Global Markets Monitor
MONDAY, MARCH 6, 2023

GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

- **The Fed assesses financial stability risks to be contained so far** (link)
- **Slowest start for M&A activity in North America and euro area since 2010** (link)
- **China set the growth target for 2023 at around 5%** (link)
- **Swiss inflation higher than expected in February** (link)
- **EM bond fund outflows accelerate for the third consecutive week** (link)
- **Brazilian real's one-month implied volatility drops** (link)
- **South African Reserve bank now seen hiking 25 bps in March** (link)
- **Special Feature: Emerging Market Local Currency Bond Holdings (attached)**

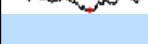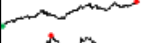## Markets Awaiting US Labor Data for Direction

Markets started the week in a fairly subdued manner and are awaiting US labor market data later this week for direction. There was some disappointment at China's announcement of a 5% growth target at the National People's Congress. As markets had expected higher growth, commodity prices fell 1.5%. European equity markets are slightly down, as retail sales also disappointed in contrast to the recent strong survey data. US Treasury yields slipped off on Friday after crossing the 4% mark earlier in the week as data showed that service providers' costs were growing more slowly than anticipated. Markets are focused on the release for labor market data for the US later this week for direction, with JOLTS job openings and ADP read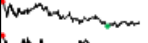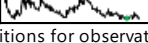ings due on Wednesday, weekly jobless claims on Thursday and especially non-farm payrolls due on Friday. Of course, markets will also pay close attention to Fed Chairman Powell's testimony to Congress tomorrow and Wednesday to gauge the outlook for monetary policy in the US.

Key Global Financial Indicators

Last updated: 3/6/23 12:56 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4046	1.6	2	-2	-7	5
Eurostoxx 50		4304	0.2	1	2	21	13
Nikkei 225		28238	1.1	3	2	12	8
MSCI EM		40	0.9	3	-2	-11	4
Yields and Spreads			bps				
US 10y Yield		3.90	-4.7	-1	27	217	3
Germany 10y Yield		2.66	-5.3	8	37	273	9
EMBIG Sovereign Spread		451	-2	6	25	-29	-1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.5	-0.3	1	0	0	1
Dollar index, (+) = $ appreciation		104.6	0.1	0	1	6	1
Brent Crude Oil ($/barrel)		84.7	-1.4	3	5	-28	-1
VIX Index (%, change in pp)		19.1	0.6	-2	0	-13	-3

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

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Global M&A Activity

Goldman Sachs points out that global M&A activity is off to its slowest start since 2010, down 65% versus the same period last year. Analysts write that a still uncertain growth environment and the prospect of increasing pressure on earnings are depressing activity.

Global M&A activity: year-to-date activity off to slowest start since 2010
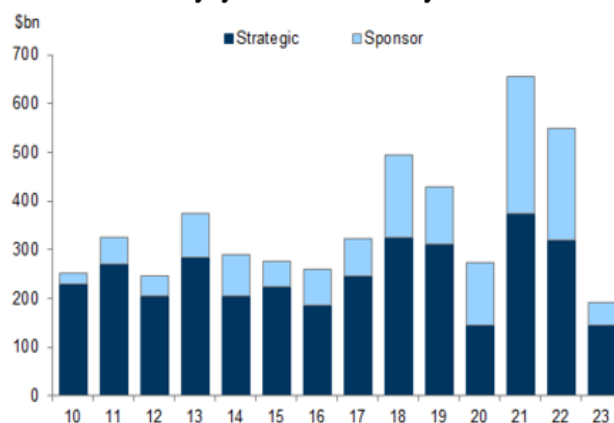
Note: Annual historical announced M&A volumes from North American and European acquirers valued at $100 mn or more at announcement
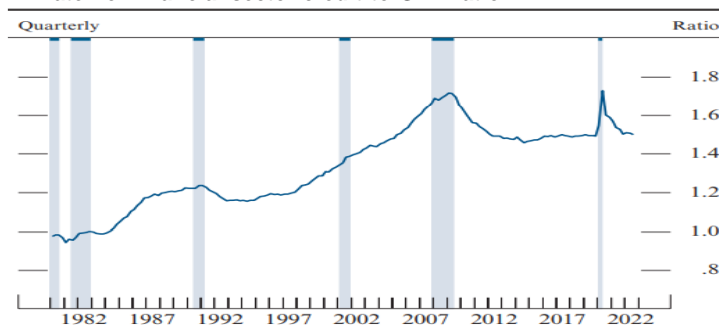Source Goldman Sachs

United States

On Friday, US equities went up, ending their three-week losing streak, and bringing weekly gains up to 1.9%. The US service PMI and ISM service index confirmed the resilience of the economy, supporting market sentiment. US treasury yields retraced sharply, and 10y US Treasury yields declined by 10 bps to 3.95%, mainly driven by real yields.

