GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MARCH 8, 2023

- **US markets react strongly to Fed Chair Powell's hawkish remarks** (link)
- **Analysts adjust their calls for the Fed policy path** (link)
- **Emerging Markets also hit by Fed Chair Powell's remarks** (link)
- **Bank of Italy governor pushes back against hawkish forward guidance** (link)
- **Japan's trade deficit widened to a new record in January** (link)
- **EM Bond Issuance for 2023 beats 2022 volumes for second straight month** (link)
- **Hungarian forint underperforms after CPI eases marginally** (link)

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Markets Reprice after Fed Chairman Powell's Hawkish Comments

Global markets repriced after Fed Chairman Powell's comments in his testimony to Congress yesterday were more hawkish that expected. His remarks were as short as they were impactful. He noted that "the ultimate level of interest rates is likely to be higher than previously anticipated" given the recent stronger-than-expected economic data, and that the Fed "would be prepared to increase the pace of rate hikes if the totality of the data were to indicate that faster tightening is warranted." The US terminal rate repriced higher (to 5.6%) and odds of the Fed hiking 50 bps rather than 25 bps at its next meeting have risen. Equity markets dropped, currencies weakened, and bond yields rose all over the world. Today, markets will be focused on the second day of Powell's testimony, but also on labor market data for the US. ADP employment change for February came in much stronger than expected this morning at 242k (200k expected) from a revised 119k in January indicating that the US labor market remains hot. JOLTS job openings will be released later today, and the market is focused on the non-farm payroll data on Friday, which is expected to move markets pretty much regardless of where it comes.

Last updated:	Level		Change from Market Close				YTD
3/8/23 1:21 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
S&P 500		3986	-1.5	0	-3	-4	4
Eurostoxx 50		4282	0.1	2	2	22	13
Nikkei 225		28444	0.5	3	3	15	9
MSCI EM		39	-1.7	1	-4	-10	2
Yields and Spreads					bps		
US 10y Yield		3.96	-0.4	-3	35	211	9
Germany 10y Yield		2.68	-1.7	-4	31	256	10
EMBIG Sovereign Spread		444	3	-3	11	-79	-8
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		50.3	0.2	0	-1	1	1
Dollar index, (+) = $ appreciation		105.6	0.0	1	2	7	2
Brent Crude Oil ($/barrel)		83.2	-0.1	-1	-2	-35	-3
VIX Index (%, change in pp)		19.9	0.3	-1	0	-15	-2

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

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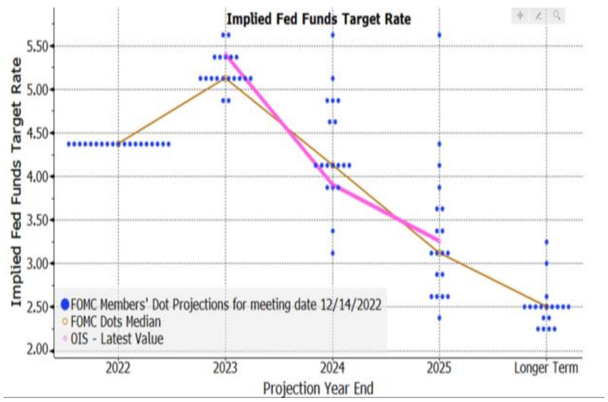
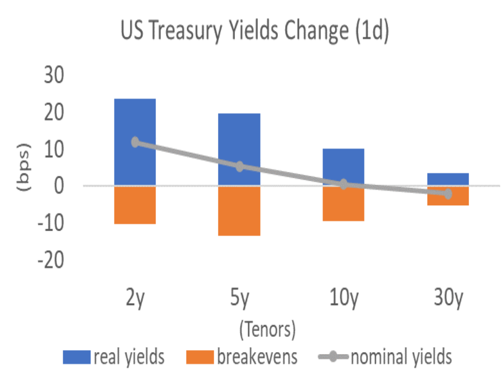
United States

