



- Sell-side equity and economic analysts still appear optimistic for the US ([link](#))
- Dollar strength relative to euro could persist according to analysts ([link](#))
- Analysts warn of implications of changes to ECB TLTRO loan terms ([link](#))
- Hungary unexpectedly increases one-week depo rate 200 bps to 9.75% ([link](#))
- India announced temporary capital account relaxations ([link](#))
- Romania increases policy rate a more-than-expected 100 bps ([link](#))

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Slowdown fears on the backburner

Equities are headed higher once again despite lingering fears of a potential global slowdown. In its minutes yesterday, the FOMC made clear its primary immediate concern is taming high inflation. That helped send the spread between 2-year and 10-year treasury yields further into negative territory, with the gap rising to 7 bp. Nonetheless, S&P futures are pointing to a positive day. Should that hold, it would mark the fourth consecutive day of positive returns, tying the longest streak of the year. News that China is considering a \$220 bn stimulus plan—allowing local governments to sell special bonds to support infrastructure spending—is helping to improve risk sentiment. In emerging markets, both Hungary’s and Romania’s central banks rose their policy rate by more than expected. The move was especially notable in Hungary, where the rate was lifted by 200 bp compared to an expected increase of 50 bp. Despite the move, the forint remains under pressure, but has recovered to essentially unchanged versus the euro on the day.

Key Global Financial Indicators

Last updated: 7/7/22 8:39 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		3845	0.4	1	-8	-12	-19	-9
Eurostoxx 50		3480	1.7	1	-9	-15	-19	-12
Nikkei 225		26491	1.5	0	-6	-6	-8	0
MSCI EM		39	-0.6	-3	-8	-27	-20	-17
Yields and Spreads			bps					
US 10y Yield		2.96	3.0	-6	-2	164	145	97
Germany 10y Yield		1.29	8.3	-5	0	159	147	106
EMBIG Sovereign Spread		542	-6	7	99	194	175	129
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.6	-0.1	-4	-6	-12	-6	-7
Dollar index, (+) = \$ appreciation		106.9	-0.2	2	4	15	12	11
Brent Crude Oil (\$/barrel)		101.5	0.8	-12	-16	38	30	5
VIX Index (% change in pp)		26.5	-0.3	-2	2	10	9	-5

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

Analyst estimates still look complacent given the recession risks and the earnings season ahead.

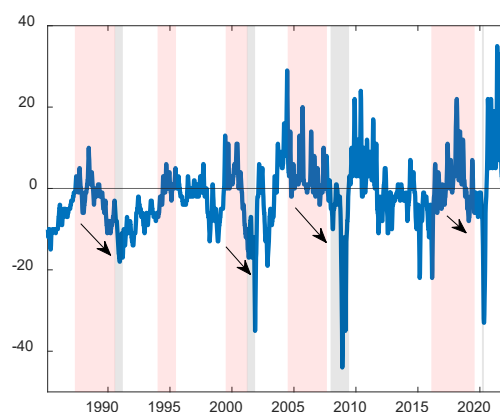
The June FOMC minutes that were published yesterday seem to make clear the Fed's aim to slow growth for a while. Notably, the minutes mention 90 times the word *inflation*, which contrasts to no mention of the word *recession*. However, both economic analysts' estimates of impending recessionary risks and also equity analysts' estimates of corporate earnings in the current reporting season are still optimistic. For example, the estimate for the probability of a recession occurring within the next 12 months still ranges between 30–50% among sell-side and buy-side market participants (see left chart below), whereas the 2y-10y yield differential today re-entered inversion by up to 7 bps following the release of the June FOMC minutes. Similarly, while at this point equity analysts remain indifferent between earnings upgrades and downgrades, earnings estimates were revised down significantly in previous Fed rate-hiking cycles that ended in recession (see right-hand chart below). This complacency could lead to headline risk for the Q2 earnings season if reported earnings disappoint and negative earnings guidance increase.

Recession probabilities for the US within next 12 months still look relatively optimistic...

