



- More US regional banks come under pressure ([link](#))
- US banks grapple with continued deposit outflows ([link](#))
- High yield bond market in US shows resilience ([link](#))
- US crude oil benchmark falls below \$70/barrel ([link](#))
- Malaysia surprises markets with 25 bps rate hike ([link](#))
- Swap rates in Chile decline as GDP measure weakens ([link](#))

[Mature Markets](#)





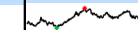






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## Fears linger as markets confront multiple challenges

Markets in Europe are up, and US equity index futures are slightly higher, but the mood remains highly uncertain after yesterday's US-induced market volatility. Renewed pressure on US regional banks spooked markets yesterday as the realization grows that the US banking crisis may not yet be over. The FOMC today and ECB meeting tomorrow are also major risk events. Markets expect 25 bps rate hikes from both central banks but are looking for clues about how the policy landscape will evolve in coming months. The consensus is that the Fed will end its rate hike cycle with a somewhat hawkish statement. The ECB is seen to have a couple of more rate hikes to go, but both central banks are expected to be cutting policy rates by the end of the year. Deviations from these expectations could lead to major market moves. The benchmark US oil price index (West Texas Intermediate) fell below \$70 as worries about recession grow stronger. The US debt ceiling standoff is another major source of concern. Meanwhile, the US ADP employment report came in much stronger than expected at 296K versus the 150K forecast, causing Treasuries to give up some of their early morning gains.

Key Global Financial Indicators

| Last updated:<br>5/3/23 8:04 AM     | Level   |        | Change from Market Close |        |         |      | YTD | Since<br>23-Feb-22 |
|-------------------------------------|---|--------|--------------------------|--------|---------|------|-----|--------------------|
|                                     | Last 12m  | Latest | 1 Day                    | 7 Days | 30 Days | 12 M |     |                    |
| Equities                            |   |        | %                        |        |         |      | %   |                    |
| S&P 500                             |  | 4120   | -1.2                     | 1      | 0       | -1   | 7   | -3                 |
| Eurostoxx 50                        |  | 4319   | 0.6                      | -1     | 0       | 15   | 14  | 9                  |
| Nikkei 225                          |  | 29158  | 0.1                      | 2      | 3       | 9    | 12  | 10                 |
| MSCI EM                             |  | 39     | -1.0                     | 1      | -2      | -9   | 2   | -19                |
| Yields and Spreads                  |   |        | bps                      |        |         |      |     |                    |
| US 10y Yield                        |  | 3.40   | -2.5                     | -5     | -1      | 43   | -48 | 141                |
| Germany 10y Yield                   |  | 2.24   | -1.9                     | -16    | -2      | 127  | -33 | 201                |
| EMBIG Sovereign Spread              |  | 489    | 16                       | -8     | 6       | 50   | 37  | 77                 |
| FX / Commodities / Volatility       |   |        | %                        |        |         |      |     |                    |
| EM FX vs. USD, (+) = appreciation   |  | 50.6   | 0.2                      | 0      | 0       | -3   | 1   | -5                 |
| Dollar index, (+) = \$ appreciation |  | 101.6  | -0.4                     | 0      | -1      | -2   | -2  | 6                  |
| Brent Crude Oil (\$/barrel)         |  | 73.3   | -2.7                     | -6     | -14     | -30  | -15 | -24                |
| VIX Index (% change in pp)          |  | 17.9   | 0.2                      | -1     | -1      | -11  | -4  | -13                |

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

## Mature Markets

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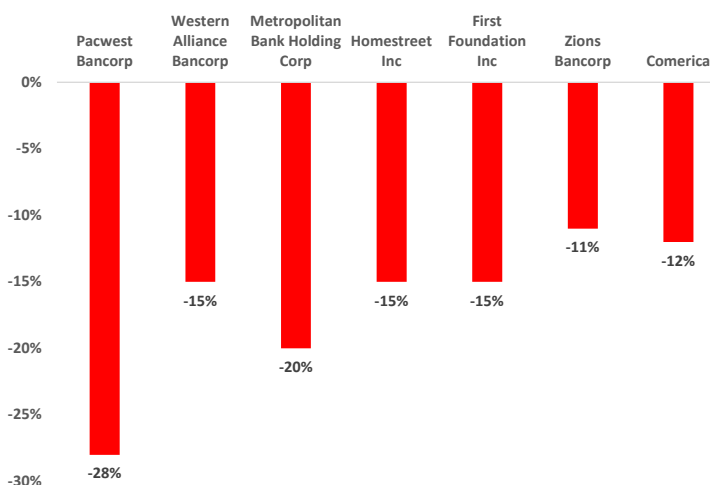
### United States

