



- US equities face high EPS expectations ahead of results ([link](#))
- European markets struggle for direction in the aftermath of the French election ([link](#))
- Norwegian krone weakened against the euro as June inflation surprised to the downside ([link](#))
- Reserve Bank of New Zealand held its cash rate unchanged with less hawkish rhetoric ([link](#))
- Mexican inflation came in above expectations in multiple prints ([link](#))
- **Special feature: EM Local Currency Bond Holdings Monitor (attached)**

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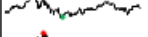
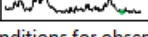
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Risk on as investors see confirmation of expected US policy path

Following Fed chair Powell's testimony before the Senate banking committee, rates markets continued to build confidence of the first cut coming as soon as September. The US 2yr treasury yield is a further 2 bp lower this morning falling to its lowest level since March as markets await a second day of testimony from the chair. On net, the tone of his remarks on the economy yesterday did not change the expected path of rate cuts, but rather further affirmed the current priced-in pace. Interest rate futures currently price a 75% chance of a cut in September and just over two full cuts for the year. Today's testimony will be in front of the House Financial Services committee, so, like yesterday, much of the discussion will be on bank regulation, but investors will be listening for any further remarks on the economic outlook. This morning, European equities are higher, and US futures are pointing to a 0.5% gain once the markets open. In emerging markets, most currencies are stronger versus the dollar, with Latam currencies mostly leading the gains for a second straight day.

Key Global Financial Indicators

Last updated: 7/10/24 8:42 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5577	0.1	2	4	26	16.92
Eurostoxx 50		4938	0.7	-1	-2	16	9
Nikkei 225		41832	0.6	3	7	30	25
MSCI EM		44	0.4	3	4	11	9
Yields and Spreads			bps				
US 10y Yield		4.28	-1.4	-8	-18	29	40
Germany 10y Yield		2.53	-5.1	-6	-14	-11	51
EMBIG Sovereign Spread		390	1	-7	5	-43	7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	0.4	2	1	-5	-4
Dollar index, (+) = \$ appreciation		105.1	-0.1	-1	0	3	4
Brent Crude Oil (\$/barrel)		84.7	0.0	-3	4	9	10
VIX Index (% change in pp)		12.4	-0.1	0	0	-3	0

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

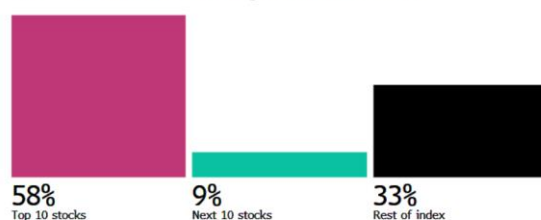
US equities face high EPS expectations ahead of results. The S&P 500 is hovering around its all-time peak, in part due to strong earnings. As we approach results for the second quarter of 2024, one-year forward EPS is also at historical highs, setting a high-bar for corporate earnings. With close to 60% of the S&P 500's gains since 2022 accounted for by only 10 stocks, any big miss by one of these large-cap companies could lead to quick change in sentiment. The high concentration risk generated by the lack of breadth of the recent rally could potentially exacerbate any sell-off. This has led to a cautious tone by many analysts ahead of this EPS season.

Stocks and Profit Expectations Are Both at Record Highs
S&P 500 firms face a high bar this reporting season



Heavily Concentrated

Ten stocks account for 58% of S&P 500's gains since Oct. 2022 bottom



Consumer trends could provide a glimpse into the second half of 2024. The US consumer has been a strong source of upward surprises during the last few years, providing solid support to the economy and the stock market. But analysts at JPMorgan believe this might change in the second half of 2024 as post-pandemic “normalcy” hits-in. Middle-income Americans are feeling the headwinds from inflation, rates, student loan payments and have exhausted their excess savings. Proprietary data is showing weakness in discretionary expenditures as lodging, airlines and supermarket consumption growth is slowing, and customers are trading down into more value-oriented brands. Analysts expect weaker margins across the board and highlight this could lead to a divergence between non-discretionary and discretionary sectors with broader GDP impact in the second half of 2024.

