



- US equities fall as weak consumer confidence data weigh on markets ([link](#))
- US 1y1y real OIS rate rise to restrictive territory ([link](#))
- European sovereign yields fall after German inflation surprised on the downside ([link](#))
- Japan's GPIF devalued its Russia holdings to nearly zero ([link](#))
- China president Xi affirms Covid Zero policy ([link](#))

[Mature Markets](#)

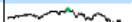


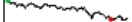


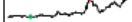
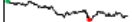


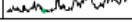
[Emerging Markets](#)

[Market Tables](#)

Growth concerns weigh on markets as China confirms commitment to Covid Zero

Equity markets are heading lower this morning after China's president affirmed the country's commitment to Covid Zero, calling it the most economic and effective policy for the country. China equities fell sharply overnight with the Shenzhen index declining more than 2%. European inflation data produced mixed signals this morning sending sovereign bond yields for a ride. Yields declined after regional German data showed inflation pressures easing, retraced much of those moves when Spanish preliminary June inflation data came in much higher than expected, but then fell once more after national German inflation data came in lower than expected. Despite the mostly risk-off sentiment this morning, emerging market currencies are mixed. The Hungarian forint (+0.7%) continues to appreciate following yesterday's unexpectedly large hike by the central bank. Meanwhile most Asian currencies are lower versus the dollar on the day.

Key Global Financial Indicators

Last updated: 6/29/22 8:14 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
Equities			%					%
S&P 500		3822	-2.0	2	-8	-11	-20	-10
Eurostoxx 50		3519	-0.9	2	-8	-14	-18	-11
Nikkei 225		26805	-0.9	3	-2	-7	-7	1
MSCI EM		40	-0.6	0	-4	-27	-17	-15
Yields and Spreads			bps					
US 10y Yield		3.15	-1.9	0	42	168	164	116
Germany 10y Yield		1.58	-4.9	-6	62	175	176	135
EMBIG Sovereign Spread		522	17	26	67	185	155	109
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.7	0.0	0	-2	-10	-2	-3
Dollar index, (+) = \$ appreciation		104.5	0.0	0	3	14	9	9
Brent Crude Oil (\$/barrel)		119.3	1.1	7	0	60	53	23
VIX Index (% change in pp)		28.7	0.3	0	3	13	11	-2

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

Mature Markets

[back to top](#)

United States

US equities fell Tuesday as weak consumer confidence data weighed on markets, and the S&P 500 dropped by 2%, with all major sectors except energy closing in the red. Tech shares fell, with the FANG index slumping 3.5%. **US Treasury yields edged lower**, with 10-year yields down 2 bps to 3.20%. **Credit spreads of both HG and HY widened 2 bps and 14 bps**, respectively as risk assets underperformed amid risk-off sentiment.

In data releases this morning, **the third estimate for Q1 US GDP was revised down from -1.5% to -1.6% (q/q, saar)**, slightly weaker than expected (-1.5% consensus). Q1 personal consumption revised down from 3.1% to 1.8%. There was limited market reaction to these releases.

As St. Louis Fed President Bullard said in his essay released on Tuesday, market participants expect the Fed to continue raising its policy rates and take real rates higher to contain inflation pressure, and the focus is on how far and how expeditiously the Fed has to go. In TIPS markets, despite the recent surge of real yields, **2-year real yields are still in negative territory** even as yields on longer tenors climbed to a level unseen since 2019. On the other hand, JP Morgan analysts see that **the 1y1y real OIS rate recently rose to restrictive territory**, reflecting somewhat restrictive monetary policy expectations over the next two years. It is now above the Fed's real median longer-run dot, the level last seen in late 2018.

