



- Analysts focus on the divergence in the valuation of US short-term rates and equities ([link](#))
 - ECB officials continue to make hawkish statements ([link](#))
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 - The BOJ will end the yield curve control if it achieves the price objective ([link](#))
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 - South African local yields shift higher as analysts warn of fiscal risks ([link](#))
- Special Feature: Stress Among US Regional Banks ([attached](#))**












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Market sentiment sours

Risky assets fell and the dollar strengthened this morning following the release of weak Chinese imports data and ongoing concerns about tighter lending standards. Weaker-than-expected April imports data raised investors' concerns about China's sluggish domestic demand. Risk sentiment also soured following the release of the Fed's quarterly senior loan officer opinion survey as well as its financial stability report yesterday, with the former signaling bank plans to tighten loan standards and the latter raising concerns about credit contraction following the US regional bank turmoil. Worries about the real estate sector may have also weighed on risk appetite this morning as SBB- one of Sweden's biggest commercial landlords- announced plans to halt its dividend after suffering a ratings downgrade to junk by S&P. Emerging markets traded with a cautious tone this morning, with Chinese equities underperforming following the weak imports data and South African local yields increasing on fears of a widening fiscal deficit.

Last updated: 5/9/23 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4138	0.0	-1	1	4	8
Eurostoxx 50		4310	-0.9	0	0	22	14
Nikkei 225		29243	1.0	3	6	12	12
MSCI EM		39	0.1	1	0	-1	4
Yields and Spreads			bps				
US 10y Yield		3.49	-2.1	6	10	45	-39
Germany 10y Yield		2.32	-0.4	6	13	122	-26
EMBIG Sovereign Spread		483	-5	10	-3	40	31
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.8	-0.1	1	1	-1	2
Dollar index, (+) = \$ appreciation		101.7	0.3	0	0	-2	-2
Brent Crude Oil (\$/barrel)		76.2	-1.0	1	-10	-28	-11
VIX Index (% change in pp)		17.6	0.7	0	-1	-17	-4

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

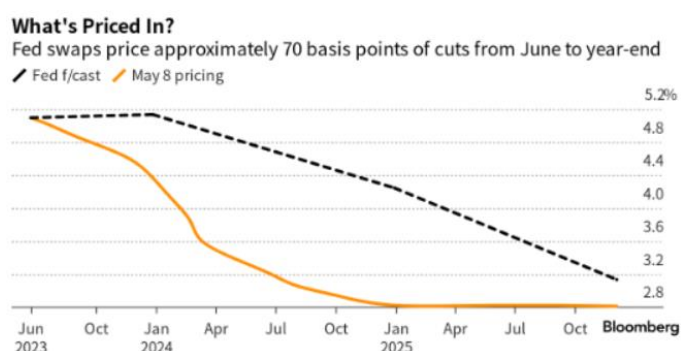
Mature Markets

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United States

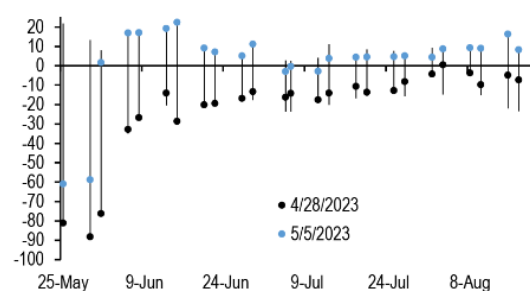
US stocks were little changed yesterday, with real estate (-0.7%) and communication services (+1.3%) sectors being the biggest movers. Banks were flat overall but regional banks (proxied by the widely followed KRX index) closed the day in the red (-2.8%). US Treasury yields rose by 7-9 bps across the yield curve, driven mostly by breakeven inflation.

Analysts continued to focus on the divergence in the valuation of US short-term rates and equities. JP Morgan analysts noted that interest-rate markets are pricing rapid rate cuts – much faster than the Fed forecast (chart below) – while equity markets are interpreting those priced-in cuts as positive for risk assets. However, analysts emphasized that the rapid rate cuts would most probably happen only in a shock event like the onset of a recession or a significant crisis in financial markets. And therefore, the gap between the bond market, equity market and the Fed is likely to close at the expense of equities. Analysts at Goldman Sachs and Barclays are also predicting that the Fed cuts will be less aggressive than the market is currently pricing.