Figure 3: Wage growth > CPI inflation



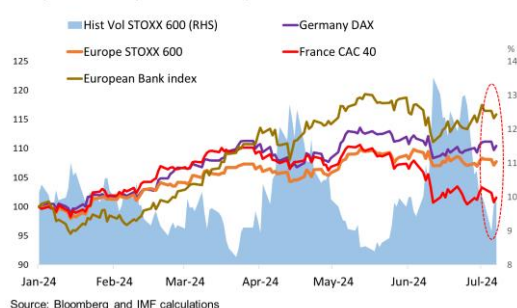
Figure 4: Excess savings is exhausted as of mid-'24



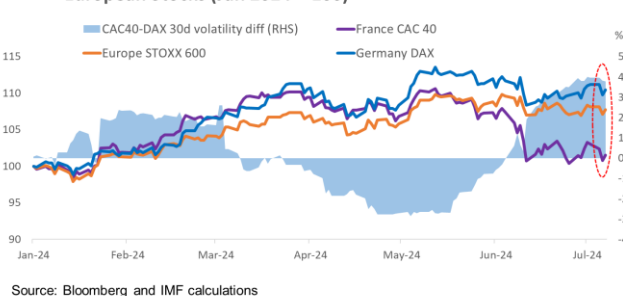
Europe

European equities traded higher this morning, following fresh highs for US equities overnight as traders held to bets the Fed will cut rates this year (swaps continued to price-in two 25bp rate cuts in 2024) after yesterday's statements from Federal Reserve Chairman Jerome Powell. The Stoxx 600 index rose by 0.6%, led by gains in the real estate, utilities and industrials sectors. Equities gained across all European countries, with the stock market outperforming in Italy (FTSEMIB +0.9%), Spain (IBEX +0.9%) and France (CAC 40 +0.8%).

European Stocks (Jan 2023 = 100)

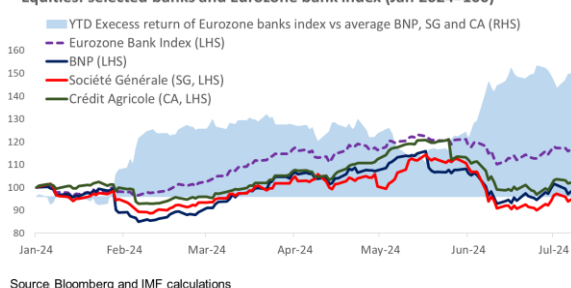


European Stocks (Jan 2024 = 100)

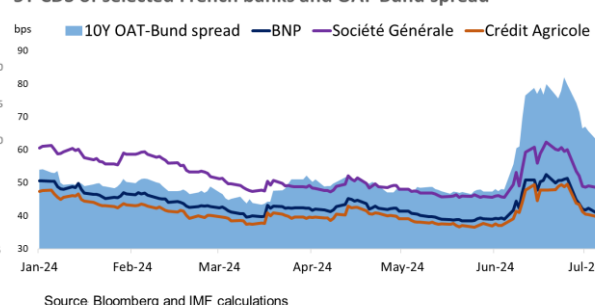


European banks also edged higher (+0.6%) as Q2 results start to be released. French banks also gained today (BNP +1.1%, CA +0.2%, SG + 0.8%) but remain underperformers YTD compared to European peers. Analysts at JP Morgan note that the impact in terms of funding conditions for French banks from the spread widening in France should be limited, but that their cost of equity is likely to remain higher with the probability of a bank tax still high given the challenging fiscal path for France, which adds to a drag from already weak lending volumes. BNP believes that the recent developments have increased the cost of equity by 25bp for French banks and warns that the new government may decide to extend the 3% remuneration on regulated deposits (Livret A) beyond the current term of February 2025, in an effort to support households purchasing power at no cost for the public budget, with potentially significant impacts on 2025 and 2026 results of French banks.

