



Financial Market Developments

May 28, 2020



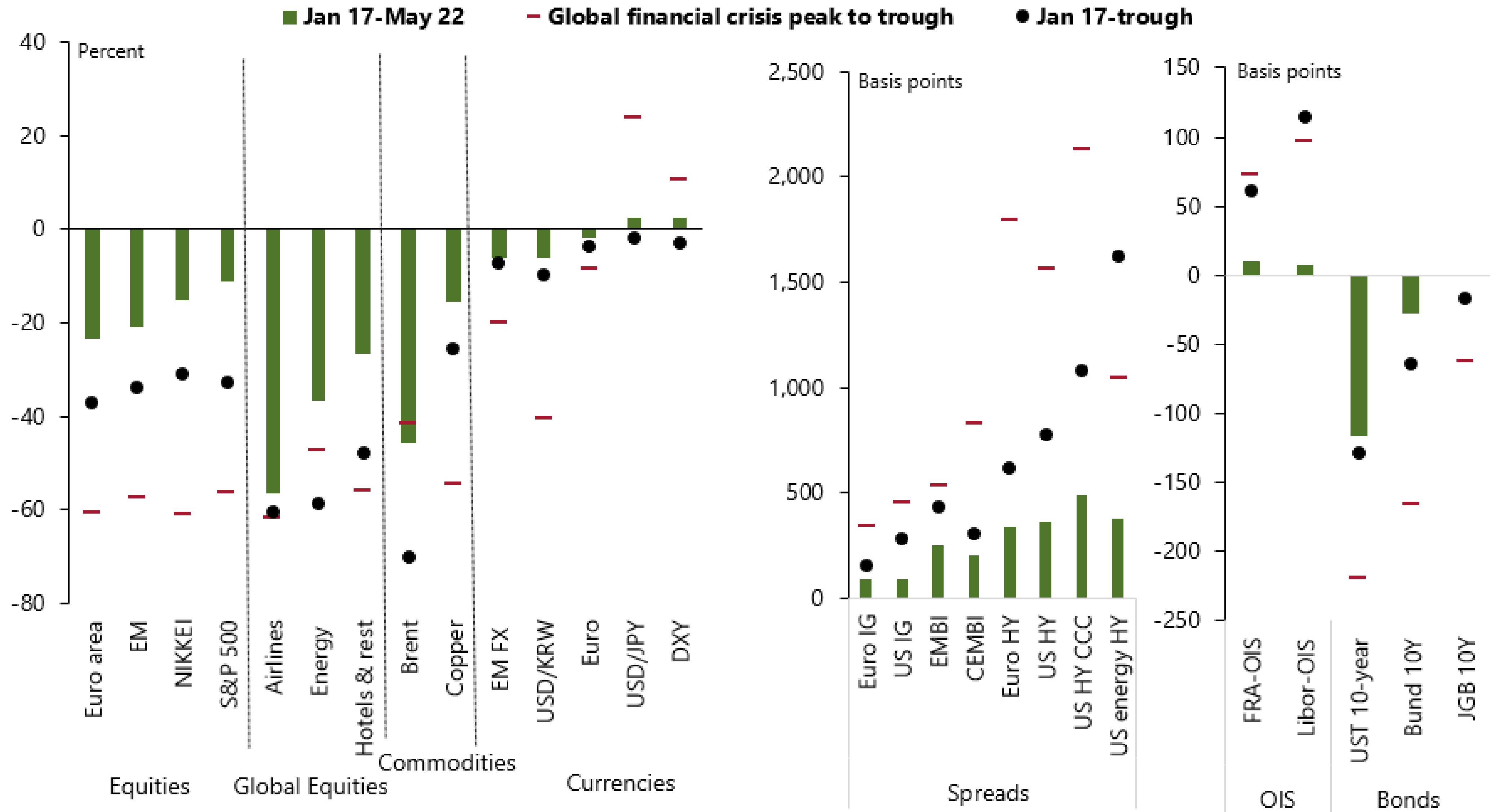
Jochen M. Schmittmann

IMF Resident Representative in Singapore

Markets In the Time of Coronavirus

- The outbreak of the coronavirus has dealt an unprecedented blow to global financial markets
- Risk asset prices plummeted and borrowing costs soared, especially in risky credit markets
- Emerging and frontier markets experienced the sharpest portfolio flow reversal on record
- Due to strong policy action, markets have partially rebounded. However, stresses remain and uncertainty is high

A Market Shock of Unprecedented Speed with a Fast, Partial Rebound

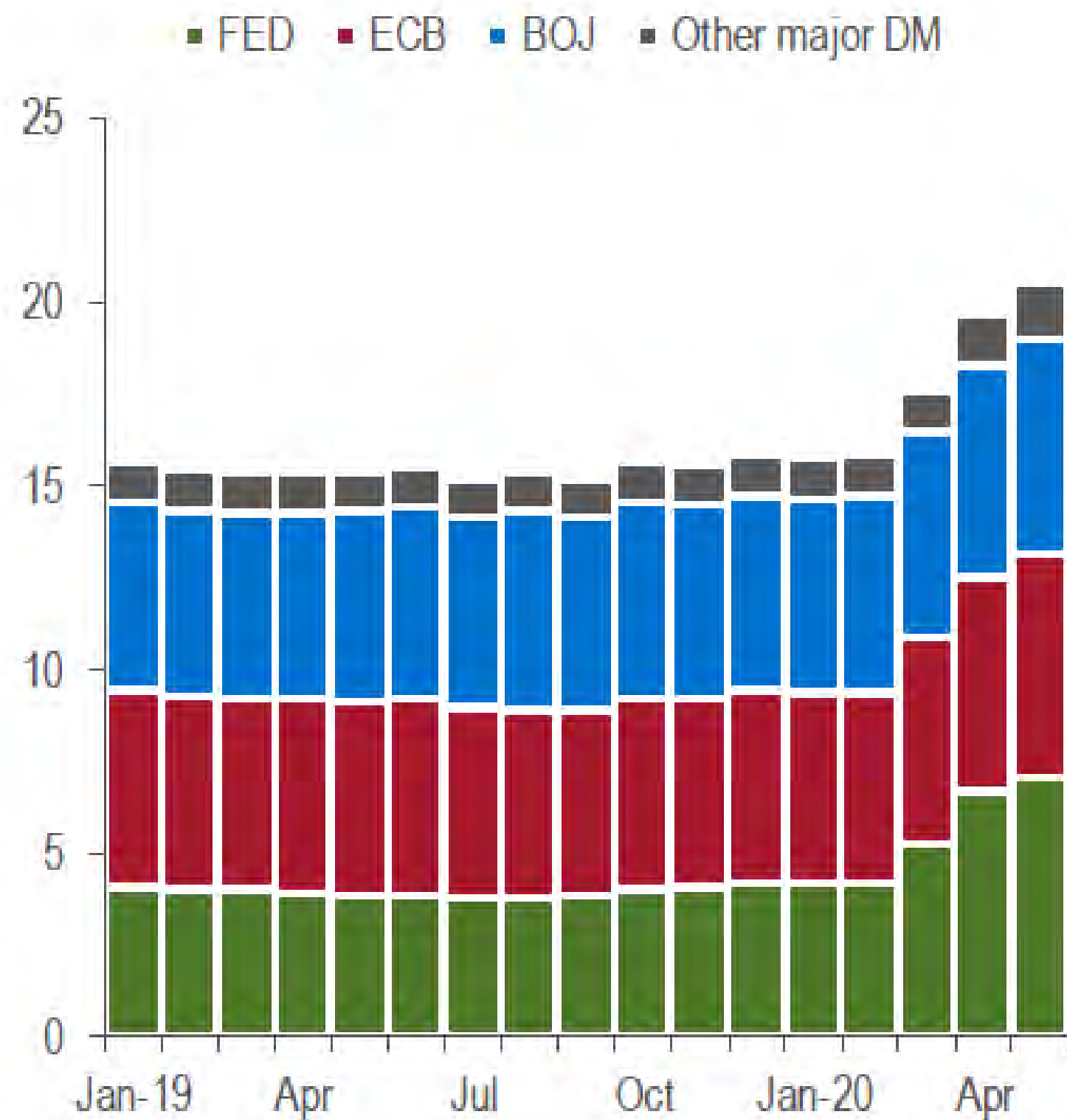


Monetary Stimulus is in Full Force in Advanced Economies...

Asset purchases and other credit and liquidity support measures have picked up pace

Policy rates are expected to remain low, with negative rate now priced in UK

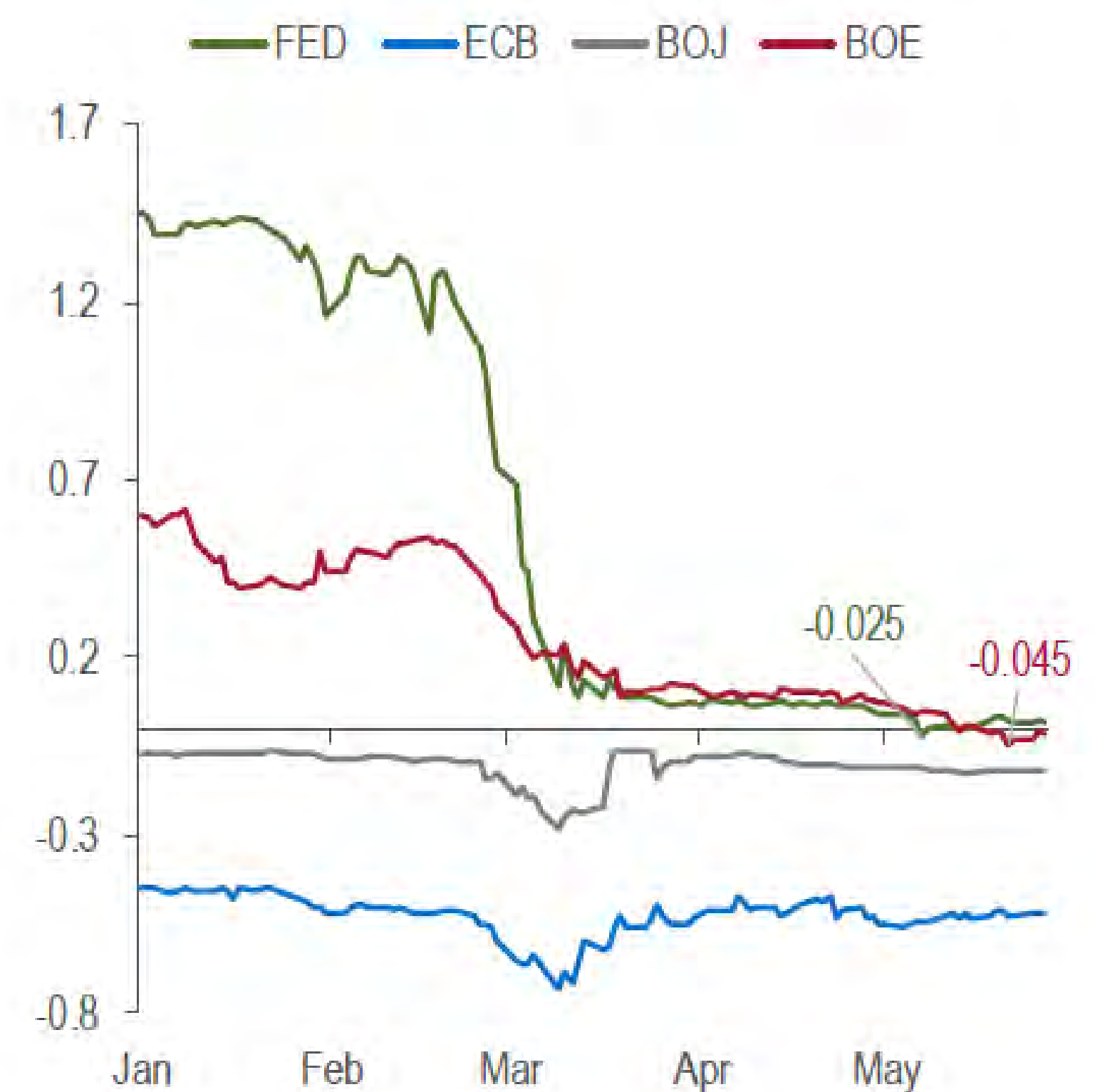
Central Bank Total Assets
(\$ trillion)



Other major DM includes BOE, BOC, RBA, RBNZ and SNB

		Latest (\$bn)
ECB	Net lending to credit institutions	740
	Covered Bond Purchase program	343
	Securities Markets Program	43
	ABS Purchase Program	33
	Corporate Sector Purchase Program	232
	Pandemic Emergency Purchase Program	231
	Public Sector Purchase Program	2417
FED	Treasury + MBS + Agency holdings	5955
	Discount window	20
	Repo	157
	Commercial Paper Funding Facility	4
	Money Market Mutual Fund Liquidity	36
	Primary Dealer Credit Facility	8
	Paycheck Protection Program Liquidity Facility	45
	Secondary Market Corporate Credit Facility	2
BOJ	JGB holdings	4582
	CP and corporate bond holdings	69
	ETF and REITS holdings	479
	Funds-Supplying Operations	308
BOE	Term Funding Schemes	142
	Loans to Corporate Financing Facility	24
	Repo	41
	Gilt and corporate bond purchase	666

