



- US CPI for April in line with expectations ([link](#))
- US debt ceiling impasse may amplify the risk-off environment ([link](#))
- Shares of Swedish property firms remain under pressure ([link](#))
- Norway's krona strengthens on higher-than-expected inflation ([link](#))
- Chinese asset markets underperform ([link](#))
- China names Li Yunze as party secretary of the newly created financial regulator ([link](#))
- Mexico's inflation continues to decelerate ([link](#))












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Markets tread water, US CPI as expected

US Treasury yields fell in a 4–6 bps range, immediately following the release of a CPI reading in line with expectations. Prior to the release, markets traded cautiously amid the ongoing concerns about the health of US regional banks and analyst warnings that the US debt ceiling impasse may amplify risks for financial markets. European and Asian stocks were lower, the dollar slightly stronger and advanced economy sovereign bond yields traded in a relatively tight range. Elsewhere, Swedish property firms remained under pressure as shares of SBB fell another 2% after closing 24% lower yesterday in response to an announcement that the company plans to postpone a dividend. In emerging markets, Chinese asset markets continued to underperform as the recent rally in stocks of state-linked and financial companies lost further momentum and the price of Chinese high-yield dollar bonds continued falling, trading at their lowest level of the year, on the back of renewed worries about property developers.

Last updated: 5/10/23 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4119	-0.5	0	0	3	7
Eurostoxx 50		4310	-0.3	0	0	21	14
Nikkei 225		29122	-0.4	1	4	11	12
MSCI EM		39	-0.6	1	-1	-2	3
Yields and Spreads			bps				
US 10y Yield		3.51	-1.3	17	9	51	-37
Germany 10y Yield		2.33	-1.8	9	15	133	-24
EMBIG Sovereign Spread		483	0	-6	-3	17	31
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.0	0.1	0	1	-1	2
Dollar index, (+) = \$ appreciation		101.7	0.1	0	-1	-2	-2
Brent Crude Oil (\$/barrel)		76.8	-0.9	6	-9	-25	-11
VIX Index (% change in pp)		18.0	0.3	0	-1	-15	-4

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

Mature Markets

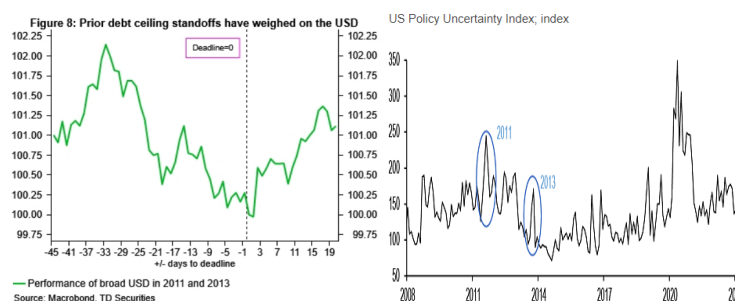
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United States

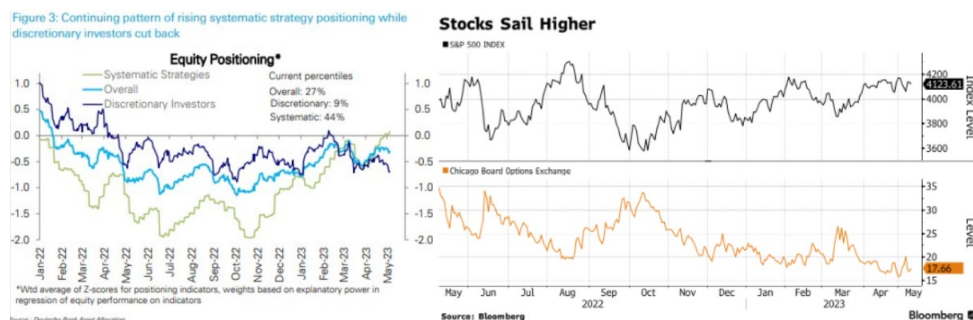
The S&P 500 index fell by 0.5% yesterday, with the debt ceiling standoff weighing on investor sentiment. US Treasury yields were little changed.

