



- UBS acquires Credit Suisse for \$3.25 bn in government-backed deal ([link](#))
- Uncertainty rises around AT1 seniority as Credit Suisse AT1 bonds wiped out in deal ([link](#))
- Major central banks increase frequency of US dollar swap line operations to daily ([link](#))
- Markets split between a pause and 25 bp hike at FOMC meeting this week ([link](#))
- China's Evergrande reportedly close to debt restructuring deal with foreign investors ([link](#))
- Outflows from emerging market bond and equity funds intensify ([link](#))

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Markets remain nervous as banking sector uncertainty persists

Risk sentiment remains fragile in markets to start the week as global equities are mixed, though banking sector stocks are still notably underperforming, and core sovereign bond yields are lower following weekend announcements on Credit Suisse. UBS agreed to buy Credit Suisse for \$3.25 bn after a weekend of negotiations brokered by Swiss regulators to safeguard the country's banking system and attempt to stem financial stress from spreading across global markets. A part of the deal that spurred investor concerns was the complete write-down of about \$17 bn of Credit Suisse's additional tier 1 (AT1) bonds while still leaving shareholders with some value, ultimately raising concerns about spillovers to the broader AT1 bond market. In further news on liquidity measures, the Fed and five other major advanced economy central banks announced coordinated action on Sunday to boost liquidity in US dollar swap arrangements by increasing the frequency of the operations from weekly to daily. Markets capped off a volatile week with equities closing well into negative territory on Friday amid the lingering uncertainty in the banking sector. The news over the weekend has so far failed to materially ease financial stability concerns as Asian equities closed down 1–2% overnight, though some calm has emerged this morning with European stocks and S&P 500 futures flat to modestly higher. Sovereign bond yields are lower across maturities in advanced economies, with 2-year yields pacing the moves lower after massive declines last week. Looking ahead to later this week, all eyes will turn to the FOMC's latest policy rate decision and whether the committee will proceed with an expected 25 bp hike despite the recent market turmoil.

Key Global Financial Indicators

Last updated: 3/20/23 8:10 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		3917	-1.1	1	-4	-12	2	-7
Eurostoxx 50		4095	0.7	0	-4	5	8	3
Nikkei 225		26946	-1.4	-3	-2	0	3	2
MSCI EM		38	-0.6	-1	-5	-17	-1	-21
Yields and Spreads			bps					
US 10y Yield		3.39	-3.6	-18	-42	124	-48	140
Germany 10y Yield		2.06	-4.4	-20	-40	169	-51	184
EMBIG Sovereign Spread		510	15	36	56	56	58	97
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.6	-0.2	-1	-2	-4	-1	-7
Dollar index, (+) = \$ appreciation		103.5	-0.2	0	0	5	0	8
Brent Crude Oil (\$/barrel)		72.1	-1.2	-11	-14	-33	-16	-26
VIX Index (% change in pp)		26.6	1.1	0	7	3	5	-4

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

In the week ahead, risk sentiment is expected to remain fragile with investors focused on the FOMC meeting on Wednesday, where most analysts expect a 25 bp hike and others no hike. Markets will also be attentive to the updated quarterly economic projections and the Fed dot plot. On the economic data front, PMIs are due in the US, euro area, and UK. CPI will be released in Canada, the UK, and Japan, among others. On the monetary policy front, central banks in Nigeria (50 bp hike), Philippines (25 bp hike), Switzerland (50 bp hike), Norway (25 bp hike), and the UK (25 bp hike) are expected to raise policy rates while central banks in Brazil and Türkiye are expected to hold.

