



- **US PPI lower than expected** ([link](#))
- **Markets grapple with looming US debt ceiling crisis** ([link](#))
- **T-Bill stress intensifies ahead of debt ceiling, but stocks remain optimistic** ([link](#))
- **China inflation weaker than expected** ([link](#))
- **Euro area inflation expectations rise significantly** ([link](#))
- **Bank of England surprises with large upward revision to GDP forecast** ([link](#))
- **Polls show President Erdogan trailing ahead of Sunday's election** ([link](#))
- **Special Feature: The Latest Fed Loan Officer Survey** (attached)

[Mature Markets](#)






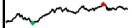





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## Markets nervous as they confront multiple risks

**US equity futures were flat and stocks in Europe were only slightly higher as nervous markets confront multiple risks.** The prices of industrial metals fell on the news that China's inflation was weaker than expected and that its PPI had fallen deeper into deflationary territory, raising fears about its economic recovery and the impact on the global economy. Oil prices have seen steep losses in recent days on worries about global demand, although today's price action was more positive. The US debt ceiling standoff remains a major concern, with political leaders scheduled to meet again tomorrow to continue negotiations after failing to make a deal on Tuesday. Shares of American regional bank PacWest are down 20% in pre-market trading on news that it lost 10% of its deposits during the week that ended last Friday, an indication that US banking volatility remains a risk. Worries are growing about the commercial real estate sector in Europe, sparked by the travails of Sweden's SBB which has seen its share price take a major hit. The Bank of England delivered its 12<sup>th</sup> rate hike, raising Bank Rate by 25 bps to 4.5%, the highest since 2008, while surprising markets with an unexpectedly large upgrade to its GDP forecast.

Key Global Financial Indicators

Last updated: 5/11/23 8:01 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>			<b>%</b>				<b>%</b>	
S&P 500		4138	0.4	1	1	5	8	-2
Eurostoxx 50		4310	0.1	1	-1	18	14	8
Nikkei 225		29127	0.0	0	4	13	12	10
MSCI EM		39	-0.1	2	-1	-1	3	-18
<b>Yields and Spreads</b>			<b>bps</b>					
US 10y Yield		3.39	-5.1	1	-3	47	-48	140
Germany 10y Yield		2.23	-5.7	4	-8	125	-34	200
EMBIG Sovereign Spread		490	7	-2	3	22	38	77
<b>FX / Commodities / Volatility</b>			<b>%</b>					
EM FX vs. USD, (+) = appreciation		50.9	-0.3	0	1	-1	2	-4
Dollar index, (+) = \$ appreciation		101.8	0.3	0	0	-2	-2	6
Brent Crude Oil (\$/barrel)		76.2	-0.3	5	-11	-29	-11	-21
VIX Index (% change in pp)		17.4	0.4	-3	-2	-15	-4	-14

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

The latest PPI data came in at or below forecasts, complementing the favorable CPI data from yesterday that showed that US inflation could finally be slowing. Treasuries rallied and the dollar weakened in the immediate aftermath of the news. New jobless claims were higher than expected (264K versus the 245K consensus).

#### US PPI Report 8.30 am

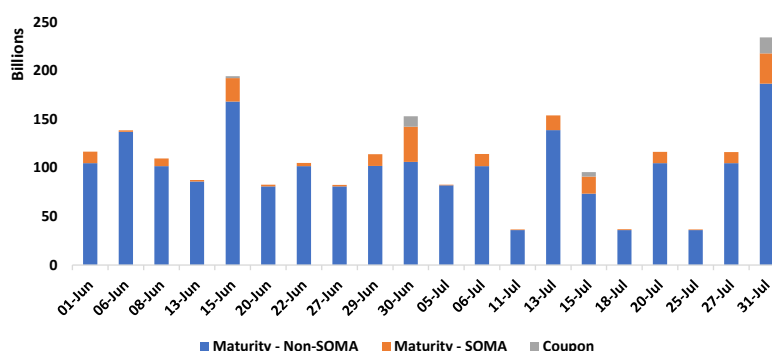
Source: Bloomberg

Data Release	Consensus Forecast	Actual Outcome
PPI month-on-month	0.3%	0.2%
Core PPI mom	0.2%	0.2%
PPI year-on-year	2.5%	2.3%
Core PPI yoy	3.3%	3.2%

As the X-Date approaches for the debt ceiling, market participants are coming to grips with the actual mechanical implications of a potential default. Starting on June 1, the US is scheduled to make payment on maturities and coupons of more than \$116 bn and could default if a deal is not reached or some alternative measure is not taken. If negotiations continue to fail, another \$247 bn comes due on June 6. Further delays could imperil the next payment of \$87 bn on June 13, and another \$192 bn is due on June 15 when many US Treasury notes and bonds make their semi-annual coupon payments. However, the June 15 impact is likely to be reduced by large tax payments that are scheduled to be received that day. By July 31, over \$2 trillion of payments could be missed.

