



- French spreads have stabilized but analysts remain cautious ([link](#))
- US CPI inflation came in below expectations ([link](#))
- Investors have priced in a lower probability of a UK rate cut in August ([link](#))
- Bank of Korea held its base policy rate unchanged at 3.50% as expected ([link](#))
- Chinese regulator tightened rules on short selling ([link](#))

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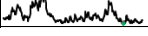
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Treasury yields decline sharply after soft inflation data.

Rate cuts are back in style after June inflation came in below expectations. 2y and 10y Treasury yields fell close to 10 bps after core inflation for June came in at 0.1% m/m (vs 0.2% expected). Investors started pricing in a more dovish policy outlook in response, with the probability of a September cut increasing to 85% in futures markets. The dollar index fell, with the yen gaining sharply, while stock futures jumped higher initially before more mixed trading thereafter. Initial jobless claims also came in lower than expected at 222k after a string of weaker economic data in recent weeks. Elsewhere, the pound strengthened after a monthly GDP indicator came in stronger than expected. Most global equity markets were higher today, led by Chinese and Hong Kong stocks following moves by the Chinese authorities to restrict short selling.

Key Global Financial Indicators

Last updated: 7/11/24 9:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5634	1.0	2	5	27	18.12
Eurostoxx 50		4991	0.7	0	1	16	10
Nikkei 225		42224	0.9	3	9	32	26
MSCI EM		44	0.6	3	5	11	10
Yields and Spreads			bps				
US 10y Yield		4.19	-9.3	-17	-21	22	31
Germany 10y Yield		2.49	-4.8	-12	-14	-16	46
EMBIG Sovereign Spread		388	-2	-6	3	-49	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.6	0.5	2	1	-5	-3
Dollar index, (+) = \$ appreciation		104.2	-0.8	-1	-1	2	3
Brent Crude Oil (\$/barrel)		85.4	0.3	-2	4	7	11
VIX Index (% change in pp)		12.5	-0.3	0	0	-2	0

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

Treasury yields fell close to 10 bps after core CPI inflation came in below expectations at 0.1% m/m and 3.0% y/y. Initial jobless claims were also lower than expected at 222k (vs 235k) after weaker economic data in recent weeks. Stock futures were up sharply following the release before fading. Futures markets are now pricing in close to 3 full rate cuts by January 2025 and nearly an 85% probability of a cut in September (up from around 70% previously).

	Actual	Estimate	Prior
CPI m/m	-0.1%	0.1%	0.0%
CPI y/y	3.0%	3.1%	3.3%
Core CPI m/m	0.1%	0.2%	0.2%
Core CPI y/y	3.3%	3.4%	3.4%
Initial Jobless Claims	222k	235k	238k
Continuing Claims	1852k	1860k	1858k

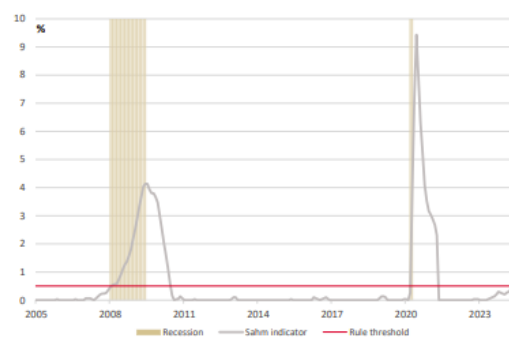
Employment data is close to signaling a recession. While headline nonfarm payrolls growth remained strong at over 200k in June, other employment indicators suggest economic activity is softening. The unemployment rate based on the household survey data ticked up to 4.0%, close to triggering the so-called Sahm rule. The recession warning is triggered by a 0.5 percentage point increase in the three-month average unemployment rate from the lowest point in the past year. Fed Chair Powell testified to Congress that the labor market has cooled “pretty significantly” and that the balance of risks for the Fed has potentially shifted.

