



- US yield curve expected to steepen faster than previous cycles ([link](#))
- Equity market in US disconnects from the dollar as interest rates fall ([link](#))
- S&P 500 companies spend less cash as earnings are expected to decline ([link](#))
- Worries about China push local stocks lower ([link](#))
- Ending of ECB bond purchases could put pressure on euro area bond markets ([link](#))
- Peru stays on hold at 7.75% although inflation fears linger ([link](#))

[Mature Markets](#)










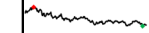

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Cautious optimism prevails in markets

US equity index futures were up this morning and European stocks were higher as markets opened in a more optimistic mood. Progress in staff-level talks led President Biden and Speaker McCarthy to postpone their meeting today to a later date, in hopes of reaching a deal on the debt ceiling standoff. Recent corporate earnings reports that were stronger than expected also boosted sentiment. US Treasury yields are holding steady after two days of rallies following lower than expected CPI and PPI reports, while oil prices remain subdued. A close election in Türkiye has raised hopes that the incumbent government will be defeated, an outcome viewed as positive by markets. However, investors remain worried about several countries. A series of weaker than expected economic reports raised doubts about the recovery in China. South African markets are under pressure after the US accused it of supplying weapons to Russia. Egyptian dollar bond yields are moving higher as investors grow increasingly concerned about its economic prospects.

Key Global Financial Indicators

Last updated: 5/12/23 8:03 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		4131	-0.2	2	1	5	8	-2
Eurostoxx 50		4325	0.3	0	0	20	14	9
Nikkei 225		29388	0.9	1	3	11	13	11
MSCI EM		39	-0.4	0	-1	-1	3	-18
Yields and Spreads			bps					
US 10y Yield		3.42	3.3	-2	3	57	-46	143
Germany 10y Yield		2.27	4.2	-2	-10	143	-30	204
EMBIG Sovereign Spread		488	-1	-4	1	18	36	76
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.7	-0.2	-1	0	-2	2	-5
Dollar index, (+) = \$ appreciation		102.2	0.1	1	1	-3	-1	6
Brent Crude Oil (\$/barrel)		75.1	0.2	0	-14	-30	-13	-22
VIX Index (% change in pp)		16.7	-0.2	-1	-2	-15	-5	-14

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

Mature Markets

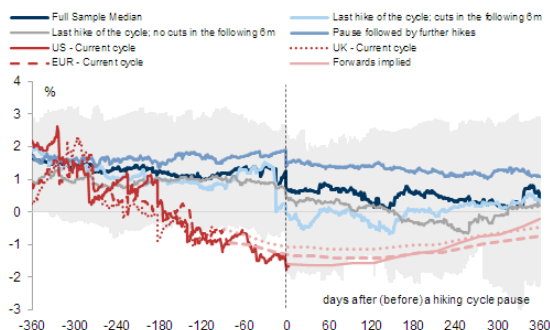
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United States

Yield curves in the US, euro area and the UK are more inverted than in previous cycles, while markets expect the US yield curve to steepen faster than in previous cycles. This market pricing highlights the central challenge facing global investors: expectations of rate cuts by the end of the year in the face of firm assertions by central bankers that policy rates will remain at current levels this year. The Bank of England warned yesterday that further rate hikes may be warranted, pushing market pricing for its terminal rate near 4.9%, but even in the UK at least one rate cut is expected by the end of the year. ECB President Lagarde has also made hawkish remarks at the last ECB press conference, and other ECB Board members have done the same more recently. The risk is that markets could face a major shock if investors are forced to revise their rate cut expectations, triggering a selloff in risk assets and a steep rise in interest rates that could send the global economy into a recession.