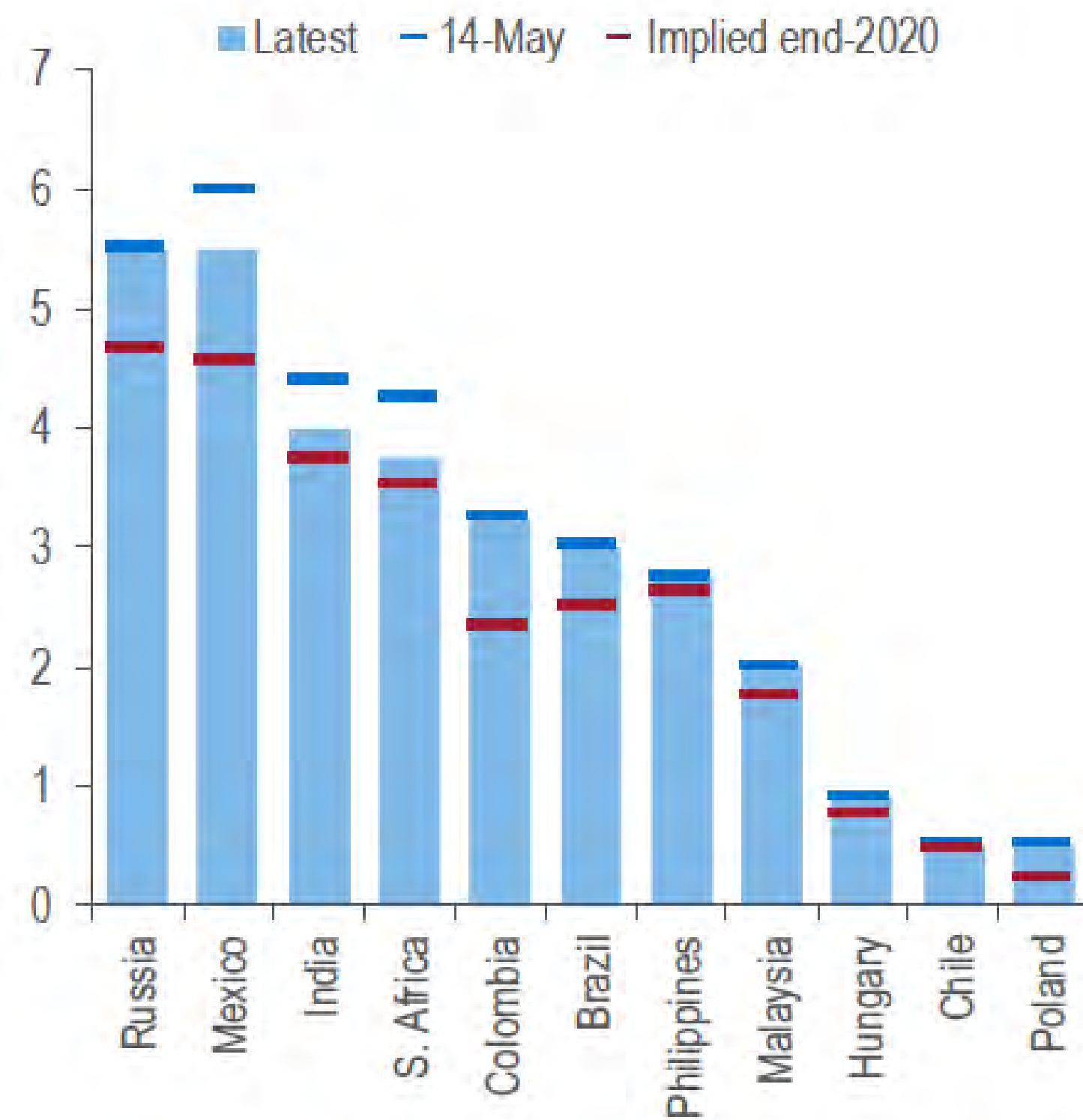
Market-implied Policy Rate Jan-2021
(percent)



...and in Emerging Markets

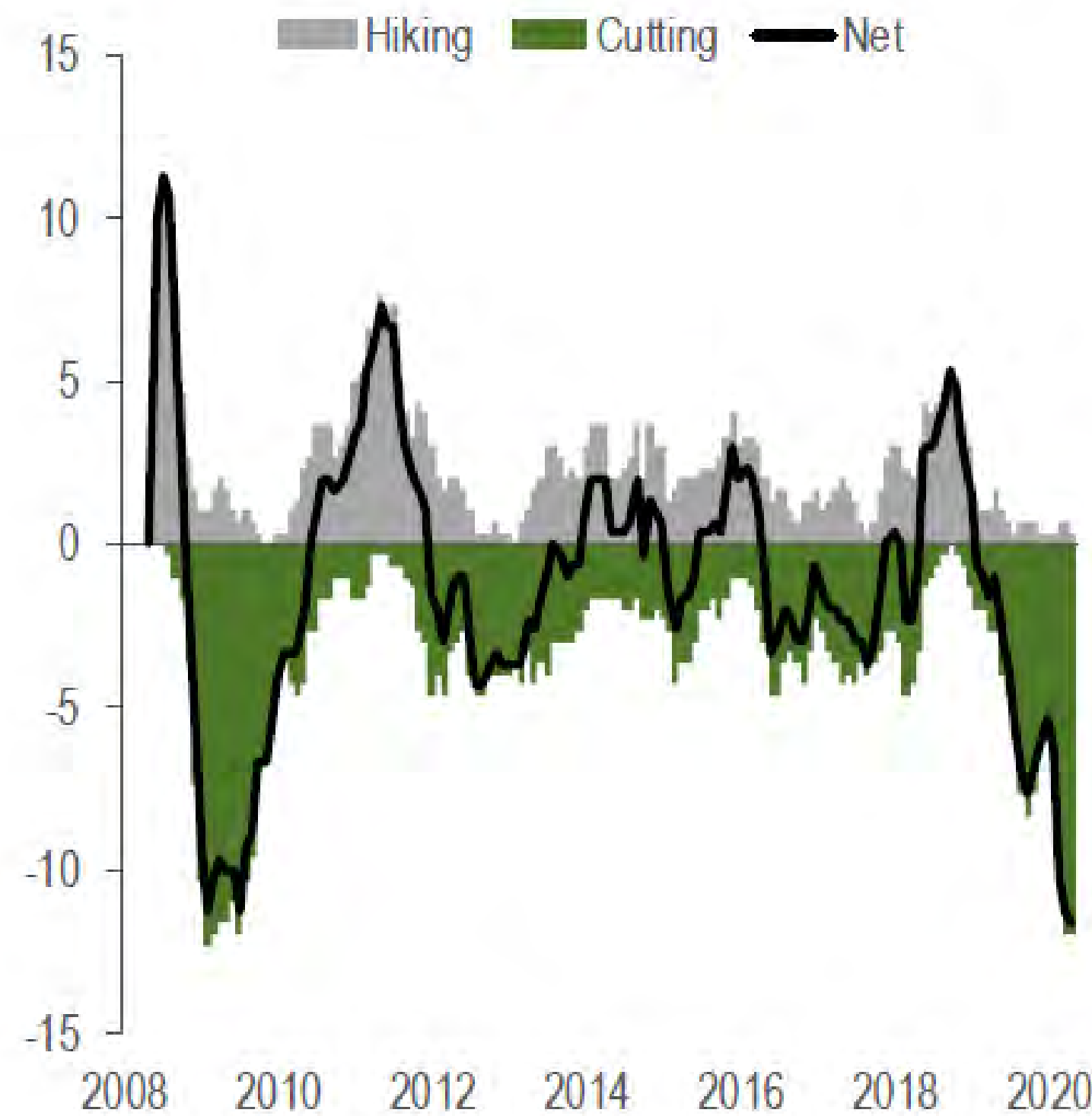
Policy rates were lowered again in several EM...

Current and Market-Implied Policy Rates
(percent)



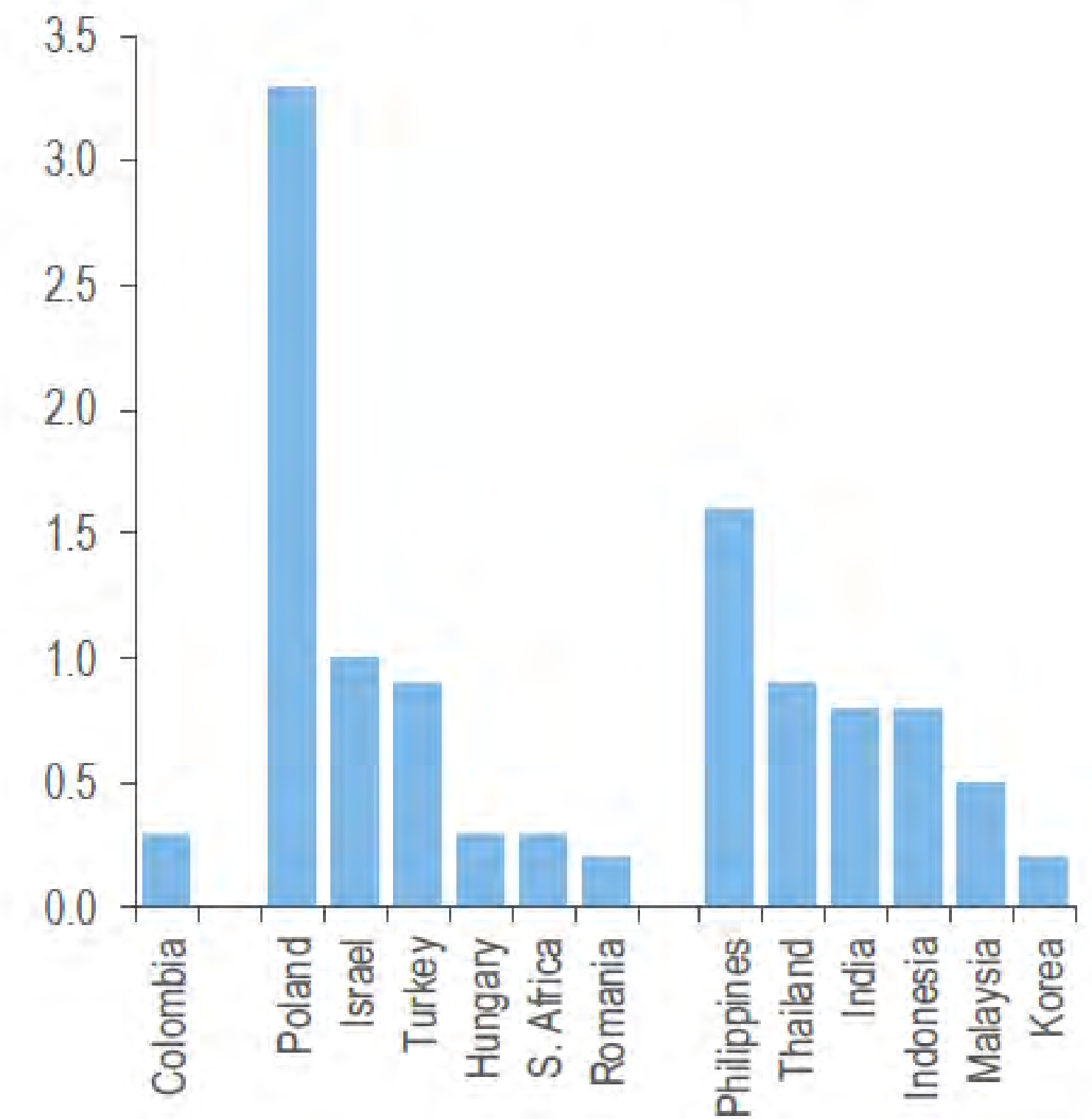
... pushing the current pace of rate cut on par with the GFC

EM Policy Rate Actions
(number of countries, 3-month averages)



EMs have also embarked in asset purchases for the first time

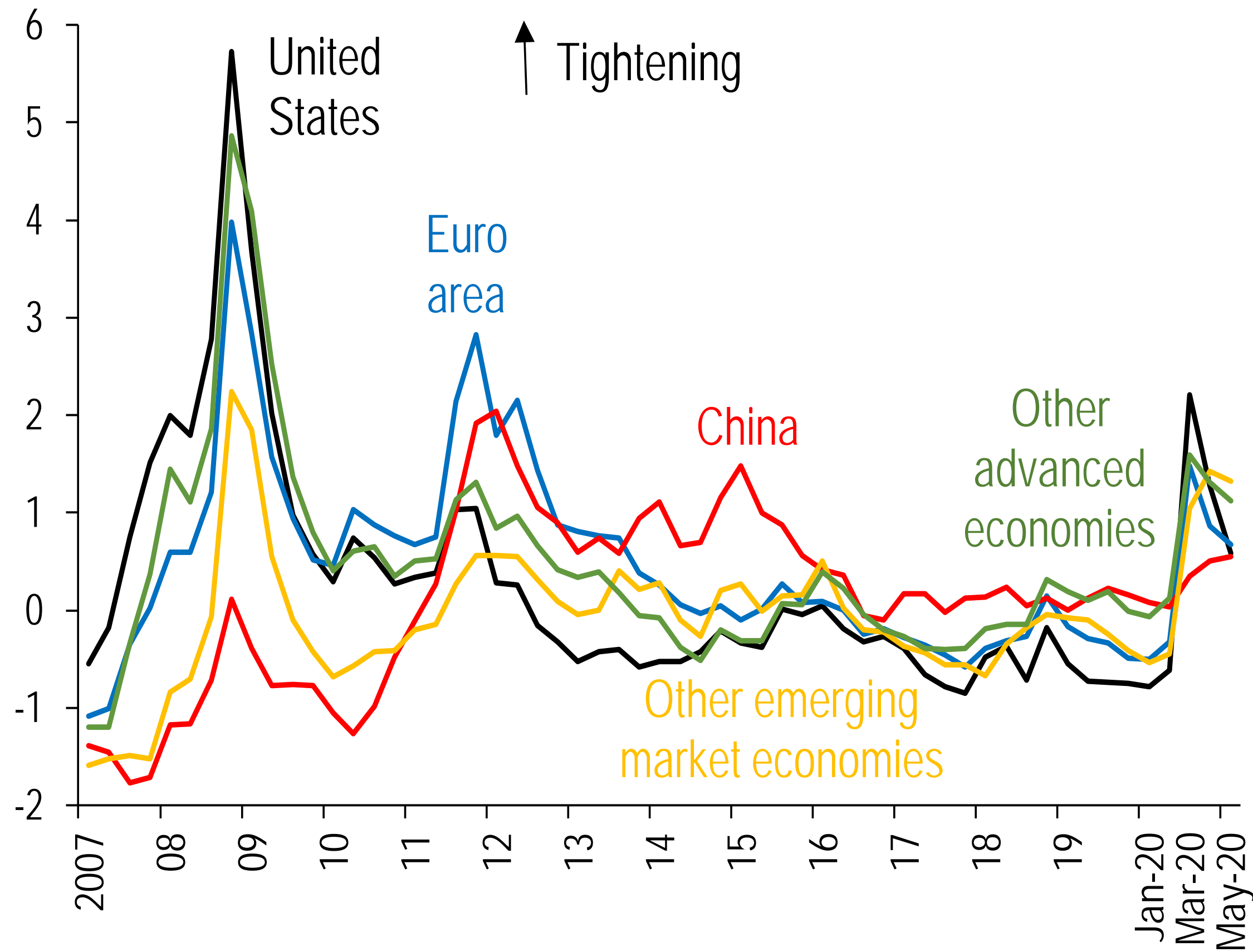
EM Central Bank Asset Purchase
(since March, % of GDP)