**A number of regional US banks have come under pressure in the equity market since the resolution of First Republic Bank this week.** Except for the failure of Washington Mutual in 2008 which was the largest bank failure in US history, the past three weeks have seen the three next biggest bank failures on record: First Republic Bank (\$213 bn), Silicon Valley Bank (\$209 bn) and Signature Bank (\$110 bn). Many hoped that the purchase of First Republic by JP Morgan would bring the regional bank crisis to an end, but these hopes were dashed yesterday. Investors are now zeroing in on other banks that have high levels of uninsured deposits, large

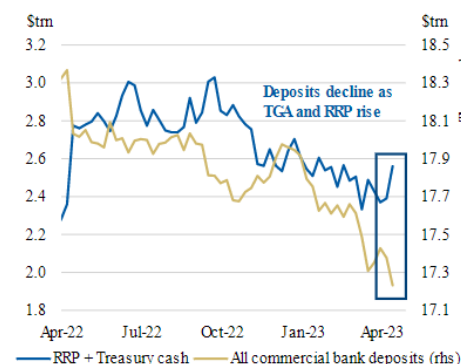
holdings of bonds hit by rising high interest rates and large amounts of funds borrowed from the Fed and the Federal Home Loan Banks. Deposit outflows from regional banks continue, with \$40 bn of outflows seen last week. Contacts say some market participants were disappointed that the Federal Deposit Insurance Corporation (FDIC) did not announce any changes in deposit insurance, such as raising the level of the FDIC guarantee above \$250 K. The wider market also felt the pain, with losses to the broader equity indexes and a sharp decline in Treasury yields on safe haven buying.

**The renewed volatility for regional US banks could have been predicted in the light of recent data from the Fed.** The latest H.8 report shows that deposits have been falling as tax payments flow from banks to the Treasury's General Account (TGA), and as money markets place their steadily rising deposits at the Fed's overnight reverse repo (RRP) facility. Total outflows of deposits from banks have already exceeded the volume of outflows seen for the entire year of 2022, according to Morgan Stanley. Banks have borrowed extensively from the Federal Home Loan banks and the Fed's discount window and its Bank Term Funding Program (BTFP). Usage of the BTFP and the discount window has been particularly notable in the past two weeks.

Under Attack: Moves in Selected US Regional Banks on May 2, 2023  
Source: Bloomberg

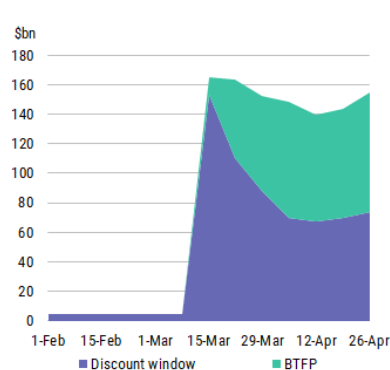


**Exhibit 15:** Commercial bank deposits vs. Treasury cash balance and RRP outstanding



Source: Bloomberg, Morgan Stanley Research

**Exhibit 16:** Total take-up at the Fed's discount window and the BTFP facility in the last 3 months

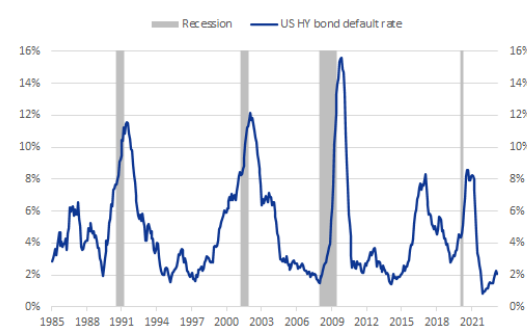


Source: Bloomberg, Fed, Morgan Stanley Research

**The US high yield (HY) bond market has strong fundamentals, according to analysis by Goldman.** Debt to EBITDA (earnings before interest, tax, depreciation, and amortization) ratios and interest coverage ratios are low. History shows that it takes an outright recession to trigger a large-scale default cycle in the HY market, where defaults reach double digit levels. With the exception of 2016, when a collapse in oil prices led to a surge in energy company bankruptcies, all other periods when HY defaults were significant occurred before the onset of a recession. With Goldman assigning just a 35% probability of a recession over the next 12 months, its analysts think HY default will remain at or below their long-term average. Even if a recession does occur, they think HY defaults will remain below levels seen in previous recessions. With the mini default episode of 2020 less than three years in the past, the analysts contend that not enough time has passed for major inefficiencies to build up in the system.

