GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MAY 15, 2023

- **Federal Reserve's BTFP reaches new highs** (link)
- **Investor survey expectations see Treasuries rallying in a technical default** (link)
- **European Commission revises growth and inflation forecasts up** (link)
- **Swedish inflation surprises to the downside** (link)
- **Credit growth slows significantly in China as post-lockdown rebound fades** (link)
- **Turkish presidential election to go to second round** (link)

Mature Markets | Emerging Markets | Market Tables

Turkish Elections Take Center Stage

Erdogan defies pollsters, Thai pro-democracy victory, US budget progress, EC updated forecasts. President Erdogan defied pollsters' predictions, leading with 49.42% of the vote against Kilicdaroglu's 44.95%, setting the stage for a potential second round on May 28. Thailand witnessed a significant victory for the pro-democracy opposition party. In the US, communication from President Biden and Lael Brainard signals progress in budget/debt ceiling discussions that will continue with House Republicans on Tuesday. Treasury Secretary Yellen expects regulators to be open to increased mergers among midsize regional banks. Fed's Bostic signals no rate cuts until 2024, Bullard expresses optimism on disinflation, while Jefferson remains pessimistic on disinflationary progress in the core measure. In Europe, the updated European Commission's Spring economic forecasts revealed higher growth and inflation projections for 2023 and 2024. Among ECB officials, de Guindos sees returning to 25 bps hike increments while Kazimir sees rate hikes for longer than previously thought. The PBOC maintained the rate in its medium-term lending facility at 2.75% for the ninth month. European fixed income markets experienced marginal declines, while global equities and commodities exhibited positive momentum.

Key Global Financial Indicators

Last updated: 5/15/23 8:19 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		4124	-0.2	0	0	2	7	-2
Eurostoxx 50		4325	0.2	-1	-2	17	14	9
Nikkei 225		29626	0.8	2	4	12	14	12
MSCI EM		39	-1.2	-2	-3	-5	2	-19
Yields and Spreads					bps			
US 10y Yield		3.50	3.8	-1	-1	58	-37	151
Germany 10y Yield		2.32	3.9	0	-13	137	-26	209
EMBIG Sovereign Spread		484	-5	-5	-5	9	32	71
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.7	-0.1	0	0	-2	2	-5
Dollar index, (+) = $ appreciation		102.5	-0.2	1	1	-2	-1	7
Brent Crude Oil ($/barrel)		74.9	1.0	-3	-13	-33	-13	-23
VIX Index (%, change in pp)		17.4	0.3	0	0	-12	-4	-14

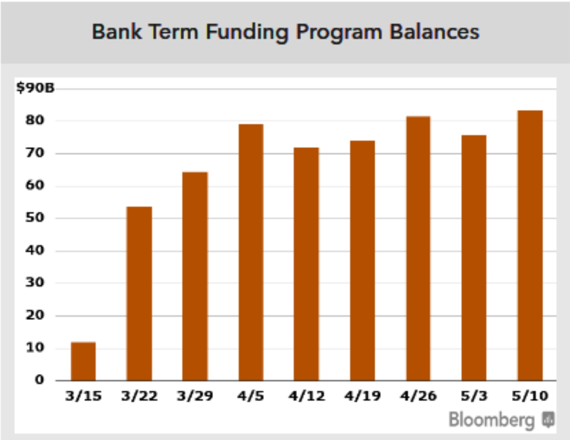
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

