



- **First-Citizens Bank agrees to buy Silicon Valley Bank's deposits and loans** ([link](#))
- **Fed vice chair Barr says bank regulation needs to change** ([link](#))
- **Analysts see further downside risk in European real estate stocks** ([link](#))
- **UK shop price inflation reaches new record high** ([link](#))
- **Japan's Diet enacted a record-high budget for fiscal year 2023** ([link](#))
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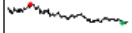

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## Bank fears may have eased but markets remain cautious

**After a positive start this morning, markets have turned flat as the direction of monetary policy and economic outlook remains uncertain.** European stocks opened in the green today, but lost traction on news that prosecutors are investigating possible tax fraud and money laundering at French banks. Meanwhile, US regional bank shares are higher in pre-market trading. With investors seemingly more at ease with risks in the banking sector, and inflation still high, expectations for further policy rate hikes in advanced economies have increased. Markets are now pricing in 21 bp for the ECB meeting in May, a 5 bp increase from Friday. There have been similar moves in expectations for the Fed's May meeting as well, increasing to 13 bp priced in from just 6 bp on Friday. Most emerging market currencies are higher versus the dollar this morning, led by the Hungarian forint which is rising even as the central bank left rates unchanged as expected.

Key Global Financial Indicators

Last updated: 3/28/23 8:20 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		3978	0.2	1	0	-13	4	-6
Eurostoxx 50		4170	0.1	0	-2	7	10	5
Nikkei 225		27518	0.2	2	0	-3	5	4
MSCI EM		38	-0.5	2	1	-15	1	-19
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.54	0.8	-7	-38	108	-34	155
Germany 10y Yield		2.28	5.7	-1	-37	171	-29	206
EMBIG Sovereign Spread		489	-14	-19	45	38	37	77
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.5	0.3	1	1	-4	1	-5
Dollar index, (+) = \$ appreciation		102.5	-0.4	-1	-2	3	-1	7
Brent Crude Oil (\$/barrel)		78.3	0.2	4	-7	-30	-9	-19
VIX Index (% change in pp)		20.8	0.2	-1	0	1	-1	-10