This morning, the inflation release for April was in line with expectations: headline CPI was 0.4% m/m (vs expected 0.4%) and 4.9% y/y (vs exp. 5.0%); core CPI (ex Food and Energy) was 0.4% m/m (vs expected 0.4%) and 5.5% y/y (vs exp. 5.5%). In a separate release, MBA mortgage applications increased by 6.3% in the week ending on May 5, after falling 1.2% in the week before, suggesting that housing demand is recovering after mortgage rates declined from their peak in October.

Analysts warn that the US debt ceiling impasse may amplify risks for financial markets. Goldman Sachs highlighted risks to the dollar, and in particular, the risk of undermining the dollar's status as the world's reserve currency. In a similar vein, TD Securities highlighted that the prolonged US debt ceiling standoffs in 2011 and 2013 contributed to the devaluation of the dollar (left chart below). Bloomberg reported that a group of high-profile Wall Street executives warned of "unthinkable" long-term implications from a US default and argued for alternative methods of enforcing fiscal responsibility, by either requiring the limits to be raised simultaneously with appropriations or by repealing the debt limit altogether. Despite the warnings, the levels of market volatility and uncertainty remain relatively unaffected so far, including the US policy uncertainty index that tended to spike in the run-up to the Treasury X-date (right chart).



Quantitative strategies may bring additional volatility and tail risks to equity markets in the coming months. Deutsche Bank's calculations show that quantitative strategies, i.e., those that allocate assets based on momentum and volatility signals, have been increasing their equity positioning, while discretionary investors—who use economic and earnings trends to guide their decisions—have been significantly reducing it (left chart below). Similarly, Goldman Sachs are now cautioning that the trading activity of quantitative investors may make stock prices more prone to sudden selloffs, especially given the approaching debt-ceiling deadline. A separate report showed that the volatility in regional banks stocks was amplified by significant flows from risk-seeking retail investors, frequently using derivatives for leveraged exposure.



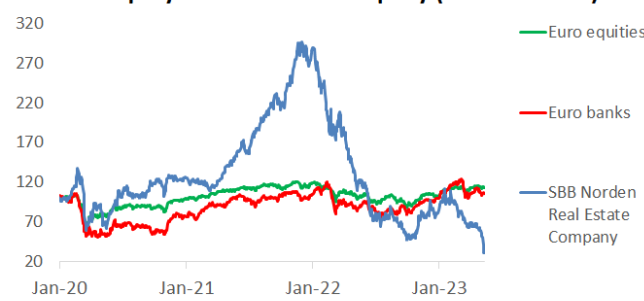
Euro area

Core sovereign bond yields traded 2–3 bps lower ahead of US inflation data. Bundesbank President Nagel said that he could have envisaged a rate increase of 50 bps at last week's ECB meeting but the combination of a faster balance sheet wind-down and an increase of 25 bps was an appropriate decision. **Equities and the euro were little changed.** Real estate underperformed. In contrast, shares in Ryanair gained 3.6% after the carrier announced a landmark order for 300 737-Max Boeing aircrafts as Ryanair expects to expand travel to 300 mn passengers/yr by 2034 (from around 168 mn now).

Sweden

Shares of real estate company SBB fell another 2% after closing 24% lower yesterday in response to an announcement that the company plans to postpone a dividend. On Monday, S&P cut the company's rating to BB+ negative. Other Swedish real estate companies have also seen significant drops in shares prices, with Balder stock little changed today but 7% weaker on Tuesday and 5% lower on Monday.

