



- Bank lending standards tighten significantly ([link](#))
- Markets confront multiple outcomes for US debt ceiling standoff ([link](#))
- Deposit flight from banks to US money market funds continues ([link](#))
- Euro area inflation higher than expected ([link](#))
- Australia surprises with 25 bps rate hike ([link](#))

[Mature Markets](#)




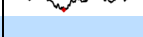
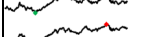

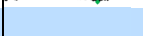



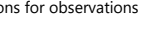
[Emerging Markets](#)

[Market Tables](#)

## Markets are wary as debt ceiling, FOMC and ECB loom

Markets opened with on a cautious note this morning after the long holiday weekend. Most euro area markets are lower, and US equity index futures started off in the red. US Treasury yields are down in keeping with the circumspect mood. China and Latin America remain closed for holidays. The US debt ceiling is a prime focus for markets after Treasury Secretary Yellen said yesterday that the debt limit could be breached as early as June 1. US CDS spreads have soared past the levels seen at the last debt ceiling crises of 2011 and 2013 to a record 177 bps. President Biden has invited top opposition leaders to a debt ceiling conference on May 9. Meanwhile, uncertainty ahead of the FOMC and ECB meetings increased after Australia surprised markets with an unexpected 25 bps rate hike. In Europe, the ECB Lending Survey showed that banks that credit standards were “tightened further substantially” in the first quarter, much more than was expected. The Fed is expected to increase its supervisory standards for midsize banks after the failures of First Republic, Silicon Valley Bank, and Signature Bank.

Key Global Financial Indicators

Last updated: 5/2/23 7:57 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		4168	0.0	1	1	0	9	-1
Eurostoxx 50		4343	-0.4	-1	1	16	14	9
Nikkei 225		29158	0.1	2	3	9	12	10
MSCI EM		39	-0.3	0	-1	-8	3	-18
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.53	-3.8	13	6	55	-34	154
Germany 10y Yield		2.37	5.3	-2	7	140	-21	214
EMBIG Sovereign Spread		473	-10	-22	-11	35	21	60
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.6	0.1	1	0	-2	1	-5
Dollar index, (+) = \$ appreciation		102.2	0.0	0	0	-2	-1	6
Brent Crude Oil (\$/barrel)		79.1	-0.2	-2	-1	-26	-8	-18
VIX Index (% change in pp)		16.6	0.5	-2	-2	-16	-5	-14

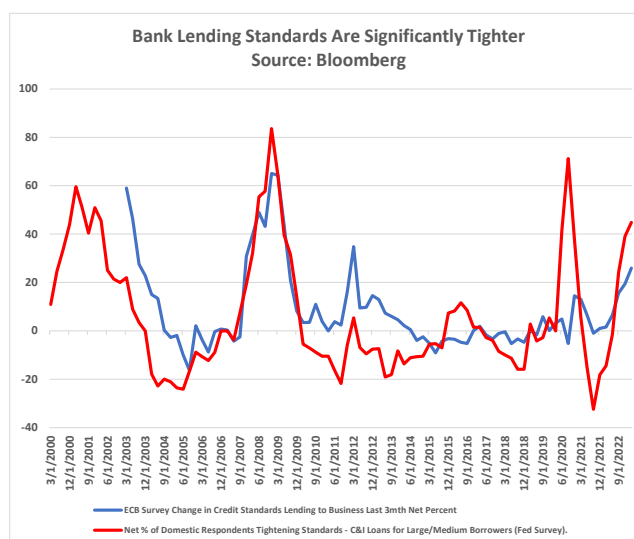
Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

[back to top](#)

### Bank Lending Standards

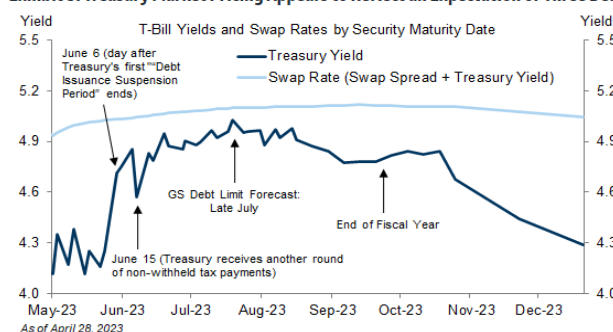
**Lending standards in both the US and euro area have tightened significantly over the past few months, according to the Fed and ECB lending surveys.** Both lending surveys tend to follow each other, but US lending conditions are tighter due to the Fed's more aggressive rate hikes. Some analysts are hopeful that tighter lending standards could do the job for the central banks when it comes to reining in inflation, making further rate hikes unnecessary. The big question is whether the process will play out without causing a recession, the so-called soft landing. History indicates that central banks are rarely able to achieve this outcome, with most rate hike cycles ending in a recession. Current market indications are pessimistic, with short positions in S&P 500 futures at their highest level since October 2011. This represents a z-score of -2 using a two-year window, according to Bloomberg. Today's euro area Bank Lending survey confirmed the tightening of credit standards.