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

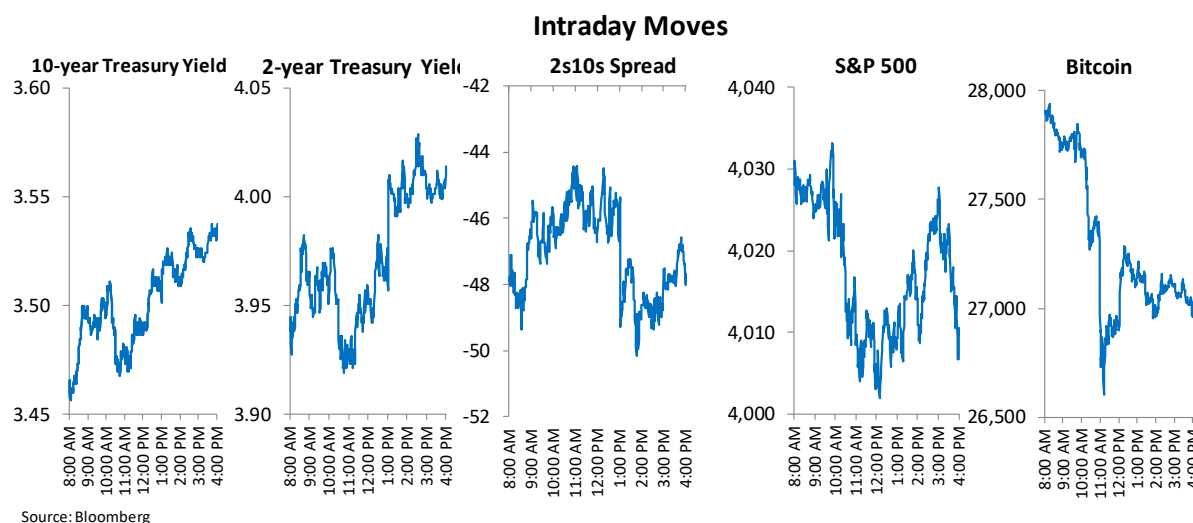
## Mature Markets

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### United States

#### First-Citizens Bank & Trust Company has agreed to buy Silicon Valley Bank's deposits and loans.

The purchase of \$72 bn in assets comes with a 23% discount, while \$90 bn in securities and other assets will remain at the FDIC. Overall, US equities rebounded as the bank stock price panic may be over for now; the S&P 500 was up 0.2% for the day, and First-Citizens Bank shares jumped by 52%. However, some earlier gains were pared as rates increased on the prospect that the Fed would resume its tightening course. Bitcoin declined 2.3% Monday as the CFTC has filed suit against Binance, the largest crypto exchange. The dollar marginally weakened, down 0.7%. **The 2-year Treasury yields rose 24 bps with curve flattening**, and the market-implied probability of a May FOMC policy rate hike increased to 53%. In the corporate bond market, the CDX high yield spread decreased 14 bp to 504 bp. The high-yield primary market remained closed amid elevated contagion concerns. In the investment grade corporate bond market, contacts saw better buying of the front end and better selling of the long end, causing steeper credit curves. Real-money investors were net sellers, while fast-money investors were net buyers. Market liquidity improved on a week-over-week basis, though it remains challenged, especially in banking. Over the two weeks through March 15, bank deposits decreased by \$160 bn, or about \$4 tn annual rate. The outlook remains highly uncertain and there is no clear consensus as to what extent lower deposit growth leads to tighter lending standards, slower economic activities, and lower inflationary pressure. JPM analysts estimated a 2% slowdown in annualized loan growth rate is equivalent to about 50–100bp in rate hikes.



**The Fed vice chair, Michael Barr, acknowledged in his written testimony prepared for a Senate Banking Committee hearing Tuesday that bank supervision and regulation might need to change in the wake of the SVB collapse.** Barr proposed more stringent rules that would improve the banking system's resiliency, including long-term debt requirements for large banks that are not global systemically important and enhanced stress testing. Wells Fargo analysts see more stringent requirements for Category III and IV banks to come. Highlighted in yellow in the table below are some potential adjustments to the existing bank capital and liquidity rules for banks according to the analysts.

Potential Adjustments to the Existing Bank Capital and Liquidity Rules for Banks

Tailoring	Category I	Category II	Category III	Category IV	Regional
	U.S. GSIBs	≥ \$700B or ≥ \$75B Cross-jurisdictional	≥ \$250B or ≥ \$75B STWF, Non-bank, Off B/S	\$100B - \$250B	\$50B - \$100B
Capital	TLAC / Long-term Debt	TLAC / Long-term Debt			
	<u>Stress Testing</u> Annual CCAR Supervisory Stress Test Annual Company-run Stress Test		<u>Stress Testing</u> Annual CCAR Supervisory Stress Test Annual Company-run Stress Test		
	<u>Risk-Based Capital</u> GSIB Surcharge Countercyclical Buffer Stress Capital Buffer No Opt-out of AOCI Capital Impact		<u>Risk-Based Capital</u> Countercyclical Buffer Stress Capital Buffer No Opt-out of AOCI Capital Impact		<u>Risk-Based Capital</u> Capital Conservation Buffer No Opt-out of AOCI Capital Impact
	Elimination of Advanced Approaches				
	Full LCR (100%) Full NSFR (100%)		Full LCR (100%) Full NSFR (100%)		
	Liquidity Stress Tests (monthly) Full Liquidity Risk Management		Liquidity Stress Tests (monthly) Full Liquidity Risk Management		Tailored Liquidity Risk Management
Liquidity	<u>Reporting</u> Report FR 2052a Daily		<u>Reporting</u> Report FR 2052a Daily		
	US IHC Requirement				

Source: Federal Reserve and Wells Fargo Corporate &amp; Investment

## Euro Area

European equities were edging higher in early trade but then pared gains in later trade while the euro was trading marginally stronger against the dollar (+0.2%). The Stoxx 600 banking index retraced all gains in later trade, with Bloomberg reporting that the financial prosecutor in France is set to search five banks in relation to a tax fraud and money laundering probe. ECB speakers yesterday reinforced views of banking sector stability, with Governing Council (GC) member Simkus noting that bank liquidity and capitalization remains high and GC member De Cos highlighting that banks in the euro area well prepared to face adverse scenarios. He also added that banks would act carefully amid volatility and encouraged Europe to complete its banking union to increase resilience. Separately this morning the chair of the supervisory board of the ECB Andrea Enria argued that global authorities should take a closer look at the credit default swaps (CDS) market following recent banking sector turmoil.

