GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JUNE 22, 2022

- **Foreign interest in U.S. treasuries declines** (link)
- **U.K. yields fall as core inflation edges lower in May** (link)
- **China pledged more pro-growth policies** (link)
- **Asian central banks face pressure on their currencies** (link)
- **Yields on Hungarian and Polish local bonds drop sharply** (link)
- **South African inflation breached central bank target** (link)
- **Central bank of Brazil anticipates another rate hike to anchor inflation** (link)

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Core yields fall on recession concerns

Core yields traded sharply lower as recession fears feature more prominently in discussions with investors. Sharp drop in oil prices and equity prices are also linked to growth concerns. China pledged to further accelerate fiscal spending as policymakers are reportedly considering new economic support policy tools and planning to front-load stimulus. Local bond yields also fell in many emerging markets, with particularly sharp drops in Hungary and Poland. Meanwhile, the central bank of Brazil foresees another rate hike to curb inflation.

Key Global Financial Indicators

Last updated: 6/22/22 12:17 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3765	2.4	0	-4	-11	-21
Eurostoxx 50		3433	-1.8	-3	-6	-17	-20
Nikkei 225		26150	-0.4	-1	-2	-9	-9
MSCI EM		40	1.6	2	-2	-26	-17
Yields and Spreads				bps			
US 10y Yield		3.19	-8.5	-9	41	173	168
Germany 10y Yield		1.64	-12.9	0	70	181	182
EMBIG Sovereign Spread		496	-4	15	7	162	129
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		52.0	0.2	1	-1	-9	-1
Dollar index, (+) = $ appreciation		104.5	0.1	-1	1	14	9
Brent Crude Oil ($/barrel)		109.8	-4.2	-7	-2	47	41
VIX Index (%, change in pp)		31.2	1.0	-1	2	15	14

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

Mature Markets

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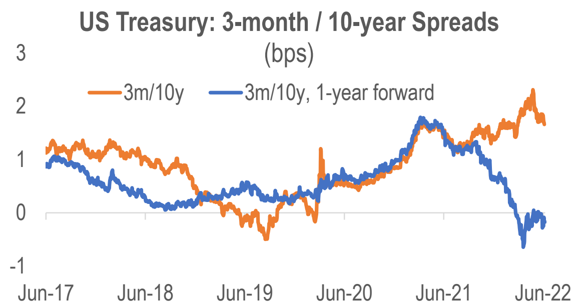
United States

This morning, 10-yr U.S. yields fell 7 bps to 3.20% with U.S. equity futures around 1.5% lower. The Treasury 3-month to 10-year yield curve is currently positively sloped at 176 bps, indicating no recession in the near term. Nevertheless, the 3-month to 10-year spread one year forward has been negatively sloped since mid-March, implying a future recession. **According to analysts, every recession has been preceded by an inverted yield curve, including 1999 to 2001 and 2005 to 2007.**

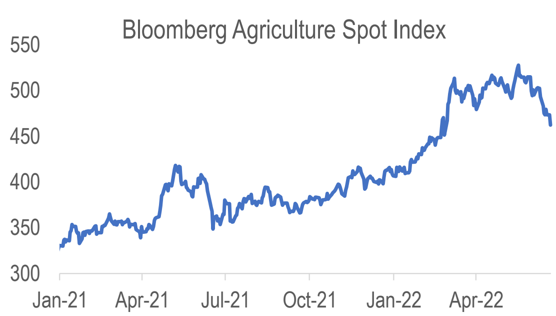


Source: Bloomberg

Foreign interest in US Treasuries has declined. According to Treasury Department, foreign holdings of Treasury securities have decreased in March and April to $7,455 bn, the lowest since May 2021. Foreigners' share of the marketable debt is currently 32%, down from 56% in 2008, partly due to the increased Treasury outstanding.

Source: Bloomberg

Agricultural spot prices (-2.7% yesterday) remain under pressures and are now 12% below the recent peak. Option-related short squeeze by traders might have played a role in the rally. The energy sector, which underperformed the most during the sell-off last week, outperformed today. VIX declined to 30.