**Exhibit 2 : It typically takes a recession to bring about a full-blown default cycle**

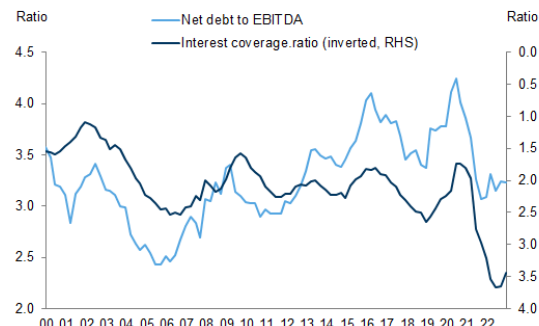
12-month trailing issuer-weighted US HY default rate with recession shading



Source: Moody's, NBER, Goldman Sachs Global Investment Research

**Exhibit 3 : HY bond issuer fundamentals remain strong**

Net debt-to-EBITDA and interest coverage ratios for the median US HY bond issuer



Source: Factset, Goldman Sachs Global Investment Research

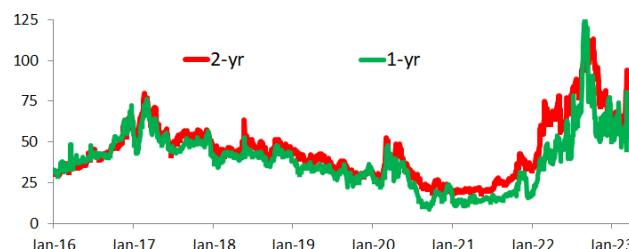
## Euro area

**Equities (+0.6%) are higher and German 10-yr yields are 2 bps lower ahead of today's FOMC meeting. Analysts point out that earnings of large European corporates have been much stronger than expected (by around 30% on average) with financials surprising the most (78% on average). In contrast, US earnings have been just 7% above consensus estimates.**

**Most analysts expect the ECB to hike 25 bps tomorrow, with markets pricing 28 bps, but some contacts argue that a downshift shift to 25 bps could go together with more aggressive communication on the ECB balance sheet unwind.** In a Bloomberg survey last week, analysts expected total ECB quantitative tightening of €225 bn in 2023 and €324 bn in 2024. Prior to the March 2023 meeting, the expectation was for €195 bn in 2023 and €321bn in 2024.

**Euro area swap spreads are widening again as analysts at Commerzbank see a return of collateral scarcity fears.** This week, the ECB has also reduced the interest rate it pays on government deposits by 20 bps, so that these deposits are now remunerated at the €STR rate minus 20 bps. The Bundesbank was perceived as "surprisingly blunt" by stating that a return to 0% on these deposits would "make sense." Commerzbank warns that a further reduction in this rate could add to the scarcity premium.

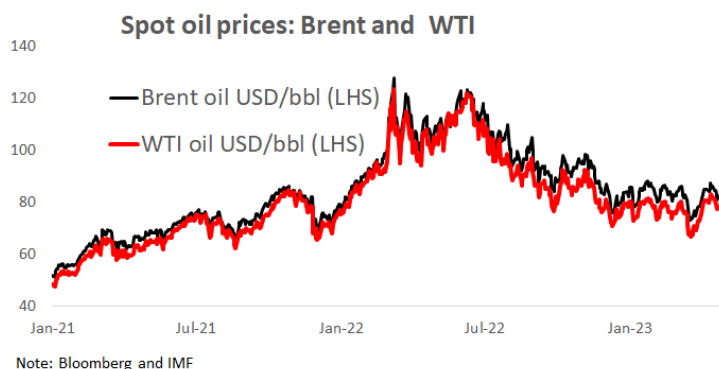
**Euro area: Swap spreads are tightening**  
(difference between a swap rate and German bond yield, bps)



Source: Bloomberg and IMF staff

## Commodity prices

**Medium-term euro area inflation swaps fell 4 bps as spot Brent oil prices (-3%) remain under pressure.** So far this month, Brent oil prices fell 8% and natural gas prices 9%. US WTI crude has fallen below \$70/barrel.