Financial Conditions Have Improved In Advanced Economies

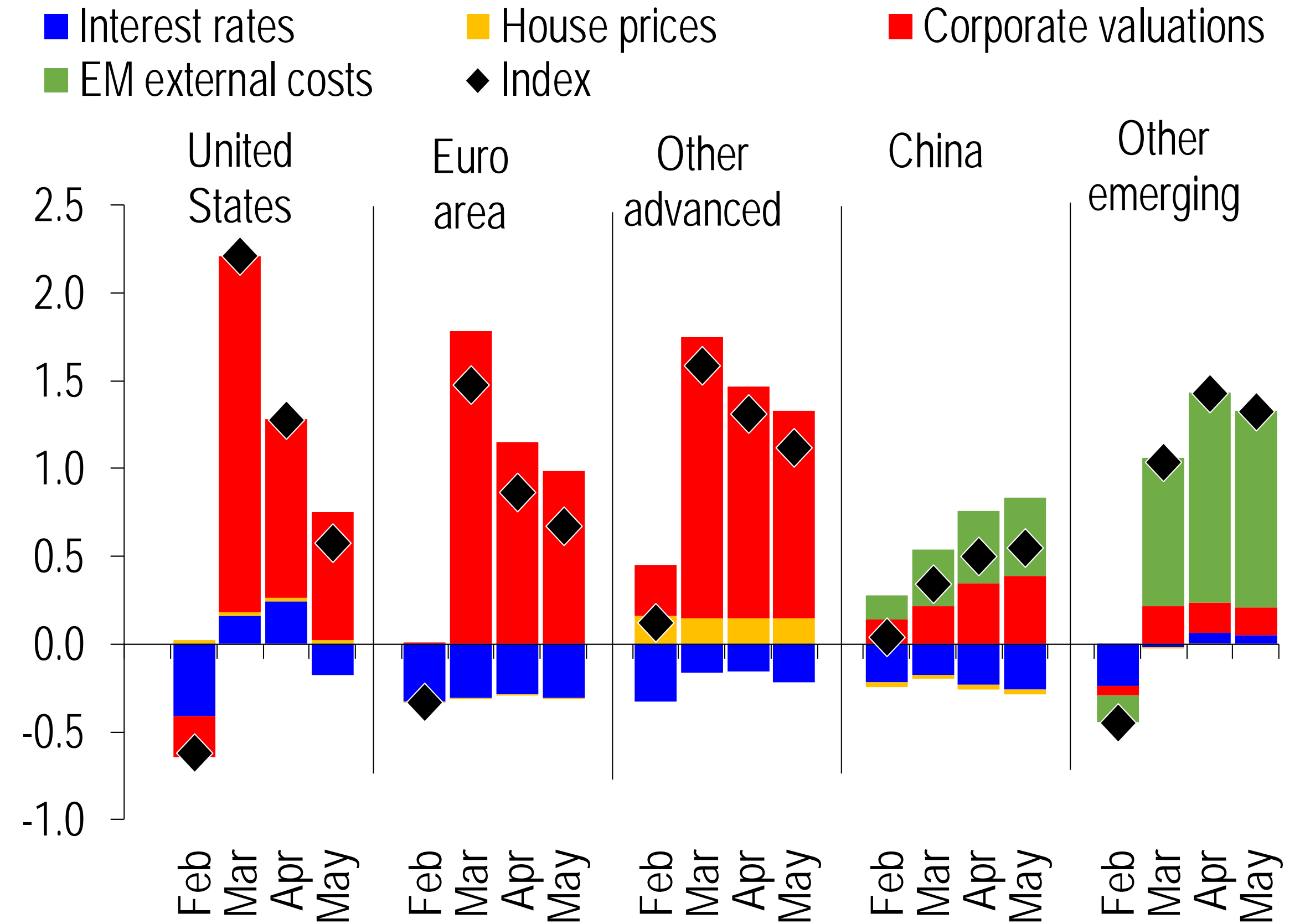
Global Financial Conditions Indices

(Standard deviations from mean)



Key Drivers of Global FCIs

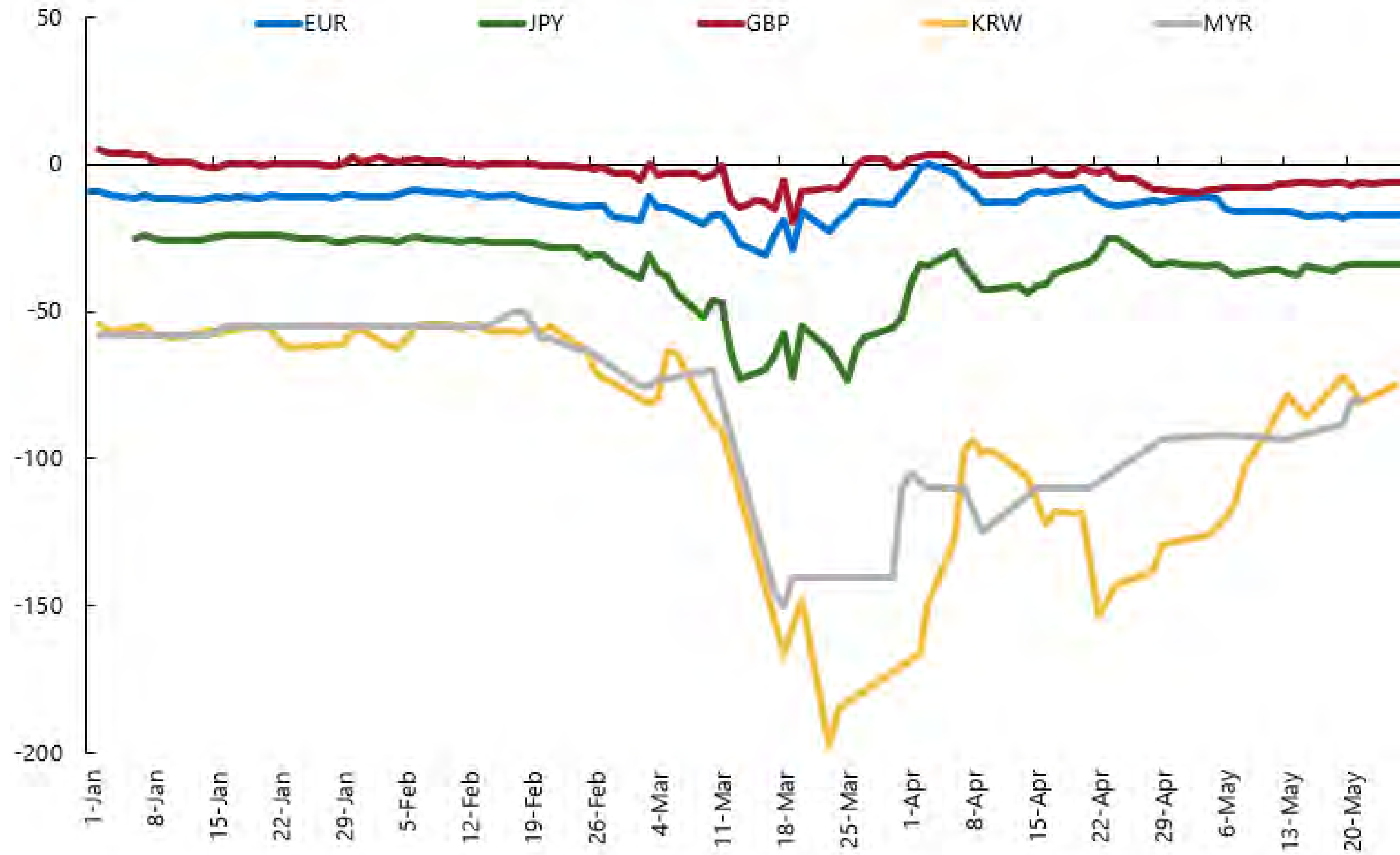
(Standard deviations from mean)



Dollar Funding Pressures Have Eased

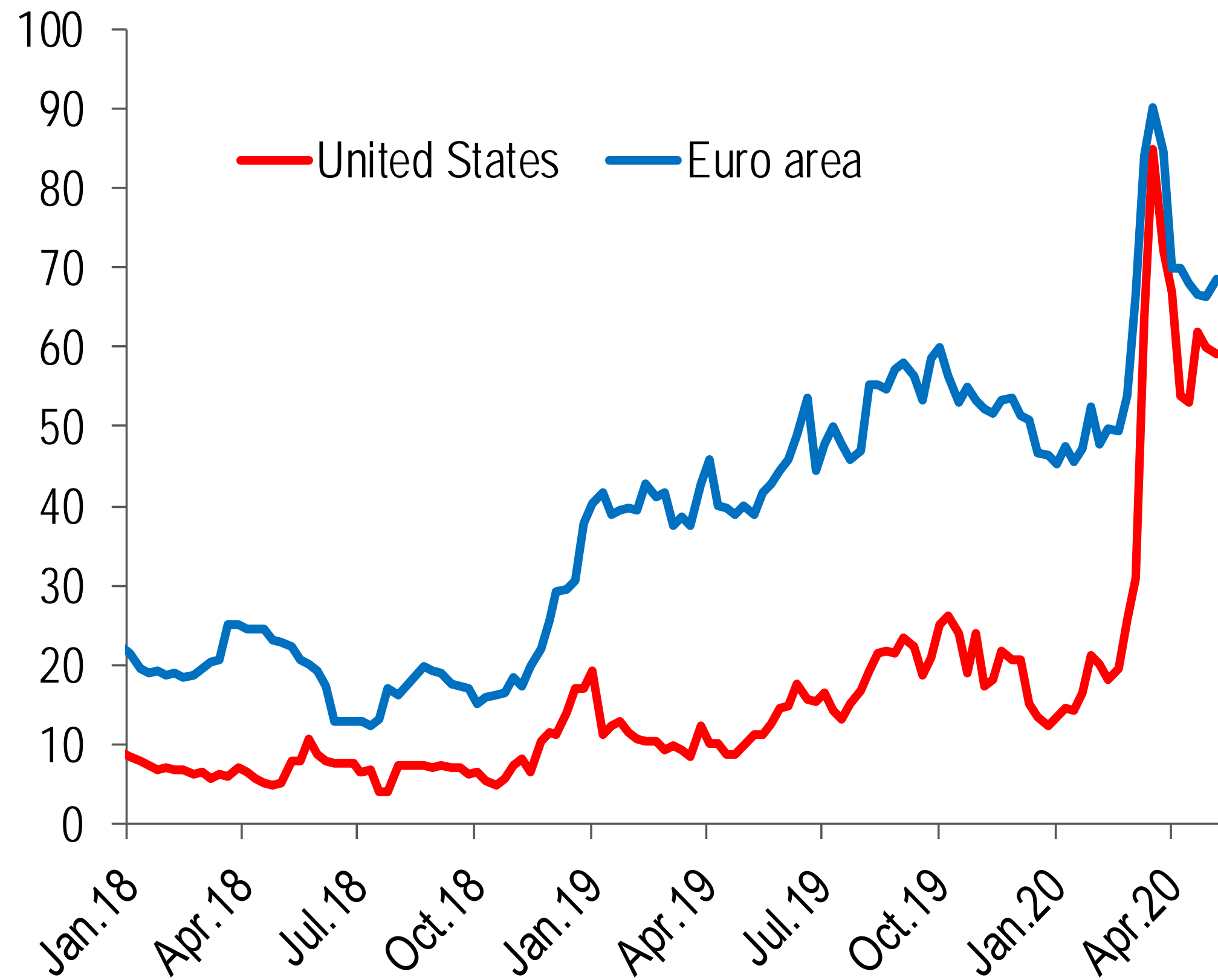
Cross-Currency Basis

(1-year swaps, basis points)