## United States

**Markets are confronting multiple outcomes for the US debt ceiling standoff.** Based on Treasury and swap market pricing, the T-Bill maturing on June 6 has an unusually high yield as that is the date flagged by the Treasury as the first day when the debt ceiling could be triggered as all special measures to avoid this are exhausted. There is another peak in yields in late July, which is when Goldman predicts the debt ceiling will be reached. A third peak is in October, when the government's fiscal year ends, reflecting the possibility that the debt ceiling could be temporarily raised until the end of the fiscal year. However, yields are trading lower after that date, indicating that markets believe a deal to raise the debt ceiling will eventually be reached. The Treasury's quarterly funding announcements due later today and on May 4 could shed further light on the situation. Treasury Secretary Yellen warned yesterday that the debt limit could be breached as early as June 1. President Biden has called top opposition leaders for a meeting on May 9.

**Exhibit 5: Treasury Market Pricing Appears to Reflect an Expectation of Three Deadline Possibilities**

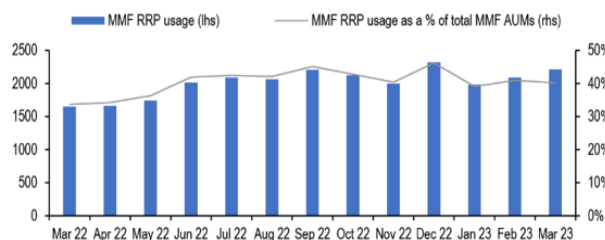


Source: Goldman Sachs Global Investment Research

**Deposits continue to be moved from regional banks to money market funds (MMFs).** According to JP Morgan, there were \$40 bn of such flows last week, probably sparked by the news about the troubles faced by First Republic Bank prior to the announcement this week of its sale to JP Morgan. MMFs are in turn channeling a lot of these funds to the Fed's overnight reverse repo facility (RRP), with MMF use of the facility now at 40% of the overall volume. JP Morgan estimates that 85–89 MMF's have used the RRP over the past six months, and that the top 15 RRP counterparties accounted for 55% or \$1.2 tn as of the end of March. The analysts think that the Fed could change the eligibility criteria for the RRP, restricting the access of MMFs to the facility. However, they predict that no changes will be made in the near term due to the ongoing debt ceiling standoff and the fact that MMFs are major holders of T-Bills which could be the first securities to be impacted if the debt ceiling is reached.

Figure 1: MMFs' usage of the RRP facility continues to grow, with money funds increasing their balances at the RRP facility by 6% (as a percentage of their total holdings) from a year ago

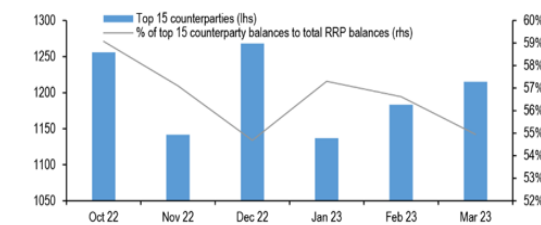
MMF RRP usage (\$bn,lhs) vs. MMF RRP usage as a % of total MMF AUMs (% ,rhs)



Source : Crane Data, J.P.Morgan

Figure 2: The top 15 counterparties held the majority exposure to the RRP facility, which we estimate to be 55% or \$1.2tn as of March-end

Top 15 MMF counterparties' RRP usage (\$bn, lhs) vs. % of total RRP balances held by top 15 MMF counterparties (% , rhs)