Exhibit 5: Curves much more inverted than in previous cycles

10y yield - policy rate. X-axis shows days after (before) the last hike. Range is 10-90% interval

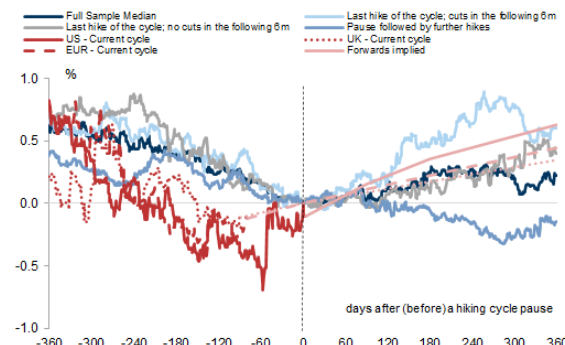


Pause defined as a period of at least 3 consecutive months without a hike

Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 6: US curve priced to steepen faster than in most cycles

2s10s Indexed at zero at the time of the last hike. X-axis shows days after (before) the last hike.



Pause defined as a period of at least 3 consecutive months without a hike

Source: Haver Analytics, Goldman Sachs Global Investment Research

US equity markets have disconnected from the dollar, bucking a well-established historical pattern.

Weak equity markets are usually associated with a stronger dollar, but recent market activity shows that the correlation between the S&P 500 and the dollar has moved from deeply negative to close to zero. Weakness in the S&P 500 has not resulted in a stronger dollar in recent weeks. One key explanation for this much lower US interest rates: the one-year interest rate swap rate starting one year forward is at new lows for the current interest rate cycle, according to analysts at Morgan Stanley. They think the zero correlation will revert to deeply negative in the weeks ahead, as key risk events such as the debt ceiling are likely to push equity markets down in the near future.

Exhibit 5: Usually equity weakness leads to USD strength, but recent correlations have changed

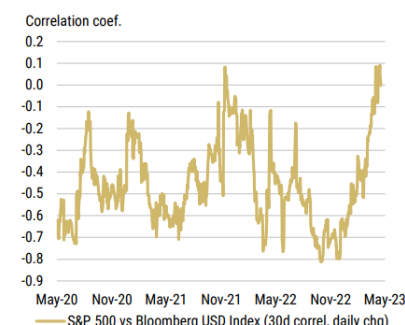
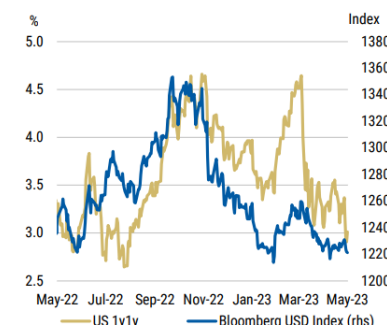


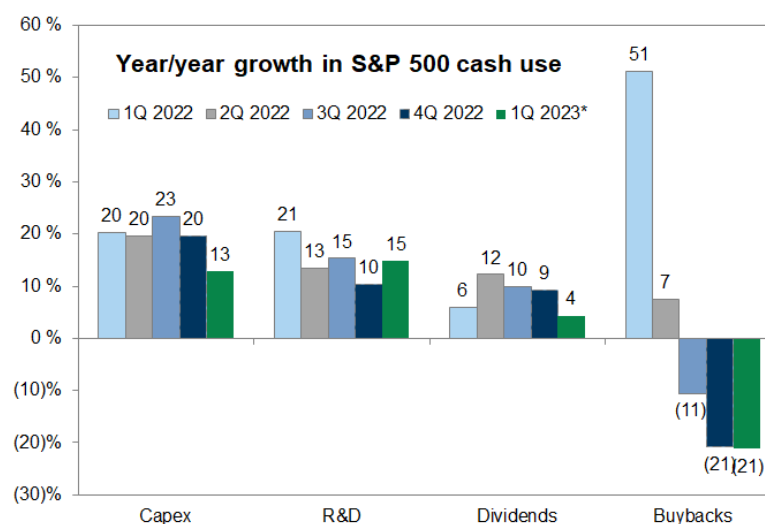
Exhibit 6: Lower US interest rates have not push the dollar down



US companies are spending less cash as business headwinds gain strength. Although Q1 earnings were better than expected earnings per share are expected to decline in the coming quarters of 2023. One key area they are cutting down is share buybacks. Although buybacks are still large in dollar terms, they are down 21% compared to a year earlier, according to analysis by Goldman. Instead, companies are expected to raise their spending on capital expenditures and R&D to 47% of cash spending compared to 43% in 2022. Earnings grew 47% in 2021 but slowed to 6% in 2022. Goldman forecasts that earnings growth for 2023 will be just 1% for the S&P 500. However, the analysts expect conditions to improve next year predict faster earnings growth in 2024.