	As of	Recession probability
Goldman Sachs	07/05/22	48%
Bank of America	06/30/22	40%
JP Morgan	07/01/22	40%
Morgan Stanley	06/24/22	30%
Citi	06/22/22	50%
PIMCO	06/30/22	50%
Fidelity	06/30/22	35%

Source: IMF survey on July 07 2022

... similar as S&P 500 earnings revisions, which in past Fed Fund hiking cycles in the run up to recessions substantially contracted



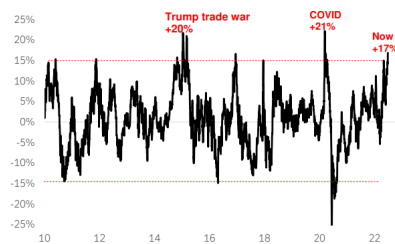
Source: Bloomberg, Datastream and IMF calculations

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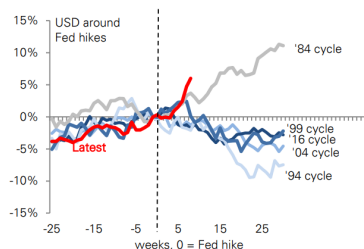
- Earnings revisions defined as the 4-week moving average of the difference between earnings revisions up and down divided by the total number of analysts estimates for the S&P 500 constituents.
- Fed Fund hiking cycles indicated by red shading
- NBER recessions indicated by grey shading

Deutsche Bank notes that dollar strength relative to the euro could persist and dip below parity. In their analysis, Deutsche Bank analysts investigate USD strength while correcting for relative short-term interest rate differentials, looking at past Fed Fund hiking cycles, and investigating the persistence of deviations from purchasing power parity (PPP) relative to the euro. Whereas the overshoot of the dollar when correcting for the diverging money market differentials in the US and the euro area amounts to 17%, in past episodes (e.g., the Trump trade war or the outbreak of the Covid-19 pandemic) the dollar overshoot increased to up to 20% before reverting (see left chart below). Additionally, compared to the Volcker Fed Fund's 1985 rate hike cycle, which appears to be the relevant benchmark for the time being, the dollar appears well ahead of its rally at the time, but could have another 5% appreciation ahead of it by the end of the year to match the scale seen during the Volcker period (see middle chart below). Finally, also through the lens of a euro-specific PPP valuation model, the dollar seems to have the potential of further appreciating before a retracement to its fundamentals (see right chart below).

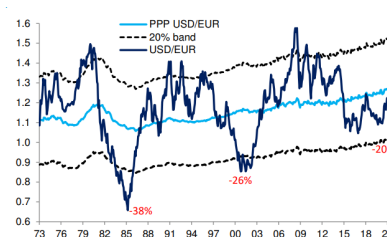
USD over/under shoot vs rel. monetary policy drivers



USD over/undershoot in past Fed Fund hiking cycles



USD deviations from PPP-based fair value



Source: Deutsche Bank

Euro Area

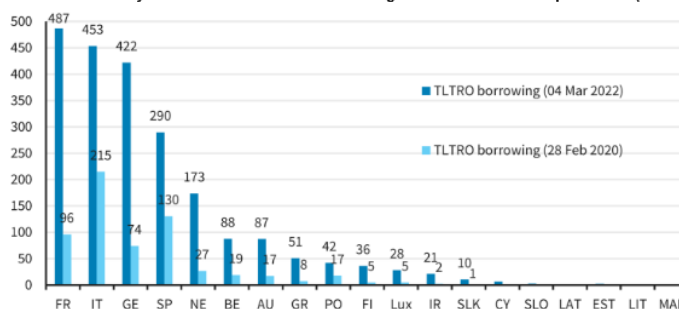
European equities (+1.6%) followed US equities higher, with the euro little changed. German industrial production gained only 0.2% m/m (0.4% m/m expected) in May. The German statistics office also made a methodological change to car production data to capture the increase in electric vehicle production.