European Stock indices, Jan 2022 = 100

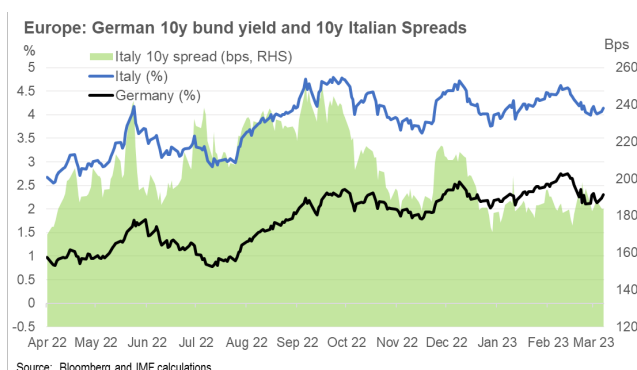


Source: Bloomberg and IMF calculations

**Analysts warn that European real estate equity prices could decline by 50% by the end of 2023.** Citi analysts argue that real estate values have not priced in 2H 2022's monetary policy decisions and forecast that asset values will decline by between 20% and 40% over 2023 and 2024. Analysts highlight that in addition to lower equity prices, property sector bonds have also declined. This morning the Stoxx 600 real estate index underperformed (-2.9%), bringing the year to date decline close to 12%.

**Sovereign yields increased (10-yr bund yields +8bps) as markets priced in a modestly higher ECB terminal rate.** Analysts saw commentary from ECB GC member Schnabel yesterday as hawkish, as she noted that she had been in favor of the ECB's March statement including a reference that more hiking was possible. Contacts note a more dovish tone from GC member Centeno. Markets are now pricing in roughly 21 bp of tightening by the ECB at the upcoming meeting May (compared to 16bp priced in at the end of last week), with the terminal rate priced at around 3.5%.

Data released this morning showed manufacturing and consumer confidence in Italy improving slightly more than expected in March, while business and manufacturing confidence in France were little changed, generally in line with expectations. Italian spreads were slightly wider (+4 bp at 187 bp).



## United Kingdom

BoE governor Bailey yesterday said that rates will not necessarily have to return to pre-crisis levels but highlighted the sound position of the UK banking system and emphasized that further rate hikes are possible if inflationary pressures persist. On the data front the BRC shop price index increased to a new record high 8.9%y/y in March (from 8.4%). This follows an upside surprise in February UK inflation data released last week. **10-yr gilt yields increased by 10bp this morning and markets are now pricing in 20bp of tightening for the May BoE meeting** (compared to roughly 17 bp at the end of last week) with the terminal rate priced at around 4.6%.

## Japan

Japan's upper house of parliament enacted a record ¥114 tn (\$875 bn) budget in 2023. The budget for the fiscal year beginning in April comprises record allocations for social security costs. It also includes a record ¥6.8 tn in defense spending, a 20 percent hike, for the first year of an unprecedented five-year spending plan. High spending will be partially covered by increases in corporate and income tax, as well as an increase in tax on some consumer products. To fund the state budget, the government will issue ¥35tn in bonds. Meanwhile, the cabinet approved the use of ¥2.2 tn in reserve funds from the fiscal 2022 budget. The package includes handouts to help low-income households to cushion the impact of inflation and measures to keep down prices of imported wheat and livestock feed, as well as on Covid-19 measures. **Equities gained 0.3%. The yen strengthened 0.4%**; analysts noted lower number of market participants and support from flows ahead of the end of the fiscal year leading to exaggerated market movements. Yields on 10Y benchmark increased +1.1 bp. Japan's auction of 40-year government debt drew a lower-than-estimated cut-off yield, suggesting strong demand, Bloomberg reported. Benchmark 40Y yield dropped 13 bp to 1.49% while the 5Y rate increased 1.5 bps to 0.08%.