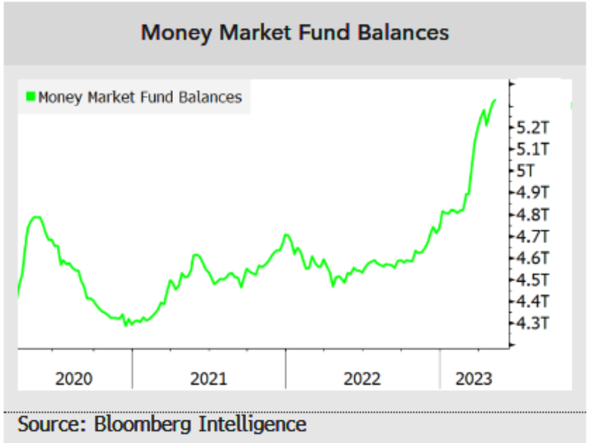
Key events this week: US retail sales, China data, Japan CPI & GDP as well as ECB and Fed speak. In the US, retails sales will shed light on consumer behavior, with Walmart and Home Depot earnings reports providing additional insights into the resilience of the consumer. Together with data on US manufacturing activity from various sources this week and official rhetoric from FOMC voting members (including Chair Powell), the news will keep inflation discussions in focus. On the debt ceiling issue, last Friday's meeting between President Biden and Kevin McCarthy became postponed to early in the week. Data releases in the UK will shape inflation discussions, while Japan expects GDP and inflation data. Chile and Colombia will be reporting 1Q GDP while the central banks of Argentina, Mexico, and the Philippines will convene to determine their latest monetary policy decisions. Turkey's election developments will also keep investors' attention.

Mature Markets back to top

United States

The BTFP reaches new highs meanwhile Money Market Funds gain balances. The Fed's loans to the banking system (excluding bridge lending) increased by $11 bn to $92.4 bn. Breaking this down, the Bank term Funding Program (BTFP) saw an increasing uptake by $7 bn to a new high of $83 bn while primary credit under the discount window increased by $4 bn to $9 bn. Some analysts suggested that the increased activity is linked to deposit outflows during this period from a particular bank. Meanwhile banks face continued headwinds in their funding, money market fund (MMF) balances reached a new high. The turmoil in the banking sector and the widened differential between MMF yields and deposit rates has contributed to this.

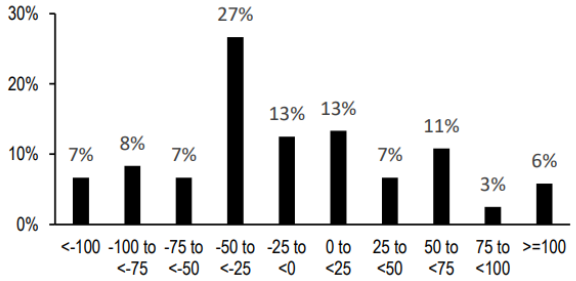




In the event of a US technical default, survey expectations point to near-term lower Treasury yields. Last week, JP Morgan surveyed 120 institutional investors on their expectations for how the market reacts in rates, credit and FX in the days following a technical default of the United States. On average, investors expected a flight-to-quality towards safe-haven assets, with investors seeking refuge in Treasuries. More than 60% of survey respondents see 2-year yields declining in the wake of a technical default, by an average of -18 bps. For 10-year yields, more than two-thirds of the survey participants expect Treasury yields to decline, on average by -22 bps. Conversely, a risk-averse sentiment is likely to drive credit spreads wider, with the IG CDX expected to widen by +44 bps. Finally, the survey results also indicate a likely weakening of the USD in the event of a technical default.

Figure 2: Our clients expect front-end yields to fall by an average of 18bp ...

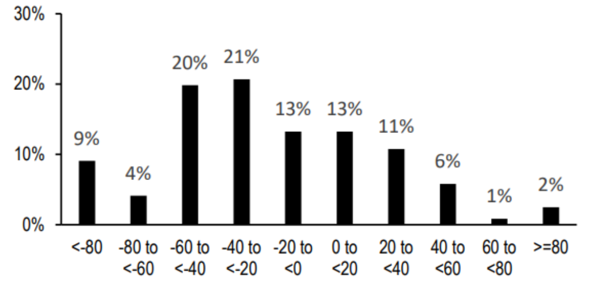
In the case of a technical default, how would you expect 2-year yields to move in the subsequent days?; bp from current levels



