



- 6-month T-bill yields reach new heights, pointing to uptick in bill supply ([link](#))
- The debt-ceiling resolution may challenge US funding markets ([link](#))
- BoE might accelerate QT but balance sheet will remain large ([link](#))
- China mulls moving stakes in bad-debt managers to sovereign wealth fund unit ([link](#))
- Türkiye's sovereign dollar bonds risk premium rose over 100 bps this week ([link](#))
- Mexico holds rates steady and will hold for "extended period" ([link](#))
- **Special feature: Climate Finance Monitor, Global Update Q1 2023** (attached)

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Markets rally to close the week

Market sentiment continued to improve as investors embraced optimism that leaders in Washington DC are nearing a deal to raise the debt ceiling. In a call earlier this morning, president Biden reportedly told his negotiating team that he is confident congress will act in time to avoid a potential default. There are also reports that house speaker McCarthy and senate majority leader Schumer are making plans for votes in the coming days on a bipartisan deal. Separately, additional rhetoric from FOMC officials has continued to impact market expectations of US policy rates. Dallas and St Louis Fed presidents added to the hawkish tone that had emerged in previous days, while governor Jefferson expressed a dovish case for pausing. With Fed officials split over whether to hike or pause in June, market expectations for a June hike increased further, and now price over a 30% probability of a 25 bps hike, up from 20% earlier in the week. At longer tenors, advanced economy sovereign bond yields rose modestly this morning, following yesterday's sharp sell-off. In emerging markets, China's PBOC set the currency's fix weaker than 7 per dollar for the first time since December and Türkiye's sovereign dollar bonds risk premium rose to 650 bps over US Treasury yields yesterday, a sharp increase relative to last Friday before the inconclusive presidential vote at the weekend.

Key Global Financial Indicators

Last updated: 5/19/23 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4198	0.9	2	1	8	9
Eurostoxx 50		4401	0.8	2	0	21	16
Nikkei 225		30808	0.8	5	8	15	18
MSCI EM		39	-0.5	0	-1	-5	3
Yields and Spreads			bps				
US 10y Yield		3.66	1.6	20	7	82	-21
Germany 10y Yield		2.49	4.0	21	-3	154	-9
EMBIG Sovereign Spread		484	-3	-4	4	4	32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.2	0.2	-1	0	-4	1
Dollar index, (+) = \$ appreciation		103.3	-0.3	1	1	1	0
Brent Crude Oil (\$/barrel)		76.8	1.3	4	-8	-31	-11
VIX Index (% change in pp)		16.0	-0.1	-1	0	-13	-6

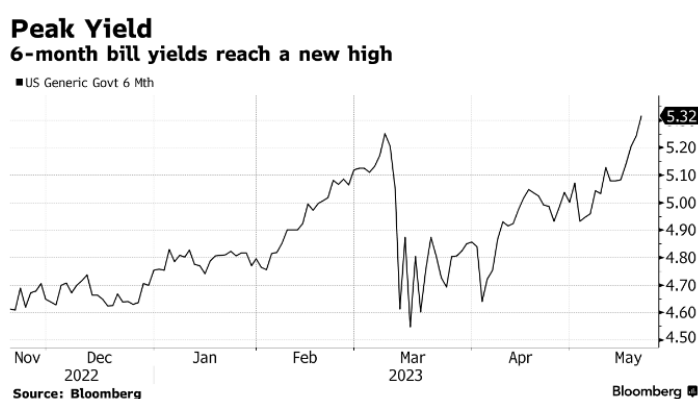
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

Yields on 6-month T-bills reach new heights. T-bills maturing in early June have a substantial yield premium built related to the debt-ceiling discussions. However, T-bills maturing even 6-months out have seen yields rising considerably. The generic 6-month bill yield is now at 5.32% (reflecting the November 16th bill), which is the highest yield for that tenor since 2006. Analysts suggested two explanations: First, markets are gradually pricing out some of the previously expected rate cuts, given more recent Fed rhetoric that suggests a split in the FOMC on whether to hike more or to pause. Second, markets price in expectations of a substantial uptick in bill supply. Following the debt ceiling resolution, the Treasury would need to replenish its cash buffers, and analysts expect that the preferred method will be T-bill rather than coupon issuance. The last quarterly refunding estimate from the Treasury called for net new bill issuance of \$478 bn over the next three months and markets expect around \$1 tn, with BofA estimating a supply shock of \$1.4 tn by the end of the year.