Source : Crane Data, J.P.Morgan

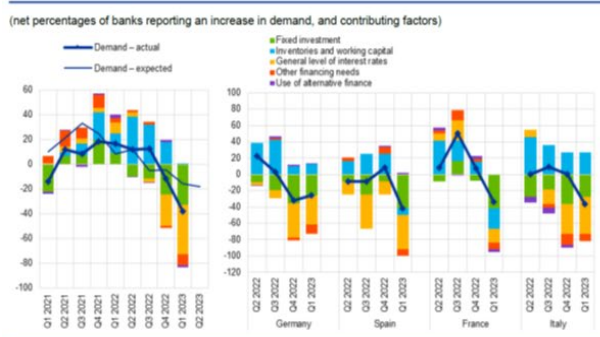
## Euro Area

**European markets were slightly down after April inflation surprised marginally higher than expected at 7% y/y and the ECB lending survey indicated that banks curbed credit more than expected in Q1 in the euro area.** However, banking stocks are up 1.1%. The euro was weakening 0.2% vs. the dollar at 1.1/\$. German 10-year bund yields were up 5 bps to 2.37%, and Italian spreads were broadly flat at 188 bps. While the release of April inflation and the ECB bank lending survey were seen as key in determining the size of ECB's hike on Thursday, markets are pricing in 28 bps in hikes, broadly unchanged compared to last Friday. Given the conflicting signals between inflation and bank lending, markets seem to be expecting that the ECB will slow the pace of hikes to 25 bps but will deliver a hawkish message for the rest of the summer given the still high underlying inflation.

**The ECB bank lending survey for Q1 shows that Euro area banks curbed credit more than expected in Q1.** JP Morgan analysts concludes that the survey gives more to those arguing for a cautious pace of further hikes at the ECB. The survey shows that firms' net demand for loans fell sharply in Q1, more than banks had expected in Q4 and the strongest since the global financial crisis (net percentage of -38%, after -12% in Q4). High interest rates were reported as the main driver of the drop in demand. Looking ahead, banks expect a further, albeit smaller net decline in demand for loans to firms in Q2. Housing loan demand also saw a strong decrease, similar to the sharp net decrease in Q4 (which was the highest since the start of the survey in 2003), driven by higher interest rates, weakening housing market prospects and low consumer confidence. Euro area banks indicated that their credit standards for loans or credit lines to enterprises and housing loans tightened further substantially in Q1, although the tightening became less pronounced for consumer credit.

Chart 2

Changes in demand for loans or credit lines to enterprises, and contributing factors



ECB bank lending survey: NFCs and households

Net %, higher values indicate tighter loan supply and higher loan demand



The ECB Bank Lending Survey also contained a number of ad-hoc questions which showed that the ongoing reduction in central bank balance sheet is linked to TLTRO repayments, and that the end of full APP reinvestments contributed to weakening lending dynamics. Euro area banks indicated a negative impact of the ongoing phase-out of TLTRO III on their liquidity positions, profitability and their overall funding conditions and expect this to continue in Q2 and Q3. The impact on lending volumes is expected to turn negative across all categories of lending over the next six months. Banks also reported that the ECB's QT had a negative impact on their market financing conditions, liquidity positions and total assets over the past six months. For retail funding, the pace of deterioration in access to funding remained similar to the previous quarter and reflects the continued increase in bank deposit rates and shifts towards more highly remunerated types of saving.

Chart 18

Impact of the ECB's monetary policy asset portfolio on bank lending

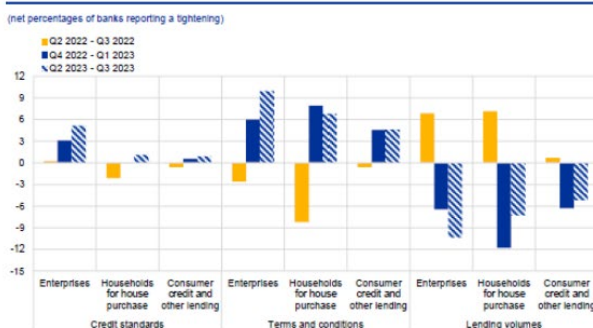
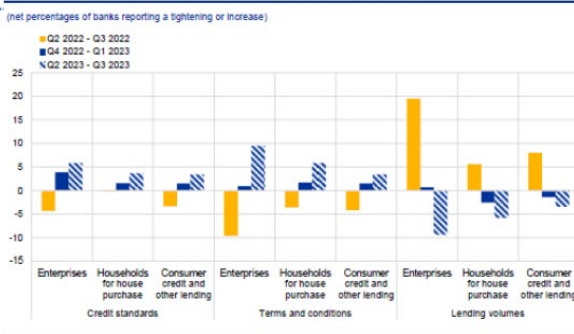


