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- US money markets investors starting to increase duration ([link](#))
- Breakdown of April Euro Area inflation point to building wage pressures ([link](#))
- UK gilt yields increase on hawkish comments from BOE governor Bailey ([link](#))
- The Philippine's central bank takes hawkish pause ([link](#))
- The South African rand continues to weaken amid continued portfolio outflows ([link](#))
- Ecuadorian bonds underperform as President Lasso dissolves assembly ([link](#))





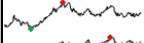





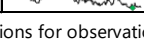
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Market sentiment improves on US debt ceiling optimism

European and Asian stocks gained as hopes built for a possible breakthrough in talks to raise the debt ceiling before June 1. The improved market sentiment also reflected some good news on the US regional bank front, following reports this week of an increase in deposits at Western Alliance. Shares in Western Alliance (+2%) and PacWest (+6%) rose in premarket trading this morning. Across the pond, sovereign bond yields rose both in the euro-area and the UK. Stronger services inflation in the euro-area is leading some analysts to conclude that the ECB might keep hiking throughout the summer, particularly if wage growth was to pick up further in coming months. In the UK, BOE governor Bailey provided hawkish comments yesterday, saying that the central bank would be watching closely for any signs that wages were rising faster than expected or that job vacancies were remaining uncomfortably high. In emerging markets, the Philippine's central bank took a hawkish pause while investors remain concerned about Chinese property developers as well as developments in Türkiye, South Africa and Ecuador.

Last updated: 5/18/23 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4159	1.2	1	0	6	8
Eurostoxx 50		4378	1.3	2	0	19	15
Nikkei 225		30574	1.6	5	7	16	17
MSCI EM		39	0.5	0	-2	-3	3
Yields and Spreads			bps				
US 10y Yield		3.59	3.0	21	2	71	-28
Germany 10y Yield		2.41	7.8	19	-6	138	-16
EMBIG Sovereign Spread		487	0	-2	11	20	36
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.3	-0.3	-1	-1	-3	1
Dollar index, (+) = \$ appreciation		103.1	0.2	1	1	-1	0
Brent Crude Oil (\$/barrel)		76.9	-0.1	3	-9	-30	-10
VIX Index (% change in pp)		16.8	-0.1	0	0	-14	-5

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

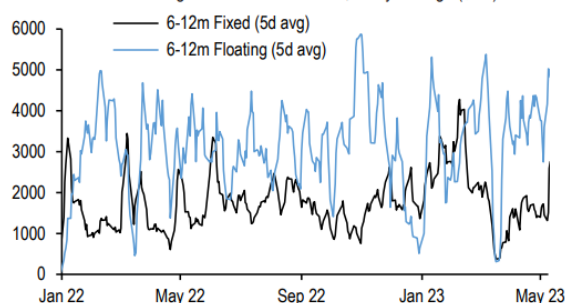
The gap between spreads of low rated corporate bonds increased as debt ceiling concerns spilled over to credit markets. Credit markets analysts expect higher risk of default and downgrades as interest rates continue to climb and the economy faces a slowdown. The debt ceiling developments present a new wildcard, increasing concerns of a repricing of credit. This week, the gap between spreads of low rated bonds, an indicator of default risk, has widened significantly. Worryingly, some analysts expect further widening, given that US bankruptcy filings YTD are the highest since 2010. At the same time, the gap between high grade spreads, an indicator for the risk of downgrades, has also widened but far less dramatically.



Money markets are beginning to increase duration as the hiking cycle nears its end. While the debt ceiling stress has seized the T-bill market, bank CP/CD volumes rose in longer-dated tenors, as market participants now see the Fed as likely to pause. Recent data showed that 6-month to 1-year floating-rate bank CP/CD volumes neared YTD highs. Furthermore, some investors continued to move into longer-dated fixed-rate maturities. Analysts expect that demand will continue for longer-dated bank CP/CD FRNs and fixed-rate tenors, particularly as further Fed tightening seems unlikely. In a similar vein, government funds have continued to gradually extend their weighted average maturities (WAMs), averaging around 17 days at month-end, while prime MMF WAMs were flat month over month at similar levels.