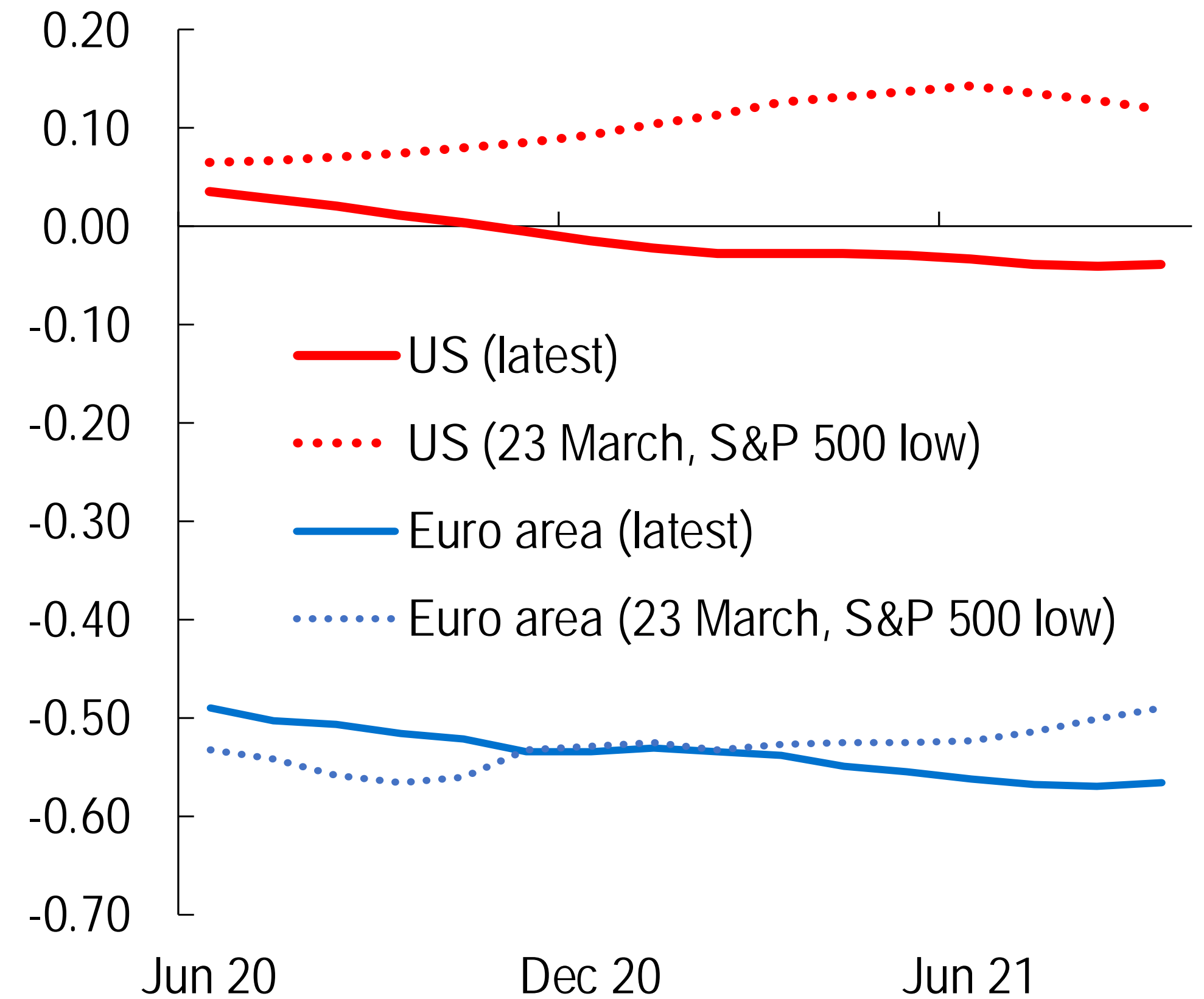


Markets Remain Uncertain About Economic Outlook

Probability of Inflation Less than 1 Percent in Any of the Next 5 Years (Percent)

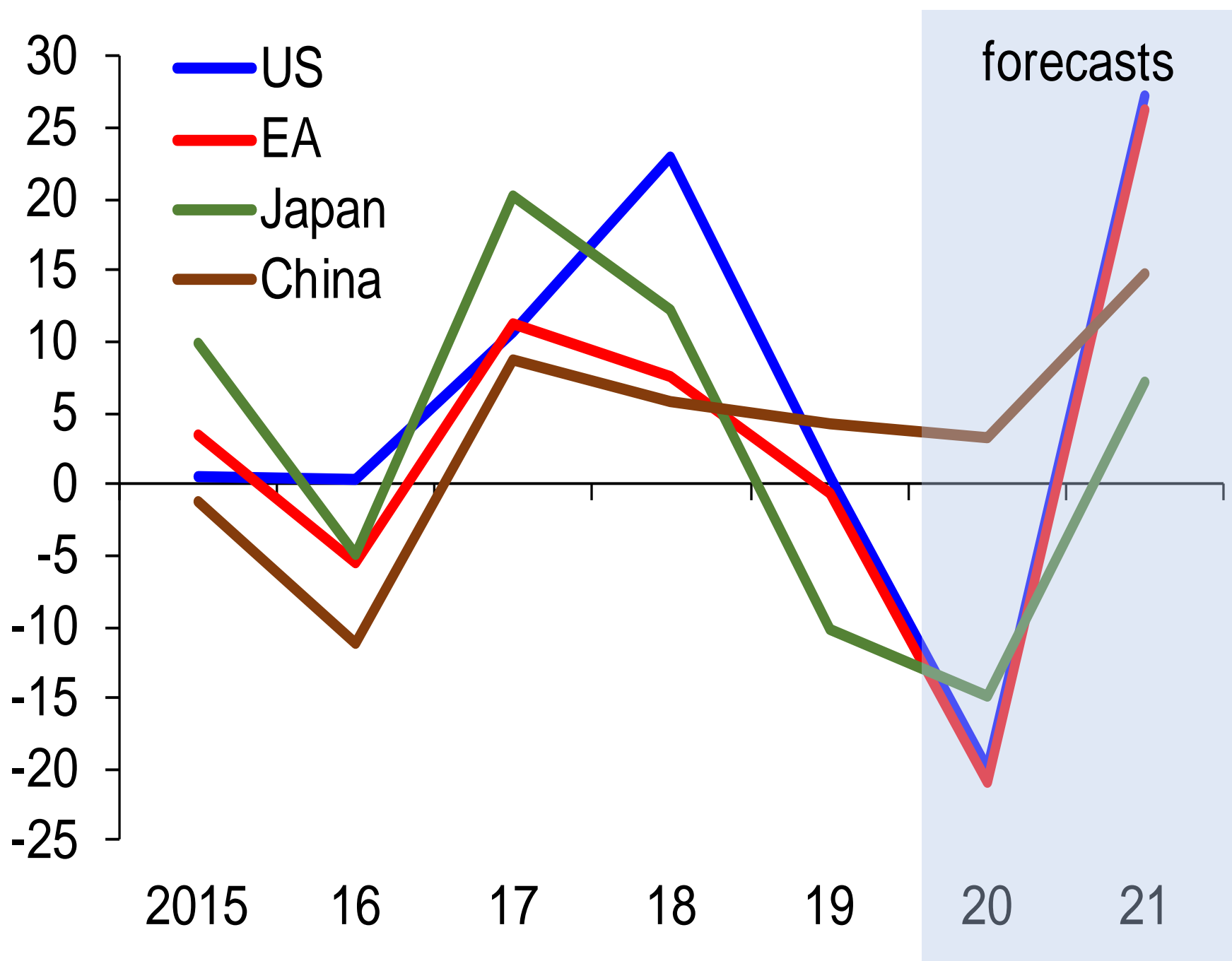


Market Implied Policy rates from OIS curves (Percent)

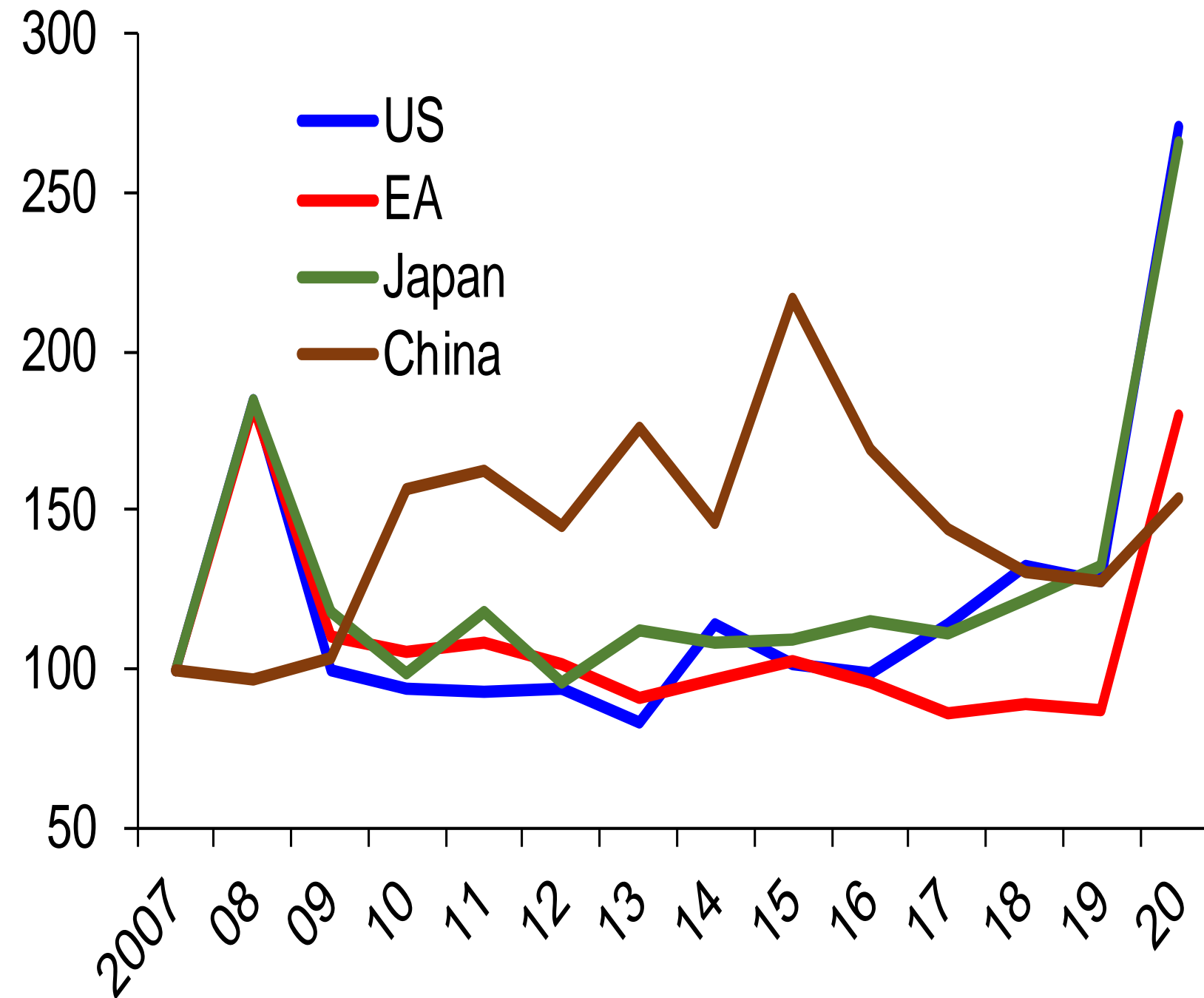


Corporate Earnings Expected to Recover in 2021 but Uncertainty is High

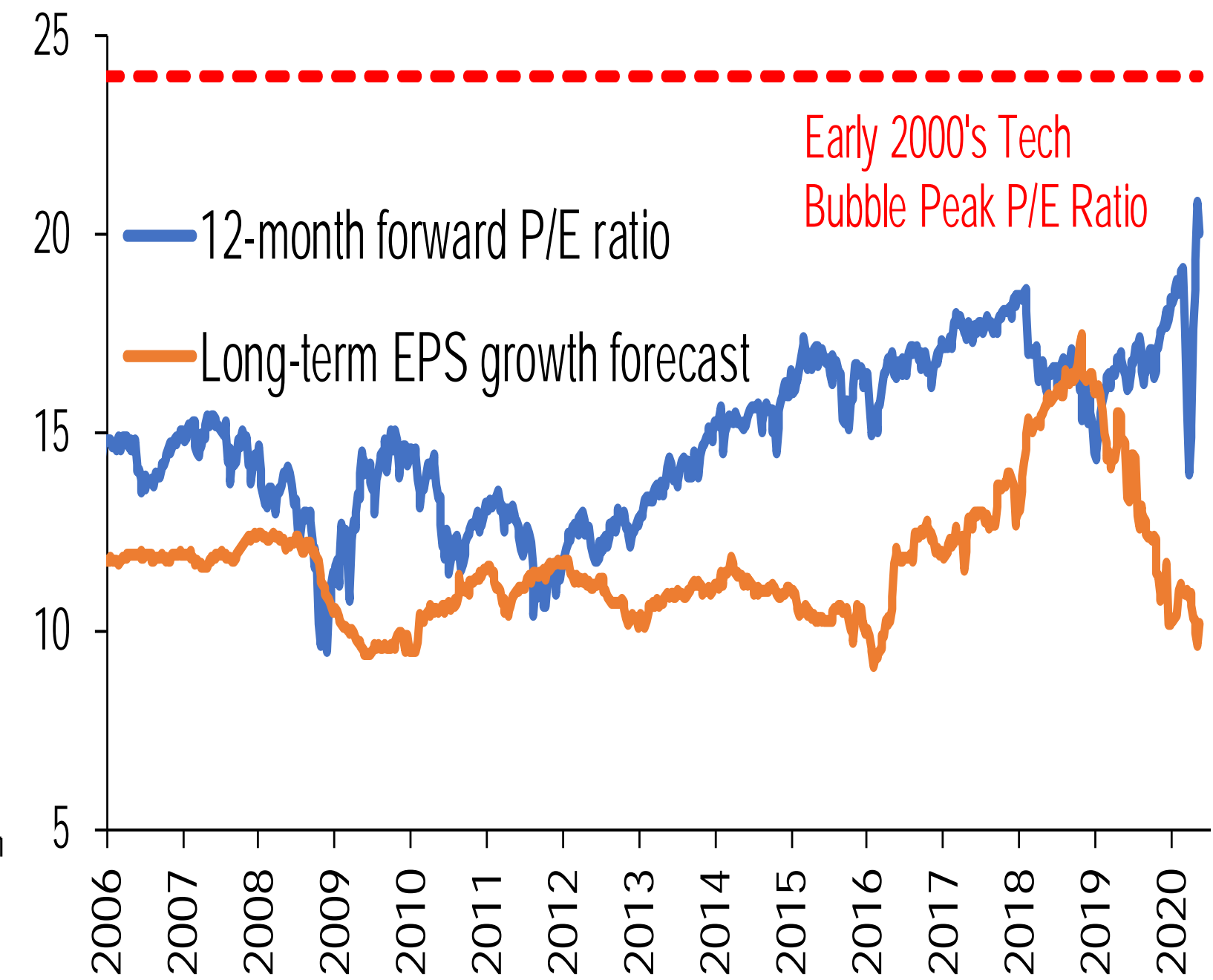
Historical and Projected EPS Growth
(Year-over-Year Percent Growth)



EPS One-Year Ahead Forecast Dispersion
(Indices Based on \$ per Share Units, 2007 = 100)

