



- Risk aversion takes hold amid lack of progress on US debt ceiling negotiations ([link](#))
- Disappointing German IFO business outlook weighs on sentiment ([link](#))
- UK gilt yields move sharply higher on upside surprise to core inflation ([link](#))
- Reserve Bank of New Zealand hikes 25 bps and signals end of tightening cycle ([link](#))
- Vietnam's central bank cuts selected policy rates by 50 bps ([link](#))
- Hungarian central bank eases policy by reducing overnight deposit rate by 100 bps ([link](#))

[Mature Markets](#)



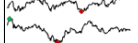



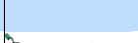
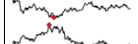


[Emerging Markets](#)

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## Markets remain nervous amid little progress on US debt limit deal

**Global equity markets are declining this morning as investors continue to keep an eye on US debt ceiling negotiations that look to once again be stalling.** Markets have remained preoccupied with the debt ceiling debate in the US, especially as US Treasury Secretary Yellen's June 1 deadline is now one week away. With little news on any progress surrounding the negotiations, risk sentiment continues to be downbeat as the S&P 500 closed down over 1% yesterday with follow-through to Asian and European indices that are posting losses of 1–2% this morning. There remain substantial dislocations in US Treasury bill markets where yields on securities maturing in early June are trading well above those due later this month, while safe haven flows have pressured longer-term sovereign yields lower with 10-year US Treasury yields declining for the first time in over a week. UK gilt yields, particularly at shorter-dated maturities, are sharply higher this morning after the UK April inflation reading came in much higher than expected. While investors have steadily reduced expectations for FOMC policy easing later this year following the more recent hawkish tone from Fed officials, they will now look to the release of the FOMC's May meeting minutes later today for further clues on how the committee sees the evolution of the policy stance.

Key Global Financial Indicators

Last updated: 5/24/23 8:08 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		4146	-1.1	1	0	5	8	-2
Eurostoxx 50		4266	-1.8	-1	-3	17	12	7
Nikkei 225		30683	-0.9	2	7	15	18	16
MSCI EM		39	-1.6	-1	-1	-5	2	-18
Yields and Spreads			bps					
US 10y Yield		3.67	-2.3	10	18	92	-21	168
Germany 10y Yield		2.42	-4.5	9	-8	146	-15	220
EMBIG Sovereign Spread		483	3	-4	-7	7	31	71
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.1	0.1	-1	-1	-6	0	-6
Dollar index, (+) = \$ appreciation		103.6	0.1	1	2	2	0	8
Brent Crude Oil (\$/barrel)		77.9	1.4	1	-6	-31	-9	-20
VIX Index (% change in pp)		19.5	1.0	3	3	-10	-2	-12

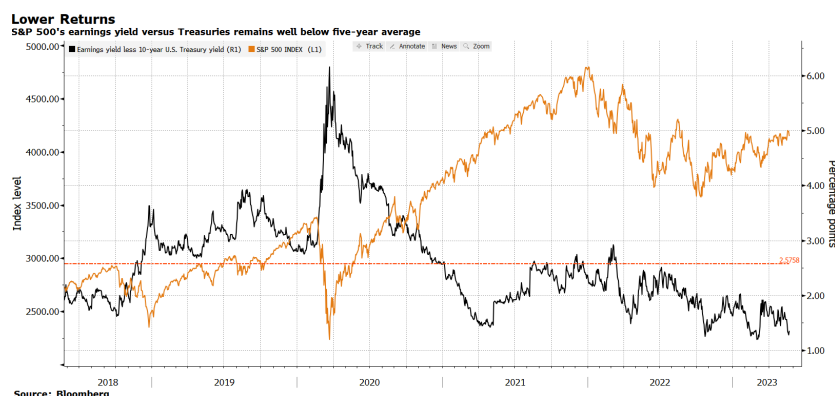
Colors denote **tightening/easing** financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

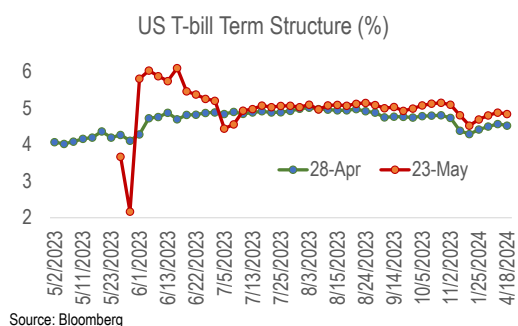
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### United States

**US equities were lower almost across the board yesterday**, as the S&P 500 closed down 0.9%. The energy sector was an exception, up 1.2%, driven by higher oil prices. Bank shares also held up well; KBW regional banking index traded higher by 1.7%. Stretched valuations are seen as potentially capping the upside gain for the stock markets. The equity risk premium, the spread between the earnings yield on the S&P 500 and 10-year US Treasury yields, is near the lowest this year and well below the five-year average.