Chart 20

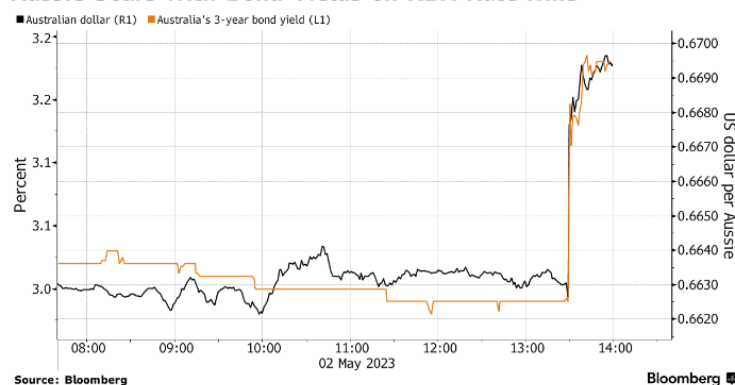
Impact of TLTRO III on bank lending conditions and lending volumes



## Australia

**The Reserve Bank of Australia (RBA) surprised with an unexpected rate hike.** The RBA lifted the cash rate by 25 bps to 3.85%, and increased the rate paid on exchange settlement balances by 25 bps to 3.75%. Most economists expected the rate to be left unchanged after data showed last that consumer prices slowed more than expected in Q1. The RBA stated that inflation has passed its peak, but at 7% is still too high and it will be some time yet before it is back in the target range. It referred to a very tight labor market and projected that inflation will not decline to 3% until mid-2025. **Australian stocks declined -0.9%; Australia's dollar rose +0.4%. 10Y bond yields were up +9.2 bps**, Australia's 3Y yield rose 22 bps to 3.23%, the highest since March.

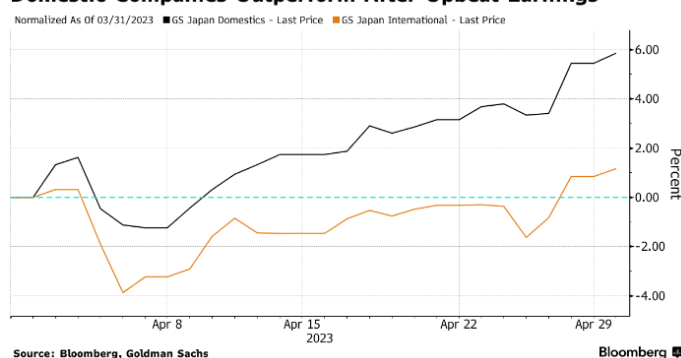
### Aussie Soars With Bond Yields on RBA Rate Hike



## Japan

**Japanese were little changed (-0.1%)** amid light trading ahead of holidays. Bloomberg noted that a solid earnings performance by companies focused on the domestic market is emerging as a fresh catalyst for Japanese stocks. The Goldman Sachs basket of Japan's domestic companies has risen 6% since the end of March. That compares with a 1% rise in its measure of international companies based in the country. On **data releases**, the decline in monetary base accelerated to -1.7% y/y (previous: -1%).

### Domestic Companies Outperform After Upbeat Earnings



## Emerging Markets

[back to top](#)

**EMEA markets were mostly higher, with central and eastern European assets outperforming. Asian equities were mixed, +0.1% on net.** The Czech central bank is expected to stay on hold at 7% tomorrow. Mainland China markets remained closed; Hong Kong SAR gained +0.2. Hong Kong SAR's GDP expanded 2.7% y/y in Q1 2023 (previous: -4.1%, consensus +0.5%) after two quarters of decline. Asian currencies mainly weakened. Most Latin American markets also remain closed.

## Emerging Market Bond and Equity Flows

**Emerging Markets bond funds outflow resumed (-\$633 mn, from +\$428 mn the previous week).** Hard-currency bond funds outflows increased (-\$539 mn, from -\$138 mn) and local-currency bond funds turned to outflows (-\$94 mn, from +\$576 mn). Hard-currency ETF outflows (-\$203 mn) were the largest in the last five weeks. The year-to-date flows are still positive at +\$2.0 bn and +\$39.0 bn for bonds and equities, respectively.