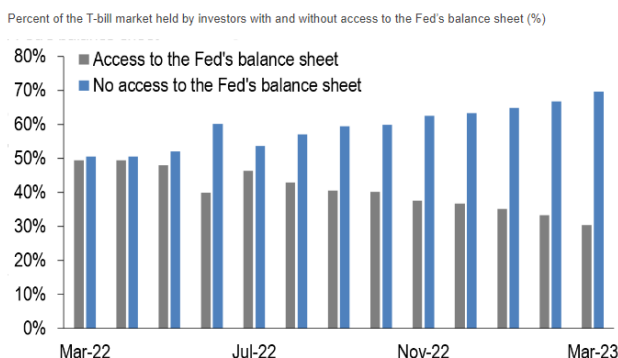
The debt-ceiling resolution could put pressure on funding costs and potentially bank reserves. A debt-ceiling deal would spur large T-bill issuance, which would challenge the intermediation capacity of dealers, put upward pressure on repo rates and extend pressures on other money market fund instruments (such as CP/CD) and potentially also on the cross-currency dollar basis. BofA estimates that the additional supply will have a similar impact as a 25 bp policy rate rise. A more consequential outcome could be the impact on bank reserves. The Treasury could draw cash either from investors' bank accounts or from money parked by MMFs in the RRP (for example if MMFs buy T-bills instead of investing in RRP repo). Most market analysts expect a drastic draw-down in the RRP which will buffer a drop in bank reserves, but risks remain of reserves dropping too low for certain banks.



Investors with no access to the Federal Reserve balance sheet have increased their T-bill holdings.

With more than \$450bn of T-bills maturing before the expected June 15 tax receipts, investors are looking at the large holders of T-bills. Money Market Funds are the usual suspects, but they have deliberately shifted holdings to repo (notably the Federal Reserve's repo facility -RRP) and agency debt while slashing their T-bill holdings in the last few months, well ahead of the debt ceiling challenge. JP Morgan analyzed buyers of T-bills in Q1 2023 and found that, while MMFs and other counterparts to the RRP decreased their T-bill holdings, investors without access to the RRP picked up the 10% increase in outstanding T-bills. Among those, stable coin issuers and local government investment pools were the main buyers.

Figure 2: As of March-end, we estimate buyers that do not have access to the Fed's balance sheet held a staggering 70% of T-bills, while those that do have access only held 30% of total outstandings

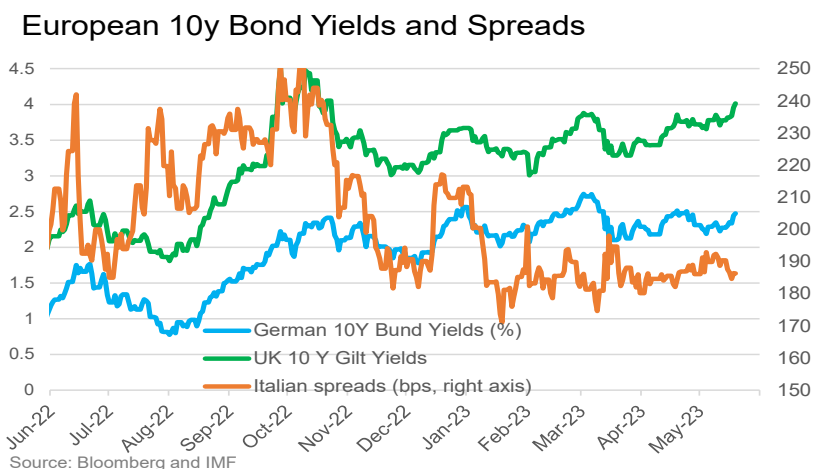


Source : Crane Data, TIC data, Federal Reserve Bank of New York, Fitch, Company 10-Qs and other disclosures, J.P. Morgan