Non-farm job growth remains solid

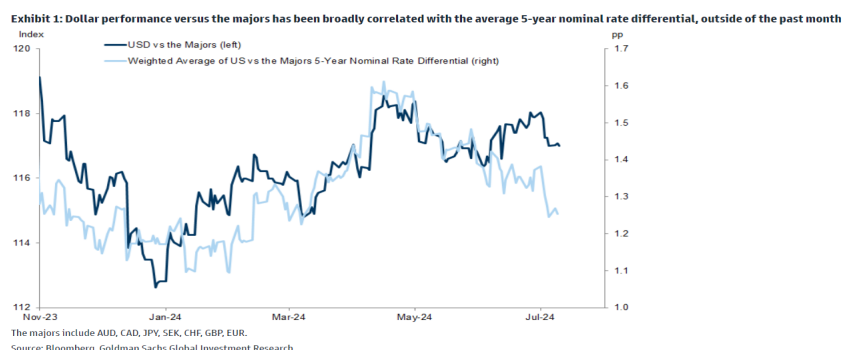


Source: SG Cross Asset Research, BLS

Yet Sahm rule is on verge of signalling recession



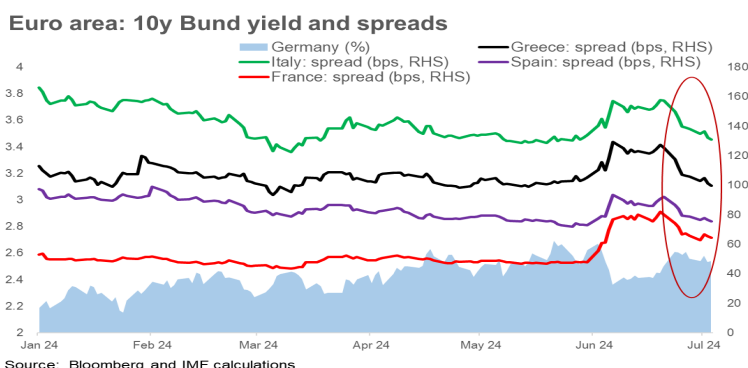
Analysts expect further dollar weakness in the near term. After appreciating in the first half of the year, Goldman Sachs analysts expect recent dollar weakness to continue over the next few months as a shift to weaker US data increases growth concerns and drives lower yields. Softer inflation data could also play a role in suppressing yields. More broadly, dollar performance has been highly correlated with the average 5y nominal rate differential. However, analysts expect the dollar to strengthen heading into the election on the back of weak economic growth elsewhere, the potential for increased geopolitical risk, or tariff fears.



Europe

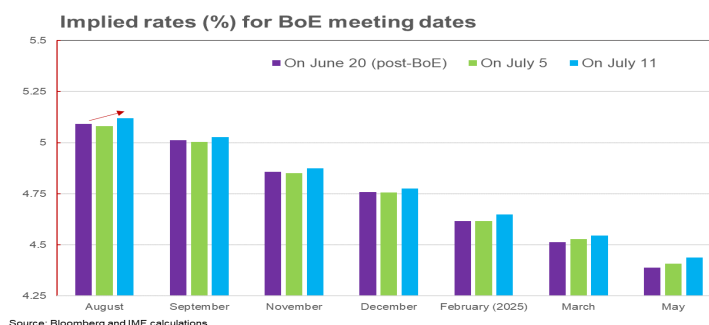
European equities gained this morning (Stoxx 600 +0.4%). Most sectors were trading in the green, with the banking sector up 0.5%. French equities (+0.6%) were seeing some of the largest gains. The euro was marginally stronger against the dollar ahead of the US CPI report. Sovereign yields were little changed this morning after closing lower yesterday as 10y bund yields fell 5 bps.

The 10y French-German yield spread has stabilized at around 65bps, but contacts see a risk of rewidening. After widening to around 82 bps in late June, the 10y French-German spread has been trading between 63 and 67 bps this week. UBS analysts think the spread could narrow to 60 bps in a scenario where France's hung parliament quickly forms a technocratic government and passes a 2025 budget compliant with EU guidance. However, their baseline is for spreads to trade around 70 bps, and note that spreads could widen even further if the formation of a new government takes time. ING echoed these sentiments, with political gridlock the main risk. Moody's warned that the French election results pose a threat to France's credit rating. Meanwhile, Raiffeisen noted that primary credit market activity has resumed after pausing amid uncertainty surrounding the elections.



