



- June non-farm payrolls come in much higher than expected ([link](#))
- Japan's former PM Abe assassinated during campaign rally ([link](#))
- Focus on natural gas as Nord Stream goes offline for annual maintenance ([link](#))
- Commodities rout bears striking resemblance to the market in mid-2008 ([link](#))
- ECB publishes results of first ever climate stress test ([link](#))
- Currencies in Hungary and Poland continue to depreciate on credibility concerns([link](#))

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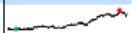
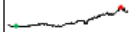


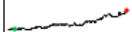

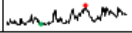
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Strong US payrolls sends yields higher

This morning, June non-farm payrolls were reported much stronger than was expected, sending US yields higher. Payrolls increased by 372k, well above the 265k that was expected. US yields rose sharply on the news, with some flattening of the curve. The 2-year treasury rose 13 bp while the 10-year increased 9 bp. The market-implied odds of a 75 bp hike at the July FOMC meeting also rose, from 93% to 97% according to Bloomberg. US equity futures, which were already heading negative, fell further on the release. Elsewhere, the shocking assassination of former Japanese prime minister Shinzo Abe caused an earlier paring back of equity gains in Asian indices, as well as an increase in the yen. The Polish zloty continued its depreciation after the central bank hiked rates by less than expected.

Key Global Financial Indicators

Last updated: 7/8/22 8:12 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		3903	1.5	2	-5	-10	-18	-8
Eurostoxx 50		3493	0.1	1	-8	-13	-19	-12
Nikkei 225		26517	0.1	2	-5	-5	-8	0
MSCI EM		40	2.0	0	-7	-24	-18	-16
Yields and Spreads			bps					
US 10y Yield		2.98	-1.8	10	-5	168	147	98
Germany 10y Yield		1.27	-4.9	4	-9	158	145	104
EMBIG Sovereign Spread		540	-2	-2	89	191	173	127
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.9	-0.2	-3	-5	-12	-5	-6
Dollar index, (+) = \$ appreciation		107.1	0.0	2	4	16	12	11
Brent Crude Oil (\$/barrel)		104.9	0.2	-6	-15	41	35	8
VIX Index (% change in pp)		26.3	0.2	-2	2	7	9	-5

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

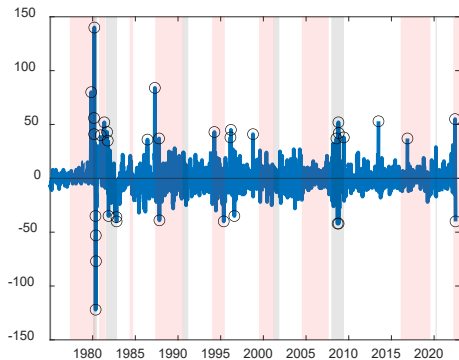
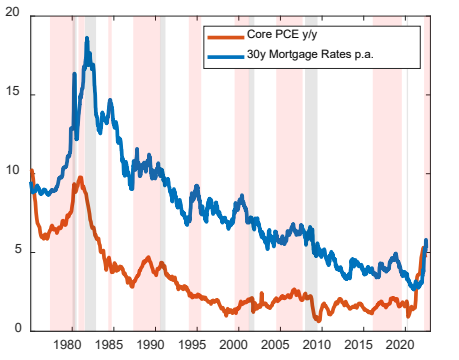
Mature Markets

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United States

In data releases this morning, the June US employment report showed sizeable job gains that sizably beat expectations while average hourly earnings continued to grow at last month's pace and slightly declined from a y/y perspective. Nonfarm payroll employment increased by 372k, higher than expected (median consensus estimate of 265k gain). Average hourly earnings continued to grow at 0.3% m/m (in line with median expectation), while y/y growth slightly declined to 5.1% (versus 5.2% prior but better than the 5.0% consensus expectation). The unemployment rate held at 3.6% (in line with median expectation), just above the immediate pre-pandemic low of 3.5%. US Treasury 10-year yields rose 9 bp while stock futures dipped 0.3%. The dollar fractionally appreciated.