Source: J.P. Morgan

Figure 3: ...and see intermediate yields falling by 22bp

In the case of a technical default, how would you expect 10-year yields to move in the subsequent days?; bp from current levels

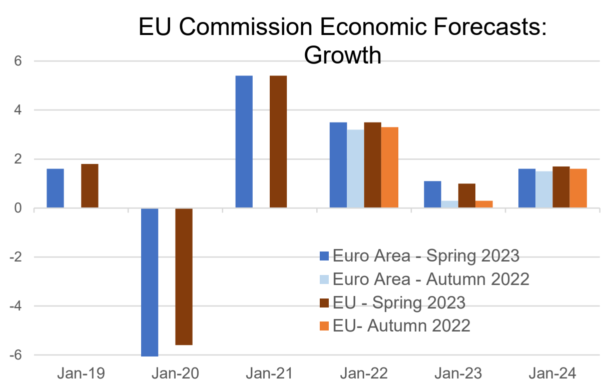


Source: J.P. Morgan

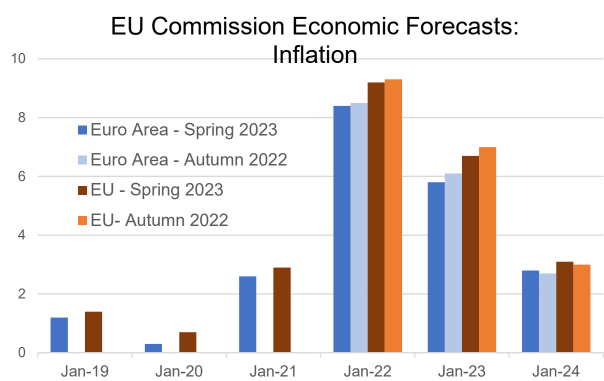
Euro Area

European markets had a positive start of the week. The equity market (Stoxx Europe 600) increased +0.4%, with banking stocks marginally up +0.2%. The euro was strengthening +0.2% vs. the dollar at 1.09/$. German 10-year bund yields declined by -2 bps to 2.3%, and Italian spreads were -3 bps narrower at 187 bps. Eurozone industrial production data for March printed at -1.4% y/y (vs. 0.1% expected), while its impact on markets was limited up until now.

For 2023−2024, the European Commission sees higher growth and inflation in the Eurozone. The European Commission (EC) publishes economic forecasts twice a year in October and May. In its current forecasts, the ECB revised growth up to 1.1% for the eurozone in 2023 and to 1% in the EU, from 0.9% and 0.8% in the previous interim forecast (February) and from 0.3% for both in October. The EC justifies the upward revisions on the back of the decrease in energy prices, abating supply constraints and a strong labor market, which supported moderate growth in Q1, which dispels fears of a recession. For 2024, the economic growth forecasted reaches 1.6% in the eurozone and 1.7% in the EU, just marginally above the previous forecast. The forecast also revised up headline inflation to 5.8% in the eurozone (from 5.6% previously) in 2023 and 2.8% in 2024. Interestingly, core inflation is set to average 6.1% in 2023 before falling to 3.2% in 2024, remaining above headline inflation in both years. The commission also expects that in 2023 and more markedly in 2024, falling energy prices could allow governments to phase out energy support measures, driving further deficit reductions, to 3.1% and 2.4% of GDP, respectively. The projection for the euro area's aggregate debt-to-GDP ratio is to decline steadily to below 90% in 2024, which is still above the pre-pandemic levels. The EC notes that there is a large heterogeneity of fiscal trajectories across Member States.



