GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MAY 17, 2023

- **Analysts see a 50% probability of the x-date occurring in early June** (link)
- **FDIC sells a large part of securities linked to SVB and Signature** (link)
- **ECB officials send contrasting messages on future rate hikes** (link)
- **Colombia's CDS spread continues to trade above the EM average** (link)
- **Turkish lira continued to depreciate as election goes into second round** (link)
- **Special Feature: US Money Market Funds post bank turmoil** (attached)
- **Special Feature: The Latest Fed Loan Officer Survey** (attached)

Mature Markets | Emerging Markets | Market Tables

Debt Ceiling Doldrums

Debt ceiling discussions reach stalemate. President Biden's travels to Japan for the G7 send debt ceiling negotiations on a detour while House Speaker McCarthy stated that a deal could be possible by the weekend albeit he sees the two parties still apart in negotiations, noting that the "*problem is the spending level*" while there is "*no tax discussion*". Chicago Fed President Goolsbee and Atlanta Fed President Bostic were on the tapes striking different tones. While Goolsbee argued for caution in assessing the impact of prior rate hikes, Bostic echoed Cleveland Fed President Mester the day prior, emphasizing the need to stay resolute in bringing inflation down. From Asia came a slew of macro data with Japan's GDP printing stronger than expected which coincided with Yen appreciation and the Nikkei hitting a 2-year high. Australia's wage price data printed slightly below expectations while still pointing at a strong momentum in labor markets, which could portend further RBA hikes as the latest meeting minutes from yesterday underscore data dependency. In the Euro Area, headline and core inflation printed in line with expectations while still remaining much higher than the 2% ECB target. Market pricing sees at least two more 25 bps ECB hikes while Bunds rallied out of the inflation print. In other parts of the world, the Turkish Lira extends depreciation post-election, while the South African Rand weakened amid continued diplomatic tensions with the US.

Key Global Financial Indicators

Last updated: 5/17/23 8:45 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	
S&P 500		4110	-0.6	0	-1	1	7	-3
Eurostoxx 50		4321	0.1	0	-1	15	14	9
Nikkei 225		30094	0.8	3	5	12	15	14
MSCI EM		39	-0.7	0	-2	-6	3	-18
Yields and Spreads					bps			
US 10y Yield		3.53	-1.3	9	-7	54	-34	154
Germany 10y Yield		2.31	-5.2	2	-16	126	-26	208
EMBIG Sovereign Spread		488	-3	5	10	14	36	75
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.4	-0.3	-1	-1	-3	1	-5
Dollar index, (+) = $ appreciation		102.9	0.3	1	1	0	-1	7
Brent Crude Oil ($/barrel)		75.0	0.3	-2	-12	-33	-13	-23
VIX Index (%, change in pp)		17.7	-0.3	1	1	-8	-4	-13

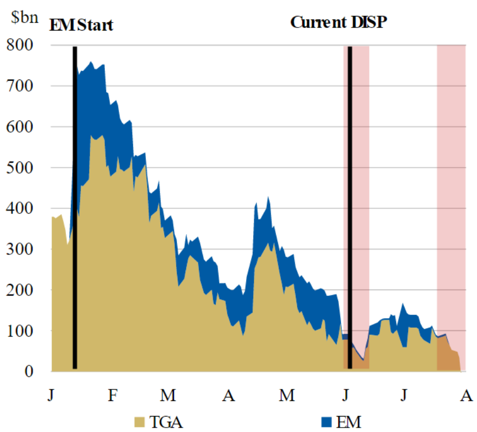
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets back to top

United States

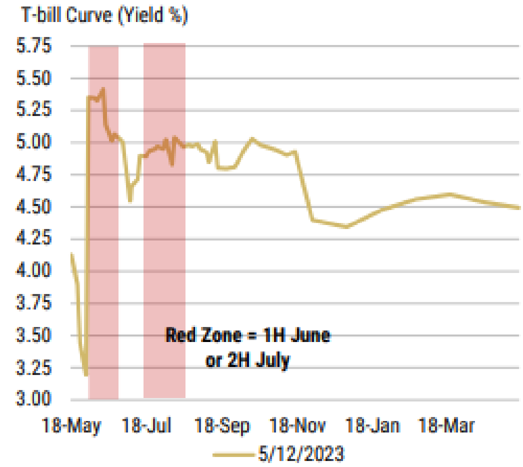
Analysts see a 50% probability of the x-date occurring in early June. As political negotiations are dragging on, markets become focused on the x-date, the day when Treasury will become unable to meet all its obligations. The date is not known with certainty and depends on several parameters, which include forecasts of the Treasury's cash balances, which are kept in the Treasury's checking account at the Fed (the so-called TGA), as well as the savings from the extraordinary measures employed by the Treasury. Morgan Stanley analysts project that the TGA and available extraordinary measures reach dangerously low levels below $50 bn as soon as June 9. Analysts attach a 50% probability of Treasury securities not being repaid in that week. If that risk is averted, a next potential x-date emerging in the last week of July, as corporate tax receipts and an increase in extraordinary measures will help to keep the Treasury afloat by then. T-Bill price action continues to show that investor concerns remain largely confined to early June.