Figure 2: Data from DTCC showed that 6-month to 1-year floating-rate bank CP/CD volumes are near YTD highs, with 5-day averages around \$4.8bn versus the year-to-date average of about \$3.3bn

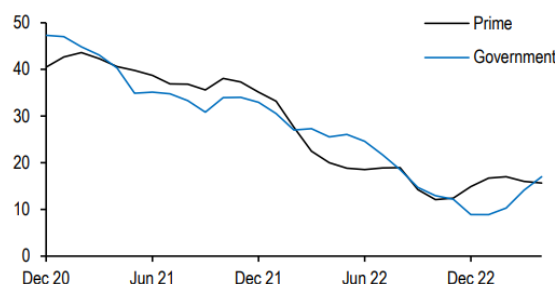
Bank CP/CD 6-12m floating and fixed rate volumes, 5-day average (\$mn)



Source: DTCC, J.P. Morgan

Figure 8: Government funds have continued to gradually extend their WAMs, averaging around 17 days at month-end, while prime MMF WAMs were flat month over month at around 16 days

Historical month-end prime and government MMF WAMs, weighted by assets (days)

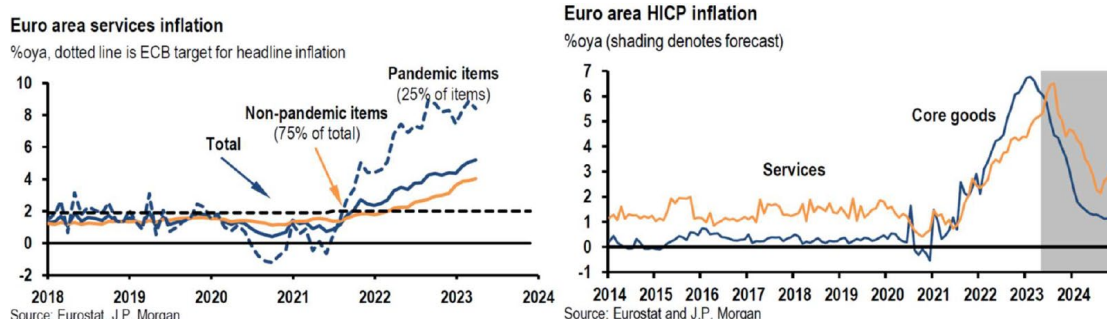


Source: Crane Data, J.P. Morgan

Euro-area

Yields on 10-year German bunds were up 8 bps to 2.41%, after the final reading of April inflation for the Euro area confirmed strong services inflation, leading some to conclude that the ECB might keep hiking throughout the summer. Yesterday, the final reading of April inflation for the Euro area confirmed the numbers from the flash reading, which was published on May 2 with headline inflation at 7%

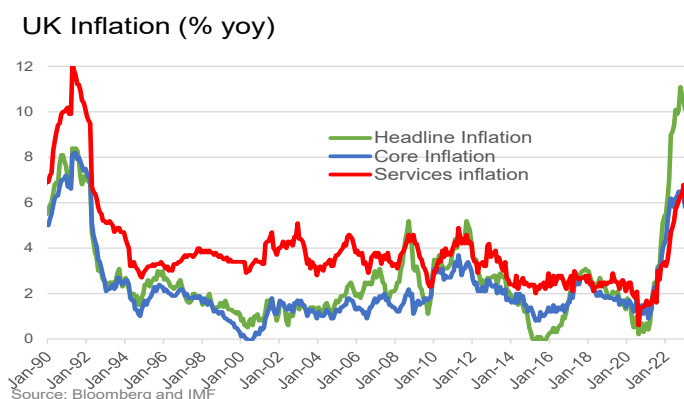
y/y unchanged from March, and core inflation at 5.6% y/y down from 5.7% y/y in March. This release provides the full breakdown of inflation and shows that goods inflation is decreasing, while services inflation is increasing. Analysts at JP Morgan noted that core inflation pressures remain strong, with core prices increasing close to 0.4% m/m sa, broadly in line with the average pace seen in the prior six months. They note that while core goods prices were up 0.2% m/m sa, the weakest print since late 2021, services prices were up 0.8% m/m sa. Even after accounting for basket weight changes, they conclude that the resulting m/m increase is higher than the average monthly pace seen in the prior six months, pointing to building pressure on the wage side. HSBC analysts expect wage growth to pick up further in the coming months owing to the backward-looking nature of pay deals keeping price pressures high and conclude that this might keep the ECB hiking throughout the summer.