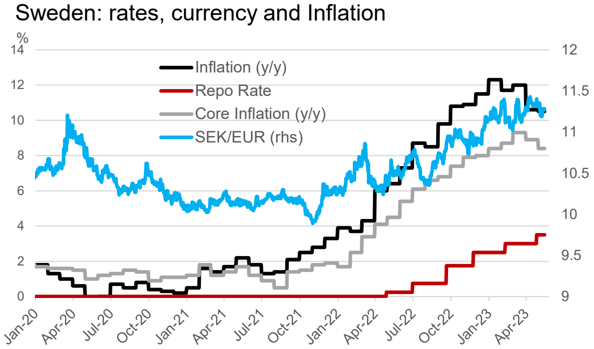
Source: EU Commission and IMF



Source: EU Commission and IMF

Sweden

The Swedish krona's reaction to lower-than-expected inflation in Sweden was muted, fractionally declining by -0.14% to 11.28/euro. Headline inflation came in at 10.5% y/y (vs. 10.6% expected), and core inflation at 8.4% y/y (vs. 8.7% expected). The Swedish Riksbank raised its policy rate by 50 bps in April to 3.5% to fight inflation. Board members hinted at downshifting to smaller hikes going forward, but minutes from the meeting showed that they were still prepared to act more forcefully if necessary to curb inflation. Market participants think that this latest reading indicates that inflation could cool more rapidly than the Riksbank expected.



Source: Bloomberg and IMF

Emerging Markets

back to top

In EMEA, markets posted mixed results. South African assets partially recovered last week's losses as tensions with the US eased. Turkish bank equities fell, and US dollar yields rose as the Turkish presidential election is heading for a second round on May 28.

Asian currencies depreciated, equities posted mixed results, and rates rose. Only the Chinese Renminbi and Thai baht made gains in currency markets, up +0.1% and +0.6% respectively, with the latter buoyed by a decisive victory of the pro-democracy opposition party in Thai elections. Chinese equities rose +1.6%, while Thai equities fell -1.3%. China's local currency bond yields rose by +9 bps, and India's and Thailand's by +4 bps each. China's PBOC has kept the rate on 125 billion yuan of 1-year medium-term lending facility loans unchanged at 2.75% for the ninth month.

LatAm equities declined, currencies gained, and rates markets remained stable. In line with expectations, Chile's central bank left its policy rate unchanged at 11.25%. The Brazilian inflation print came in slightly above expectations at +4.18% y/y (vs. +4.12% y/y exp). Equity markets were down except for Colombian stocks, which gained +1.4%. Currencies gained against the US dollar, led by the Chilean peso that appreciated +1.1%. Rates markets were broadly unchanged.

EM Fund Flows

EM bond funds and equity funds continued their divergent flows last week. EM bond outflows continued (-$0.4 bn, +$1.5 bn YTD) whereas equity funds continued to receive inflows (+$0.7 bn, +$40.1 bn YTD). Local currency fund flows have turned positive +$0.3 bn YTD, on the verge of last week's +$0.4 bn inflows. Hard currency funds maintain a positive +1.2 bn YTD inflow, while last week's flows declined by -$0.7 bn. After six weeks of consecutive inflows, EM Bond and Equity ETFs experienced modest outflows of -$0.2 bn, primarily driven by -$0.4 bn outflows from bond ETFs.

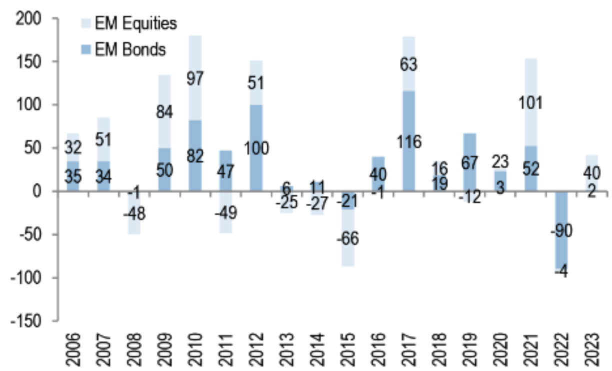
Figure 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		0.3	41.6
	EM Bonds		-0.4	1.5
	Hard Ccy		-0.7	1.2
	Local Ccy^		0.4	0.3
	o.w. EM ex-China		0.5	1.8
	o.w. China		-0.1	-2.3
	EM Equities		0.7	40.1
	US HG		3.1	108.3
	US HY		0.0	-4.2
	Global Equities		0.0	-37.4
	EM Bond and Equity ETFs		-0.2	27.3
	EM Bond ETFs		-0.4	-0.5
	EM Equity ETFs		0.2	27.8
	Non-resident EM flows*		0.9	19.9