Sweden: Equity of real estate company (Jan 2020: 100)

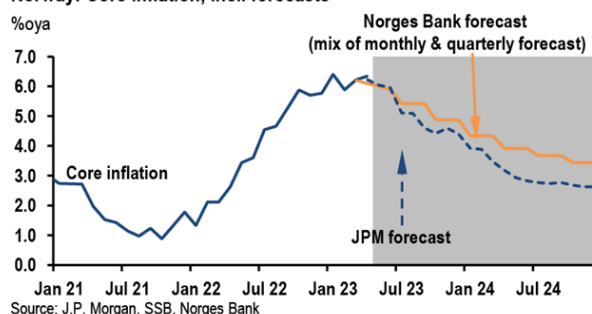


Source: Bloomberg and IMF

Norway

The krone (+0.2%) strengthened to the euro after core inflation unexpectedly rose to 6.3% y/y (6.1% y/y expected) or 1% m/m. Analysts at JP Morgan wrote that the firm print was driven by food prices soaring 2.5% m/m and imported inflation, likely reflecting currency pass-through, as domestic inflation was 0.3% ppt below the forecast of the Norges Bank.

Norway: Core inflation, incl. forecasts



Source: J.P. Morgan, SSB, Norges Bank

Japan

Japanese equities declined (NIKKEI: -0.4%) as investors were on a cautious mode. Markets waited for US inflation data and became increasingly concerned about the US debt ceiling. Analysts also noted that corporate earnings were mixed—while the performance of domestic market-focused firms is improving, some industries are experiencing a global demand slowdown. The Japanese yen appreciated (+0.1%). Long-end JGB yields edged down (10-year: -0.5 bp; 30-year: -0.5 bps), with the 10-year yield at 0.414%.

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Most Asian equities declined, falling 0.5% on net, led by Chinese stocks (CSI 300: -0.8%). **Asian currencies were mixed** with limited movements. Malaysian ringgit depreciated (-0.2%), while Sri Lanka appreciated (+1.1%). The **Sri Lanka** rupee's exceptional outperformance followed the news that the country's bilateral creditors held an inaugural meeting on debt restricting yesterday, with China sitting in as an observer. Sri Lanka's government bond yields also dropped (1-year: -30 bps). **In Hong Kong SAR**, local interest rates increased to a four-month high, with 1-month HIBOR touching 4.16% (+0.39 bps). **Long-end government bond yields were mixed**, with 10-year yields rising in Singapore (+2.6 bps) and Malaysia (+2.4 bps) while falling in Indonesia (-1.9 bps) and China (-1.8 bps). **In Taiwan POC**, TSMC's sales declined for a second month, falling 14% y/y, as electronics demand slowed. Its stock price dropped (-1.4%), with the overall index declining too (-0.5%). **In EMEA, markets traded with a cautious tone ahead of US inflation data**. South African assets continued to underperform, with both the rand (-0.8%) and equities (-0.2%) weaker. **The National Bank of Poland was expected to keep its policy rate unchanged at 6.75% later today**. Turkish bank stocks (+1.4%) continued to gain in pre-election trading. In **Egypt**, the price of several long-dated Eurobonds fell to record lows, after Moody's placed Egypt on review for downgrade. **LATAM currencies recovered yesterday**, with the Chilean peso (+1%) outperforming its peers. Regional equities were mixed as markets in Brazil (+1%) and Mexico (+0.8%) closed higher, while those in Chile (-1%) partially reversed Monday's gains.

China

Chinese equities declined (CSI 300: -0.8%). The recent rally in stocks of state-linked companies lost further momentum today as investors cashed in on recent gains. The rally started sputtering after weaker-than-expected imports data (released yesterday) raised concerns about sluggish domestic demand. Meanwhile, the anti-espionage crackdown continued dampening market sentiment. **High-yield dollar bond prices continued falling, trading at their lowest level of the year**, on the back of renewed worries about property developers. Recently, there were a series of negative news from Dalian Wanda's loan relief talks to a small developer facing court-ordered liquidation. The RMB depreciated (-0.1%) and CGB yields declined (1-year: -2.5 bps; 10-year: -1.8 bps).