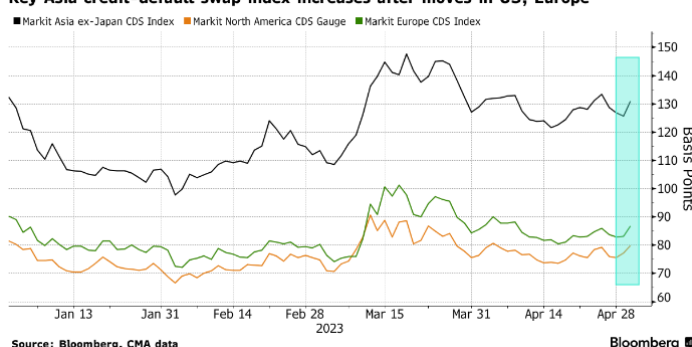


## Emerging Markets

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**EMEA markets were mixed.** The Hungarian Parliament passed legislation aimed at bolstering judicial independence, which should help unlock €13 billion in cohesion funds from the EU. The Czech central bank is expected to keep the policy rate on hold at 7% later today. **Most Asian markets were weaker while China remains closed for the long holidays.** Malaysia surprised markets with a 25 bps rate hike to 3%. **A gauge of credit risk in Asia advanced further.**

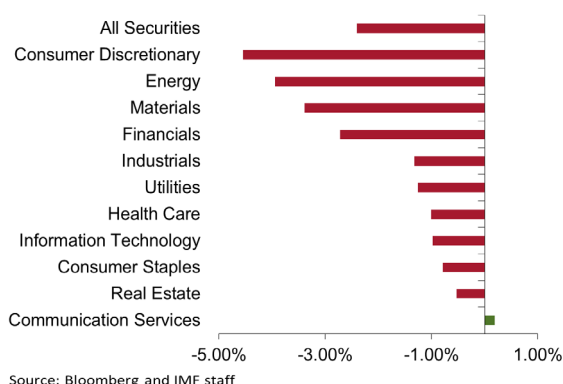
**Key Asia credit-default swap index increases after moves in US, Europe**



**The Markit iTraxx Asia ex-Japan Investment Grade credit-default swap index, which tracks nearly 40 high-grade dollar bonds in the region, rose again following Tuesday's increase of 5.3 bps, the biggest daily move since mid-March. In Latin America, stocks followed global markets lower.**

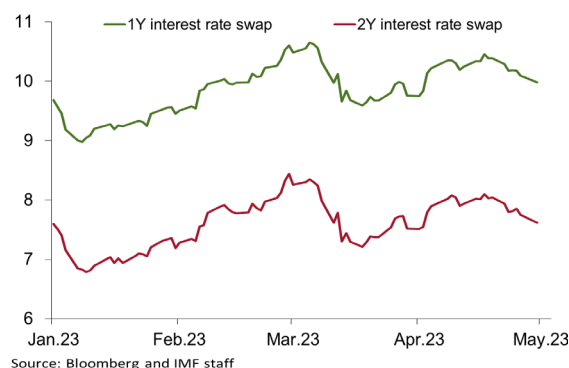
## Brazil

**Brazil's benchmark Bovespa equity index saw a decline of 2.4% as shares associated with commodities slumped,** due to the broad risk-off sentiment in global markets triggered by volatility in the US and ahead of today's upcoming Fed decision. Additionally, consumer-related names also declined. Traders are evaluating the Brazilian government's decision to levy taxes on investment gains abroad, which is intended to offset a larger exemption from income taxes for the poorest Brazilians. The Brazilian also took a hit, extending losses to 1%, making it the worst-performing major currency in the world. Traders reduced their previously bullish positions established prior to the long weekend, further adding volatility to the market.



