



- ECB announces end of net APP purchases and intent to hike in July ([link](#))
- Recent 3y and 10y Treasury auctions tailed amid slowing foreign demand ([link](#))
- BoJ easing policy seen as crucial element of Japan PM's spending plans ([link](#))
- China's exports increased stronger than expected in May ([link](#))
- Poland hikes interest rates in line with expectations, further tightening expected ([link](#))
- Chile MPC upgraded inflation and terminal rate outlook ([link](#))
- **Special Feature: Emerging and Frontiers Markets Issuance (Attached)**

[Mature Markets](#)



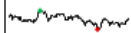
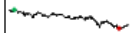


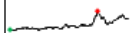




[Emerging Markets](#)

[Market Tables](#)

ECB says rate hikes to begin next month

As expected, the ECB Governing Council announced that it will end net asset purchases as of July 1st and raise rates by 25 bp at its July meeting. It also said it intends to raise rates again at its September meeting, but that hike will depend on the inflation outlook, and could be larger than 25 bp if the outlook deteriorates. Following the announcement, money markets have priced in more ECB tightening for 2022, with almost 140 bps of ECB hikes priced by the December meeting. Longer end yields also rose, with the 10-year bund rising to over 1.4% for the first time since 2014. European equities are lower on the day by about 0.8%. The euro rose against the dollar following the announcement. US futures are little changed this morning, while 2-year and 10-year treasury yields are both up about 4 bp.

Key Global Financial Indicators

Last updated: 6/9/22 8:17 AM	Level		Change from Market Close				YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		23-Feb-22
Equities			%				%	
S&P 500		4116	-1.1	0	3	-2	-14	-3
Eurostoxx 50		3759	-0.8	-1	7	-8	-13	-5
Nikkei 225		28247	0.0	3	8	-2	-2	7
MSCI EM		43	0.5	1	8	-22	-12	-10
Yields and Spreads			bps					
US 10y Yield		3.05	3.1	15	2	156	154	106
Germany 10y Yield		1.45	9.5	21	35	169	163	122
EMBIG Sovereign Spread		453	2	6	9	123	86	41
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.8	0.1	0	2	-9	0	-1
Dollar index, (+) = \$ appreciation		102.4	-0.2	1	-1	14	7	6
Brent Crude Oil (\$/barrel)		123.6	0.0	5	17	71	59	28
VIX Index (% change in pp)		24.2	0.2	-1	-11	6	7	-7

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

Mature Markets

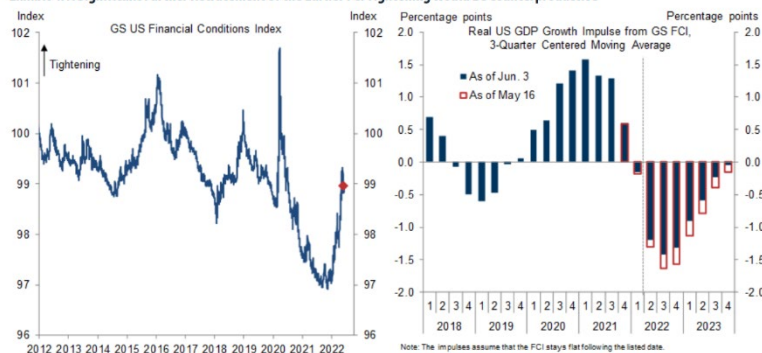
[back to top](#)

United States

The S&P 500 fell by 1.1% and Brent crude rose by 2.9% Wednesday as market participants digested disappointing data releases about US housing markets as well as the World Bank and OECD economic forecasts warning of conditions that could resemble the stagflation of the 1970s. On account of weak T-Note auction results, 10y Treasuries sold off by 5bps to close back above the 3% mark.

