



- **JP Morgan will buy the failed First Republic Bank** ([link](#))
- **Debt ceiling worries grow in US** ([link](#))
- **US corporate earnings beat forecasts** ([link](#))
- **China PMIs weaker than expected** ([link](#))
- **Impact of banking shock fades in euro area** ([link](#))






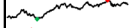





[Mature Markets](#)

[Emerging Markets](#)

[Market Tables](#)

Markets quiet but investors face an eventful week

Monday has had a relatively quiet start so far, with most markets closed for the May Day holiday. US markets are open, but equity index futures were little changed with low trading volumes. US Treasury yields were slightly higher. News that JP Morgan is to buy First Republic has had little impact on markets so far. All eyes are on the Fed meeting on Wednesday and the ECB meeting on Thursday, with both expected to raise their policy rates by 25 bps. Markets expect the Fed to end its rate hike cycle, although the ECB is seen to have further to go. However, prospects in the euro area are complicated by weakness in the German economy and persistently high inflation in France and Spain. Worries are growing that the standoff over the debt ceiling in the US could impact markets. Meanwhile, earnings season continues this week, with results expected from Apple as well as car manufacturers (BMW, Volkswagen, and Ford) and the airline sector (Airbus, IAG, and Lufthansa).

Last updated: 5/1/23 7:56 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		4169	0.8	1	1	1	9	-1
Eurostoxx 50		4359	0.0	-1	1	15	15	10
Nikkei 225		29123	0.9	2	4	9	12	10
MSCI EM		39	0.5	0	-1	-8	3	-18
Yields and Spreads			bps					
US 10y Yield		3.47	5.1	-2	1	54	-40	148
Germany 10y Yield		2.31	-14.7	-17	2	141	-26	209
EMBIG Sovereign Spread		483	-6	-7	-9	45	31	70
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.6	0.0	0	0	-3	1	-5
Dollar index, (+) = \$ appreciation		101.8	0.1	0	-1	-1	-2	6
Brent Crude Oil (\$/barrel)		78.8	-1.9	-5	-1	-28	-8	-19
VIX Index (% change in pp)		16.5	0.7	0	-2	-17	-5	-15

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

This could be a particularly eventful week, with the FOMC and ECB meetings and the US jobs report, although the news headlines are likely to be dominated by the coronation of King Charles III. In the US, tomorrow's durable goods number could also move markets. The euro area data calendar features euro area CPI in addition to PMI data from a number of countries. China and India are also scheduled to report PMI data this week, with China expected to show further signs of a rebound. Other central bank meetings include Australia, Malaysia, the Czech Republic, and Brazil, where the bank is expected to stay on hold and issue a more dovish statement.

Mature Markets

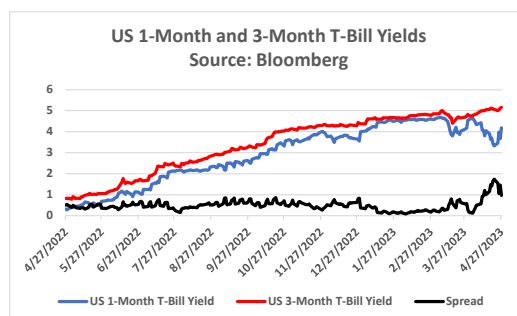
[back to top](#)

United States

JP Morgan won the bidding war to buy the failed First Republic Bank. The share price of First Republic fell by 33% on Friday (down 97% for the year), leading regulators to step in to resolve the situation by inviting bids from numerous US banks. PNC Bank and Citizens Bank were the other bidders, with Bank of America opting not to make a bid. The Federal Deposit Insurance Corporation (FDIC) and JP Morgan are to share any losses or recoveries. The FDIC will provide \$50 bn of fixed-term funding for five years. Bloomberg reported that JP Morgan will make a one-off gain of \$2.6 bn, while paying \$10.6 bn to the FDIC and taking on \$2 bn of "restructuring costs." The cost to the FDIC will be expected to be \$13 bn, according to Bloomberg, although the eventual cost could be larger or smaller. JP Morgan's share price was up on the news. According to the bank, the transaction will lead to \$500 mn of additional revenue per year.