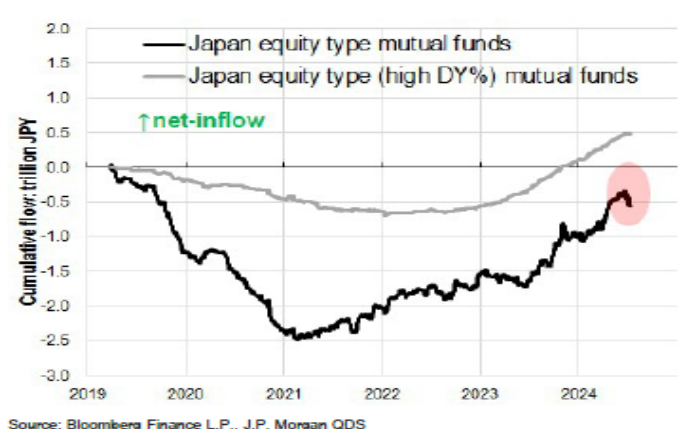
United Kingdom

Markets scaled back expectations for a BoE rate cut in August following hawkish remarks from BoE officials and an upside surprise in monthly GDP. BoE chief economist Pill commented on the persistence of inflation, noting that recent developments in labor markets, wages, and services inflation suggest some upside risk. MPC member Mann also highlighted her view that inflation will remain above 2% for the remainder of 2024. On the data front, May's monthly GDP surprised on the upside (+0.4% m/m versus expected +0.2%), signaling strong Q2 GDP. Markets are now pricing the likelihood of a 25 bp cut in August at about 50%, compared to 70% at the end of last week. However, swaps still suggest about 47 bps of easing by end-2024, marginally lower than the 50 bps priced last week. Market analysts continue to expect a rate cut in August, though they see the decision as somewhat uncertain. Contacts are now focused on the upcoming June CPI inflation print due on July 17, in addition to the labor and retail sales reports due later that week. The pound was trading stronger against the dollar this morning (+0.2% at 1.29).



Japan

Japanese equities hit another record high, with the Nikkei 225 gaining 0.9%. JPMorgan analysts attributed the rally to technical factors reversing the sell off in late June. However, they flagged signs of overheating in Japanese stocks, including excessive TOPIX futures positions of trend chasing funds, which reached the highest level since early 2018. Meanwhile, mutual funds saw net outflows for the first time this year.



Today's 20-year JGB auction saw relatively strong demand from investors. JGB yields rose slightly despite the auction seeing a bid to cover ratio of 3.8, the highest since February. While the Bank of Japan plans to further cut JGB buying, analysts believe the Government Pension Investment Fund could provide support to the debt market, as its latest annual report indicates that the fund could rebalance its allocations from domestic and foreign equities to domestic bonds going forward.

Emerging Markets

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EMEA equities traded mostly higher today, while currencies were mixed. The Romanian leu was stable after inflation came in slightly higher than expected for June at 4.9% y/y (4.8% expected, 5.1% previously). The South African rand edged higher against the dollar (+0.2%) and the stock market gained +0.3%. Turkish stocks outperformed up 1.6%. **In Asia, regional stock markets and currencies gained,** led by the Thai baht (0.4%), Korean won (0.4%), and Malaysian ringgit (0.3%). Hong Kong listed stocks gained 2%, with China also up over 1% (CSI300). 10y yields declined 8 bps in the Philippines on increasing speculation of rate cuts. **In Latin America, most regional currencies gained on Wednesday, led by the Chilean peso (+2.2%) and Colombian peso (1.2%).** In Chile, economists raised their forecasts for the policy rate from 4.75% to 5.25% in a central bank survey. Brazilian inflation rose but came in below expectations at 4.23% y/y (vs 4.32%). Futures contracts for the benchmark overnight rate declined 5–10 bps. Regional equities were mixed.