Markets reacted strongly to Fed Chair Powell's hawkish remarks yesterday. The Fed policy path repriced, US Treasury yields rose, the dollar strengthened, and the equity market lost. The OIS market is pricing in a 40 bps hike in March, up from 31 bps the previous day; and the terminal rate expectation rose to 5.6%, up from 5.5% the previous day, with only a 15 bps cut factored in by the end of this year. Short tenor Treasury yields increased sharply, with 2-year yields up by 12 bps to above 5% for the first time since 2007, driven by higher real yields. The yield curve inversion—often seen as a sign of a recession went further, with the spread between the 2-year and 10-year Treasury declining to -105 bps for the first time since 1981. The US dollar strengthened, with the dollar index up more than 1%, and oil prices plummeted by more than 3%. The S&P 500 shed by 1.5% with all eleven major sectors closing in the red.

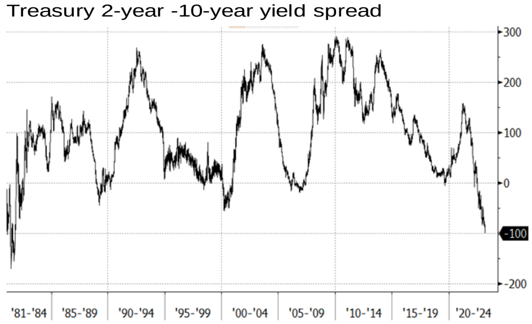


Source: Bloomberg



Source: Bloomberg

US Treasury 2-year -10-year yield spread



Source: Bloomberg

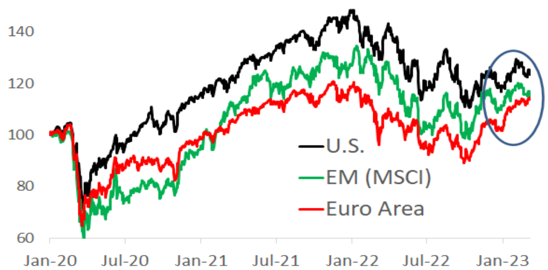
While Fed Chairman Powell was expected to indicate a "higher for longer" stance, his remarks were more hawkish than the market had expected. In his prepared remarks before the Senate, he noted that "the ultimate level of interest rates is likely to be higher than previously anticipated" given the recent stronger-than-expected economic data, and that the Fed "would be prepared to increase the pace of rate hikes if the totality of the data were to indicate that faster tightening is warranted". Even though the US economy slowed, Chair Powell acknowledged that there has been a concerning reacceleration in activity in January, and that inflationary pressures are running higher than previously expected. In particular, although inflation has fallen somewhat, there is little sign of disinflation in core services. He also mentioned that there is not enough evidence to suggest that the Fed has tightened too much yet.

Analysts adjusted their calls for the March meeting (March 22) and the level of the terminal rate. JP Morgan and Goldman Sachs analysts maintained their call for a 25 bps hike in March. Goldman Sachs acknowledged that this is a close call, while JP Morgan analysts underlined that it is highly contingent on data releases over the next two weeks. Goldman Sachs analysts raised their forecast of the terminal rate by 25 bps to 5.5–5.75% range. Morgan Stanley analysts remarked that the March "dot plot," the policy rate projection by FOMC meeting participants, could show the terminal rate increasing to 6%.

Euro Area

Equity markets in Europe were just about positive despite the readjustment of the US monetary policy outlook, holding on to remarkable gains of +12% so far in 2022. Bank equities (+0.7%) outperformed and are now up 24% year-to-date. Economic data releases were mixed. Retail sales unexpectedly contracted 0.3% mom in January (against a gain of +2.3% mom expected) but German industrial production jumped 3.5% mom (1.4% mom expected).