German 10-yr bund yields (+9 bp to 1.29%) and French 10-yr yields (+10 bp to 1.86%) moved sharply higher as French FM Le Maire said that France intends to spend about €20 bn on new measures to mitigate the impact of record inflation. The minister added that higher-than-expected tax receipts in 2021 thanks in part to stronger labor markets, will help cover the cost of the new plans and reiterated the government's objective to bring the French budget deficit back to 3% by 2027. **FM Le Maire also called EU debt rules *obsolete* and said that a new economic model is emerging in Europe.**

Italian spreads (+ 7 bp to 201 bp) are wider as ECB staff reportedly has a name for its new crisis tool but policymakers are not sure that the tool will be ready to be announced at the meeting on July 21. In contrast, contacts almost universally expect the ECB to make an announcement on its new anti-fragmentation tool that day. The measure is being referred to as the *Transmission Protection Mechanism*, though the name could still change when the program is announced. Talks on the new tool reportedly proceeded at a scheduled meeting yesterday, though a lot of work is still to be done, according to people familiar with the matter.

Contacts warn that a tightening of TLTRO conditions could imply some widening in euro area spreads as banks could decide to close existing carry trades or not roll maturing bonds if TLTRO liquidity becomes less attractive. The ECB is reportedly considering a change in TLTRO terms to reduce the arbitrage available for banks after June 2022. The TLTRO rate from end-June 2022 (when the special conditions ended) is calculated as the average applicable (depo or refi) rate during the entire life of the operation. Under current rules and market pricing, the TLTRO rate will increase, but by much less than the depo rate.

Euro area: Country breakdown of TLTRO borrowing: Current and before pandemic (bn euro)

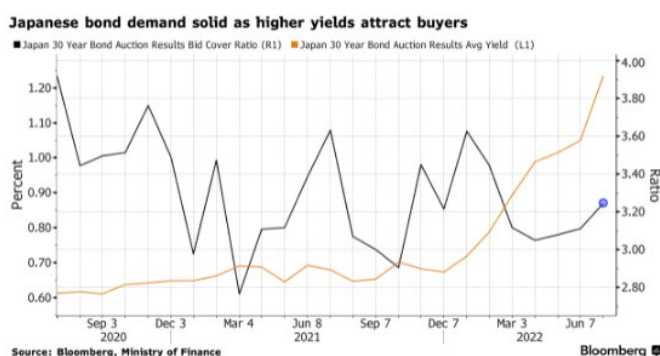


Source: ECB, Barclays Research

The British pound (+0.4%) gained as PM Johnson is expected to resign later today. Money markets priced in about 13 bp of extra tightening by the BoE in 2022 (leaving Bank Rate around 2.75% at end year) but there was a similar size increase in ECB expectations.

Japan

Equities rebounded 1.4% amid lower commodity prices. Bank of Japan (BoJ) may reportedly revise its growth and inflation forecasts at the meeting on July 20–21. The bank may upgrade its quarterly inflation projection to its target level of 2% or above for the year ending next March (current: 1.9%), with an upward revision of the 1.1% forecast for the following year, Bloomberg reported. Separately, **foreigners were net buyers of Japanese bonds for two consecutive weeks.** Japanese investors remained net sellers of foreign debt for sixth consecutive weeks to July 1. **The yen was little changed, 10-year yields declined 2.8 bp.** Japan's sale of 30-year government bonds drew the strongest demand in five months, with a bid-to-cover ratio of 3.25.



Emerging Markets

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Asian equities recovered 1% on net. Taiwan, Province of China (POC) gained 2.5. **Asian currencies were mixed.** The Philippine peso continued to weaken 0.6%. **Philippines** central bank Governor Medalla signaled the bank is prepared to raise its key rate by 50 bp in August. **10-year yields were little changed.** **Sri Lanka's** central bank raised its benchmark standing lending facility rate by 100 bp to 15.5%, taking total interest rate hikes this year to 950 basis points. **Equities traded lower in Moscow (-2%) but were generally higher elsewhere in EMEA.** The Romanian leu was little changed today after the central bank hiked its policy rate 100 bp to 4.75% (4.50% expected) and governor Isarescu said that there is still time to catch up with peers as the next monetary policy meeting is in less than a month's time. In June, the Czech central bank hiked 125 bp and the Polish central bank 75 bp. **Focus remains on Hungary** as the forint remains weaker on the day even after the central bank unexpectedly hiked its one-week deposit rate 200 bp to 9.75%. **Latin American equity markets** were mostly higher on Wednesday. Argentina (+2.6%) and Mexico (+0.5%) led the gains, while Peru saw losses (-1.2%). Local currencies were broadly weaker. The Chilean peso underperformed (-2.2%), followed by the Colombian peso (-1.7%), and the Peruvian Sol (-0.9%). 10-year government bond yields dropped 13 bp in Chile.

