



- Markets react to possibility of hike of 75 bps by Fed tomorrow ([link](#))
- Bank of Japan steps up its bond purchases ([link](#))
- Southern European spreads widen to levels seen in 2020 ([link](#))
- CEE bond yields increase to multi-year highs ([link](#))

[Mature Markets](#)





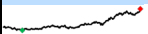

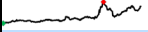

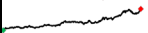


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Waiting for the Federal Reserve

Global equities were mixed as money markets are pricing in a hike of almost 75 bps by the Federal Reserve tomorrow. US equities recorded broad losses yesterday, while the US high-yield bond indices experienced their largest daily drop since the mid-2020 and the US dollar gained. The Bank of Japan increased its scheduled purchases of bonds to defend its yield curve control. Southern European spreads rose to levels last seen in 2020 as fragmentation concerns persist. According to news report, ECB Governing Council members will not reveal details about a plan to combat fragmentation, arguing that benefits to reveal a specific crisis tool preemptively are limited. US cryptocurrency lending firm Celsius Network paused withdrawals, swaps and transfers, blaming “extreme market conditions.”

Key Global Financial Indicators

Last updated: 6/14/22 12:13 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3750	-3.9	-9	-7	-12	-21
Eurostoxx 50		3480	-0.7	-9	-6	-16	-19
Nikkei 225		26630	-1.3	-5	1	-9	-8
MSCI EM		40	-3.5	-7	-2	-28	-19
Yields and Spreads			bps				
US 10y Yield		3.30	-5.5	33	39	181	179
Germany 10y Yield		1.65	1.8	36	70	190	183
EMBIG Sovereign Spread		484	17	41	15	156	117
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.5	-0.1	-2	0	-11	-2
Dollar index, (+) = \$ appreciation		105.1	0.0	3	1	16	10
Brent Crude Oil (\$/barrel)		123.3	0.8	2	11	69	58
VIX Index (% change in pp)		33.3	-0.7	9	4	17	16

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

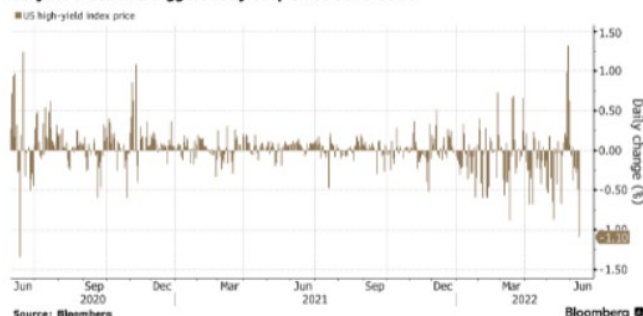
Mature Markets

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United States

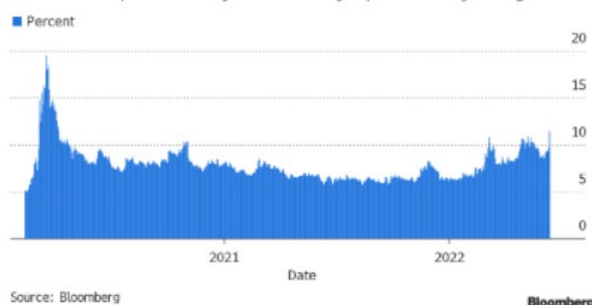
The S&P 500 posted broad losses while high-yield bond indices recorded their largest daily drop since the mid-2020 (left chart below). The US dollar appreciated, and short-term FX volatility rose to two-year highs (right chart). US Treasury yields for 2-yr, 5-yr, and 10-yr bonds increased by 30, 23, and 21 bps—driven entirely by real yields—and reached their highest levels in more than a decade.

