



- Investors still expect US inflation to moderate in the medium term ([link](#))
- US tech stocks approach dotcom era valuations ([link](#))
- Several commodities are in bear markets ([link](#))
- UK inflation higher than expected as markets price August 2022 rate hike ([link](#))
- New Zealand central bank surprises markets by ending bond purchases ([link](#))

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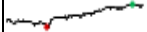





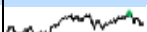



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Markets keep wary eye on strong inflation data

A series of stronger than expected inflation prints in the US, UK and several other countries are weighing on sentiment. With many stock markets at or near record highs and credit spreads near record lows, the greatest risk is a surge in interest rates that could challenge current rich valuation levels. The fear that inflation could get out of hand and force central banks into preemptive rate hikes continues to dominate markets. However, interest rates still remain quite low despite the recent data, and volatility remains contained. Markets are also keenly focused on the latest wave of corporate results as earnings season gets underway. US banks are among the most prominent of the early reporters, and so far investors have been less than impressed, with Bank of America the latest to feel the pressure. Government bond yields are mostly lower, while the dollar and oil were weaker in early morning trading. In testimony before Congress, Fed Chair Powell said that inflation will be high this year but will moderate afterwards.

Key Global Financial Indicators

Last updated: 7/14/21 8:33 AM	Level Last 12m Latest	Change from Market Close 1 Day 7 Days 30 Days 12 M				YTD
Equities		%				%
S&P 500	 4369	-0.4	1	3	37	16
Eurostoxx 50	 4093	0.0	0	-1	23	15
Nikkei 225	 28608	-0.4	1	-3	25	4
MSCI EM	 54	0.1	0	-3	25	4
Yields and Spreads		bps				
US 10y Yield	 1.38	-3.9	6	-12	75	46
Germany 10y Yield	 -0.30	-0.9	-1	-5	14	27
EMBIG Sovereign Spread	 343	-3	-5	15	-120	-7
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 56.7	0.3	0	-2	3	-2
Dollar index, (+) = \$ appreciation	 92.5	-0.3	0	2	-4	3
Brent Crude Oil (\$/barrel)	 76.4	-0.1	4	5	78	48
VIX Index (% change in pp)	 16.6	-0.6	0	0	-13	-6

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

The latest US PPI data followed yesterday's CPI prints in being much higher than expected. However, unlike yesterday when Treasuries sold off and the dollar appreciated, markets were little changed in the immediate aftermath. In fact, bond yields ticked slightly lower.

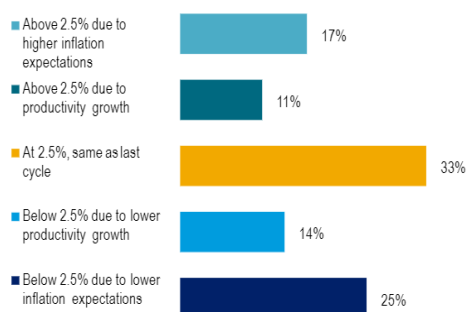
US PPI Data

	Consensus Forecast	Actual Data
Headline PPI mom	0.6%	1%
Core PPI mom	0.5%	1%
Headline PPI yoy	6.7%	7.3%
Core PPI yoy	5.1%	5.6%
Source: Bloomberg		

Despite recent inflation scares, investors still expect US inflation to moderate in the medium term, according to the latest investor survey from Bank of America. The majority think the terminal Fed policy rate for this economic cycle will be 2.5% or lower, and that core PCE will end up at 2% or lower. This may account for Treasury yields remaining stubbornly low despite all the strong inflation prints, along with weaker than expected data on other fronts. On Tuesday, Treasuries sold off immediately following the higher than expected CPI data before ending the day little changed despite the weak \$24 bn long bond auction. Multiple analysts pointed out that used car prices were a major driver of the high CPI print, and this is widely viewed as a temporary phenomenon caused by supply bottlenecks.