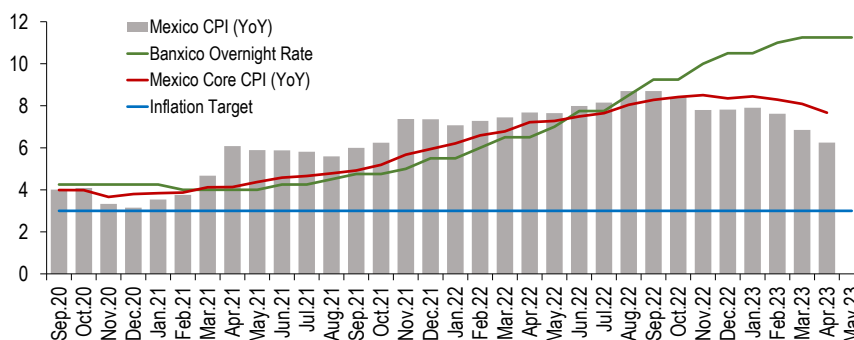
China named Li Yunze as party secretary of the newly created financial regulator in a surprise move. China watchers expected candidates with more seniority and international experience. Li Yunze had worked at two of China's largest state-owned banks before becoming a vice governor of Sichuan province, his latest job before being picked for the top financial regulator job. Analysts pointed out that he previously oversaw several risky disposal matters, the experience that could be useful for diffusing risks of local government-related debt.

Mexico

April inflation cooled for the third straight month, printing at 6.25% y/y, down 60 bps sequentially. Core inflation too fell to 7.67% y/y (from 8.09% y/y in March) in line with the market expectations. Given this steady decline in inflation, coupled with stability in inflation expectations, US fed policy signals, and already restrictive domestic policy rates, markets expect the central bank to keep the policy rate unchanged at 11.25% in its May meeting. The central bank has raised its policy rate by 725 bps since June 2021. Local markets closed higher with equities rising 0.8% and the currency appreciating modestly (+0.1%).

Inflation Pressures Easing

Slowing consumer prices give Banxico room to consider end of hiking cycle






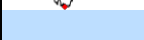











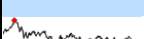
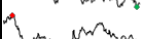
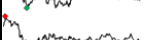
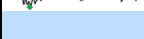



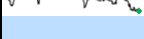



Sources: Bloomberg

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Global Financial Indicators

5/10/23 8:09 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4119	-0.5	1	0	3	7
Europe		4311	-0.3	0	0	21	14
Japan		29122	-0.4	1	4	11	12
China		3997	-0.8	-1	-3	1	3
Asia Ex Japan		66	-0.9	1	-2	-1	3
Emerging Markets		39	-0.6	1	-1	-2	3
Interest Rates			basis points				
US 10y Yield		3.51	-1.1	17	9	52	-37
Germany 10y Yield		2.33	-1.7	9	15	133	-24
Japan 10y Yield		0.43	-0.1	0	-4	18	0
UK 10y Yield		3.86	0.4	16	43	201	19
Credit Spreads			basis points				
US Investment Grade		170	0.2	5	9	9	12
US High Yield		504	-0.4	-3	18	38	24
Exchange Rates			%				
USD/Majors		101.74	0.1	0	-1	-2	-2
EUR/USD		1.09	-0.1	-1	1	4	2
USD/JPY		135.3	0.1	0	1	4	3
EM/USD		51.0	0.1	0	1	-1	2
Commodities			%				
Brent Crude Oil (\$/barrel)		76.8	-0.9	6	-8	-14	-9
Industrials Metals (index)		150	-1.5	-2	-3	-16	-9
Agriculture (index)		66	-0.8	0	-2	-11	-3
Implied Volatility			%				
VIX Index (% change in pp)		18.0	0.3	-0.4	-1.0	-15.0	-3.7
US 10y Swaption Volatility		115.6	-4.9	-3.3	-15.7	-11.3	-10.1
Global FX Volatility		8.9	0.0	-0.3	-1.2	-2.2	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		178	0.1	-6	-13	-73	-27
Italy		192	-1.0	5	7	-8	-22
Portugal		83	-1.8	-1	-4	-32	-19
Spain		109	-0.4	2	4	-2	-1