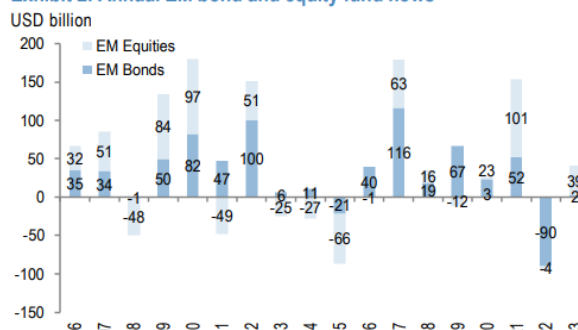


Exhibit 1: Weekly Cross-Asset Flows

USD billion		8w flows (8w ago → current)		This wk	YTD
Fund Flows	Asset				
	EM Bonds and Equities			-0.6	41.0
	EM Bonds			-0.6	2.0
	Hard Ccy			-0.5	2.1
	Local Ccy <sup>A</sup>			-0.1	-0.1
	o.w. EM ex-China			0.0	1.3
	o.w. China			0.0	-2.2
	EM Equities			0.0	39.0
	US HG			3.4	101.1
	US HY			-0.2	-4.5
	Global Equities			-1.8	-29.9
	EM Bond and Equity ETFs			0.9	26.9
	EM Bond ETFs			-0.2	0.0
	EM Equity ETFs			1.1	26.9
Non-resident EM flows*				-1.8	20.1

\*High frequency non-resident EM portfolio flow data where available. <sup>A</sup>Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

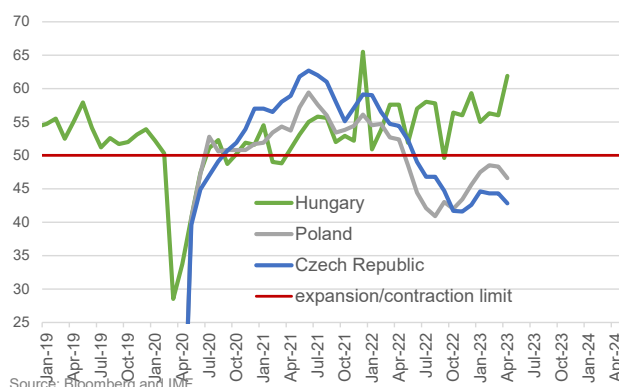
Exhibit 2: Annual EM bond and equity fund flows



## Central and Eastern Europe

**Moves in local bond yields in central and Eastern Europe were fairly muted as April manufacturing PMIs showed a sharp contrast between Hungary and its neighbors.** Manufacturing PMI data for April showed decelerating and lower than expected activity in the Czech Republic (42.8 vs. 44.5 expected, down from 44.3 in March) and Poland (46.6 vs. 47.9 expected, down from 48.3 in March). In contrast, manufacturing PMI surged in Hungary to 61.9, much above the 53.7 expectation and the 56 of March. In the Czech Republic, GDP growth for Q1 was better than expected at 0.1% q/q (-0.1% expected), bringing y/y growth to -0.2% y/y (-0.5% expected).

CEE: Manufacturing PMIs



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 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.

**Disclaimer:** This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

## Global Financial Indicators

5/2/23 7:59 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		4168	0.0	1	1	0	9
Europe		4344	-0.4	-1	1	16	15
Japan		29158	0.1	2	3	9	12
China		4029	1.0	0	-1	0	4
Asia Ex Japan		66	-0.4	0	-2	-6	3
Emerging Markets		39	-0.3	0	-1	-8	3
<b>Interest Rates</b>			basis points				
US 10y Yield		3.53	-3.6	13	6	55	-34
Germany 10y Yield		2.37	5.2	-2	7	140	-21
Japan 10y Yield		0.42	1.4	-6	7	19	0
UK 10y Yield		3.76	4.5	7	27	186	9
<b>Credit Spreads</b>			basis points				
US Investment Grade		160	-1.1	1	-4	4	1
US High Yield		471	-9.2	-7	-11	60	-9
<b>Exchange Rates</b>			%				
USD/Majors		102.17	0.0	0	0	-2	-1
EUR/USD		1.10	-0.1	0	1	4	2
USD/JPY		137.4	-0.1	3	4	6	5
EM/USD		50.6	0.1	1	0	-2	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		79.2	-0.2	-2	-1	-13	-6
Industrials Metals (index)		154	-0.6	1	-4	-22	-7
Agriculture (index)		67	0.5	-1	-2	-12	-3
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		16.6	0.5	-2.2	-2.1	-15.8	-5.1
US 10y Swaption Volatility		119.7	3.8	-3.5	-6.8	-11.4	-6.0
Global FX Volatility		9.0	0.0	-0.2	-1.3	-1.9	-1.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		189	1.4	5	-4	-54	-17
Italy		188	1.3	-1	7	-2	-27
Portugal		83	0.7	0	-1	-27	-19
Spain		105	0.7	1	4	1	-4

