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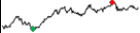




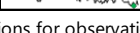
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Markets cautious to start the week

Markets trod water this morning as investors continued to assess the outlook for monetary policy ahead of key inflation data later this week. Shares in PacWest gained as much as 40% in premarket trading, extending Friday's recovery rally and leading gains amongst US regional banks. US Treasury and Bund yields rose and the dollar was little changed. The resilient US jobs data report on Friday supported bets the Fed will hold rates high for longer, with implied rates from Fed fund futures—which on Thursday priced in a cut in July—moving higher to levels consistent with a stable US policy rate for the June and July FOMC meetings. In emerging markets, Chinese equities were among the outperformers driven by financials and SOEs, with the CSI 300 Financials index jumping for a fifth session today to reach its highest level since April 2022.

Key Global Financial Indicators

Last updated: 5/8/23 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4136	1.8	-1	1	0	8
Eurostoxx 50		4354	0.3	0	1	20	15
Nikkei 225		28950	-0.7	2	5	10	11
MSCI EM		39	1.3	1	0	-4	4
Yields and Spreads			bps				
US 10y Yield		3.49	4.9	-8	10	36	-39
Germany 10y Yield		2.33	4.3	2	15	120	-24
EMBIG Sovereign Spread		488	-4	6	-3	48	36
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.1	0.1	1	1	-2	2
Dollar index, (+) = \$ appreciation		101.2	0.0	-1	-1	-2	-2
Brent Crude Oil (\$/barrel)		77.2	2.5	-3	-9	-31	-10
VIX Index (% change in pp)		17.5	0.3	1	-1	-13	-4

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

The Week Ahead

On Thursday, the BoE is expected to deliver a 25-bps hike (with the policy rate rising to 4.5%). Several other interest rate decisions are scheduled for this week (with policy rates expected to remain unchanged across the board): Poland and Romania on Wednesday; Peru on Thursday; Chile on Friday. On the data front, a number of CPI and PPI releases are scheduled throughout the week for the US and several Euro-area countries.

Mature Markets

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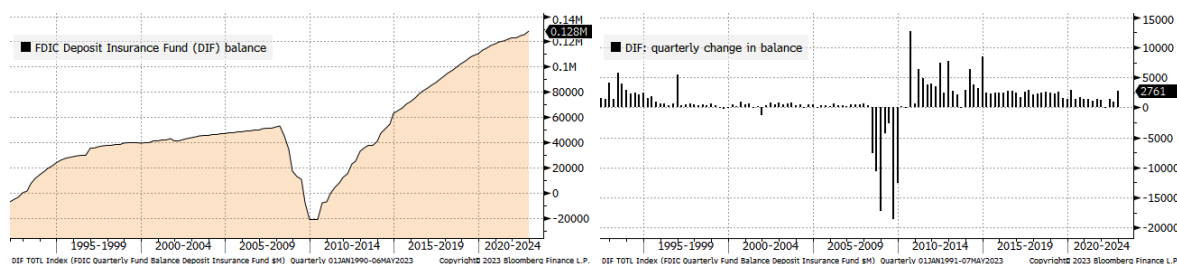
United States

On Friday, the S&P 500 gained 1.8%, with all sectors advancing and 90% of the stocks in the index closing higher than a day before. US Treasury 2-year and 10-year yields rose by 12 bps and 6 bps respectively, mostly driven by breakeven inflation.

US regional bank stocks rebounded after Thursday's sell-off. In particular, shares in PacWest and Western Alliance Bank rose by more than 80% and 50% on Friday, respectively, recovering after the fall on Thursday triggered by a mixture of news and rumors about the banks' search for new investors. While Friday's percentage change in equity prices was extraordinary, its magnitude was determined mostly by the small base after a large drop during the last two months—the chart below shows the significant decline in PacWest stock prices. However, given the threat of continuing bank runs for select regional banks, those banks' stocks currently do not have a strong valuation anchor and are prone to speculative attacks from short sellers that might overreact to the news flow. On the other hand, JPMorgan analysts upgraded the investment recommendation for various regional banks, citing that the fundamentals justify much higher market prices than the ones currently observed in the market.