Exhibit 16: Forecast of TGA and available extraordinary measures



Source: US Treasury, Morgan Stanley Research

Exhibit 117: T-bills yield curve



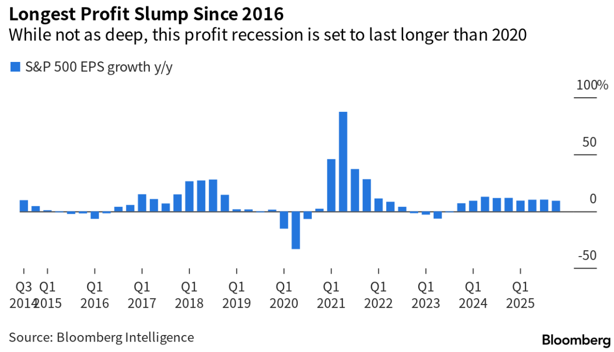
Source: Bloomberg, Morgan Stanley Research

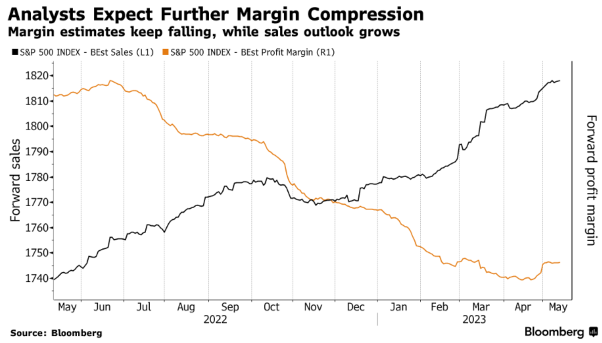
FDIC is estimated to have liquidated a third of its SVB and Signature holdings. The FDIC sold yesterday around $12bn of mortgage-backed securities linked to Silicon Valley Bank and Signature Bank collateral holdings. Bloomberg analysts estimate that, at the current pace, FDIC liquidations will conclude in the summer with a final clean-up in September.

Massive Supply No Problem for Mortgage-Backed Securities
Spreads could be poised to tighten further

Source: Bloomberg

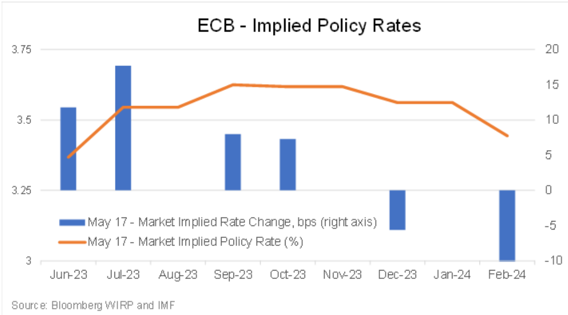
Analysts expect corporate margins to become further compressed. As the first-quarter earnings season draws to a close, Bloomberg analysts predicts that this quarter could not only become the second consecutive one for corporate earnings declines in the US. They also forecast further profit contractions ahead and that a earnings recovery is not in sight until year-end. Morgan Stanley analysts identify the rising labor costs and the looming recession that could reduce the companies pricing power as culprits that are squeezing the corporate margins. Today and tomorrow, investors are attentive to the impending quarterly reports from Target and Walmart for further clues.





Euro Area

European markets opened with a negative bias. The Stoxx Europe 600 declined by -0.1%, with banking stocks declining by the same magnitude. The euro was losing -0.3% against the dollar at 1.08/$ against a broader dollar strengthening. German 10y bund yields declined by -4 bps to 2.31%, while Italian spreads remained broadly unchanged at 187 bps. Many markets remain closed tomorrow for Ascension Day.