Equities: selected banks and Eurozone bank index (Jan 2024=100)

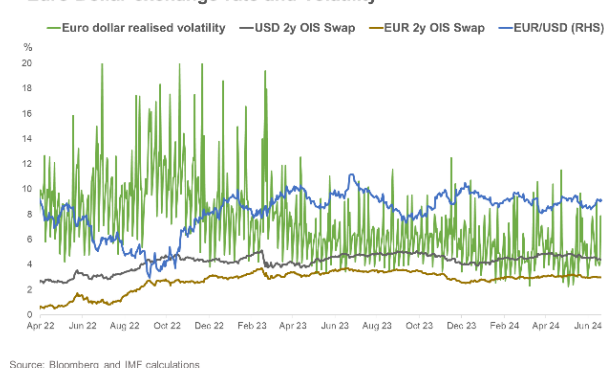


5Y CDS of selected French banks and OAT-Bund spread



The euro was little affected by a selloff in French stocks yesterday and continued to trade against the dollar today at \$1.08/€. Analysts at Commerzbank stressed that yesterday's statements by Fed Chairman Powell during his testimony before the Senate Banking Committee did not convey any new information and that traders now wait for Thursdays' CPI data in the US. ING highlighted that, as fiscal concerns in France may end up being exacerbated by the political gridlock, the euro has limited potential for further strengthening against the dollar, despite the supportive narrative from the Fed. ECB GC member Fabio Panetta yesterday downplayed concerns about high service sector prices and predicted wage growth moderation; he also indicated that previous rate hikes continue to dampen demand, output, and inflation. In an interview with

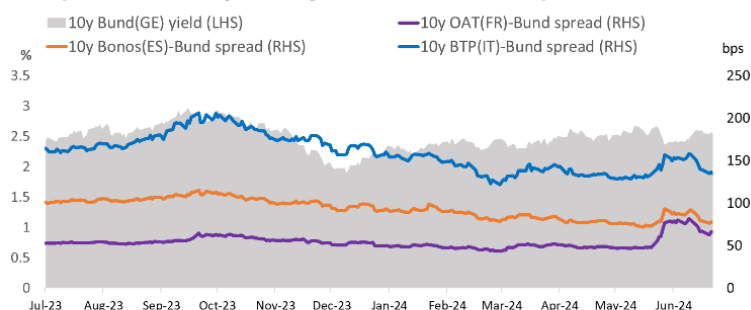
Euro-Dollar exchange rate and Volatility



Der Tagesspiegel, ECB's Joachim Nagel restated that the ECB does not lower interest rates automatically, and that he expects inflation to ease to the 2% target by the end of 2025 at the latest.

European bonds pared yesterday's losses today, with yields declining across all tenors (German bonds yields -2 bp on 2y, -4bp on 5y, -5bp on 10y). The 10y OAT-Bund spreads lowered to 65 bp as former French Prime Minister Edouard Philippe urged centre and centre-right parties to unite to form a new government after a snap election left a hung parliament, and Moody's warned about adjusting the credit rating outlook of France to negative.

Europe: German 10y Bund yield and Southern Spreads

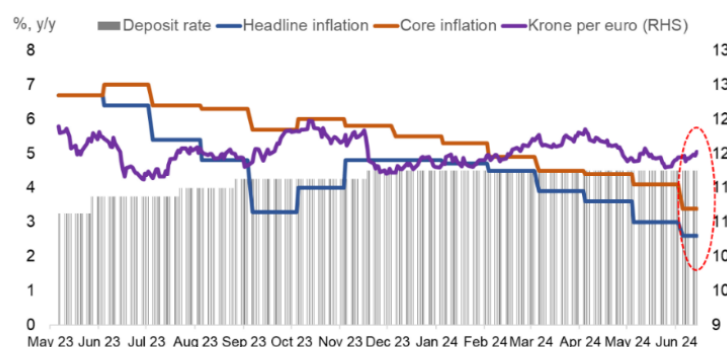


Source: Bloomberg and IMF calculations

Norway

The Norwegian krone was weaker (-0.8%) against the euro this morning, trading at NOK11.56/€, as June CPI inflation surprised to the downside today by printing at 2.6%/y/y (vs. consensus 3%) from 3%. The core inflation rate, which excludes more volatile energy prices, fell to 3.4%/y/y in June (vs. est. 3.6%) from 4.1% in May. Declining inflation raises prospects that the Norges Bank may cut its policy rate before the end of the year although after its June 20 MPC meeting the central bank raised its forecasts (in the updated MPR) for economic and wages growth in 2024 and signaled that it expected the benchmark rate to remain at the current level of 4.5% until 2025. Analysts at Danske Bank noted that today's data market impact potential is limited by Norges Bank's recent guidance. Goldman Sachs highlights that today's June core inflation figure (3.4%) is another downside surprise relative to Norges MPR projections (3.6%) along with a series of misses over the past months, and believes that in spite of the hawkish guidance provided in June the central bank will cut the policy rate in November and in December, to proceed with quarterly 25bp cuts thereafter to a terminal rate of 3% in Q4 2025. JP Morgan believes that core inflation will continue to surprise to the downside throughout 2024 and expects a first 25bp cut the policy rate in December.