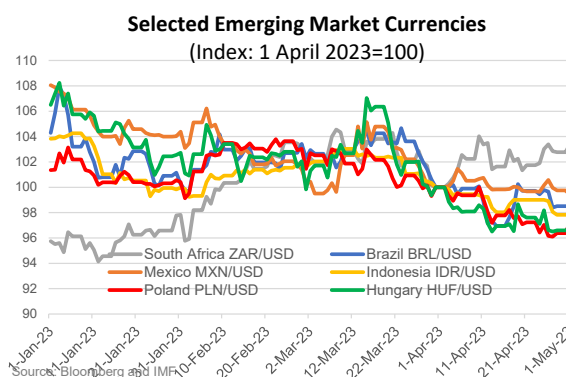
## Chile

**Chilean interest rate swaps have declined following the release of the IMACEC index**, which serves as a proxy for gross domestic product. The index fell by 0.1% in the month, less than the estimated -0.4%, but year-on-year activity declined by 2.1%, which is more than the predicted 1.7% drop. Despite the challenges posed by above-target inflation, tight monetary policy, and falling liquidity, Chile's economy has been performing better than expected in recent months. Even though the central bank has indicated that there is little chance of a borrowing cost cut before July, swaps traders are pricing in 433 bps of Chilean rate cuts over the next 12 months.



## Poland

**Polish markets are closed for a holiday today, but Goldman Sachs analysts wrote late last week that the zloty had appreciated too much too fast and has overshot their fair value estimates.** The Zloty is the best performing emerging market currency over the past month, having appreciated 3.4% vs the dollar (to 4.14/\$) and 2.2% vs the Euro (to 4.57/\$). Goldman Sachs analysts note that some of the data releases over the period have been supportive, with February data pointing out to a marginal improvement in external balances, and headline inflation beginning to fall, although at a slower pace than expected. They think, however, that the zloty's appreciation is also linked to other global factors and in particular, positioning changes, with the unwind of long forint vs zloty trades, the Zloty's high correlation to the euro/dollar exchange rate, and the recent decline in oil prices, which has led to an improvement in terms of trade. Goldman Sachs analysts think however that the move has likely gone too far, and that the zloty is vulnerable to a retracement. This is because monetary policy remains relatively more dovish than in Poland's peers, and in their view, the National Bank of Poland (NBP) is willing to accept a more prolonged period of inflation overshoot.




















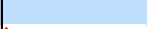



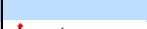




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## Global Financial Indicators

| 5/3/23 8:07 AM              | Level   |        | Change                           |        |         |       |      |
|-----------------------------|---|--------|----------------------------------|--------|---------|-------|------|
|                             | Last 12m  | Latest | 1 Day                            | 7 Days | 30 Days | 12 M  | YTD  |
| <b>Equities</b>             |   |        | %                                |        |         |       | %    |
| United States               |    | 4122   | -1.2                             | 2      | 0       | -1    | 7    |
| Europe                      |    | 4319   | 0.6                              | -1     | 0       | 15    | 14   |
| Japan                       |    | 29158  | 0.1                              | 2      | 3       | 9     | 12   |
| China                       |    | 4029   | 1.0                              | 0      | -1      | 0     | 4    |
| Asia Ex Japan               |    | 66     | -0.9                             | 1      | -3      | -8    | 2    |
| Emerging Markets            |    | 39     | -1.0                             | 1      | -2      | -9    | 2    |
| <b>Interest Rates</b>       |   |        | basis points                     |        |         |       |      |
| US 10y Yield                |    | 3.40   | -2.5                             | -5     | -1      | 43    | -48  |
| Germany 10y Yield           |    | 2.24   | -1.9                             | -16    | -2      | 127   | -33  |
| Japan 10y Yield             |    | 0.42   | 0.0                              | -4     | 3       | 19    | 0    |
| UK 10y Yield                |    | 3.66   | -0.8                             | -7     | 23      | 170   | -1   |
| <b>Credit Spreads</b>       |   |        | basis points                     |        |         |       |      |
| US Investment Grade         |    | 163    | 3.2                              | 0      | -1      | 5     | 4    |
| US High Yield               |    | 495    | 1.6                              | 3      | 13      | 78    | 15   |
| <b>Exchange Rates</b>       |   |        | %                                |        |         |       |      |
| USD/Majors                  |    | 101.57 | -0.4                             | 0      | -1      | -2    | -2   |
| EUR/USD                     |    | 1.10   | 0.4                              | 0      | 1       | 5     | 3    |
| USD/JPY                     |    | 135.5  | -0.8                             | 1      | 2       | 4     | 3    |
| EM/USD                      |    | 50.6   | 0.2                              | 0      | 0       | -3    | 1    |
| <b>Commodities</b>          |   |        | %                                |        |         |       |      |
| Brent Crude Oil (\$/barrel) |  | 73.3   | -2.7                             | -6     | -13     | -19   | -13  |
| Industrials Metals (index)  |  | 154    | -0.4                             | 1      | -3      | -20   | -7   |
| Agriculture (index)         |  | 65     | -0.8                             | -3     | -5      | -13   | -5   |
| <b>Implied Volatility</b>   |   |        | %                                |        |         |       |      |
| VIX Index (%, change in pp) |  | 17.9   | 0.2                              | -0.9   | -0.6    | -11.3 | -3.7 |
| US 10y Swaption Volatility  |  | 120.5  | -4.0                             | 2.1    | -6.0    | -3.8  | -5.2 |
| Global FX Volatility        |  | 9.1    | 0.0                              | -0.3   | -1.2    | -1.8  | -1.6 |
| <b>EA Sovereign Spreads</b> |   |        | 10-Year spread vs. Germany (bps) |        |         |       |      |
| Greece                      |  | 186    | -7.7                             | 3      | -8      | -56   | -19  |
| Italy                       |  | 189    | -2.8                             | 1      | 4       | -3    | -26  |
| Portugal                    |  | 85     | 0.5                              | 1      | 2       | -26   | -17  |
| Spain                       |  | 107    | 0.1                              | 2      | 5       | 1     | -2   |

