



- US Treasury auctions show weak results with little investor appetite ([link](#))
- ECB to apply flexibility in PEPP reinvestments starting July 1 ([link](#))
- Collateral demand for German bunds remains very strong ([link](#))
- Metals track for the worst quarterly losses in more than a decade ([link](#))
- Agricultural commodity prices fall sharply ([link](#))
- China softens quarantine rule, pledges continued support ([link](#))
- Hungarian central bank surprises markets with a 185 bps hike ([link](#))

[Mature Markets](#)



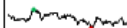
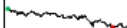







| [Emerging Markets](#)

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## China softens quarantine rules, ECB signals potentially faster rate hikes

Global equity markets are higher this morning after China eased some of its Covid related quarantine rules, including reducing the amount of time travelers need to isolate. European equities are up roughly 1% with a similar move in Chinese equities overnight. Meanwhile expectations for a more hawkish ECB are higher after ECB president Lagarde said that the central bank is willing to increase the pace of hikes if needed. The end-year implied policy rate is 8 bps higher to 1.07%. The 10-year bund yield is up 10 bps this morning, while the spreads of other Euro area countries are declining after Lagarde said that the ECB will be flexible in re-investing redemptions from its PEPP portfolio. The Hungarian forint jumped over 1% as the central bank surprised markets with a 185 bps hike, while analysts had expected either a 50 bps or 100 bps move.

Key Global Financial Indicators

Last updated: 6/28/22 8:14 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		3900	-0.3	6	-6	-9	-18	-8
Eurostoxx 50		3574	1.0	2	-6	-13	-17	-10
Nikkei 225		27049	0.7	3	1	-6	-6	2
MSCI EM		41	0.1	3	-3	-27	-17	-14
Yields and Spreads			bps					
US 10y Yield		3.23	2.9	-5	49	175	172	124
Germany 10y Yield		1.64	8.8	-14	67	183	181	141
EMBIG Sovereign Spread		504	-2	4	50	172	137	91
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.8	0.0	0	-1	-10	-1	-2
Dollar index, (+) = \$ appreciation		104.1	0.2	0	2	13	9	8
Brent Crude Oil (\$/barrel)		117.4	2.0	2	-2	57	51	21
VIX Index (% change in pp)		27.0	0.0	-3	1	11	10	-4

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

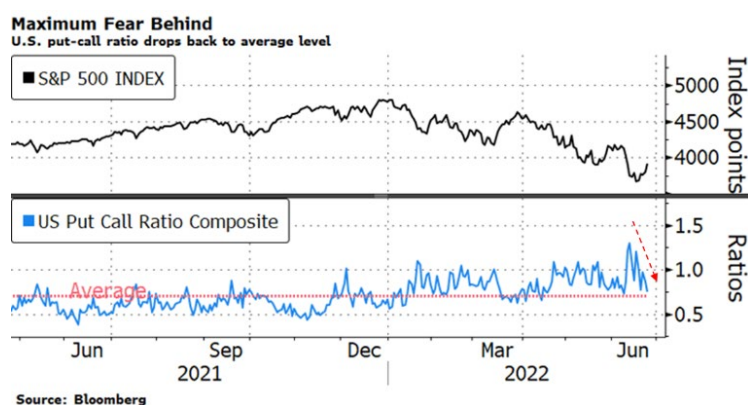
## Mature Markets

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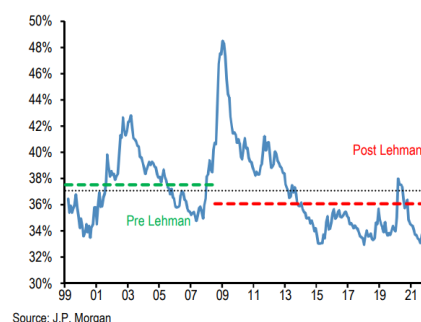
### United States

**US equities declined after opening higher on Monday, with the S&P 500 closing down 0.3%.** Energy stocks led gains while tech and consumer lagged, with the Nasdaq underperforming (-0.8%). US Treasury yields edged higher, with 10-year yields climbing 7 bps to 3.20% amid weak 2-year and 5-year auctions.

