3	-2	-3	-14	0		191	2	13	4	11
Hungary		41279	1.0	-4	-10	-7	-6		244	21	37	89	22
Poland		57067	0.3	-4	-6	-11	-1		91	14	22	41	18
Romania		12285	0.8	-1	0	-2	5		269	22	34	35	13
South Africa		73431	0.7	-4	-7	-1	1		417	45	50	54	50
Turkey		5213	-0.3	-3	4	144	-5		471	6	-39	-85	31
Ukraine		507	0.0	0	0	-2	-2		4889	126	424	1983	810
EM total		38	0.7	-1	-5	-15	0		419	22	36	-132	43

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

[back to top](#)