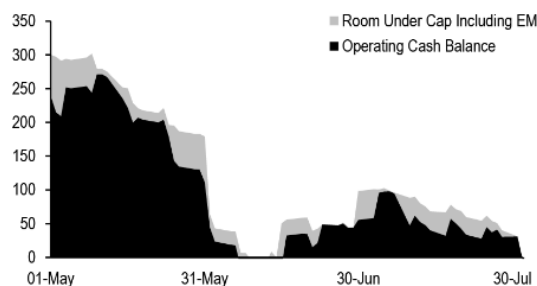


JP Morgan analysts expect the so-called US Treasury x-date on June 9 (right chart below) versus their previous expectation that the Treasury would have enough funds to last at least through July. The revision was driven by the comments from Janet Yellen stating that resources will be depleted “as early as June 1,” and by a similar estimate of the independent and nonpartisan CBO. Following these reports, T-bills maturing in early June cheapened significantly versus matched-maturity SOFR last week, as investors looked to avoid securities at risk of a technical default (left chart). Moreover, analysts at Barclays are of the view that the Treasury’s cash balance might dip below \$50 bn between June 5-15.

T-bill spreads to matched-maturity SOFR with 1-month ranges, and levels as of 4/28/23 and 5/5/23



Projected estimates of Treasury's available resources; \$bn

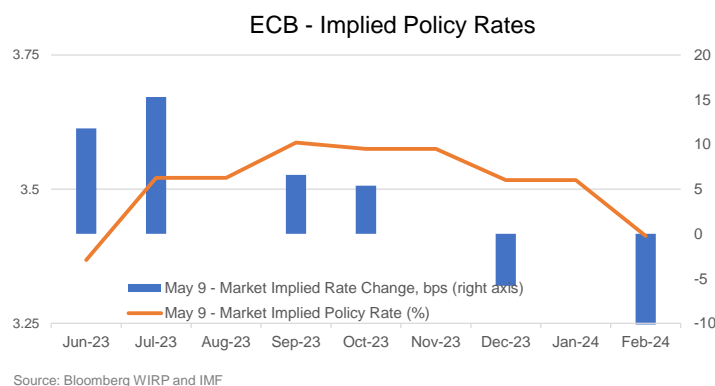


Source : US Treasury, J.P. Morgan

Euro Area

European markets were down this morning. The equity market (Stoxx Europe 600) was losing 0.6%, with banking stocks down 0.4%. The euro was weakening 0.2% vs. the dollar at 1.1/\$. German 10-year bund yields were down 2 bps to 2.3%, and Italian spreads were broadly unchanged at 193 bps.

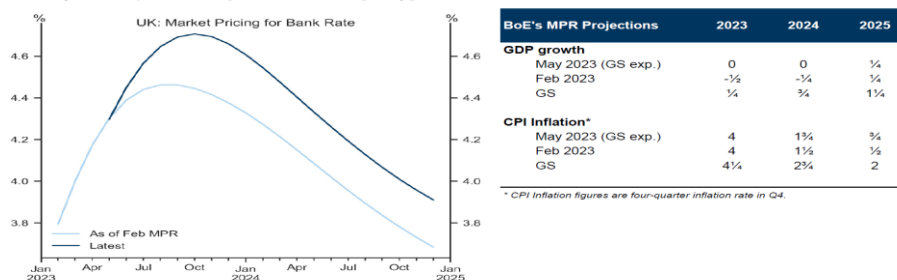
ECB officials continue to make hawkish statements, reaffirming ECB President Lagarde's message that there is more ground to cover to tame inflation after last week's 25 bps hike. Latvian governor Kazak said today that investors should not count on the ECB pausing rate hikes in July, as consensus currently predicts, as further rates will be necessary to tame inflation in his view. He also added that expectations of rate cuts next Spring are significantly premature and that it is not impossible for the ECB to hike or pause even as the Fed cuts rates. Slovak governor Kazimir also said that the battle against inflation is far from won and that there is plenty of ground left to cover. Croatia's governor Vujic added that the job on inflation is not done yet. Yesterday, ECB chief economist Philip Lane said that there is still a lot of momentum in inflation, even though it is showing signs of moderation and is supposed to reverse later this year, partly because of the reversal of the underlying shocks, partly because of monetary policy. Dutch central bank chief Klaas Knot said on Sunday that borrowing costs must be lifted as long as the underlying inflation has not been tamped down as core inflation is still too high. Italy's Ignazio Visco, who's considered more dovish, has said the ECB is close to reaching the peak in rates. Markets are pricing in almost 40 bps of cumulative hikes in June and July.