**Debt-limit negotiations continue, but an agreement remains elusive**, with some House Republicans questioning the urgency imposed by a deadline from Treasury Secretary Yellen for when the government will start missing some debt payments. Reportedly, federal contractors are already reporting government delays in payment for authorized amounts for work. One-year US sovereign CDS spread widened to 145 bps. **The yield spread between Treasury bills maturing June 1st and May 30th widened by another 100 bps to 340 bps, and the short-tenor T-bills yields are higher than corresponding investment grade corporate credit yields.** The US Treasury yield curve twisted flatter yesterday, with 10-year yields down by 1 bp and 2-years up by 3 bps. The near-term forward spread, a highly followed recession indicator, is now inverted by 167bps.

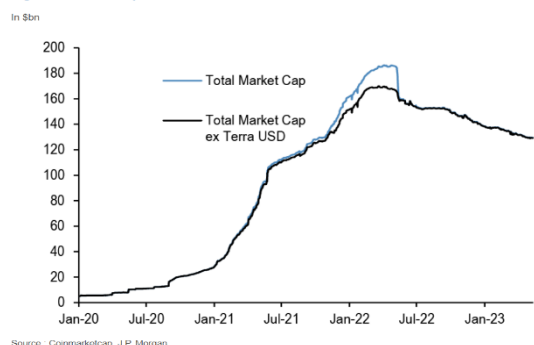


### Crypto assets

**The shrinking the market cap of stablecoins implies that the crypto asset recovery could struggle.**

JPMorgan analysts argue that stablecoins are the equivalent of cash in the crypto ecosystem and provide a bridge between fiat currencies and crypto assets, resulting in the growth of its universe to be a proxy for the amount of money that has entered the crypto ecosystem from fiat currencies and vice versa. The stablecoin universe has continued to shrink as the US regulatory crackdown on crypto assets and the repercussions from the FTX collapse last year weigh on the market. The market cap of the largest stablecoins peaked at \$186 bn in May 2022 before the Terra collapse, and the universe has declined by about \$60 bn since then.

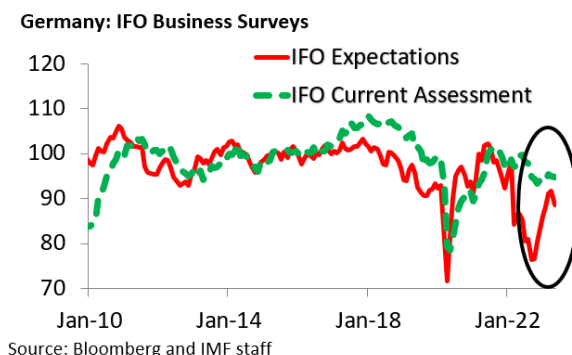
Figure 9: Market cap of the stablecoin universe



## Euro area

**Equities (-1.7%) and the euro (-0.2%) fell as limited progress in US debt ceiling talks soured global risk sentiment.**

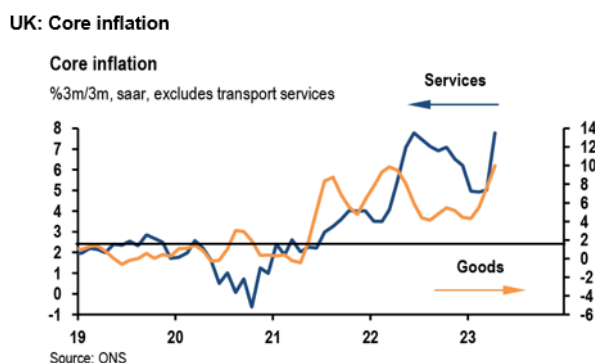
**German 10-year bund yields are 3 bps lower as IFO president Fuest warns that “the mood in the German economy has taken a significant hit.”** The German IFO business survey disappointed in May as expectations dropped more than expected. BNP Paribas believes that the IFO report will “clip the wings of ECB hawks pushing for a hike in September” and sees balanced risks to its forecast of 3.75% (from 3.25% currently) for the ECB depo rate.