Next week, the Federal Deposit Insurance Corporation (FDIC) is planning to release a proposal for refilling its Deposit Insurance Fund (DIF). The cost of intervening for SVB, Signature Bank, and First Republic Bank is expected to exceed \$35 bn, which is approximately one quarter of the current size of the DIF (left chart below), and far exceeds quarterly net changes in the DIF balance during the Global Financial Crisis (right chart). One part of the refilling will come from collecting special assessment fees from large banks, with Bloomberg reporting that the expectation is that smaller lenders with less than \$10 bn in assets would not have to pay. Another part of the refilling will come from quarterly fees that lenders pay into the DIF.



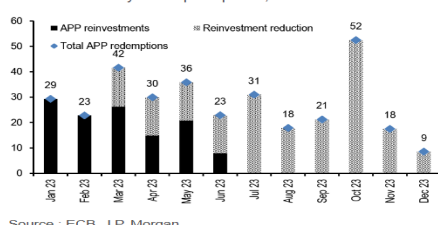
Europe

Equities (+0.3%) rose, and German 10-year yields were 3 bps higher. Bank stocks (+0.7%) outperformed. UK markets are closed for a holiday. ECB Governing Council member Knot said the bank will have to raise borrowing costs further as core inflation is still too high, indicating they are not pausing. On the macro data front, German industrial production this morning was weaker than expected (-3.4% mom versus -1.5% consensus), increasing the chance of a downward revision to Q1 GDP growth. The decrease was pronounced in the automotive sector.

Euro-area investors are considering shifting focus to carry trades and increasing duration exposure as the end of the monetary policy cycle approaches. According to a JP Morgan survey, they have reduced their underweight periphery exposure over the past few weeks to return to neutral. The ECB expects to discontinue APP reinvestments in July while PEPP reinvestment will continue. Analysts see that the modest reduction in reinvestments per se is unlikely to lead to sovereign spread widening in the euro area. Still, it could act as an additional catalyst to a widening triggered by some other factor. Investors await Italy's rating reviews by Fitch (currently BBB with a stable outlook) on May 12 and Moody's (Baa negative outlook) on May 19. Analysts expect a low probability of Italy's downgrade to a sub-investment grade rating given the recent macroeconomic overperformance and stable political outlook.

Figure 15: The ECB expects to discontinue APP re-investments from July, broadly in line with our expectations

ECB APP monthly redemption profile; €bn



Source : ECB, J.P. Morgan

Figure 16: European real money investors have sharply reduced their UW periphery exposure over the past few weeks and are now close to neutral

Net exposure of Euro area investors to peripherals vs. core; %

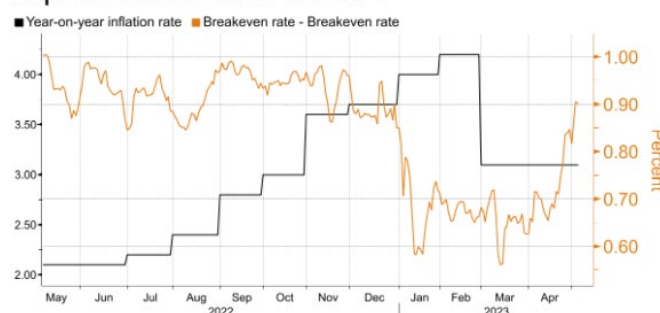


Source : J.P. Morgan European Client survey, 4 May

Japan

Japan lowered the classification of COVID-19 to the same level as seasonal flu today. Analysts noted that the policy change should support domestic consumption and tourism activity, with the number of foreign visitors returning to 65% of the pre-pandemic level as of March 2023. Japanese equities declined (NIKKEI: -0.7%) as markets reopened after the public holidays. Shares of Japanese banks, which are seen as the most vulnerable in Asia to the global banking turmoil, fell (-1.3%), leading the stock market decline. **The minutes of the Bank of Japan policy meeting showed that the inflation environment has started to change.** Few members noted that there were positive signs toward achieving the 2% inflation target, while some members indicated that attention was warranted on the risk of prices rising more-than-expected. Long-end government bonds yields were little changed, with 10-year yield at around 0.41%. Meanwhile, the 10-year breakeven inflation rate rose to 0.91%, a 19-week high. The Japanese yen depreciated slightly (-0.1%).