China

Chinese regulators tightened rules on short selling and programmed trading. The China Securities Regulatory Commission (CSRC) increased margin requirement for short selling from 80% to 100% beginning on July 22, making such trades more costly. The China Securities Finance Corp will be forced to cease lending stocks to brokerages for short selling purposes. The CSRC also noted that authorities are developing measures to strengthen supervision of programmed trading. While analysts believe the moves could have a positive impact on stock prices in the near term, they are skeptical about their longer term effectiveness given that short selling only accounts for 0.2% of daily trading volume. **Chinese equities gained (1.1%) and the RMB appreciated (+0.1%).**

Korea

Bank of Korea (BoK) held its base policy rate unchanged at 3.5% as expected. The BoK said it will maintain a restrictive monetary policy stance for a sufficient period, as further assessment is needed on the financial stability impact of recent currency weakness, housing prices, and household debt. Two board members signaled an openness to rate cuts, and the market has priced in about 40 bps of easing in the next 12 months. However, Governor Rhee pushed back on market expectations. **The Korean won appreciated 0.3%, while equities gained 0.8% and 10y yields rose 3 bps.**

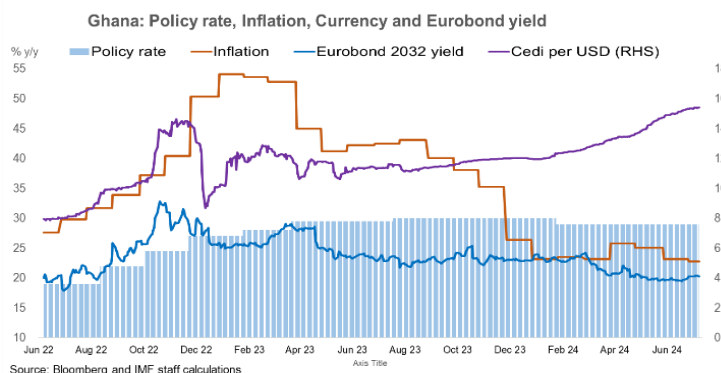
Malaysia

Bank Negara Malaysia (BNM) kept its policy rate at 3% as expected. The BNM highlighted that the policy stance remains supportive of the economy while also balancing upside inflation risks, particularly those related to the removal of fuel subsidies. BNM maintained its headline inflation forecast at 2–3.5%, with prices expected to move higher in the second half of the year. The Malaysian ringgit appreciated 0.3% to pair its YTD losses to 0.1%.

Ghana

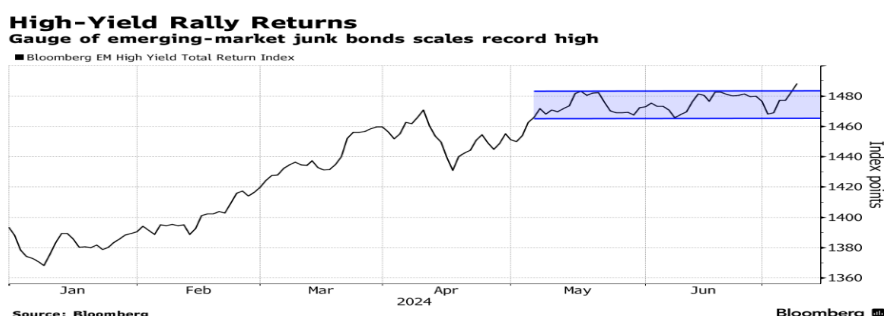
The cedi was little changed today after June CPI inflation slowed to 22.8% y/y (vs. 22.5% expected, 23.1% previously).

Inflation was the lowest since March 2022, raising speculation on a possible rate cut at the July 29 MPC meeting. However, Goldman Sachs largely attributed the slowdown in inflation to favorable base effects, as food prices still rose on a monthly basis, casting doubt on its forecast of 400 bps of rate cuts by the end of 2024. Analysts at REDD Intelligence believe the recent stabilization of the cedi and easing food supply constraints will help inflation fall further towards 20% y/y in the coming months, allowing the central bank to cut its policy rate by 100 bps to 28% in July. The cedi has depreciated by 28.7% YTD against the dollar, but market sentiment has improved after Ghana reached a deal in June with its official creditors and Eurobond holders to renegotiate \$13 bn of defaulted dollar bonds, as part of a debt restructuring program to qualify for a \$3 bn loan from the IMF.