Source: Bloomberg

Japan

Bank of Japan (BOJ) April minutes stressed policy focus on inflation, not yen control. Economic and price effects of foreign exchange (FX) move, not the moves themselves, warranted consideration, though high FX volatility would raise business uncertainties, the minutes said. Yen depreciation was deemed beneficial, given still-large output and unemployment gaps and weak underlying inflation. Separately, **PM Kishida reiterated support for ultra-loose monetary policy.** During an upper house election campaign, which started today, he stated that higher interest rates would harm small businesses and homeowners, Bloomberg reports. **Equities and 10-year yields were broadly unchanged, yen recovered +0.3%.** Bid-ask spreads of 10-year bond futures narrowed after the BOJ loosened institutional borrowing restrictions on cheapest-to-deliver securities, Bloomberg notes.

Euro area

European equity markets were trading lower this morning (Stoxx 600 Europe -1.6%) with broad-based losses across sectors amid renewed risk aversion. The resources (-3.9%) and energy (-3.6%) sectors were underperforming against a backdrop of lower commodity prices with brent crude oil trading -4.1% lower at $110 per barrel. **The euro weakened (-0.1%).**

Sovereign yields fell (10-year bunds -10 bps) and while southern spreads widened slightly (Italy-Germany 10-yr spreads +2 bps to 195 bps) as the 5-star party broke up. ECB vice president Guindos said that the ECB's new anti-fragmentation tool would differ from the Outright Monetary Transactions (OMT) program and reiterated that the tool should not interfere with the ECB's efforts to curb inflation.

Former 5-star leader Di Maio left the 5-star party on disagreements over the war in Ukraine, taking reportedly at least 60 parliamentarians with him. This happened after the new leader of the 5-star party, former PM Conte, insisted on including an amendment to stop sending new weapons to Ukraine. Current foreign affairs minister Di Maio has argued that Italy should remain fully aligned with the EU and its NATO commitments.

United Kingdom

Commentary from central bank officials have reinforced tightening expectations but 10-yr yields fell 15 bps to 2.50% after today's inflation report. Headline inflation increased to a 40-year high of 9.1% yoy in May, in line with expectations, with higher food and energy prices the main drivers. **Core inflation eased to 5.9% yoy, slightly lower than the expected 6.0% yoy from 6.2% yoy in April**. Analysts warn over signs of more persistent price increases as services inflation increased. Goldman Sachs analysts expect a 50 bps hike at both the August and September monetary policy meetings, and while ING analysts see a higher probably of a 50 bps August hike, they caution that a fragile economic outlook might see less tightening after August. **Markets are pricing in roughly 170 bps of tightening this year (compared to pricing of roughly +180 bps yesterday), with a 50 bps hike still fully priced in for the August MPC meeting**. The pound (-0.3%) edged lower.