By historical standards, the decline in 30y mortgage rates this week could prove short-lived. On June 16th, the 30y mortgage rates rose by 55 bps during a week to 5.78%, which corresponds to its fifth largest weekly increase in history when compared to observations since 1975. By contrast, yesterday it fell to 5.3%, which corresponds to a weekly decline of 40 bps, which corresponds to its eighth largest decline since 1975. Both weekly changes reflect a 3 standard deviation move. However, interim interest rate declines of this magnitude have not been unusual in past Fed Funds hiking cycles, particularly during the Volcker period. Back then, a September 1980 report of the Federal Reserve Bank of St. Louis analyzed the drivers of the decline in rates after April 1980 (corresponding to the downward -120 bps spike in the left chart below),¹ identifying at the time the prevalent narrative that “(...) market participants began to believe that significant steps were being taken to reduce inflation (evidenced by the continued restraint on money growth despite the business downturn and extremely high interest rates).” Notwithstanding this, these declines proved short-lived given that the Fed continued its hiking cycle for another year, which prompted the 30y mortgage rate to continue its climb, peaking at 18.63% in August 1981. Only subsequently, it began a protracted decline, moderating in tandem with the abating inflation (see right chart below).

<p>During the last week, 30y mortgage rates declined by 40 bps to 5.3%, which reflects a move exceeding 3 standard deviations...</p>	<p>... while in the past, declines of such order retraced as the Fed continued hiking until it saw convincing evidence of abating inflation.</p>
	
<p>Source: Bloomberg, Freddie Mac and IMF calculations</p> <p>Notes:</p> <ul style="list-style-type: none"> Scatters highlight w/w change exceeding 3 standard deviations 	<p>Source: Bloomberg, Freddie Mac and IMF calculations</p> <p>Notes:</p> <ul style="list-style-type: none"> 30y Mortgage Rates reflected by Freddie Mac Commitment Rates

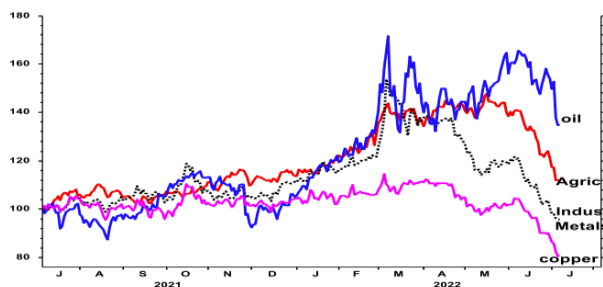
https://files.stlouisfed.org/files/htdocs/publications/review/80/08/Rise_Aug_Sep1980.pdf

- Fed Fund hiking cycles indicated by red shading
- NBER recessions indicated by grey shading

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Since the commodity sell-off bears striking resemblance to mid-2008, some analysts argue it could be the harbinger of a deep global recession. Since mid-June this year, commodities have seen a sharp fall in prices, prompting some analysts to draw analogies to what was seen in mid-2008. Even though the oil price decline appears slower and lagging—likely because of the Ukraine war—other industrial commodity prices appear in freefall. Despite the fallout from the Russian invasion of Ukraine, agricultural prices have also dropped significantly. With the oil price having slid from \$125/b to under \$100 in a month, Societe Generale analysts predict it might not be long before its y/y momentum turns negative, as is happening with agricultural commodities (see left chart below). Accordingly, Societe Generale analysts identify these developments as a harbinger of an imminent deep global recession akin to what started to unfold after mid-2008. Conversely, they dispute the recent movements in commodity prices being just excess speculative froth blown off by tighter financial conditions.

Copper leading the way down - slumping 20% in the past month alone (indexed to 100)



In 2008 industrial metals led the collapse in agricultural and oil prices (indexed to 100)



Source: Societe Generale

Euro Area

Ahead of US payrolls, European equities (+1.6%) traded higher and European gas prices (-7%) fell as Germany reportedly expects Canada to release key parts for Nord Stream and Russia commented that gas flows could increase if it receives the parts. Nord Stream is set to go offline for annual maintenance from Monday July 11 to July 21. European policymakers and contacts have been warning earlier that supply may not return on 21 July. German 10-yr bund yields (-5 bps to 1.26%) and Italian spreads (-4 bps to 195 bps) are lower ahead of US jobs data.