On Friday, the Fed released its report on Silicon Valley Bank and the FDIC released its report on Signature Bank. The reports were as expected, with both banks found to have mismanaged their businesses while regulators were not forceful enough in pushing for improvements. Fed officials are calling for stricter supervision of banks with assets higher than \$100 bn.

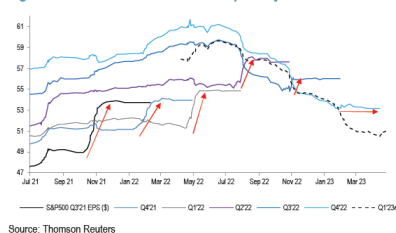
Growing debt ceiling worries have caused three-month T-Bill yields to move higher, widening the yield gap with the rest of the T-Bill curve. More volatility could come from Treasury's refunding announcement, which could give some indication about how the government plans to deal with the debt ceiling. House Republicans passed a bill last week offering to raise the debt ceiling in exchange for major spending cuts. Most analysts agree it will be dead on arrival in the Senate, and there have been no moves to negotiate from the White House. Goldman had suggested that the debt ceiling could be triggered as early as July, although most others are forecasting July or August. An unexpected increase in tax receipts could favor the later date. The US credit default swap spread has soared to 176 bps, the highest in history and well above the previous peaks in 2011 (80 bps) and 2013 (77 bps). However, the T-Bill market expects yields to peak in August and go down thereafter, indicating that the market believes a deal will eventually be reached. Most politicians agree that the consequences of a default will be disastrous for the US and global economy.



US corporate earnings have been stronger than expected in Q3 2023. Analysts had marked their earnings down significantly in the weeks before the earnings were released. Improved economic conditions, a robust consumer sector and continued pricing power are some of the factors supporting corporate

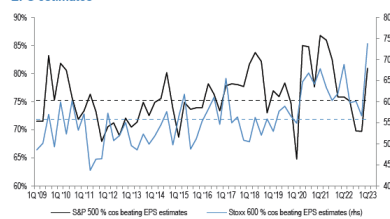
earnings. The expectations that Fed rate hikes will end soon is another tailwind for companies. Nevertheless, JP Morgan warns that the results may be front loading the good news, with tougher conditions ahead for many companies. Most analysts have kept their downbeat annual earnings forecasts unchanged, despite the recent upside surprises. A minority fear that a debt ceiling crisis will be triggered, throwing the US and global economy into recession, and causing a plunge in corporate earnings.

Figure 1: Evolution of S&P500 blended quarterly EPS



Source: Thomson Reuters

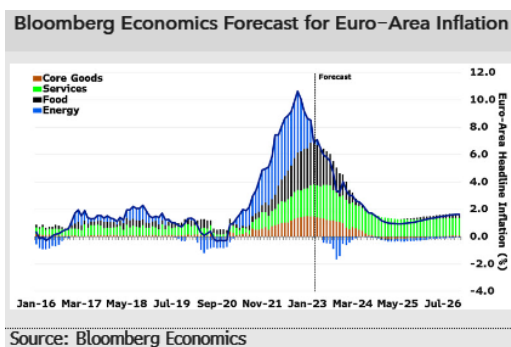
Figure 2: % of S&P500 and Stoxx600 companies beating quarterly EPS estimates



Source: J.P. Morgan, Bloomberg Finance L.P.