**Italian spreads are little changed as the government approved a larger-than-expected aid package of €2 bn for flooded regions.** Estimates of the damages have been scaled up to €5–6 bn (0.2-0.3% of GDP) in media reports as Citi warns that the severely hampered supply of fruit crops is likely to boost fresh food CPI inflation again.

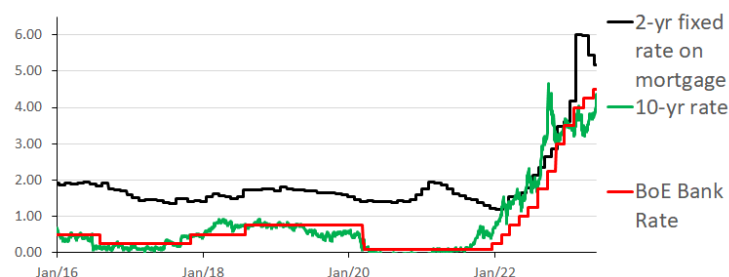
## United Kingdom

**Two-year gilt yields are 23 bps higher and 10-year gilt yields are 8 bps higher after inflation data were materially higher than expected in a “shocker report.”** Headline CPI inflation rose 1.2% m/m (0.7% expected) or 8.7% y/y (8.2% expected). JP Morgan estimates that core inflation rose 1.1% m/m, with a corresponding rise of 6.8% y/y from 6.2% y/y.



**JP Morgan now expects the BoE to hike 25 bps in June and 25 bps in August leaving the bank rate at 5%, albeit with upside risk.** This compares to a peak of 5.34% currently priced in markets.

UK: Policy rate, 10-yr yields and mortgage rate (%)



Source: Bloomberg and IMF staff

## Japan

**Japanese stocks continued to decline (-0.4%).** Some investors are taking profit after the recent rally in benchmark equity indices, Bloomberg reported. **Yields on 10-year bonds rose +0.7 bps.** The yield curve edged up on news that the government plans to issue special public bonds as a revenue source for implementing its planned “extraordinary level of measures to address the declining birth rate” from fiscal 2024. The “special public bond for children” is expected to be issued over a period of about two years, local media reported. **The yen was little changed.**

JGB 10-Year Yield in Narrow Range This Month



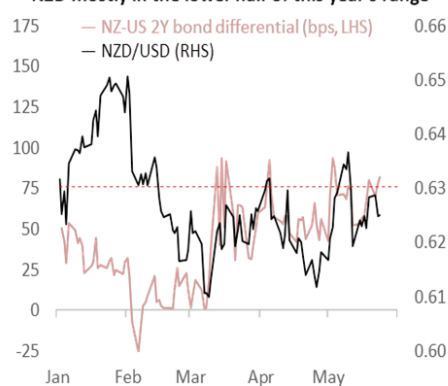
Source: Bloomberg

Bloomberg

## New Zealand

**The Reserve Bank of New Zealand (RBNZ) raised its policy rate by 25 bps as expected.** The official cash rate was increased to 5.50%, hitting the peak of RBNZ’s rate forecasts. The central bank indicated rate cuts could begin in Q3 2024. RBNZ noted the unexpected GDP contraction in Q4, softening of price pressures due to recent severe weather events and weakening of residential investment. It projected an economic slowdown to continue with a mild recession expected in Q2 and Q3 this year. Markets took today’s decision as an important dovish shift and potentially marking the end of RBNZ’s tightening cycle. **10-year bonds rallied with yields down -11 bps** and yields on policy-sensitive 2-year notes dropped the most in six months (-33 bps). **Equities increased +0.2%.** **New Zealand dollar (NZD) slumped -1.7%.** DBS noted that since February, NZD has tried and failed several times to break into the upper half of this year’s trading range between 0.61 and 0.65; it also noted that, according to CFTC data, speculators turned net short NZD from mid-March.