#### Planned Cash Flow Schedule from Treasury Bills and Bonds

Source: Bloomberg, Federal Reserve



Stress in the US T-Bill market has intensified as the debt ceiling X-Date draws nearer. The yield of the T-Bill maturing on June 1 is now much higher than that of the T-Bill maturing on May 30 at a peak level of 177 bps, a reflection of the worries around the June 1 deadline. The US credit default swap (CDS) curve has inverted, with the one-year CDS spread above the five-year CDS spread. This frequently occurs when a sovereign or corporate bond issuer is facing severe credit stress, as happened to countries such as Greece and Italy during the European crisis. However, equity investors remain much more optimistic than the bond market. There is very little volatility spread between options on the S&P 500 index expiring on June 23 and May 23. The latest JP Morgan survey of investors found that 77% expect the debt ceiling to be raised at the last minute or even before that.

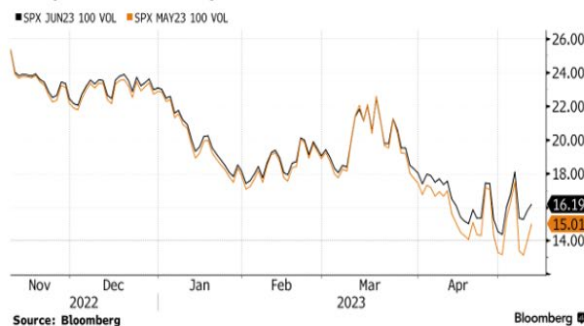
### Trouble at the End of the Month

#### Huge risk premium now built in for June 1 bills



### Not Much Vol Premium

#### Vol spread between May 30 and June 1 doesn't reflect default risk



## Euro area

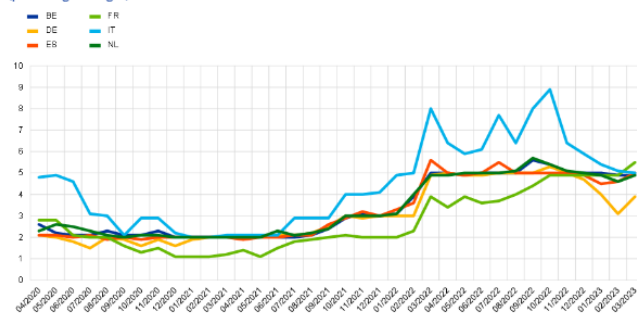
Core yields are 4 bps lower in line with US rates following the moderation in US inflation data yesterday. Equities (+0.3%) gained and the euro (-0.4%) fell.

Inflation expectations for the next 12 months increased to 5% from 4.6%, the ECB said Thursday in its monthly survey. Expectations for inflation three years ahead also increased, from 2.4% to 2.9%. Inflation expectations remained well below the perceived past inflation rate, particularly at the three years horizon. Uncertainty about inflation expectations 12 months ahead reached its highest level since the start of the survey in April 2020.

### Median inflation expectations over the next 12 months – by country

Quantitative measure of inflation expectations (forward-looking)

(percentage changes)

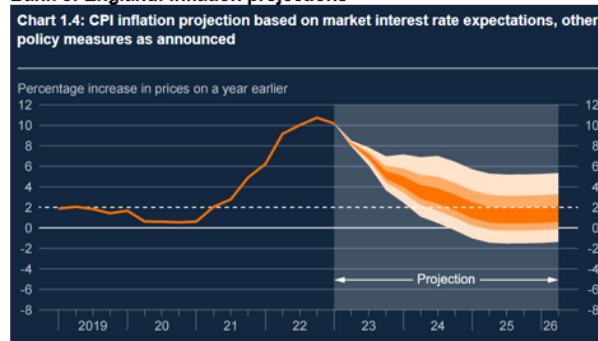


Source: CES.

Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses.