TIPS yields

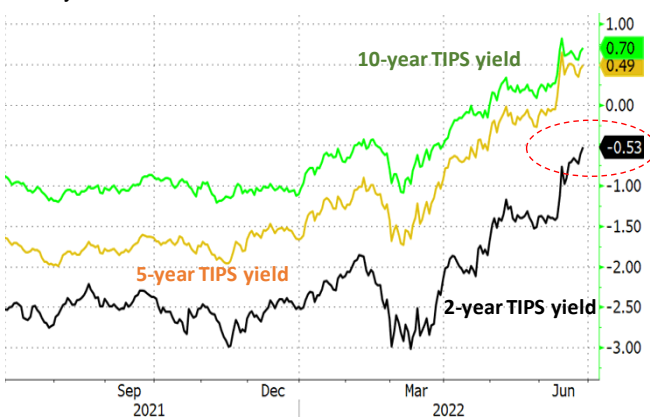
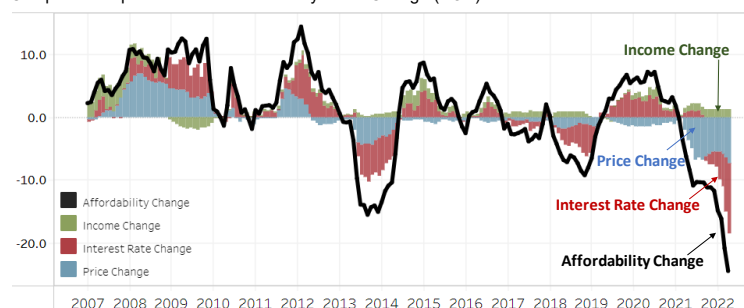


Exhibit 3: Real policy expectations are finally in restrictive territory
1y1y real OIS rate* versus real median longer-run dot from Summary of Economic Projections**, %



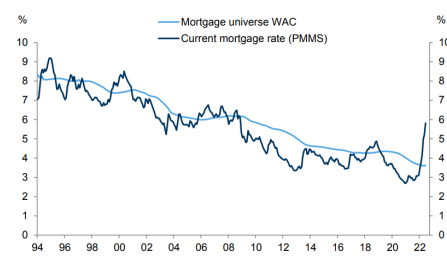
US home prices rose 1.6% m/m, 18.8% y/y in April, according to the Federal Housing Finance Agency (FHFA). Reflecting higher home prices and mortgage rates, **the housing affordability rate has declined sharply, and housing data overall have been weakened** so far this year. Analysts see that housing demand will continue to moderate over the next several months. **Barclay analysts revised down their GDP forecast** mainly due to a downward revision in residential investment. They now expect US GDP to increase 2% q/q saar in Q2 (down from 4%) and 1.5% q/q saar in Q3 (down from 3%). On the other hand, **higher home prices lead to building up home equity as the mortgage's loan to value (LTV) ratio falls**. Cash-out refinancing is usually a popular option to utilize the home equity as the FHFA data shows that the cash-out refinance made up more than 65% of refinancing in 1Q 2022. However, Goldman Sachs analysts see that **higher mortgage rates have made cash-out refinance more challenging** as the average mortgage loan rate has locked in about 200 bps lower than the current level, and **only 0.5% of borrowers have an incentive to refinance**. Nevertheless, build-up in non-utilized home equity should still be useful in deterring delinquencies and foreclosures, keeping losses low for lenders, and encouraging credit provision, according to GS analysts.

Component Impact on Home Affordability Index Change (YOY)



Source :Atlanta Fed

Exhibit 4: The average U.S. borrower holds a mortgage rate over 200 bps below current market rates



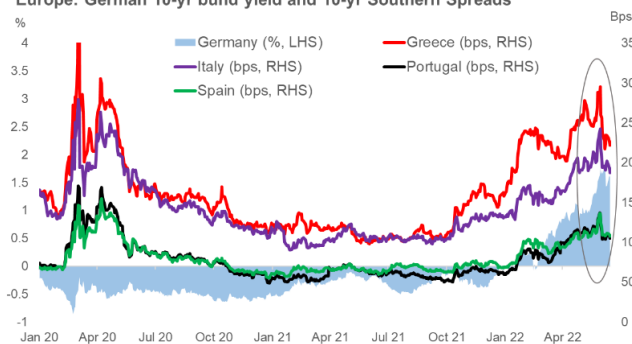
Source: eMBS, Freddie Mac, Goldman Sachs Global Investment Research

Europe

European equities fell (Stoxx 600 Europe index -1.2%) with only the energy sector (+0.7%) gaining. The euro was little changed. On the data front, euro area economic sentiment declined by less than expected in June, coming in at 104 (vs expected 103 from 105), as consumer confidence remains muted but industrial and services confidence improved. Separately, growth rates in broad and narrow measures of money supply edged lower on an annual basis.