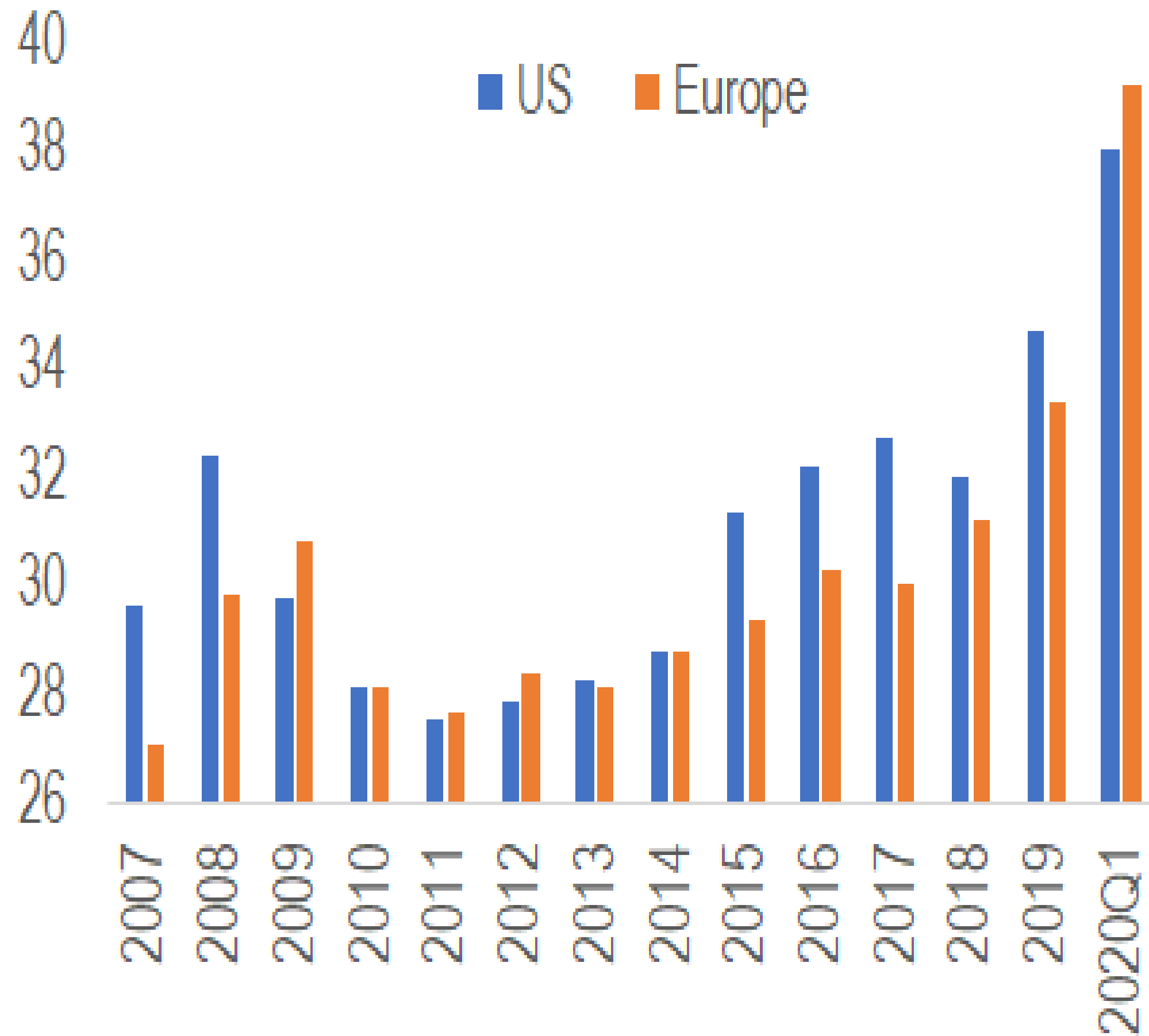


S&P 500 Long-Term EPS Growth and Forward P/E Ratio
(Ratio)

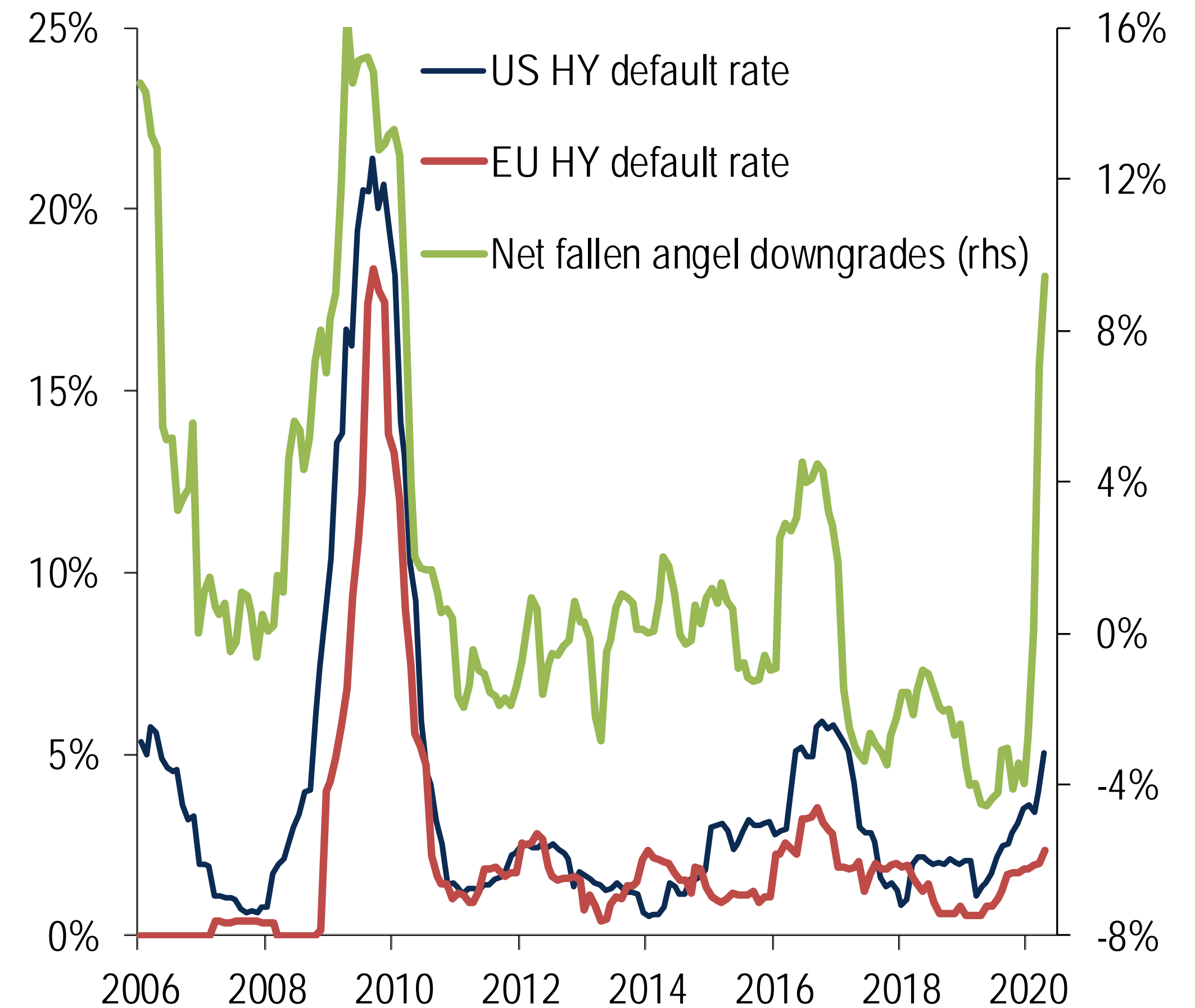


Weakening Corporate Balance Sheets Signal Rising Credit Risks

US and European Nonfinancial Corporate Debt-to-Assets Ratios (Percent)



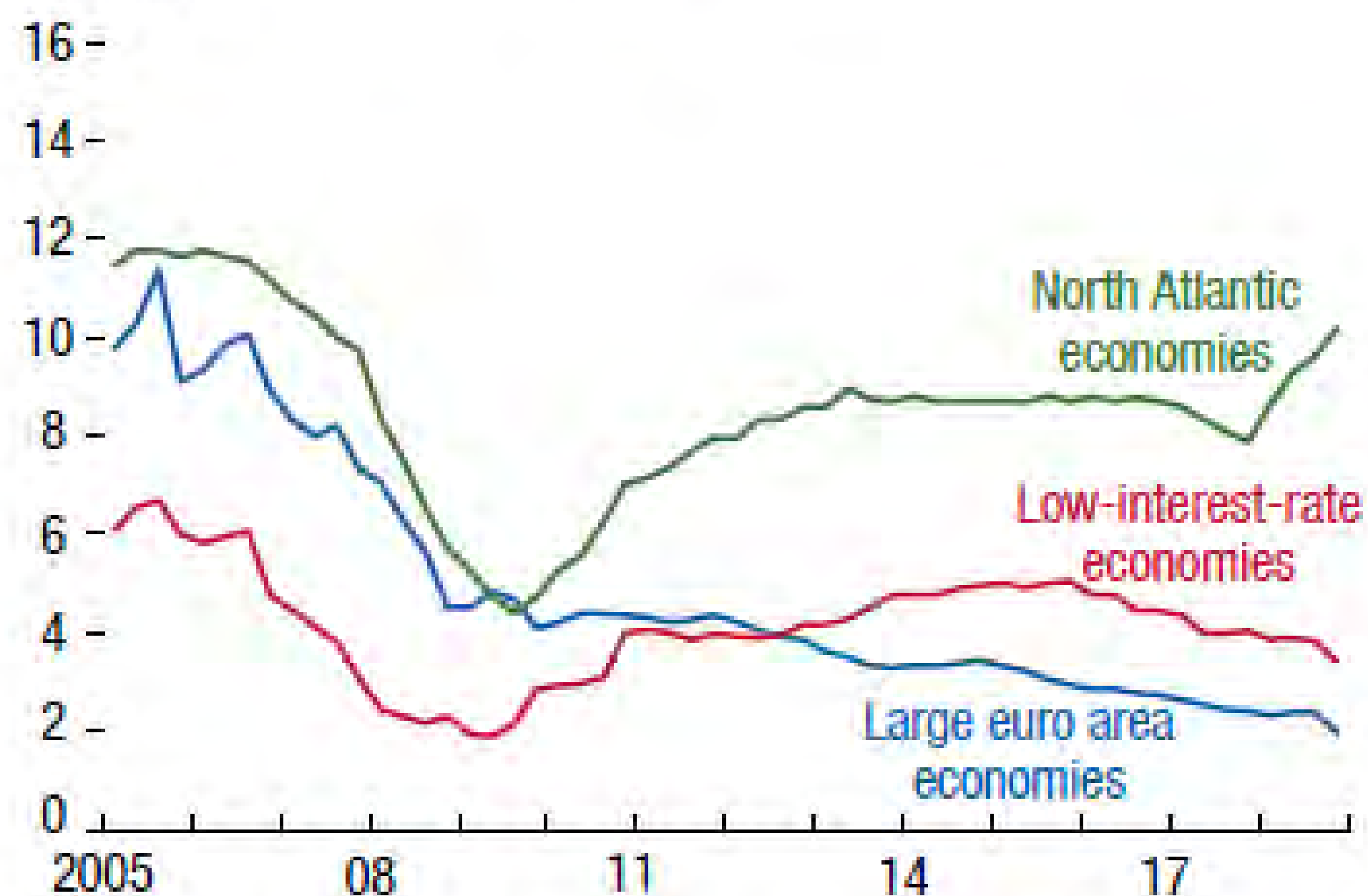
US and European High Yield Default Rates and Downgrades (12-Month Trailing Par-Based, Percent)



Bank Profitability was Low Before the COVID-19 Pandemic

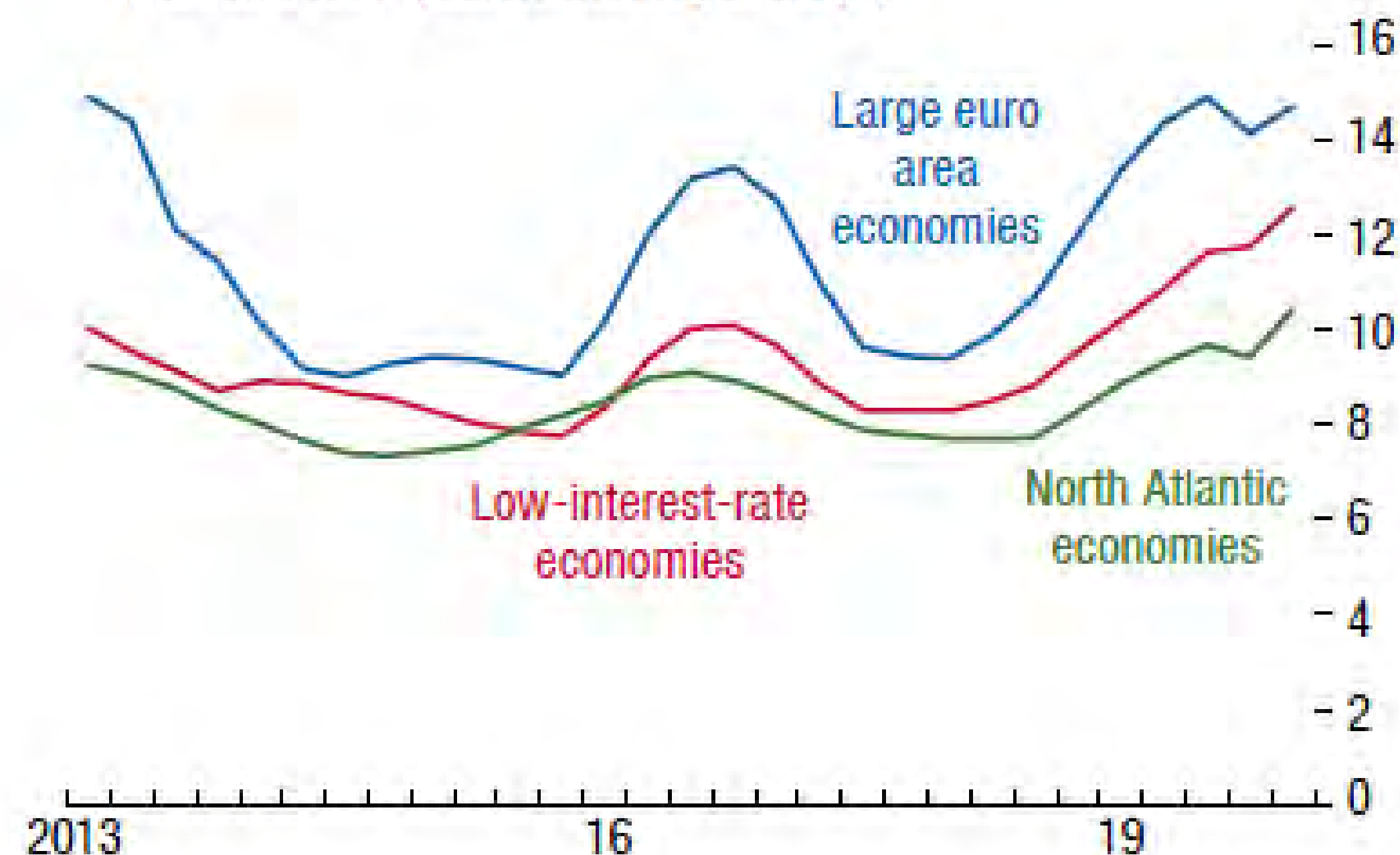
Profitability continues to be a challenge for some banks ...