Deflated
US junk index had biggest daily drop since June 2020



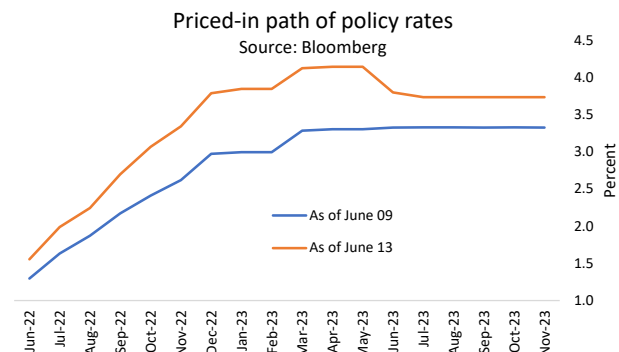
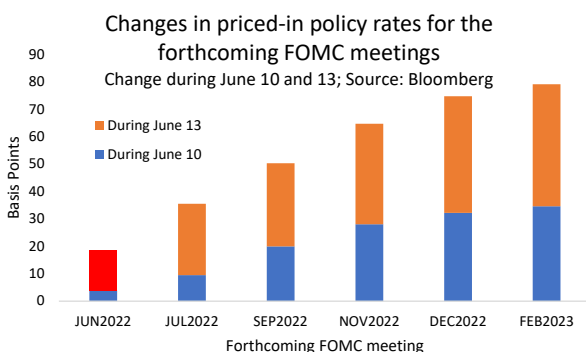
Growing Uncertainty

One-month implied volatility of the dollar jumps to a two-year high



PPI figures released this morning were in line with expectations. PPI Final demand rose 0.8% mom (vs 0.8% expected) and 10.8% yoy (vs 10.9% expected); PPI Ex Food and Energy is up 0.5% mom (vs 0.6% expected) and 8.3% yoy (vs exp 8.6% expected).

Markets no longer consider a 75-bps hike in June as unlikely. In the last two trading days, the cumulative change in the priced-in policy rate for June was close to 25 bps (left chart below)—above the hike of 50 bps expected earlier. **Contacts point out that a more hawkish move (compared to a 50 bps hike) may signal the Fed's commitment to fight inflation, but some believe that it may also lead to a greater degree of disorder in the markets.** Namely, such a move will break the Fed's previous communication strategy (that repeatedly justified 50 bps hikes) and may give the impression that the Fed is unable to retain the predictability of its forward guidance and that the current inflationary environment is too complex for the Fed to remain consistent in its guidance in the short run. **Overall, the main price action during the last two trading days happened for the more distant meetings (left chart), with the expected highest point of the hiking cycle rising to 4% in mid-2023 from the previous 3.25% (right chart).**



Analysts expect the Fed to admit (at least indirectly) the necessity to increase unemployment to fight inflation. Previously, Fed's Summary of Economic Projections assumed a scenario where inflation would fade away amid almost record low unemployment.

Japan

The Bank of Japan (BOJ) stepped up its bond purchases. Long-end JGB yields were mixed (10-year: +0.3 bp; 30-year: -1.8 bps), with the 10-year yield touching 0.254%, above the 0.25% upper limit. **To defend its yield curve control, the BOJ boosted scheduled purchases of 5- to 10-year debt to 800 bn yen (\$5.9 bn), up from previously planned 500 bn yen (\$3.7 bn).** The BOJ also bought 2.2 tn yen (\$16.4 bn) of JGBs today under its fixed-rate bond purchase operations, a record amount.

Furthermore, the BOJ announced an unscheduled operation to buy longer-end debt tomorrow as the yield curve has steepened sharply; an early rise in longer-end JGB yields was reversed after the announcement. Meanwhile, markets are increasingly positioning for an eventual policy change. The divergence between 10-year JGB yield and 10-year OIS rate keeps growing. **The Japanese yen was little change, with Finance Minister Suzuki repeated concerns about the rapid depreciation of Japanese yen, mentioning that authorities will take appropriate measures if necessary.** Industrial production declined 1.5% m/m in April. Equities declined (NIKKEI: -1.3%).

Swap Split

Swaps traders ramped up their bets on higher rates since BOJ intervened

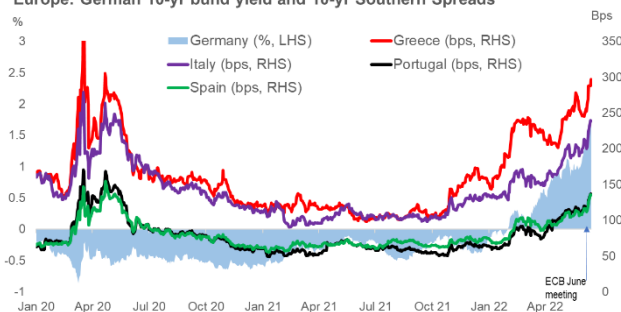


Euro area

The euro (+0.2%) edged higher while equity markets retraced opening gains to trend lower (Stoxx 600 Europe -1%), adding to yesterday's losses. The banking sector (+0.3%) outperformed. The Stoxx 600 Europe index has lost -7.5% over the past two weeks, to bring the year to date loss to almost -17%. **All sectors have lost so far in June, with the travel and leisure sector (-13.5%) seeing the largest drop.**