European markets were catching their breath and mulling over comments from ECB officials. Absent major data releases and ahead of the Ascension day in which many European markets remain close, today appears as a quiet trading day. This morning, the Spanish governor Pablo Hernandes de Cos stated that the ECB is getting closer to the end of its monetary tightening contingent on euro-zone inflation heading back to the 2% target. This contrasts with more hawkish commentary from other ECB officials, who have warned that rate increases may need to persist beyond the summer to tame inflation. By contrast, known hawk Austrian governor Robert Holzmann yesterday stated that the ECB deposit rate needs to go beyond 4% (from 3.25% today) to tackle inflation. In his view, rate hikes have started to have an effect on core inflation, albeit that it will yet have go down much more this year, which would justify further policy restraint. Markets are currently pricing in 2 more 25 bp hikes in June and July.

Emerging Markets back to top

Asian currencies weaken, stocks decline as markets continue to divulge the Thailand election results. The Thailand baht leading the decline by -0.9%. Bond markets displayed a mixed performance, as Thailand bonds rallied while Indonesian bonds experienced a sell-off. In Asia, stock markets were mostly weaker, with Thailand's market declining by -1.1%, except for Malaysia and the Philippines.

Latin American markets traded weaker. Currencies depreciated against the US dollar across the board, led by the Chilean peso and the Brazilian real that declined -1.7% and -1.0%. The Colombian peso and the

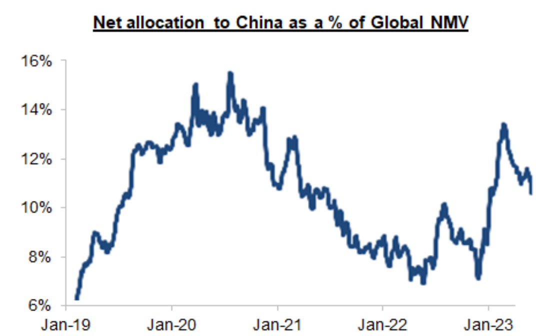
Peruvian sol each weakened against the dollar by -0.8%. Brazilian rates sold off across the curve, whereas Colombian yields rallied. Equity markets were down in Colombia and Brazil, declining -1.1% and -0.8.

EMEA currencies weakened while bond and equity markets posted mixed results. Among currencies, the Hungarian Forint and South African Rand led the decline, each depreciating -0.9% against the dollar. Bond markets remarkably sold off in South Africa with local currency bonds increasing 24 bps to 10%. The Turkish stock market gained +0.9% while that in Poland declined by -0.6%.

China

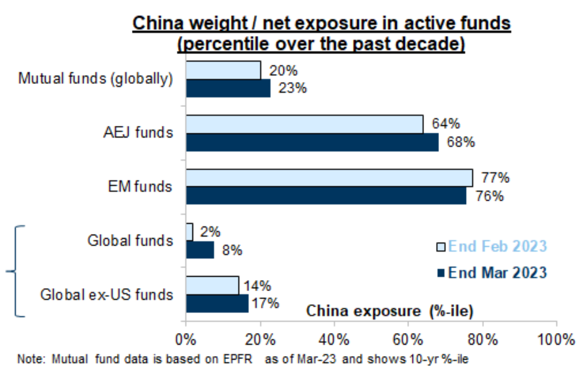
International investors are pulling out of local Chinese markets. Goldman Sachs analysts report that hedge funds have sold 45% of the assets that they have bought since Q4–2022. Global mutual funds have also reduced their China exposures. This could be one explanation for why China's equity markets have delivered some of the weakest returns for the world this year, giving up most of their gains from early 2023 and up by just low single digits when most global bourses have delivered double digit or high single digit returns. Geopolitical tensions with the US could be a key reason, and there have been reports that many internationally focused funds have changed their investments to permanently reduce their China exposure going forward. Waning confidence in a strong post-lockdown rebound could be another reason. The Politburo recently called for more expansionary measures to boost the economy while the outlook for the People's Bank of China is seen as dovish.