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

Emerging Market Financial Indicators

Last updated: 5/10/2023 8:05 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		6.92	-0.1	-0.1	-1	-3	0		3.0	-3.5	-11	-20	11	-11
Indonesia		14732	0.1	-0.3	1	-1	6		6.5	-1.5	0	-21	-93	-46
India		82	0.1	-0.2	0	-6	1		7.2	0.0	0	-11	(66.1)	-21
Philippines		56	0.1	-0.6	-2	-6	0		5.9	0.0	-10	-10	50	-15
Thailand		34	0.2	0.8	2	3	3		2.6	0.5	3	3	-64	-3
Malaysia		4.46	-0.2	-0.1	-1	-2	-1		3.7	4.0	0	-11	-62	-30
Argentina		228	-0.2	-1.5	-7	-49	-22		97.4	52.4	257	843	4480	917
Brazil		4.98	0.0	0.2	2	3	6		12.6	10.1	30	-22	13	0
Chile		789	1.0	2.7	4	10	8		5.3	0.0	15	4	-119	-9
Colombia		4559	-1.2	3.0	0	-10	6		8.8	0.0	-23	-2	-15	-97
Mexico		17.72	0.3	1.2	3	15	10		8.3	-2.0	-1	-1	-74	-39
Peru		3.7	0.4	0.6	2	4	3		7.4		-11	-13	-91	-60
Uruguay		39	-0.1	0.3	0	8	3		10.0	0.0	0	-33	-7	-69
Hungary		339	-0.1	0.2	2	6	10		7.9	-7.0	7	-31	59	-171
Poland		4.14	0.3	0.2	4	7	6		5.2	2.3	-5	-5	-129	-92
Romania		4.5	-0.2	-0.9	1	4	3		7.1	0.7	-2	-7	-38	-59
Russia		76.1	2.1	2.9	8	-8	-2							
South Africa		18.7	-0.5	-2.4	-1	-14	-9		9.5	6.0	28	49	78	38
Turkey		19.54	-0.1	-0.4	-1	-22	-4		12.7	0.0	-41	237	-1082	286
US (DXY; 5y UST)		102	0.3	-0.3	0	-2	-2		3.49	-0.4	19	-3	58	-51

	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		4028	-0.8	1	-2	3	4		198	-2	4	-5	21	
Indonesia		6812	0.5	0	0	0	-1		142	-16	-18	-53	2	
India		61940	0.3	1	3	15	2		161	-3	-7	-14	19	
Philippines		6659	0.5	1	3	0	1		117	-13	-17	-31	20	
Thailand		1570	0.3	3	-2	-3	-6		0	0	0	0	0	
Malaysia		1426	-0.5	0	-1	-8	-5		102	-2	2	-27	2	
Argentina		307773	1.1	4	20	268	52		2528	-138	65	682	323	
Brazil		107114	1.0	5	5	4	-2		274	-8	-4	-39	0	
Chile		5551	-1.0	3	5	18	5		132	-9	-14	-47	0	
Colombia		1160	0.2	0	-3	-23	-10		422	-6	22	19	50	
Mexico		55453	0.8	0	3	13	14		402	7	6	16	21	
Peru		22290	-0.2	3	1	12	4		181	-3	-12	-22	1	
Hungary		46477	-0.6	0	5	14	6		215	-13	-16	15	-7	
Poland		63200	0.0	1	8	17	10		129	-10	58	119	56	
Romania		12195	0.1	0	-2	0	5		251	-12	-4	8	-4	
South Africa		77666	-0.1	-1	1	16	6		427	-4	3	5	60	
Turkey		4544	0.2	1	-11	82	-18		523	1	16	-43	83	
Ukraine		507	0.0	0	0	-2	-2		5377	8	415	1837	1298	
EM total		39	0.3	1	0	-1	4		417	-9	2	2	41	

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

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