Euro Area

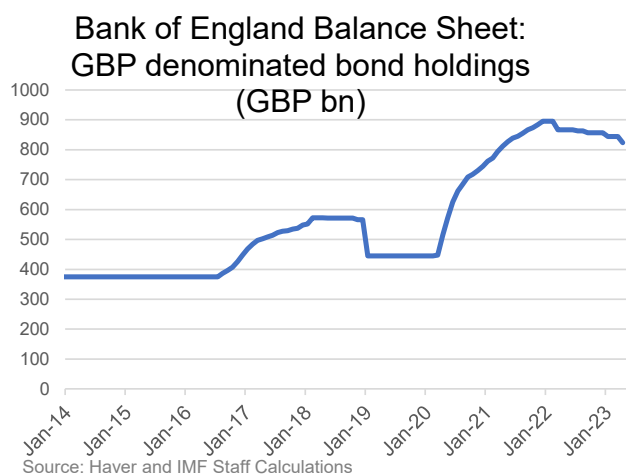
European markets saw a continuation of yesterday's trends with equities gaining and bond yields rising. The equity market (Stoxx Europe 600) was up 0.8%, with banking stocks gaining 0.5%. The euro strengthened to the dollar (+0.2% to 1.08/\$). German 10-year bund yields were up 3 bps to 2.47%, after a sharp increase already yesterday (+11 bps). Italian spreads were broadly unchanged at 186 bps.

European yields have increased sharply since yesterday, in reaction to better than forecast US jobless data, positive news on the debt ceiling talks in the US and hawkish comments from Fed officials suggesting that a rate hike in June is likely. Yields on German 10-year bunds increased 14 bps (to 2.47%), the highest increase since mid-March levels. In the UK, 10-year gilt yields increased 17 bps (to 4%) to their highest level since October.



United Kingdom

Dave Ramsden, deputy governor for markets at the BoE, told UK lawmakers yesterday that the pace of quantitative tightening in the UK may accelerate given the experience of the first year. The BoE began unwinding its QE program in February 2022, when bonds were allowed to mature without the funds being reinvested. Active sales began in November. Currently, the BoE is unwinding about £20 bn of QE every quarter, split roughly evenly between active sales and maturing assets. As a result, the QE portfolio, which reached £895 bn during the pandemic has now shrunk to around £820 bn. Deputy governor Ramsden said yesterday that the BoE was likely to at least maintain the £40 bn annual rate of active sales, even with redemptions set to rise to around £50 bn. BoE governor Bailey said that the BoE plans to reduce the balance sheet to give it headroom to respond to events in the future, but indicated that it will remain in the hundreds of billions of pounds, and not return to levels seen before the 2008 crisis (less than £100 bn).



Japan

Japanese stocks gained +0.2%. Separately, **April national consumer price inflation accelerated to +3.5% y/y** as expected (previous: 3.2%). Core inflation also increased to +3.4% y/y. Faster CPI was driven by food prices, while broader non-energy inflation also edged up due to the lagged effect of higher import costs. **Yields on 10-year bonds rose +1.7 bps, the yen appreciated +0.5%.**

Nikkei 225 Hits Highest Level Since Bubble Economy Burst



Emerging Markets [back to top](#)

Asian equities were mixed this morning, little changed on net. In **India**, stocks part of Adani Group lost a combined \$10 bn in market value this week on reports two entities will be dropped from the MSCI India gauge at the end of May. **Asian currencies were mixed. Indonesia** sold ¥104.8 bn (\$757 mn) of debt in the Japanese market, including inaugural Samurai blue bonds. The ten-year blue tranche was priced at a spread of 85 bps over mid-swaps vs an average premium of 105 bps over the past five years, according to Bloomberg. In **EMEA**, most currencies appreciated to the dollar and regional equities gained. In **Latam**, currencies mostly depreciated yesterday. The Colombian peso and Brazilian real depreciated the most (-0.8% and -0.6%, respectively) whereas their equity markets gained (+0.8% and +0.6%, respectively). Rates sold-off in Colombia and Peru modestly.

China

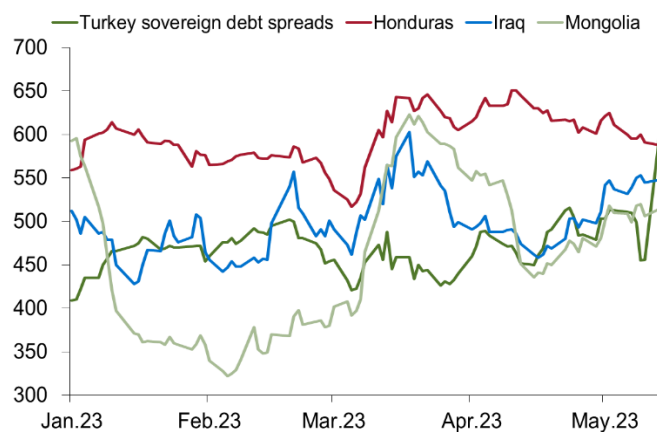
China mulls transferring government stakes in bad-debt managers to a unit of its sovereign wealth fund. The move would allegedly be part of a financial regulatory regime overhaul, Bloomberg reported. Under the current proposal, the Ministry of Finance will move its ownership in the nation's biggest bad-debt managers—China Cinda Asset Management Co., China Great Wall Asset Management Co., and China Orient Asset Management Co—to Central Huijin Investment Ltd. Bloomberg estimated Beijing's stakes in these firms would be worth about \$33 bn based on their shareholders' equity value. The move is considered to demonstrate China's commitment to separating the government's roles as a regulator and shareholder, streamlining oversight and instilling more discipline at some of its state-owned entities. Separately, the **People's Bank of China set the currency's fix weaker than 7 per dollar for the first time since December.** Earlier this year Governor Yi Gang stated that this level was no longer a psychological hurdle. Some trader reported dollar selling from local banks' proprietary desks increased, mainly on profit-taking by dollar bulls, Bloomberg reported. The **Renminbi was little changed. Chinese stocks declined modestly (CSI -0.3%). 10-year bond yields were little changed.**