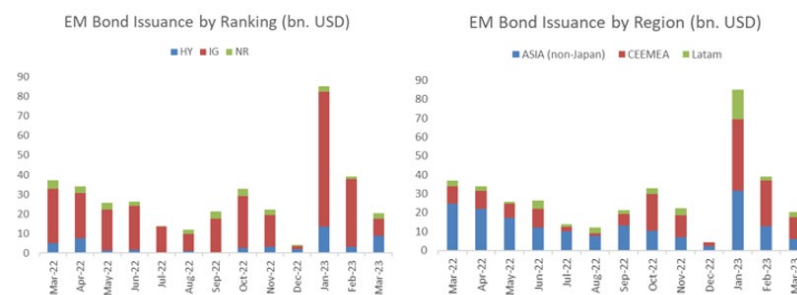
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**Asian stocks rebounded 0.6% on net.** Hong Kong SAR recovered 1.1%, followed by South Korea (+1%), Mainland China stocks declined (Shenzhen -0.7%, Shanghai -0.2%). **Asian currencies were mixed.** The Thai baht appreciated 0.4%, the Philippines peso weakened 0.2%. 10-year yields increased modestly. In ASEAN, the second version of the ASEAN Taxonomy for Sustainable Finance was released on Monday and included detailed methodologies for quantitative assessment of economic activities. **EMEA markets are generally up.** Equity markets were in the green almost everywhere and currencies were trading in a narrow range, with a strengthening bias. Türkiye is the exception, as the equity market is down (1.5%), and the lira is losing 0.1%. Local bond yields are very slightly down in Hungary (-3 bp to 8.13%) ahead of the National Bank of Hungary (NBH) rate decision later this morning where the market expects all rates to

remain unchanged. Market participants will also be paying close attention to NBH's quarterly forecast update round, and in particular for indication on how fast they see disinflation can be. **Latam markets were up on Monday.** The Colombian peso (+1.0%) outperformed others and continued its appreciation trend for the sixth day, followed by the Brazilian real (+0.9%) and Mexican peso (+0.5%). Equities were also traded higher, especially in Colombia (+1.1%), Peru (+0.9%), and Brazil (+0.9%).

## EM Bond Issuance

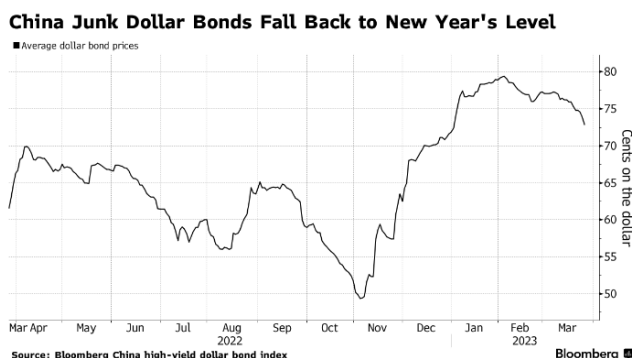
**EM bond issuance has been lower in March so far compared with last year.** Bond issuance for last week was \$2.9 bn, and YTD issuance was \$144.6 bn. Sovereigns accounted for 64% of total issuance last week, mainly by Panama, followed by municipal and local governments (20%), and financials (12%). Investment grade issuance has accounted for 78% of total YTD issuance.



Source: Bond Radar and IMF staff calculations

## China

**China's top anti-corruption agency will inspect more than 30 state-owned companies.** Anti-graft checks in China usually follow five-year cycles, with fresh rounds kicking off after party congress concludes, Bloomberg reported. Chinese stocks were mixed: mainland markets declined (Shenzhen -0.7%, Shanghai -0.2%), Hang Seng China Enterprises added 1.2%. The renminbi and 10Y bond yields were little changed. Bonds in the developer-dominated high-yield market declined 1.3% on Monday, losing over 7% since their peak level in early February, according to Bloomberg data.



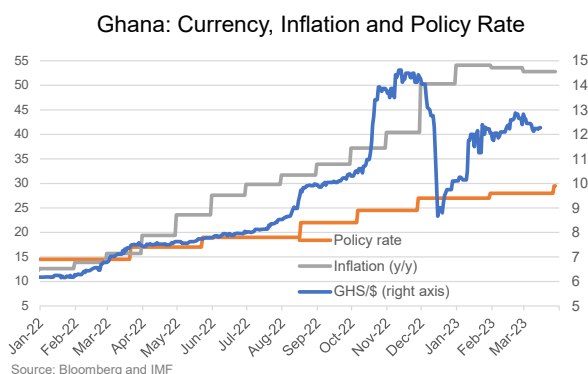
## Poland

**Bloomberg reports that Poland opened books on two benchmark-sized dollar bond sales that would be due in 2033 and 2053 and that may price today.** Poland has ramped up foreign currency issuance in the past year as domestic borrowing costs increased and has said that it was planning to use funding from the international market more often. Poland issued in dollars in November (\$1.5 bn in 5Y bonds at 5.5% and \$1.5 bonds in 10Y at 5.75%). Poland also issued bonds in euros in February (EUR 2.25 bn in 10Y bonds at 3.875%, and EUR 1.25 bn in 20Y bonds at 4.25%). The minister of finance has also signaled that it is considering a return to Japan's samurai bond market, where it has not issued since 2013.