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

## Emerging Market Financial Indicators

| Last updated:<br>5/3/2023<br>8:08 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   | -2                       | -8      | 19      | 1    |  |     |
| Indonesia                            |                | 14692  | 0.1                   | 1.0    | 2       | -1   | 6        |                                     | 6.5    | -4.1  | -4                       | -30     | -50     | -46  |  |     |
| India                                |                | 82     | 0.1                   | -0.1   | 1       | -6   | 1        |                                     | 7.2    | -7.4  | 2                        | -26     | (62.3)  | -21  |  |     |
| Philippines                          |                | 55     | 0.0                   | 0.5    | -1      | -5   | 1        |                                     | 6.0    | 0.0   | -3                       | 0       | 65      | -5   |  |     |
| Thailand                             |                | 34     | 0.3                   | 0.5    | 1       | 1    | 2        |                                     | 2.6    | -5.5  | 0                        | -2      | -44     | -6   |  |     |
| Malaysia                             |                | 4.46   | 0.2                   | 0.1    | -1      | -2   | -1       |                                     | 3.7    | 0.5   | 0                        | -18     | #VALUE! | -31  |  |     |
| Argentina                            |                | 225    | -0.9                  | -1.7   | -6      | -48  | -21      |                                     | 94.8   | 50.2  | 447                      | 772     | 4205    | 661  |  |     |
| Brazil                               |                | 5.02   | 0.3                   | 0.4    | 1       | -1   | 5        |                                     | 12.5   | 7.0   | 6                        | -36     | 28      | -6   |  |     |
| Chile                                |                | 810    | -0.3                  | 0.3    | 0       | 6    | 5        |                                     | 5.1    | -4.0  | 2                        | 0       | -119    | -20  |  |     |
| Colombia                             |                | 4695   | 0.0                   | -3.9   | -2      | -15  | 3        |                                     | 9.2    | 0.0   | 48                       | 65      | 47      | -58  |  |     |
| Mexico                               |                | 17.96  | 0.1                   | 1.1    | 1       | 13   | 9        |                                     | 8.3    | -0.5  | -1                       | -1      | -66     | -39  |  |     |
| Peru                                 |                | 3.7    | -0.2                  | 1.2    | 2       | 3    | 3        |                                     | 7.5    | 0.5   | 8                        | -2      | -36     | -46  |  |     |
| Uruguay                              |                | 39     | -0.6                  | -0.3   | -1      | 6    | 2        |                                     | 10.0   | 0.0   | -19                      | -33     | -7      | -69  |  |     |
| Hungary                              |                | 340    | 0.2                   | -0.4   | 2       | 6    | 10       |                                     | 7.7    | 2.0   | -9                       | -79     | 74      | -186 |  |     |
| Poland                               |                | 4.15   | 0.3                   | 0.0    | 3       | 7    | 5        |                                     | 5.3    | -3.0  | -19                      | -20     | -69     | -90  |  |     |
| Romania                              |                | 4.5    | 0.4                   | 0.2    | 1       | 5    | 3        |                                     | 7.1    | -1.1  | -7                       | -11     | 32      | -58  |  |     |
| Russia                               |                | 79.4   | 0.9                   | 3.3    | -1      | -14  | -7       |                                     |        |       |                          |         |         |      |  |     |
| South Africa                         |                | 18.3   | 1.2                   | 0.8    | -2      | -14  | -7       |                                     | 9.2    | -10.5 | -17                      | 11      | 77      | 8    |  |     |
| Turkey                               |                | 19.48  | 0.0                   | -0.3   | -1      | -24  | -4       |                                     | 13.1   | 23.0  | 81                       | 278     | -819    | 327  |  |     |
| US (DXY; 5y UST)                     |                | 102    | -0.4                  | 0.1    | -1      | -2   | -2       |                                     | 3.43   | -2.2  | -7                       | -8      | 40      | -58  |  |     |