Sovereign yields were volatile amid mixed inflation surprises, with regional data in Germany showing prices easing in June, while preliminary June data in Spain surprised notably to the upside. Sovereign yields opened sharply lower after German regional inflation prints showed price pressures easing in June, but retraced moves in later trading after preliminary June Spanish inflation data surprised markedly to the upside. The EU harmonized measure for Spain jumped to 1.8% m/m (vs expected 0.8% from 0.7%), and to 10.0% y/y (vs expected 8.7% y/y from 8.5%). Later this morning, national German inflation data showed a surprise easing in prices, with preliminary inflation falling to 8.2% y/y (vs expected 8.8% from +8.7%). ING analysts attribute the decline to the government's energy relief package and expect inflationary pressures to remain. Euro area preliminary inflation for June is due on Friday, with consensus expecting inflation to increase to 8.5% y/y from 8.1%. **German 10-yr bund yields were trading lower (-6 bps) at 1.57%, while Southern spreads narrowed (10y Italian spreads -5 bps to 188 bps).**

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



Source: Bloomberg and IMF calculations

Money markets are pricing in a slightly lower ECB policy rate at the end of this year (-4 bps to 1.04%), with roughly 30 bps of tightening priced in for the July meeting despite hawkish ECB commentary. Euro area 5-yr/5-yr inflation swaps eased slightly this morning to 2.13% with real yields edging higher. ECB Governing council member Simkus said that a 50 bps hike in July should remain an option if data shows persistent or accelerating inflation, echoing comments from GC member Kazaks yesterday. Markets are focused on the policy panel at the ECB conference in Sintra with ECB President Lagarde, Fed Chair Powell and BoE governor Bailey that takes place later today.

Sweden

Analysts continue to expect monetary policy tightening despite weakening economic data, as surveys point to increasing inflation expectations. Consumer confidence in Sweden fell to a record low in June (65.5 from 71.3), while households now see price increases of 10.6% in 12 months, according to Bloomberg. A separate data release also showed retail sales contracting by 0.6% mom in May. **The Riksbank is expected to increase the policy rate by +50 bps to 0.75% tomorrow**, and JPMorgan analysts expect a further +50 bps hike September

Japan

Japan's GPIF reportedly reduced the value of Russian stocks and bond holdings to nearly zero. According to Nikkei, GPIF held about ¥220 bn (\$2 bn) of Russian assets at the end 2020 fiscal year. The pension fund will liquidate its current holdings when trading activity resumes, and refrain from making new Russia asset investments. The GPIF is expected to report 2021 fiscal year results on July 1. Analyst project that a sharp yen depreciation should have boosted the fund's returns on foreign assets. Separately, **retail sales rose for a third straight month**. Sales increased by 0.6% m/m in May (previous: 0.8% m/m), aided by departmental stores (+9.6%). **Equities fell 0.8%, the yen and 10-year yields were little changed.** Japan's yield curve continued to steepen at the ultra-long end with the 30-10-year spread up to a fresh 6-year high (+1.05%) on Tuesday.

Japan's yield curve has steepened to most since 2016



Emerging Markets

[back to top](#)

Asian equities slumped 1.4% on net snapping earlier climbs on renewed growth concerns. China equities dove (Shanghai: -1.4%, Shenzhen: -2.2%) following news of President Xi's Covid Zero commitment. Hong Kong SAR lost 1.9%. Asian currencies mostly weakened. The Philippines peso fell 0.6%. 10-year yields mostly fell. The Philippines slipped -5.2 bps, Sri Lanka yields jumped +12 bps. **Equity markets were down across the board in EMEA**, with Hungary and South Africa in particular losing more than 1%. The Turkish lira and the South African rand were slightly down to the dollar (-0.2% to 16.7/\$ and -0.3% to 16.1/\$ respectively), while the Hungarian forint and the Polish zloty were moderately gaining (0.3% to 395.9/€ and 4.7/ € respectively). Yields on local bond rates in central and eastern Europe continue to register large moves, with 10y yields down 12–13 bps today in the Czech Republic (to 4.95%) and Poland (to 7.1%). In **Latin America**, the Colombian peso gained 1% on the back of higher oil prices. The Chilean peso also gained 1% following the recent news that the finance ministry will sell \$5 bn in excess FX. Brazilian swap rates continue to drift higher (2y: +30 bps to 13.2%) as markets price the risk that more generous social spending will be legislated ahead of the October election leading to a more hawkish central bank reaction.

