



- Risk appetite recedes as US debt ceiling negotiations stall ([link](#))
- Fed Chair Powell signals June pause as FOMC awaits lagged effects of tightening ([link](#))
- Greek assets gain after larger-than-expected lead for New Democracy party ([link](#))
- Outflows from emerging market hard currency bond funds continue ([link](#))
- China's loan prime rates left unchanged as expected ([link](#))
- India's central bank to withdraw 2000-rupee denominated notes from circulation ([link](#))

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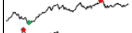





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Investors remain on edge amid US debt ceiling negotiations

US debt ceiling concerns remain at the forefront of the market narrative to start the week following a late Friday stall in negotiations. Investor optimism faded to end last week as US debt-limit talks hit a standstill on Friday. However, news over the weekend confirmed negotiators resumed discussions late-yesterday and the House Speaker and President Biden are set to meet again this afternoon. Though US equities ticked lower after the news of a halt on debt-limit negotiations, the losses were not able to reverse gains made throughout the week with the S&P 500 and Nasdaq posting 5-day gains of 1.6% and 3%, respectively. US regional bank stocks underperformed on Friday amidst data showing borrowing from the Fed's BTFP facility remains elevated and comments from US Treasury Secretary Yellen that more bank mergers may be needed. Markets are mixed this morning with most Asian equity indices closing with gains but are little changed in Europe and across core sovereign bonds. Investors were also attuned to comments from Fed Chair Powell on Friday that signaled a pause could be in order as officials face uncertainty about the lagged effects of tightening so far, while ECB president Lagarde also reiterated the need to keep policy tighter in order to bring inflation back to target. Markets have reduced expectations of FOMC policy easing this year to about 45 bps of cuts in Q4 and there is now about a 20% probability of a hike priced for the June meeting, alongside markets continuing to price a 25 bp hike for the June ECB meeting.

Key Global Financial Indicators

Last updated: 5/22/23 8:02 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4192	-0.1	2	1	7	9	-1
Eurostoxx 50		4381	-0.3	2	-1	20	15	10
Nikkei 225		31087	0.9	5	9	15	19	18
MSCI EM		39	0.1	1	0	-5	3	-18
Yields and Spreads			bps					
US 10y Yield		3.68	0.8	18	11	90	-19	169
Germany 10y Yield		2.44	1.0	13	-4	149	-13	221
EMBIG Sovereign Spread		481	-3	-2	-4	-5	30	69
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.1	-0.1	-1	-1	-5	0	-6
Dollar index, (+) = \$ appreciation		103.2	0.0	1	1	0	0	7
Brent Crude Oil (\$/barrel)		75.7	0.1	1	-7	-33	-12	-22
VIX Index (% change in pp)		17.2	0.4	0	0	-12	-4	-14

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

In the week ahead, the main focus remains on negotiations over the US debt ceiling. Once an agreement is reached between Congressional leadership and the White House, passage through the House and Senate should be fast. Key macro data include the global flash PMIs on Tuesday and the US PCE inflation on Friday. Elsewhere, the focus will be on UK inflation on Wednesday and the Tokyo CPI in Japan on Friday. On the monetary policy front, the FOMC meeting minutes will be released on Wednesday. Central banks in Indonesia (Thu), Türkiye (Thu), South Korea (Thu), and Kazakhstan (Fri) are expected to be on hold, while Nigeria (Tue), New Zealand (Tue), and South Africa (Thu) may continue to hike.

Mature Markets

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United States

Debt-ceiling talks hit a standstill on Friday as negotiators left discussions, though news over the weekend confirmed that talks resumed yesterday, and President Biden will meet with the House Speaker this afternoon. Equities halted a two-day rally, with hopes of an agreement in principle reached for this past weekend fading but finished the week up 1.65%.

Treasury Secretary Yellen told bank leaders that more mergers might be necessary. Fed balance sheet data released last Wednesday underlined that the banking sector's woes are neither worsening nor entirely over: Discount window borrowing fell to \$9 bn, while the use of the term funding program rose to \$87 bn, up \$4 bn w/w. Deposits at commercial banks decreased by \$26.4 bn in the week ended May 10 to \$17.1 tn, the lowest level in two years. KBW Regional Bank Index was down 2.2% on Friday.