India

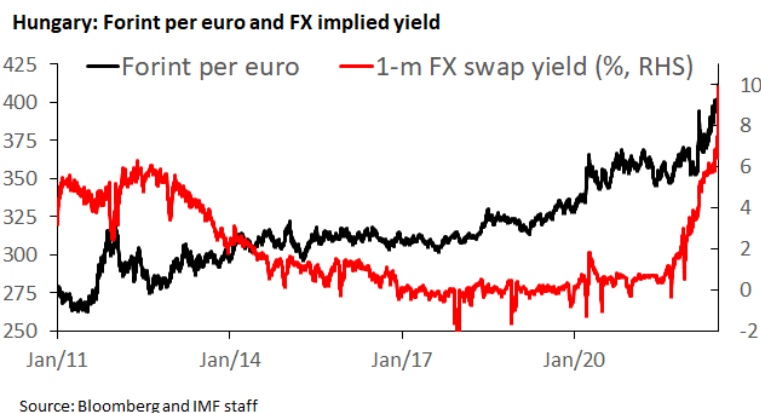
Reserve Bank of India (RBI) announced a liberalization of restrictions for debt capital flows. The package includes higher limits on external commercial borrowing, extended window for portfolio investors to invest in corporate money market instruments, exemptions from cash reserve ratios and SLR for incremental non-resident deposits. Also, banks will be allowed to utilize foreign currency loans for wider purposes, while all new issuances of 7-year and 14-year bonds will be added to the Fully Accessible Route (FAR) for non-residents. DBS noted that FX intervention had been the key modus operandi to defend the

rupee in the last few weeks, RBI may use incremental flows to replenish the reserves stock. The Indian rupee appreciated 0.3%, benchmark 10-year yield increased by 6 bp.



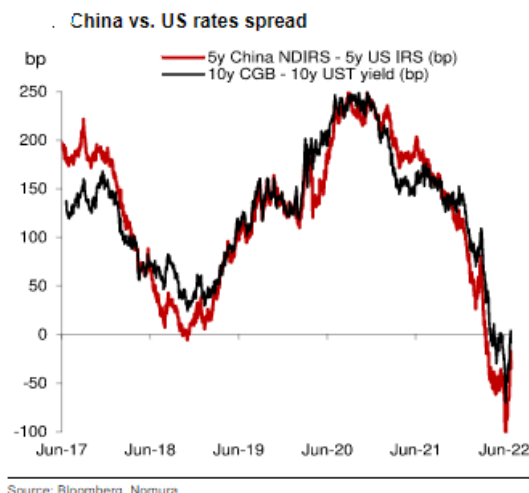
Hungary

The central bank unexpectedly increased its one-week deposit rate 200 bp to 9.75% (8.25% expected) as the forint has remained under pressure. The forint (-0.5%) is still weaker on the day after today's large hike and has now depreciated 4% against the euro in the past 5 days. Yields are trading at a decade high as contacts report that liquidity conditions in local bond markets remain very challenging.



China

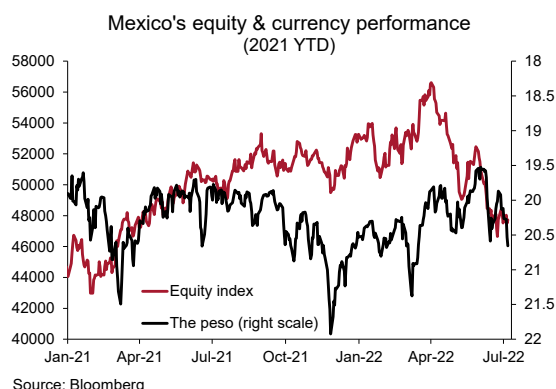
Equities gained (Shanghai +0.3%, Shenzhen +1.0%) despite fears of lockdowns amid rising virus infections. The Ministry of Finance may reportedly allow local governments to sell 1.5tn yuan (\$220 bn) of special bonds in 2H 2022 to support accelerated infrastructure spending. Separately, Shimao Group Holdings Ltd. avoided a domestic bond default. The Group said it has received enough votes from creditors to extend a yuan note, just days after the Chinese property developer failed to repay a \$1 bn note. Separately, China-US rates spread, remains well below its historical average, Nomura notes. The narrowing rates differential is likely one factor behind offshore outflows from China bonds from February to May 2022. Meanwhile, China's central bank has net withdraw