PBOC Fixes Yuan at Weakest Level Since December



Türkiye

Türkiye's sovereign dollar bonds risk premium rose to 650 bps over US Treasury yields, compared to 469 bps last Friday before the inconclusive presidential vote at the weekend. It is much higher than similarly rated countries such as Honduras, Iraq, and Mongolia. Investors are demanding a higher risk premium as the unexpected support for president Erdogan has dashed hopes for a change in the unconventional policies, including interest rate cuts and the sale of central bank reserves. These policies have led to an inflation crisis and capital outflows. Türkiye's dollar debt has been the worst-performing among emerging markets this month.



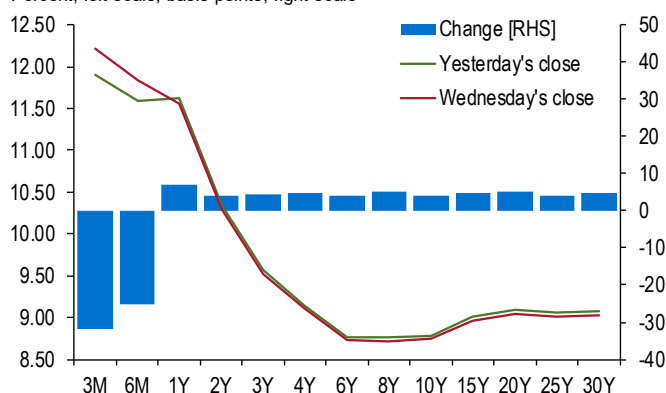
Source: Bloomberg and IMF staff

Mexico

Banxico held rates steady (11.25%) as expected and will hold rates for “extended period”. The central bank highlighted that upside risks to inflation remain. The reaction of the Mexican peso and local equity markets was fairly muted. Bond yields fell, particularly at the short-end. In the run up to the meeting, markets were placing a possibility of a hawkish surprise by Banxico. Economists expect Banxico to start easing in the fourth quarter of this year.

Front-end of Mexican sovereign yields rallied following the MPC meeting.

Percent, left scale; basis points, right scale



Source: Bloomberg, IMF Staff calculations.

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.

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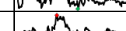

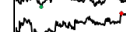








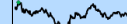


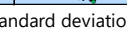
Global Financial Indicators

5/19/23 8:02 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4199	0.9	2	1	8	9
Europe		4401	0.8	2	0	21	16
Japan		30808	0.8	5	8	15	18
China		3945	-0.3	0	-2	-3	2
Asia Ex Japan		66	-0.5	0	-2	-4	2
Emerging Markets		39	-0.5	0	-1	-5	3
Interest Rates			basis points				
US 10y Yield		3.66	1.6	20	7	82	-21
Germany 10y Yield		2.49	4.0	21	-3	154	-9
Japan 10y Yield		0.40	1.6	1	-9	16	-2
UK 10y Yield		4.04	7.8	26	18	217	36
Credit Spreads			basis points				
US Investment Grade		171	-2.5	1	16	1	12
US High Yield		500	0.5	-9	33	-5	20
Exchange Rates			%				
USD/Majors		103.29	-0.3	1	1	1	0
EUR/USD		1.08	0.4	0	-1	2	1
USD/JPY		138.4	-0.2	2	3	8	6
EM/USD		50.2	0.2	-1	0	-4	1
Commodities			%				
Brent Crude Oil (\$/barrel)		76.8	1.3	4	-7	-17	-9
Industrials Metals (index)		147	1.6	0	-9	-21	-11
Agriculture (index)		65	0.9	-2	-6	-16	-5
Implied Volatility			%				
VIX Index (% change in pp)		16.0	-0.1	-1.0	-0.5	-13.4	-5.7
US 10y Swaption Volatility		112.3	0.2	3.0	-4.4	-3.0	-13.4
Global FX Volatility		8.6	0.0	-0.3	-0.6	-2.2	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		158	-2.0	-17	-24	-102	-48
Italy		186	-1.1	-5	1	-10	-29
Portugal		79	-0.9	-3	-4	-35	-22
Spain		105	-1.2	-3	3	-4	-4