NZD mostly in the lower half of this year's range



Sources: DBS Research, Bloomberg data

## Emerging Markets

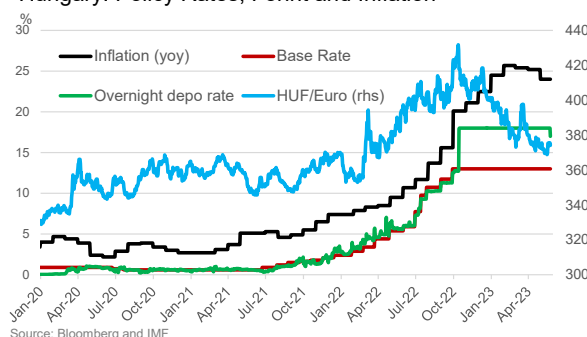
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**Latin American assets were broadly negative yesterday.** Stocks declined in Mexico (-0.64%), Brazil (-0.26%), Peru (-0.26%), Colombia (-0.11%) and Chile (-0.11%). The Colombian peso was the best performing currency (+1.06%) as it catches up with a two-day rally in oil. Meanwhile, the Chilean peso was the worst performer among emerging market peers (-0.66%) as copper prices fell amid some signs of oversupply. **Asian equities declined -0.9%**, with most of the markets reporting losses amid concerns over US debt ceiling discussions and China's economy. Hong Kong SAR was down 1.6%, and mainland China shares -1.4%. Thailand outperformed +0.4%. **Asian currencies were mixed.** Thai baht appreciated +0.45% after dropping for several sessions, Malaysian ringgit weakened -0.4%. **EMEA markets were mixed.** Equity markets were down, with Poland losing 1.5%, and Hungary bucking the trend (+0.2%). In currencies, the Turkish lira and the South African rand were weakening (-0.27% and -0.43% to 19.9/\$ and 19.28/\$ respectively) while central and eastern European currencies were appreciating slightly vs. the euro.

### Hungary

**The Hungarian national bank (NBH) became the first central bank to ease monetary policy in Central and Eastern Europe, as expected.** NBH kept the policy rate (base rate) unchanged at 13% but announced in the press conference that they would cut the overnight depo rate by 100 bps to 17% today, starting a process of convergence to the overnight depo rate to the base rate. The overnight depo rate was raised to 18% in October to stem the depreciation of the forint and is the de facto anchor of monetary policy. Deputy governor Virag had indicated on May 10 that the two rates might converge by the Autumn. However, NBH made clear yesterday that this would ultimately be determined by the stability of the forint. NBH also cut the upper end of its interest rate corridor by 100 bps to 19.5%. Today, the forint retraced almost all of yesterday's losses (374.23/euro).

Hungary: Policy Rates, Forint and Inflation

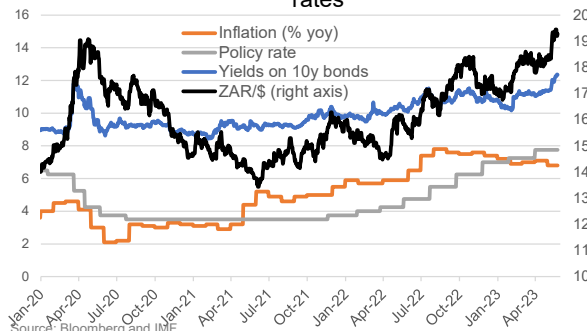


Source: Bloomberg and IMF

### South Africa

**South African assets faded an initial rally in the rand and pared back a drop in 10y yields following a downside surprise to April inflation.** April inflation came in at 6.8% y/y, down from 7.1% y/y in March, and lower than the 7% consensus expectation. Core inflation was slightly higher than in March (5.3% vs. 5.2% y/y) but lower than expectations (5.4% y/y), and the sequential growth rate of core inflation (0.5% m/m) is not very far above the South African Reserve Bank inflation target. The rand initially rallied 0.24% to 19.18/\$ on the move but is now 0.42% weaker than yesterday. Yields on 10y bonds also rallied 8 bps on opening (to 12.28%), their first gain in 7 days, but later reversed almost all these gains.

South Africa: Inflation, currency and interest rates



Source: Bloomberg and IMF

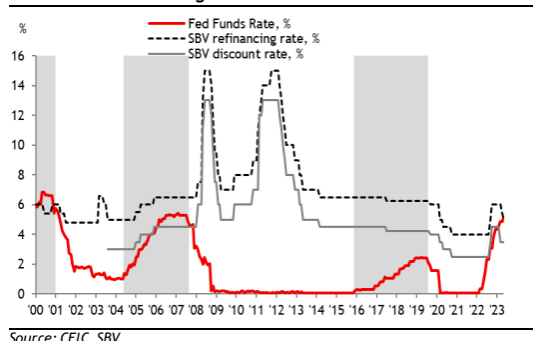
### Vietnam

**The State Bank of Vietnam (SBV) announced the third round of easing this year, with selected policy rates cut by 50 bps.** Effective May 25<sup>th</sup>, the refinancing rate and overnight lending rate in the inter-bank market will decline to 5% and 5.5%, accordingly. The cap on lending rates applied to loans made to priority sectors (i.e., agriculture, export-related industries, SMEs, high-tech) was maintained at 4.5%, having been