The Fed's semi-annual monetary policy report, published ahead of Chair Powell's testimony this week, reiterated that ongoing increases in policy rates would be appropriate as inflation remains well above the target and labor markets are extremely tight. Although financial conditions have become significantly tighter than a year ago, the report notes that market functioning remained orderly, and that the funding risk at domestic banks and broker-dealers remains low due to ample liquidity in the financial system.

The total debt of households and businesses grew roughly in line with GDP and close to its pre-pandemic level

Private nonfinancial-sector credit-to-GDP ratio

Source: Federal Reserve Board Monetary Policy Report

Among near-term risks to financial stability, the report points out that a recession may increase delinquency rates of households and firms' debt, and that these strains would be exacerbated further with higher-than-expected inflation and interest rates. In addition, low liquidity in several important markets—including the US Treasury market may amplify the volatility and impair market functioning.

Euro Area

Equities edged higher (+0.3%) as 10-yr German bund yields opened the week 4 bps lower after euro area retail sales were weaker than expected at 0.3% mom (0.6% mom expected). Bank stocks (+0.5%) outperformed.

Switzerland

The Swiss franc (+0.2%) edged higher after headline inflation unexpectedly rose to 3.4% y/y (3.1% expected) or 0.7% mom (0.5% mom). Analysts at Citi now expect the Swiss National Bank to hike its depo rate 75 bps on 23 March, from 25 bps previously, followed by a hike of 50 bps in September and 25 bps in September. **So far in this global tightening cycle, the SNB has hiked 175 bps to lift its policy rate to 1%, compared to 300 bps by the ECB.**

Switzerland -- Domestic Inflation taking the Lead

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Source: Citi Research, Swiss Statistics
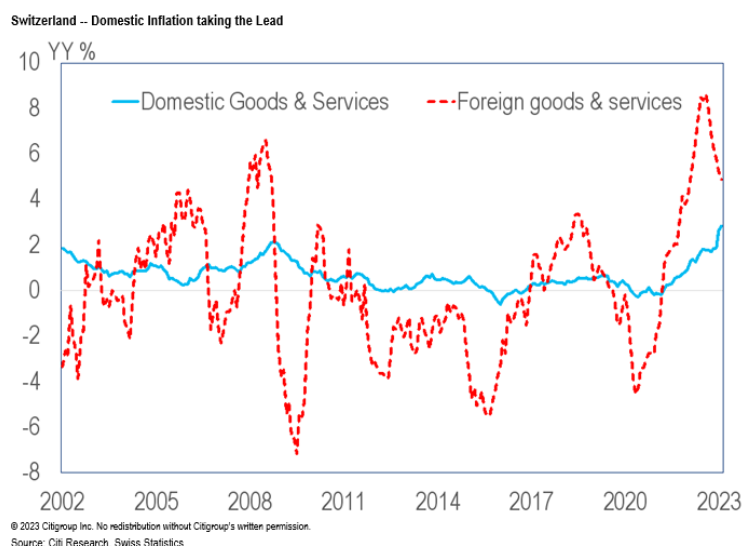
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Most Asian equities gained, led by Korean (+1.3%), Taiwanese (+1.0%), and Indian (+0.7%) equities. Meanwhile, Chinese equities declined (CSI 300: -0.5%). **Asian currencies were mixed, and long-end government bond yields declined. EMEA equities were mostly trading higher while currencies were mixed against reference currencies.** Equities in Türkiye were outperforming (+2%). **ING analysts highlight that global conditions for currencies in the CEE region remain mixed**—while the dollar strength could weigh on currencies, lower gas prices could indicate another rally in the Hungarian forint and Czech koruna. Analysts are keeping an eye on inflation data due later this week (Hungary on Wednesday and Czech Republic on Friday) and flag that a dovish meeting by the national bank of Poland on Wednesday could weigh on the Polish zloty. **Yields on local currency bonds trended lower**. In Türkiye the main opposition alliance is expected to declare a presidential candidate ahead of the elections scheduled for May. **Latin American equities finished the week on a positive note, in line with the global rally.** Stocks in Colombia (+2.14%) led the gains, followed by Mexico (+1.60%), Argentina (+1.28%), Chile (+0.60%), and Brazil (+0.52%). Currencies mostly appreciated vs. the dollar on Friday.