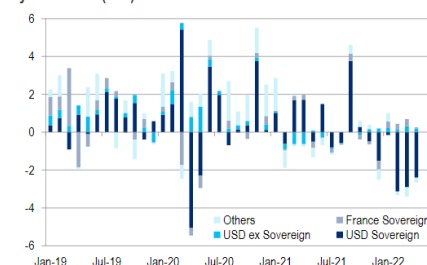
The retraced financial conditions since mid-May appear inconsistent with a Fed committed to curbing inflation, according to analysts at Goldman Sachs. The 7% rally in the S&P 500 since its trough of 3901 points on May 20 this year and the simultaneous decline in the Goldman Sachs US Financial Condition Index (FCI) from a high of 99.3 points on the same day to a current level of 98.9 points may prove short-lived according to the GS analysts. This is because the transmission of tighter financial conditions to slower real GDP growth operates with a significant time lag. According to the analysts, this retracement in financial conditions could be associated with a 25bp smaller real GDP growth slowdown by year-end 2022. Accordingly, for a Fed that is committed to get inflation back down closer towards 2%, there are little incentives to deviate from the relatively hawkish framing of the last few months and the tightening trend it brought about in financial conditions.

Exhibit 4: A Significant Further Retracement of the Earlier FCI Tightening Would Be Counterproductive



Foreign participation in US Treasury primary markets slowed in the last two auctions. The Treasury auction results of the \$44bn of 3y and \$33bn of 10y T-Notes that were issued on Tuesday and yesterday suggests that foreign demand for US Treasury auctions has waned. In the 3y auction, indirect bidders had a share of 51.5% (vs 58.8% average), while in the 10y auction, indirect bidders had a share of 63.6% (vs. 68.2% average), which prompted both auctions to tail by 1.1 bps and 1.2 bps, respectively. The slowing participation of indirect bidders appears consistent with data from the Japanese Ministry of Finance, which has shown that investments by Japanese investors into USD sovereigns saw a net monthly outflow of about ¥2tn in May. Notwithstanding this, as the rise in 10y Treasury yields outweighs widening short-term interest rate differentials, Japanese investors could still capitalize an FX-hedged yield pick-up over 10y JGBs as analysis by Credit Suisse shows.

Figure 2: Net monthly purchases of non-yen foreign notes and bonds by instrument (¥trn)

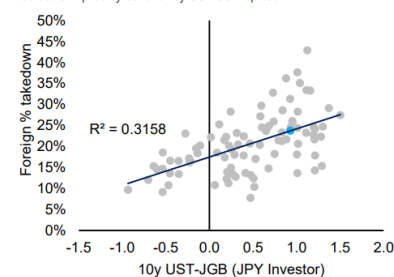


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Note: Sovereigns include government, government agency, and local government bonds

Source: MoF, BoJ, Citi Research

Figure 6: FX-hedged yield pickup suggests sufficient foreign interest for good supply absorption

10y auction foreign % taken down vs 10y UST-JGB yield pickup; %
Blue dot is implied by current 10y UST-JGB spread

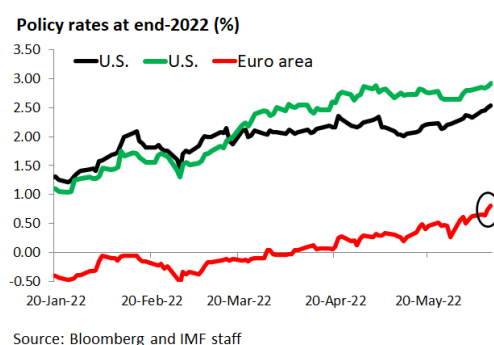


Source: Credit Suisse the BLOOMBERG PROFESSIONAL™ service

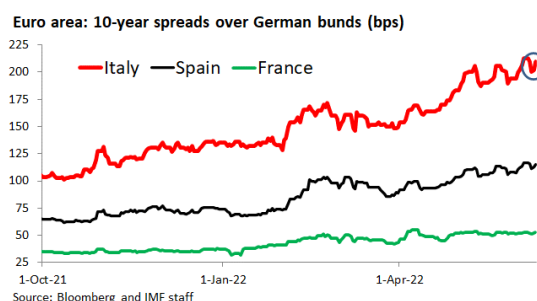
Euro Area

10-yr German 10-yr bund yields (+9 bps to 1.45%) and the euro (+0.4%) are higher after the ECB announced an end to its asset purchases on 1 July, expressed its intention to hike 25 bps on 21 July followed by a potentially larger hike in September. More specifically, the ECB intends to hike rates by 25 bps in July and expects to raise key rates again in September, but the calibration of the September rate increase will depend on the updated medium-term inflation outlook.