Exhibit 13 : Hedge fund China exposure is at the 58th percentile of their 5-year exposure; they have sold 45% of their net purchases from 4Q22



Source: Goldman Sachs Prime Services Data

Exhibit 14 : Mutual fund exposure is at the lower end of the range, notably global funds

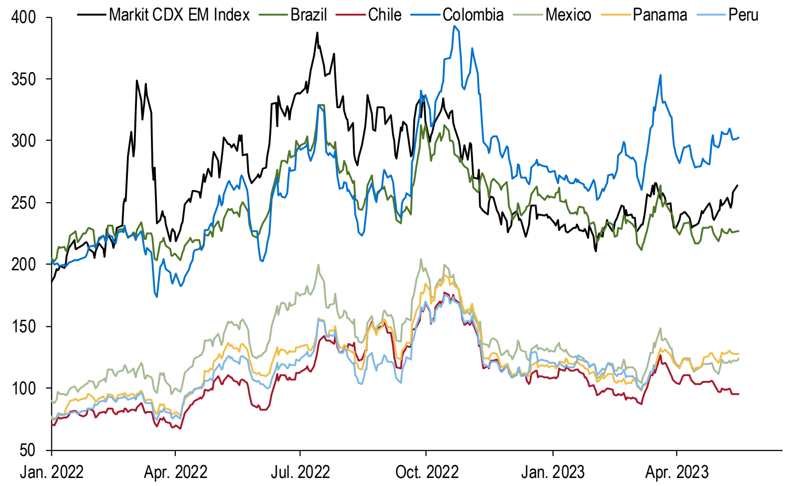


Source: EPFR, MSCI, FactSet, Goldman Sachs Global Investment Research

Colombia

Colombia's 5-year CDS continues to trade above the EM weighted average. The trading of the CDS at elevated levels compared to regional peers and emerging markets is despite the Colombian peso's strong performance against the dollar this year, which gained +7.2% year-to-date. This gain puts the peso right behind the best performing EM currencies, i.e., the Mexican peso and the Hungarian forint. In total return terms, the Colombian peso performs similarly well among major currencies with a +12.5% year-to-date gain. Market contacts believe that structural reasons are behind the elevated CDS spreads. Colombia faces large twin deficits, and its inflation has peaked only recently, which may keep the country's CDS at elevated levels. Yesterday, Colombia's trade balance surprised to the downside, printing at -$1.08bn (expected -$0.86bn), carrying on a trade deficit that endures since December 2017.

Colombia's 5-year CDS continues to trade above EM weighted average in contrast to its neighbours
Basis points

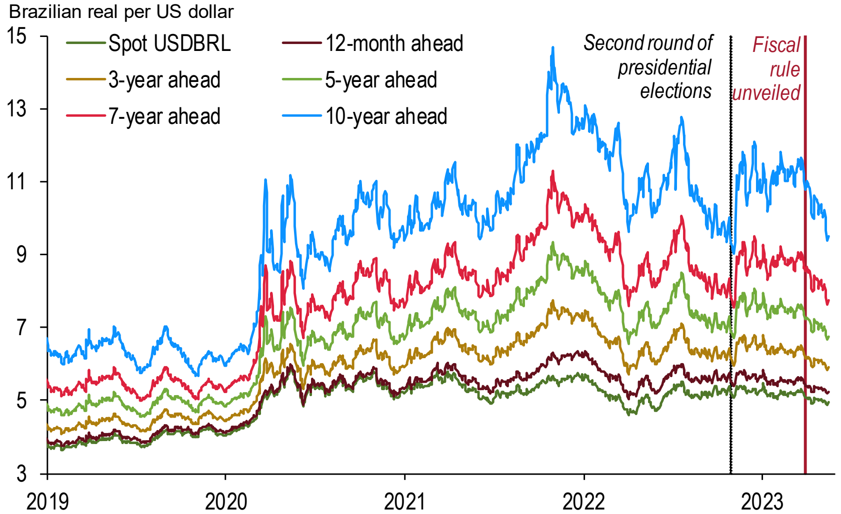


Source: Bloomberg, IHS Markit

Brazil

Brazilian real forwards have recovered from highs seen during period of policy uncertainty. The currency continues to gain against the US dollar this year (+6.9%) despite its underperformance against its regional peers Mexico (+11.4%) and Colombia (+7.2%). The strength of the real continues this year after ending 2022 as the best performer against the greenback (+7.5%). The performance was despite some headwinds from pricing of risk premia into local assets amid policy uncertainty following last year's elections. Market expectations of a weaker real on the possibility of looser fiscal and monetary policies with the new administration also became visible in currency forwards. Given the central bank's continued hawkish stance and new budget rules announced at the end of the March, the currency forwards have crawled back towards levels seen before the second round of elections.