China

President Xi said Covid Zero policy is the most economic and effective for China.

During his Tuesday visit to Wuhan, Xi stated that herd immunity policies have unimaginable consequences, and China would rather temporarily affect economic development than endanger people's safety and health, Bloomberg reports. Xi also called for China to be more self-reliant and secure in the *lifeline* of science and technology. Separately, China Vanke chairman Yu said that China's property market has bottomed out. The sector's recovery will be slow and may become more distinct in June, Yu said during an annual general meeting, Bloomberg reports.

Separately, JP Morgan believes China could lead re-rating of Asian equities in 2H 2022. China equities could be close to entering a bull market as it continues to ease policy while the world tightens. JP Morgan also noted China equities have returned as an EM growth proxy following sharp 2021 underperformance, on eased regulations, improved credit impulse, and reduced US frictions. Equities fell (Shanghai: -1.4%, Shenzhen: -2.2%, renminbi) and 10-year yields were little changed.

China: diverging from EM Asia ex-China since early 2021
Index, rescaled to 100

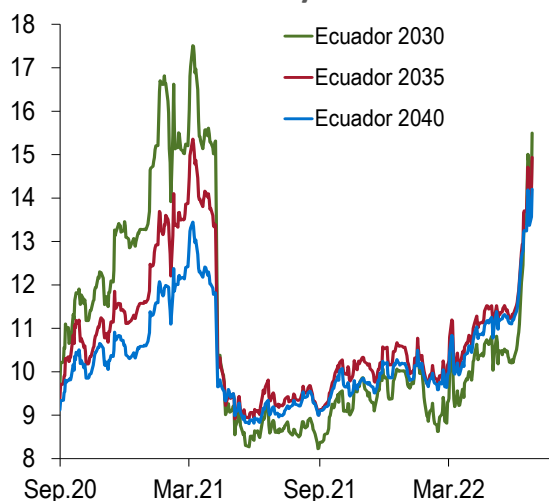


Source: Bloomberg Finance L.P., J.P. Morgan Asia Equity Macro Research

Ecuador

USD bond yields jumped to a new post-election high amid widespread protests and an ongoing impeachment debate in the national assembly. Bloomberg reports that the opposition party UNES is pushing for the removal of president Lasso. Analysts don't expect the vote to be successful given that the UNES needs to find another 45 votes to reach the 92-vote threshold needed (RHS chart). Ecuador has also been hit by social unrest and violent clashes due to protests led by indigenous groups over rising prices of fuel and food. As a result of the protests, oil production was halved as of Sunday according to the energy ministry. Despite the negative market sentiment, several bank analysts were more optimistic in their reports highlighting that the authorities can afford to make concessions and loosen fiscal policy amid higher oil prices in order to de-escalate the situation.

USD bond yields %



Source: Bloomberg

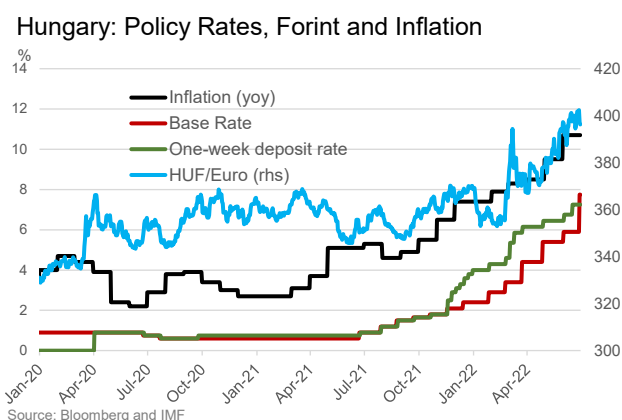
Table 2: Congress composition

Party	Seats
UNES (Correistas)	47
BAN (Government coalition)	27
Pachakutik (Indigenous party)	24
Rebel faction	6
PSC and allies	15
ID	15
Rebel faction	5
Independent	9