about 300bn yuan (\$45 bn) in cash this week, Bloomberg estimates. Liquidity remains ample with seven-day repo rate close to 1.6%.

Mexico



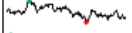


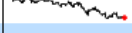
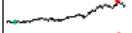
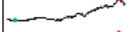


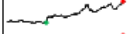
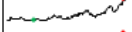
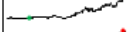

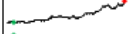
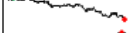
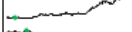





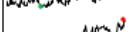
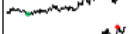
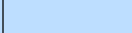



Citi's sale of Banamex faced new obstacles as President AMLO added new restrictions. According to Bloomberg, the President said the government considered four conditions on the deal, including the requirement that Mexican capital must back the transaction. In addition, he pointed out that any buyer must be up-to-date on tax payments and that Banamex's massive art collection should remain in Mexico. He also mentioned that the sale should avoid mass firings. Analysts commented that stricter conditions might result in a narrower field of potential bidders. Mexican risk assets were mixed yesterday, as equities rose 0.5% and the peso depreciated 0.6% against the dollar.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (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), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). 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






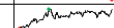

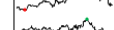






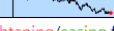
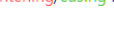











Last updated: 7/7/22 8:39 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3850	0.4	1	-7	-12	-19	-9
Europe		3480	1.7	1	-9	-15	-19	-12
Japan		26491	1.5	0	-6	-6	-8	0
China		4443	0.4	-1	5	-13	-10	-4
Asia Ex Japan		68	-0.7	-3	-6	-26	-18	-14
Emerging Markets		39	-0.6	-3	-8	-27	-20	-17
Interest Rates			basis points					
US 10y Yield		2.96	3.0	-6	-2	164	145	97
Germany 10y Yield		1.29	8.3	-5	0	159	147	106
Japan 10y Yield		0.25	0.1	2	0	21	18	5
UK 10y Yield		2.13	4.0	-10	-8	153	116	65
Credit Spreads			basis points					
US Investment Grade		179	-0.4	1	29	89	67	36
US High Yield		587	-3.3	2	147	270	249	180
Europe IG		118	-3.9	0	29	72	70	47
Europe HY		584	-21.8	4	137	353	342	232
Exchange Rates			%					
USD/Majors		106.91	-0.2	2	4	15	12	11
EUR/USD		1.02	0.0	-3	-5	-14	-10	-10
USD/JPY		135.9	-0.1	0	2	23	18	18
EM/USD		49.6	-0.1	-4	-6	-12	-6	-7
Commodities			%					
Brent Crude Oil (\$/barrel)		101	0.8	-7	-14	52	36	14
Industrials Metals (index)		152	2.9	-5	-19	-2	-12	-19
Agriculture (index)		65	2.7	-7	-14	19	7	-7
Implied Volatility			%					
VIX Index (% change in pp)		26.5	-0.3	-1.7	2.4	10.3	9.3	-4.6
US 10y Swaption Volatility		142.5	0.5	14.4	39.5	72.9	63.5	48.2
Global FX Volatility		11.7	0.0	0.6	1.6	4.8	4.3	4.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		224	15.1	-4	-28	120	73	-16
Italy		200	4.8	7	-1	96	65	28
Portugal		110	2.0	2	-6	50	45	18
Spain		110	2.5	1	-2	47	36	6