Figure 2: EM bond and equity fund flows

USD billion



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

Concerns about China's economic recovery intensify as loan and credit growth weaken. Loan and credit growth fell short of expectations following a robust first quarter. Credit flows were down for both households and corporations. Goldman analysts view the slowdown as being part of the trend of falling manufacturing PMIs and lower-than-expected inflation that characterize a broader retrenchment after the initial post-lockdown recovery. Chinese government bond yields have been falling on expectations of more stimulative measures from the authorities, and equity markets have struggled to gain traction in recent days. Policymakers have pressed banks to cut lending rates in the hopes of boosting the demand for credit. Geopolitical tensions have also contributed to the recent underperformance of China relative to other markets.

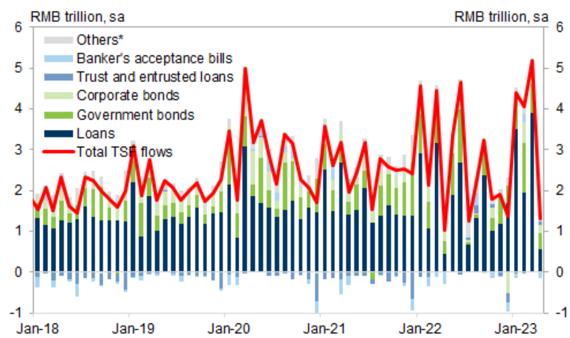
Exhibit 1 : Overall TSF flows slowed materially in April

Flows (RMB bn, SA)	Mar-23	Apr-23
Total social financing	**5183.7**	**1310.3**
Loans	3909.6	569.9
Government bonds	708.8	384.7
Corporate bonds	254.7	188.1
Trust and entrusted loans	31.5	85.3
Banker's acceptance bills	34.2	-157.0
Others	244.9	239.2

All numbers in the table are seasonally adjusted by GS.

Source: PBOC, CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2 : TSF flows fell sharply in April after very strong growth in Q1



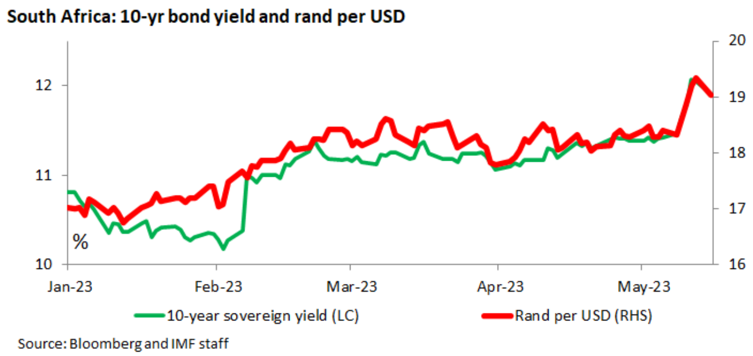
*Others primarily include equity financing, loan write-offs and depository financial institutions' ABS

Source: PBOC, WIND, CEIC, Data compiled by Goldman Sachs Global Investment Research