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

Emerging Market Financial Indicators

Last updated: 5/19/2023 8:00 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		7.01	0.3	-0.8	-2	-4	-2		2.9	3.5	7	-24	6	-16
Indonesia		14930	-0.4	-1.2	0	-1	4		6.4	5.1	4	-24	-88	-50
India		83	-0.1	-0.6	-1	-6	0		7.2	1.0	2	-29	(53.4)	-28
Philippines		56	0.4	0.2	1	-6	0		5.9	0.0	0	-10	40	-15
Thailand		34	0.1	-1.1	0	0	1		2.7	-0.5	9	4	-40	7
Malaysia		4.54	0.0	-1.3	-2	-3	-3		3.8	2.7	11	-11	-65	-28
Argentina		232	-0.2	-1.4	-7	-49	-24		102.8	213.1	396	1293	4836	1456
Brazil		4.97	-0.6	-0.7	0	0	6		12.0	-0.2	-12	-53	-36	-62
Chile		796	-0.3	-0.2	0	7	7		5.3	0.0	10	1	-94	-4
Colombia		4531	-0.8	1.5	-1	-10	7		8.7	0.0	12	-22	-29	-106
Mexico		17.64	0.4	-0.3	2	13	11		8.3	7.5	5	-19	-38	-42
Peru		3.7	-0.1	-0.9	2	2	3		7.3	6.4	14	-21	-54	-66
Uruguay		39	0.0	0.1	0	4	3		10.0	14.7	-10	-24	-12	-65
Hungary		348	0.1	-2.0	-1	4	7		7.8	2.0	-4	-45	97	-182
Poland		4.18	0.9	-0.4	1	5	5		5.4	-2.0	23	-20	-56	-73
Romania		4.6	0.2	-1.4	-2	1	0		6.9	6.4	-14	-42	-108	-80
Russia		80.1	0.3	-3.1	2	-22	-7							
South Africa		19.3	0.2	0.3	-6	-18	-12		10.0	-7.4	22	71	173	88
Turkey		19.81	-0.1	-1.1	-2	-20	-6		9.9	0.0	-450	-232	-1484	2
US (DXY; 5y UST)		103	-0.3	0.6	1	1	0		3.70	2.0	26	0	86	-30

	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		3945	-0.3	0	-2	-3	2		194	-7	-2	-17	17		
Indonesia		6701	0.6	-1	-2	-3	-2		140	-10	-5	-74	0		
India		61730	0.5	0	3	14	1		156	-4	-2	-28	14		
Philippines		6665	0.5	1	2	-1	1		114	-11	-6	-46	17		
Thailand		1515	-0.8	-3	-3	-7	-9		0	0	0	0	0		
Malaysia		1429	0.0	0	0	-8	-4		98	-5	-4	-42	-2		
Argentina		331211	1.0	6	20	274	64		2596	68	65	643	391		
Brazil		110108	0.6	2	6	3	0		264	-15	-4	-60	-10		
Chile		5641	0.6	1	4	13	7		128	-7	-11	-54	-4		
Colombia		1137	0.2	-2	-9	-19	-12		407	-11	7	2	35		
Mexico		55263	0.4	0	2	8	14		399	-8	12	-4	18		
Peru		21588	-0.7	-1	-4	7	1		179	-4	-6	-24	-1		
Hungary		46729	0.8	1	8	13	7		233	11	5	19	11		
Poland		64385	1.2	1	3	16	12		135	-3	58	118	62		
Romania		12274	0.2	2	-2	2	5		253	-6	-1	-12	-3		
South Africa		77888	0.3	-1	-1	14	7		473	6	66	38	106		
Turkey		4502	0.0	-7	-11	88	-18		650	175	159	48	210		
Ukraine		507	0.0	0	0	-2	-2		5138	-272	37	2120	1059		
EM total		39	0.6	0	-1	-5	3		428	7	15	9	52		

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

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