The pound (-0.2%) and the 10-yr gilt yields were little changed after the Bank of England increased its policy rate 25 bps to 4.5%. The vote was 7–2, with two Monetary Policy Committee (MPC) members voting for a pause. The MPC now judges that the path of demand is likely to be materially stronger than expected in the February Report, albeit still subdued by historical standards. **The BOE also delivered the largest ever upgrade to its GDP forecast since it became independent in 1997, removing its earlier forecast of a recession.** The Committee continues to judge that the risks around the inflation forecast are skewed significantly to the upside despite the emergence of an increasing degree of economic slack and declining external pressures. **Market estimates of the terminal policy rate went up to just below 4.9%.**

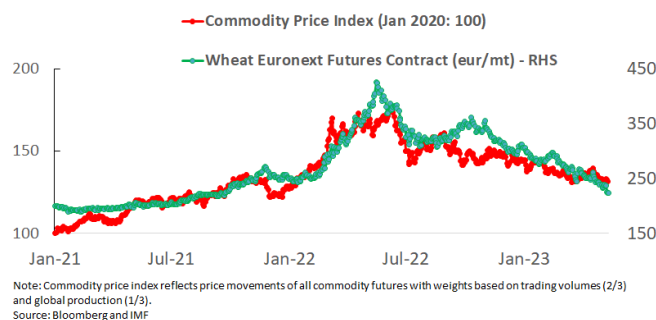
## Bank of England: Inflation projections



## Commodity prices

**Wheat future prices fell 4% in the past days even if oil prices recovered somewhat.** In any case, commodity prices are still lower on the month despite the gains of recent days, with spot natural gas prices in Europe 8% lower and oil prices 3–4% lower.

## Commodity and wheat futures



## Emerging Markets

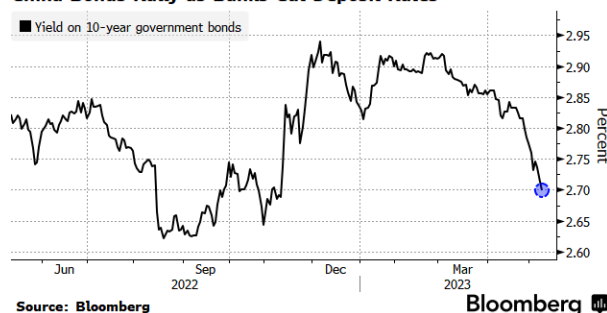
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**EMEA markets were mixed.** South African assets continue to underperform, with the rand now 4.7% lower in the past 5 days as worries about the shortage of energy and fears about weaker growth in China weighed on sentiment. Most Asian equities declined, and currencies depreciated. Local government bond yields followed US yields lower. **LATAM markets were mostly higher with equities gaining across the region, except in Peru (-1.7%).** S&P Global Ratings has upgraded El Salvador's sovereign debt ratings to CCC+ (stable outlook) from selective default.

## China

**Inflationary was lower than expected in April.** CPI inflation moderated to 0.1% y/y in April from 0.7% in March (consensus: +0.3%). Meanwhile, PPI fell deeper into deflationary territory at -3.6% y/y in April, larger than the -2.5% seen in March (consensus: -3.3%). Weaker-than-expected inflation data raised concerns that domestic demand could remain weak, spurring debate on whether additional policy stimulus is warranted. Speculations were also fueled by the news that the Interest Rate Self-Regulatory Mechanism, a regulatory body overseen by the People's Bank of China, urged all banks to lower the ceilings

## China Bonds Rally as Banks Cut Deposit Rates



on “call” and “agreement” deposit rates by 30 bps for the four big state-owned banks and by 50 bps for other banks. This led to a rally in Chinese government bonds. Weak credit growth added to concerns about the economic recovery.

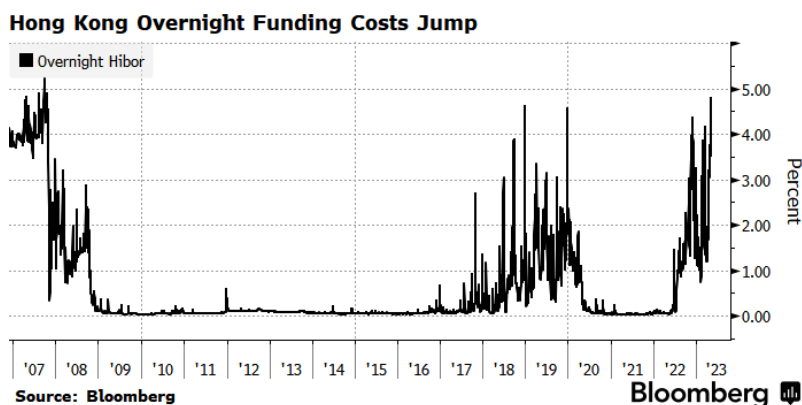
## Chile

**The Senate has approved a new mining royalty bill** which will now be sent to the lower house for potential final approval. In its current form the bill proposes a 1% ad valorem tax on copper sales to be levied on miners producing more than 50,000 MTFC (metric tons of fine copper), and an 8–26% tax on the miner’s operating margin. However, the bill caps the effective tax rate at 45.5%–46.5% of operating margin, depending on the miner’s copper output. Chile, where copper exports account over 40% of all exports, aims to use revenues from this tax for higher social spending.