Brazilian real forwards have come down to levels seen in the run-up to the second round of the election
Brazilian real per US dollar



Source: Bloomberg, IMF Staff Calculations

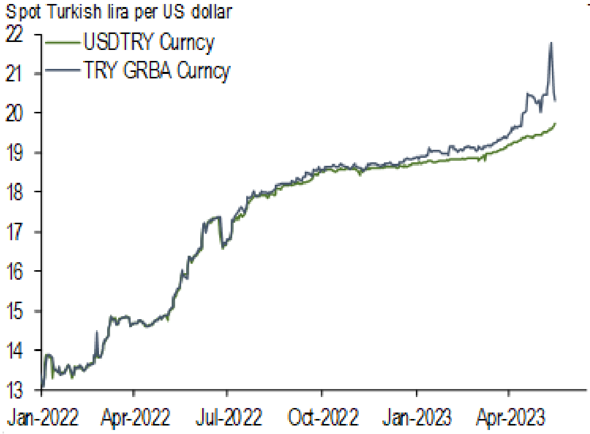
Türkiye

The Turkish lira continued to depreciate following last week-end's election outcome, declining -0.3%. Since last Friday's close, the currency has now lost -0.8% against the US dollar. In the run up to the election, currency exchange rates traded in Istanbul's Grand Bazaar diverged significantly from market rates.

Currency forwards were also pointing to a significant depreciation of the lira as a series of polls indicated an outcome in favor of the main opposition bloc as the upward slope of currency forwards suggested markets a non-negligible probability of a policy change. Following the election outcome in favor of incumbent President Erdogan, market expectations have shifted significantly. Currency rates quoted at the grand bazaar reconverged towards the current market rate. Currency forwards have been also shifting lower, reflecting that markets pricing sees a continuation of the current policy of the incumbent government as the likelier outcome.

Divergence of the Turkish lira continued to plummet towards official rate

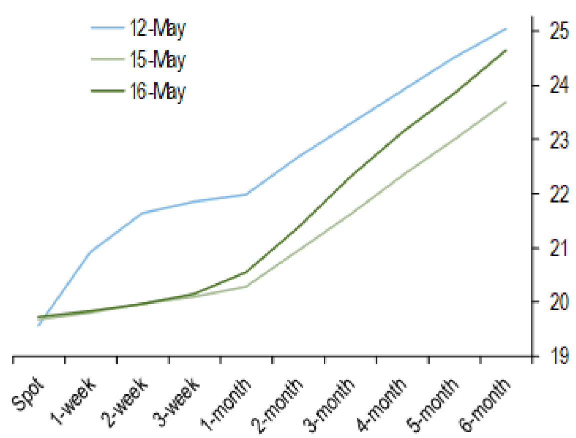
Spot Turkish lira per US dollar



Source: Bloomberg, IMF Staff Calculations

After an initial drop in currency forwards, longer tenors have re-priced higher closer to pre-election levels