If the medium-term inflation outlook persists or deteriorates, the ECB expect that a larger increment will be appropriate at the September meeting. Following the announcement, money markets have price in more ECB tightening for 2022, with almost 140 bps of ECB hikes priced by the December meeting. **Equities (-0.8%) are lower.**



Italian 10-yr spreads rose 8 bps to 209 bps after the release of the ECB monetary policy decisions. The statement reiterated that flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardize price stability but did not provide any details on a new anti-fragmentation tool ahead of the press conference.



The ECB also downgraded growth forecasts and upgraded inflation in 2022-23. Staff projections foresee annual inflation at 6.8% in 2022, before a decline to 3.5% in 2023 and 2.1% in 2024—higher than in the March projections and leaving headline inflation in 2024 slightly above target. Inflation excluding energy and food is projected to average 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024, also above the March projections. **Annual real GDP growth is expected to be 2.8% in 2022, 2.1% in 2023, and 2.1% in 2024.** Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up.

Italian PM Draghi said yesterday that rising inflation in the EU is not wholly the sign of overheating, but largely the result of a series of supply shocks. Mr. Draghi pointed out that while euro-area inflation rose to 8.1% y/y in May, once food and energy are excluded *the increase is only about half of that—a*

significant jump but much less than in the US. He also added that unemployment is just below 7% and consumption remains below its pre-pandemic levels, suggesting still spare capacity.

Citi points out that political pressure in Germany for new fiscal measures is increasing (beyond the two fiscal support packages worth €40bn (1.1% of GDP) approved). Two new proposals on income tax cuts and windfall taxes are reportedly under consideration. Economy Minister Habeck (Greens) has proposed to raise the highest income tax rate to fund tax cuts for low- and middle-income earners. In contrast, FM Lindner (FDP) will instead make proposals in the autumn to return €12 bn (0.3% of GDP) in income tax revenue increases due to *cold progression* (lack of indexation of tax rate threshold) to households



Japan

The Bank of Japan (BOJ)'s ultra-easing monetary policy is seen as a crucial element of PM Kishida's spending plans. The government recently unveiled its blueprint for PM Kishida's economic policy agenda, which included a renewed push for investment in key areas. The government also dropped its reference to a target for achieving a primary fiscal balance by March 2026. Analysts noted that given its spending plans, the government now needs the BOJ become a part of its debt management policy and to keep funding costs at an affordable level. Long-end JGB yields rose (10-year: +0.1 bp; 30-year: +2.1 bps), with the 10-year yield reaching 0.245%. The BOJ's fixed-rate bond purchase operations had a take-up of 6 bn yen (\$45 mn) today. The yen appreciated (+0.7%). Equities were little changed.

Emerging Markets

[back to top](#)

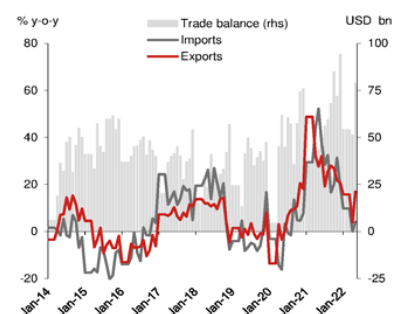
Most Asian equities declined, led by Chinese (CSI 300: -1.0%), Malaysian (-0.9%), and Hong Kong (-0.7%) equities. Meanwhile, share prices rose in India (+0.8%). Asian currencies were mixed. The Indonesian rupiah depreciated (-0.5%), while the Chinese yuan appreciated (+0.3%). Long-end government bond yields generally increased, with 10-year yields rising in Indonesia (+3 bps) and Singapore (+3 bps). In India, the Reserve Bank of India reportedly intervened in the FX market to moderate the pace of rupee depreciation, which has been partly fueled by continued equity outflows (over \$23 bn year-to-date). The Indian rupee depreciated (-0.1%). In Indonesia, consumer confidence increased to a record high level. **EMEA equities were mixed while currencies were generally strengthening against the dollar ahead of the ECB meeting.** Equities in South Africa gained (+0.2%) and the rand appreciated (+0.3%) after data showed the current account surplus widening by more than expected in Q1. The Turkish lira (-0.5%) continued depreciating in the aftermath of comments from the President earlier this week that interest rates will not be increased. The Serbian dinar was little changed after Serbia increased the repurchase rate by 50 bps to 2.5%. In **Latin America**, Colombia underperformed with local rates back to levels seen before the first round of the presidential voting, on increasing concerns about the lack of economic policies from Hernandez. The peso weakened 0.6% with equities down 1.6%. The Chilean peso strengthened 0.6% after the Monetary Policy Report upgraded growth forecast for 2022. Stocks also closed down in other regional markets following the risk-off session in the US.