Since the release of the details of the April inflation print, several ECB officials have made hawkish comments. ECB vice-president De Guindos said this morning that he is particularly concerned about the accelerating inflation in services. Estonian governor Muller repeated that it is premature to expect the ECB to cut early in 2024.

United Kingdom

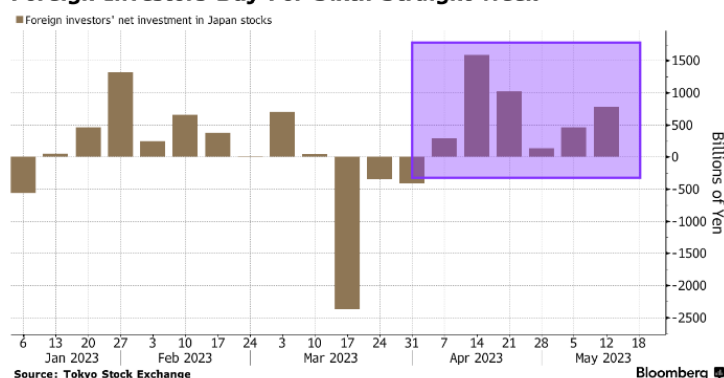
Yields on 10-year gilts gained 7 bps (to 3.90%), after hawkish comments from BOE governor Bailey yesterday. BoE governor Bailey said that the MPC would continue to tighten if there were to be evidence of more persistent inflationary pressures, and that the MPC would be watching closely for any signs that wages were rising faster than expected or that job vacancies were remaining uncomfortably high. He said that the UK found itself in unprecedented times which were the biggest test yet of the inflation-targeting regime and repeated that he was unwavering in his commitment to the UK's 2% inflation target. While he expects inflation to fall sharply from the current 10.1% y/y level over the coming months, he warned however that the tight labor market is adding to inflationary pressures, as workers try to make up for lost spending power by bidding up their pay. He added that the easing of labor market tightness is happening at a slower pace than he expected in February.



Japan

Japanese stocks gained +1.1%. Semiconductor-related stocks advanced amid a continued wave of news on local investments by global chipmakers. Foreign investors were net buyers of Japanese equity for a sixth-straight week, helping support the market rally this year. Overseas traders bought a net ¥780 bn (\$5.7 bn) worth of stocks and futures in the week ended May 12, Bloomberg reported. Separately, **Japanese exports growth slowed below expectations in April** to 2.6% y/y (consensus: 3%; previous 4.3%). Japanese shipments deteriorated to ASEAN, declined at a more moderate pace to China, but improved to the US and euro-area. **Yields on 10-year bonds rose +1.8 bps, the yen was little changed.**

Foreign Investors Buy For Sixth Straight Week



Emerging Markets

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Asian equities were +0.5% on net. Taiwan Province of China (+1.1%) and South Korea (+0.8) led the gains. **Asian currencies were mixed.** Philippine peso strengthened +0.5%, Chinese renminbi depreciated (offshore -0.5%, onshore -0.4%). In **EMEA, equity markets were mixed and currencies were mostly weaker**, with the Turkish Lira (-1.4%) underperforming. In **Latam**, Chilean and Colombian pesos benefited from the rally in oil and copper prices whereas other major currencies were mostly unchanged yesterday. Brazil's Ibovespa index gained the most within the region (+1.2%), whereas Colombian equities lost the most (-0.6%). Colombian rates in the belly of the curve moved higher by around 10bps.