Norway: Deposit rate, inflation and exchange rate



Source: Bloomberg and IMF calculations

New Zealand

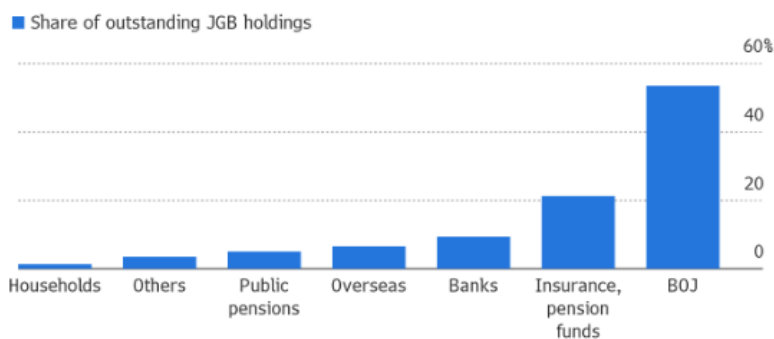
The Reserve Bank of New Zealand (RBNZ) held its Official Cash Rate (OCR) unchanged at 5.50%, as expected. RBNZ views that the restrictive monetary policy has significantly reduced inflation and expects headline inflation to return to within the target range of 1%-3% in H2. While domestic inflation pressures remain strong, the Committee observes more evidence of excess productive capacity emerging, which provides greater certainty on a sustainable decline of inflation. Monetary policy will stay restrictive, but its extent will be tempered over time consistent with the expected easing inflation pressures. Analysts see the RBNZ's less hawkish rhetoric as suggesting it could ease monetary policy sooner than previously signaled. The **New Zealand Dollar depreciated 0.8%**; **New Zealand equities gained 0.8%**; **long-end government bond yields declined** (10-year: -5 bp, 30-year: -1 bp).

Japan

Major Japanese banks are reportedly calling for the Bank of Japan (BoJ) to make significant cuts to its JGB purchasing, during the hearings on Tuesday and Wednesday. Bloomberg reported that mega banks suggested BoJ should move early to make sharp cuts, calling for the monthly buying size to range from ¥1 trn (US\$ 6.2 bn) to ¥3 trn versus the current ¥6 trn, while regional banks and brokers were more cautious. **Japan's 5-year JGB auction yesterday attracted strong demand.** The ¥2.3 trn (US\$14.3 bn) auction recorded a bid-to-cover ratio of 4.26, up from 3.97 at the previous sale in June. The cut-off price came in at 99.93, higher than 99.89 estimated by traders. **Japanese equities hit a new high** (Nikkei 225: +0.6%); **the yen depreciated** (-0.1%); long-end JGB yields were little changed.

BOJ Still Has Whale Status in Japan's Bond Market

Central bank owns more than a half the market after prolonged monetary easing



Source: Bloomberg, BOJ

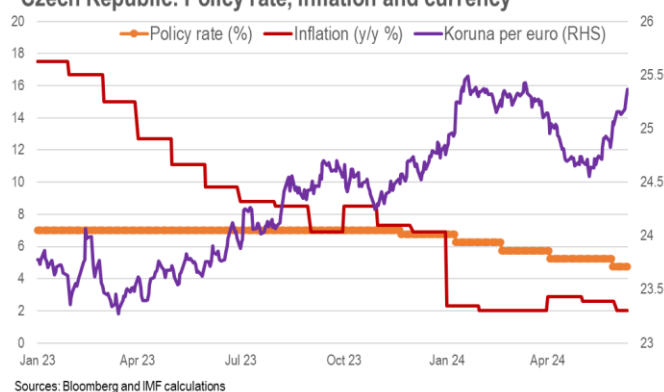
Bloomberg

Czechia

The Czech koruna weakened after Czechia's headline inflation eased more than expected in June, reinforcing expectations for further monetary policy easing. Data released this morning showed headline inflation easing to 2.0%/y (versus expected 2.4% from 2.6%). The central bank had eased its benchmark rate by 50bp in June to 4.75%, while consensus had expected a 25bp rate cut. During the press conference, however, Governor Michl struck a more hawkish tone suggesting that the next move is "more likely to be 25bp or a pause"