China

Exports increased 16.9% y/y in May in dollar terms, stronger than expected (consensus: +8.0%). Analysts noted that the unexpected strong exports growth may result from the clearing of backlogs following Shanghai's lockdown. Analysts also viewed that the prospects of China's external demand look dimmer as consumers in the West continue to shift from goods to services and are increasingly pressured by inflation. Meanwhile, imports growth picked up to 4.1% (consensus: +2.8%). Equities declined (CSI 300: -1.0%) as

traders took profit after a recent rally, which was driven by optimism around the re-opening and the end of regulatory tightening on the tech sector. The RMB appreciated (+0.3%). Chinese regulators reportedly considered reviving Ant Group's IPO. Regulators are also in a final stage to give Ant a license, which would pave a way for an IPO and make the company a regulated financial entity. Alibaba's share price rose (+2.3%).

Fig. 2: Export growth, import growth and the trade balance

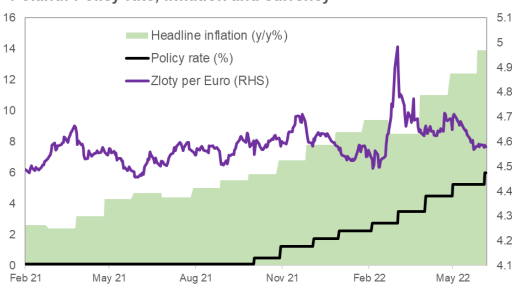


Note: We use the average of January-March data to largely smooth out the CNY distortions.
Source: Wind, Nomura Global Economics.

Poland

The polish zloty was little changed after the central bank of Poland increased its policy rate by +75 bps to 6% yesterday, in line with expectations. This was the ninth hike in the current cycle. Preliminary inflation increased to +13.9% y/y in May, mainly driven by higher food and energy prices. The press release notes that inflation is expected to remain elevated in the coming quarters, but to decrease in coming years. A press conference will take place later today. ING analysts forecast inflation to peak at between 15–20% in Q4 and expect further tightening in the coming months to take the reference rate to 8.5%. Goldman Sachs analysts expect the policy rate to increase to +7% this year.

Poland: Policy rate, inflation and currency

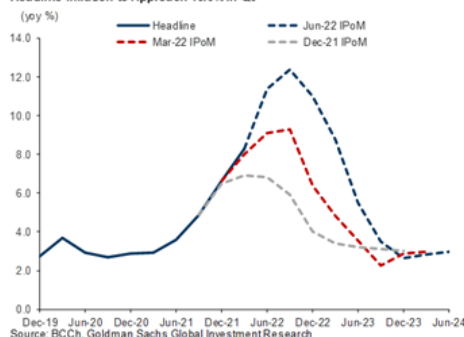


Source: Bloomberg and IMF calculations

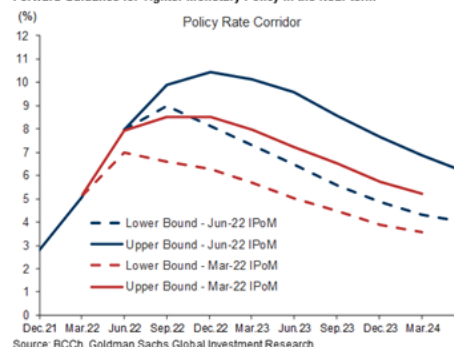
Chile

The June Monetary Policy Report is more hawkish in the near term compared to the March update. The MPC revised the inflation outlook significantly. Headline inflation is now projected to peak around 13% in Q3, end the year at 9.9% and decelerate sharply towards the 3% target by end 2023. The growth outlook was revised up for 2022 but expects a sharper slowdown in 2023. The forward guidance indicates further but smaller rate hikes to a terminal rate around 9.75% (mid-point) by end-2022, in line with what is priced in the markets, and less room for easing in 2023 compared to the March update. **Headline inflation rose more than expected to 11.5%y/y in May, with core inflation accelerating to 9%y/y.** Ten of the twelve CPI components rose over the month, led by food and transportation, while energy price pressures remain acute (+20.8%y/y).