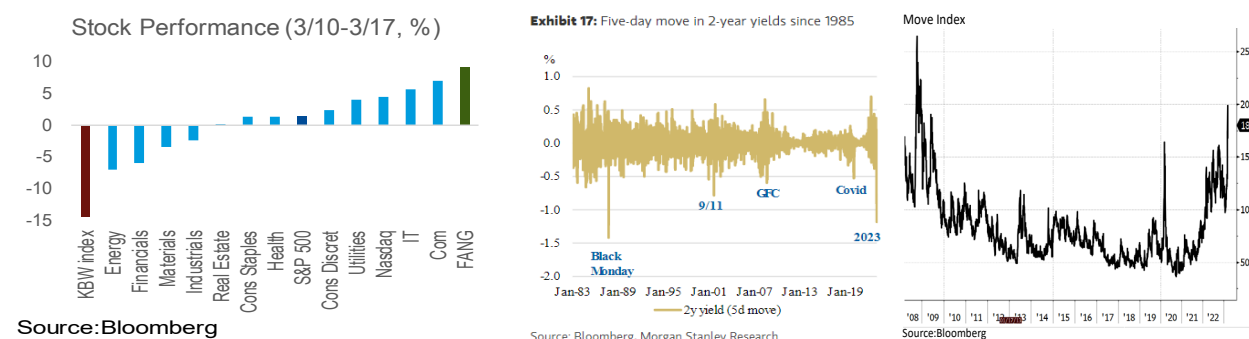
Mature Markets

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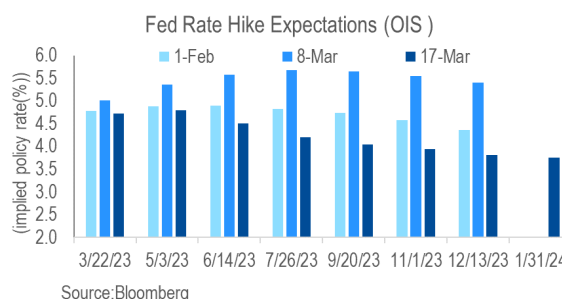
United States

On Friday, the S&P 500 fell -1.1%, driven by financial shares (-3.3%) as First Republic bank shares shed (-32.8%) despite the \$30 bn support from large US banks. While bank equities tumbled, tech shares declined only modestly, with the tech-heavy Nasdaq 100 outperforming (-0.49%), posting weekly gains of 5.8% (vs. 1.4% of S&P 500), its best week since November. More than \$560 bn in market value has been added to the four biggest US tech companies, with Microsoft shares rising more than 12%, the largest weekly gains since 2015. Analysts pointed to falling bond yields, along with lower valuations from last year's equity market declines, as supporting tech share outperformance.

While US stocks, as a whole, have been relatively resilient, **US Treasury yields declined sharply last week**, led by shorter-dated securities. Two-year yields fell 75 bp, the largest weekly decline since 1987 as markets significantly lowered expectations for the Fed policy rate hikes. Meanwhile, interest rate volatility rose to the highest level since 2008, which negatively affected corporate bond issuance as Bloomberg reported that no companies in US high-grade markets issued bonds last week, the first blank week since June 2022. As many as 15 potential issuers have postponed bond sales.



All eyes are on the FOMC meeting this week. According to Bloomberg, **more than 70% of analysts who updated their forecast last week expect the Fed to hike 25 bps in March, while 17% expect to hold, and one analyst expects a 25 bp cut.** Analysts who expect a 25bp hike note that inflation remains elevated, and the cost of a pause is very high, potentially sending the wrong signal about the Fed's commitment to their inflation goal. They think the Fed could use the same logic as the ECB, namely, separate toolkits to deal with inflation and financial stability. Analysts who expect no-hike in March argue that financial stability is an immediate concern while inflation is a much slower-moving problem. **They also pointed out that as markets are currently pricing in a 60% of probability of a 25 bp hike.**



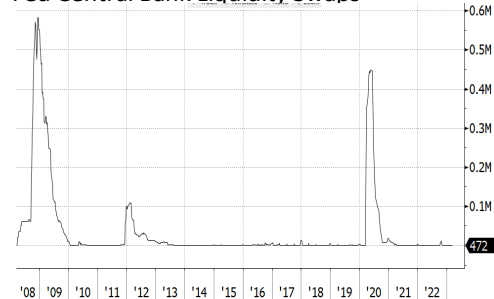
On Sunday, the Fed and five other major central banks announced coordinated action to enhance dollar funding through existing US dollar swap agreements among central banks. The central banks in Canada, the UK, Japan, Switzerland, and the Fed and ECB agreed to increase the frequency of operations from 7-day maturities to daily, beginning Monday and continuing at least through the end of April. This coordinated action aims to mitigate strains in global funding markets as there are some signs of increased funding pressures, with cross-currency basis swap spreads widening after the banking turmoil.