Global Equity Markets (1 Jan 2020: 100)



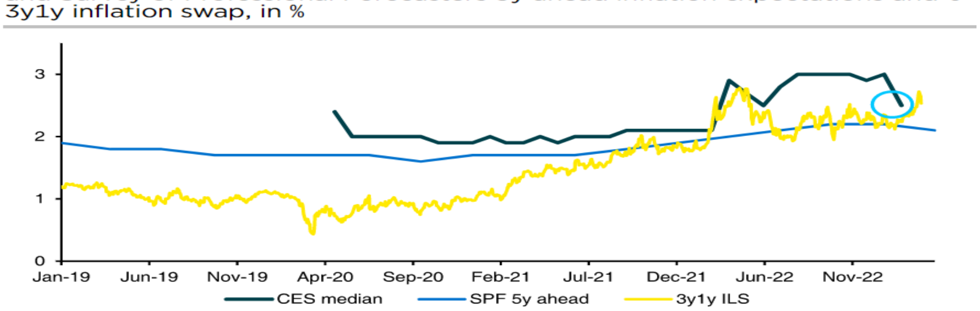
Source: Bloomberg and IMF

Euro area 10-yr core rates are 2–3 bps lower as Bank of Italy governor Visco pushed back explicitly against comments from more hawkish ECB Governing Council (GC) members. The governor pointed out that uncertainty is so high that the ECB GC has agreed to decide "meeting by meeting […] without forward guidance." The governor does "not appreciate statements by my colleagues about future and prolonged interest rate hikes." Money markets are expecting the ECB depo rate to peak around 4% over the summer, from 2.5% today.

Euro area 5-yr/5-yr inflation swaps traded 4 bps lower today to 2.44% as contacts expect that the shift lower in 3-yr inflation expectations in the ECB's Consumer Expectations Survey supports the case for a meeting-by-meeting approach.

Re-anchoring of inflation expectations?

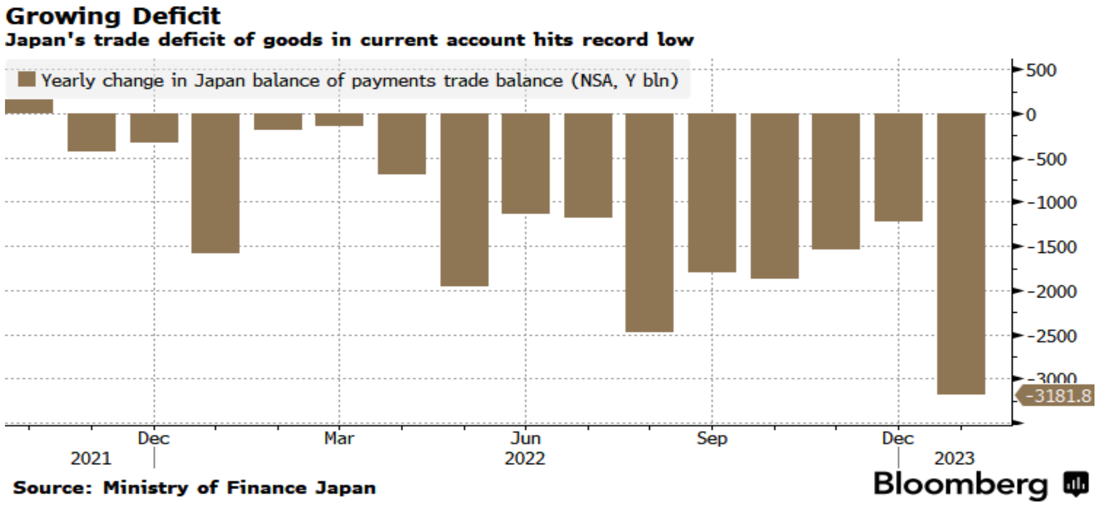
ECB Consumer Expectations Survey 3y ahead inflation expectations median and Survey of Professional Forecasters 5y ahead inflation expectations and € 3y1y inflation swap, in %



Source: ECB, Bloomberg, Commerzbank Research

Japan

Japan's trade deficit widened to a new record in January, touching 3.18 tn yen ($23.1 bn). The current account deficit also logged a new record at 1.98 tn yen ($14.4 bn). Both deficits were larger than expected. In line with global trends, the Japanese yen depreciated (-0.3%). The 10-year JGB yield was little changed at 0.5%, while longer-end JGB yields increased (30-year: +2.9 bps). Japanese equities gained (NIKKEI: +0.5%), outperforming regional peers. Market narratives suggested that the weaker yen would support Japanese equities.