|              | 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        |                                  | 200          | 4      | 10                       | 0    | 23   |  |  |     |
| Indonesia    |                | 6813   | -0.7          | 0      | 0       | -6   | -1       |                                  | 158          | -1     | -2                       | -21  | 18   |  |  |     |
| India        |                | 61193  | -0.3          | 2      | 4       | 10   | 1        |                                  | 164          | 4      | -4                       | -5   | 22   |  |  |     |
| Philippines  |                | 6607   | -1.0          | 0      | 2       | -3   | 1        |                                  | 130          | -2     | -2                       | -4   | 33   |  |  |     |
| Thailand     |                | 1533   | 0.3           | 0      | -4      | -7   | -8       |                                  | 0            | 0      | 0                        | 0    | 0    |  |  |     |
| Malaysia     |                | 1426   | 0.0           | 0      | 0       | -11  | -5       |                                  | 104          | 1      | 3                        | -21  | 4    |  |  |     |
| Argentina    |                | 295631 | -0.8          | -1     | 16      | 230  | 46       |                                  | 2666         | 11     | 353                      | 848  | 461  |  |  |     |
| Brazil       |                | 101927 | -2.4          | -2     | 0       | -4   | -7       |                                  | 282          | -2     | 9                        | -19  | 8    |  |  |     |
| Chile        |                | 5369   | -0.9          | 1      | 1       | 12   | 2        |                                  | 141          | -3     | -7                       | -34  | 9    |  |  |     |
| Colombia     |                | 1158   | -3.4          | -3     | -2      | -27  | -10      |                                  | 428          | 25     | 43                       | 44   | 56   |  |  |     |
| Mexico       |                | 55179  | 0.1           | 1      | 2       | 8    | 14       |                                  | 395          | 2      | 7                        | 9    | 14   |  |  |     |
| Peru         |                | 21741  | -0.4          | -2     | -1      | -4   | 2        |                                  | 184          | -1     | -10                      | -25  | 4    |  |  |     |
| Hungary      |                | 46226  | 1.6           | 6      | 8       | 6    | 6        |                                  | 228          | -5     | -11                      | 39   | 6    |  |  |     |
| Poland       |                | 62840  | 0.0           | 0      | 6       | 10   | 9        |                                  | 139          | 50     | 57                       | 137  | 66   |  |  |     |
| Romania      |                | 12245  | -0.4          | -2     | 0       | -3   | 5        |                                  | 263          | 1      | 0                        | 30   | 7    |  |  |     |
| South Africa |                | 77898  | 0.5           | 0      | 2       | 9    | 7        |                                  | 431          | 3      | 28                       | 46   | 64   |  |  |     |
| Turkey       |                | 4443   | -1.4          | -9     | -8      | 83   | -19      |                                  | 522          | -13    | 42                       | 15   | 82   |  |  |     |
| Ukraine      |                | 507    | 0.0           | 0      | 0       | -2   | -2       |                                  | 5369         | 120    | 399                      | 1637 | 1290 |  |  |     |
| EM total     |                | 39     | 0.3           | 1      | -2      | -9   | 2        |                                  | 425          | -3     | 11                       | 31   | 50   |  |  |     |

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

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