Exhibit 4: The slowdown in cash spending has started with buybacks

*1Q 2023 based on companies that have reported 1Q spending thus far, representing 83% of 2022 spend



Source: Compustat, Goldman Sachs Global Investment Research

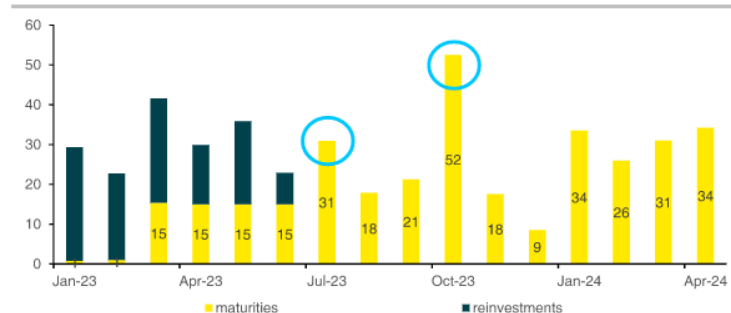
Euro area

Equities (+0.5%) gained in line with other DM markets. Bank stocks (+1.4%) outperformed. Core yields are 2–3 higher in relatively quiet trading. The euro was little changed.

Commerzbank warns that euro area bond curves are likely to steepen, and Italian government bond (BTP) spreads could widen when the ECB stops reinvesting its Asset Purchase Program (APP) holdings from July onwards. The bank estimates that the APP run-off will more than double to over €30 bn in July and rise to over €50 bn in October. These are high redemption months with typically negative net supply, but steeper curves may be needed to attract investors.

Cliff effects coming up for €QT!

ECB APP maturities and reinvestments, in € bn



Source: ECB, Commerzbank Research

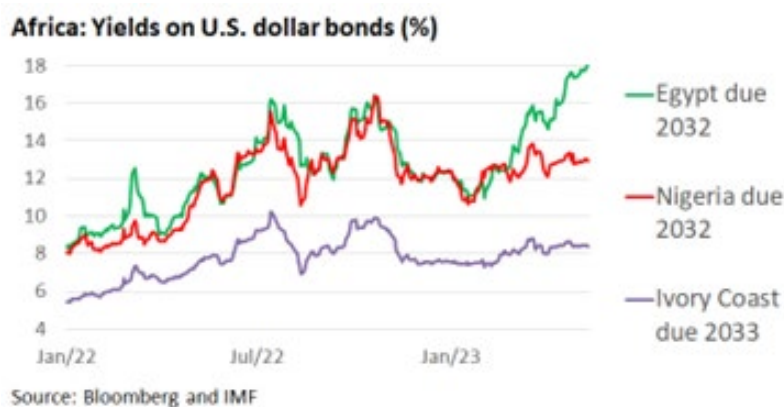
Switzerland

UBS shares (+1%) are higher after CEO Ermotti said that losses for the Swiss government and central bank because of the rescue of Credit Suisse were “exceptionally unlikely.” The CEO also said that UBS is on track with a plan to close the transaction less than three months after the takeover was announced.

Emerging Markets

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EMEA stocks followed global markets higher. The South African rand fell to record lows and 10-year local yields are trading over 12% yesterday after the U.S. ambassador accused the country of supplying weapons to Russia. Yields on Egypt's eurobonds continued to rise as worries grow about its economic prospects. **In Asia, most equity markets were lower and currencies depreciated.** Interest rates followed US markets lower. **LATAM markets traded mixed** with equities in Colombia (-1.4%), Mexico (-0.9%) and Peru (-0.9%) closing lower, while those of Argentina (0.9%), Brazil (0.8%) and Chile (0.5%) were up.