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 7/7/2022 8:40 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.70	0.1	-0.1	0	-3	-5	-6		3.0	2.0	8	13	-17	15	14
Indonesia		15002	0.0	-0.7	-4	-3	-5	-4		7.3	-0.1	5	24	71	89	77
India		79	0.2	-0.3	-2	-6	-6	-6		6.3	0.0	0	9	75	0	
Philippines		56	-0.7	-1.9	-6	-11	-9	-9		5.7	0.0	0	20	160	118	68
Thailand		36	0.3	-2.2	-5	-10	-8	-11		2.7	1.0	-20	-24	97	84	47
Malaysia		4.43	-0.1	-0.4	-1	-6	-6	-5		4.2	3.2	-9	-6	102	58	51
Argentina		126	-0.1	-1.1	-4	-24	-19	-15		68.1	237.4	808	1194	2291	1750	2010
Brazil		5.40	0.5	-2.7	-10	-3	3	-7		13.0	-10.4	9	25	361	232	148
Chile		963	0.7	-4.7	-14	-22	-12	-18		6.4	0.0	-3	6	195	93	44
Colombia		4337	-1.6	-5.1	-12	-13	-6	-10		8.9	0.0	-7	16	310	253	107
Mexico		20.62	0.2	-2.4	-5	-3	0	-2		8.8	0.0	-10	-6	169	127	95
Peru		3.9	-0.9	-2.7	-4	2	3	-4		7.8	3.3	4	9	197	189	179
Uruguay		40	-0.5	-1.8	-1	9	11	5		10.9	16.0	26	36	300	214	272
Hungary		403	-0.2	-6.1	-10	-25	-19	-21		8.6	28.0	70	143	581	407	377
Poland		4.68	0.3	-4.2	-9	-18	-14	-13		6.4	8.3	-21	-23	470	287	250
Romania		4.9	0.0	-2.8	-5	-14	-10	-10		8.8	3.8	7	70	603	398	365
Russia		63.5	-1.0	-14.7	-2	18	18	29		8.2	3.0	13	16	76	-54	-295
South Africa		16.8	0.2	-2.9	-8	-15	-5	-10		9.0	-7.0	-1	42	172	161	145
Turkey		17.23	0.0	-3.1	-3	-50	-23	-20		19.3	32.0	-2	-448	157	-503	-313
US (DXY, 5y UST)		107	-0.2	2.1	4	15	12	11		2.99	1.5	-4	1	222	173	109

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
								basis points								
China		4443	0.4	-1	5	-13	-10	-4		206	8	8	0	3	-2	
Indonesia		6653	0.1	-4	-8	10	1	-4		222	12	47	42	57	37	
India		54178	0.8	2	-1	3	-7	-5		203	9	37	58	71	49	
Philippines		6352	-1.4	3	-6	-8	-11	-14		170	14	52	64	69	33	
Thailand		1562	1.3	0	-5	1	-6	-8		0	0	0	0	0	0	
Malaysia		1419	-0.2	-2	-7	-6	-9	-11		136	3	13	9	19	3	
Argentina		95076	2.6	8	5	50	14	4		2686	312	778	1096	1006	949	
Brazil		98719	0.4	-1	-10	-22	-6	-12		364	-1	58	93	53	33	
Chile		5007	0.1	1	-7	19	16	14		175	-8	28	26	35	1	
Colombia		1336	0.2	-1	-16	4	-5	-12		434	-22	100	172	86	42	
Mexico		47722	0.5	-1	-5	-5	-10	-7		446	-15	64	102	114	76	
Peru		18060	-1.3	-3	-12	-4	-14	-23		197	-16	26	34	47	7	
Hungary		39534	0.5	1	-2	-17	-22	-17		232	3	30	92	108	79	
Poland		53867	3.3	1	-6	-21	-22	-14		74	-13	-4	42	42	58	
Romania		12338	0.4	0	-1	3	-6	-7		338	1	96	153	145	105	
Russia		2234	0.6	1	-3	-43	-41	-28		3411	-577	938	3228	3234	2897	
South Africa		67299	2.3	2	-4	1	-9	-10		519	29	142	185	164	130	
Turkey		2419	0.5	1	-9	74	30	20		730	45	160	251	152	167	
Ukraine		519	0.0	0	0	-2	-1	0		5295	468	1970	4794	4536	3822	
EM total		39	1.8	-3	-8	-27	-20	-17		463	5	88	98	76	5	

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

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