United Kingdom

Markets are muted in the UK ahead of the BoE rate decision on Thursday. The equity market was down 0.3% this morning, while the British pound was broadly unchanged (at 1.26 £/\$). Yields on 10-year gilts are up 3 bps to 3.8%. **Goldman Sachs analysts expect the BoE terminal rate to reach 5%, higher than currently priced by markets.** Markets are expecting the BoE to hike rates by 25 bps on Thursday (to 4.5%), and also on June 22, but are not fully pricing in further hikes, and see a terminal rate of 4.85% in September. Goldman Sachs analysts expect the BoE to meaningfully upgrade their growth projections on Thursday, and no longer show a prolonged recession, on the back of stronger growth momentum and fiscal policy measures announced as part of the Spring budget. They expect the MPC to keep its near-term CPI inflation forecast broadly unchanged but lift its medium-term projection slightly. Goldman Sachs' analysts also maintain more optimistic growth projections than the MPC, expect the labor market to remain tight, and look for wage growth to remain well above the 3% rate that is usually considered to be compatible with the 2% inflation target. They therefore expect the MPC to deliver three consecutive 25 bp hikes until reaching a terminal rate of 5% in August.

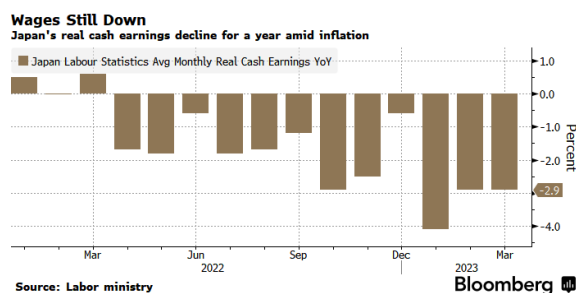
Exhibit 4: Updated Projections Likely to Show a Meaningful Upgrade to Growth



Source: Goldman Sachs Global Investment Research, Bank of England

Japan

Governor Ueda said that the Bank of Japan (BOJ) will end the yield curve control if it achieves the price objective. In response to questions in the parliament, he indicated that the BOJ will end yield curve control and then proceed to shrinking its balance sheet once sustainable and stable inflation at 2% is achieved. He also mentioned that the BOJ will carry out monetary policy as needed even during the policy review. **Household real cash earnings continued to decline, falling 2.9% y/y in March**, from a 2.6% decrease in February. The decline in real cash earnings continued for a twelfth consecutive month. The increase in nominal cash earnings moderated to 0.8% y/y in April from 1.1% in March, while household spending fell 1.9% y/y. Japanese equities gained (NIKKEI: +1.0%), outperforming regional peers. The Japanese yen was little changed. Long-end JGB yields were mixed (10-year: +0.6 bp; 30-year: flat), with the 10-year yield at 0.419%.