According to a Bloomberg survey, **analysts expect the S&P 500 Index to close at 3,700 this year on average** (5% down from Monday's close at 3,900), 21% down from a survey in December (4,700). Amid a lack of conviction on the market trough, investors continue cautiously looking for direction. **A positive sign is that the put-call ratio for the S&P 500 (left chart) returned to its average** after spiking earlier this month, signaling less demand for downside hedging may soften market pressures. JP Morgan Analysts said that **US equities might be supported by month and quarter-end rebalance flow**. Also, market positioning is favorable for equities: cash balance and short positions have reached record levels recently.



**Figure 5: Implied Cash Allocation by Non-Bank Investors globally**  
Global cash held by non-bank investors as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.

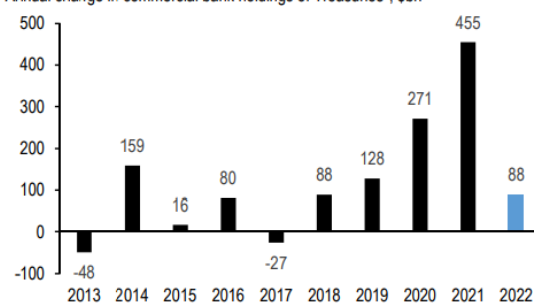


For the risks, **Morgan Stanley analysts, who have been bearish, see 3,400–3,500 as their base scenario**, with a warning about a further decline in their recession scenario. They pointed out that EPS contracted 14% on average during past recessions. **Such a decline in EPS would take the S&P 500 down another 20% to 3,000.** They also note that in the recession scenario, with slowing consumer spending, retail, textiles and apparel, and hotels, restaurants & leisure appear to face more adverse effects.

**The US Treasury 2-year and 5-year auctions showed soft results** with little investor appetite despite the highest yields since 2007–2008. The 5-year auction closed 3.6 bps above the pre-caution level, the worst tail since 2010. Meantime, **JP Morgan analysts expect that demand dynamics of US Treasury markets are likely to remain challenging since three main demand sources—the Fed, domestic, commercial banks, and foreign investors—have stepped away somewhat.** Demand from domestic and commercial banks so far has been weak, and this trend is likely to continue as shrinking reserves associated with the Fed B/S run-off will cause slower deposit growth and reduce demand for securities. On top of that, an extension of mortgage assets on bank's B/S is likely to lead lower demand. Foreign investors are expected to reduce appetite as the currency-hedged yields are not as attractive anymore (right chart).

Exhibit 7: Commercial bank demand for Treasuries has waned rapidly

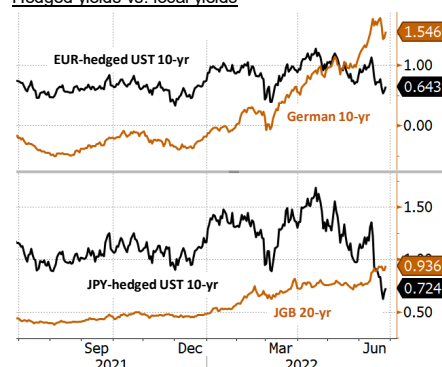
Annual change in commercial bank holdings of Treasuries\*, \$bn



\* 2022 through June 15

Source: Federal Reserve

Hedged yields vs. local yields



Source: Bloomberg

## Euro area

**Equities (+1%) rose as 10-yr German bund yields (+11 bps to 1.65%) traded sharply higher** with money markets pricing in a higher ECB policy rate in Dec (+8 bps to 1.07%) after ECB president Lagarde said that the ECB is willing to pick up the pace of rate hikes if needed.

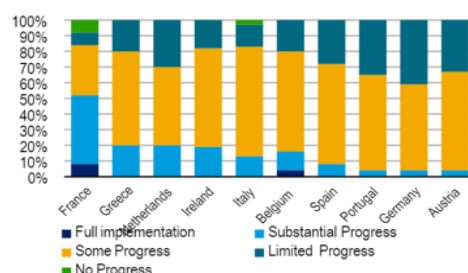
**Italian 10-yr spreads fell 5 bps to 191 bps** as President Lagarde said that the ECB will apply flexibility in reinvesting redemptions coming due in its pandemic PEPP portfolio (of around €1.7 tn) as of Friday, July 1.

**The ECB is expected to end net purchases in its regular PSPP program today as tomorrow's secondary market purchases would settle in July**—and net asset purchases are to come to an end this month. The ECB said last week that the PSPP program will head into its reinvestment phase, with redemptions reinvested in the same asset class in which principal repayments are made and reinvestment are distributed *over time*.