Emerging Markets

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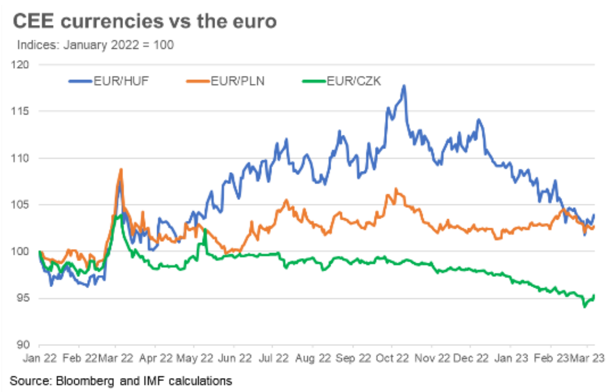
Equity markets dropped, currencies weakened, and bond yields rose in most emerging markets following Fed Chairman Powell's hawkish comments yesterday.

Asian equities declined, falling 2.0% on net, led by Hong Kong (-2.4%) and Korean (-1.3%) equities. **Asian currencies depreciated**, led by the Korean won (-1.7%), Thai baht (-1.5%) and Malaysian ringgit (-1.2%). **Long-end government bond yields increased in most markets**, with 10-year yields rising in Indonesia (+7.0 bps) and Singapore (+4.5 bps). The People's Bank of China (PBC) set the RMB fixing about 56 bps stronger than expected (6.953/$,) to manage depreciation pressures, but the RMB was little changed. Sri Lanka was the exception, as local-currency government bond yields dropped (1-year: -29 bps; 10-year: -63 bps), and the rupee appreciated (+1.9%), after the announcement that the IMF Board will examine the program request on March 20.

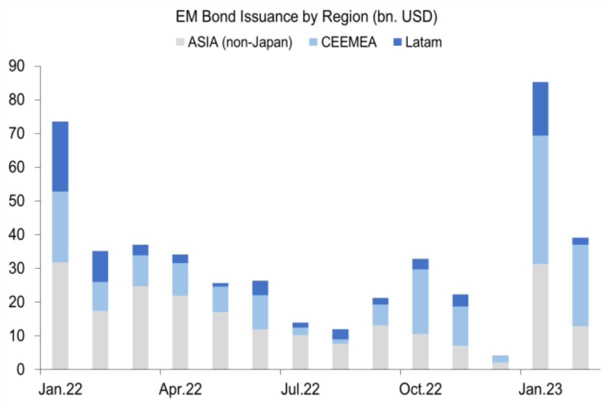
In EMEA, equities in South Africa (-1.3%) saw the largest declines while those in the Czech Republic outperformed (+0.6%). The South African rand underperformed (-0.6% against the dollar) and CEE currencies were also mostly weakening against the euro—with the Hungarian forint (-0.6%) and the Czech koruna (-0.5%) underperforming. The polish zloty (-0.3%) was also trading weaker ahead the National Bank of Poland's rate decision later today—where consensus expects rates to remain on hold. Local currency bond ticked marginally higher.

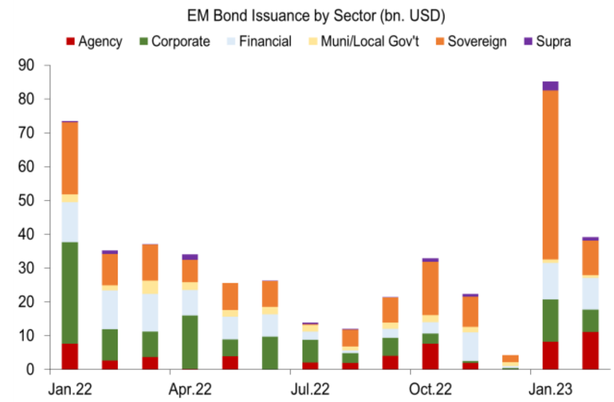


In Latin America, Argentina (-2.57%) and Mexico (-1.64%) saw the largest equity declines. Currencies depreciated across the region as the broad dollar strengthened following Fed Chair Powell's hawkish comments, with the Colombian peso losing the most (-1.32%).