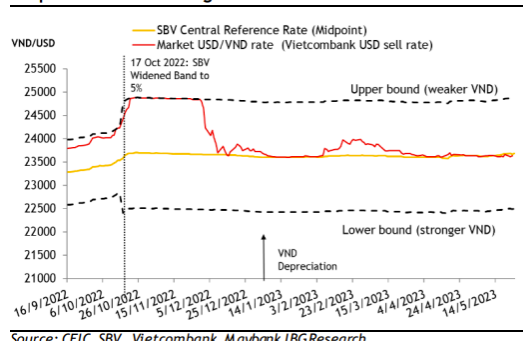


cut by 100 bps so far this year. The discount rate, which had been cut by 100 bps on 15 March, was left unchanged at 3.5%. In total, SBV's various policy rates and interest rate ceilings have been cut by 100 – 150 bps since February. Analysts expect further rate cuts after the publication of 2Q GDP. **On Monday, lawmakers at the parliament session reiterated calls for the SBV to consider more cuts.** National Assembly's head of economic Committee said the government may face challenges in achieving its GDP growth target of 6.5% y/y in 2023 amid a drop in exports, the crisis in the domestic real estate sector and the high interest rate environment. **Vietnamese stocks declined -0.4%, dong was little changed.**

**SBV Cuts Refinancing Rate by -50bp from 25 May, Leaves Discount Rate Unchanged**



**Exchange Rate Pressure Has Receded; Spot VND/USD at Midpoint of SBV Trading Band**

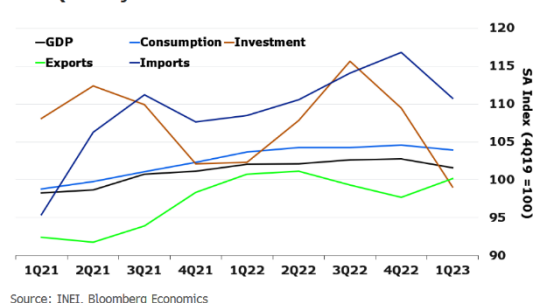


## Peru

### Peru's first-quarter GDP declined by 0.4% y/y as estimated.

The decline was mainly due to political instability, protests, and floods, leading to weaker domestic demand. However, there are signs of recovery in monthly growth data, and it is expected that GDP will rebound in the second quarter. Tight monetary policy and political uncertainty remain as headwinds to growth, with high inflation and risk premia constraining the central bank's ability to lower rates. Construction and mining sectors saw significant declines, while services and manufacturing showed mixed results. Household consumption was affected by high interest rates, while government consumption increased. Investment decreased, and exports grew while imports fell due to weaker domestic demand.

















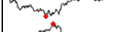

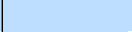





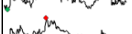



**Peru Quarterly GDP**



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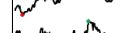














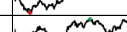


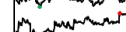














## Global Financial Indicators

Last updated: 5/24/23 8:08 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4138	-1.1	-1	0	5	8	-2
Europe		4266	-1.8	-1	-3	17	12	7
Japan		30683	-0.9	2	7	15	18	16
China		3859	-1.4	-3	-3	-3	0	-17
Asia Ex Japan		66	-1.6	-1	-1	-4	1	-17
Emerging Markets		39	-1.6	-1	-1	-5	2	-18
<b>Interest Rates</b>			basis points					
US 10y Yield		3.67	-2.3	10	18	92	-21	168
Germany 10y Yield		2.42	-4.5	9	-8	146	-15	220
Japan 10y Yield		0.41	1.0	4	-6	18	-1	22
UK 10y Yield		4.20	4.5	37	42	232	53	272
<b>Credit Spreads</b>			basis points					
US Investment Grade		168	0.4	-6	9	-1	9	25
US High Yield		497	2.6	-11	18	-11	16	90
Europe IG		84	2.3	-2	1	-14	-7	12
Europe HY		442	10.5	-7	3	-37	-32	90
<b>Exchange Rates</b>			%					
USD/Majors		103.57	0.1	1	2	2	0	8
EUR/USD		1.08	0.1	-1	-2	0	1	-5
USD/JPY		138.4	-0.1	1	3	9	6	20
EM/USD		50.1	0.1	-1	-1	-6	0	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		77.9	1.4	1	-6	-17	-7	-7
Industrials Metals (index)		141	-0.8	-4	-10	-23	-15	-25
Agriculture (index)		65	-0.4	-1	-5	-16	-6	-8
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		19.5	1.0	2.6	2.6	-10.0	-2.2	-11.5
US 10y Swaption Volatility		117.4	-2.7	7.9	2.4	6.7	-8.3	23.1
Global FX Volatility		8.7	0.0	0.0	-0.3	-1.7	-2.0	1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		145	3.7	-21	-34	-121	-60	-95
Italy		186	0.8	1	-1	-15	-28	15
Portugal		77	-0.5	-3	-6	-39	-24	-15
Spain		106	1.2	0	3	-6	-3	3

