



- Euro falls after ECB hikes policy rate by 25 bp ([link](#))
- PacWest tumbles on report of possible sale, renewing pressures on regional banks ([link](#))
- Treasury to start buyback program in 2024 to support cash management and liquidity ([link](#))
- China's Caixin manufacturing PMI weakened more than expected in April ([link](#))
- Brazil's central keep keeps key interest rate steady at 13.75% ([link](#))
- Czech National Bank points to upside inflation risks ([link](#))

[Mature Markets](#)



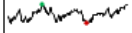


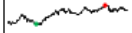

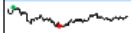



| [Emerging Markets](#)

| [Market Tables](#)

As Fed and ECB hike, markets see new hope that cycle is nearing end

The ECB hiked its policy rate by 25 bp this morning as was largely expected by markets and most analysts. The overall message from the ECB however was seen as dovish. While markets continue to price another hike as likely next month, pricing for future meetings has fallen. European equities rose after the announcement but remained in negative territory on the day. Yesterday, the FOMC delivered a 25 bp hike as expected and signaled they will likely leave rates unchanged at the next meeting. Chair Powell said the forecast is for modest growth this year, not a recession, but tighter credit will likely hamper growth. Treasury yields fell sharply yesterday. Despite the perceived end of hikes, US regional bank fears continue, with PacWest shares falling sharply in after hours yesterday as reports surfaced of the bank considering strategic options, including a possible sale. Emerging market currencies are broadly appreciating versus the dollar on the day following yesterday's Fed decision and the signal that this will be the last hike for now. Oil prices have stabilized so far today after declining more than 9% earlier in the week.

Key Global Financial Indicators

Last updated: 5/4/23 8:19 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		4091	-0.7	1	0	-5	7	-3
Eurostoxx 50		4268	-1.0	-2	-1	15	13	7
Nikkei 225		29158	0.1	2	3	9	12	10
MSCI EM		39	-0.2	0	-2	-11	2	-19
Yields and Spreads			bps					
US 10y Yield		3.34	0.7	-18	0	41	-53	135
Germany 10y Yield		2.24	-0.4	-22	-1	127	-33	202
EMBIG Sovereign Spread		491	2	-3	11	47	39	78
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.9	0.1	1	0	-4	2	-4
Dollar index, (+) = \$ appreciation		101.1	-0.2	0	0	-1	-2	5
Brent Crude Oil (\$/barrel)		72.7	0.5	-7	-14	-34	-15	-25
VIX Index (% change in pp)		19.5	1.2	2	1	-6	-2	-12

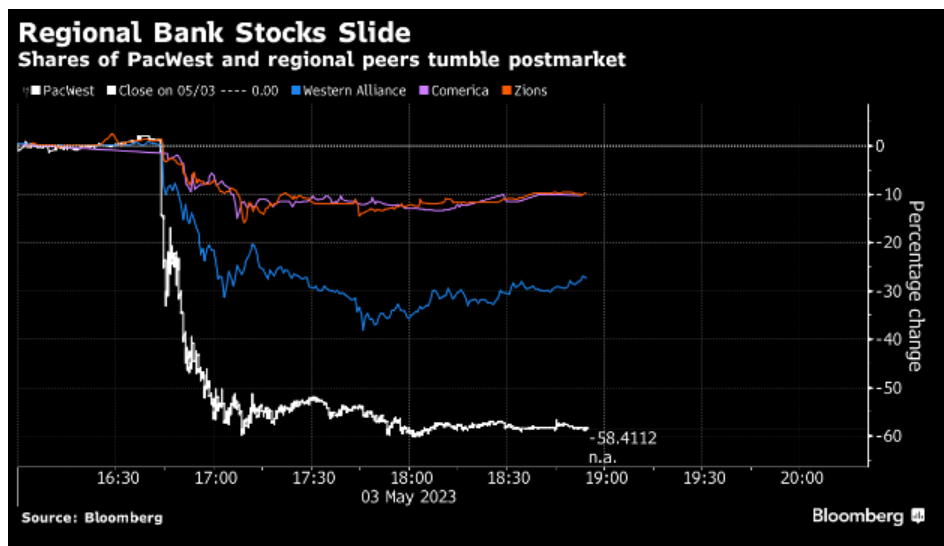
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

United States

PacWest Bancorp led a renewed slide in regional banks on a report that its weighing strategic options including a sale. The stock plunged 60% in after hour trading (following 77% drop since March), triggering heavy losses in several other regional banks. The California-based group consists of a community lender PacWest Bank and some commercial and consumer lending business. The group is reportedly considering a breakup, capital raise or sale, though buyer interest to acquire the entire group is said to be low. The \$44 bn community bank has \$28bn deposit, 28% of which is uninsured, after experiencing a \$5.8bn deposit outflow in Q1. The bank has borrowed close to \$5bn from the BTFP facility.