Exhibit 5: My expectation for the US terminal rate for this cycle:

Expectations for neutral rates at around 2.5%

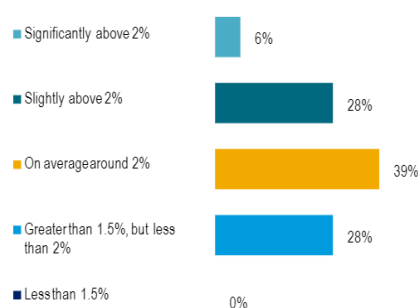


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 6: I think that in the long run core PCE will be:

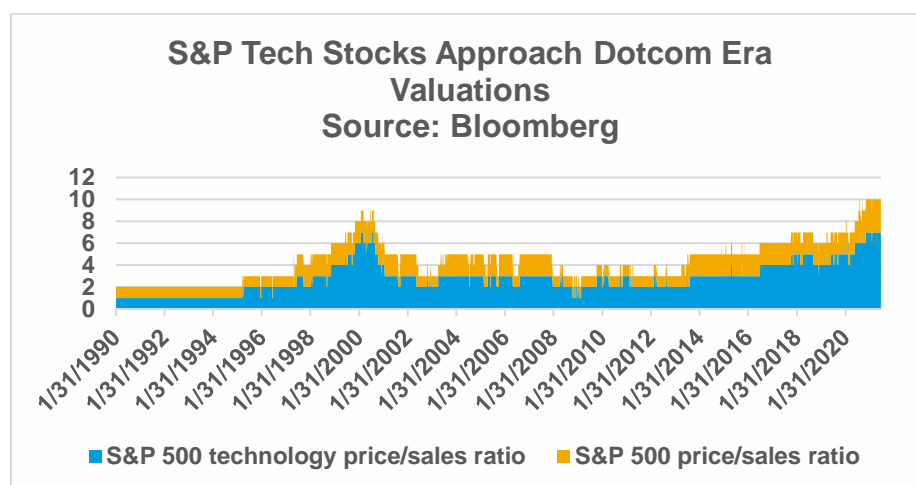
Core PCE expected to realize 2%



Source: BofA Global Research FX and Rates Sentiment Survey

BofA GLOBAL RESEARCH

US tech stocks are nearing dotcom-era valuation levels, drawing warnings from multiple analysts. The sales to earnings ratio for the S&P 500 tech stocks was at 7.43 when the index set a new record on Monday, compared to 7.46 in March 2000. Tougher competition, tighter regulation and higher taxes could combine to create major headwinds for the sector. Other analysts disagree, arguing that today's tech market leaders have much more robust business models than companies had in 2000, with solid balance sheets and high and stable cash flows and earnings.

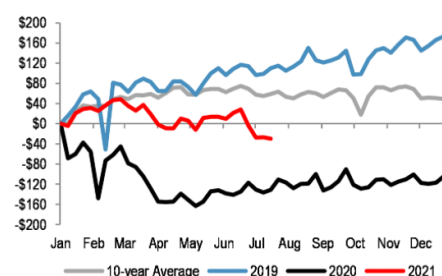


Commodities

Commodity markets have seen a reversal of bullish trends in recent weeks. Worries about a slowdown in China, the slow pace of global vaccinations, and emerging market central banks tightening in the face of inflation are among the reasons cited by analysts for the declines. Investor participation has also dropped off, with flows and futures open interest on the wane. The gradual normalization of supply in some sectors is another factor. Lumber futures prices are almost back to normal, down 60% since May 10. Many other commodities are in a bear market or close to it from their peak level earlier in the year, such as pork down 30% from peak, platinum down 20%, wheat down 21%, soybeans down 19%, and copper down 17%. However, oil is a major exception to this trend, remaining close to the highs of the year as the collapse in the OPEC+ negotiations removed the immediate prospect of an increase in oil production.