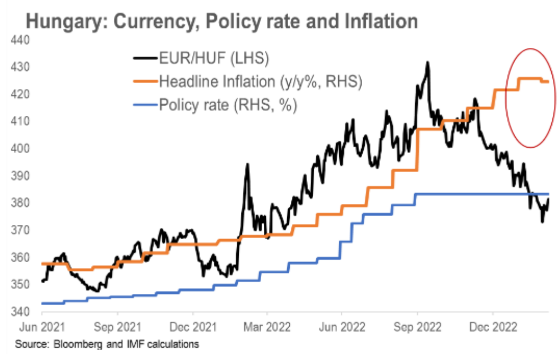
EM Bond Issuance

EM Bond Issuance for 2023 beats 2022 volumes for the second consecutive month. Total issuance for February was $39.14 bn, compared to $35.18 bn in February 2022. CEEMEA dominated last month, with about 62% of the total issuance, followed by ASIA (non-Japan) (32.9%) and Latam (5.3%). No one sector stood out, with Agency (28.3%), Sovereign (25.9%), and Financial (24.1%) having the highest issuance percentage. All of the bonds issued in February have fixed coupons, with the exception of one with a floating coupon from Singapore. Maturities for these bonds ranged from 1 to 30 years. During the first 7 days of March, issuance amounted to $10 bn, with the majority coming from CEEMEA.





Hungary



The Hungarian forint underperformed against the euro (-0.6%, to 379.5/euro) after data showed headline inflation easing in February, with some analysts expecting an unwinding of the 1-day repo rate already in March. Headline CPI eased marginally to 25.4%y/y in February, in line with expectations, from 25.7% in January—the first time the headline print has eased since mid-2021. While the central bank is set to publish new inflation forecasts on March 28, Hungary's finance minister this morning noted expectations that inflation would fall below 10% by end 2023. JPMorgan analysts highlight that the country's balance of payments is operating in a different environment now than last year, when the NBH delivered an emergency 500 bps hike via an additional 1-day deposit facility. This has supported the forint, which is one of the best performing EM currencies this year. Today's inflation print could support some analysts' expectations that the NBH could start cutting the 1-d repo rate by up to 100 bps already in March, triggering its convergence towards the base rate. Markets continue to price sharp easing in the months ahead.

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), Johannes S Kramer (New York 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), 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.

Global Financial Indicators

	Level		Change				
3/8/23 1:22 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3986	-1.5	1	-3	-4	4
Europe		4282	0.1	2	2	22	13
Japan		28444	0.5	3	3	15	9
China		4034	-0.4	-2	-2	-5	4
Asia Ex Japan		66	-1.6	1	-4	-8	3
Emerging Markets		39	-1.7	1	-4	-10	2
Interest Rates					basis points		
US 10y Yield		3.96	-0.4	-3	35	211	9
Germany 10y Yield		2.68	-1.7	-4	31	256	10
Japan 10y Yield		0.51	0.1	0	1	35	8
UK 10y Yield		3.80	-2.5	-4	48	235	13
Credit Spreads					basis points		
US Investment Grade		145	0.4	-1	6	-21	-13
US High Yield		414	-0.5	-22	-14	-26	-66
Europe IG		76	0.8	-3	0	-9	-14
Europe HY		396	2.7	-16	-4	-12	-78
Exchange Rates					%		
USD/Majors		105.60	0.0	1	2	7	2
EUR/USD		1.05	-0.1	-1	-2	-3	-2
USD/JPY		137.3	0.1	1	4	19	5
EM/USD		50.3	0.2	0	-1	1	1
Commodities					%		
Brent Crude Oil ($/barrel)		83.2	-0.1	-1	-2	-14	-2
Industrials Metals (index)		158	-0.1	-4	-5	-33	-5
Agriculture (index)		68	-0.2	0	-2	-12	-1
Implied Volatility					%		
VIX Index (%, change in pp)		19.9	0.3	-0.7	0.3	-15.3	-1.8
US 10y Swaption Volatility		128.7	-4.2	6.1	27.4	0.2	3.0
Global FX Volatility		9.9	0.0	-0.1	-0.5	0.0	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		181	0.4	3	-6	-41	-24
Italy		181	-2.5	-4	-6	33	-33
Portugal		87	-1.0	0	1	6	-15
Spain		102	-0.7	7	8	8	-7