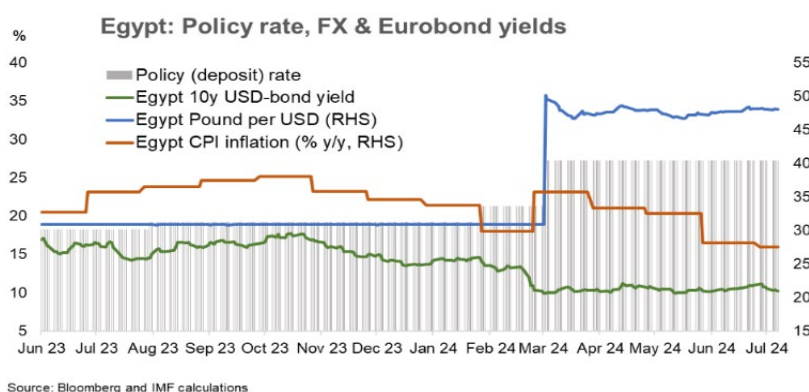
Emerging Market High Yield Bonds

EM bond indices have rallied in recent days, led by high yield and frontier sovereigns. The Bloomberg EM High Yield index posted its largest five-day gain in two months, led by Egypt, Angola, and Ecuador. To some extent, tight spreads elsewhere have made prospective yields on lower rated sovereigns more attractive, particularly those that have shown on some evidence of improving fundamentals. Treasury yields have also declined, bolstering returns. Spreads climbed higher in June but have retraced thus far in July.



Egypt

The Egyptian pound was little changed today after June CPI inflation slowed to 27.5% y/y (28.1% previously). Food and beverage prices, the largest component of the inflation basket, increased 31.9% y/y in June, up from 31% in May following a reduction in bread subsidies. Core inflation eased to 26.6% y/y. Inflation has declined despite the 38% devaluation in March, which helped narrow the spread between the official and parallel market exchange rates. Further reductions of subsidies are likely in the coming months amid a package of reforms following financial support from the UAE and IMF. The central bank kept its deposit rate at 27.25% in May and consensus expects no change at the next meeting on July 18. Goldman Sachs expects inflation to continue softening in 2024, given reduced dollar shortages and tighter fiscal policy, with headline inflation stabilizing at 10% y/y by Q1 2025.



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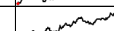
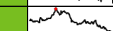







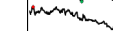



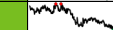



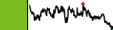



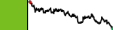
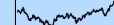

Global Financial Indicators

7/11/24 9:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5634	1.0	2	5	27	18
Europe		4991	0.7	0	1	16	10
Japan		42224	0.9	3	9	32	26
China		3468	1.1	1	-2	-10	1
Asia Ex Japan		74	0.6	3	5	11	12
Emerging Markets		44	0.6	3	5	11	10
Interest Rates			basis points				
US 10y Yield		4.19	-9.3	-17	-21	22	31
Germany 10y Yield		2.49	-4.8	-12	-14	-16	46
Japan 10y Yield		1.09	0.5	1	6	63	48
UK 10y Yield		4.09	-3.5	-11	-18	-57	55
Credit Spreads			basis points				
US Investment Grade		126	0.9	2	6	-21	-7
US High Yield		361	7.2	-1	6	-71	-24
Exchange Rates			%				
USD/Majors		104.23	-0.8	-1	-1	2	3
EUR/USD		1.09	0.6	1	1	-1	-1
USD/JPY		158.1	-2.2	-2	1	13	12
EM/USD		46.6	0.5	2	1	-5	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		85.4	0.3	-2	5	13	12
Industrials Metals (index)		153	0.1	-1	0	8	7
Agriculture (index)		57	1.2	-1	-4	-15	-9
Implied Volatility			%				
VIX Index (% change in pp)		12.5	-0.3	0.4	-0.3	-2.3	0.1
Global FX Volatility		6.8	0.0	-0.4	-0.5	-1.4	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-0.5	-6	-15	-43	-3
Italy		132	0.0	-7	-13	-45	-35
Portugal		60	0.8	-1	-6	-16	-3
Spain		77	0.2	-2	-2	-30	-20