Fed chair Powell signaled a June pause. Chair Powell said Friday in Washington that as policy has become more restrictive, alongside facing uncertainty about the extent of credit tightening from the recent banking sector stress, the risks of doing too much versus too little are becoming more balanced. At the same time, he stressed that the FOMC had yet to make any decisions about the extent to which additional policy tightening would be appropriate. The market-implied probability of a 25 bp hike in June declined to 17% from 33%. Treasury yields rose 3-6 bps across the curve, and 10-year yields finished the week at 3.68%.

Treasury yields may fall after the X-date but to a limited extent. Multiple surveys show that likely market reactions in case of crossing the X-date, which is the point the US Treasury can no longer make timely payments on all its obligations, are expected to be risk-off. This means weaker credit and stock markets, but lower Treasury yields on flight-to-quality flows, alongside safe-haven currencies and gold appreciating. Nevertheless, UBS analysts do not expect a bull flattening of the US Treasury curve, as was seen in 2011. Term premium will likely rise as the curve bull steepens, consistent with weaker credit and equities. Currently, the ACM term premium for 10-year Treasuries is negative with little room to shrink, unlike in 2011 when the term premium was a positive 200 bps before S&P downgraded the long-term credit rating of the US government for the first time in its history.

US 10-year Treasury Term Premium (%pt)

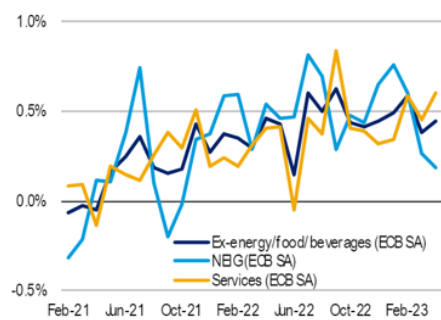


Euro area

Equities are little changed in a “wait-and-see” pattern ahead of US debt ceiling discussions today and flash PMI data tomorrow. Analysts expect euro area PMI data to continue to show strong momentum in the services sector in May.

Money markets are pricing another 50 bps of hikes by the ECB, which implies a terminal rate of 3.75%. Analysts point out that the dynamics of services inflation remain a key risk. Bank of America, for example, emphasizes that inflation is still accelerating for services using the ECB's seasonal adjustments.

Euro area month-on-month inflation with ECB's seasonal adjustment

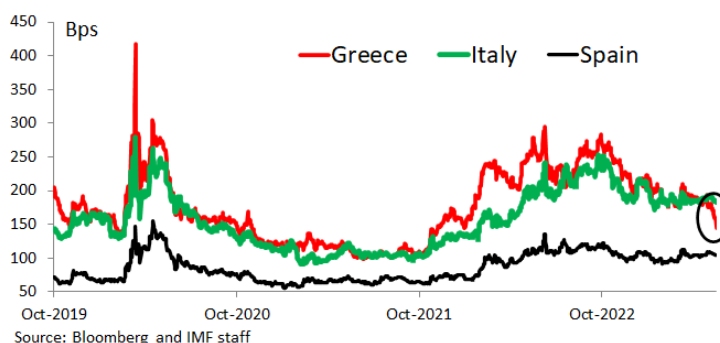


Source: ECB and Bank of America

ECB GC member Schnabel sees no trade-off between price and financial stability. Liquidity stress can be addressed with appropriate tools and solvency issues need to be dealt with by fiscal authorities. Rising interest rates can “provide a new impulse for completing the banking union” by exposing fragilities in the banking sector.

Greek equities (+7%) jumped and 10-year spreads over bunds tightened after the New Democracy (ND) party led by PM Mitsotakis received a higher-than-expected 41% of the vote. Analysts now expect a new election in a month as ND fell short of an absolute majority in parliament, obtaining 146 MPs in the 300-seat parliament. A coalition is seen as unlikely but at the next election the winning party would receive a 50-seat bonus.