Contacts believe that the ECB is very likely to hike 25 bp on 21 July followed by a hike of 50 bp in September, as was also signaled in yesterday's ECB accounts of its June meeting. Analysts at BNP expect the ECB to hike 100 bp in 2022 even in a downside risk scenario of gas rationing owing to interrupted Russian imports with eurozone inflation reaching 10% in Q4 this year and a recession over the winter quarters (compared to 150 bp of hikes in a baseline scenario).

Euro area: ECB policy rate forward curve (%)



Source: Bloomberg and IMF staff

In its first ever climate risk stress test, the ECB warned that credit and market losses in a short-term disorderly transition and two physical risk scenarios amount to around €70 bn on aggregate (for the 41 banks in question) but also clarified that this number *significantly understates* actual risks related to global warming. The ECB also found that banks do not have robust climate risk stress-testing frameworks, lack relevant data, and have yet to include climate risk in their credit risk and overall business models while generating almost two-thirds of their income from greenhouse gas-intensive industries. A total of 104 banks participated in the wider exercise. The results of the stress test will feed into the annual review of risks banks face but there will not be any direct impact on capital through the Pillar 2 guidance this year.

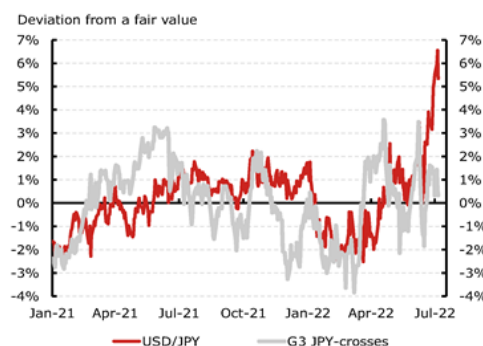
United Kingdom

The British pound (-0.3%) edged lower as analysts study the implications of a change in PM and cabinet ministers. Bank of America expects a new leader of the Conservative party to likely push through tax cuts, with the cancellation of next year's scheduled corporate tax hike (as well as lowering personal taxes) likely high on the agenda. BofA sees about £12.5bn of additional fiscal stimulus in 2023 with risks skewed to a Bank hike of 50 bp in August and continued hikes in 2023 compared to a previous forecast of three more rate hikes of 25 bp in 2022 and none in 2023.

Japan

Japan's former PM Abe was shot while campaigning for Upper House elections. PM Kishida soon after confirmed that Abe was in *grave condition*, and later it was reported Abe died in the hospital. Elections will be held on Sunday. Some analysts thought the implications of the election results have become more uncertain after the shooting. Separately, **Japanese investors continued to sell US sovereign debt in June.** This was the seventh straight month of outflows, the longest going back to 2005, Bloomberg estimates. Withdrawals totaled ¥326 bn (\$2.4 billion), down from ¥2.4 tn yen in April. Separately, **yen weakening against the US dollar has slowed amid growing concerns over a slowdown in the US and European economies**, Nomura noted. Yen-crosses against euro traded weakly. However, USD/JPY is still trading resiliently relative to the decline in US yields. Equities were broadly flat (+0.3%), paring earlier gains after shooting. The yen and 10-year yields were little changed.

Percentage deviation in USD/JPY and JPY-crosses from fair value



Note: 1. A fair value is calculated from five year rate differential. 2. The deviation for G3 JPY-crosses is the simple average of deviations for EUR/JPY, GBP/JPY, and AUD/JPY.
Source: Nomura, Bloomberg

Emerging Markets

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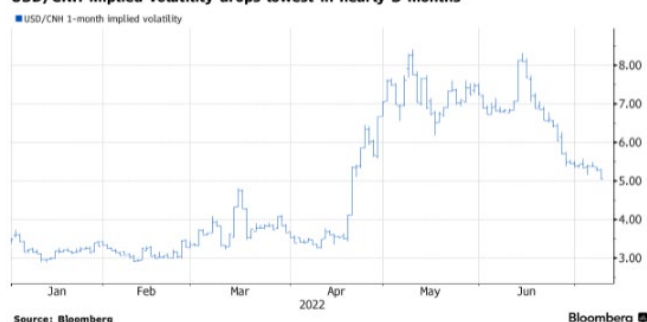
Asian equities gained +.4% on net. Indonesia outperformed (+1.3%), Thai stocks declined (-0.4%). Asian currencies were mixed. The Thai baht gained (+0.3%) recovering from its weakest level since early 2016. Thailand's central bank pledged during a briefing on Friday to allow the nation's currency to be driven