Emerging Markets

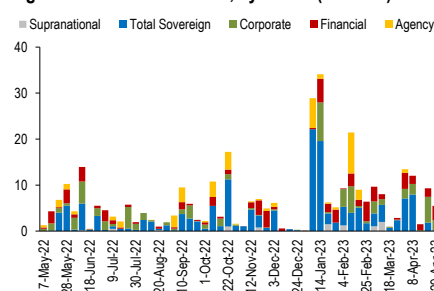
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Asian markets retreated today. Most Asian equities declined, falling 1.3% on net, led by Hong Kong SAR (-2.1%) and Chinese (-0.9%) equities. Most Asian currencies depreciated, led by Philippine peso (-0.9%). Long-end government bond yields increased, with 10-year yields rising in Singapore (+6 bps) and Thailand (+3 bps). In **Indonesia**, Bank Indonesia yesterday indicated that it had no plan to raise interest rates again amid easing inflation. The Indonesian rupiah depreciated (-0.2%) and 1-year government bond yields dropped modestly (-1.2 bps). In **EMEA**, **markets traded with a cautious tone.** South African assets underperformed, with both the rand (-0.5%) and equities (-0.9%) weaker. **The National Bank of Poland is expected to keep its policy rate unchanged at 6.75% tomorrow.** Turkish bank stocks (+5%) jumped in a pre-election surge but contact remain hesitant to make high convictions calls on the likelihood of a particular candidate winning. Meanwhile, **speculation continues that Kenya plans to return to the Eurobond market** to fund its budget deficit and debt redemptions as Bloomberg reports that the National Treasury is struggling to place domestic issuance. **LATAM markets were mixed** yesterday. Equities rallied in most regional markets. Currencies were also mixed, with the Brazilian real (-1.2%) underperforming, reportedly on the news of the deputy finance minister's appointment to the board of the country's central bank.

EM Bond Issuance

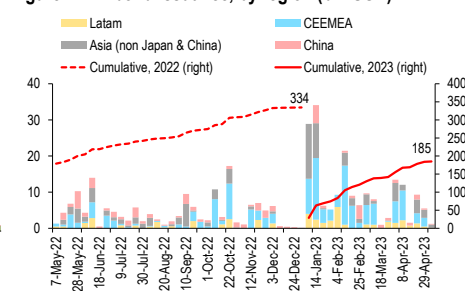
EM bond issuance fell to \$1.2 bn for the week ending on May 6th, down from \$5.5 bn in the week before. This is well below an average weekly volume of \$10.3 bn YTD. Almost all (\$1.1 bn) of this issuance was from corporate sector in EM Asia (including China), while the remaining (\$112 mn) was from financial sector. Despite the sluggish volumes last week, YTD EM bond issuance stands at \$185 bn, a tad higher than \$179 bn for the corresponding period of 2022.

Figure 1. EM bond issuance, by sector (bn. USD)



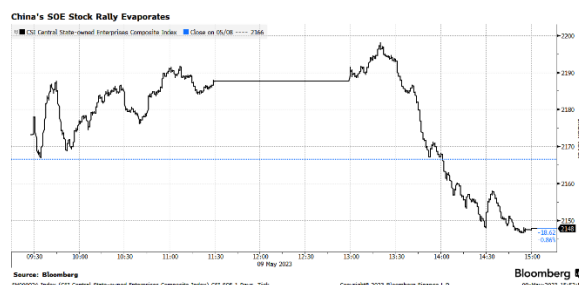
Sources: Bond Radar, and IMF staff calculations.

Figure 2. EM bond issuance, by region (bn. USD)



China

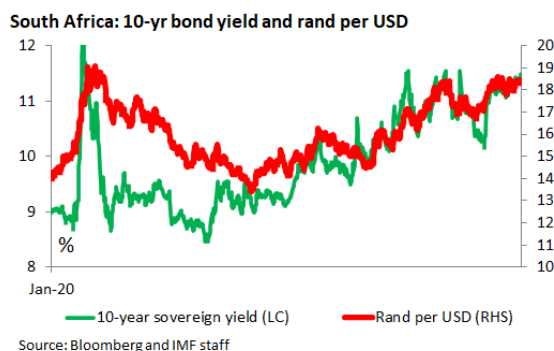
Chinese equities declined as weak imports data weighed on investor sentiment (CSI 300: -0.9%). The rally of state-owned enterprise (SOE) share prices in the morning session (+1.5%), which underpinned the overall market gain, was reversed in the afternoon session, with SOE share prices closing in a negative territory (-0.9%). Some analysts commented that the morning rally could be fueled by Beijing's pledge to widen funding access for SOEs. However, weaker-than-expected April imports data raised investors' concern about China's sluggish domestic demand. At the same time, Beijing's latest clampdown on consulting firms as part of efforts to tighten control foreign access to sensitive information raised policy uncertainty. **Exports grew stronger than expected in April.** In dollar terms, exports increased 8.5% y/y (consensus: +8.0%), with a rotation of exports of electronics to travel-related products. Meanwhile, the contraction of imports deepened, with imports falling 7.9% y/y in April (consensus: -0.2%) due to still subdued domestic demand and falling commodity prices. **Share prices of real estate firms rose today (+0.5%), outperforming other sectors,** after regulators asked property agents to lower commissions for housing sales and rentals. The policy move was seen as efforts to ease transaction costs and accelerate property sales. The RMB depreciated (-0.2%) and CGB yields declined slightly (1-year: -1.1 bps; 10-year: -0.9 bp).