Euro area: 10-year spread over German bunds (bps)

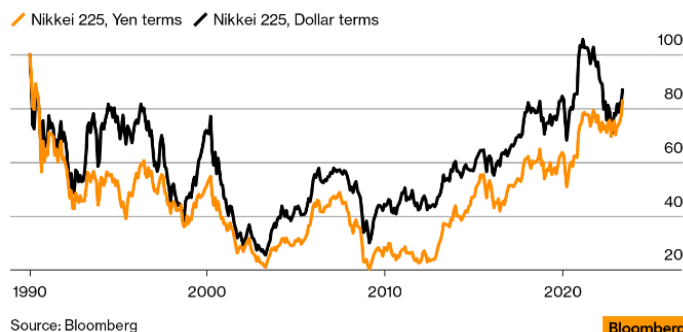


Source: Bloomberg and IMF staff

Japan

Japanese stocks gained (Topix +0.7%, Nikkei +0.9%). Nikkei index hit a fresh 33-year high, as active buying by foreign investors overwhelmed profit-taking, Bloomberg reported. Separately, **the timing of an expected monetary policy revision by the Bank of Japan shifted to July.** Based on a May survey by the Japan Center for Economic Research, almost sixty percent of respondents expected the BOJ to either widen the target range for long-term yields or drop the yield curve control (YCC). **Yields on 10-year bonds and the yen were little changed.** Nomura believes JGB yields will be subject to strong downward pressure in the second half of 2023. This would be driven by accelerating purchases by overseas investors due to unwinding earlier positions against YCC discontinuation and declining US rates.

For dollar-based investors, Japanese stocks hit an all-time high in 2021



Emerging Markets

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Latin American assets were mixed on Friday. Stocks gained in Brazil (0.58%), Chile (0.23%) and Peru (0.21%), while Mexico and Colombia equity markets lost 1.75% and 1.13%, respectively. Currencies depreciated in Brazil (-0.67%), Mexico (-0.38%) and Chile (-0.35%), while the Peruvian sol (0.32%) and the Colombian peso (0.04%) strengthened against the US dollar. **Asian equities gained +0.6%.** Hong Kong equities rallied +1.25% driven by tech stocks, Mainland China was up +0.6%. Philippines underperformed -0.7%. **Asian currencies were mixed.** South Korean won appreciated +0.6%; Malaysian ringgit lost -0.3%. **10-year bond yields were little changed.** Singapore was up +4.3bps. In **India**, the central bank urged holders of 2000-rupee notes to either deposit them in bank accounts or exchange them for smaller denominations. The notes were introduced after the 2016 demonetization episode to expeditiously meet currency demand and accounted for 10.8% of notes in circulation as of March 2023. Some analysts thought this could support banking system liquidity, but the effect would likely be modest. **EMEA markets started the week with gains.** Equity markets were generally up, with Poland and the Czech Republic leading the trend (+0.7% and 0.65% respectively). Currencies were generally strengthening, with the South African rand gaining 0.9% to 19.27/\$ after a difficult 10 days. Local bond yields were broadly unchanged.

Emerging Market Bond and Equity Fund Flows

Emerging market hard currency bond fund outflows continued (-\$377 mn, from -\$362 mn). Hard-currency bond fund outflows increased (-\$857 mn, from -\$737 mn) and were partially offset by local-currency bond fund inflows (+\$480 mn, from +\$375 mn). EM equity fund inflows slowed (+\$156 mn, from +\$661 mn). Across regional funds, inflows were highest to Asia ex-Japan (+\$234 mn) and Latam (+\$70 mn), while inflows were concentrated in EMEA (-\$84 mn). The year-to-date flows currently stand at +\$1.1 bn and +\$40.2bn for bonds and equities, respectively.

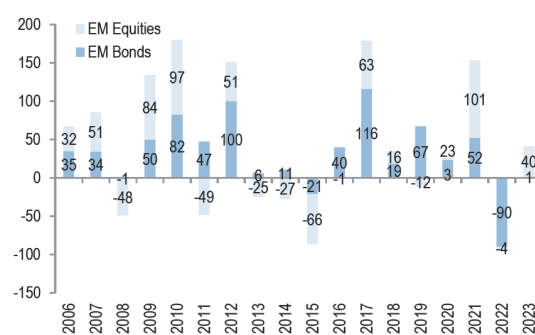
Figure 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.2	41.4
EM Bonds		-0.4	1.1
Hard Ccy ¹		-0.9	0.3
Local Ccy ¹		0.5	0.8
o.w. EM ex-China		0.5	2.3
o.w. China		-0.1	-2.4
EM Equities		0.2	40.2
US HG		5.2	113.5
US HY		-1.5	-7.0
Global Equities		-8.2	-47.0
EM Bond and Equity ETFs		0.6	27.9
EM Bond ETFs		0.1	-0.4
EM Equity ETFs		0.5	28.2
Non-resident EM flows*		0.0	20.6