China

Chinese equities fell again due to uncertainty around the economic recovery (CSI 300: -1.3%; Hong Kong SAR-listed: -0.5%). A series of weaker-than-expected data this week, including imports, inflation, and new credit, raised concerns about China's economic recovery. Chinese Government Bond yields edged up slightly (1-year: +0.1 bp; 10-year: +0.7 bp) after falling notably over the past week (1-year: -7.3 bps; 10-year: -2.5 bps). The recent rally in the bond market coincided with rising leverage in Chinese bonds, with transactions of overnight repos surging to a record of 7.29 tn (\$1 tn) yesterday. RMB was little changed.

China Traders Add Leverage as Bond Rally Runs Hot

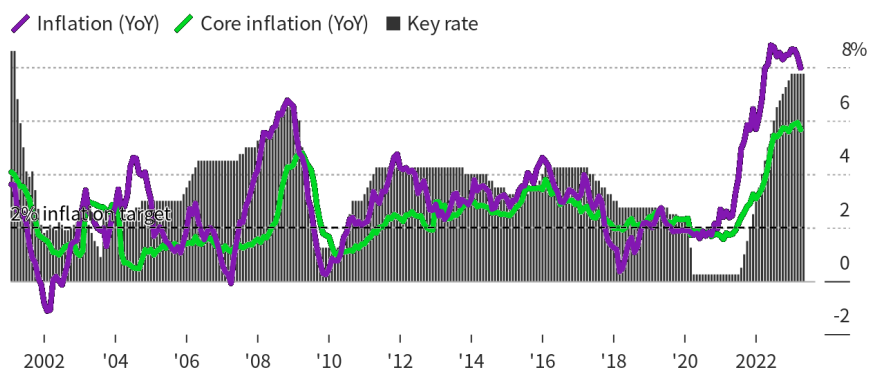


Peru

The central bank kept the policy rate unchanged at 7.75% for the fourth straight month. The decision was widely anticipated as inflation has been on a downward trend. The bank maintained the cautious tone of its last month's policy rate statement. It reiterated that the future direction of policy will be determined by inflation and the objective of bringing it within the target band 1–3% over the policy horizon. However, the statement on macroeconomic impact of protests playing a role in the policy rate decision was excluded from the statement this time. While the central bank expects inflation to fall within the target band by 4Q2023, market estimates see the 12-month forward inflation forecast at 4.25%.

Peru Keeps Key Rate at 7.75% for Fourth Straight Month

Inflation finally begins to cool at rates policymakers have expected



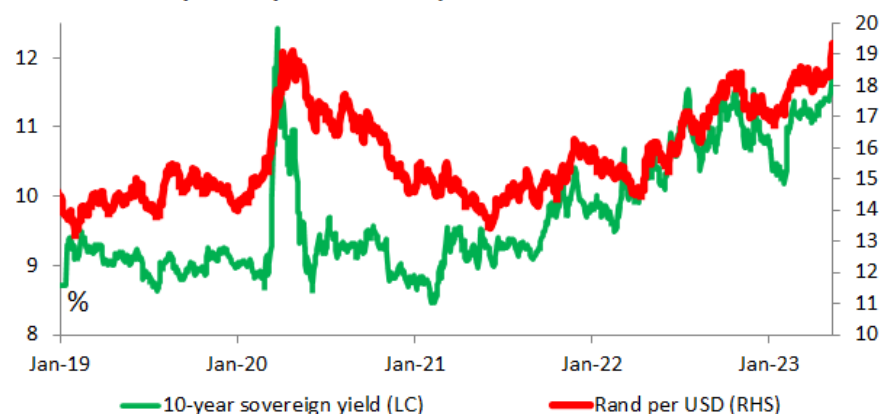
Sources: Banco Central de Reserva del Peru; Instituto Nacional De Estadística E Informática De Peru; Bloomberg.