## Hong Kong SAR

**The overnight HIBOR hit its highest level since 2007, reaching 4.806% (+37 bps).** The recent rise in Hong Kong dollar interest rates was due to the increase in corporates’ cash demand for dividend payments at the time when liquidity conditions were relatively tight, with the Aggregate Balance shrinking to the lowest level since 2008. The decline in the Aggregate Balance largely resulted from continued interventions that the Hong Kong Monetary Authority needs to mechanically undertake under the Linked Exchange Rate System—i.e., buying Hong Kong dollar when it hit the weak side of the convertibility band. Analysts noted that the Hong Kong dollar market would be more vulnerable to liquidity squeezes given the relatively low level of the Aggregate Balance.

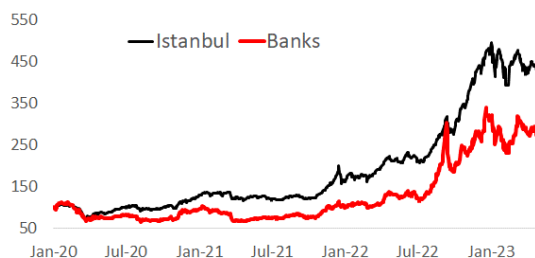


## Türkiye

**Bank equities (+7%) jumped** as a survey by pollster Konda showed that President Erdogan trails his main rival Kemal Kilicdaroglu by more than five percentage points ahead of Sunday’s presidential election. The latest poll conducted by KONDA shows the main opposition leader earning

49.3% of votes in the first round of the presidential elections against incumbent President Erdogan's 43.7%. The former opposition presidential candidate in the 2018 election, Muharrem Ince, pulled out of the race before the election, further darkening the incumbent President's prospects.

Turkish equities (Jan 2020:100)

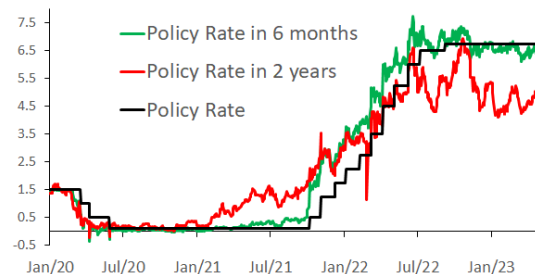


Source: Bloomberg and IMF

## Poland

**Two-year swap yields fell 4 bps after the National Bank of Poland (NBP) left its policy rate unchanged at 6.75% yesterday, in line with expectations.** The NBP statement focused on the recent weakness in economic data, including declines in retail sales, industrial production, and construction output. The NBP also pointed out that the weakening of the external economic conditions, together with a decline in commodity prices, will continue to curb global inflation and contribute to lower price growth in Poland.

Poland: Current and implied policy rates (%)



Source: Bloomberg and IMF staff

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## Global Financial Indicators

5/11/23 8:07 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		4139	0.4	2	1	5	8
Europe		4310	0.1	1	-1	18	14
Japan		29127	0.0	0	4	13	12
China		3991	-0.2	-1	-3	1	3
Asia Ex Japan		66	0.0	1	-2	0	3
Emerging Markets		39	-0.1	2	-1	-1	3
<b>Interest Rates</b>			basis points				
US 10y Yield		3.39	-5.1	1	-3	47	-48
Germany 10y Yield		2.23	-5.7	4	-8	125	-34
Japan 10y Yield		0.40	-2.7	-2	-7	15	-2
UK 10y Yield		3.77	-2.9	12	23	195	10
<b>Credit Spreads</b>			basis points				
US Investment Grade		170	0.1	5	9	9	11
US High Yield		507	2.7	0	21	41	27
<b>Exchange Rates</b>			%				
USD/Majors		101.83	0.3	0	0	-2	-2
EUR/USD		1.09	-0.5	-1	0	4	2
USD/JPY		134.2	-0.1	0	0	3	2
EM/USD		50.9	-0.3	0	1	-1	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		76.2	-0.3	5	-11	-18	-10
Industrials Metals (index)		147	-1.8	-3	-5	-19	-11
Agriculture (index)		67	-0.5	0	-3	-12	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.4	0.4	-2.7	-1.7	-15.2	-4.3
US 10y Swaption Volatility		115.3	0.7	-10.2	-12.3	-3.7	-10.4
Global FX Volatility		8.9	0.0	-0.3	-1.0	-1.7	-1.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		182	2.0	-6	-7	-65	-24
Italy		191	0.0	-2	5	0	-23
Portugal		84	0.5	-3	-2	-25	-18
Spain		109	1.0	-1	4	5	0