Japan Breakevens vs. CPI



Source: Bloomberg

Emerging Markets

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Asian equities gained, up 0.6% on net, led by Indian (+1.2%), Chinese (CSI 300: +1.1%), Hong Kong (+1.1%), and Thai (+1.0%) equities. Meanwhile, Philippine stock prices fell (-1.3%). Overall market sentiment improved following a rebound in US regional bank stocks and the US jobs report on Friday. **Most Asian currencies appreciated**, led by Thai baht (+0.4%). Meanwhile, Indonesian rupiah depreciated (-0.3%). **Long-end government bond yields generally increased**, with 10-year yields rising in Indonesia (+4 bps). **In India**, market participants noted that a rally in government bonds may end soon as the market focus is shifting to upcoming heavy debt issuances. Indian government bonds outperformed regional peers in the past month. Today, the 10-year government bond yield edged up (+0.6 bp), while Indian rupee was little changed. **In Hong Kong SAR and Singapore**, authorities announced their plans for public consultation on potential enhancements to the deposit insurance schemes. **In EMEA**, equities gained and most currencies appreciated to the dollar this morning. **LATAM markets closed higher on Friday**. Equities gained in a range of +0.5-5.5%, with Brazilian equities (+2.9%) amongst the outperformers. All major currencies also appreciated to the dollar. The Colombian peso strengthened the most (+1.7%) after a lower-than-expected inflation print.

EM Fund Flows

EM fund flows were modestly positive last week and came in at \$300 mn overall (vs -\$611mn in the week before), as EM equity funds saw inflows of \$432 mn (vs \$22 mn. in the week before) driven by ETF inflows of \$664 mn. Bond funds, on the other hand, experienced an outflow \$130 mn, as hard currency bonds experienced withdrawals of \$146 mn. (vs -\$539 mn. in the week before). Over the last 12 weeks, hard currency bond funds have seen an outflow of \$9.2 bn. Local currency funds flows were \$17 mn for the week. Overall EM fund flows stand at +\$41.3 bn year-to-date.

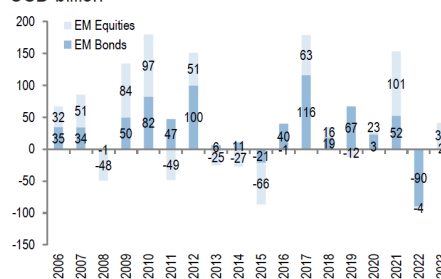
Figure 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	0.3	41.3	
EM Bonds	-0.1	1.9	
Hard Ccy	-0.1	1.9	
Local Ccy ^A	0.0	-0.1	
o.w. EM ex-China	0.0	1.3	
o.w. China	0.0	-2.2	
EM Equities	0.4	39.4	
US HG	4.1	105.1	
US HY	0.4	-4.2	
Global Equities	-7.5	-37.4	
EM Bond and Equity ETFs	0.6	27.5	
EM Bond ETFs	0.0	-0.1	
EM Equity ETFs	0.7	27.6	
Non-resident EM flows*	1.0	19.7	

Figure 2: EM bond and equity fund flows

USD billion



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

China

Chinese equities gained (CSI 300: +1.1%), **led by financial institutions and state-owned enterprises** (SOEs). The share prices of financials rose (+3.2%) after at least three joint-stock banks lowered deposit rates following an early move of some smaller banks. Markets expected that more banks will follow suit, and the reduction in deposit rates could help support net interest margin which has narrowed recently. Stocks of SOEs also gained after the government released guidelines over bond issuance for SOEs to improve the efficiency of approval process and strengthen control to prevent default risks. The RMB depreciated (-0.1%). CGB yields rose modestly.