Headline Inflation to Approach 13.0% in Q3



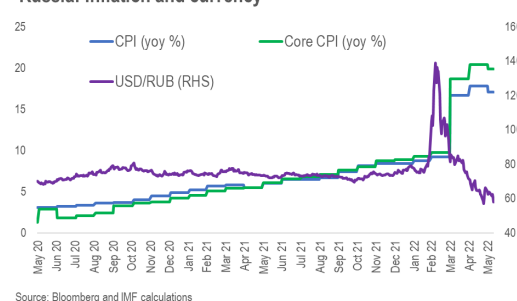
Forward Guidance for Tighter Monetary Policy in the Near-term



Russia

Equities in Moscow fell (-1.4%) while the offshore ruble strengthened (+4.5% to 57.9 against the dollar) following lower than expected inflation ahead of the central bank policy decision. Russia's headline inflation eased by more than expected to +17.1% y/y in May (vs expected 17.4% from 17.8%). Core inflation also eased to +19.9% y/y (vs expected 20% from 20.4%). Goldman Sachs analysts expect inflation to ease further as supply constraints become less severe. The central bank of Russia is widely expected to lower the key rate by 100 bps to 10% tomorrow.









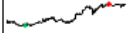









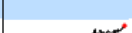

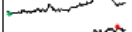




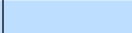


Russia: Inflation and currency



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Global Financial Indicators

Last updated: 6/9/22 8:17 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4118	-1.1	-1	3	-2	-14	-3
Europe		3759	-0.8	-1	7	-8	-13	-5
Japan		28247	0.0	3	8	-2	-2	7
China		4176	-1.0	2	7	-21	-15	-10
Asia Ex Japan		73	0.8	2	9	-23	-12	-8
Emerging Markets		43	0.5	1	8	-22	-12	-10
Interest Rates			basis points					
US 10y Yield		3.05	3.1	15	2	156	154	106
Germany 10y Yield		1.45	9.5	21	35	169	163	122
Japan 10y Yield		0.25	0.0	1	0	18	18	5
UK 10y Yield		2.32	7.1	16	36	159	135	84
Credit Spreads			basis points					
US Investment Grade		150	-0.6	0	-13	58	38	7
US High Yield		439	-3.2	13	-23	107	102	33
Europe IG		94	3.1	4	-4	45	46	22
Europe HY		472	17.2	26	3	232	230	120
Exchange Rates			%					
USD/Majors		102.37	-0.2	1	-1	14	7	6
EUR/USD		1.07	0.3	0	2	-12	-6	-5
USD/JPY		134.0	-0.2	3	3	22	16	16
EM/USD		52.8	0.1	0	2	-9	0	-1
Commodities			%					
Brent Crude Oil (\$/barrel)		124	0.0	5	18	84	64	38
Industrials Metals (index)		185	-1.7	-1	2	17	7	-2
Agriculture (index)		76	-0.6	1	2	27	25	8
Implied Volatility			%					
VIX Index (% change in pp)		24.2	0.2	-0.5	-10.6	6.3	7.0	-6.9
US 10y Swaption Volatility		102.4	-3.4	3.8	-24.5	36.4	23.4	8.1
Global FX Volatility		10.3	0.0	0.7	-1.1	3.7	2.9	2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		263	1.2	16	10	155	112	23
Italy		209	6.5	2	3	101	74	37
Portugal		118	2.5	0	2	53	53	26
Spain		115	2.5	1	3	51	41	12