Emerging Markets Fund Flows

Emerging Markets bond fund outflows accelerated for the third consecutive week (-$1.6bn, from -$1.3bn the previous week)—see special feature attached for details. Hard currency outflows decreased week over week (-$739mn, from $921mn), while local currency outflows more than doubled (-$835mn, from -$402mn), reaching a level last seen in November. Non-ETF outflows were more than twice as much as

ETF outflows (-$1.1bn and -$517mn respectively). Hard currency bond funds saw minimal inflows for Asia ex-Japan (+$64mn), which were more than offset by the broad EM funds (-$803mn). EM equity funds inflows were positive but decelerated week over week (+$1.4bn, from +$2bn), with more than 85% coming from ETF inflows. On a regional basis, only Asia ex-Japan posted inflows (+$821mn), while Latam and EMEA has minimal outflows.

Exhibit 1: Weekly Cross-Asset Flows
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.2	43.0
EM Bonds		-1.6	6.1
Hard Ccy		-0.7	5.9
Local Ccy^		-0.8	0.2
o.w. EM ex-China		-0.6	1.5
o.w. China		-0.2	-1.2
EM Equities		1.4	36.9
US HG		6.3	57.1
US HY		-2.1	-10.4
Global Equities		-10.1	-11.1
EM Bond and Equity ETFs		0.7	27.2
EM Bond ETFs		-0.5	2.9
EM Equity ETFs		1.2	24.2
Non-resident EM flows*		-2.0	17.9

*High frequency non-resident EM portfolio flow data where available. ^Local 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
USD billion
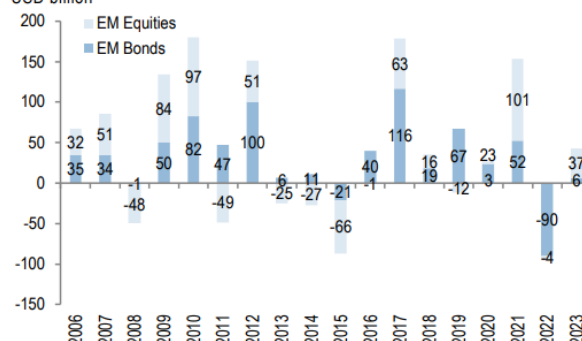
Brazil

The Brazilian real's one-month implied volatility has dropped over 10 percent since its November highs in the wake of the presidential elections. Over the same time period, the real has appreciated about 2.5%, to 5.2/$. Implied volatility closed Friday at 16.15%, its lowest level in a year. The volatility continues to decline despite President Lula's ongoing criticism of the central bank. President Lula has repeatedly emphasized the importance to cut interest rates, with even more aggressive comments from Workers Party President Gelisi Hoffman, saying that CB President Campos Neto should resign or be fired. Bloomberg analysts reveal that negative central bank comments from the government no longer result in the same market reactions as before.

Source: Bloomberg
—BRL's one-month implied vol (percent)

China

China set the growth target for 2023 at around 5% at the National People's Congress disappointing markets somewhat. Outgoing Premier Li Keqiang delivered the Government Work Report at the beginning of the National People's Congress. The report outlined the country's policy direction as well as set key economic targets. Besides the growth target at around 5%, Beijing seeks to keep inflation at around 3%, create at least 12 million jobs, and maintain a stable credit-to-GDP ratio. Markets were somewhat

disappointed by the 5% growth target as consensus for Chinese growth this year is well above 5%. Chinese equities declined (CSI 300: -0.5%); the RMB depreciated (-0.4%); CGB yields dropped (1-year: -3.1 bps; 10-year: -2.4 bps). Reportedly, Beijing plans to create a new top regulator for data governance. The new agency may have the power to decide whether multinational firms can export data generated by their operations in China.

Yuan Weakens After Disappointing Growth Target

Source: Bloomberg

South Africa

Analysts now expect a 25bps hike by the South African Reserve Bank on March 30 to take the repo rate to 7.5%. JPMorgan analysts highlight a moderate worsening of the inflation risk assessment and have increased near-term inflation estimates amid expectations of cost-push pressures from FX as well as electricity cuts. While the transmission to headline inflation remains limited, analysts estimate that these factors could add 1–2ppts to food inflation in the second half of this year. Moreover, analysts argue that the external balances outlook is deteriorating. While domestic inflation developments alone might not prompt further policy tightening, analyst argue higher rates in developed markets together with softer terms of trade in South Africa could see another rate hike. JPMorgan analysts now expect the first rate cut to only take place in Q1 2024 (previously expected in Q4 2023) and expect the policy rate to reach 7% in Q2 2024.