Southern European spreads rose to levels last seen in 2020 as fears over fragmentation linger. According to a Bloomberg report the ECB Governing Council (GC) members will not reveal details about a plan to combat fragmentation, arguing limited benefits to reveal a specific crisis tool preemptively as it could induce investors to test the measure. **Italian yields increased to beyond 4% yesterday for the first time since early 2014 with spreads between Italian and German 10yr yields now at 239bps, +36 bps higher than before last week's ECB meeting.** Sovereign spreads edged higher, and the bund yield curve continued to flatten (10-yr bund yield +1bps, 2-yr bund yield + 2bps). **Markets are now pricing roughly +170 bps of tightening in 2022, with +120 bps points of tightening priced in by October.** ECB Governing council member Knot said that a larger than 25 bps hike would be required in September if conditions do not change.

Europe: German 10-yr bund yield and 10-yr Southern Spreads



Investor pessimism over Germany's economic outlook continue to ease but the outlook assessment remains subdued, according to the April German ZEW institute's index. The expectation index increased to -28 in June (vs an expected increase to -26.8 from -34.3) while the current conditions index surprised on the upside, increasing to -27.6 (vs expected -31 from -36.5). A separate data release showed Germany's final inflation numbers for May were in line with previous estimates (+7.9% yoy).

United Kingdom

Despite mixed labor market data and a downside surprise to April's GDP, JP Morgan analyst still expect a hike of +25 bps by the BoE this week and flag the risk of a hike of +50 bps. This morning the UK unemployment rate rose to 3.8% in the three months to April (3.6% expected from 3.7%). **Markets are pricing in +33 bps of tightening for Thursday's BoE meeting.**

Crypto

U.S. cryptocurrency lending firm Celsius Network paused withdrawals, swaps and transfers, blaming "extreme market conditions". Celsius's CEL token was down about 50%. The company was previously criticized for offering unsustainably high returns. This event—along with the general risk-off sentiment—triggered a major repricing across cryptocurrencies (e.g., Bitcoin falling 14%), whose accumulated losses during the last few days approached 25–30% (chart below).

Emerging Markets

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Asian equities were mixed after yesterday's selloff. Chinese (CSI 300: +0.8%) and Malaysian (+0.8%) equities gained, while share prices dropped in Singapore (-0.7%). Asian currencies were also mixed. Korean won (-0.5%) and Thai baht (-0.4%) depreciated, while Chinese yuan appreciated (+0.3%). Meanwhile, long-end government bond yields continued their upward trend, with 10-year yields rising in Indonesia (+7.1 bps) and Singapore (+7.0 bps). In India, wholesale prices increased 15.9% y/y in May (consensus: +15.3%) due to higher commodity prices and continued supply-chain disruptions. **The initial rebound in EMEA equities yesterday's sharp selloff faded with gains remaining only in Hungary (+1.3%) and Poland (+0.3%), while Turkey resumed its decline (-0.5%), and South Africa was broadly unchanged.** While most CEE currencies were broadly flat to the euro, the Hungarian forint, which reached record lows yesterday, appreciated (+0.5% to 398.7/euro), supported by economic development minister Nagy saying that Hungary may agree with the EU on cohesion funds in the summer, and on the recovery and resilience facility in the autumn. Bond yields on local currency bonds increased to multiyear highs. **Equities slumped in Colombia (-3%), Brazil (-2.7%), Chile (-2%), Peru (-1.9%), and Argentina (-1.4%), but held their ground in Mexico.** Currencies depreciated in Brazil (-2.7%), Mexico (-2.5%), Chile (-1.8%), Colombia (-0.8%), and Argentina (-0.4%), while the Peruvian sol gained (+0.5%). The region's hard-currency treasury curves shifted up, more than the US benchmark, with 10-year yields in Brazil rising by 34 bps to 6.4% and in Mexico by 33 bps to 5.4%.