Figure 2: EM bond and equity fund flows

USD billion



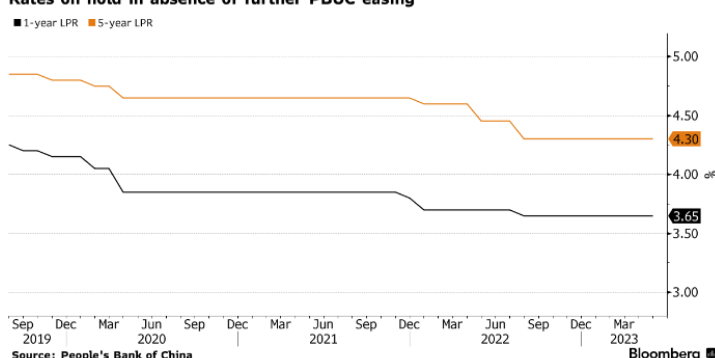
*High frequency non-resident EM portfolio flow data where available. ¹Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

China's loan prime rates (LPR) were left unchanged as expected. The 1-year and 5-year LPRs were maintained for the ninth straight month at 3.65% and 4.30% respectively. Separately, **China said one of the largest US memory-chip makers failed a cybersecurity review.** The investigation was announced a few weeks ago. On Sunday Beijing warned operators of key infrastructure against buying products by Micron Technology Inc. **Chinese stocks gained (CSI +0.6%) and Hong Kong SAR equities rallied (+1.2%)** driven by tech sector. **Renminbi depreciated -0.2% (-1.1% over the week).** Late on Friday, People's Bank of China (PBoC) issued a statement highlighting that "efforts will be made to correct pro-cyclical and one-way market behaviors when necessary to curb speculation" and there was "a firm foundation and strong safeguard for the stable operation of the foreign exchange market," Bloomberg reported.

Chinese Banks Keep Lending Rates Unchanged

Rates on hold in absence of further PBOC easing



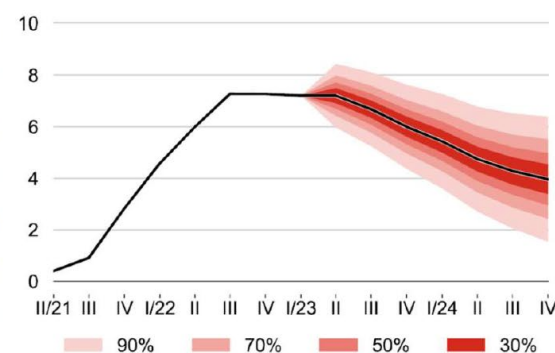
Czech Republic

The Czech koruna, which lost almost 2% to the euro since mid-April, is strengthening today after hawkish comments from MPC members over the weekend. The Czech National Bank (CNB) supported the koruna with intervention over the last year and has explicitly stated that a strong currency was an important tool for disinflation going ahead, reducing the need for more monetary policy tightening. While the MPC has kept rates on hold at 7% since June last year, MPC member Prochazka said on Saturday that the CNB has a clear intention to keep rates at a higher level for a longer period than what is in the main scenario of the CNB's model baseline forecast. The most recent forecasts were released for the May 3 MPC meeting and show rates declining from Q3 (see chart). In a separate interview, vice Governor Jan Frait said he had considered supporting an interest-rate increase on May 3 and was very unsure whether his vote to hold rates was the right decision (the MPC voted to keep rates on hold at 7% by a 4-3 vote, with 3 members in favor of a 25-bp hike). He emphasized that he favored a relatively tight monetary policy stance going forward to stem longer-term price pressures and avoid overshooting the 2% inflation target for an extended period of time.