The Treasury left its auction sizes unchanged for the May refunding round but may increase offering modestly as soon as August. An increase in auction sizes is likely needed to fund growing deficits, as well as to maintain the overall maturity structure of the outstanding debt in anticipation of the large supply of bills (median forecast of \$600 bn over 3-month period) once the debt ceiling is resolved. Separately, **the Treasury will start a regular buyback program next year for cash management and liquidity support purposes.** The program would not be used to mitigate market stress. The program will buy back off-the-run securities and issue more current benchmark in regular and predictable operations, to keep overall maturity structure of the debt outstanding. The liquidity facility will start at \$60–120bn per year and the cash management facility is set at up to \$120 bn per year. More details will be unveiled in future refunding announcements.

The SEC voted to require large hedge funds to report major investment losses within 72-hour. The report will be filed to the SEC only and will not be made public. The regulator said the stepped-up reporting requirement on hedge funds with over \$1.5bn in assets under management will help contain systemic risk in the private fund industry that has grown significantly in complexity and interconnectedness with the broader capital markets.

Euro area

The euro (-0.4%) fell after the ECB slowed its tightening pace to 25 bp (from 50 bp), in line with expectations of most analysts. The monetary policy statement reiterated that the inflation outlook continues to be too high for too long. **The statement also added that policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary.** The ECB's APP portfolio is declining at a

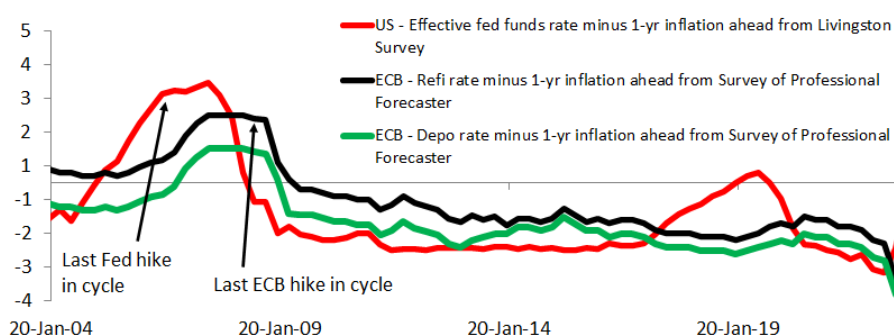
measured and predictable pace, as the Eurosystem does not reinvest all of the principal payments from maturing securities. The decline will average around €15 bn/m per month until the end of June 2023. The Governing Council then expects to discontinue the reinvestments under the APP as of July 2023 but will continue to flexibly reinvest principal payments from the PEPP program until at least the end of 2024. German 10-yr yields were somewhat volatile right after the announcement but then settled at levels of around seen right before. **Pricing for the terminal rate in 2023 shifted 7 bp lower (to 3.56%).**

Bank stocks (-1.4%) underperformed and core rates were higher ahead of today's ECB meeting. The euro (+0.1%) was little changed.

Most analysts expected the ECB to hike 25 bp today. Contacts believe that the ECB could struggle to lift terminal rate expectations after spot Brent oil price fell almost 9% in May (to \$72/bbl). Going into the ECB meeting, swaps were pricing a peak rate of around 3.63% to be reached in September 2023.

Measures of ex-ante real policy rate in the euro area have risen very sharply but remain materially below peak levels of the 2000s. Yesterday, Fed chair Powell pointed to elevated ex-ante real rates in the US to explain that Fed policy is tight.

Euro area and US: Measures of ex-ante real policy rates (%)



Source: Bloomberg and IMF staff

Japan

The Japanese yen was little changed after the Fed's rate hike decision, after appreciating 1.3% yesterday. Local markets were closed for a public holiday.