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

Emerging Market Financial Indicators

Last updated: 7/11/2024 8:23 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		7.26	0.2	0.0	0	-1	-2		2.2	-1.5	1	-2	-52	-33
Indonesia		16195	0.3	0.8	1	-7	-5		7.0	-5.6	-9	-2	78	52
India		84	0.0	-0.1	0	-1	0		7.2	-1.0	-9	-9	(22.8)	-1
Philippines		58	0.1	0.5	1	-5	-5		5.4	-0.1	4	-12	-72	-22
Thailand		36	0.4	1.0	1	-4	-6		2.6	-1.0	-12	-19	-15	-8
Malaysia		4.69	0.3	0.5	1	-1	-2		3.9	0.9	0	-1	-3	13
Argentina		919	-0.2	-0.5	-2	-71	-12		44.9	6.5	52	9	-4750	-4150
Brazil		5.41	0.1	1.3	-1	-10	-10		11.9	17.1	-19	-14	109	148
Chile		911	2.1	3.2	1	-11	-4		5.3	0.0	-8	11	26	41
Colombia		3970	1.2	3.3	-1	5	-3		8.4	0.0	10	17	91	79
Mexico		17.85	-0.1	1.4	4	-5	-5		9.4	0.0	-12	-50	109	92
Peru		3.8	0.0	0.5	0	-4	-2		7.0	-1.4	#####	-7	17	32
Uruguay		40	-0.3	0.2	-2	-5	-3		9.6	-2.1	-5	39	6	8
Hungary		363	0.1	0.1	1	-5	-4		6.4	-5.5	-26	-25	-69	58
Poland		3.92	0.3	1.0	3	3	0		5.1	-3.9	-15	-13	9	66
Romania		4.6	0.1	0.4	1	-2	-2		6.5	0.3	-6	-11	-12	33
Russia		87.5	1.6	1.8	2	3	2							
South Africa		18.1	0.1	0.9	3	2	1		9.0	-5.8	-16	-51	-74	-10
Türkiye		32.87	-0.1	-0.9	-2	-21	-10		27.7	-6.0	57	-74	1085	97
US (DXY; 5y UST)		105	-0.2	-0.6	0	3	3		4.24	0.4	-8	-18	1	39

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)						Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points						
China		3468	1.1	1	-2	-10	1		140	1	6	-41	-18		
Indonesia		7300	0.2	1	7	7	0		106	-3	14	-31	10		
India		79897	0.0	0	4	22	11		98	-3	6	-33	-18		
Philippines		6609	1.8	2	3	2	2		89	-3	7	-22	9		
Thailand		1329	0.5	2	1	-11	-6		0	0	0	0	0		
Malaysia		1623	0.3	0	1	16	12		83	1	6	-8	-2		
Argentina		1690009	2.8	3	9	300	82		1480	-47	-15	-563	-433		
Brazil		127218	0.1	1	5	8	-5		221	-9	3	-27	6		
Chile		6467	-0.1	-1	-1	8	4		118	-2	-1	-5	-7		
Colombia		1366	-0.5	-1	-2	19	14		304	-3	3	-69	33		
Mexico		54280	1.8	3	2	0	-5		314	0	5	-54	-20		
Peru		30205	0.2	1	3	34	16		143	-2	-9	-12	-1		
Hungary		71771	0.4	-1	3	42	18		150	-2	3	-60	1		
Poland		87793	0.3	0	5	29	12		104	0	9	-33	7		
Romania		18478	0.2	1	4	44	20		187	-4	4	-40	-13		
South Africa		80665	0.3	-1	6	8	5		298	-13	-31	-115	-10		
Türkiye		10944	1.9	1	9	72	47		283	0	1	-201	-31		
EM total		44	0.6	3	5	11	10		399	-8	19	8	54		

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

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