Cross Currency Basis Swap Against the US dollar, 3M (basis points)



Source: Bloomberg

Fed Central Bank Liquidity Swaps



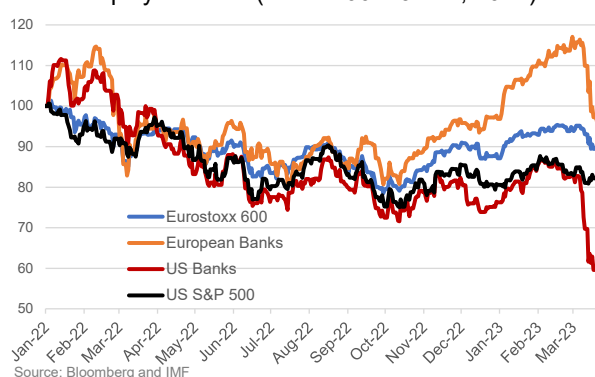
Source: Bloomberg

Note: as of March 15

Euro area

In the late morning, European markets were paring some of their earlier losses. The Stoxx Europe 600, which lost up to 1.7% at the open, is now broadly flat. Banking stocks are down 2.6%, after plunging up to 5% at the open. The euro is up 0.3% vs. the dollar, to 1.07/\$. Bond yields declined, with German 10y bund yields down 3 bps to 2.07%, having gone briefly below 2% earlier this morning for the first time since mid-December. Italian spreads are broadly unchanged at 194 bps. Markets' pricing of the ECB terminal rate is broadly unchanged from Friday at 3.1% by June.

Equity Markets (Index 100 = Jan 1, 2022)

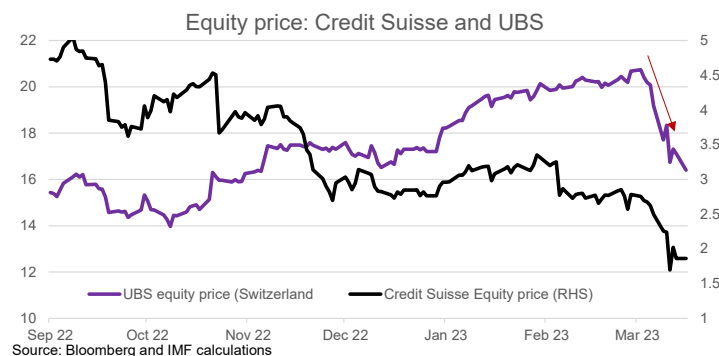


Source: Bloomberg and IMF

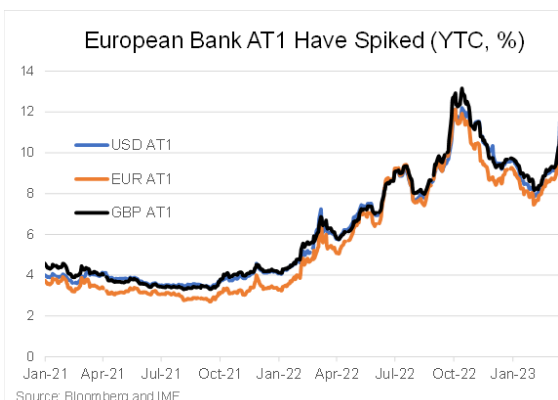
Switzerland

UBS's purchase of Credit Suisse yesterday, in a government-brokered deal, alleviated immediate concerns about a broader global bank run. UBS will pay 3 bn CHF (\$3.25 bn) for Credit Suisse. The Swiss National Bank is offering a 100 bn CHF liquidity assistance to UBS while the government is granting a 9 bn-franc guarantee for potential losses from assets UBS is taking over. The government's loss-guarantee was necessary because there was little time to do due diligence and Credit Suisse has hard-to-value assets on its books that UBS plans to wind down. If that results in losses, UBS would assume the first 5 bn CHF and the federal government the next 9 bn CHF. Switzerland's government used an emergency ordinance to avoid the need for a shareholder approval. As for how Credit Suisse will be