**According to a Reuters story, the ECB is considering sterilizing bond purchases** under its new anti-fragmentation tool with liquidity-absorbing auctions, rather than selling bonds from core countries. Fixed-term deposits were used by the ECB between 2010–12 to sterilize the impact from purchases in the Securities Market Program (SMP). The ECB then offered one-week fixed term deposits through variable rate tenders to absorb the SMP amount in the previous week. Fixed-term deposits were used until June 2014 after the ECB introduced negative rates.

EU: Progress on country-specific recommendations (CSRs)

\*Full implementation or "substantial progress" status applies to 20% or less of CSRs on average (with the exception of France)



Source: 2022 European Semester cycle

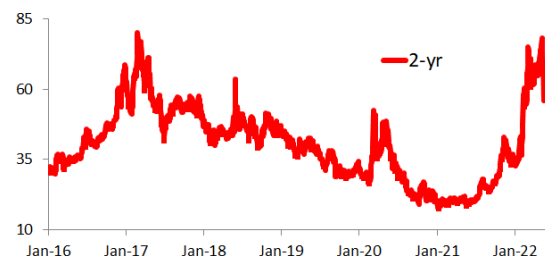
BofA GLOBAL RESEARCH

**Contacts believe that conditionality could prove a major obstacle for the new anti-fragmentation tool** given open questions on the type of conditionality attached to the new instrument and who decides whether it is being met. ECB sources have suggested to use the European semester—country-specific

recommendations—and reforms under NGEU. This would delink the new program from the European Stability Mechanism required for OMT. Bank of America points out that the fulfilment status of country-specific recommendations (CSRs) by the European Commission can be slow.

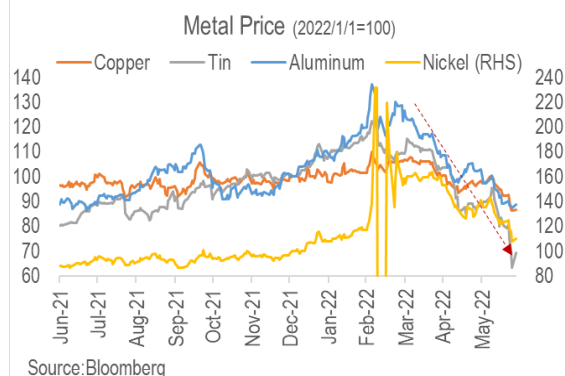
**Analysts warn that the structural collateral scarcity in German bunds remains very visible, with extreme moves in repo spreads persisting.** Cross-country repo spreads are widening substantially as French, Spanish, and Italian averages are not following the richening trend observable in German collateral.

**Euro area: Swap spreads sharply wider**  
(difference between a swap rate and German bond yield, bps)



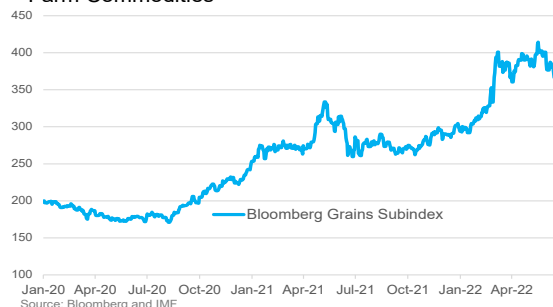
Source: Bloomberg and IMF staff

**Metals rebound notably on Monday from the last few weeks' sharp declines**, but they are still on track for the worst quarterly losses in more than a decade amid recession fears and broad risk-off move in assets. Tin has dropped by 37%, Nickel and Aluminum declined nearly 30%, and Copper fell by 20% this quarter. **GS analysts said that the recent sharp move reflects financial liquidation pressures rather than any deterioration in fundamentals.** They explained that for most base metals, inventories are low, and there are robust demands from advanced economies as well as improving Chinese demand, causing the tight demand-supply condition. They also noted that despite the solid fundamentals, the price pressures may continue until significant responses emerge to reflect the dislocation in price from fundamentals.



**Agricultural commodity prices have been falling sharply since mid-May.** The Bloomberg Agriculture Spot subindex, composed of futures contracts on corn, soybeans, and wheat, has fallen 20% since mid-May. Bloomberg reports that fear of grain shortages are easing as large harvests are now expected in key producers. Recession worries are also leading to lower demand expectations. Of course, future fuel and fertilizer prices will also play a big role in determining food prices in the future.