citing upside risk to inflation in the outlook. Following the data release this morning, analysts from Patria Finance continue to expect a smaller 25bp rate cut in August but argue that easing inflationary pressure

Czech Republic: Policy rate, inflation and currency



Sources: Bloomberg and IMF calculations

would allow the central bank to continue easing rates without a pause. Against this backdrop, the analysts have now lowered their expected policy rate by end-2024 to 3.75%, from 4%. According to Bloomberg, markets are pricing in a 25bp rate cut at the upcoming policy meeting on August 1, with the benchmark rate priced at 4% by end-2024. The koruna underperformed CEE peers this morning, weakening by 0.4% against the euro to 25.39, roughly 2.6% weaker than at the start of the year.

Emerging Markets

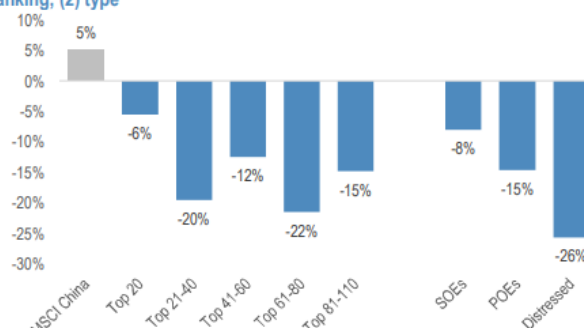
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Asian equities were mixed, and Asian currencies traded sideways ahead of the US Fed Chair's second part of testimony. Singapore stocks outperformed (+0.7%), led by bank shares on strong dividend expectations. Long-end government bond yields were also mixed, as traders await the next catalyst. **EMEA equities were mixed this morning** while currencies were mostly trading marginally stronger against the dollar and local currency bond yields were lower. Equities outperformed in Romania (+0.6%), but were weaker in Türkiye (-0.4%), weighed down by banking stocks ahead of the earnings season according to Bloomberg. The South African rand outperformed against the dollar (+0.4%). CEE currencies were mostly trading weaker against the euro with the Czech koruna underperforming and the Hungarian forint outperforming (+0.2%). **Latam currencies rallied on Tuesday** following Powell's dovish testimony. The Chilean peso (+0.9%), Brazilian real (+0.9%), and Colombian peso (+0.8%) were the top EM currencies for the day. Stock markets in Peru (+1.2%), Argentina (+0.9%) and Mexico (+0.8%) rose, while those in Colombia (-0.7%) and Chile (-0.8%) fell. Fitch reaffirmed Chile's long-term foreign currency issuer default rating at A-, citing its "relatively strong sovereign balance sheet."

China

Share prices of developers (-1.5%) led the decline of Chinese equities (CSI 300: -0.3%), after Vanke warned hefty losses in H1. The developer expects losses of RMB 7–9 bn (US\$ 1.0–1.2 bn) in H1 (versus RMB 362 mn in Q1), citing deeper price discounts to reduce inventory squeezed profit margins amid the prolonged property market downturn. JP Morgan analysts remain cautious on all distressed developers in the medium

Figure 4: China Property - 2024 Year-to-date share price performance by (1) JPM balance sheet ranking; (2) type



Source: Bloomberg Finance L.P., J.P. Morgan.