South Africa

Local 10-year yields are 8 bps higher since the start of the week as analysts warn that the budget deficit will widen to 6.3% over the coming quarters as the National Treasury takes over more of Eskom's debt burden. Several contacts see an elevated probability that the 10-year yield will trade above

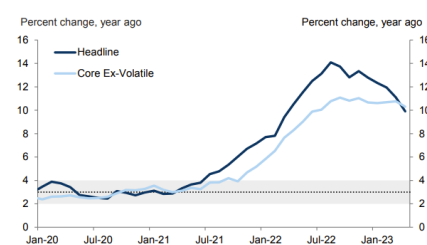
12% over the coming months on fiscal and growth concerns even if SARB has hiked policy rates by more than expected in March.



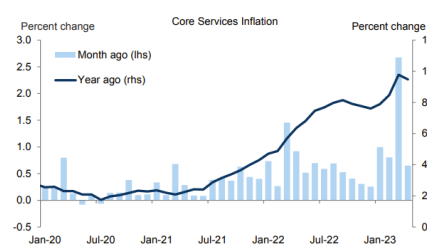
Chile

Inflation continued to decelerate in April, printing at 9.9% y/y, a shade below market expectations of 10% y/y. While core inflation ex-volatile items -a measure preferred by the central bank- declined by 50 bps sequentially to 10.3% y/y, it has proved to be sticky thus far. As a result, markets expect the central bank to keep the policy rate unchanged at 11.25% for the fourth straight meeting, and a possible rate cut in Q3-2023 on weaker domestic demand. The Chilean peso, which opened stronger against the dollar, reversed all gains to close marginally weaker (-0.3%) yesterday.

Headline Inflation Peaked in August; Sticky Core Inflation








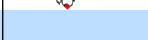









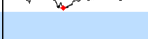










Core Services Inflation Remains Intense



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Global Financial Indicators













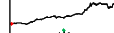









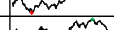
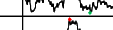











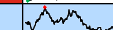

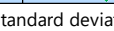
5/9/23 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4132	0.0	0	1	4	8
Europe		4310	-0.9	0	0	22	14
Japan		29243	1.0	3	6	12	12
China		4028	-0.9	1	-2	3	4
Asia Ex Japan		67	0.0	1	-1	1	4
Emerging Markets		39	0.1	1	0	-1	4
Interest Rates			basis points				
US 10y Yield		3.49	-2.1	6	10	45	-39
Germany 10y Yield		2.32	-0.4	6	13	122	-26
Japan 10y Yield		0.43	0.8	1	-4	18	0
UK 10y Yield		3.83	4.8	16	40	187	16
Credit Spreads			basis points				
US Investment Grade		170	1.0	8	7	8	12
US High Yield		504	2.2	11	5	42	24
Exchange Rates			%				
USD/Majors		101.66	0.3	0	0	-2	-2
EUR/USD		1.10	-0.4	0	1	4	2
USD/JPY		135.0	-0.1	-1	1	4	3
EM/USD		50.8	-0.1	1	1	-1	2
Commodities			%				
Brent Crude Oil (\$/barrel)		76.2	-1.0	1	-10	-16	-9
Industrials Metals (index)		153	-0.5	0	-1	-15	-7
Agriculture (index)		67	-0.7	2	-1	-10	-2
Implied Volatility			%				
VIX Index (% change in pp)		17.6	0.7	-0.2	-0.8	-17.1	-4.0
US 10y Swaption Volatility		121.3	0.0	-3.2	-10.0	-5.6	-4.4
Global FX Volatility		9.1	0.0	0.0	-1.0	-2.3	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		180	4.9	-13	-11	-73	-25
Italy		193	1.1	2	8	-12	-21
Portugal		85	0.5	1	-2	-30	-16
Spain		110	1.1	3	5	-2	0

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

1.