restructured, the Swiss universal bank and the wealth management business are expected to stay with UBS at this point, while UBS Chairman Colm Kelleher said he will shrink Credit Suisse's investment bank. Credit Suisse's statement said the deal is expected to close by the end of the year and shareholders will get UBS stock in a deal that values the bank at 3 bn CHF. The firm was valued at about 7.4 bn francs at Friday's close, around 20 bn a year ago, and more than 100 bn at its 2007 peak.



Markets are however concerned about other issues stemming from the deal, and in particular, AT1 (additional tier 1) bonds. Swiss regulator FINMA said that the deal will trigger a “complete write-down” of about 16 bn CHF Credit Suisse AT1 bonds in order to increase core capital. AT1 bonds (or Cocos) are perpetual bonds that banks use to augment their core equity base. They have loss-absorbing features and can be written off or converted to equity if a lender's capital falls below a certain threshold. They are subordinate to all other debt and senior only to equity. However, in the deal outlined above, Credit Suisse shareholders will receive UBS stock while AT1 bondholders will receive zero. Some in the market are puzzled about a decision that seems to ignore market convention. The decision is expected to rattle the \$275 bn AT1 market and raises serious doubts about the prospects for other lenders' AT1 bonds. The other write down so far of this type of security was a €1.35 bn loss when Banco Popular was absorbed by Banco Santander in 2017 to avoid collapse. In that instance, the equity was also written off. Markets are trying to understand where the ownership of these AT1 bonds is, to understand risks. **Note that this morning, the European regulators (the Single Resolution Board, the European Banking Authority and the ECB Banking Supervision) reaffirmed that junior creditors should bear losses only after equity holders have been fully wiped out.**



United Kingdom

Equity markets (FTSE 100) were marginally higher in the UK, gaining 0.4%. The British pound was very slightly appreciating against the dollar (+0.1% to 1.22 £/\$). Yields on 10y gilts were down 7 bp to 3.21%, partly reversing earlier drops which saw yields dip to 3.15% shortly after the market opened this morning. Expectations for the BoE decision this Thursday are unusually split. Markets are pricing in 11 bps in hikes (down from 25 bp 10 days ago) and a terminal rate of 4.2% by June (from 4.8% by September a week ago). Markets are also starting to price in cuts from August. Of course, markets note that in addition to global banking developments, the BoE decision will also likely depend on the inflation outturn for February, which will be published on Wednesday (headline inflation expected at 9.9% y/y expected, down from 10.1% in January; core inflation expected at 5.7% y/y down from 5.8% in January).

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Latin American equity markets underperformed, currencies depreciated against the U.S. dollar, and CDS spreads widened on Friday. Industry analysts expect the key policy rate for Mexico to increase by 25 bps at the next meeting on March 30, while they expect the key rate to remain unchanged at 8.50% for Paraguay at the next meeting on March 22. **Major Asian equity indices declined 1-2%** and 10-year benchmark bond yields were mostly lower across the region. Hong Kong equities posted the largest losses in the region as financial stocks, particularly HSBC and AIA Group, fell due to worries over exposures to AT1 bonds following the write-down of Credit Suisse AT1 bonds as part of the deal with UBS. **Equities in EMEA traded with a cautious but nuanced tone as investors are assessing the implications of the UBS takeover news but also of the visit of Chinese President Xi Jinping to Moscow.** Bank equities traded lower in Poland (-2%) and Turkey (-2%) with Hungarian OTP bank also 2% lower, but contacts saw losses as relatively contained. Swap yields are generally lower in line with European trading. The Hungarian forint (-2%) underperformed but currencies were little changed in South Africa, Poland, and the Czech Republic. The central bank of Türkiye is expected to leave its policy rate unchanged at 8.5% in an otherwise relatively quiet week for regional central banks and data.