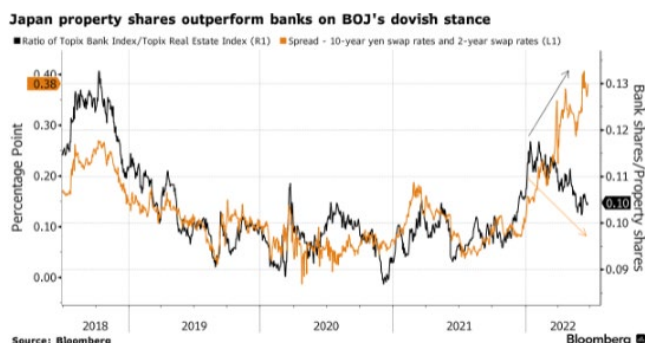
**Farm Commodities**



## Japan

**Equities firmed 1.1%.** Japan's property sector (Topix real estate index YTD: +10.3%) outperformed banks (TOPIX bank index YTD: +9.1%) so far in 2022 amid persisting BOJ dovishness, Bloomberg notes. Separately, **PM Kishida's poll support slumped ahead of Japan's July 10 upper house vote.**

Government rating fell to 50% from 59% two weeks ago, with more than 40% of respondents most worried about economic measures, local media reported. Nonetheless, Kishida's party and its junior coalition partner are expected to retain their upper house majority. **The yen weakened 0.2%. 10-year yields were little changed**, meanwhile central bank ownership of Japanese Government Bonds crossed 50%.



## Emerging Markets

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**Asian equities climbed 0.5% on net.** The Philippines (+1.7%) and Vietnam (+1.3%) led gains, Sri Lanka fell 1.9%. Asian currencies were mixed. The Thai baht strengthened 0.6% supported by optimism about China cutting quarantine requirements; the Indian rupee weakened 0.5%. India's central bank was reportedly intervening in the spot and futures market on Tuesday as it did across markets in recent months to defend currency, according to Bloomberg. 10-year yields were mixed too. India firmed 5 bps; the Philippines slipped 4 bps. Sri Lanka has restricted fuel distribution until July 10 and told its residents to remain home, with public inter-provincial transport likely to be ceased. **Equity markets were up across the board in EMEA**, with most markets gaining at least 1%, and the Czech Republic gaining 2%. Currencies were mostly down, with the Turkish lira and the South African rand losing to the dollar (-0.5% to 16.6/\$ and -0.15% to 15.9/\$ respectively), the Polish zloty losing (0.3% to 4.7/euro) while the Hungarian forint was gaining (+0.5% to 400.4/euro), ahead of the central bank's rate decision later today. Yields on Central European local bonds continue to climb so far this week, reversing last week's trend. Polish 10y yields are now 7.5%, after a high of 8% on June 20, and a low of 6.9% last Thursday. In **Latin America**, currencies were little changed with the Chilean and Colombian markets closed for local holidays. Following a strong depreciation of the Chilean Peso (-10% over the last month)—partly driven by falling copper prices—the Ministry of Finance announced it will auction up to \$5 bn during the next 60 days which should provide some support to the peso after the market reopens.

## China

**Equities continued to rally** (Shanghai: +0.9%, Shenzhen: +1.2%) as China eased quarantine requirements. Separately, **China's economic planner reiterated a pledge to use policy reserves when necessary.** According to the National Development and Reform Commission, the government will coordinate Covid control and economic development in a *highly effective way*, adjusting policy based on the local situation to contain outbreaks and avoiding *one-size-fits-all* policies, Bloomberg reported. It will accelerate the resumption of work, ease transportation and logistics problems, and restore normal production and life, while retaining *dynamic Covid Zero*. The NDRC will *appropriately front-load* the construction of infrastructure that can help guide industrial development and