Euro Area

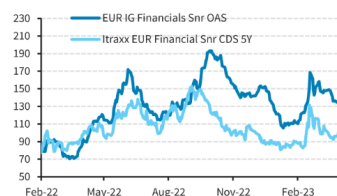
Most local markets are closed today, with the UK observing the spring Bank Holiday and euro area countries commemorating Labor Day (May Day). All eyes are on the ECB which meets on Thursday and is expected to hike by 25 bps, down from the 50 bps expected in previous weeks. However, an upside surprise from tomorrow's CPI data could put 50 bps back on the table. Markets currently forecast another 25 bps rate hike at the June 15 ECB meeting. Bloomberg expects euro area inflation to come down later this year, falling to the 2% inflation target by early in 2024.



Source: Bloomberg Economics

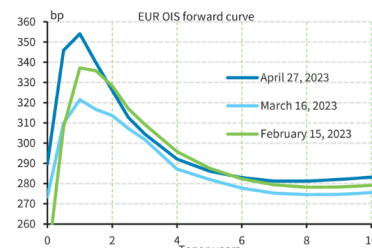
Euro area bank credit spreads have returned to the levels seen in March as the Silicon Valley impact of the Bank/Credit Suisse shock fades away. Both investment grade bond spreads and senior financial sector credit default swap spreads have declined, and equity prices have rallied from their lows. However, financial conditions remain tight in the face of a stronger euro and a more bearish market consensus on the terminal ECB policy. Tomorrow's Bank Lending Survey could shed light on credit conditions in the euro area.

Figure 5: Financial and non-financial EUR CDS spreads are almost back at early March values



Source: Bloomberg, Barclays Research

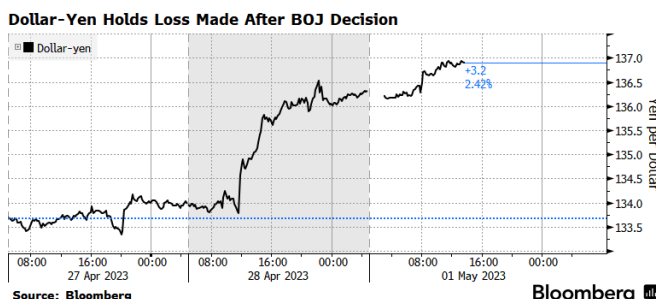
Figure 6: The yield curve is pricing a higher terminal rate than on the day of the March meeting



Source: Bloomberg, Barclays Research

Japan

The Japanese yen depreciated further today (-0.4%) after the Bank of Japan (BOJ)'s policy decision last Friday. Prior to the policy meeting, a Bloomberg survey suggested that June was the consensus timing for the BOJ to end yield curve control. However, the dovish statement from the BOJ on Friday has pushed the consensus out to July, triggering an unexpected depreciation of the yen and a decline in JGB yields. However, long-end JGB yields edged up today (10-year: +0.4 bp; 30-year: +3.2 bps), reversing some of the declines last Friday. Equities gained (NIKKEI: +0.9%).



Emerging Markets

[back to top](#)

Most major markets were closed today for the May Day holiday. On Friday, stocks in Latin America rallied although currencies were weaker. Markets in eastern Europe were down on Friday but stocks in South Africa and the Middle East were mixed. The Russian central bank stayed on hold at 7.5% on Friday as expected.

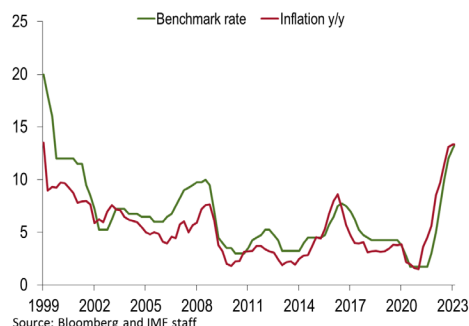
China

Factory activity was weaker than expected in April, with both manufacturing and non-manufacturing PMIs weaker than expected. Employment and new orders both pointed to contraction. Analysts attributed this to weaker global demand for Chinese exports. There was a cautious statement from the Politburo on Friday calling for more stimulus to boost the economy. However, domestic consumer spending remains strong, and the housing market is doing better than expected.