by market forces. Its Senior Director also stated there are no plans to impose capital controls as Thailand is pursuing a liberalized forex policy. 10-year yields were little changed. **Equity markets were up in EMEA, with the exception of Russia (-0.7%).** The Czech Republic and Hungary were gaining strongly (1.3% each), Poland was up (+0.4%), and Turkey and South Africa were gaining about 0.3%. In currencies, the South African rand was down (-1.2%). The Hungarian Forint and the Polish Zloty continued to depreciate as inflation and policy credibility concerns deepen. **Latin American equity markets** were mostly higher on Thursday. Argentina rallied 7.6%, followed by Brazil (+2.0%) and Chile (+1.9%). Local currencies were mixed. The Chilean peso (+2.1%) and the Brazilian real (+1.6%) led the gains, while the Colombian peso weakened 1.0% against the dollar. 10-year government bond yields rose 27 bps in Colombia and 22 bps in Chile. **Peru raised its reference rate by 50 bps to 6.0%, and Uruguay hiked its key rate by 50 bps to 9.75%.**

China

Equities closed lower (Shanghai -0.2%, Shenzhen -0.4%). Rising infections in Shanghai keeps investor sentiment grounded. Separately, China released the draft rules to identify systemically important insurance companies. The top 10 insurers by assets will be included for assessment, according to a statement from People's Bank of China (PBOC). 10-year yields were little changed. Renminbi weakened offshore (-0.2%) but was little changed onshore.

USD/CNH implied volatility drops lowest in nearly 3 months



The one-month offshore yuan implied volatility dropped to the lowest since April 20. The US will reportedly discuss possible reduction of tariffs on Chinese goods on Friday. Traders are betting that a tariff rollback could be staggered, diluting its impact on the currency, Bloomberg reported.

Poland

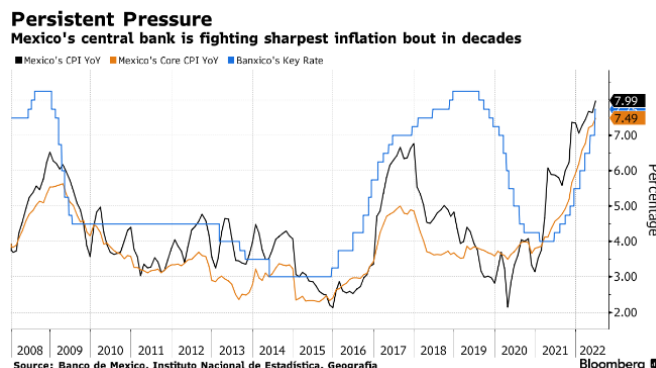
The Polish zloty continued to depreciate today (-0.3%) to 406/euro, close to its weakest level in 20 years, after the central bank hiked the policy rate by less than expected yesterday. The policy rate was hiked by 50 bp to 6.5% when the market expected a 75 bp increase. While the latest activity data has shown signs of softening, the market remains concerned by the inflation level, as June inflation reached 15.6% y/y. The central bank also revised its forecasts, increasing its inflation forecast up by 3–4% for 2022 (to 13.2–15.4% y/y from 9.3–12.2% in March 2022) and 2023 (to 9.8–15.4% y/y range, from 7–11%). At the same time, growth projections were revised slightly up for 2022 (to 3.9–5.5% y/y from 3.4–5.3% in March), but sharply down for 2023 (0.2–2.3% from 1.9–4.1%). The governor's press conference related to the decision will take place later today.