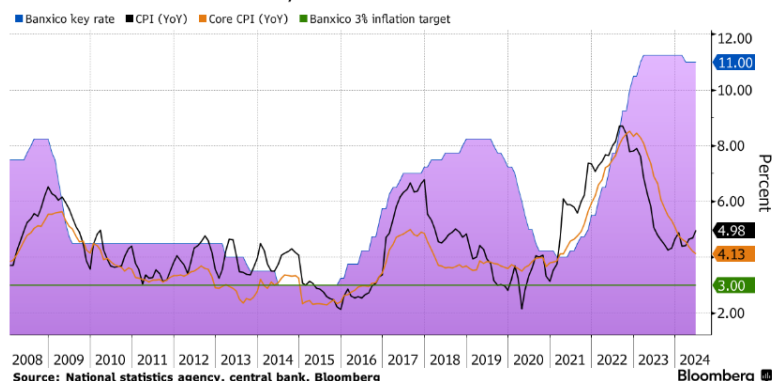
to long term, expecting any rally associated with speculation on stronger policy support for the sector to be short-lived. **IPO activities saw a wave of withdrawal following the release of more stringent listing standards in April**, which set out tougher profitability thresholds for listing on Shanghai and Shenzhen exchanges among other more stringent oversight. About 315 Chinese companies have withdrawn their IPO application so far this year, with over 100 pulling out in June, according to figures compiled by Caixin. Analysts observed companies not meeting new rules opted to withdraw IPO application autonomously while increased penalties on brokers have led to stricter internal controls among securities companies, which will likely lead to a 56%-71% decline in IPO proceeds this year. On the data front, **China's June CPI surprised on the downside** (0.2% y/y, expected: 0.4%, May: 0.3%). According to Barclays analysts, CPI fell into deflation in June after removing volatile pork prices. Meanwhile, PPI has stayed in deflation for 21 consecutive months (-0.8% y/y, expected: -0.8%, May: -1.4%). **RMB depreciated** (-0.1%).

Mexico

Mexican inflation rose more than expected in June from 4.69% y/y to 4.98%, complicating Banxico's easing cycle timeline. Bi-weekly inflation also came in hotter-than-expected from 0.21% to 0.53% (vs 0.35% expected), and monthly inflation jumped from -0.19% m/m to 0.38%. Banxico's deputy governor Heath cited the multiple missed prints as "very concerning". The peso rose +0.5% to 17.9/USD. Yields across Mexico's sovereign rose across tenors: +3bp at the 1yr, +2bps at the 10yr, and +4bps at the 30yr. Equity markets rose 0.8% as President-elect Sheinbaum announced a business advisory council to boost private investment and attract foreign companies.

Mexico's Consumer Prices Shoot Past Expectations


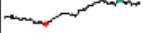



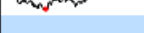










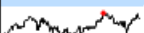


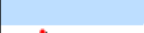
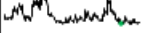
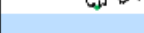
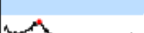
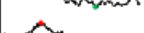

Annual inflation rate hit 4.98%, core 4.13% in June



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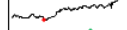



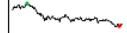

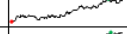






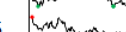

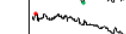


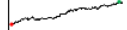


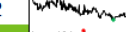




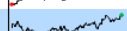

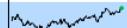
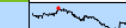
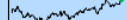

Global Financial Indicators

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Equities			%				%
United States		5591	0.1	1	4	27	17
Europe		4938	0.7	-1	-2	16	9
Japan		41832	0.6	3	7	30	25
China		3429	-0.3	-1	-3	-11	0
Asia Ex Japan		74	0.4	3	3	12	11
Emerging Markets		44	0.4	3	4	11	9
Interest Rates			basis points				
US 10y Yield		4.28	-1.4	-8	-18	29	40
Germany 10y Yield		2.53	-5.1	-6	-14	-11	51
Japan 10y Yield		1.09	-0.7	-2	4	62	47
UK 10y Yield		4.11	-5.1	-6	-21	-53	57
Credit Spreads			basis points				
US Investment Grade		126	0.0	1	6	-24	-8
US High Yield		357	0.6	-6	6	-82	-29
Exchange Rates			%				
USD/Majors		105.06	-0.1	-1	0	3	4
EUR/USD		1.08	0.1	0	1	-2	-2
USD/JPY		161.5	0.1	0	3	14	14
EM/USD		46.4	0.4	2	1	-5	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		84.7	0.0	-3	4	14	12
Industrials Metals (index)		153	0.1	1	-1	8	7
Agriculture (index)		57	-0.1	-1	-4	-15	-9
Implied Volatility			%				
VIX Index (% change in pp)		12.4	-0.1	0.4	-0.3	-2.6	0.0
Global FX Volatility		7.0	0.0	-0.4	-0.3	-1.3	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	-2.8	-5	-8	-43	-2
Italy		133	-2.8	-6	-7	-41	-34
Portugal		59	-1.1	-2	-5	-14	-4
Spain		77	-1.0	-3	-1	-29	-20