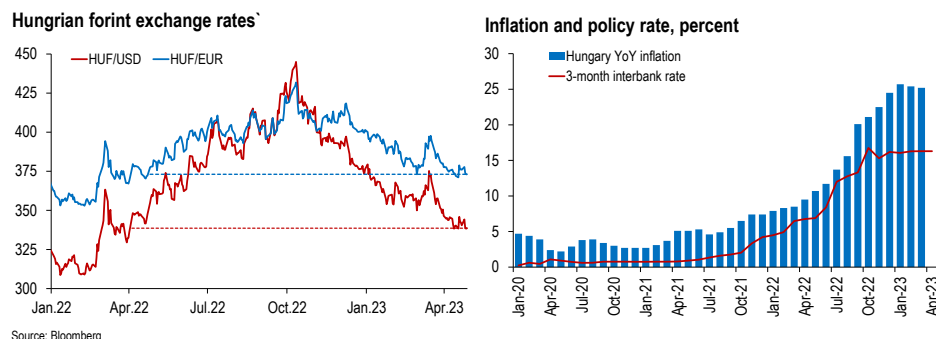
Colombia

The Central Bank of Colombia raised its benchmark interest rate by 25bps to 13.25% on Friday, as market anticipated. It is the highest level since 1999. The central bank is seeking to rein in rising inflationary pressures, as annual inflation accelerated to 13.3% in March. While the rate hike is seen as necessary to control inflation and maintain macroeconomic stability, it could also weigh on economic growth and corporate earnings in the short term. As such, investors are likely to remain cautious and closely monitor developments in the coming months.



Hungary

The Hungarian forint strengthened against the euro to its highest level since April 22 buoyed by high interest rates (1-day deposit rates are at 18%). The currency had weakened marginally immediately after the monetary policy announcement on 25th April. However, over the last few days as the markets walked back predictions of monetary policy easing following higher than expected inflation, (25.2% y/y in March 2023) the forint recovered and closed at 373.1 against the euro. The short end of the swap curve has remained largely unchanged from pre-announcement levels.



This monitor is prepared under the guidance of Jason Wu (Division Chief), Charles Cohen (Deputy 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), Aurelie Martin (Senior Economist-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 Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), 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

5/1/23 7:58 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4169	0.8	1	1	1	9
Europe		4359	0.0	-1	1	15	15
Japan		29123	0.9	2	4	9	12
China		4029	1.0	0	-1	0	4
Asia Ex Japan		67	0.5	0	-2	-6	3
Emerging Markets		39	0.5	0	-1	-8	3
Interest Rates			basis points				
US 10y Yield		3.47	5.1	-2	1	54	-40
Germany 10y Yield		2.31	-14.7	-17	2	141	-26
Japan 10y Yield		0.41	1.3	-7	6	18	-2
UK 10y Yield		3.72	-7.5	-4	26	184	5
Credit Spreads			basis points				
US Investment Grade		161	0.1	3	-12	7	2
US High Yield		481	1.7	7	-42	71	0
Exchange Rates			%				
USD/Majors		101.80	0.1	0	-1	-1	-2
EUR/USD		1.10	-0.1	0	1	5	3
USD/JPY		136.8	0.4	2	3	5	4
EM/USD		50.6	0.0	0	0	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		78.8	-2.0	-5	-1	-13	-6
Industrials Metals (index)		154	0.1	-1	-4	-22	-7
Agriculture (index)		66	-0.3	-2	-2	-14	-3
Implied Volatility			%				
VIX Index (% change in pp)		16.5	0.7	-0.4	-2.2	-16.9	-5.2
US 10y Swaption Volatility		114.6	3.4	-0.4	-11.9	-16.5	-11.1
Global FX Volatility		9.1	0.1	0.1	-1.3	-1.5	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		187	0.0	8	-6	-53	-18
Italy		186	0.0	-1	6	3	-28
Portugal		82	0.0	-1	-1	-26	-20
Spain		105	0.0	1	3	1	-5