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

## Emerging Market Financial Indicators

Last updated: 5/11/2023 8:09 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		6.94	-0.1	-0.4	-1	-3	-1		2.9	-4.0	-6	-14	4	-15		
Indonesia		14722	0.1	-0.3	1	-1	6		6.4	-8.0	-3	-26	-101	-54		
India		82	-0.1	-0.4	0	-6	1		7.2	-6.4	-1	-19	(58.1)	-28		
Philippines		56	-0.1	-0.7	-2	-6	0		5.9	0.0	-10	-10	50	-15		
Thailand		34	0.0	0.3	2	3	3		2.6	-0.5	3	5	-76	-4		
Malaysia		4.46	-0.1	-0.2	-1	-2	-1		3.7	-4.2	-6	-18	-71	-36		
Argentina		229	-0.2	-1.5	-7	-49	-22		98.3	89.1	330	914	4552	1007		
Brazil		4.96	-0.3	0.5	1	4	7		12.3	-0.2	12	-30	-25	-26		
Chile		789	0.0	1.8	4	10	8		5.2	0.5	9	-5	-113	-13		
Colombia		4553	0.1	1.7	0	-10	7		8.8	0.0	-12	-5	-25	-101		
Mexico		17.59	-0.2	1.8	3	15	11		8.3	-7.0	-4	-8	-63	-46		
Peru		3.7	0.6	1.1	3	3	4		7.1	#####	#####	-38	-93	-84		
Uruguay		39	-0.3	0.2	0	7	3		10.0	0.0	0	-27	-14	-69		
Hungary		340	-1.0	-0.3	1	6	10		7.8	-4.0	5	-48	56	-180		
Poland		4.14	-0.6	0.7	3	7	6		5.2	-8.3	-1	-23	-131	-100		
Romania		4.5	-0.6	-0.8	0	4	2		7.1	-0.7	1	-7	-57	-60		
Russia		76.9	-0.9	2.0	6	-13	-4									
South Africa		19.0	-0.6	-3.7	-3	-15	-10		9.5	-8.5	30	35	99	38		
Turkey		19.56	-0.1	-0.4	-1	-22	-4		12.7	0.0	41	27	-1232	286		
US (DXY; 5y UST)		102	0.3	0.4	0	-2	-2		3.33	-5.8	0	-20	43	-68		

	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		3991	-0.2	-1	-3	1	3		201	0	6	-5	24			
Indonesia		6756	-0.8	-1	-1	2	-1		150	-7	-6	-56	10			
India		61905	-0.1	0	3	17	2		163	-2	-4	-15	21			
Philippines		6675	0.3	0	3	2	2		126	-3	-6	-39	29			
Thailand		1567	-0.1	3	-2	-1	-6		0	0	0	0	0			
Malaysia		1425	0.0	0	-1	-7	-5		102	-2	2	-26	2			
Argentina		310497	0.9	7	19	262	54		2512	-64	82	660	307			
Brazil		107448	0.3	6	1	3	-2		277	-9	-3	-30	3			
Chile		5570	0.3	4	5	19	6		134	-8	-12	-42	2			
Colombia		1160	0.1	0	-5	-23	-10		420	-7	16	28	48			
Mexico		55535	0.1	1	2	13	15		405	5	8	20	24			
Peru		21904	-1.7	1	-2	11	3		182	-3	-10	-19	2			
Hungary		46286	0.1	0	4	13	6		220	-5	-11	18	-2			
Poland		63614	0.1	3	7	18	11		135	-4	65	129	62			
Romania		12174	0.0	0	-2	0	4		256	-7	2	13	0			
South Africa		77130	-0.8	0	-1	13	6		443	13	21	21	76			
Turkey		4764	6.0	6	-7	94	-14		515	-7	10	-63	75			
Ukraine		507	0.0	0	0	-2	-2		5394	10	339	1900	1315			
EM total		39	-0.6	2	-1	-1	3		422	-3	7	8	47			

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

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