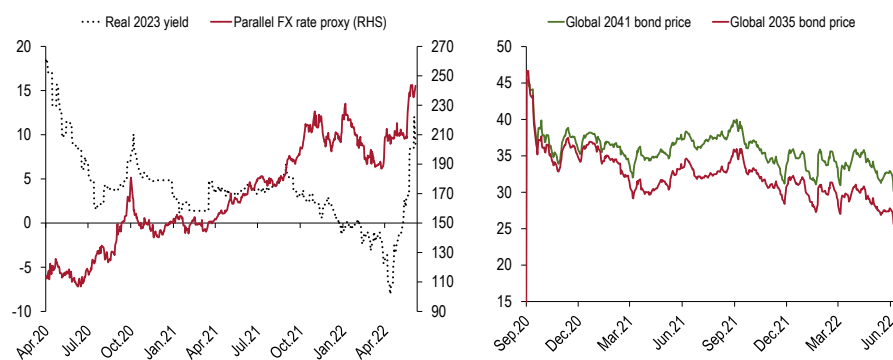
urbanization. Earlier this week, **Governor Yi affirmed continued monetary accommodation**. Yi noted China's low real interest rate and a stable inflation outlook. He also pledged to continue to focus on structural policies such as support for smaller businesses and green projects. Separately, **China will encourage foreign investment in more sectors**. It plans to incrementally remove limits outside of its negative investment list, Bloomberg reported. **The renminbi appreciated 0.1%, 10-year yields firmed 2 bps**.

## Hungary

**The Hungarian Central Bank surprised markets with a very large hike in the base rate (185 bps to 7.75%), much above expectations (split between 50 and 100 bps)**. The Hungarian forint subsequently jumped 1.25% to 397.3/euro. The Hungarian forint was already gaining ahead of the central bank's rate decision. Last month, governor Virag had flagged that the tightening would be more gradual, but the one-week deposit rate was hiked by 50 bps two weeks ago, leaving market participants wondering whether a large hike was in the cards today.

## Argentina

**The government today is looking to sell some 250 billion pesos (\$2 bn) of inflation-linked notes and other securities**. JP Morgan highlights that there is a growing reluctance of domestic agents to roll over local currency debt at sustainable rates in 2H22 and 2023, which in turns makes it difficult for the authorities to honor deficit monetization targets. Short term real yields have increased to 12% recently (LHS chart), implying an all-in nominal rate of over 70% according to Bloomberg. At the same time, the parallel peso rate has made new lows (LHS chart) as dollar demand remains high, and Global USD bond prices have declined to a new post restructuring low (RHS chart).



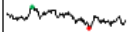
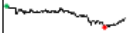
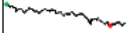






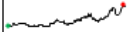


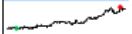
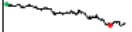
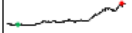






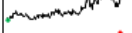
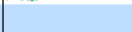


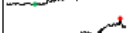


Source: Bloomberg

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## Global Financial Indicators

Last updated: 6/28/22 8:14 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3906	-0.3	4	-6	-9	-18	-8
Europe		3574	1.0	2	-6	-13	-17	-10
Japan		27049	0.7	3	1	-6	-6	2
China		4491	1.0	4	12	-13	-9	-3
Asia Ex Japan		70	-0.1	3	-1	-26	-15	-12
Emerging Markets		41	0.1	3	-3	-27	-17	-14
<b>Interest Rates</b>			basis points					
US 10y Yield		3.23	2.9	-5	49	175	172	124
Germany 10y Yield		1.64	8.8	-14	67	183	181	141
Japan 10y Yield		0.24	-0.4	0	1	18	17	4
UK 10y Yield		2.46	6.4	-20	54	174	149	98
<b>Credit Spreads</b>			basis points					
US Investment Grade		170	-0.4	5	16	82	59	28
US High Yield		519	-3.9	1	75	205	182	113
Europe IG		110	0.9	3	26	64	62	39
Europe HY		540	3.5	3	119	310	298	188
<b>Exchange Rates</b>			%					
USD/Majors		104.12	0.2	0	2	13	9	8
EUR/USD		1.06	-0.2	0	-2	-11	-7	-7
USD/JPY		136.1	0.4	0	7	23	18	18
EM/USD		51.8	0.0	0	-1	-10	-1	-2
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		117	2.0	2	2	71	56	31
Industrials Metals (index)		162	2.0	-5	-13	5	-6	-14
Agriculture (index)		69	1.0	-5	-11	25	14	-1
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		27.0	0.0	-3.2	1.3	11.2	9.8	-4.1
US 10y Swaption Volatility		131.3	5.0	0.0	33.6	65.2	52.3	37.0
Global FX Volatility		10.6	0.0	-0.5	0.8	4.1	3.2	3.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		225	-5.5	8	-28	122	74	-15
Italy		192	-4.7	0	-2	86	57	21
Portugal		107	-2.0	2	-4	45	42	15
Spain		109	-2.0	1	1	46	35	6