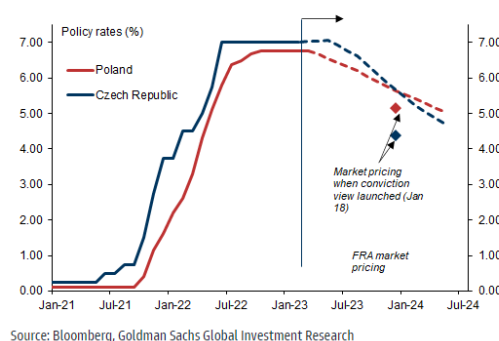


The Central Financial and Economic Affairs Commission (CFEAC) placed supply-chain security as the top economic policy priority. The CFEAC meeting, chaired by President Xi last Friday, outlined major economic policies for upcoming years. Top officials vowed to accelerate building a modern industrial system, enhance supply-chain security, and promote high-quality development of the population. Analysts expected that more specific measures will soon be introduced, including industrial policies to enhance productivity, competitiveness and security, as well as health, labor and education policies to deal with long-term demographic challenges.

Eastern Europe

Markets expect easier monetary policy in countries such as Poland and the Czech Republic over the next 12 months. However, inflation in these countries remains deeply entrenched, especially core inflation. Inflation expectations remain high, while inflationary pressures have increased in all the components of core inflation. Wage growth has also been rapid. Goldman thinks that policy rates will have to stay restrictive for much longer than the market anticipates. Local government bond yields have fallen along with US Treasury and German bund yields, and local currencies have depreciated, making the inflation picture worse.

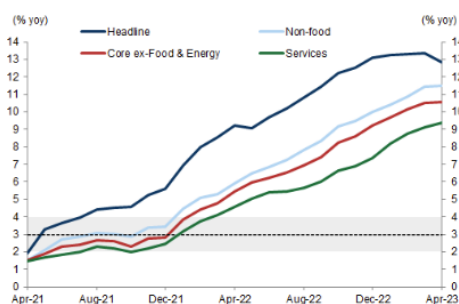
Exhibit 3: Market Pricing of Policy Rates in Poland and the Czech Republic
FRA pricing (assuming constant basis)



Colombia

April CPI printed below market expectations at 0.78% m/m vs. market expectations of 0.9% m/m. This was driven by a decline in food prices (-0.1% m/m), while the prices of most other components of the inflation basket continued to rise. As a result, the annual headline inflation decelerated for the first time since May 2021 to 12.8% y/y (down 50 bps from last month). Market contacts commented that this allows the central bank more room to end monetary policy tightening while keeping a close watch on core and service inflation. The Colombian peso (+1.7%) outperformed regional peers.

Headline Inflation Peaked in Apr; Other Categories Continue to Rise



Source: DANE, Goldman Sachs Global Investment Research

Headline Inflation Tracking at Historically High Levels










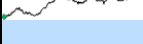
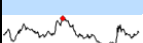

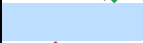

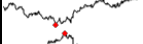




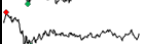




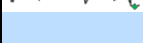



Source: DANE, Goldman Sachs Global Investment Research

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

5/8/23 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4135	1.8	-1	1	0	8
Europe		4354	0.3	0	1	20	15
Japan		28950	-0.7	2	5	10	11
China		4063	1.1	3	-1	5	5
Asia Ex Japan		67	1.2	1	-1	-2	4
Emerging Markets		39	1.3	1	0	-4	4
Interest Rates			basis points				
US 10y Yield		3.49	4.9	-8	10	36	-39
Germany 10y Yield		2.33	4.3	2	15	120	-24
Japan 10y Yield		0.42	-0.3	1	-5	17	0
UK 10y Yield		3.78	12.8	6	35	182	11
Credit Spreads			basis points				
US Investment Grade		167	-0.6	7	3	11	8
US High Yield		500	-4.2	28	0	72	19
Exchange Rates			%				
USD/Majors		101.17	0.0	-1	-1	-2	-2
EUR/USD		1.10	0.2	1	2	4	3
USD/JPY		135.2	0.3	-2	1	4	3
EM/USD		51.1	0.1	1	1	-2	2
Commodities			%				
Brent Crude Oil (\$/barrel)		77.2	2.5	-3	-9	-18	-8
Industrials Metals (index)		154	0.5	0	0	-18	-7
Agriculture (index)		68	0.6	3	0	-9	-1
Implied Volatility			%				
VIX Index (% change in pp)		17.5	0.3	1.5	-0.9	-12.7	-4.1
US 10y Swaption Volatility		121.5	3.0	5.6	-9.8	-5.4	-4.2
Global FX Volatility		9.2	0.1	0.2	-0.9	-1.8	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		174	-0.7	-13	-17	-70	-31
Italy		191	0.9	5	6	-9	-23
Portugal		85	-0.5	3	-3	-29	-17
Spain		108	0.0	4	4	-2	-1