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

## Emerging Market Financial Indicators

Last updated: 5/24/2023 8:10 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		7.05	0.1	-0.7	-2	-6	-2		2.9	3.5	-3	-28	1	-21
Indonesia		14905	-0.2	-0.3	0	-2	4		6.4	-1.1	4	-25	-81	-52
India		83	0.2	-0.3	-1	-6	0		7.2	-3.0	9	-11	-49	-22
Philippines		56	-0.1	0.7	0	-6	0		5.9	1.3	3	-8	45	-13
Thailand		35	0.4	-0.8	0	-1	0		2.7	-1.5	2	17	-21	10
Malaysia		4.59	-0.5	-1.5	-3	-4	-4		3.8	0.7	10	-6	-44	-26
Argentina		235	-0.2	-1.6	-6	-49	-25		105.2	46.7	514	1550	4997	1701
Brazil		4.95	0.4	-0.3	2	-3	7		11.9	3.0	-8	-79	-29	-69
Chile		803	-0.8	-0.4	1	3	6		5.3	0.2	6	11	-68	-1
Colombia		4478	1.2	1.1	0	-11	8		8.9	0.0	32	22	33	-91
Mexico		17.85	0.7	-1.4	1	11	9		8.5	0.0	24	5	6	-26
Peru		3.7	0.2	0.2	2	1	3		7.4	0.1	16	-3	-34	-56
Uruguay		39	0.3	0.7	1	3	3		10.0	1.4	13	-18	-12	-67
Hungary		346	0.9	-1.3	-1	3	8		8.1	0.0	40	33	151	-146
Poland		4.16	0.0	0.1	0	3	5		5.5	-1.5	9	-8	-46	-69
Romania		4.6	0.4	-0.5	-3	0	0		6.9	2.6	8	-33	-103	-80
Russia		79.9	0.4	0.4	2	-31	-7							
South Africa		19.2	-0.2	0.1	-6	-19	-11		10.1	-4.0	12	67	197	95
Turkey		19.89	-0.2	-0.7	-2	-19	-6		9.1	0.0	-75	-297	-1564	-73
US (DXY; 5y UST)		104	0.0	0.6	2	2	0		3.73	-1.2	15	16	99	-27

	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		3859	-1.4	-3	-3	-3	0		196	-1	3	-17	19	
Indonesia		6746	0.1	1	-1	-2	-2		146	5	-1	-60	6	
India		61774	-0.3	0	3	15	2		153	-5	-2	-40	11	
Philippines		6616	0.2	0	0	0	1		121	6	0	-27	24	
Thailand		1537	0.1	1	0	-5	-8							
Malaysia		1410	-0.1	-1	-1	-8	-6		99	-1	0	-36	-1	
Argentina		340786	0.5	7	14	273	69		2595	11	-51	678	390	
Brazil		109929	-0.3	2	6	-1	0		265	-6	-7	-58	-9	
Chile		5685	-0.1	1	7	11	8		134	2	-6	-42	2	
Colombia		1123	-0.1	-1	-8	-24	-13		409	-8	5	22	37	
Mexico		53123	-0.6	-4	-3	4	10		398	-10	10	3	17	
Peru		21596	-0.3	-1	-3	6	1		182	0	-3	-14	2	
Hungary		46423	-0.1	1	6	8	6		236	13	6	17	14	
Poland		64364	-1.6	1	3	14	12		137	1	54	120	64	
Romania		12275	-0.3	0	-1	0	5		255	4	0	-12	-1	
South Africa		76146	-0.8	-3	-3	12	4		455	2	33	44	88	
Turkey		4442	-0.7	-3	-12	87	-19		646	30	127	59	206	
Ukraine		507	0.0	0	0	-2	-2		4803	-499	-380	1650	724	
EM total		39	-0.8	-1	-1	-5	2		428	0	6	20	52	

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

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