Emerging Markets

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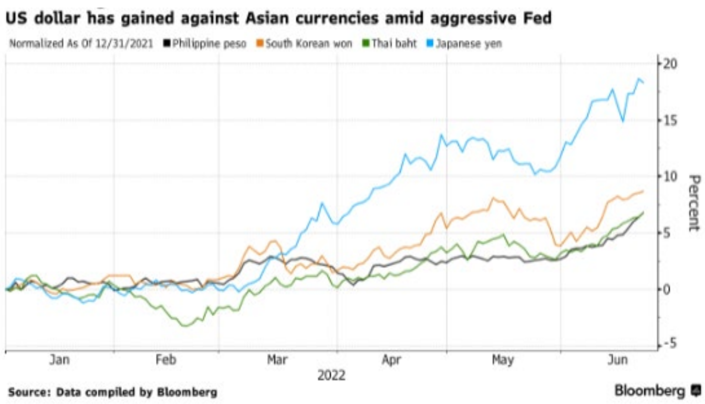
Asian equities slumped -2% on net, recession concerns dragged on technology shares. Equities slid in South Korea (-2.7%), Taiwan, Province of China (-2.4%), and Hong Kong SAR (-2.6%). Yields dived in South Korea (-9.8 bps) and Indonesia (-8.6 bps) and spiked in Sri Lanka (+24 bps). **Bank Indonesia (BI) Governor Warjiyo signaled ahead of Thursday's decision no rush on rate hikes, citing normalizing liquidity conditions and absent fundamental inflation pressures.** Sri Lanka was sued by bondholder Hamilton Reserve Bank Ltd following its historic May default. Separately, PM Wickremesinghe revealed goals for an IMF agreement by next month. **Turning to EMEA, the South African stock market was down 2%, and that of Hungary and Poland were down 1.8%. Local bond yields in CEE continue to drop. Latin American equities and currencies were mixed.** Equities declined in Brazil (-0.2%) and Argentina (-0.6%) and rallied in Mexico (0.7%). Meanwhile, currencies depreciated in Argentina (-0.6%) and appreciated in Brazil (1.2%), Chile (1.1%), and Mexico (0.7%). **Columbia equities (-3.8%) slumped, and its currency (-2.9%) depreciatedfollowing the presidential election of leftist Petro.**

Asian currencies

Currencies fell led by Thai baht (-0.6%) and China renminbi (-0.5%). Hong Kong Monetary Authority (HKMA) bought the local dollar at the fastest pace on record this month to defend its currency from crossing the weak end of its 7.75-to-7.85 trading band. HKMA bought 78.1 bn HK dollars ($10 bn) so far in June, including its 20.8 bn HK dollars purchase on Tuesday. Malaysia reported the largest two-week drop in foreign reserves since 2015, total decline between end-March and mid-June reached $3.6 bn.

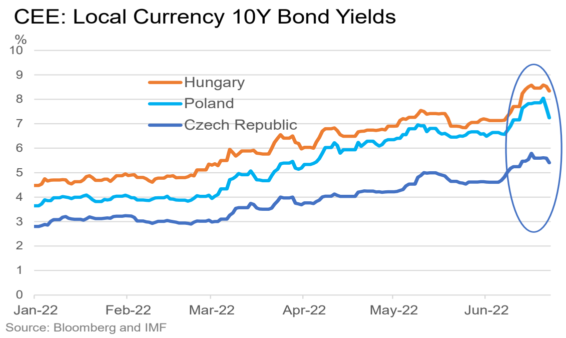


China

China pledged to further accelerate fiscal spending and special local government bond sales. FM Liu said during a National People's Congress meeting that the authorities are considering new economic support policy tools, and are planning to front-load stimulus, accelerate existing policy implementation, and enhance macro policy adjustments to retain reasonable economic growth, Bloomberg reported. Separately, **this year sustainability-linked loan (SLL) issuances have already exceeded 2021 levels.** China and Hong Kong SAR firms signed a record $13.1 bn of SLLs in 2022 so far to surpass the $12.6 bn issued in 2021, Bloomberg data show. Separately, **China's central bank replaced a committee member after just three months.** Deputy FM Yu will be replaced by Deputy FM Xu in the monetary policy committee, with no reasons given. **China equities slipped (Shanghai: -1.2%, Shenzhen -1.3%)**, with combined turnover on the stock exchanges exceeded 1 tn yuan ($149 bn) for 8 straight sessions, Bloomberg noted. **Renminbi depreciated -0.5%, 10-year yields were broadly unchanged.**

Bond Markets in Central and Eastern Europe

Yields on local Hungarian and Polish 10-yr bonds have continued to drop sharply (75 and 30 bps respectively) since their peak of 8% and 8.6% on Monday to 8.28% and 7.23% respectively today. In addition to yesterday's softer than expected wages and industrial production in Poland, data released today showed that construction and retail sales are decelerating in Poland. **Czech assets were little changed ahead of the central bank rate decision later today**. Market participants expect a large hike to the current rate of 5.75%, with expectations ranging from 75 to 150 bps. Inflation reached 16% yoy in May. This will be the last monetary policy meeting of the current board before what the market currently perceives as a less hawkish board takes over in July. The new governor, Ales Michl, currently a board member, has voted against all rate hikes over the past year.