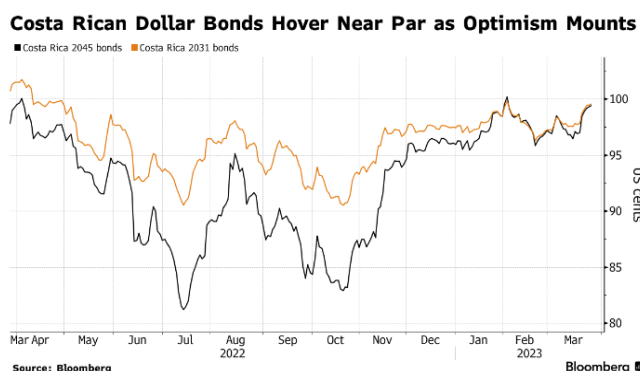
## Ghana

**Yesterday, the Bank of Ghana hiked the policy rate by 150 bps to 29.5%, surprising markets, which were expecting no change.** The MPC statement said this change was to re-anchor inflation expectations since headline inflation remains well above its  $8\% \pm 2\text{pp}$  inflation target—it was 52.8% y/y in February. Market participants also pay close attention to the statement, because it provides an update on recent macroeconomic developments and often new data. Besides an update on inflation and growth developments, showing a moderation in both, the major macro news in yesterday's statement was that provisional budget execution for 2022 showed a budget deficit of 8.1% of GDP, larger than the 6.3% of GDP target. The statement also noted that a preliminary assessment of the impact of the domestic debt exchange program (DDEP) indicates significant losses for banks on their government bonds holdings, even though this has been moderated by the introduction of regulatory reliefs by the Bank of Ghana, including a reduction on the minimum capital adequacy ratio (CAR) required to be maintained by banks (to 10% from 13%). The statement judges nonetheless that the financial sector remains resilient. The statement also provided an update on measures agreed with the Fund in the December Staff-level agreement. It says that the Bank of Ghana and the Ministry of Finance have finalized a Memorandum of Understanding on zero financing to the budget, to be signed shortly. The statement also notes that parliament is due to consider the revenue bills related to fiscal consolidation soon; and regarding the external debt restructuring, it says that discussions on securing requisite financing assurances from bilateral donors are proceeding well.



## Costa Rica

**Costa Rica returned to global bond markets for \$1.5 bn in its first issuance since 2019.** The dollar notes launched on Monday were set to mature in 2034, with a yield of 6.55%. Costa Rica's existing dollar debt was among the best performing in emerging markets last year and investors have been waiting for this opportunity to increase exposure to Costa Rica, according to Bloomberg. The extra yield investors demand holding Costa Rican bonds over US treasuries has fallen to 326 bp, less than the risk premium requested for overall emerging markets (492 bp), according to JPMorgan. In November, congress approved a bill for the government to sell up to \$5 bn in global bonds through 2025.



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## Global Financial Indicators











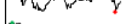



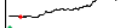









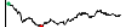




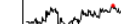








3/28/23 8:20 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		3975	0.2	-1	0	-13	4
Europe		4170	0.1	0	-2	7	10
Japan		27518	0.2	2	0	-3	5
China		4000	-0.3	0	-2	-3	3
Asia Ex Japan		66	-0.7	2	1	-12	2
Emerging Markets		38	-0.5	2	1	-15	1
<b>Interest Rates</b>			basis points				
US 10y Yield		3.54	0.8	-7	-38	108	-34
Germany 10y Yield		2.28	5.7	-1	-37	171	-29
Japan 10y Yield		0.36	3.5	11	-15	10	-7
UK 10y Yield		3.43	6.8	7	-39	182	-24
<b>Credit Spreads</b>			basis points				
US Investment Grade		172	0.0	6	25	32	13
US High Yield		524	-2.5	21	85	141	43
Europe IG		95	-1.3	4	15	16	4
Europe HY		481	-8.4	10	68	121	7
<b>Exchange Rates</b>			%				
USD/Majors		102.48	-0.4	-1	-2	3	-1
EUR/USD		1.08	0.4	1	3	-1	1
USD/JPY		130.6	-0.7	-1	-4	5	0
EM/USD		50.5	0.3	1	1	-4	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		78.3	0.2	4	-6	-13	-8
Industrials Metals (index)		159	0.1	3	-1	-25	-4
Agriculture (index)		67	0.5	0	-1	-10	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		20.8	0.2	-0.6	0.1	1.2	-0.9
US 10y Swaption Volatility		145.7	-0.5	0.9	23.0	18.5	20.0
Global FX Volatility		10.8	0.0	-0.1	0.9	1.2	0.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		192	3.9	1	13	-34	-13
Italy		187	3.2	5	4	34	-27
Portugal		88	1.1	4	2	12	-13
Spain		105	1.0	1	10	17	-5