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

Emerging Market Financial Indicators

Last updated: 3/8/2023 1:22 PM	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		6.95	0.2	-1.2	-2	-9	-1		3.2	2.5	-2	6	35	18
Indonesia		15435	-0.6	-1.3	-2	-7	1		7.1	7.0	19	40	23	11
India		82	-0.2	0.6	1	-6	1		7.9	11.7	15	49	129.1	43
Philippines		55	-0.5	-0.6	-1	-5	1		6.0	0.0	5	10	103	0
Thailand		35	-1.5	-0.9	-5	-5	-1		2.7	3.0	-7	4	43	5
Malaysia		4.52	-1.2	-1.2	-5	-8	-3		4.0	0.6	12	24	37	0
Argentina		200	-0.2	-1.2	-5	-46	-11		88.4	34.9	24	283	3990	24
Brazil		5.17	0.4	0.2	1	-2	2		13.6	-2.4	-3	23	112	102
Chile		802	0.2	1.0	0	1	6		5.6	-7.5	-15	20	-36	24
Colombia		4789	-0.5	0.9	-1	-21	1		9.7	2.0	-52	67	142	-13
Mexico		18.05	0.3	0.4	5	18	8		9.1	5.0	13	69	89	36
Peru		3.8	-0.3	-0.1	1	-2	0		8.1	-0.3	7	14	145	15
Uruguay		39	0.1	-0.9	0	9	2		10.2	0.0	14	26	186	-43
Hungary		361	-0.4	-3.0	0	-1	4		8.3	1.0	-17	47	267	-131
Poland		4.44	0.2	-1.3	0	1	-1		5.8	2.5	-18	40	149	-35
Romania		4.7	0.1	-1.0	-2	-3	-1		7.4	-0.5	-12	3	132	-26
Russia		76.2	-0.5	-1.4	-4	67	-3		10.6	-0.9	-1	32	-1949	-129
South Africa		18.6	-0.4	-2.5	-4	-18	-8		9.3	7.0	13	43	112	16
Turkey		18.94	-0.1	-0.3	-1	-23	-1		11.8	-1.0	122	42	-1482	201
US (DXY; 5y UST)		106	0.0	1.1	2	7	2		4.33	2.0	8	54	256	33

	Equity Markets								Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Since	Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD
									basis points					
China		4034	-0.4	-2	-2	-5	4	-13		165	-2	-7	-60	-12
Indonesia		6776	0.1	-1	-2	-1	-1	-2		139	0	4	-76	-1
India		60348	0.2	2	-1	10	-1	5		140	-7	-6	-64	-2
Philippines		6711	0.1	2	-2	-4	2	-9		113	-4	1	-51	16
Thailand		1613	-0.4	-1	-3	-2	-3	-5		0	0	0	0	0
Malaysia		1455	-0.3	0	-1	-7	-3	-8		93	-2	-6	-56	-7
Argentina		246501	-2.6	0	-1	180	22	170		2062	89	139	91	-143
Brazil		104228	-0.5	0	-5	-6	-5	-7		264	3	10	-81	-10
Chile		5406	0.0	1	1	18	3	24		137	-3	6	-50	5
Colombia		1237	0.1	3	-2	-19	-4	-18		394	-3	28	-18	22
Mexico		53069	-1.6	1	0	0	10	3		373	6	23	-17	-8
Peru		21957	-0.8	2	-2	-11	3	-6		183	2	2	-17	3
Hungary		42842	-1.3	-4	-7	3	-2	-10		217	15	25	32	-5
Poland		60752	-0.2	0	0	5	6	-3		58	-9	-6	-13	-15
Romania		12377	-0.4	1	1	10	6	-6		239	5	16	-52	-17
Russia		2296	0.0	2	2	-7	7	-26		#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A
South Africa		77672	-1.1	-1	-3	7	6	4		356	-15	6	-67	-11
Turkey		5369	-0.2	1	19	167	-3	166		443	-47	-61	-255	3
Ukraine		507	0.0	0	0	-2	-2	-2		4719	44	488	-704	640
EM total		39	-0.3	1	-4	-10	2	-18		384	-3	14	-236	8

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

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