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

Emerging Market Financial Indicators

Last updated: 5/1/2023 8:00 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		6.92	0.1	-0.4	-1	-4	0		3.1	0.0	-8	-6	16	1
Indonesia		14674	0.2	2.1	3	-1	6		6.5	-0.8	-14	-27	-45	-41
India		82	0.0	0.3	0	-7	1		7.3	-0.3	-5	-21	(57.6)	-17
Philippines		55	-0.2	0.6	-1	-6	0		6.0	0.0	0	0	65	-5
Thailand		34	-0.2	0.4	0	1	1		2.6	3.0	5	13	-14	-1
Malaysia		4.46	0.0	-0.6	-1	-2	-1		3.7	-0.1	-11	-17	-63	-31
Argentina		223	-0.3	-1.9	-7	-48	-20		94.3	345.5	459	210	4166	610
Brazil		4.99	-0.2	1.3	4	-1	6		12.5	11.1	-25	-62	33	-10
Chile		807	-0.6	-0.6	-1	6	5		5.2	-5.5	-7	2	-115	-16
Colombia		4697	-1.0	-3.9	0	-15	3		9.1	1.5	33	30	56	-71
Mexico		17.96	0.2	0.1	1	14	9		8.4	-4.0	-12	-17	-62	-38
Peru		3.7	0.4	1.4	2	4	3		7.5	0.8	1	-7	-37	-49
Uruguay		39	-0.1	0.7	0	6	3		10.0	-19.1	-19	-36	-7	-69
Hungary		338	0.2	0.7	2	8	10		7.8	-22.0	-12	-27	114	-177
Poland		4.18	-0.4	-0.3	3	7	5		5.4	0.0	-15	-5	-57	-76
Romania		4.5	0.0	-0.2	1	5	3		7.1	-1.0	-10	-7	44	-57
Russia		80.1	-0.2	1.7	-2	-12	-7							
South Africa		18.4	-0.4	-1.2	-3	-12	-7		9.3	-6.0	-5	24	98	18
Turkey		19.46	0.0	-0.3	-1	-23	-4		12.9	0.0	82	240	-840	306
US (DXY; 5y UST)		102	0.2	0.5	-1	-1	-2		3.54	5.9	-3	-3	59	-46

	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		4029	0.0	0	-1	0	4		194	1	5	-17	17	
Indonesia		6916	0.0	1	2	-4	1		153	6	-2	-38	13	
India		61112	0.0	2	4	7	0		159	4	-11	-16	17	
Philippines		6625	0.0	2	2	-2	1		124	3	-6	-22	27	
Thailand		1529	0.0	-2	-5	-8	-8		0	0	0	0	0	
Malaysia		1416	0.0	-1	0	-12	-5		101	2	-3	-23	1	
Argentina		297960	0.4	2	21	238	47		2697	51	192	907	492	
Brazil		104432	1.5	0	3	-3	-5		277	5	1	-15	3	
Chile		5416	0.1	4	2	13	3		138	-2	-8	-32	6	
Colombia		1199	2.7	-1	4	-23	-7		425	21	15	62	53	
Mexico		55121	1.2	2	2	7	14		391	3	-19	17	10	
Peru		21823	-0.7	-2	0	-4	2		179	-6	-16	-18	-1	
Hungary		44822	0.0	2	6	3	2		227	-3	-5	43	5	
Poland		62949	0.0	1	7	9	10		137	54	62	101	64	
Romania		12268	0.0	-1	1	-4	5		260	4	4	18	4	
South Africa		78218	0.0	-1	3	8	7		419	-3	6	38	52	
Turkey		4618	0.0	-8	-4	90	-16		506	-13	43	-7	66	
Ukraine		507	0.0	0	0	-2	-2		5314	131	402	1568	1235	
EM total		39	-0.4	0	-1	-8	3		419	-3	1	8	44	

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

[back to top](#)