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 6/28/2022 8:16 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	-0.2	-1	-4	-5	-6		3.0	1.0	8	16	-23	13	12		
Indonesia		14831	-0.2	-0.1	-2	-3	-4	-3		7.3	3.7	-18	22	74	93	81		
India		79	-0.6	-0.9	-2	-6	-6	-5		6.3	0.0	0	9	75	0			
Philippines		55	0.1	-0.9	-4	-11	-7	-7		5.7	0.0	0	20	155	118	68		
Thailand		35	0.5	0.4	-3	-9	-6	-8		2.9	6.0	14	4	110	109	71		
Malaysia		4.40	0.2	0.0	-1	-6	-5	-5		4.2	-0.2	-8	10	93	64	56		
Argentina		125	-0.4	-1.4	-4	-23	-18	-14		59.8	10.9	-185	380	1482	920	1180		
Brazil		5.24	0.0	-2.1	-9	-6	6	-4		12.9	13.7	19	42	371	221	137		
Chile		921	-0.3	-4.1	-10	-20	-7	-14		6.3	0.0	-5	27	225	90	41		
Colombia		4133	0.1	-1.7	-5	-10	-2	-5		9.0	8.0	30	49	319	262	116		
Mexico		19.97	-0.2	0.8	-2	-1	3	1		8.9	0.0	-18	57	193	140	108		
Peru		3.8	0.3	-1.4	-2	3	6	-1		7.8	0.4	1	37	239	185	175		
Uruguay		39	0.6	1.4	1	10	13	7		10.6	-11.6	-22	35	270	188	245		
Hungary		378	0.6	-0.8	-3	-22	-14	-15		8.5	26.0	15	150	577	395	365		
Poland		4.44	-0.4	-0.9	-4	-15	-9	-9		7.1	9.8	-33	83	519	355	318		
Romania		4.7	-0.3	0.3	-2	-12	-7	-7		8.8	18.8	-38	106	602	397	364		
Russia		53.3	1.8	3.2	20	35	41	53		8.2	-1.7	-9	32	94	-56	-297		
South Africa		16.0	-0.9	-0.6	-3	-11	0	-5		9.0	12.5	27	72	167	156	140		
Turkey		16.66	-0.6	4.1	-2	-48	-20	-17		19.4	11.0	-34	-392	238	-490	-300		
US (DXY, 5y UST)		104	0.2	-0.3	2	13	9	8		3.28	2.1	-9	56	238	201	137		

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
									basis points							
China		4491	1.0	4	12	-13	-9	-3		196	4	-17	-6	-7	-12	
Indonesia		6996	-0.3	-1	0	18	6	1		191	-9	-9	25	26	6	
India		53177	0.0	1	-3	1	-9	-7		177	4	-3	36	45	23	
Philippines		6345	1.7	1	-6	-9	-11	-14		137	-8	-5	49	36	0	
Thailand		1594	0.9	1	-3	0	-4	-6		0	0	0	0	0	0	
Malaysia		1455	1.2	0	-6	-6	-7	-8		128	3	-2	6	11	-5	
Argentina		85712	3.8	-2	-9	34	3	-6		2453	236	537	898	773	716	
Brazil		100764	2.1	1	-10	-21	-4	-10		340	-4	34	93	29	9	
Chile		4984	1.0	-2	-7	15	16	14		167	-6	6	28	27	-7	
Colombia		1366	2.0	-6	-11	6	-3	-10		421	35	68	174	73	29	
Mexico		48295	1.2	1	-8	-4	-9	-6		435	7	67	101	103	65	
Peru		18815	-0.2	-3	-10	-1	-11	-20		194	-8	19	35	44	4	
Hungary		40185	1.7	-2	4	-17	-21	-16		214	-27	-8	83	90	61	
Poland		54355	0.9	1	-4	-20	-22	-13		76	-24	59	46	44	60	
Romania		12605	0.5	2	2	5	-3	-5		312	-2	57	136	119	80	
Russia		2405	-0.5	2	0	-37	-37	-22		3411	-577	938	3228	3234	2897	
South Africa		68233	0.6	2	-3	4	-7	-9		437	-21	56	123	82	48	
Turkey		2528	-0.1	-2	4	84	36	25		604	-66	8	150	26	41	
Ukraine		519	0.0	0	0	-2	-1	0		4587	710	1344	4095	3828	3114	
EM total		41	0.8	3	-3	-27	-17	-14		430	1	39	79	44	-28	

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

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