EM Hard Currency Bond Issuance

Last week saw \$14 bn in EM hard currency debt issuance, compared to \$5.1 bn the week before. Corporates issued \$8 bn, \$4.8 bn offered by non-financial corporates and \$3.2 bn by financials. Sovereigns brought another \$4.6 bn to the market. The Hungarian sovereign was the biggest issuer with \$3.7 bn, followed by Brazilian corporates (\$2.5 bn), Chinese corporates (\$1.6 bn), and Chinese municipalities (\$1.2 bn). The remaining \$4 bn were offered by Asian corporates, the sovereigns of Jordan and the Bahamas, and multinational agencies.

Sector	Last week	The week before	YTD
Corporate	4.8	2.8	73.2
Sovereign	4.6	0.6	60.8
Financial	3.2	0.8	51.8
Agency	-	0.7	18.2
Muni/Local Gov't	1.3	0.3	14.6
Supra	0.2	-	2.8
Total	14.0	5.1	221.4

Source: Bond Radar, Bloomberg

Central and Eastern Europe

Yields on local currency bonds increased sharply to multiyear highs in CEE during yesterday's global selloff. The yields on Poland's 10Y bond increased 47 bps to 7.63%, Hungary's increased 53 bps to 8.23%, and the Czech Republic's increased 22 bps to 5.46%. Romania was closed yesterday but yields jumped 43 bps today to 8.82%.

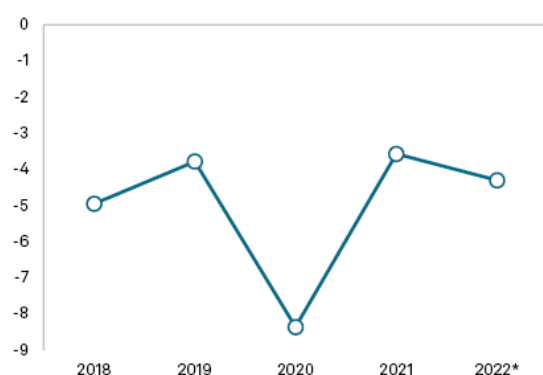
Russia

Bloomberg reports that JP Morgan and Goldman Sachs announced that they will stop handling trades of Russian debt. This comes after the US administration's announcement last week that it would ban US investors from acquiring Russian debt even in the secondary market. The two banks were reportedly still matching buyers and sellers of Russian debt in the secondary market this month.

Argentina

According to a S&P report, analysts expect the 2022 primary budget deficit to miss the 2.5% of GDP the country committed to in the recent agreement with the IMF by a fair margin. Some of the other annual targets, for example, the limit on monetary financing and the targeted built-up of international reserves, are seen as equally challenging. Argentina's sovereign EMBIG spread and its 5-yr sovereign CDS spread continued to increase, indicating mounting sovereign credit risk. **The Argentine peso depreciated yesterday in the parallel exchange rate market by 5.4%.**

Budget deficit of Argentina
Budget balance as share of GDP (%)

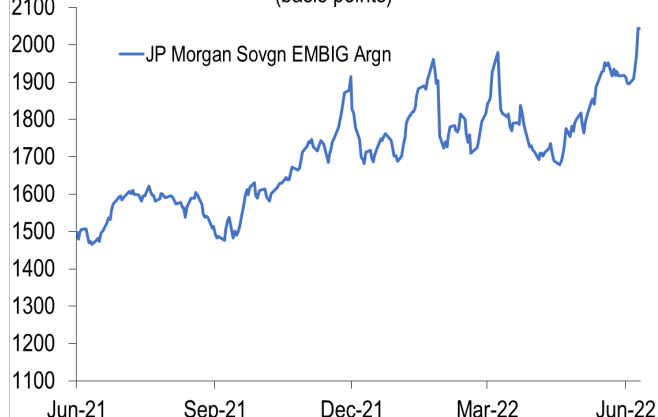


Data compiled June 8, 2022.

* Figure represents Economist Intelligence Unit estimate.