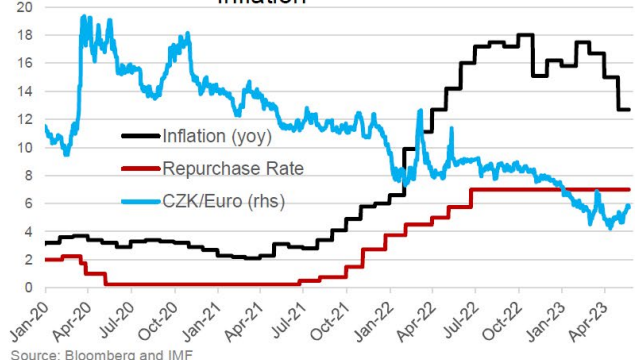
Chart IV.1

Consistent with the forecast is market interest rate stability initially, followed by a gradual decline

3M PRIBOR in %; confidence interval

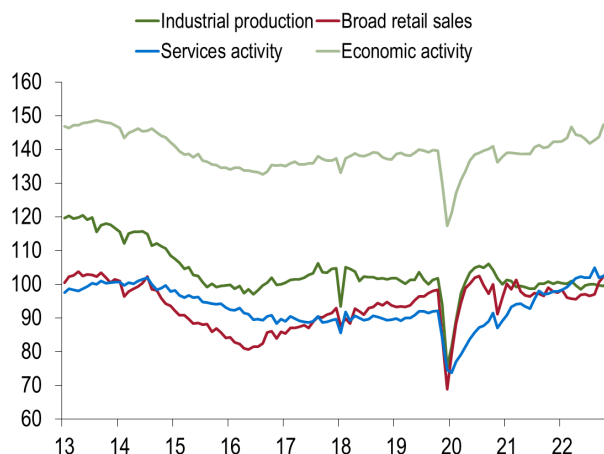


Czech Republic: Policy Rates, Koruna and Inflation



Brazil

Brazil's economic activity declined 0.15% m/m in March compared to the -0.30% median forecast, ending a period of strong growth as investors await signals for a potential interest rate cut by the central bank. However, activity increased by 5.46% y/y suggesting the economy remains resilient. The report indicates a soft ending to a solid quarter for Brazil, which is facing challenges such as restrictive monetary policy and inflationary pressures. President Lula da Silva has criticized high borrowing costs and emphasized the need to tackle inflation. Interest rate futures indicate the potential for monetary easing starting in September, although some economists anticipate rate cuts in 2024. Earlier data showed a 1.1% increase in industrial output, a 0.9% expansion in services activity and a 3.6% gain in broad retail sales.



Source: Bloomberg and IMF staff

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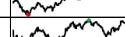
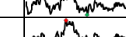











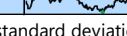




Global Financial Indicators

Last updated: 5/22/23 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4188	-0.1	1	1	7	9	-1
Europe		4381	-0.3	2	-1	20	15	10
Japan		31087	0.9	5	9	15	19	18
China		3969	0.6	-1	-2	-2	3	-14
Asia Ex Japan		66	0.2	1	-1	-5	2	-17
Emerging Markets		39	0.1	1	0	-5	3	-18
Interest Rates			basis points					
US 10y Yield		3.68	0.8	18	11	90	-19	169
Germany 10y Yield		2.44	1.0	13	-4	149	-13	221
Japan 10y Yield		0.39	-0.5	-1	-8	15	-3	20
UK 10y Yield		4.02	2.4	20	26	213	35	254
Credit Spreads			basis points					
US Investment Grade		170	-1.5	-1	12	-1	11	27
US High Yield		497	-3.2	-13	29	-9	16	90
Europe IG		82	-0.6	-4	-1	-14	-9	10
Europe HY		430	-4.2	-19	-9	-42	-44	78
Exchange Rates			%					
USD/Majors		103.16	0.0	1	1	0	0	7
EUR/USD		1.08	0.1	0	-2	1	1	-4
USD/JPY		138.2	0.2	2	3	8	5	20
EM/USD		50.1	-0.1	-1	-1	-5	0	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		75.7	0.1	1	-7	-18	-10	-10
Industrials Metals (index)		144	-0.9	-1	-8	-22	-13	-23
Agriculture (index)		64	0.1	-4	-5	-17	-6	-8
Implied Volatility			%					
VIX Index (% change in pp)		17.2	0.4	0.1	0.4	-12.3	-4.5	-13.8
US 10y Swaption Volatility		119.8	3.2	4.3	4.8	9.5	-5.9	25.5
Global FX Volatility		8.7	0.1	-0.1	-0.4	-1.8	-2.0	1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		144	-15.3	-27	-39	-134	-61	-96
Italy		184	0.0	-3	-3	-21	-30	13
Portugal		78	-1.2	-3	-5	-41	-24	-14
Spain		105	-0.3	-2	1	-9	-5	1