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

Emerging Market Financial Indicators

Last updated: 7/10/2024 8:43 AM	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		7.28	0.0	-0.1	0	-1	-2		2.2	-0.5	2	-1	-50	-32
Indonesia		16241	0.1	0.8	0	-6	-5		7.1	-0.5	-6	9	80	58
India		84	0.0	0.0	0	-1	0		7.2	-2.0	-9	-9	(27.7)	0
Philippines		58	0.2	0.7	1	-5	-5		5.4	14.8	0	-11	-72	-22
Thailand		36	0.3	0.9	1	-3	-6		2.6	-1.8	-14	-20	-14	-7
Malaysia		4.70	0.2	0.4	0	-1	-2		3.9	0.1	-2	-2	-5	12
Argentina		917	-0.2	-0.4	-2	-71	-12		44.8	0.0	53	10	-4722	-4156
Brazil		5.38	0.8	3.3	0	-9	-10		11.9	0.4	-33	-16	107	148
Chile		926	0.6	1.7	-1	-12	-5		5.4	0.0	-2	13	31	47
Colombia		4016	0.8	2.6	-1	4	-3		8.4	0.0	11	23	100	80
Mexico		17.78	0.8	2.2	3	-4	-5		9.5	0.1	-1	-19	120	103
Peru		3.8	0.1	0.9	0	-4	-2		7.0	0.3	-3	-5	23	37
Uruguay		40	0.1	0.3	-3	-5	-3		9.6	-0.7	-5	44	8	10
Hungary		362	0.6	1.0	1	-5	-4		6.4	-9.0	-17	-13	-61	67
Poland		3.93	0.2	1.5	2	3	0		5.2	-7.5	0	-10	12	71
Romania		4.6	0.1	0.4	1	-2	-2		6.5	-0.1	-13	-11	-12	32
Russia		87.9	-0.1	0.0	1	3	2							
South Africa		18.1	0.5	2.0	4	4	2		9.1	-6.2	-13	-52	-75	-5
Türkiye		32.88	0.0	-1.0	-2	-21	-10		27.7	22.0	39	-36	1115	99
US (DXY; 5y UST)		105	-0.1	-0.6	0	3	4		4.23	-1.6	-10	-26	-1	38

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3429	-0.3	-1	-3	-11	0		141	2	7	-36	-17	
Indonesia		7287	0.2	1	6	7	0		103	-2	11	-27	7	
India		79925	-0.5	0	5	22	11		99	-1	7	-29	-17	
Philippines		6489	-1.0	1	1	1	1		88	-1	6	-16	8	
Thailand		1323	0.3	2	1	-12	-7		0	0	0	0	0	
Malaysia		1618	0.2	1	0	16	11		83	-3	5	-6	-2	
Argentina		1643221	0.9	3	8	288	77		1497	-42	-91	-608	-416	
Brazil		127108	0.4	2	5	8	-5		222	-11	2	-21	7	
Chile		6470	-0.8	-1	-2	9	4		118	0	-1	-3	-7	
Colombia		1373	-0.7	-1	-3	21	15		307	-8	6	-63	36	
Mexico		53332	0.8	3	0	-1	-7		312	-6	4	-54	-22	
Peru		30157	1.2	2	2	32	16		143	-1	-9	-12	-1	
Hungary		71719	0.8	0	2	43	18		151	0	6	-55	2	
Poland		87590	-0.7	0	3	30	12		105	3	11	-26	8	
Romania		18427	0.5	1	3	46	20		189	-1	5	-33	-12	
South Africa		80617	0.0	0	6	8	5		302	-16	-36	-105	-6	
Türkiye		10754	-0.4	1	8	71	44		286	-4	4	-194	-28	
EM total		44	0.6	3	4	11	9		402	-10	19	12	57	

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

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