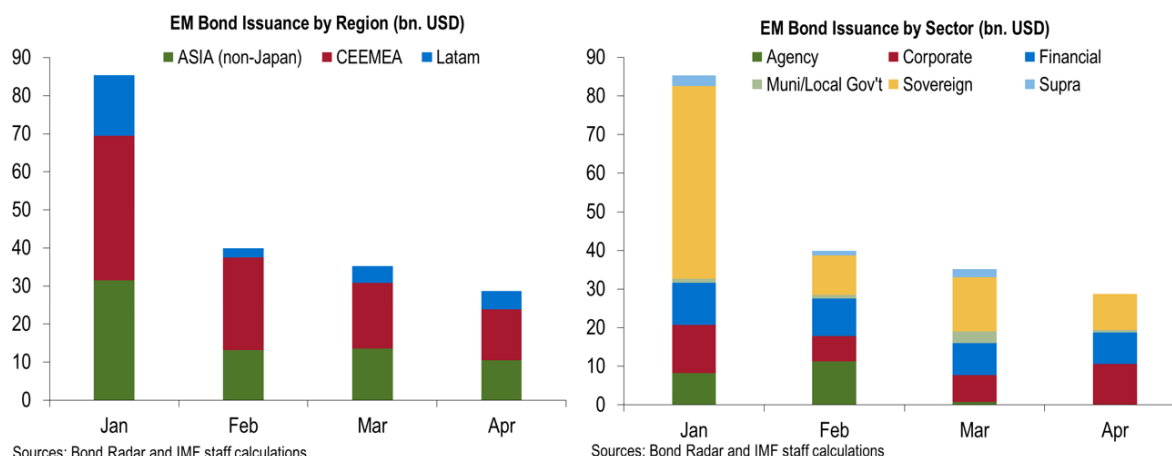
Emerging Markets

[back to top](#)

Asian markets gained today as investors are betting on the end of the U.S. monetary tightening cycle. Asian equities gained 1.1% on net, led by Hong Kong (+1.3%), Philippine (+1.2%) and Indian (+0.9%) equities. Asian currencies appreciated, led by the Korean won (+1.2%) and Sri Lankan rupee (+0.4%). Long-end government bond yields declined, with 10-year yields falling in Indonesia (-5 bp) and Korea (-4 bp). In Hong Kong SAR, PMI weakened to 52.4 in April from 53.5 in March. HSBC raised its main lending rate by 12.5 bp to 5.75%, the first time this year, following the latest rate hike by the Federal Reserve. The Hong Kong dollar remained close to the weak side of the convertibility range. In Singapore, PMI improved to 55.3 in April from 52.6 in March. Singaporean dollar appreciated (+0.2%); gained (+0.2%). **EMEA stocks traded with a cautious tone as currencies generally firmed against the U.S. dollar. Latin American equities were mixed Wednesday, while currencies strengthened.** Stocks gained slightly in Colombia (0.06%), Peru (0.03%) and Chile (0.02%), while Brazil and Mexico equity markets lost 0.3% and 0.4%, respectively. Currencies mostly appreciated with Colombia (1.5%), Brazil (0.9%) and Chile (0.8%) the largest gains.

EM Bond Issuance

Bond issuance declined more than 40% compared with the week before. \$5.5 bn of EM bonds priced last week, almost all Corporate/Financial issuance. More than 60% of the new issuance was investment grade. YTD total issuance now stands at \$190 bn, slightly higher than the same time last year (\$180 bn).