Source: Primicias and J.P. Morgan

Hungary















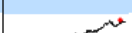



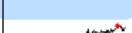

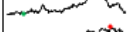

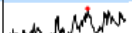


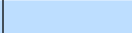


The Hungarian forint (HUF) was gaining (+0.3% to 395.8/ €) for the second consecutive day after the central bank surprised markets with a large rate hike and further hawkish guidance yesterday. The MPC hiked the base rate 185 bps to 7.75%, much above expectations, which were split between 50 and 100 bps, and also said that the base rate and the one-week deposit rate (currently 7.25%) would be unified—hence 50 bps hike expected tomorrow in the one-week deposit rate vs earlier expectations of 30 bps. The base rate reflects where the MNB views rates should be set according to economic fundamentals, and is more of a signaling tool, whereas the one-week deposit rate is the de-facto policy rate at which virtually the totality of excess liquidity is placed. In addition to the hike, JP Morgan analysts welcome this de facto simplification of the interest rate corridor to one single relevant rate. In the statement, the MPC also said that it will continue to tighten until inflation warrants it and that preventing second-round effects and anchoring inflation expectations are crucial in terms of achieving the inflation target. It added that it expects inflation to peak in the fall and decline thereafter at a modest pace. In fact, the central bank revised its inflation forecasts for 2022 and 2023 significantly (+3% in 2022 to 11–12.6%; +4% in 2023 to 6.8–9.2%). Growth for 2022 was also revised up (4.5–5.5% from 2.5–4.5%), but down for 2023 (2–3% from 4–5%). Goldman Sachs analysts think that if the HUF comes under significant renewed depreciation pressure, the MNB is likely to deliver additional intermeeting rate hikes to the 1-week deposit rate.



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), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (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), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Financial Sector Expert), 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: 6/29/22 8:14 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	%
United States		3823	-2.0	2	-8	-11	-20	-10
Europe		3519	-0.9	2	-8	-14	-18	-11
Japan		26805	-0.9	3	-2	-7	-7	1
China		4421	-1.5	4	8	-15	-11	-4
Asia Ex Japan		70	-0.6	1	-1	-27	-16	-12
Emerging Markets		40	-0.6	0	-4	-27	-17	-15
Interest Rates			basis points					
US 10y Yield		3.15	-1.9	0	42	168	164	116
Germany 10y Yield		1.58	-4.9	-6	62	175	176	135
Japan 10y Yield		0.24	-0.5	-1	0	17	17	4
UK 10y Yield		2.44	-2.9	-6	52	170	147	96
Credit Spreads			basis points					
US Investment Grade		173	0.0	2	19	85	61	30
US High Yield		540	3.1	1	96	226	202	133
Europe IG		114	0.1	3	30	68	67	43
Europe HY		567	6.5	14	146	337	325	215
Exchange Rates			%					
USD/Majors		104.49	0.0	0	3	14	9	9
EUR/USD		1.05	0.0	0	-2	-12	-7	-7
USD/JPY		136.5	0.3	0	7	23	19	19
EM/USD		51.7	0.0	0	-2	-10	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		119	1.1	7	3	73	58	33
Industrials Metals (index)		163	1.7	-2	-13	4	-6	-13
Agriculture (index)		70	0.6	-3	-10	26	15	0
Implied Volatility			%					
VIX Index (% change in pp)		28.7	0.3	-0.3	2.9	12.6	11.4	-2.4
US 10y Swaption Volatility		128.3	-0.6	4.2	30.6	61.7	49.3	34.0
Global FX Volatility		10.6	0.0	-0.8	0.8	3.9	3.1	3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		210	-15.7	-13	-43	108	59	-30
Italy		188	-5.1	-3	-6	83	53	17
Portugal		105	-2.3	2	-6	44	41	13
Spain		108	-2.0	0	0	45	33	4