Emerging Market Financial Indicators

Last updated: 5/9/2023 8:05 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		6.92	-0.1	0.0	-1	-3	0		3.0	-1.5	-8	-16	11	-7
Indonesia		14742	-0.2	-0.2	1	-1	6		6.5	1.2	-3	-17	-79	-45
India		82	-0.3	-0.2	0	-6	1		7.2	0.4	-7	-11	(89.3)	-21
Philippines		56	-0.9	-0.7	-2	-6	0		5.9	0.0	-10	-10	50	-15
Thailand		34	0.6	1.2	2	3	3		2.6	3.0	-3	3	-69	-4
Malaysia		4.45	-0.2	0.4	-1	-1	-1		3.7	0.3	-3	-16	-69	-34
Argentina		228	-0.6	-2.2	-6	-49	-22		96.9	53.0	255	791	4422	865
Brazil		5.01	-1.2	-0.4	1	3	6		12.4	13.1	-12	-45	-17	-22
Chile		797	-0.3	1.3	3	9	7		5.2	0.0	9	2	-131	-11
Colombia		4505	0.5	4.3	1	-9	8		8.8	0.0	-41	-4	-21	-98
Mexico		17.80	0.0	1.0	2	15	10		8.4	0.0	2	2	-72	-37
Peru		3.7	0.1	0.0	2	3	3		7.4	0.0	-12	-8	-94	-60
Uruguay		39	0.3	-0.1	0	8	3		10.0	-6.0	0	-33	-7	-69
Hungary		339	-0.1	0.6	2	6	10		7.9	1.0	19	-29	70	-169
Poland		4.17	-0.5	-0.1	4	7	5		5.2	-0.6	-8	-9	-137	-95
Romania		4.5	-0.3	-0.1	1	4	3		7.1	0.3	-3	-8	-29	-60
Russia		77.5	0.2	3.4	6	-10	-4							
South Africa		18.4	-0.6	0.2	0	-12	-8		9.3	2.5	-1	29	54	18
Turkey		19.52	0.0	-0.3	-1	-23	-4		12.7	0.0	-18	237	-1032	286
US (DXY; 5y UST)		102	0.3	-0.3	0	-2	-2		3.47	-2.4	2	-3	52	-54

	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		4028	-0.9	1	-2	3	4		201	7	7	0	24
Indonesia		6780	0.2	-1	0	-1	-1		142	1	-18	-40	2
India		61761	0.0	1	3	14	2		165	6	-3	-8	23
Philippines		6623	0.3	-1	2	-1	1		115	3	-19	-24	18
Thailand		1565	0.2	2	-2	-4	-6		0	0	0	0	0
Malaysia		1433	-0.1	1	0	-8	-4		103	2	3	-21	3
Argentina		304396	2.4	2	20	270	51		2596	-87	133	789	391
Brazil		106042	0.9	2	5	3	-3		277	9	-1	-15	3
Chile		5608	2.3	4	6	18	7		136	4	-10	-25	4
Colombia		1157	-0.6	0	-3	-23	-10		423	6	23	47	51
Mexico		55033	0.2	0	3	12	14		401	15	5	32	20
Peru		22329	0.8	2	2	11	5		182	10	-11	-6	2
Hungary		46518	-0.3	2	5	12	6		210	-1	-21	26	-12
Poland		62888	-0.4	0	7	16	9		132	9	61	130	59
Romania		12210	-0.2	-1	-1	0	5		248	3	-7	20	-7
South Africa		77623	-1.2	0	1	16	6		424	18	0	31	57
Turkey		4601	0.9	2	-7	87	-16		518	26	11	-17	78
Ukraine		507	0.0	0	0	-2	-2		5402	81	440	1886	1323
EM total		39	-0.4	1	0	-1	4		419	9	4	25	43

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

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