Emerging Market Fund Flows

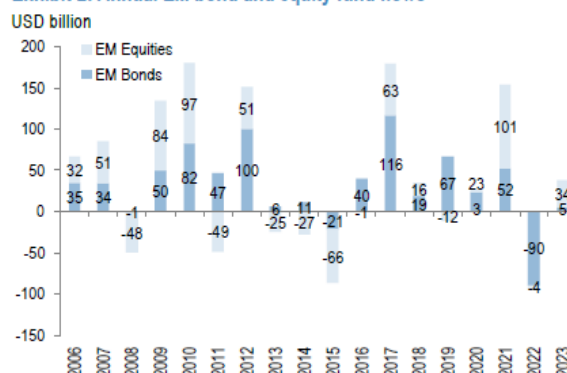
Outflows from EM bond and equity funds totaled -\$4.5 bn last week. EM bonds outflows were -\$3.2 bn driven by hard currency bond fund outflows in EM Asia ex-Japan. EM equity outflows of -\$1.3 bn were the largest since mid-December 2022 and driven by outflows across all regional funds in non-ETFs, though year-to-date net inflows to equity funds remains at \$33.6 bn (Exhibits 1 and 2).

Exhibit 1: Weekly Cross-Asset Flows

USD billion			
Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-4.5	38.4
EM Bonds		-3.2	4.8
Hard Ccy		-3.0	4.6
Local Ccy ^A		-0.1	0.1
o.w. EM ex-China		0.0	1.1
o.w. China		-0.1	-1.8
EM Equities		-1.3	33.6
US HG		1.2	77.8
US HY		-1.3	-11.9
Global Equities		2.3	-28.8
EM Bond and Equity ETFs		-1.5	22.9
EM Bond ETFs		-0.4	1.2
EM Equity ETFs		-1.1	21.7
Non-resident EM flows*		-5.5	13.0

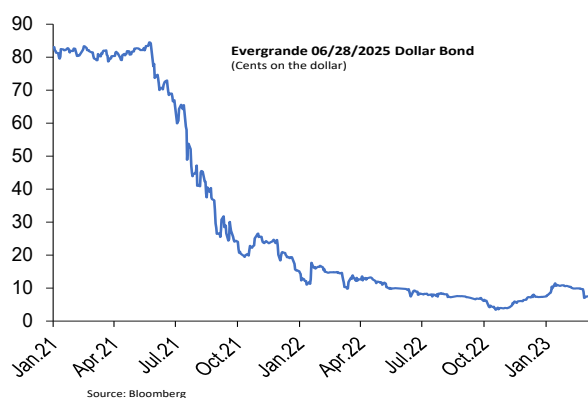
*High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows



China

China's Evergrande, the property firm that defaulted on its dollar bonds over a year ago, is close to reaching a debt restructuring deal with foreign bond investors, according to the Wall Street Journal (WSJ). Evergrande has reportedly agreed on the outlines of a deal that will allow it to extend its debt maturities and defer some coupon payments. In the deal, investors are expected to take a "haircut" on some of the bonds, but the size of the reduction is still to be negotiated. The WSJ also speculated that Evergrande will not pay investors back immediately but will swap their bonds for newly issued ones, including bonds secured by shares of its Hong Kong-listed businesses. Chinese real-estate companies missed payments on more than \$30 bn worth of hard currency bonds in 2022, according to S&P, with contacts suggesting Evergrande's restructuring could set a template for other debt workouts. Evergrande's dollar bonds have been trading at large discounted levels since it defaulted on its hard currency debt in December 2021, with its \$4.7 bn bond due in 2025 trading at 9 cents on the dollar on Friday. The dollar bonds of other Chinese real estate firms have been trading in relatively stable ranges in recent weeks, with those rated below investment-grade trading in an average range of 30–35 cents on the dollar.