Hungary

The Hungarian forint continued to slide (-0.6% to 405.3/euro) despite yesterday's large rate hike (200bp to 9.75%), as June inflation surprised slightly on the upside. June inflation came at 11.7% y/y, 1% higher than in May, and slightly above expectations (11.5%). Importantly, m/m inflation (1.5%) showed that inflation momentum is still very strong, and only slightly down from May (1.7%). Yesterday afternoon, the central bank also announced plans to hold foreign-currency swap tenders (overnight intra-quarter FX swap tenders) to boost monetary transmission and further support the currency. Results of the first tender (5 billion euros offered) will be published later today. Still, market contacts have voiced concerns about policy credibility in Hungary. They are particularly worried that fiscal policy is working against monetary policy tightening efforts. The forint has lost almost 15% to the Euro since mid-February.

Mexico

Mexico's inflation hit a 21-year high in June. Headline inflation rose 0.84% m/m in June, in line with market expectations. In annual terms, the inflation printed at 7.99% y/y. Inflation continued to surge despite the fact that the central bank has raised its interest rate for nine straight meetings, totaling 375 basis points since June 2021. According to the minutes of the June policy meeting published yesterday, most of the board aim to maintain the current pace of rate hiking if necessary, and they didn't discuss the possibility of a 100-bps hike. Economists see inflation to end 2022 at 7.6% and the key rate at 9.5%, based on a Citibanamex poll published earlier this week. Mexican risk assets were mixed yesterday, as equities fell 0.7% and the peso strengthened 0.7%.

















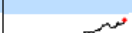
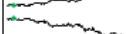


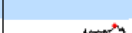






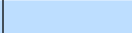


Türkiye

The Turkish lira was depreciating slightly (-0.3% to 17.3/\$), as inflation expectations continue to deteriorate. The central bank's survey of inflation expectations showed that end-2022 inflation expectations increased to 70% y/y in July from 64.5% in June. Expected inflation for the next 12 months reached 40% y/y, from 38% in the June survey. Expectations for the next 24 months also increased by 2% over the last month, to at 24.3%. (June inflation was 78.6% y/y).

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Global Financial Indicators

Last updated: 7/8/22 8:12 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3898	1.5	3	-5	-10	-18	-8
Europe		3493	0.1	1	-8	-13	-19	-12
Japan		26517	0.1	2	-5	-5	-8	0
China		4429	-0.3	-1	4	-13	-10	-4
Asia Ex Japan		69	2.1	0	-5	-23	-16	-13
Emerging Markets		40	2.0	0	-7	-24	-18	-16
Interest Rates			basis points					
US 10y Yield		2.98	-1.8	10	-5	168	147	98
Germany 10y Yield		1.27	-4.9	4	-9	158	145	104
Japan 10y Yield		0.24	-0.4	2	-1	22	17	5
UK 10y Yield		2.15	2.0	6	-10	154	118	67
Credit Spreads			basis points					
US Investment Grade		175	0.1	-6	25	84	63	32
US High Yield		567	-1.3	-36	124	244	229	160
Europe IG		116	-1.5	-5	25	68	68	44
Europe HY		573	-8.9	-18	118	335	331	221
Exchange Rates			%					
USD/Majors		107.14	0.0	2	4	16	12	11
EUR/USD		1.02	0.1	-2	-5	-14	-11	-10
USD/JPY		135.8	-0.1	0	1	24	18	18
EM/USD		49.9	-0.2	-3	-5	-12	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		105	0.2	-6	-13	56	40	18
Industrials Metals (index)		149	-1.4	-4	-20	-3	-14	-20
Agriculture (index)		66	0.9	-4	-14	21	8	-6
Implied Volatility			%					
VIX Index (% change in pp)		26.3	0.2	-2.4	2.3	7.3	9.1	-4.7
US 10y Swaption Volatility		141.3	0.7	5.4	35.5	68.5	62.3	47.0
Global FX Volatility		11.2	0.0	-0.2	0.9	4.2	3.8	3.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		219	-3.2	-8	-43	112	68	-21
Italy		193	-5.8	7	-9	86	58	22
Portugal		107	-2.2	3	-8	44	43	15
Spain		108	-1.3	4	-5	42	34	4