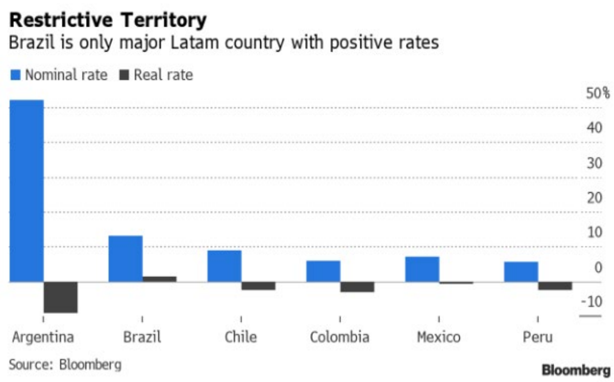


South Africa

Local rates were broadly unchanged, even though May inflation surprised on the upside and breached the central bank's target range (3–6%) for the first time in more than five years. Inflation came in at 6.5% yoy in May, higher that the 6.1% expected by markets (and up from 5.9% in April). **However, core inflation came in line with expectations at 4.1% yoy.**

Brazil

The central bank foresees another rate hike to curb inflation. In its minutes published yesterday, the central bank stated that "maintaining the Selic rate for a sufficiently long period would not assure, at this moment, the convergence of inflation around the target in the relevant horizon" before signaling another hike in August. **An aggressive tightening cycle made Brazil the only major Latin American economy with a positive real rate and brought the key rate to 13.25% last week, following a 50 bps hike.** However, inflation remains elevated (11.7% y-o-y in May) and is expected to end the year around 8.5%, well above the 3.5% target rate. As a result, some analysts anticipate more than one additional hike to anchor inflation, especially if the Fed carries on with its rate hikes.



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Global Financial Indicators

Last updated: 6/22/22 12:18 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3765	2.4	0	-4	-11	-21
Europe		3433	-1.8	-3	-6	-17	-20
Japan		26150	-0.4	-1	-2	-9	-9
China		3267	-1.2	-1	4	-8	-10
Asia Ex Japan		69	1.8	2	0	-25	-16
Emerging Markets		40	1.6	2	-2	-26	-17
Interest Rates					basis points		
US 10y Yield		3.19	-8.5	-9	41	173	168
Germany 10y Yield		1.64	-12.9	0	70	181	182
Japan 10y Yield		0.25	0.8	-1	0	19	18
UK 10y Yield		2.51	-14.3	4	62	173	154
Credit Spreads					basis points		
US Investment Grade		166	0.6	4	-7	74	54
US High Yield		518	-4.0	26	9	195	181
Europe IG		111	3.3	5	15	63	63
Europe HY		551	13.9	24	79	316	309
Exchange Rates					%		
USD/Majors		104.53	0.1	-1	1	14	9
EUR/USD		1.05	-0.1	1	-2	-12	-7
USD/JPY		136.0	-0.4	2	6	23	18
EM/USD		52.0	0.2	1	-1	-9	-1
Commodities					%		
Brent Crude Oil ($/barrel)		110	-4.2	-7	-2	47	41
Industrials Metals (index)		167	-2.5	-3	-10	10	-4
Agriculture (index)		73	-0.5	-3	-6	34	20
Implied Volatility					%		
VIX Index (%, change in pp)		31.2	1.0	-1.5	1.8	14.6	14.0
US 10y Swaption Volatility		131.3	0.0	6.7	21.0	62.5	52.3
Global FX Volatility		11.1	0.0	-0.5	0.6	4.2	3.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		225	7.6	-35	-53	123	73
Italy		193	0.6	-24	-12	87	58
Portugal		108	3.3	-13	-11	47	43
Spain		110	2.3	-14	-3	48	36