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

## Emerging Market Financial Indicators

Last updated: 5/2/2023 8:01 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		6.92	0.1	-0.4	-1	-4	0		3.1	0.0	-6	-8	19	1
Indonesia		14714	-0.3	1.5	2	-2	6		6.5	-0.9	-15	-27	-46	-42
India		82	-0.1	0.0	1	-7	1		7.3	2.2	7	-19	(55.5)	-15
Philippines		55	0.2	0.3	-1	-5	1		6.0	0.0	0	0	65	-5
Thailand		34	0.1	0.6	0	1	1		2.6	0.0	7	4	-23	-1
Malaysia		4.46	0.0	-0.3	-1	-2	-1		3.7	1.7	-2	-17	-63	-31
Argentina		223	-0.3	-1.9	-7	-48	-20		94.3	0.0	444	722	4181	610
Brazil		5.00	-0.2	1.1	1	2	6		12.5	5.0	-3	-36	30	-5
Chile		807	-0.6	-0.6	-1	6	5		5.2	-1.0	5	3	-116	-17
Colombia		4697	-1.0	-3.9	0	-15	3		9.1	1.5	33	30	56	-71
Mexico		17.96	-0.1	0.6	1	14	9		8.4	0.5	0	1	-65	-38
Peru		3.7	0.0	1.2	2	3	3		7.5	0.4	4	-7	-42	-49
Uruguay		39	0.1	0.6	0	6	3		10.0	0.0	-19	-33	-7	-69
Hungary		339	0.1	1.5	2	7	10		7.8	-6.0	-14	-76	97	-183
Poland		4.17	0.6	0.4	3	7	5		5.3	-6.5	-10	-12	-64	-83
Romania		4.5	-0.2	0.1	1	5	3		7.1	0.0	-9	-10	34	-57
Russia		79.9	0.1	1.3	-2	-11	-7							
South Africa		18.4	0.2	-0.2	-3	-12	-7		9.4	2.0	-7	24	88	20
Turkey		19.47	0.0	-0.2	-1	-24	-4		13.3	44.0	119	284	-796	350
US (DXY; 5y UST)		102	0.0	0.3	0	-2	-1		3.60	-3.3	15	3	60	-40

	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		4029	0.0	0	-1	0	4		194	-1	4	-7	17
Indonesia		6863	-0.8	1	1	-5	0		141	-13	-19	-46	1
India		61355	0.4	2	4	8	1		159	1	-9	-9	17
Philippines		6673	0.7	1	2	-1	2		112	-16	-20	-29	15
Thailand		1528	0.0	-2	-4	-7	-8		0	0	0	0	0
Malaysia		1426	0.7	0	-1	-11	-5		101	0	0	-19	1
Argentina		297960	0.4	2	21	238	47		2683	51	370	880	478
Brazil		104432	1.5	0	3	-3	-5		268	-8	-5	-30	-6
Chile		5416	0.1	2	2	13	3		132	-10	-16	-38	0
Colombia		1199	2.7	-2	4	-23	-7		417	12	32	45	45
Mexico		55121	1.2	2	2	7	14		386	-3	-2	7	5
Peru		21823	-0.7	-2	0	-3	2		172	-14	-22	-28	-8
Hungary		45598	1.7	4	8	5	4		211	-22	-28	16	-11
Poland		63424	0.8	1	8	10	10		123	36	41	122	50
Romania		12330	0.5	-1	2	-3	6		245	-15	-18	6	-10
South Africa		77703	-0.7	0	2	7	6		406	-24	3	15	39
Turkey		4600	-0.4	-8	-4	89	-17		492	-46	12	-22	52
Ukraine		507	0.0	0	0	-2	-2		5321	107	351	1587	1242
EM total		39	0.1	0	-1	-8	3		410	-17	-4	16	34

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

[back to top](#)