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 6/29/2022 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		6.69	0.2	0.2	0	-3	-5	-6		3.0	-0.5	8	15	-22	12	11
Indonesia		14853	-0.1	0.1	-2	-2	-4	-3		7.3	-3.2	-21	19	67	89	78
India		79	-0.2	-0.7	-2	-6	-6	-6		6.3	0.0	0	9	75	0	
Philippines		55	-0.6	-1.1	-5	-12	-7	-7		5.7	0.0	0	20	155	118	68
Thailand		35	0.2	0.8	-3	-9	-5	-8		2.9	-0.5	19	4	109	108	71
Malaysia		4.40	-0.1	0.1	-1	-6	-5	-5		4.3	2.9	-2	13	95	67	59
Argentina		125	-0.1	-1.0	-4	-23	-18	-14		59.9	10.8	-186	390	1487	930	1191
Brazil		5.24	0.5	-0.9	-9	-5	6	-5		13.1	1.6	51	59	395	238	154
Chile		912	1.0	-4.1	-9	-20	-7	-13		6.4	0.0	22	38	231	101	52
Colombia		4100	0.8	-2.0	-7	-9	-1	-5		9.0	0.0	-4	51	320	263	116
Mexico		20.09	0.2	-0.2	-3	-1	2	1		9.0	0.0	2	62	194	145	113
Peru		3.8	-0.3	-1.7	-3	3	6	-1		7.7	-1.1	-1	35	238	184	174
Uruguay		39	0.6	1.5	2	11	14	8		10.6	0.0	-20	35	273	188	245
Hungary		375	0.8	0.0	-3	-21	-13	-15		8.2	-10.0	13	123	549	368	338
Poland		4.45	0.3	-0.1	-5	-15	-9	-9		6.8	-11.8	-17	58	502	331	294
Romania		4.7	0.0	-0.4	-2	-12	-7	-7		8.8	1.3	-37	107	602	399	366
Russia		52.9	0.5	2.4	21	38	42	54		8.1	-10.0	-17	21	81	-67	-308
South Africa		16.1	0.0	-1.1	-4	-11	-1	-6		8.9	-8.5	27	62	153	146	130
Turkey		16.64	0.2	4.2	-2	-47	-20	-17		19.3	3.0	-34	-403	201	-501	-311
US (DXY, 5y UST)		104	0.0	0.3	3	14	9	9		3.20	-2.9	-3	49	231	194	130

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)			YTD	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
								basis points								
China		4421	-1.5	4	8	-15	-11	-4		197	5	-16	-5	-6	-11	
Indonesia		6942	-0.8	-1	-3	16	5	0		199	8	-1	26	34	14	
India		53027	-0.3	2	-5	1	-9	-7		183	10	3	39	51	29	
Philippines		6303	-0.7	2	-7	-9	-12	-14		144	9	2	47	43	7	
Thailand		1586	-0.5	2	-5	0	-4	-7		0	0	0	0	0	0	
Malaysia		1451	-0.2	1	-8	-5	-7	-8		131	4	1	8	14	-2	
Argentina		88195	2.9	2	-6	40	6	-3		2436	233	520	866	756	699	
Brazil		100591	-0.2	1	-10	-21	-4	-10		357	17	51	106	46	26	
Chile		5004	0.4	-2	-7	16	16	14		179	12	18	37	39	5	
Colombia		1381	1.1	-1	-10	10	-2	-9		445	50	92	197	97	53	
Mexico		48435	0.3	1	-8	-4	-9	-6		457	36	89	119	125	87	
Peru		18675	-0.7	-4	-10	-2	-12	-20		208	12	33	47	58	18	
Hungary		40105	-0.9	0	4	-16	-21	-16		218	-15	-4	83	94	65	
Poland		54329	-0.3	3	-4	-19	-22	-14		79	-16	62	45	47	63	
Romania		12560	-0.1	2	1	5	-4	-5		322	11	67	143	129	90	
Russia		2372	-1.5	0	-1	-37	-37	-23		3411	-577	938	3228	3234	2897	
South Africa		67813	-0.4	3	-4	2	-8	-10		462	17	81	144	107	73	
Turkey		2466	-1.0	-4	1	80	33	22		635	-10	39	176	57	72	
Ukraine		519	0.0	0	0	-2	-1	0		4752	822	1509	4258	3993	3279	
EM total		40	-1.0	0	-4	-27	-17	-15		447	23	56	91	60	-11	

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

[back to top](#)