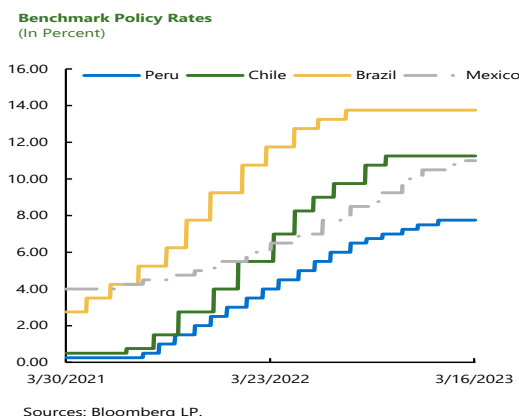


Poland

Analysts warn that Polish banks may struggle to meet minimum requirements for own funds and eligible liabilities (MREL) by selling 20 bn zloty of bonds by end 2023 after the wipe-out of Credit Suisse's AT1 securities. Poland had already delayed introduction of new MREL requirements for banks to the start of 2024 (from 2023) due to the pandemic, and there is some speculation the deadline will be delayed further. **MREL bonds do not have the same specificity as AT1 securities but the overall environment for any kind of MREL related issuances is "bleak" now, according to one analyst.**

Mexico

Mexico's central bank is considering increasing its policy rate by a "lesser magnitude" at the next meeting on March 30, according to the central bank's governor, Victoria Rodriguez Ceja. Industry analysts forecast a 25 bp rate hike at the next central bank meeting, while policy rates remain unchanged in Brazil, Chile, and Peru. Mexico's monetary policy tightening cycle has so far resulted in 700 bp of increases for the benchmark rate since June 2021.



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Global Financial Indicators

Last updated: 3/20/23 8:11 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3913	-1.1	1	-4	-12	2	-7
Europe		4095	0.7	0	-4	5	8	3
Japan		26946	-1.4	-3	-2	0	3	2
China		3939	-0.5	-2	-5	-8	2	-15
Asia Ex Japan		65	-0.4	0	-5	-15	0	-18
Emerging Markets		38	-0.6	-1	-5	-17	-1	-21
Interest Rates			basis points					
US 10y Yield		3.39	-3.6	-18	-42	124	-48	140
Germany 10y Yield		2.06	-4.4	-20	-40	169	-51	184
Japan 10y Yield		0.25	-3.8	-10	-26	4	-17	5
UK 10y Yield		3.25	-3.4	-12	-22	175	-42	177
Credit Spreads			basis points					
US Investment Grade		184	1.8	7	39	37	25	41
US High Yield		554	14.0	29	98	149	73	147
Europe IG		107	6.1	12	28	27	16	35
Europe HY		532	39.5	56	124	158	58	181
Exchange Rates			%					
USD/Majors		103.46	-0.2	0	0	5	0	8
EUR/USD		1.07	0.3	0	0	-3	0	-5
USD/JPY		131.0	-0.6	-2	-2	10	0	14
EM/USD		49.6	-0.2	-1	-2	-4	-1	-7
Commodities			%					
Brent Crude Oil (\$/barrel)		72.1	-1.2	-11	-14	-20	-15	-14
Industrials Metals (index)		154	0.0	-2	-6	-28	-7	-18
Agriculture (index)		66	-0.9	0	-5	-10	-4	-5
Implied Volatility			%					
VIX Index (% change in pp)		26.6	1.1	0.1	6.6	2.8	5.0	-4.4
US 10y Swaption Volatility		160.7	-1.7	-6.1	50.7	58.2	35.0	66.4
Global FX Volatility		10.9	0.1	0.0	0.7	1.9	0.2	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		205	-0.1	0	18	-22	-1	-35
Italy		194	-0.5	2	7	42	-20	23
Portugal		93	0.4	-1	5	12	-9	1
Spain		112	0.0	1	16	18	3	9