1. Median Bank Return on Equity (Percent)



... particularly when return on equity is below the cost of equity required by investors.

2. Median Market Implied Bank Cost of Equity (Percent, four-quarter moving average)



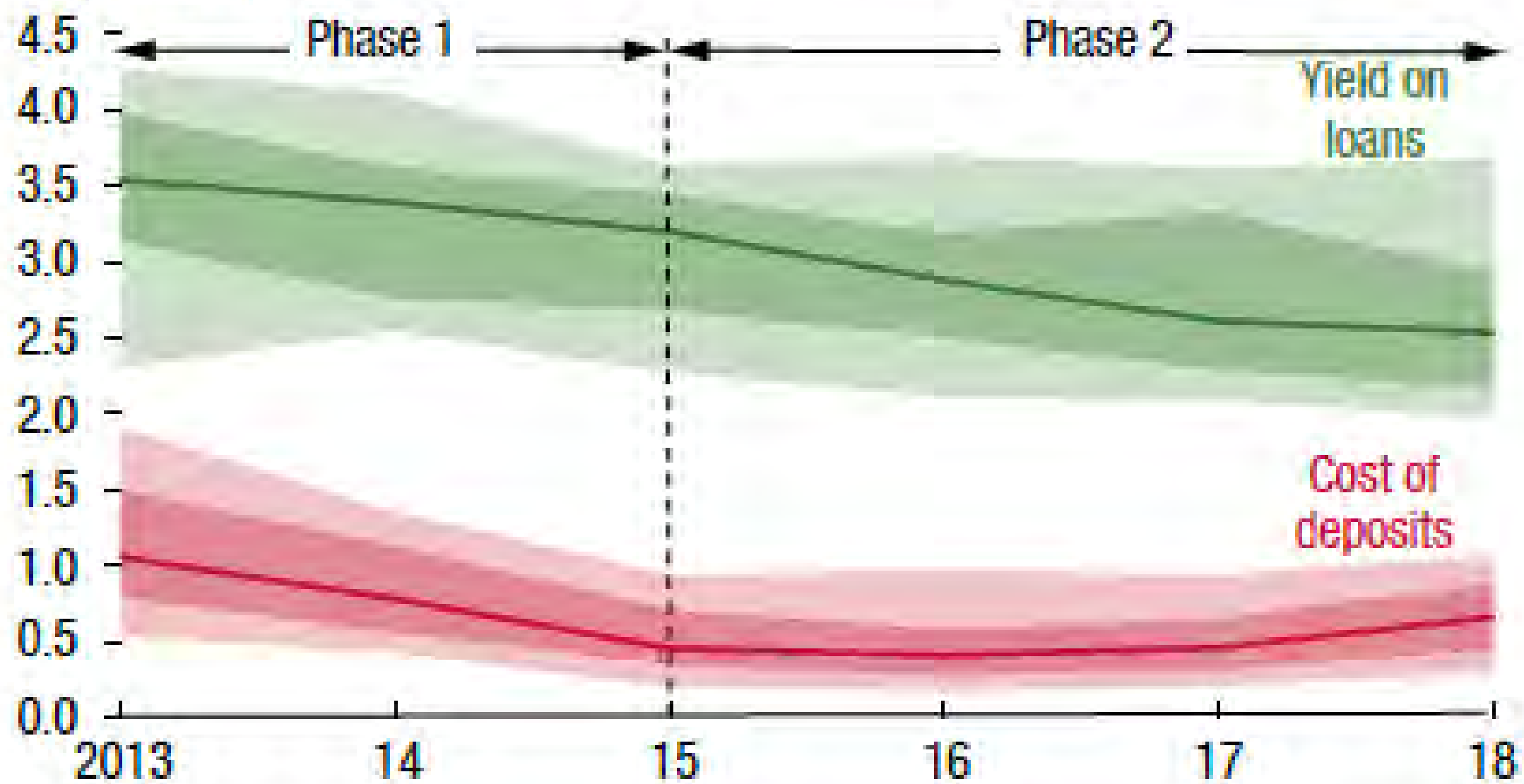
Sources: Bloomberg Finance L.P.; S&P Market Intelligence; SNL Financial; and IMF staff calculations.

Note: The figure is based on a sample of more than 5,000 banks in nine advanced economies. Large euro area economies = France, Germany, Italy; low-interest-rate economies = Japan, Sweden, Switzerland; North Atlantic economies = Canada, United Kingdom, United States.

Lower Interest Rates for Longer Could Exacerbate Weak Profitability

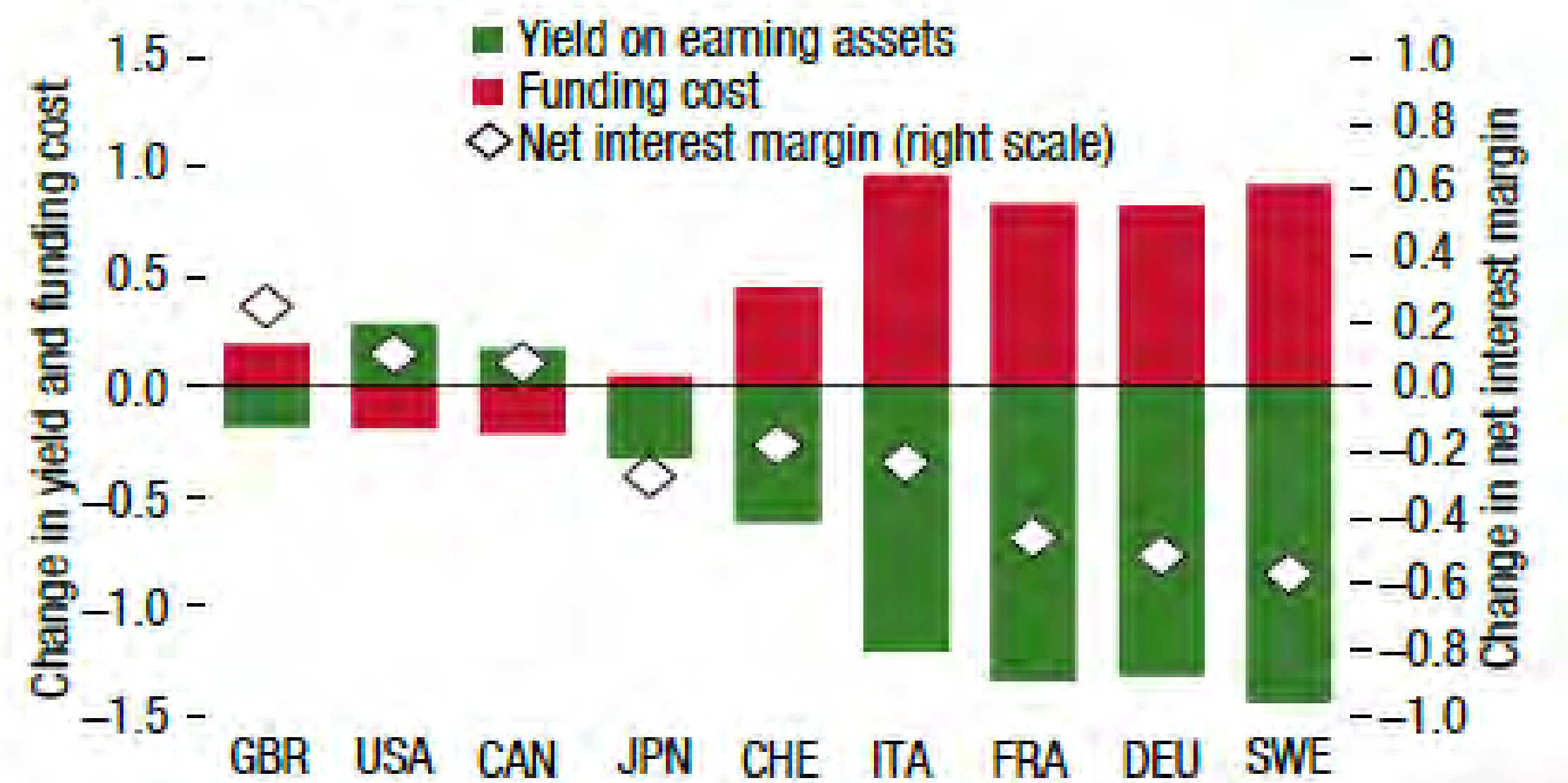
Bank deposit rates fell quickly but have stabilized near zero, while bank lending rates have continued to fall ...

1. Bank Interest Rates across Economies (Percent)



... which has squeezed bank net interest margins.