Sources: S&P Global Market Intelligence; Economist Intelligence Unit

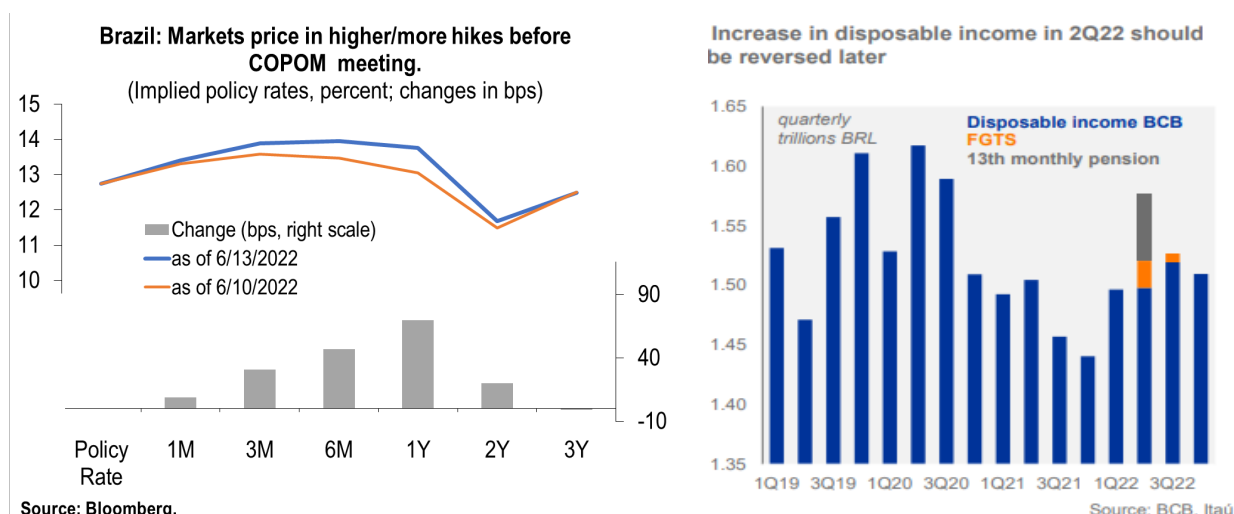
Argentina: Sovereign EMBIG spread increases.
(basis points)



Source: Bloomberg.

Brazil

The sell-off in international markets have validated short-run expectations for near-term hikes. The 3-month ahead implied policy rate rose yesterday by 31 bps to 13.9%, implying space for two additional 50 bps rate hikes in the two policy meetings before end-of August. **Nevertheless, analysts expect the current hiking cycle for monetary policy rates to come to an end over the summer after headline inflation fell 40 bps below the 12.1% y/y seen in April.** While economic activity remains still solid (retail sales grew 4.5% y/y in May, stronger than expected and only 40 bps less than in April), temporary boosters to disposable household income—including releases from workers' severance fund FGTS and an advanced 13th monthly payment to pensioners—are expected to phase out in the next quarter, which should soften aggregate demand and reduce inflationary pressures.



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), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (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), Esti Kemp (London Representative), Johannes S Kramer (New York Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Research Officer), 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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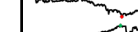


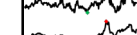





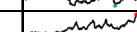

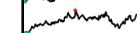



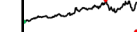

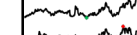






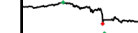
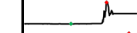
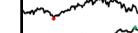
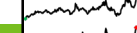



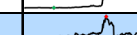
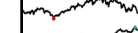
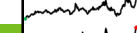



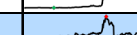
Global Financial Indicators

Last updated: 6/14/22 12:14 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3750	-3.9	-9	-7	-12	-21
Europe		3480	-0.7	-9	-6	-16	-19
Japan		26630	-1.3	-5	1	-9	-8
China		3289	1.0	1	7	-8	-10
Asia Ex Japan		68	-3.3	-6	0	-28	-18
Emerging Markets		40	-3.5	-7	-2	-28	-19
Interest Rates			basis points				
US 10y Yield		3.30	-5.5	33	39	181	179
Germany 10y Yield		1.65	1.8	36	70	190	183
Japan 10y Yield		0.25	-0.8	0	0	21	18
UK 10y Yield		2.46	-6.5	25	72	172	149
Credit Spreads			basis points				
US Investment Grade		160	4.0	11	-5	69	48
US High Yield		480	26.6	51	-2	152	143
Europe IG		109	3.4	20	16	62	61
Europe HY		549	15.8	103	98	317	307
Exchange Rates			%				
USD/Majors		105.09	0.0	3	1	16	10
EUR/USD		1.04	0.3	-2	0	-14	-8
USD/JPY		134.4	0.0	1	4	22	17
EM/USD		51.5	-0.1	-2	0	-11	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		123	0.8	2	11	69	58
Industrials Metals (index)		174	-0.6	-7	-2	9	1
Agriculture (index)		76	-0.2	-1	-2	32	24
Implied Volatility			%				
VIX Index (% change in pp)		33.3	-0.7	9.3	4.4	16.9	16.1
US 10y Swaption Volatility		135.9	0.0	34.1	18.7	68.4	56.9
Global FX Volatility		11.6	0.0	1.5	0.5	5.1	4.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		307	18.5	54	53	206	155
Italy		242	2.3	42	51	139	107
Portugal		138	1.8	23	27	75	74
Spain		138	1.5	26	32	73	63