Turkish lira per US dollar forwards



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Global Financial Indicators

5/17/23 8:47 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4111	-0.6	-1	-1	1	7
Europe		4321	0.1	0	-1	15	14
Japan		30094	0.8	3	5	12	15
China		3960	-0.5	-1	-5	-1	2
Asia Ex Japan		66	-0.9	-1	-3	-5	2
Emerging Markets		39	-0.7	0	-2	-6	3
Interest Rates					**basis points**		
US 10y Yield		3.53	-1.3	9	-7	54	-34
Germany 10y Yield		2.31	-5.2	2	-16	126	-26
Japan 10y Yield		0.37	-2.7	-6	-12	12	-5
UK 10y Yield		3.80	-2.9	0	11	192	13
Credit Spreads					**basis points**		
US Investment Grade		174	1.6	4	17	9	15
US High Yield		513	0.2	6	49	36	33
Exchange Rates					%		
USD/Majors		102.87	0.3	1	1	0	-1
EUR/USD		1.08	-0.4	-1	-1	3	1
USD/JPY		137.2	0.6	2	2	6	5
EM/USD		50.4	-0.3	-1	-1	-3	1
Commodities					%		
Brent Crude Oil ($/barrel)		75.0	0.1	-2	-11	-20	-11
Industrials Metals (index)		146	1.2	-3	-8	-20	-12
Agriculture (index)		66	-1.0	-2	-7	-18	-5
Implied Volatility					%		
VIX Index (%, change in pp)		17.7	-0.3	0.7	0.7	-8.4	-4.0
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	17.7	7.0
Global FX Volatility		8.6	0.0	-0.2	-0.6	-2.0	-2.1
EA Sovereign Spreads					**10-Year spread vs. Germany (bps)**		
Greece		168	-2.6	-11	-17	-84	-37
Italy		186	-1.3	-6	2	-6	-29
Portugal		80	-0.8	-3	-4	-32	-21
Spain		106	-0.6	-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: 5/17/2023 8:49 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		7.00	-0.3	-0.9	-2	-4	-1		2.9	2.0	-7	-27	3	-18
Indonesia		14865	-0.3	-0.9	-1	-1	5		6.4	-4.2	-9	-28	-95	-55
India		82	-0.2	-0.5	-1	-6	0		7.1	-0.1	-10	-27	(37.3)	-31
Philippines		56	-0.2	-0.9	-1	-7	-1		5.9	0.0	0	-10	40	-15
Thailand		34	-0.9	-1.7	0	1	1		2.7	5.0	11	13	-58	8
Malaysia		4.53	-0.6	-1.5	-2	-3	-3		3.7	2.5	-4	-17	-76	-36
Argentina		231	0.0	-1.1	-6	-49	-23		100.1	55.7	270	1032	4672	1188
Brazil		4.95	-0.2	-0.2	0	0	7		12.0	13.4	-32	-43	-33	-58
Chile		799	-1.6	-1.3	0	7	6		5.3	0.0	11	1	-107	-3
Colombia		4526	-0.7	0.7	-2	-10	7		8.5	0.0	-27	-44	-69	-128
Mexico		17.56	-0.4	-0.1	3	14	11		8.3	1.5	-8	-29	-39	-47
Peru		3.7	-0.8	-0.1	2	2	3		7.2	0.2	######	-29	-64	-73
Uruguay		39	-0.1	-0.2	0	6	2		9.9	-11.3	-11	-39	-25	-80
Hungary		343	-0.9	-1.8	-1	7	9		7.8	3.5	-8	-73	72	-184
Poland		4.16	-0.7	-1.1	2	6	5		5.4	1.3	14	-22	-73	-78
Romania		4.6	-0.6	-2.1	-1	2	1		6.8	-5.6	-29	-43	-117	-88
Russia		80.8	-0.1	-5.7	1	-20	-8							
South Africa		19.2	-0.9	-1.9	-5	-17	-11		10.0	23.5	34	64	147	81
Turkey		19.76	-0.2	-1.1	-2	-20	-5		9.9	0.0	-284	-232	-1495	2
US (DXY; 5y UST)		103	0.3	1.4	1	0	-1		3.51	-1.4	13	-19	55	-49

	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		3960	-0.5	-1	-5	-1	2		197	-1	3	-15	20
Indonesia		6663	-0.2	-2	-2	-2	-3		141	-1	1	-70	1
India		61561	-0.6	-1	3	14	1		158	-3	2	-28	16
Philippines		6635	0.7	0	3	-1	1		115	-2	0	-45	18
Thailand		1523	-1.1	-3	-4	-6	-9		0	0	0	0	0
Malaysia		1424	0.1	0	-1	-8	-5		100	-2	0	-37	0
Argentina		318792	-0.6	4	13	251	58		2584	56	209	658	379
Brazil		108194	-0.8	1	2	-1	-1		271	-3	2	-44	-3
Chile		5619	0.4	1	3	12	7		132	0	-7	-38	0
Colombia		1138	-0.9	-2	-10	-24	-12		417	-5	18	30	45
Mexico		55181	-0.1	0	1	7	14		408	6	22	20	27
Peru		21726	0.5	-3	-3	7	2		182	1	-2	-8	2
Hungary		45783	-0.1	-1	4	9	5		223	8	-9	16	1
Poland		63574	-0.6	0	3	13	11		136	7	59	132	63
Romania		12219	0.6	0	-2	1	5		251	0	-4	15	-4
South Africa		77937	0.0	0	-1	12	7		453	26	46	36	86
Turkey		4632	0.9	3	-8	93	-16		616	93	139	1	176
Ukraine		507	0.0	0	0	-2	-2		5302	-75	200	1883	1223
EM total		39	-0.5	0	-2	-6	3		428	11	21	13	52

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

back to top