Bloomberg

South Africa

The rand fell to record lows and 10-yr local yields closed over 12% yesterday after the U.S. ambassador accused South Africa of supplying weapons to Russia. Ambassador Brigety said that Washington had concerns about the country's stated non-aligned stance on the conflict. More specifically, he referred to the docking of a cargo ship in December 2022 which he was "confident" uploaded weapons and ammunition "as it made its way back to Russia." **Contacts fear that South Africa's preferential access to US markets could be under pressure and some see sanction risk.**

South Africa: 10-yr bond yield and rand per USD

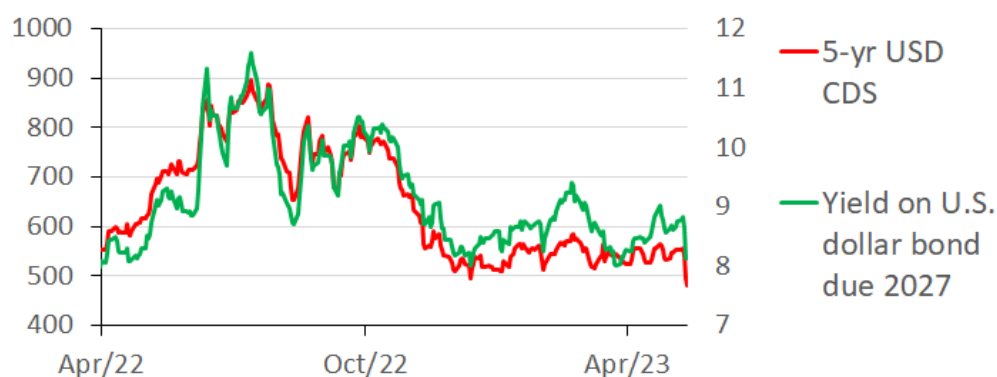


Source: Bloomberg and IMF staff

Türkiye

Bank equities (+4%) continued to gain, the lira was stronger and U.S. dollar yields consolidated at lower levels heading into this weekend's national elections. Contacts generally expect high voter turnout and a close race between President Erdogan and Kemal Kilicdaroglu, the presidential nominee for the six-party National Alliance Bloc. **Current polls suggest both candidates are likely to fall short of the 51% threshold, which will then lead to a second round of voting on May 28.**

Türkiye: 5-yr U.S. CDS (bps) and yield on U.S. dollar bond (%)



Source: Bloomberg and IMF staff


















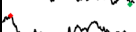
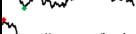
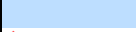



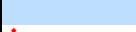


Romania

Local yields fell 7–10 bps across the curve after inflation was lower than expected in April at 11.2% yoy (11.5% expected) from 14.5% yoy in March. Analysts at ING point out that the disinflation was mainly due to statistical base effects and was largely anticipated, while remaining confident that Romania's inflation is on a downward trajectory.

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 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.

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Global Financial Indicators

5/12/23 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4131	-0.2	0	1	5	8
Europe		4325	0.3	0	0	20	14
Japan		29388	0.9	1	3	11	13
China		3938	-1.3	-2	-4	-1	2
Asia Ex Japan		66	-0.4	0	-2	0	2
Emerging Markets		39	-0.4	0	-1	-1	3
Interest Rates			basis points				
US 10y Yield		3.42	3.3	-2	3	57	-46
Germany 10y Yield		2.27	4.2	-2	-10	143	-30
Japan 10y Yield		0.39	-0.7	-3	-8	14	-3
UK 10y Yield		3.76	5.6	-2	19	210	9
Credit Spreads			basis points				
US Investment Grade		170	0.0	2	9	9	11
US High Yield		508	-3.2	4	23	21	27
Exchange Rates			%				
USD/Majors		102.20	0.1	1	1	-3	-1
EUR/USD		1.09	-0.2	-1	-1	5	2
USD/JPY		134.9	0.3	0	1	5	3
EM/USD		50.7	-0.2	-1	0	-2	2
Commodities			%				
Brent Crude Oil (\$/barrel)		75.1	0.2	0	-13	-19	-11
Industrials Metals (index)		146	0.8	-5	-7	-18	-12
Agriculture (index)		67	0.6	-2	-3	-13	-3
Implied Volatility			%				
VIX Index (% change in pp)		16.7	-0.2	-0.5	-2.4	-15.1	-5.0
US 10y Swaption Volatility		115.6	1.0	-2.9	-4.3	-3.7	-10.1
Global FX Volatility		8.9	0.0	-0.2	-0.7	-2.4	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		174	-5.9	-1	-14	-78	-31
Italy		189	0.1	-1	5	2	-25
Portugal		82	-1.0	-4	-3	-28	-20
Spain		107	-0.8	-1	3	3	-2