South Africa

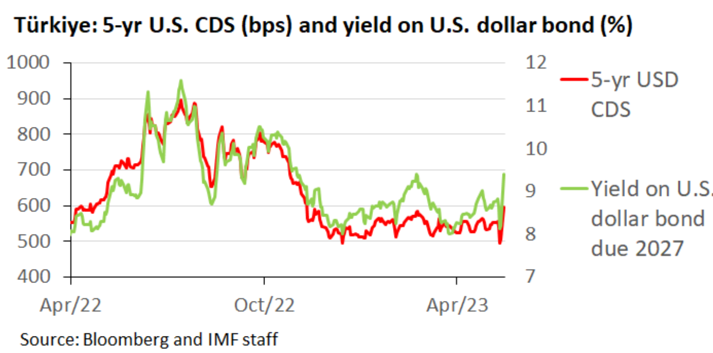
Tensions between South Africa and the US are easing. Following Finance Minister Godongwana's announcement of the resolution of tensions between South Africa and the US, the rand appreciated by +1.6% and local bonds experienced gains. The minister said that South Africa took "*a number of number of actions*" in order "*to ensure that the relationship with the US remains and that relationship should be normal and cordial.*" Last week, South African bonds had sold off sharply after U.S. Ambassador to South

Africa Mr. Reuben Brigety stated that he was confident that a Russian ship had picked up weapons in South Africa in December, which was seen to breach Pretoria's declared neutrality in the Ukraine conflict.



Türkiye

Surprising Turkish election outcome with the leadership of the president. Bank equities (-10%) fell and the US dollar yields rose as the Turkish presidential election is heading for a second round on May 28. President Erdogan defied pollsters who the opposition was leading and could even win outright without a run-off. With most ballots counted, President Erdogan is leading with 49.42 percent of the vote to Kilicdaroglu's 44.95 percent, according to official figures provided by the state news agency Anadolu. The nationalist third presidential candidate, Sinan Ogan, obtained 5% of the votes. President Erdogan is also heading for a majority in parliament, along with his nationalist MHP ally, according to unconfirmed results quoted by state news agency Anadolu. The lira gained 4% in the parallel bazaar market (according to Bloomberg).



This monitor is prepared under the guidance of Jason Wu (Assistant Director), 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.

Global Financial Indicators

	Level		Change				
5/15/23 8:18 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		4125	-0.2	0	0	3	7
Europe		4325	0.2	-1	-1	17	14
Japan		29626	0.8	2	4	12	14
China		3999	1.6	-2	-2	1	3
Asia Ex Japan		65	-1.5	-3	-4	-4	1
Emerging Markets		39	-1.2	-2	-3	-5	2
Interest Rates					basis points		
US 10y Yield		3.50	3.6	-1	-1	58	-38
Germany 10y Yield		2.32	4.0	0	-12	137	-26
Japan 10y Yield		0.41	1.6	-1	-7	16	-2
UK 10y Yield		3.80	2.5	2	14	206	13
Credit Spreads					basis points		
US Investment Grade		170	-0.3	1	12	5	11
US High Yield		505	-4.2	3	37	23	25
Exchange Rates					%		
USD/Majors		102.49	-0.2	1	1	-2	-1
EUR/USD		1.09	0.2	-1	0	4	2
USD/JPY		136.2	0.4	1	1	5	4
EM/USD		50.7	-0.1	0	0	-2	2
Commodities					%		
Brent Crude Oil ($/barrel)		74.9	0.9	-3	-13	-20	-11
Industrials Metals (index)		147	0.9	-4	-8	-17	-11
Agriculture (index)		67	1.0	-1	-3	-13	-2
Implied Volatility					%		
VIX Index (%, change in pp)		17.3	0.3	0.4	0.3	-11.5	-4.3
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	17.9	7.0
Global FX Volatility		9.0	0.1	-0.1	-0.8	-2.2	-1.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		171	-3.8	-5	-15	-83	-35
Italy		188	-2.8	-4	2	-3	-27
Portugal		80	-2.1	-4	-4	-31	-21
Spain		107	-1.4	-2	3	1	-3