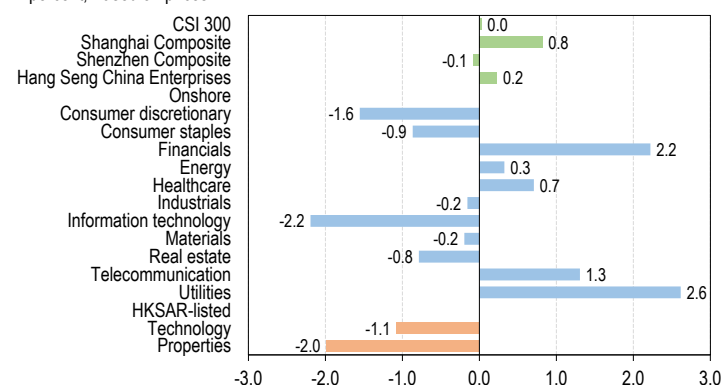


China

Caixin manufacturing PMI weakened more than expected, raising concerns about an uneven economic recovery. Caixin manufacturing PMI, which is more oriented toward exporters and small firms, fell from 50.0 in March to 49.5 in April (consensus: 50.0). Both manufacturing PMI (official and Caixin) showed contractionary in April, with official PMI (released earlier on Sunday) at 49.2. While manufacturing PMI data were weak, China saw strong domestic tourism during the Labor Day holiday. With signs for uneven economic activities, market participants increasingly expected for a patchy economic recovery. **Onshore Chinese equities were little changed** with no clear direction. Chinese share prices listed in Hong Kong SAR increased (+2.0%). RMB depreciated (-0.1%). CGB yields declined (10-year: -1.5 bp). The People's Bank of China withdrew interbank liquidity of 529 bn RMB (\$76.5 bn), unwinding liquidity provision ahead of the Labor Day holidays. The key interbank repo rate dropped to 1.92% (-40 bp).

Equity Total Return: Daily Change

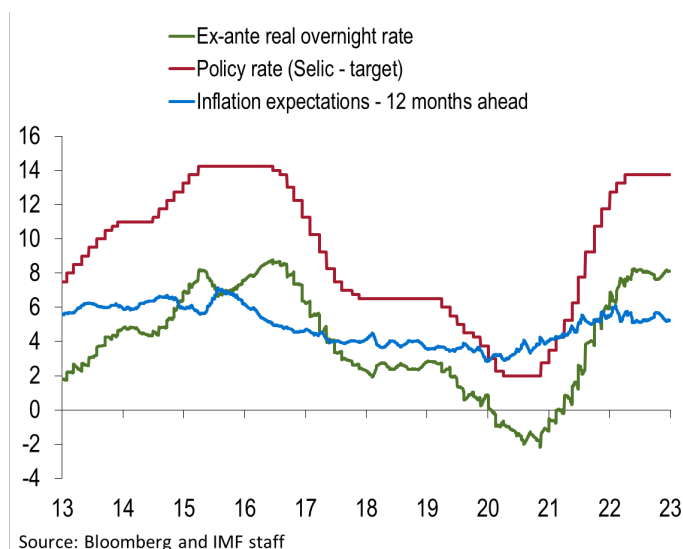
In percent; Based on prices in RMB



Brazil

Brazil's central bank decided to keep its key interest rate steady at 13.75% for the sixth consecutive meeting, as was widely expected. The board's decision was unanimous. This decision comes despite pressure from President Lula da Silva to loosen monetary policy, as inflation forecasts remain above the

bank's target. The market was more focused on the tone of the statement which was seen as slightly less hawkish by saying "although a less likely scenario, it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected". The ex-ante real rate remains around 8%. Analysts are forecasting rate cuts will start in the third quarter.



Czech Republic

The central bank (CNB) left interest rates unchanged at 7% but signaled upside risks to inflation. In a new forecast, the CNB raised its inflation forecast for this year upwards (from 10.8% to 11.2%) and remains unchanged at 2.1% on average for next year. GDP was raised from -0.3% to +0.5% for this year and from 2.2% to 3.0% for next year. The koruna (+0.2%) edged higher today.

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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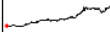









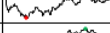














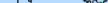
Global Financial Indicators

5/4/23 8:19 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4085	-0.7	-1	0	-5	6
Europe		4268	-1.0	-2	-1	15	13
Japan		29158	0.1	2	3	9	12
China		4030	0.0	1	-2	0	4
Asia Ex Japan		66	-0.1	0	-3	-9	1
Emerging Markets		39	-0.2	0	-2	-11	2
Interest Rates			basis points				
US 10y Yield		3.34	0.7	-18	0	41	-53
Germany 10y Yield		2.24	-0.4	-22	-1	127	-33
Japan 10y Yield		0.42	0.0	-5	0	19	0
UK 10y Yield		3.70	0.2	-10	26	173	3
Credit Spreads			basis points				
US Investment Grade		166	-0.1	5	2	12	7
US High Yield		508	0.4	29	13	89	27
Exchange Rates			%				
USD/Majors		101.13	-0.2	0	0	-1	-2
EUR/USD		1.11	-0.1	0	1	4	3
USD/JPY		134.4	-0.2	0	2	4	3
EM/USD		50.9	0.1	1	0	-4	2
Commodities			%				
Brent Crude Oil (\$/barrel)		72.7	0.5	-7	-14	-22	-14
Industrials Metals (index)		153	0.0	0	-2	-21	-8
Agriculture (index)		66	-0.5	0	-3	-13	-4
Implied Volatility			%				
VIX Index (% change in pp)		19.5	1.2	2.5	0.5	-5.9	-2.2
US 10y Swaption Volatility		124.4	5.5	13.3	-12.3	4.8	-1.3
Global FX Volatility		9.2	0.0	-0.1	-1.0	-1.4	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		187	2.2	3	-4	-58	-18
Italy		192	5.2	3	6	-6	-22
Portugal		87	3.2	5	2	-26	-14
Spain		110	3.0	5	7	0	1