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

Emerging Market Financial Indicators

Last updated: 22/06/2022 12:20 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		6.71	-0.4	0.0	-1	-3	-5		2.9	-0.1	0	5	-32	4
Indonesia		14863	-0.3	-0.8	-1	-3	-4		7.5	-0.9	5	26	87	110
India		78	-0.4	-0.4	-1	-5	-5		6.3	0.0	0	9	75	0
Philippines		54	-0.4	-1.9	-4	-11	-6		5.7	0.0	-3	23	155	118
Thailand		35	-0.3	-1.8	-4	-11	-6		2.7	-5.5	-26	-21	90	90
Malaysia		4.41	-0.2	0.2	0	-6	-5		4.3	-4.5	-8	-10	98	68
Argentina		124	-0.6	-0.9	-4	-23	-17		61.7	11.5	82	627	1687	1116
Brazil		5.13	1.2	-0.2	-6	-2	9		12.7	5.0	-45	74	334	202
Chile		874	0.9	-0.7	-5	-15	-3		6.4	0.0	-23	34	243	95
Colombia		4018	1.1	-1.3	-1	-6	1		9.1	0.0	3	47	333	271
Mexico		20.10	0.1	0.8	-1	1	2		9.1	0.0	-7	62	212	157
Peru		3.7	0.1	0.9	0	6	7		7.7	5.3	-27	-5	205	185
Uruguay		40	0.4	0.5	0	10	12		10.8	-2.1	-13	69	291	208
Hungary		375	-0.2	1.4	-5	-22	-14		8.1	-19.0	-6	144	543	362
Poland		4.44	-0.9	0.5	-3	-15	-9		7.1	-34.5	-40	115	520	354
Romania		4.7	0.0	0.7	-2	-12	-7		9.2	-0.2	46	125	644	435
Russia		52.7	4.4	6.0	11	38	43		8.3	0.0	-6	-218	99	-47
South Africa		16.0	-0.4	-1.3	-1	-11	0		8.7	-0.5	-16	57	137	129
Turkey		17.35	-0.1	-0.6	-8	-50	-23		19.7	-11.0	-11	-481	186	-467
US (DXY; 5y UST)		105	0.1	-0.9	1	14	9		3.26	-10.5	-11	46	240	200

	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		4271	-1.3	0	5	-17	-14		192	6	-22	-12	-11
Indonesia		6984	-0.8	0	2	16	6		191	8	-30	21	26
India		51823	-1.4	-1	-5	-1	-11		173	-1	-22	30	41
Philippines		6168	-1.9	-2	-8	-11	-13		135	9	-24	44	34
Malaysia		1431	-1.8	-2	-7	-9	-9		127	6	-13	4	10
Argentina		86546	-0.6	-3	-2	31	4		2203	74	251	698	523
Brazil		99685	-0.2	-3	-8	-23	-5		340	9	11	92	29
Chile		5084	0.3	-1	2	18	18		167	1	-19	20	27
Colombia		1398	-3.8	-7	-4	13	-1		395	-1	-10	142	47
Mexico		48104	0.7	0	-7	-4	-10		421	-1	15	90	89
Peru		19532	0.4	0	-4	4	-7		196	4	-9	33	46
Hungary		40131	-2.0	2	-4	-17	-21		233	17	6	98	109
Poland		53182	-1.6	0	-4	-20	-23		95	26	51	64	63
Romania		12280	-0.8	2	2	8	-6		311	31	33	133	118
Russia		2355	-0.2	2	-1	-38	-38		3411	-577	938	3228	3234
South Africa		65556	-1.8	0	-3	0	-11		445	9	8	127	90
Turkey		2578	0.1	2	9	83	39		645	-30	32	182	67
Ukraine		519	0.0	0	0	-2	-1		3930	290	818	3433	3171
EM total		40	-2.4	2	-2	-26	-17		424	9	3	73	37

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

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