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 6/9/2022 8:18 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since 23-Feb-22	Level		Change (in basis points)					Since 23-Feb-22
	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		6.68	0.1	-0.3	1	-4	-5	-5		2.8	-2.4	-2	-5	-40	-1	-2
Indonesia		14567	-0.5	-0.6	0	-2	-2	-2		7.2	3.0	19	-8	80	82	70
India		78	0.0	-0.2	0	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	-0.1	-0.3	-1	-10	-4	-3		5.5	0.0	0	10	114	98	48
Thailand		35	0.1	-0.8	0	-10	-4	-6		2.9	1.0	-9	-42	95	102	64
Malaysia		4.39	0.0	-0.1	0	-6	-5	-5		4.2	0.2	-3	-18	94	62	54
Argentina		121	-0.1	-0.9	-4	-22	-15	-12		56.6	18.8	7	396	1124	603	864
Brazil		4.88	0.4	-1.7	6	4	14	3		12.7	-4.5	13	16	358	200	116
Chile		822	0.7	0.3	6	-13	4	-4		6.4	0.0	17	-19	246	93	44
Colombia		3803	-0.4	0.0	8	-5	7	3		8.9	0.0	50	-14	336	246	99
Mexico		19.56	0.1	-0.2	4	1	5	3		8.9	-2.0	32	-16	221	140	108
Peru		3.8	-0.4	-1.0	2	4	6	-1		7.7	0.5	16	-58	251	183	173
Uruguay		39	0.4	1.3	6	10	13	7		10.7	15.5	41	60	274	193	251
Hungary		369	0.0	-0.7	-2	-23	-12	-13		7.4	13.0	39	21	480	291	261
Poland		4.28	0.1	-0.4	4	-14	-6	-5		6.8	15.5	47	28	498	331	294
Romania		4.6	0.2	-0.1	2	-12	-5	-5		8.1	2.6	30	71	536	326	293
Russia		58.1	3.8	9.5	20	25	29	41		8.2	9.2	0	-385	75	-60	-301
South Africa		15.3	0.0	1.2	6	-10	4	-1		8.7	4.5	26	-12	155	126	110
Turkey		17.23	-0.5	-4.4	-12	-50	-23	-20		26.0	66.0	347	296	737	165	355
US (DXY; 5y UST)		102	-0.2	0.5	-1	14	7	6		3.07	4.0	16	12	232	181	117

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
								basis points								
China		4176	-1.0	2	7	-21	-15	-10		198	-4	-3	-11	-5	-10	
Indonesia		7183	-0.1	0	5	18	9	4		178	-8	-4	1	13	-7	
India		55320	0.8	-1	2	6	-5	-3		166	-3	-7	22	34	12	
Philippines		6759	-0.2	1	1	-2	-5	-8		123	-8	-16	26	22	-14	
Thailand		1641	0.3	-1	1	1	-1	-3		0	0	0	0	0	0	
Malaysia		1510	-0.9	-3	-3	-4	-4	-5		122	-2	-2	0	5	-11	
Argentina		89947	-1.1	-2	9	32	8	-2		1970	58	163	499	290	233	
Brazil		108368	-1.6	-3	5	-17	3	-3		311	8	19	63	0	-20	
Chile		5277	-1.5	-1	11	24	22	21		148	-3	-13	0	8	-26	
Colombia		1561	-1.7	-3	3	24	11	3		347	15	-29	106	-1	-45	
Mexico		49819	-0.6	-3	2	-2	-6	-3		378	5	9	53	46	8	
Peru		20628	0.0	0	3	5	-2	-12		172	4	-16	2	22	-18	
Hungary		40201	-0.4	-1	-3	-17	-21	-16		232	23	48	89	108	79	
Poland		56106	0.1	-2	4	-15	-19	-11		75	64	73	36	43	59	
Romania		12476	0.2	1	2	10	-4	-6		251	2	23	68	58	18	
Russia		2282	-1.6	-2	-5	-41	-40	-26		3411	-577	938	3228	3234	2897	
South Africa		69789	-0.2	-2	5	3	-5	-7		387	7	-6	76	32	-2	
Turkey		2543	0.1	-2	3	75	37	26		634	52	99	166	56	71	
Ukraine		519	0.0	0	0	-2	-1	0		3421	48	-95	2947	2662	1948	
EM total		43	0.2	1	8	-22	-12	-10		387	10	-6	36	1	-71	

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

[back to top](#)