China

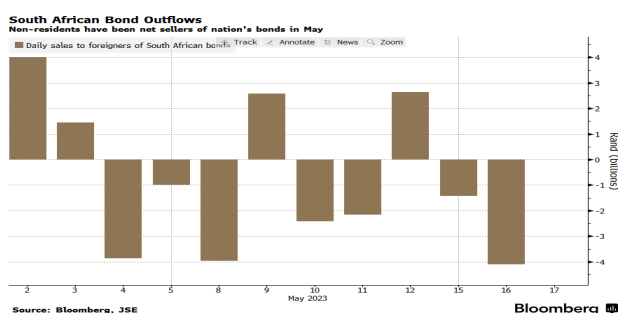
China developers remain on watch list for further debt stress amid the cooling property market. After the release of pent-up demand in Q1, Chinese existing home prices slowed sharply in April to +0.3% m/m (previous: +0.4%), while existing home prices remained broadly flat. Real estate agents reported fewer sales and an increased number of home listing, reflecting signs of market weakness. Meanwhile, Bloomberg's analysis of China's 186 listed developers shows that about 48% of total borrowing is held by companies that either already defaulted on public bonds during the 2021-2022 property rout or are at "significant" risk of missing repayment. Developers' combined debt to mature in 2023 is estimated at \$120 bn, according to Bloomberg. **Chinese stocks were little changed** (Shanghai +0.4%; Shenzhen +0.1%). The **Yuan weakened, passing the 7 per dollar level** (offshore -0.5%; onshore -0.4%) despite the PBOC setting a stronger-than-expected reference rate. **10-year bond yields were little changed.**

Philippines

The **Philippine's** central bank (BSP) kept its policy rate unchanged at 6.25%, in line with market expectations. The **pause was interpreted to be a hawkish one as BSP indicated that it remained vigilant of inflationary pressures and willing to resume tightening if necessitated by incoming data.** Having said this, some analysts project the BSP to reduce the reserve requirement ratio (RRR) as a next step as soon as July. The RRR is currently the highest in the ASEAN region at 12% for larger banks. **10-year bond yields increased slightly today.**

South Africa

The South African rand has continued to weaken amid continued portfolio outflows. The rand has depreciated 12% YTD. Goldman Sachs analysts noted that portfolio outflows from both domestic and foreign investors have been the main drivers of currency depreciation in recent months as the economy has slowed and the current account deficit has widened, with geopolitical tensions exacerbating the move. According to Goldman Sachs, large domestic multi-asset and equity funds increased their foreign holdings to 39% as of April from 35% as of the end of 2022. Bloomberg reported that foreign investors sold more than a net 90 bn rand (\$ 4.6 bn) of South African bonds this year. Analysts commented that the South African Reserve Bank is in a challenging spot as additional rate hikes may be warranted to defend the currency and ease inflation pressures, but tighter monetary policy is likely to cool an already weak economy suffering from power shortages. According to a Bloomberg survey, most analysts expect a 25 bps hike in the May policy meeting (from 7.75% to 8.0%), but several analysts have raised their forecast to a 50 bps hike reflecting recent currency depreciation.



Ecuador

Ecuadorian bonds underperformed as snap elections were called yesterday. President Lasso's decision to dissolve congress followed the start of his impeachment procedure by the assembly earlier in the week. Elections will be held both for the presidency and assembly. Ecuadorian bonds had already underperformed following the start of the impeachment proceedings. Since Monday's close, Ecuador's 2030 USD denominated bond's yield has risen by 126 bps. Goldman Sachs economists highlighted that the country's external debt repayments will increase as of 2025.