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

Emerging Market Financial Indicators

Last updated: 5/22/2023 8:04 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	-0.2	-1.1	-2	-5	-2		2.8	-12.5	-15	-35	-6	-28
Indonesia		14890	0.2	-0.6	0	-1	5		6.4	-0.8	0	-24	-79	-51
India		83	-0.2	-0.6	-1	-6	0		7.2	-0.4	-2	-17	-59	-28
Philippines		56	-0.3	0.4	0	-6	0		5.9	0.0	0	-10	40	-15
Thailand		34	-0.2	-1.9	0	-1	0		2.7	-2.2	3	12	-27	5
Malaysia		4.55	-0.3	-1.1	-2	-4	-3		3.7	-1.5	9	-10	-63	-30
Argentina		233	-0.3	-1.5	-7	-49	-24		104.2	138.8	518	1501	4947	1594
Brazil		4.99	0.1	-2.1	1	-4	6		12.0	-5.4	20	-70	0	-61
Chile		799	-0.4	-1.7	-1	5	7		5.3	-1.5	9	-1	-96	-5
Colombia		4531	-0.2	0.5	0	-11	7		8.8	8.0	20	-14	-21	-98
Mexico		17.89	-0.6	-2.5	1	11	9		8.3	3.3	6	-23	-27	-38
Peru		3.7	0.3	-0.7	2	1	3		7.4	4.5	20	-7	-41	-58
Uruguay		39	0.3	0.6	1	4	3		10.0	-2.0	-6	-26	-11	-67
Hungary		346	0.4	-1.9	-2	3	8		7.9	12.0	14	9	121	-170
Poland		4.17	0.6	-0.8	0	3	5		5.4	-1.2	18	-10	-48	-71
Romania		4.6	0.3	-1.2	-3	1	1		6.9	-1.8	-2	-42	-110	-81
Russia		80.1	0.3	-0.4	2	-27	-7							
South Africa		19.3	0.7	-1.5	-6	-18	-12		10.1	-8.5	36	64	193	91
Turkey		19.83	-0.1	-0.8	-2	-20	-6		8.9	-99.0	-273	-331	-1560	-97
US (DXY; 5y UST)		103	0.0	0.7	1	0	0		3.73	-0.5	26	6	93	-28

	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		3969	0.6	-1	-2	-2	3		195	-5	1	-17	18	
Indonesia		6730	0.4	0	-1	-2	-2		142	-4	-7	-74	2	
India		61964	0.4	-1	4	14	2		152	-9	-5	-43	10	
Philippines		6621	-0.7	1	2	-1	1		116	-4	-8	-44	19	
Thailand		1529	0.9	-1	-2	-6	-8							
Malaysia		1419	-0.7	0	0	-8	-5		100	-3	-1	-37	0	
Argentina		338678	2.3	5	16	284	68		2609	24	-66	664	404	
Brazil		110745	0.6	2	6	2	1		263	-13	-7	-60	-11	
Chile		5654	0.2	1	8	13	7		129	-4	-12	-51	-3	
Colombia		1124	-1.1	-3	-8	-23	-13		406	-15	5	1	34	
Mexico		54296	-1.7	-1	0	5	12		396	-10	5	-6	15	
Peru		21633	0.2	0	-3	7	1		179	-3	-8	-20	-1	
Hungary		46806	0.5	2	6	12	7		233	16	1	12	11	
Poland		65281	0.6	2	5	17	14		134	4	53	110	61	
Romania		12301	0.1	2	-1	2	5		252	1	-4	-33	-3	
South Africa		78076	-0.1	0	0	16	7		461	3	43	20	94	
Turkey		4468	-0.8	-7	-12	87	-19		626	157	123	8	186	
Ukraine		507	0.0	0	0	-2	-2		5000	-431	-129	1897	921	
EM total		39	0.8	1	0	-5	3		425	8	5	6	50	

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

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