2. Changes in Bank Yields and Funding Costs, 2013–18 (Percentage points)

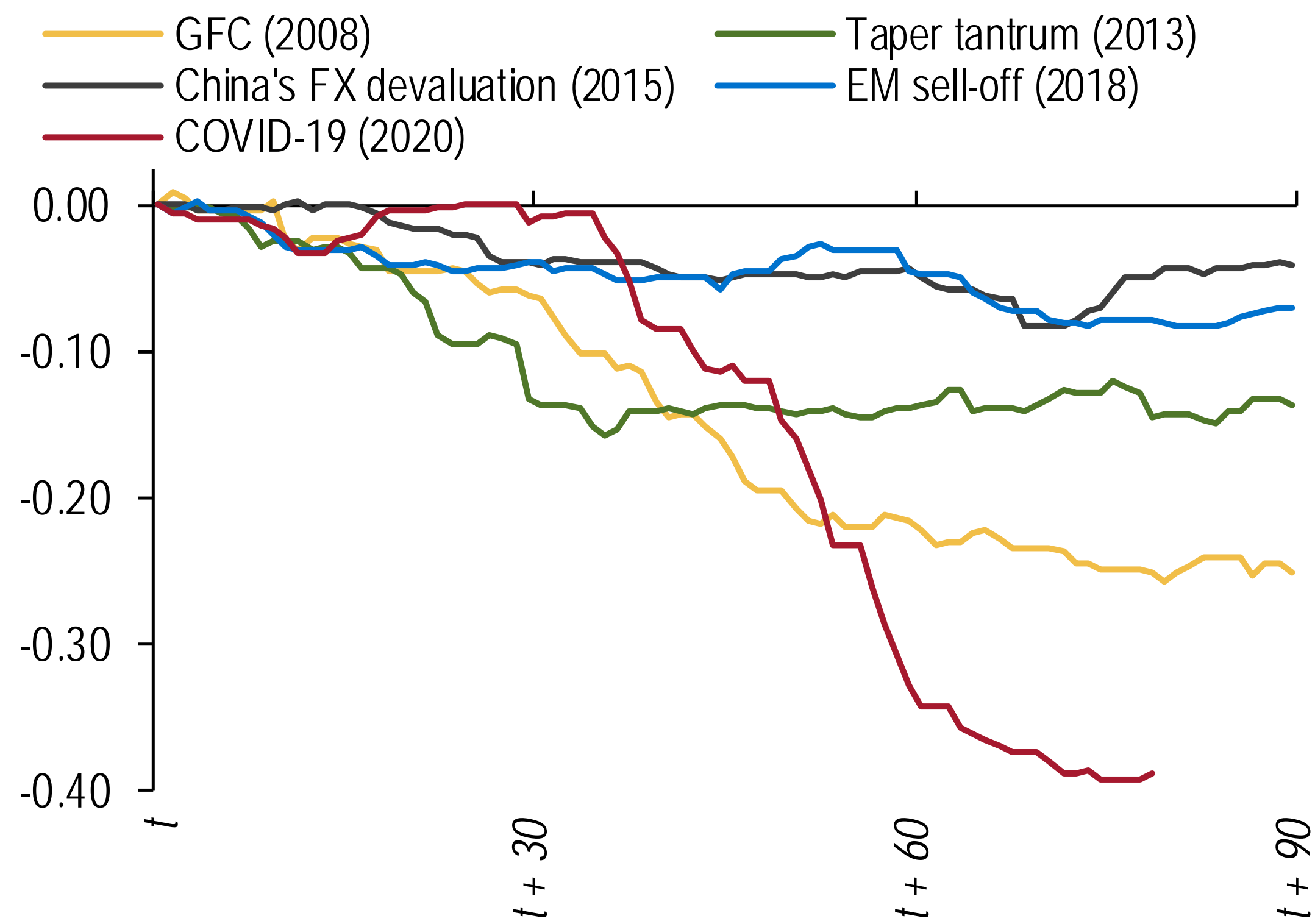


Unprecedented Speed and Size of Emerging Market Portfolio Outflows

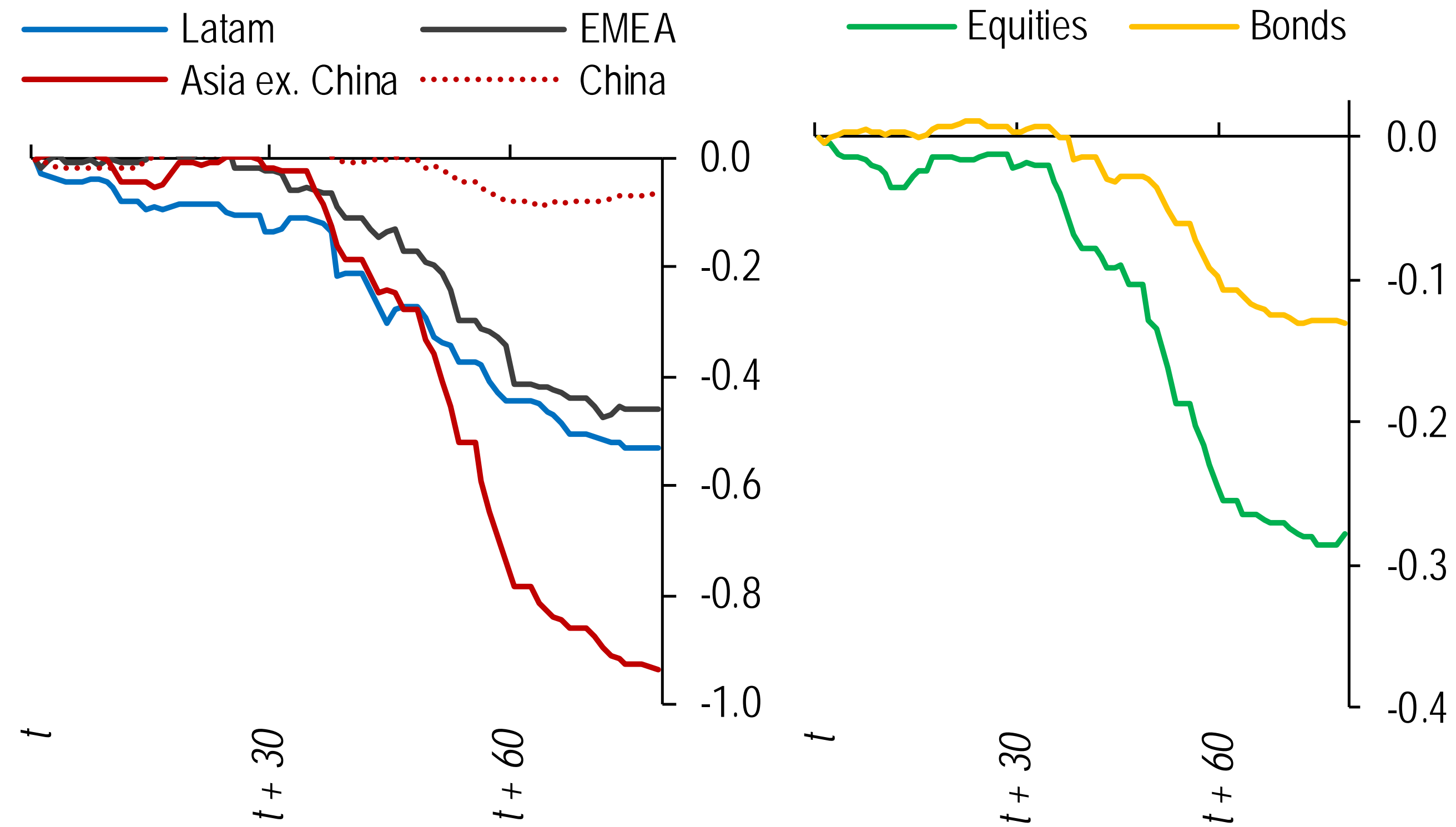
Portfolio outflows have been historically large and very fast compared to previous episodes...

... particularly for some economies.

Portfolio outflow episodes
(cumulative daily flows since 21 Jan, percent of GDP, total non-resident portfolio)



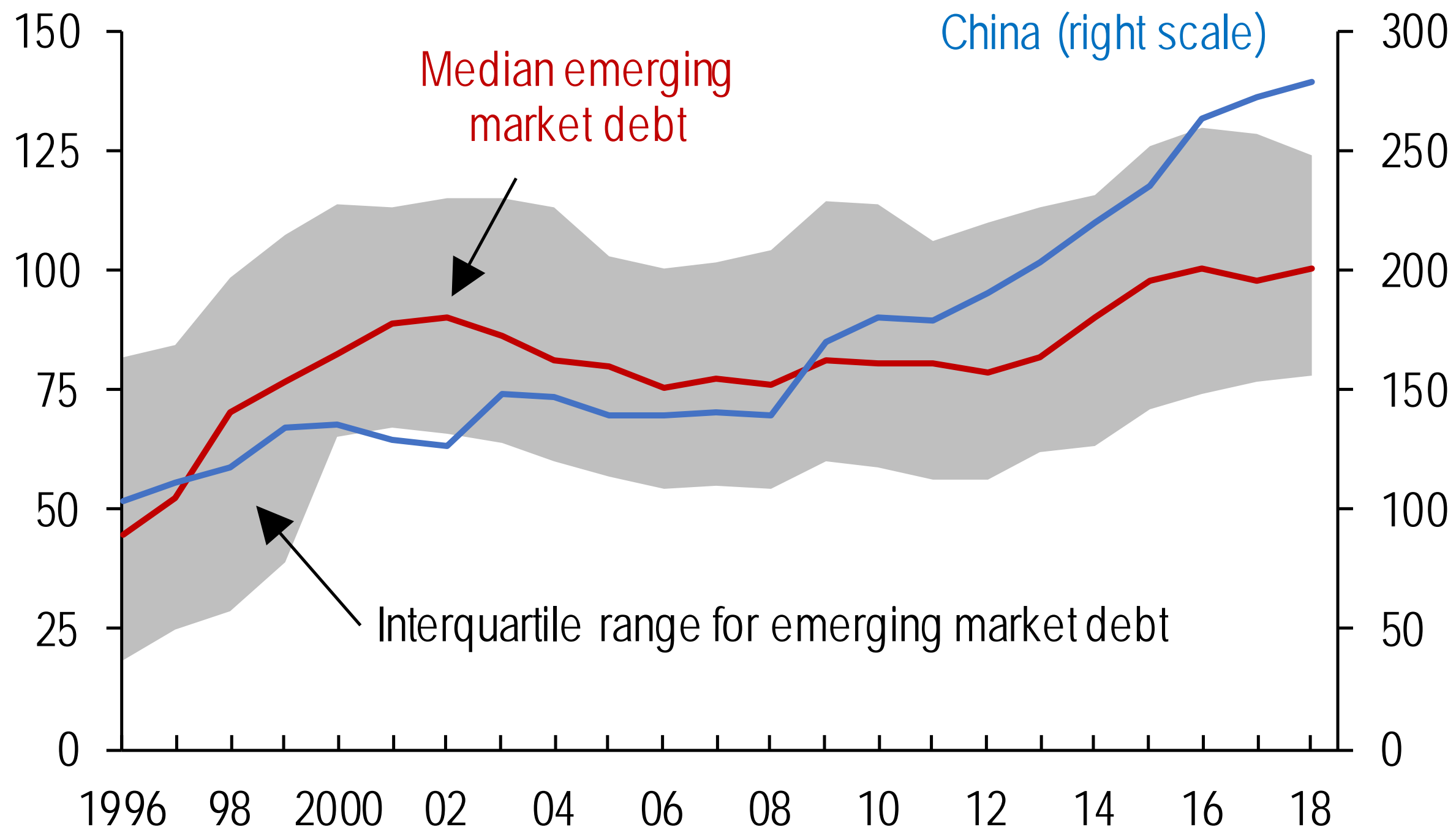
Portfolio outflow Aggregated by Regions and Asset Classes
(Billions of US dollars, based on daily observations)



Emerging Markets Are More Vulnerable Now Than During the GFC

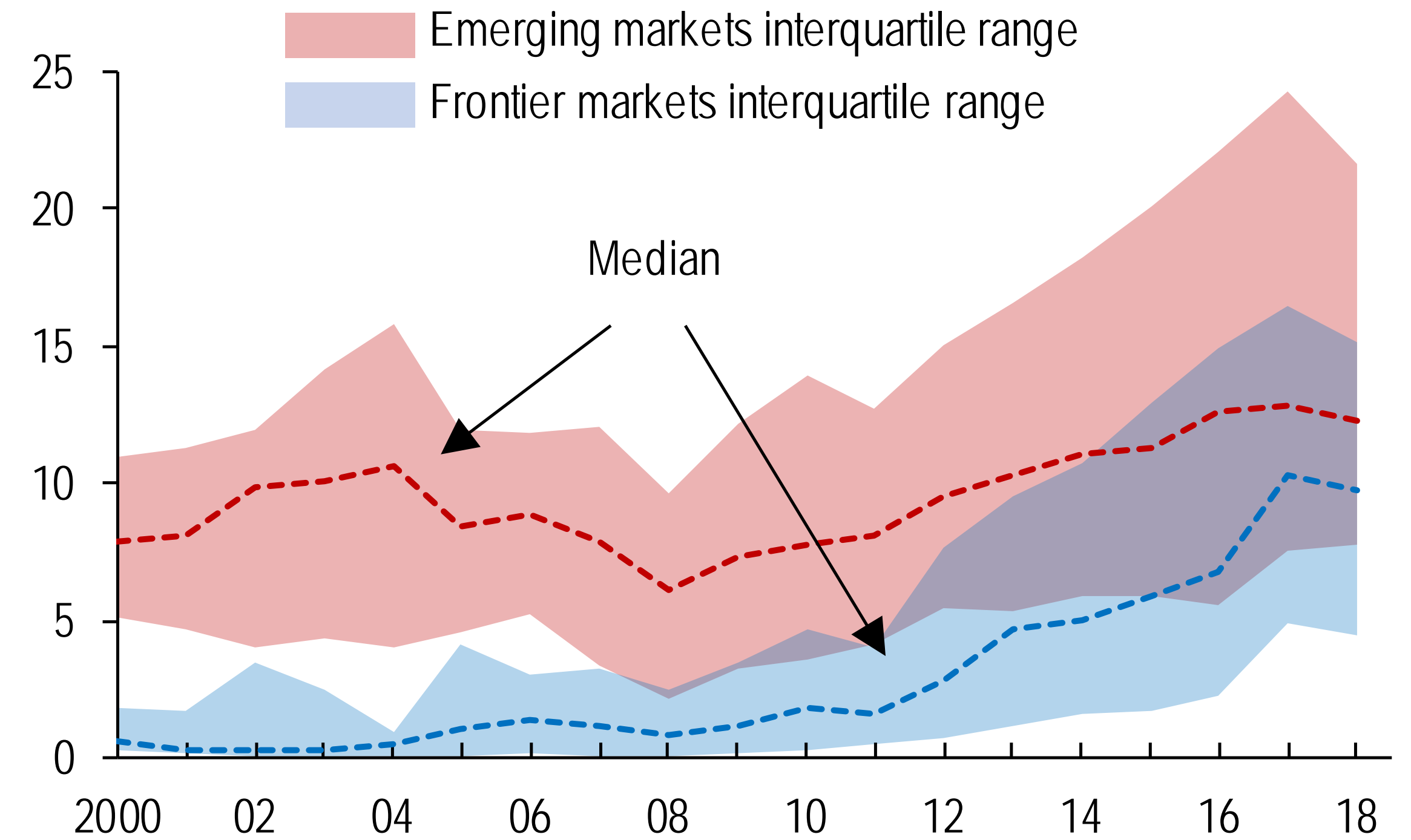
Emerging market are a lot more levered now...

**Public and Private Sector
Emerging Market Debt**
(Percent of GDP)



... and rely a more on foreign portfolio flows

Portfolio Debt Liabilities
(Percent of GDP; international investment position)