Ecuadorean Bonds Are Trading Below Their Level Before Lasso's Election



Source: Bloomberg, Goldman Sachs Global Investment Research

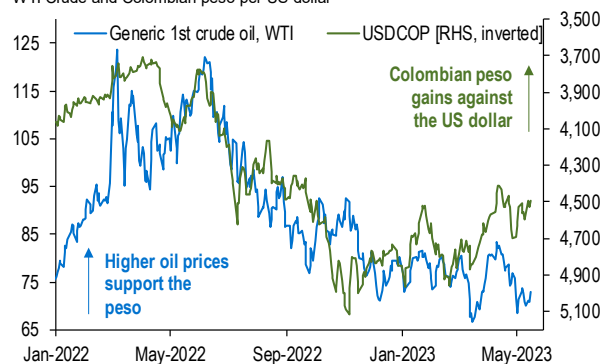
Chile and Colombia

Latin American countries reliant on commodity exports benefited from higher oil (+3.1%) and copper (+2.3%) prices yesterday. Chile is the largest copper exporter in the world whereas Colombia's main export is oil. Their respective currencies both appreciated against the dollar on the day (+0.7%). While the currencies have been able to reap the gain on the daily price increase, they have been less affected by

the recent decrease in their respective commodities' prices. One factor behind their resilience may be that interest rate differentials of the currencies relative to the dollar are attracting investors. Both Chile and Colombia offer some of the best interest rate returns among major currencies. In addition to the Chilean and Colombian pesos YTD spot returns (7.3% and 7.7%, respectively), total returns stand at 11.4% and 13.1% YTD, respectively.

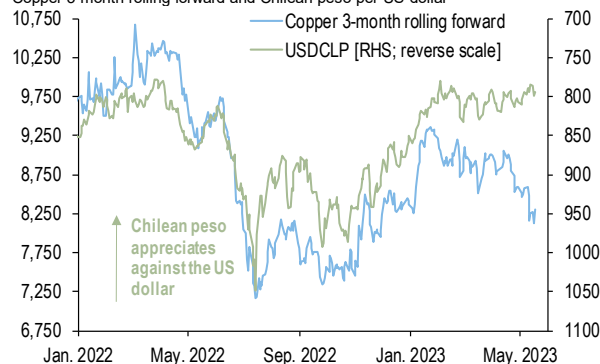
Increase in commodity prices on the day has helped boost respective commodity exporters with in the region

WTI Crude and Colombian peso per US dollar



Source: Bloomberg

Copper 3-month rolling forward and Chilean peso per US dollar



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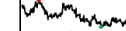