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

Emerging Market Financial Indicators

Last updated: 5/4/2023 8:20 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		6.91	0.1	0.2	0	-4	0		3.0	-9.5	-10	-18	10	-9
Indonesia		14685	0.0	0.1	1	-2	6		6.4	-5.0	-11	-30	-55	-51
India		82	0.0	0.1	1	-7	1		7.2	-6.0	-8	-33	(95.4)	-27
Philippines		55	0.0	0.7	-2	-5	1		6.0	0.0	0	0	65	-5
Thailand		34	0.4	1.0	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	-17	#VALUE!	-31
Argentina		225	-0.2	-1.6	-7	-49	-21		95.0	16.0	418	714	4212	677
Brazil		4.99	0.0	-0.3	2	-1	6		12.3	2.6	-6	-48	14	-27
Chile		804	0.8	0.2	1	6	6		5.1	-3.5	-10	-4	-121	-23
Colombia		4628	1.4	-2.2	-1	-13	5		9.0	0.0	-2	52	28	-74
Mexico		17.89	0.2	0.8	1	12	9		8.3	-3.5	-7	-4	-70	-42
Peru		3.7	0.1	0.9	2	3	3		7.5	0.0	0	-1	-36	-49
Uruguay		39	-0.1	-0.6	-1	5	2		10.0	0.0	-19	-23	-7	-69
Hungary		338	0.4	0.1	2	5	10		7.7	-12.0	-35	-67	67	-190
Poland		4.15	0.0	0.0	3	6	5		5.2	-9.9	-32	-22	-92	-97
Romania		4.5	0.0	0.5	1	4	4		7.1	-3.3	-4	-13	2	-61
Russia		78.2	0.0	4.2	1	-16	-5							
South Africa		18.2	0.5	0.6	-1	-15	-6		9.2	-4.5	-18	12	79	6
Turkey		19.49	-0.1	-0.3	-1	-24	-4		12.3	-82.0	-9	202	-901	245
US (DXY; 5y UST)		101	-0.2	-0.3	0	-1	-2		3.29	-0.5	-30	-10	38	-71

	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		4030	0.0	1	-2	0	4		201	3	8	0	24
Indonesia		6844	0.5	-1	0	-5	0		157	4	-4	-38	17
India		61749	0.9	2	3	11	1		165	3	-1	-6	23
Philippines		6684	1.2	2	3	-3	2		129	5	-4	-18	32
Thailand		1533	0.0	0	-4	-7	-8		0	0	0	0	0
Malaysia		1426	0.0	0	0	-11	-5		104	-1	4	-21	4
Argentina		288848	-2.3	-5	15	223	43		2576	-77	292	788	371
Brazil		101797	-0.1	-1	0	-6	-7		286	3	14	-8	12
Chile		5373	0.1	1	3	10	2		142	0	-4	-30	10
Colombia		1159	0.1	-2	-2	-28	-10		427	-7	49	43	55
Mexico		54947	-0.4	1	1	7	13		400	5	16	21	19
Peru		21748	0.0	-1	-1	-3	2		185	4	-5	-20	5
Hungary		46194	-0.7	7	6	7	5		225	-4	-16	24	3
Poland		62378	-0.7	0	6	10	9		139	56	54	142	66
Romania		12186	-0.5	-2	-1	-2	4		263	4	-1	18	7
South Africa		77195	-1.3	-1	0	10	6		430	6	28	35	63
Turkey		4536	1.1	-5	-9	87	-18		522	-4	34	-1	82
Ukraine		507	0.0	0	0	-2	-2		5384	110	391	1736	1305
EM total		39	0.5	0	-2	-11	2		425	0	16	28	50

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

[back to top](#)