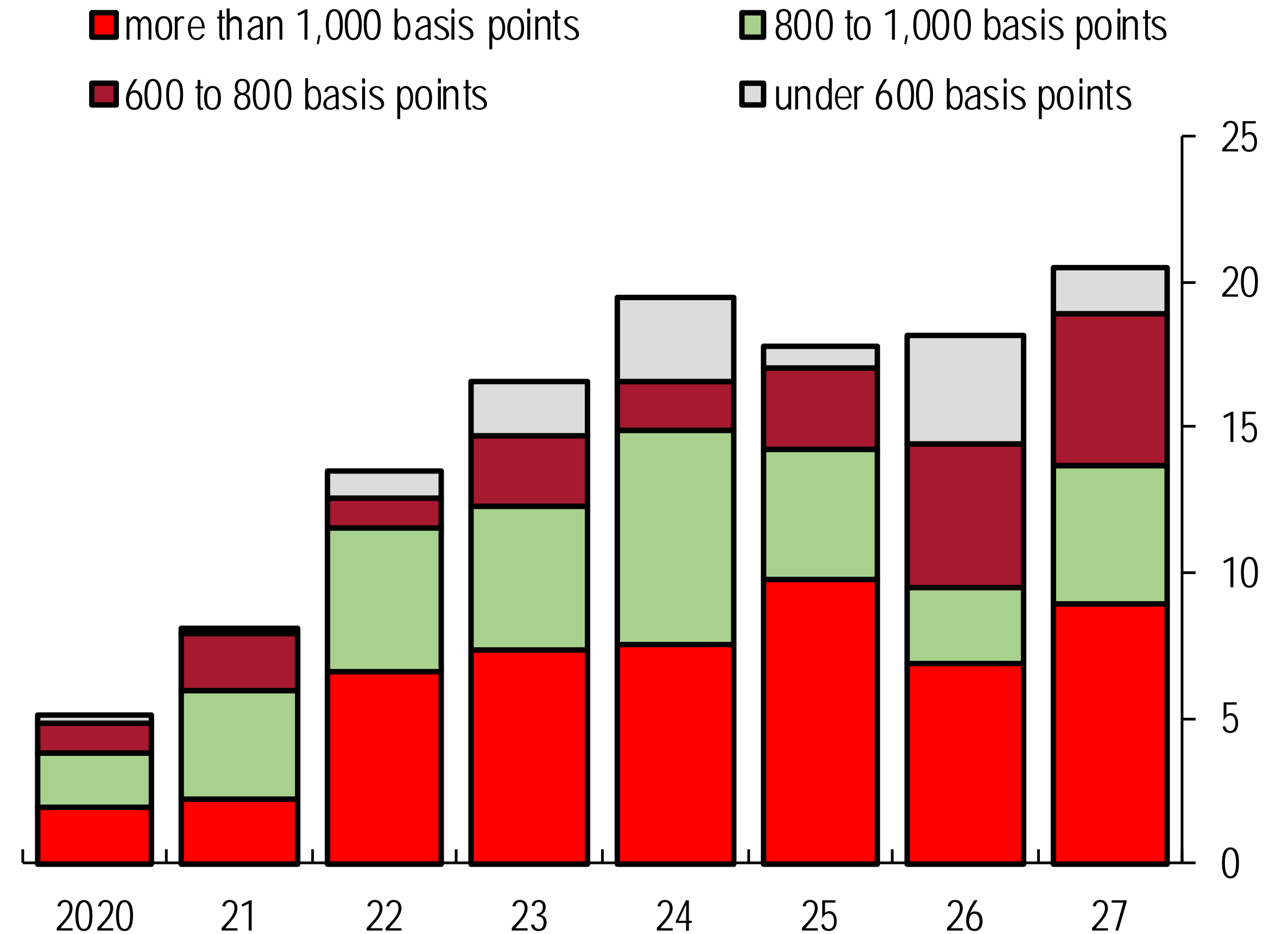
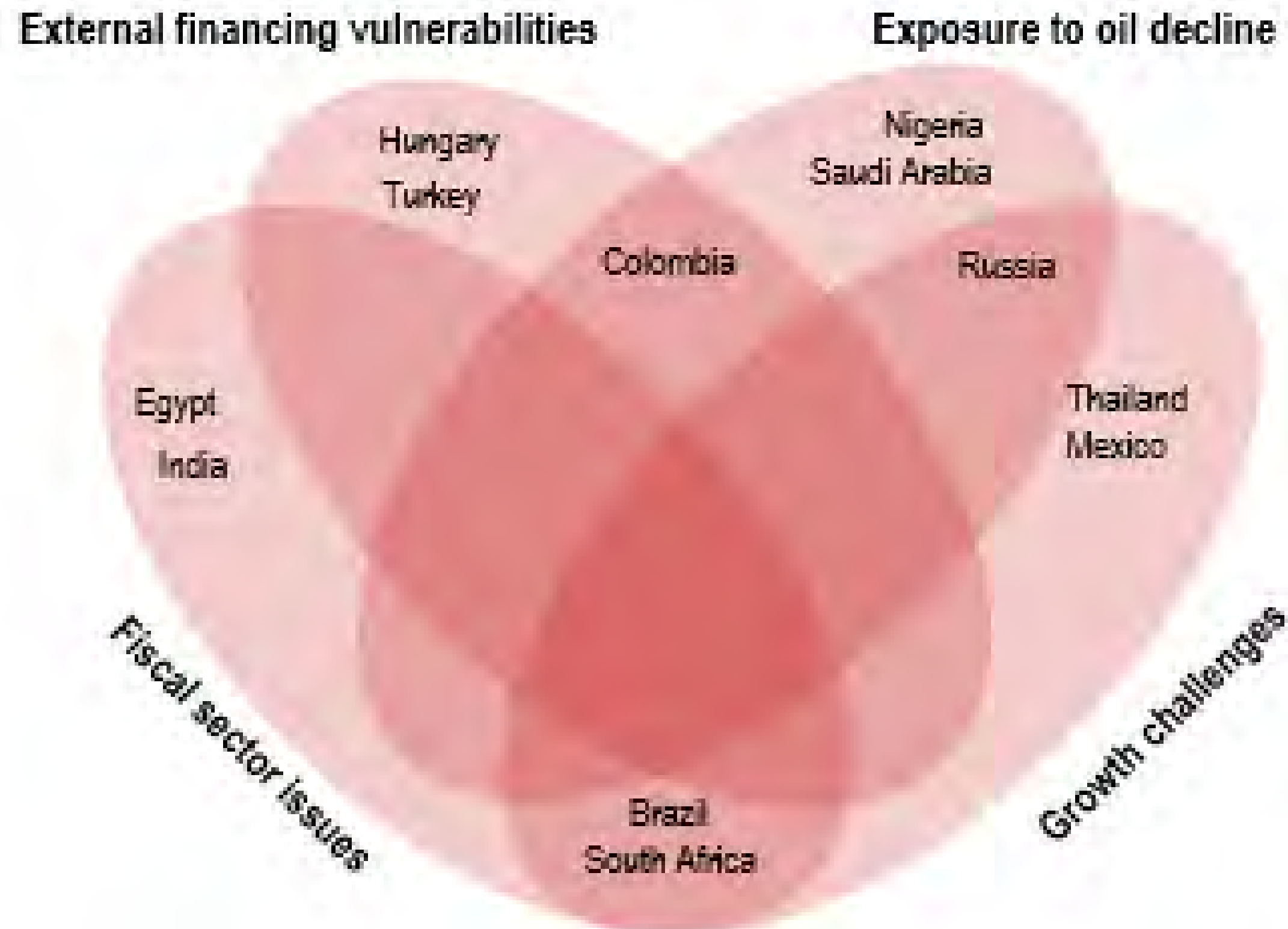
Emerging Markets Are Undergoing a Stress Test

Tight financial conditions, the oil shock, and prospects of a recession can create severe risks where vulnerabilities are highest.

Frontier market bond spreads are near or at record high levels, with some facing sizable debt rollovers in the coming years.

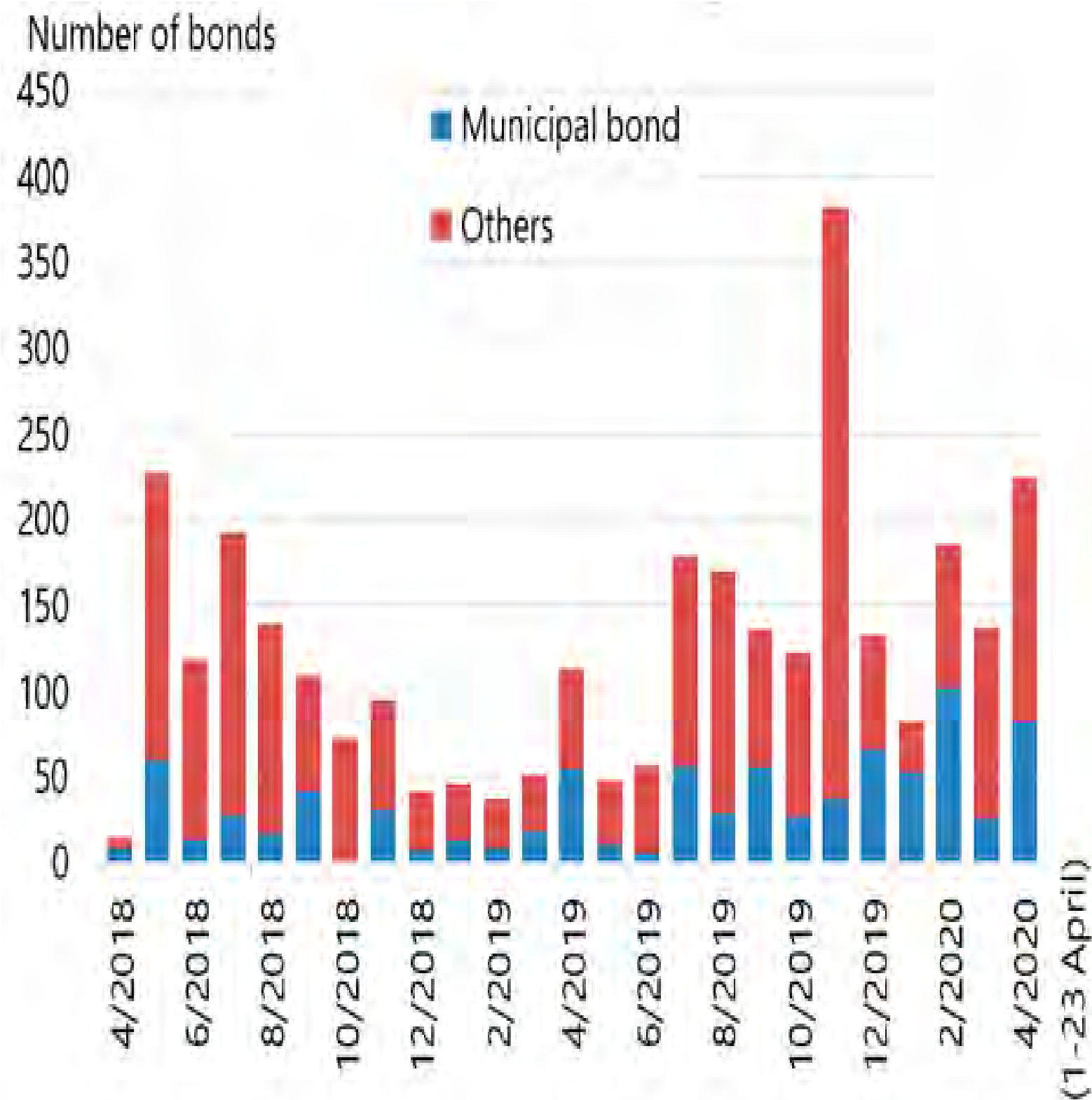
Key External, Fiscal, Real and Oil-Related Vulnerabilities

Frontier International Bond Redemptions by Credit Spread of Issuer (Billions of US Dollars)

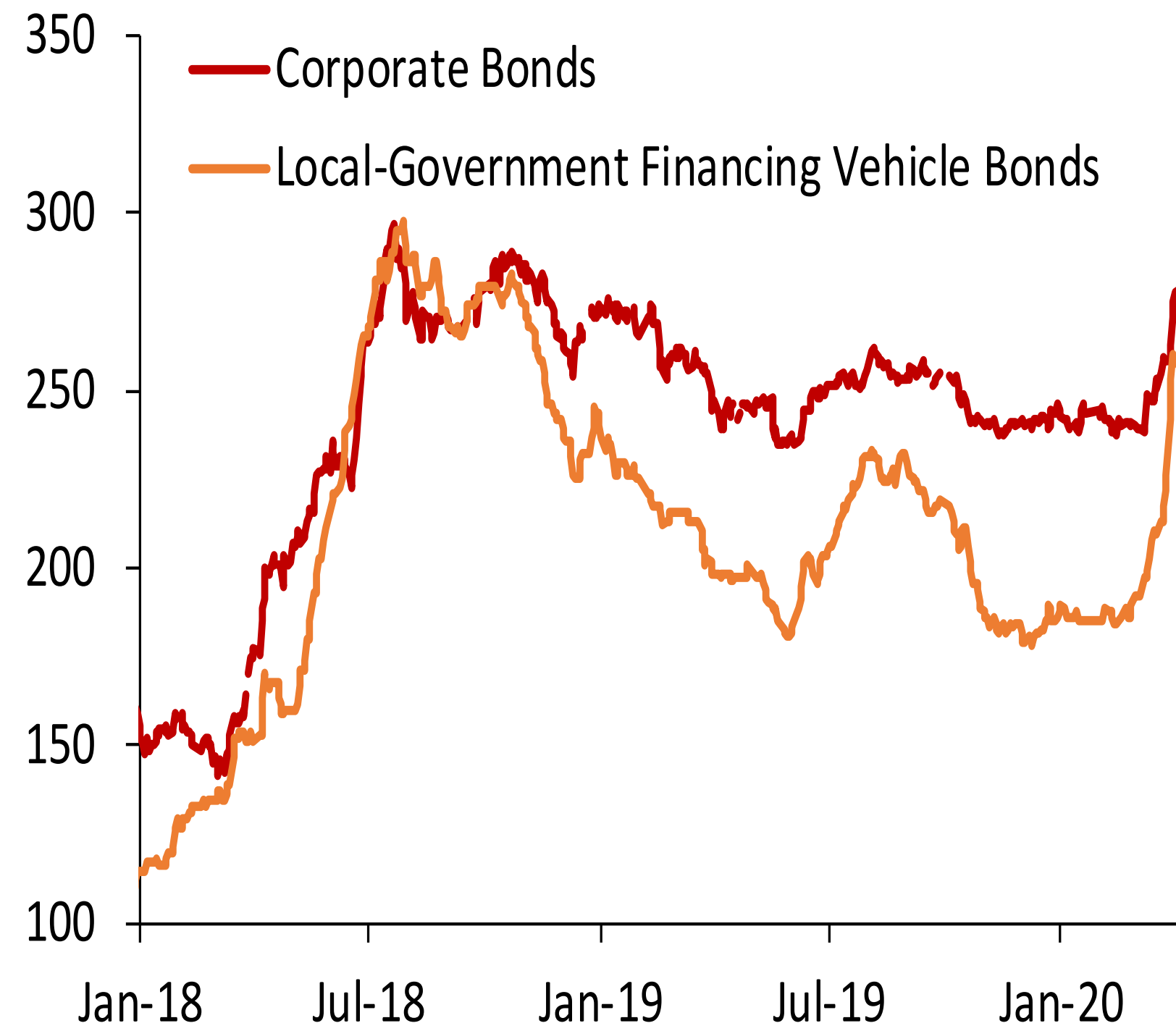


Chinese Markets Price Higher Credit Risks; Trade Tensions Re-emerge

Number of Market Implied Bond Downgrades
(Number of bonds)



Yield Spreads of AA- rated over AAA rated Bonds
(Basis points)



Spot and 12-Month Forward Offshore CNH (USD/CNH)





Thank you!

IMF Regional Office for Asia and the Pacific