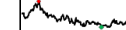













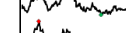







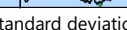
Global Financial Indicators

5/18/23 8:02 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4159	1.2	1	0	6	8
Europe		4378	1.3	2	0	19	15
Japan		30574	1.6	5	7	16	17
China		3956	-0.1	-1	-4	-1	2
Asia Ex Japan		66	0.3	0	-3	-2	2
Emerging Markets		39	0.5	0	-2	-3	3
Interest Rates			basis points				
US 10y Yield		3.59	3.0	21	2	71	-28
Germany 10y Yield		2.41	7.8	19	-6	138	-16
Japan 10y Yield		0.38	1.2	-2	-9	14	-4
UK 10y Yield		3.90	6.5	20	16	204	23
Credit Spreads			basis points				
US Investment Grade		174	-1.1	3	17	8	15
US High Yield		507	-6.1	0	43	30	27
Exchange Rates			%				
USD/Majors		103.14	0.2	1	1	-1	0
EUR/USD		1.08	-0.3	-1	-1	3	1
USD/JPY		137.9	0.1	2	3	8	5
EM/USD		50.3	-0.3	-1	-1	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		76.9	-0.1	3	-9	-16	-9
Industrials Metals (index)		146	-0.5	0	-10	-19	-12
Agriculture (index)		65	-1.0	-3	-8	-17	-6
Implied Volatility			%				
VIX Index (% change in pp)		16.8	-0.1	-0.2	-0.1	-14.2	-4.9
US 10y Swaption Volatility		110.2	0.7	-4.4	-2.4	-4.9	-15.5
Global FX Volatility		8.7	0.0	-0.3	-0.5	-1.9	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		160	-5.9	-19	-25	-96	-45
Italy		185	0.0	-4	2	-8	-30
Portugal		79	-0.5	-3	-4	-33	-22
Spain		106	0.1	-2	4	-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: 5/18/2023 8:01 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		7.03	-0.5	-1.2	-2	-4	-2		2.9	-1.1	-5	-27	8	-19
Indonesia		14869	-0.3	-0.9	-1	-2	5		6.4	-4.2	-9	-28	-95	-55
India		83	-0.3	-0.6	-1	-6	0		7.2	2.2	-1	-29	(49.2)	-29
Philippines		56	0.5	-0.2	0	-6	0		5.9	0.0	0	-10	40	-15
Thailand		34	-0.3	-1.5	0	1	1		2.7	0.0	11	8	-51	8
Malaysia		4.54	-0.3	-1.6	-2	-3	-3		3.7	6.3	5	-14	-70	-30
Argentina		232	-0.2	-1.3	-7	-49	-24		100.6	54.9	236	984	4622	1243
Brazil		4.94	0.1	0.1	0	0	7		12.0	9.6	-36	-47	-37	-62
Chile		794	0.7	-0.5	1	7	7		5.3	0.0	7	-3	-99	-7
Colombia		4495	0.7	1.3	-1	-10	8		8.6	0.0	-16	-37	-61	-123
Mexico		17.72	-0.7	-0.8	2	13	10		8.2	0.0	-3	-27	-45	-49
Peru		3.7	0.0	-0.7	2	2	3		7.3	1.7		-27	-64	-72
Uruguay		39	0.1	0.0	0	4	2		9.9	0.0	-11	-37	-25	-80
Hungary		346	-1.3	-1.6	-2	6	8		7.8	2.0	-3	-74	76	-184
Poland		4.20	-0.9	-1.1	0	6	4		5.4	4.5	21	-11	-67	-73
Romania		4.6	-0.5	-1.8	-2	3	0		6.8	1.8	-26	-41	-115	-86
Russia		79.9	0.5	-3.8	2	-19	-7							
South Africa		19.4	-0.6	-0.8	-6	-17	-12		10.1	6.9	15	76	160	90
Turkey		19.79	-0.2	-1.1	-2	-19	-5		9.9	0.0	-284	-232	-1484	2
US (DXY; 5y UST)		103	0.2	1.1	1	-1	0		3.61	3.0	26	-6	72	-39

	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		3956	-0.1	-1	-4	-1	2		199	-2	5	-11	22	
Indonesia		6663	0.0	-2	-2	-2	-3		144	-6	7	-59	4	
India		61432	-0.2	-1	3	16	1		161	-2	8	-23	19	
Philippines		6629	-0.1	-1	3	0	1		118	-8	6	-30	21	
Thailand		1527	0.3	-3	-3	-5	-9		0	0	0	0	0	
Malaysia		1428	0.3	0	0	-8	-5		101	-1	0	-36	1	
Argentina		327789	2.8	6	15	261	62		2565	53	139	635	360	
Brazil		109460	1.2	2	3	3	0		270	-7	1	-41	-4	
Chile		5605	-0.2	1	2	13	7		133	-1	-3	-34	1	
Colombia		1134	-0.3	-1	-10	-23	-12		414	-6	15	28	42	
Mexico		55067	-0.2	-1	1	9	14		404	-1	17	18	23	
Peru		21744	0.1	-1	-3	10	2		184	2	1	-4	4	
Hungary		46164	0.7	0	6	8	5		229	9	2	29	7	
Poland		64032	0.8	1	2	14	11		134	-1	54	135	61	
Romania		12254	0.1	1	-2	1	5		252	-4	-1	22	-4	
South Africa		77995	-0.5	1	-2	13	7		469	26	64	61	102	
Turkey		4564	-2.1	-6	-9	91	-17		652	137	170	63	212	
Ukraine		507	0.0	0	0	-2	-2		5172	-222	70	1852	1093	
EM total		39	0.4	0	-2	-3	3		429	7	21	23	54	

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

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