South Africa - Currency and Policy rate pricing

Source: Bloomberg and IMF calculations
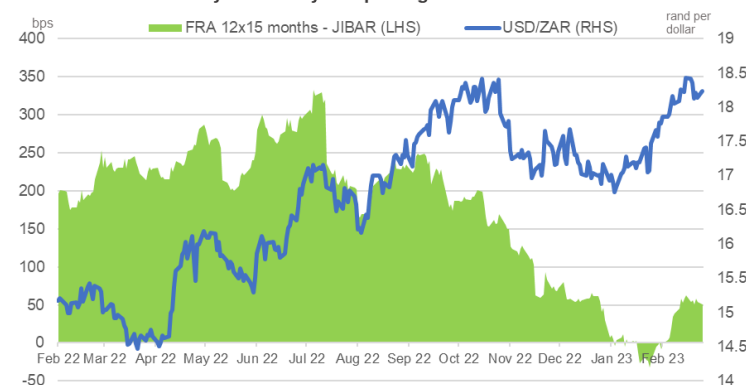
Sub-Saharan Africa

February PMI data show a sharp deterioration in business conditions in Nigeria and Kenya while conditions in Ghana stabilized. In Nigeria PMI fell to 44.7 from 53.5 in January, with JPMorgan analysts arguing that the central bank's Naira redesign policy is weighing on economic growth. Persistent fuel

shortages which lengthened supplier delivery times also led to higher input prices. **In Kenya, headline PMI fell to below 50 for the first time since August 2022** (to 46.6 from 52.0 in January) with companies reporting that higher input costs and a higher tax burden led to a sharp contraction in new sales. Absa analysts argue that the currency will likely remain a key issue of firms ahead with the Kenyan Shilling now trading 3% weaker than at the start of the year. Following an upside inflation surprise (CPI increased to 9.2%y/y in February versus expected 9.1% from 9.0%), JPMorgan analysts see average 2023 inflation at 7.3% (previously 7.1%) and expect the policy rate to be increased by a further 25bps to 9%. **PMI data in Ghana, in the meantime, showed conditions stabilizing in February** with firms reporting higher output levels as well as higher new sales orders. Finally in **Zambia, PMI data shows the second consecutive monthly expansion in February** in private sector business conditions with PMI increasing to 51.3 from 50.6 on the back of an expansion in the majority of sectors and increased new sales orders. Firms, however, reported that cost pressures are mounting as a weaker currency, higher wages and higher fuel prices have pushed input costs higher.

SSA: PMI indices

Source: Bloomberg and IMF calculations

Global Financial Indicators

3/6/23 12:57 PM	Level		Change				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		4046	1.6	2	-2	-7	5	-4
Europe		4304	0.2	1	2	21	13	8
Japan		28238	1.1	3	2	12	8	7
China		4109	-0.5	2	0	-6	6	-11
Asia Ex Japan		68	0.7	4	-2	-10	5	-14
Emerging Markets		40	0.9	3	-2	-11	4	-17
Interest Rates				basis points				
US 10y Yield		3.90	-4.7	-1	27	217	3	191
Germany 10y Yield		2.66	-5.3	8	37	273	9	243
Japan 10y Yield		0.51	0.0	0	0	34	8	31
UK 10y Yield		3.81	-4.4	0	56	260	13	233
Credit Spreads				basis points				
US Investment Grade		141	-1.2	-4	4	-14	-17	-2
US High Yield		423	6.7	-17	4	-1	-57	17
Europe IG		75	-1.2	-4	0	-12	-15	4
Europe HY		390	-6.9	-21	-5	-30	-84	38
Exchange Rates					%			
USD/Majors		104.62	0.1	0	1	6	1	9
EUR/USD		1.06	0.0	0	-1	-2	-1	-6
USD/JPY		136.0	0.1	0	3	18	4	18
EM/USD		50.5	-0.3	1	0	0	1	-5
Commodities					%			
Brent Crude Oil ($/barrel)		84.7	-1.4	3	5	-12	-1	1
Industrials Metals (index)		160	-1.4	-1	-5	-26	-3	-15
Agriculture (index)		68	-0.8	-1	-1	-10	-1	-3
Implied Volatility					%			
VIX Index (%, change in pp)		19.1	0.6	-1.9	-0.3	-12.9	-2.6	-11.9
US 10y Swaption Volatility		125.1	3.9	4.5	18.5	-0.7	-0.6	30.8
Global FX Volatility		9.9	0.1	-0.2	-0.6	0.2	-0.8	2.5
EA Sovereign Spreads				10-Year spread vs. Germany (bps)				
Greece		178	1.0	-4	-5	-65	-27	-62
Italy		181	-0.6	-3	-5	20	-33	10
Portugal		86	0.2	0	2	-4	-15	-6
Spain		95	0.0	-1	1	-9	-15	-9