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

Emerging Market Financial Indicators

Last updated: 5/8/2023 8:01 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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	0.0	0	-3	0		3.0	2.0	-6	-15	13	-6
Indonesia		14711	-0.2	-0.3	1	-1	6		6.5	3.8	-5	-19	-50	-46
India		82	0.0	0.0	0	-5	1		7.2	5.8	-5	-11	(89.5)	-22
Philippines		55	0.1	0.4	-2	-5	1		5.9	-10.0	-10	-10	50	-15
Thailand		34	0.1	1.1	2	2	2		2.6	-0.5	-6	-1	-72	-7
Malaysia		4.44	0.0	0.6	-1	-1	-1		3.7	-2.0	-2	-17	-76	-34
Argentina		226	-0.2	-1.6	-7	-49	-22		96.3	15.9	202	738	4351	812
Brazil		4.95	0.7	0.7	2	2	7		12.2	3.0	-25	-48	-19	-35
Chile		795	0.4	1.6	2	8	7		5.1	0.8	-4	-7	-140	-20
Colombia		4527	1.8	3.7	1	-10	7		8.7	-15.6	-34	15	-10	-104
Mexico		17.78	-0.1	0.9	2	15	10		8.3	2.5	-3	2	-72	-41
Peru		3.7	0.2	-0.1	2	2	3		7.3	0.0	-16	-12	-98	-65
Uruguay		39	0.3	-0.4	0	6	3		10.0	6.0	6	-27	-1	-63
Hungary		337	0.1	0.7	3	7	11		7.9	0.0	7	-30	69	-170
Poland		4.14	0.3	1.4	4	7	6		5.2	1.3	-19	-8	-136	-95
Romania		4.5	0.3	0.6	2	5	4		7.1	4.2	-4	-9	3	-60
Russia		76.9	1.1	3.9	6	-10	-4							
South Africa		18.3	0.4	0.4	1	-12	-7		9.3	1.8	-3	26	51	15
Turkey		19.51	0.0	-0.2	-1	-23	-4		12.7	-9.0	-20	237	-1022	286
US (DXY; 5y UST)		101	-0.1	-1.1	-1	-3	-2		3.45	4.1	-18	-5	37	-55

	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		4063	1.1	3	-1	5	5		200	6	7	-3	23
Indonesia		6770	-0.3	-2	0	-2	-1		146	-7	-18	-37	6
India		61764	1.2	1	3	13	2		164	5	1	-9	22
Philippines		6601	-1.3	0	2	-2	1		119	-5	-20	-22	22
Thailand		1562	1.9	1	-1	-3	-6		0	0	0	0	0
Malaysia		1434	0.2	1	0	-7	-4		104	3	4	-23	4
Argentina		297140	5.5	0	18	243	47		2589	-108	146	801	384
Brazil		105148	2.9	2	4	0	-4		281	4	1	-9	7
Chile		5480	1.9	1	4	13	4		139	1	-12	-25	7
Colombia		1164	0.5	-3	-2	-25	-9		426	1	26	51	54
Mexico		54937	0.5	1	3	11	13		403	12	0	34	22
Peru		22155	2.5	2	1	6	4		185	6	-12	-7	5
Hungary		46503	0.4	4	5	10	6		221	-6	-17	30	-1
Poland		63397	1.1	0	8	15	10		136	-1	53	129	63
Romania		12237	0.4	0	-1	0	5		258	-2	-4	33	3
South Africa		78665	0.7	1	2	16	8		432	13	5	47	65
Turkey		4446	1.0	-4	-10	81	-19		528	22	12	6	88
Ukraine		507	0.0	0	0	-2	-2		5354	40	318	1832	1275
EM total		39	0.2	1	0	-4	4		423	4	4	32	48

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

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