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

Emerging Market Financial Indicators

Last updated: 5/12/2023 8:16 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		6.95	-0.1	-0.6	-1	-2	-1		2.8	-8.0	-15	-28	-2	-23	
Indonesia		14751	-0.2	-0.5	1	-1	6		6.4	-0.3	-5	-25	-100	-54	
India		82	-0.1	-0.4	0	-6	1		7.2	-2.1	-2	-22	(49.3)	-30	
Philippines		56	0.0	-0.8	-1	-6	0		5.9	0.0	0	-10	45	-15	
Thailand		34	-0.4	-0.3	0	2	2		2.6	1.5	4	6	-65	-2	
Malaysia		4.48	-0.4	-1.0	-2	-2	-2		3.6	-4.9	-8	-22	-77	-40	
Argentina		229	-0.2	-1.4	-7	-49	-23		98.8	53.2	264	949	4597	1060	
Brazil		4.95	-0.4	0.0	-1	4	7		12.2	7.5	-7	-44	-41	-43	
Chile		794	-0.6	0.5	2	9	7		5.2	0.0	6	-1	-105	-14	
Colombia		4599	-1.0	0.2	-2	-11	5		8.7	0.0	-3	-7	-28	-107	
Mexico		17.64	-0.3	0.7	2	15	11		8.3	-0.5	-4	-8	-49	-47	
Peru		3.7	0.2	1.5	3	3	4		7.2	-0.2	#####	-31	-83	-80	
Uruguay		39	-0.1	0.1	-1	7	2		10.1	13.9	14	-20	0	-55	
Hungary		341	-0.1	-0.9	0	8	10		7.8	5.0	-6	-73	70	-176	
Poland		4.16	-0.1	-0.2	2	8	5		5.2	1.5	1	-31	-96	-94	
Romania		4.5	-0.3	-1.3	-1	5	2		7.0	-6.1	-2	-17	-101	-66	
Russia		78.1	-1.5	-0.4	5	-17	-5								
South Africa		19.2	-0.2	-4.4	-4	-16	-11		9.8	-10.0	51	61	141	65	
Turkey		19.61	-0.2	-0.5	-2	-22	-5		13.9	120.0	111	121	-1152	406	
US (DXY; 5y UST)		102	0.2	1.0	1	-2	-1		3.37	1.9	-4	-9	55	-63	

	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		3938	-1.3	-2	-4	-1	2		201	0	8	-4	24		
Indonesia		6708	-0.7	-1	-2	2	-2		150	-1	-2	-62	10		
India		62028	0.2	2	3	17	2		160	-3	-4	-20	18		
Philippines		6578	-1.5	-2	1	3	0		125	2	-2	-45	28		
Thailand		1561	-0.4	2	-2	-1	-6		0	0	0	0	0		
Malaysia		1423	-0.2	-1	-1	-8	-5		103	-1	4	-29	3		
Argentina		313281	0.9	11	17	266	55		2528	-52	89	689	323		
Brazil		108256	0.8	6	1	2	-1		279	-6	0	-30	5		
Chile		5600	0.6	2	5	19	6		135	-6	-9	-44	3		
Colombia		1143	-1.4	-2	-7	-24	-11		418	-11	12	32	46		
Mexico		55014	-0.9	1	1	12	14		407	5	11	19	26		
Peru		21715	-0.9	0	-3	13	2		183	-1	-8	-19	3		
Hungary		46394	0.7	0	7	16	6		222	-1	-11	12	0		
Poland		63876	1.2	2	6	20	11		138	0	59	129	65		
Romania		12061	-0.6	-1	-3	0	3		259	-1	0	9	3		
South Africa		77961	1.3	0	0	16	7		467	34	40	45	100		
Turkey		4828	-0.4	10	-6	102	-12		475	-51	-29	-102	35		
Ukraine		507	0.0	0	0	-2	-2		5410	13	327	2025	1331		
EM total		39	-0.2	0	-1	-1	3		421	-6	4	7	45		

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

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