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 7/8/2022 8:15 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	0.0	0.0	0	-3	-5	-6		3.0	-2.0	5	11	-10	13	12
Indonesia		14979	0.2	-0.2	-3	-3	-5	-4		7.3	0.7	1	10	72	89	78
India		79	-0.1	-0.3	-2	-6	-6	-6		6.3	0.0	0	9	75	0	
Philippines		56	0.2	-1.6	-5	-11	-9	-9		5.7	0.0	0	20	173	118	68
Thailand		36	0.1	-1.2	-4	-10	-8	-10		2.6	-7.5	-20	-24	90	77	39
Malaysia		4.43	0.0	-0.4	-1	-6	-6	-5		4.2	2.0	-5	-3	104	58	51
Argentina		127	-0.1	-1.1	-4	-24	-19	-15		69.9	182.0	978	1348	2466	1932	2192
Brazil		5.35	-0.1	-0.3	-8	-2	4	-6		12.9	-16.2	1	14	346	218	134
Chile		951	2.0	-3.5	-13	-21	-10	-17		6.5	-1.5	22	13	224	106	57
Colombia		4386	-1.1	-5.3	-14	-13	-7	-11		9.1	0.0	27	26	334	272	125
Mexico		20.52	0.0	-1.2	-5	-3	0	-1		8.8	0.0	5	-14	177	128	96
Peru		3.9	0.1	-1.7	-4	2	3	-4		7.8	0.3	9	11	205	193	184
Uruguay		40	-0.1	-1.4	-2	9	11	5		11.0	17.8	43	54	318	232	289
Hungary		396	0.1	-2.9	-7	-24	-18	-19		8.4	1.5	56	107	560	384	354
Poland		4.69	0.4	-3.8	-9	-18	-14	-13		6.3	-1.3	8	-36	463	280	243
Romania		4.9	0.1	-2.4	-5	-14	-10	-10		8.9	9.2	17	83	611	407	374
Russia		62.6	2.4	-10.8	-4	19	20	31		8.2	-1.0	12	13	79	-55	-296
South Africa		16.9	-1.2	-3.0	-10	-15	-6	-11		9.1	4.5	16	45	184	166	150
Turkey		17.32	-0.3	-3.3	-1	-50	-23	-20		19.0	-32.0	-32	-634	135	-535	-345
US (DXY, 5y UST)		107	0.0	1.9	5	16	12	11		3.02	-1.6	14	-1	227	175	111

	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		4429	-0.3	-1	4	-13	-10	-4		206	7	7	-1	3	-2	
Indonesia		6740	1.3	-1	-5	12	2	-3		218	2	33	36	53	33	
India		54482	0.6	3	0	4	-6	-5		212	19	47	63	80	58	
Philippines		6362	0.1	3	-3	-7	-11	-14		160	-4	33	53	59	23	
Thailand		1558	-0.3	-1	-5	0	-6	-8		0	0	0	0	0	0	
Malaysia		1426	0.5	-2	-5	-6	-9	-10		140	11	17	12	23	7	
Argentina		102265	7.6	16	14	64	22	12		2644	214	713	1058	964	907	
Brazil		100730	2.0	2	-7	-20	-4	-10		359	-9	49	84	48	28	
Chile		5101	1.9	2	-3	22	18	17		172	-7	21	21	32	-2	
Colombia		1350	1.0	2	-13	5	-4	-11		429	-15	85	166	81	37	
Mexico		47374	-0.7	0	-5	-4	-11	-8		440	-17	56	96	108	70	
Peru		18656	3.3	1	-10	0	-12	-20		195	-12	21	31	45	5	
Hungary		40087	1.0	2	-1	-16	-21	-16		228	-10	7	85	104	75	
Poland		54250	0.7	2	-3	-19	-22	-14		78	-14	9	46	46	62	
Romania		12258	-0.5	-1	-2	3	-6	-7		331	-15	81	142	139	99	
Russia		2220	-7.7	1	-4	-43	-41	-28		3411	-577	938	3228	3234	2897	
South Africa		67890	2.3	3	-3	4	-8	-9		512	-11	124	179	157	123	
Turkey		2434	-4.1	0	-4	77	31	21		733	20	139	251	155	170	
Ukraine		519	0.0	0	0	-2	-1	0		5491	405	2115	4988	4732	4018	
EM total		40	-0.2	0	-7	-24	-18	-16		458	-3	74	93	72	0	

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

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