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

Emerging Market Financial Indicators

Last updated: 3/6/2023 12:58 PM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.94	-0.5	0.1	-2	-9	-1		3.2	-5.5	-2	4	34	17	37
Indonesia		15295	0.0	-0.2	-2	-6	2		6.9	-4.6	7	25	26	-1	44
India		82	0.1	1.1	1	-6	1		7.8	0.8	2	40	122.6	32	
Philippines		55	0.0	1.2	-1	-5	2		6.0	2.5	3	8	103	-3	100
Thailand		35	0.2	0.3	-5	-6	0		2.8	-2.5	8	22	56	13	53
Malaysia		4.48	0.0	0.0	-5	-7	-2		4.0	-2.2	10	27	38	-1	37
Argentina		198	-0.2	-1.3	-5	-46	-11		88.4	-64.8	14	191	3976	17	4042
Brazil		5.20	-0.1	-0.1	-1	-2	1		13.8	-0.6	20	38	198	118	223
Chile		807	-0.4	3.2	0	1	6		5.7	-0.5	17	40	-17	38	-20
Colombia		4784	0.5	1.1	-2	-21	1		9.9	0.0	-12	97	173	9	199
Mexico		17.98	-0.1	2.1	7	19	8		9.0	-8.5	5	72	109	30	118
Peru		3.8	0.1	1.0	1	-1	1		8.2	0.0	12	23	172	19	216
Uruguay		39	-0.3	-1.0	-1	8	1		10.2	0.0	36	26	210	-43	210
Hungary		355	0.4	0.3	4	2	5		8.2	-14.0	10	10	260	-140	339
Poland		4.43	0.0	0.4	0	4	-1		5.9	-11.5	-1	59	182	-28	196
Romania		4.6	0.2	0.4	-1	-1	0		7.5	-10.9	6	23	188	-21	232
Russia		75.5	0.2	-0.8	-5	84	-2		10.6	0.0	-3	27	-1975	-131	-63
South Africa		18.2	-0.4	1.1	-3	-16	-6		9.2	-2.0	1	47	123	7	164
Turkey		18.90	-0.5	-0.1	0	-24	-1		11.8	21.0	128	75	-1322	194	-1065
US (DXY; 5y UST)		105	0.1	-0.1	1	6	1		4.21	-4.1	4	38	257	20	230

	Equity Markets							Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG)							Since 23-Feb-22
	Level		Change (in %)						Level		Change (in basis points)					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD		
									basis points							
China		4109	-0.5	2	0	-6	6	-11		163	-4	-16	-57	-14	-45
Indonesia		6807	-0.1	-1	-2	-1	-1	-2		145	3	13	-58	5	-40
India		60224	0.7	2	0	14	-1	5		145	-5	-5	-35	3	-9
Philippines		6671	0.2	1	-3	-8	2	-9		118	-2	12	-33	21	-19
Thailand		1607	0.0	-2	-4	-4	-4	-5		0	0	0	0	0	0
Malaysia		1453	-0.1	0	-2	-8	-3	-8		94	-4	-8	-48	-6	-39
Argentina		245865	1.3	-1	1	175	22	169		2106	98	236	248	-99	369
Brazil		103866	0.5	-2	-4	-9	-5	-7		258	0	-1	-68	-16	-73
Chile		5434	-0.1	1	3	17	3	24		138	3	7	-40	6	-36
Colombia		1215	2.1	1	-4	-21	-6	-20		396	0	33	7	24	4
Mexico		54182	1.6	3	0	2	12	5		372	16	32	4	-9	2
Peru		22242	1.0	3	0	-10	4	-5		183	3	1	-5	3	-7
Hungary		44615	0.4	-1	0	11	2	-7		214	9	25	45	-8	61
Poland		60668	0.8	2	1	4	6	-3		70	5	1	8	-3	54
Romania		12467	0.6	1	1	9	7	-6		244	8	23	-5	-12	12
Russia		2293	0.9	2	1	-7	6	-26		#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#VALUE!
South Africa		78356	0.1	1	-2	5	7	4		369	-2	23	-22	2	-20
Turkey		5389	3.4	4	9	171	-2	167		482	-28	-14	-137	42	-81
Ukraine		507	0.0	0	0	-2	-2	-2		4714	37	525	371	635	3241
EM total		40	-0.4	3	-2	-11	4	-17		390	6	33	-170	14	-68

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

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