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

Emerging Market Financial Indicators

Last updated: 14/06/2022 12:16 PM	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		6.74	0.3	-1.0	1	-5	-6		2.9	-0.5	1	2	-38	3
Indonesia		14699	-0.1	-1.7	0	-3	-3		7.4	6.4	39	4	106	104
India		78	0.0	-0.4	0	-6	-5		6.3	0.0	0	9	75	0
Philippines		53	0.1	-0.5	-1	-10	-4		5.5	0.0	0	5	125	98
Thailand		35	-0.2	-1.6	-1	-11	-5		3.0	-6.0	3	-37	110	111
Malaysia		4.42	-0.1	-0.6	-1	-7	-6		4.4	2.9	16	-3	114	80
Argentina		122	-0.4	-1.0	-4	-22	-16		60.2	77.2	413	706	1465	968
Brazil		5.12	-2.5	-6.3	-1	-1	9		12.9	17.0	37	41	364	224
Chile		862	-1.9	-4.6	0	-17	-1		6.6	0.0	29	25	270	116
Colombia		3976	-1.0	-4.6	3	-8	2		9.3	0.0	52	21	369	289
Mexico		20.56	-0.5	-4.7	-3	-3	0		9.2	22.5	36	54	244	171
Peru		3.7	0.5	-0.2	1	4	7		8.0	15.3	22	3	266	205
Uruguay		40	-1.1	-0.8	4	9	11		10.9	27.5	43	81	306	221
Hungary		382	0.7	-4.9	-2	-24	-15		8.1	-17.0	95	108	562	359
Poland		4.47	0.0	-4.2	0	-17	-10		7.4	-6.5	72	123	561	382
Romania		4.7	0.2	-2.5	0	-14	-8		8.3	0.0	21	37	559	349
Russia		57.3	0.3	9.0	12	26	31		8.1	-17.1	6	-318	85	-65
South Africa		16.1	0.3	-4.3	0	-14	-1		9.0	-5.5	40	50	191	159
Turkey		17.27	0.0	-2.9	-10	-51	-23		18.8	-279.0	-499	-639	74	-554
US (DXY; 5y UST)		105	0.0	2.7	1	16	10		3.42	-6.3	43	55	264	216

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					YTD	Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD	
									basis points					
China		4222	0.8	1	6	-18	-15		190	-8	-18	-20	-13	
Indonesia		7050	0.8	-1	7	16	7		184	9	-24	10	19	
India		52694	-0.3	-4	0	0	-10		174	8	-11	30	42	
Philippines		6475	0.1	-4	1	-7	-9		137	19	-22	41	36	
Malaysia		1481	1.1	-3	-4	-6	-6		123	0	-12	0	6	
Argentina		87938	-1.4	-3	-1	32	5		2129	221	235	682	449	
Brazil		102598	0.0	-7	-4	-21	-2		333	27	25	84	22	
Chile		5131	-2.0	-4	6	18	19		169	22	0	19	29	
Colombia		1485	-3.0	-6	-2	18	5		395	61	12	157	47	
Mexico		48445	-0.1	-3	-2	-5	-9		417	35	34	93	85	
Peru		19838	-1.9	-3	0	1	-6		194	23	4	29	44	
Hungary		38420	1.3	-5	-7	-22	-24		223	21	19	80	99	
Poland		53104	0.5	-7	-4	-21	-23		60	-18	58	26	28	
Romania		12064	-2.4	-2	-1	5	-8		280	39	46	100	88	
Russia		2294	0.4	1	-1	-40	-39		3411	-577	938	3228	3234	
South Africa		65804	-0.9	-6	-4	-3	-11		435	58	22	128	80	
Turkey		2507	-0.1	-5	4	72	35		708	138	106	259	130	
Ukraine		519	0.0	0	0	-2	-1		3583	258	176	3110	2824	
EM total		40	1.2	-7	-2	-28	-19		419	43	8	73	32	

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

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