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

Emerging Market Financial Indicators

Last updated: 3/20/2023 8:13 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		6.88	0.1	-0.5	0	-8	0		3.0	-10.0	-13	-18	17	-3
Indonesia		15360	-0.1	0.0	-1	-7	1		6.9	0.0	7	18	18	-3
India		83	-0.1	-0.6	0	-8	0		7.4	-10.3	-16	-15	27	-5
Philippines		55	0.1	0.5	1	-4	2		6.0	0.0	-5	5	93	-3
Thailand		34	0.3	1.4	1	-2	1		2.4	-8.0	-9	-35	2	-26
Malaysia		4.49	0.0	0.2	-1	-6	-2		3.9	-0.5	3	5	24	-12
Argentina		203	-0.2	-1.3	-5	-46	-13		90.9	32.2	188	306	4226	270
Brazil		5.27	0.1	-0.5	-2	-6	0		13.2	-4.9	11	-9	101	65
Chile		834	-0.5	-3.4	-4	-5	2		5.0	-2.0	-13	-50	-100	-32
Colombia		4827	1.0	-2.4	2	-21	1		9.1	-36.0	-45	-74	124	-71
Mexico		19.01	-0.5	-0.5	-3	7	3		8.6	-3.9	-12	-28	23	-16
Peru		3.8	-0.1	-0.3	1	-1	0		7.7	0.0	-16	-20	118	-23
Uruguay		39	0.6	-0.5	-1	8	1		10.4	2.7	3	56	196	-33
Hungary		373	-0.1	-1.9	-4	-9	0		8.4	0.0	18	-41	260	-120
Poland		4.39	0.4	-0.8	1	-3	0		5.2	-7.0	-1	-59	57	-95
Romania		4.6	0.3	-0.3	0	-2	0		7.2	4.9	-1	-20	144	-45
Russia		77.0	0.0	-2.1	-2	38	-4							
South Africa		18.5	0.1	-1.4	-2	-19	-8		8.9	-22.5	-25	-30	84	-27
Turkey		19.02	0.0	-0.3	-1	-22	-2		11.8	41.0	58	133	-1460	199
US (DXY; 5y UST)		103	-0.2	-0.1	0	5	0		3.44	-6.5	-26	-59	129	-57

	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		3939	-0.5	-2	-5	-8	2		182	11	12	-44	5	
Indonesia		6612	-1.0	-3	-4	-5	-3		166	0	10	-19	26	
India		57629	-0.6	-1	-5	1	-5		177	24	30	0	35	
Philippines		6451	-0.3	-1	-5	-7	-2		137	3	2	10	40	
Thailand		1555	-0.5	-1	-7	-7	-7							
Malaysia		1402	-0.7	-1	-5	-12	-6		103	7	3	-36	3	
Argentina		221740	-0.7	-6	-11	149	10		2397	100	261	626	192	
Brazil		101982	-1.4	-2	-7	-12	-7		296	16	27	-9	22	
Chile		5112	-1.7	-4	-4	5	-3		156	3	20	-3	24	
Colombia		1110	-0.7	-6	-8	-28	-14		449	27	33	114	77	
Mexico		51926	-1.1	-2	-4	-6	7		423	27	59	70	42	
Peru		21445	0.3	-1	-2	-14	1		198	4	15	25	18	
Hungary		40941	0.4	-5	-9	-7	-7		259	23	40	112	37	
Poland		55708	-1.0	-4	-8	-12	-3		109	22	32	61	36	
Romania		12134	-0.8	-1	-2	-4	4		283	26	33	69	27	
South Africa		73472	1.3	-3	-8	-2	1		432	38	52	70	65	
Turkey		5037	-1.9	-5	-2	135	-9		491	13	-35	-77	51	
Ukraine		507	0.0	0	0	-2	-2		4938	138	424	1812	859	
EM total		38	-0.2	-1	-5	-17	-1		433	24	40	-94	58	

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

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