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 3/28/2023 8:21 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		6.88	0.1	0.0	1	-7	0		3.1	0.5	-1	-13	25	6
Indonesia		15085	0.5	1.7	1	-5	3		6.8	2.1	-10	-10	7	-14
India		82	0.2	0.6	1	-7	1		7.5	6.4	1	-23	10.3	6
Philippines		54	-0.4	-0.1	2	-4	2		6.0	0.0	0	-3	73	-5
Thailand		34	0.6	0.7	3	-1	1		2.5	3.5	11	-27	-4	-13
Malaysia		4.40	0.5	1.6	2	-4	0		3.9	0.7	-5	-3	-9	-16
Argentina		207	-0.8	-1.4	-5	-47	-15		91.9	34.2	138	363	4216	371
Brazil		5.17	0.6	1.5	1	-8	2		13.3	17.1	8	-7	172	76
Chile		800	0.8	2.8	3	-3	6		5.1	1.0	6	-51	-114	-25
Colombia		4675	1.1	3.0	2	-19	4		8.7	-0.5	-45	-143	47	-108
Mexico		18.30	0.2	1.6	0	10	7		8.5	0.5	-14	-45	5	-22
Peru		3.8	0.1	0.2	1	-1	1		7.6	0.9	-10	-52	78	-41
Uruguay		39	0.0	1.0	0	7	3		10.3	21.3	0	47	173	-33
Hungary		354	1.1	2.1	1	-3	6		8.2	17.0	-21	-15	182	-145
Poland		4.32	0.5	0.7	3	-1	1		5.4	0.0	8	-56	36	-77
Romania		4.6	0.2	0.1	2	-1	1		7.1	0.4	-14	-32	111	-57
Russia		76.6	0.4	0.8	-2	23	-3							
South Africa		18.2	0.7	2.1	1	-19	-6		9.1	1.5	14	-14	99	-9
Turkey		19.11	-0.1	-0.4	-1	-22	-2		11.7	-39.0	10	151	-1492	184
US (DXY, 5y UST)		102	-0.4	-0.7	-2	3	-1		3.62	3.3	-12	-56	107	-38

	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		4000	-0.3	0	-2	-3	3		188	7	20	-24	11
Indonesia		6760	0.8	1	-1	-4	-1		151	-13	5	-23	11
India		57614	-0.1	-1	-2	-1	-5		172	-10	23	12	30
Philippines		6603	0.1	1	1	-7	1		127	-13	6	6	30
Thailand		1607	0.8	2	-1	-5	-4		0	0	0	0	0
Malaysia		1409	0.9	0	-3	-11	-6		105	-3	7	-18	5
Argentina		233739	6.6	5	-6	155	16		2539	158	568	751	334
Brazil		99670	0.9	-1	-5	-16	-9		276	-13	16	-15	2
Chile		5258	0.2	-1	-3	6	0		143	-9	5	-7	11
Colombia		1118	1.1	-1	-6	-30	-13		409	-34	17	72	37
Mexico		52851	0.2	2	0	-5	9		406	-18	49	69	25
Peru		21614	1.0	1	0	-15	1		190	-4	9	23	10
Hungary		42524	1.0	1	-5	-4	-3		228	-26	29	96	6
Poland		56944	0.8	-1	-5	-12	-1		69	-31	1	24	-4
Romania		12112	0.1	0	-2	-3	4		251	-28	22	43	-4
South Africa		75967	0.9	2	-2	2	4		404	-21	36	46	37
Turkey		4952	-0.9	1	-5	128	-10		455	-26	-42	-94	15
Ukraine		507	0.0	0	0	-2	-2		4898	-50	247	1696	819
EM total		38	0.8	2	1	-15	1		415	-14	30	-122	39

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

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