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

Emerging Market Financial Indicators

Last updated: 5/15/2023 8:17 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		6.95	0.1	-0.6	-1	-2	-1		2.9	9.0	-8	-23	7	-14
Indonesia		14800	-0.3	-0.7	0	-1	5		6.4	3.7	-5	-22	-95	-51
India		82	-0.2	-0.6	0	-6	1		7.2	4.2	-4	-22	(31.3)	-26
Philippines		56	-0.5	-1.4	0	-6	-1		5.9	0.0	0	-10	45	-15
Thailand		34	0.6	0.1	2	3	2		2.7	4.0	9	8	-67	2
Malaysia		4.50	-0.4	-1.3	-2	-2	-2		3.7	0.6	-4	-18	-77	-39
Argentina		229	0.0	-0.7	-6	-49	-23		99.0	17.0	265	947	4588	1077
Brazil		4.91	0.2	2.0	1	3	7		12.0	7.0	-37	-44	-34	-59
Chile		785	1.1	1.2	2	10	8		5.2	0.0	-3	-10	-114	-14
Colombia		4553	0.3	-0.6	-2	-10	7		8.6	-10.5	-13	-17	-38	-118
Mexico		17.57	0.1	1.3	3	14	11		8.3	2.5	-4	-5	-41	-44
Peru		3.7	0.1	1.4	3	3	4		7.2	0.0	-18	-32	-74	-79
Uruguay		39	-0.1	-0.5	-1	7	2		10.1	-6.2	2	-26	-6	-61
Hungary		340	0.5	-0.4	0	10	10		7.8	-3.0	-11	-70	77	-181
Poland		4.15	0.4	0.0	2	8	6		5.3	7.5	6	-32	-84	-88
Romania		4.5	0.1	-1.5	0	4	2		6.9	-13.8	-20	-34	-102	-80
Russia		79.7	-2.6	-2.6	3	-19	-7							
South Africa		19.1	1.2	-4.1	-4	-16	-11		9.7	-10.0	41	39	121	56
Turkey		19.67	-0.4	-0.8	-1	-21	-5		11.6	-276.0	-110	-73	-1358	176
US (DXY; 5y UST)		102	-0.2	1.1	1	-2	-1		3.48	3.8	-1	-12	62	-52

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3999	1.6	-2	-2	1	3		200	0	5	-7	23
Indonesia		6712	0.1	-1	-2	2	-2		146	0	-5	-70	6
India		62346	0.5	1	3	18	2		161	-3	-6	-17	19
Philippines		6523	-0.8	-1	1	0	-1		120	1	-6	-52	23
Thailand		1541	-1.3	-1	-3	-3	-8		0	0	0	0	0
Malaysia		1417	-0.4	-1	-1	-8	-5		103	-1	2	-31	3
Argentina		321530	2.6	8	17	262	59		2585	-4	191	698	380
Brazil		108464	0.2	3	2	1	-1		276	-5	-4	-37	2
Chile		5596	-0.1	0	3	15	6		133	-6	-11	-44	1
Colombia		1159	1.4	0	-8	-23	-10		421	-5	15	31	49
Mexico		54948	-0.1	0	1	11	13		406	3	12	16	25
Peru		21536	-0.8	-3	-4	9	1		182	-3	-8	-17	2
Hungary		46013	-0.1	-1	6	12	5		217	-4	-21	8	-5
Poland		63801	0.2	1	4	16	11		130	-6	46	123	57
Romania		12031	-0.1	-2	-3	-1	3		251	-7	-10	10	-4
South Africa		78406	0.1	0	-1	14	7		458	26	30	31	91
Turkey		4656	-2.9	2	-9	92	-15		469	-59	-35	-125	29
Ukraine		507	0.0	0	0	-2	-2		5431	77	341	2030	1352
EM total		39	0.5	-2	-3	-5	2		418	-6	2	2	42

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

back to top