Figure 1: Commodity markets observed outflows of ~\$3 billion WOW led by outflows across crude oil and petroleum products

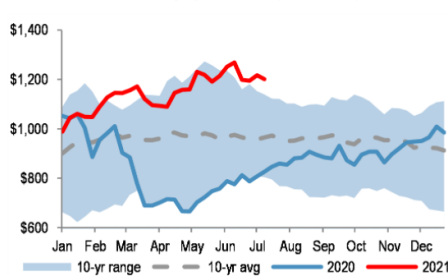
Cumulative flows across all commodity markets (US\$ billion)



Source: Exchanges, CFTC, J.P. Morgan Commodities Research

Figure 2: Partially offsetting the prior week's gains, commodity market open interest fell WOW, led by energy and G&O markets

Total estimated commodity open interest (US\$ million)



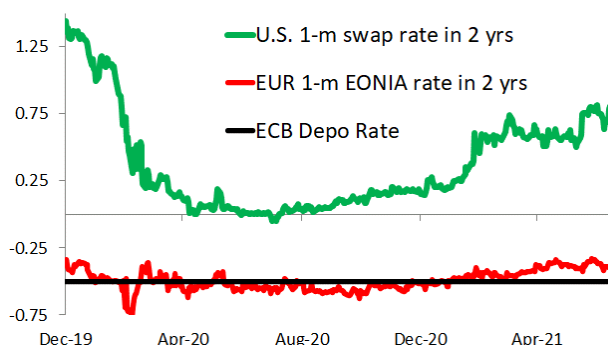
Euro area

Equities (-0.2%) fell after industrial production contracted 1% mom in May (+0.3% expected). Auto production fell by -6.5% mom. The euro (+0.2%) trades around \$1.18.

10-yr bund yields (at -0.29%) and spreads are little changed as contacts speculate about the policy changes the ECB could announce at next week's meeting. Over the weekend, ECB President Lagarde said that the ECB meeting on 22 July will have "some interesting variations and changes." Despite the large gap between its inflation target and medium-term outlook for inflation, contacts generally do not expect any changes to the ECB's QE programs next week. Some believe that the ECB could potentially enhance its forward guidance to include 2023. JP Morgan argues that the new forward guidance could state that "policy

rates will remain at present, or lower, levels until underlying inflation has robustly converged very close to 2%, rather than “sufficiently close” to it. So far, markets have not priced out hikes in 2023.

Euro area: EONIA 1-m money market rate in 2 years (%)



Source: Bloomberg and IMF staff

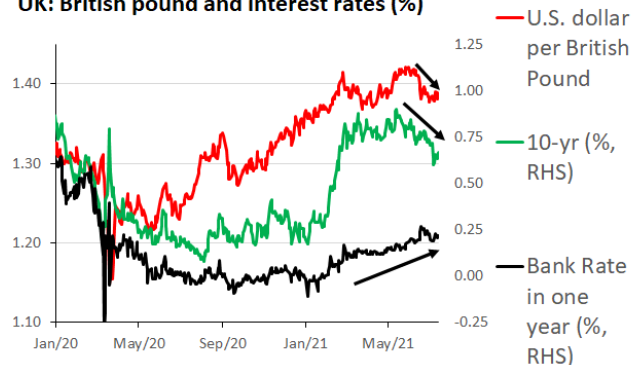
ECB officials will decide today whether to take the next step toward creating a digital euro by moving to an exploratory phase. ECB President Lagarde believes it would take about two years to complete the process.

Bank of Spain deputy governor Delgado said that the ECB’s economy-wide climate stress tests for banks scheduled to take place in 2022 will be a learning curve and will not imply direct capital requirements for banks. She also added that the ECB should not publish results for individual banks. Fitch Ratings warned earlier that banks may face new capital requirements because of climate stress tests as regulators cannot leave emerging risks exposed. **Bank stocks (+0.8%) traded higher today.**

United Kingdom

10-yr gilt yields (+4 bps to 0.68%) and the British pound (+0.2%) edged higher after both headline and core inflation were higher than expected at 2.5% yoy (2.2% expected) and 2.3% yoy (2% yoy) respectively. The retail price index also rose a more-than-expected 3.9% yoy (3.4% expected) in June. House prices rose 10% yoy (9.4% yoy expected) in May. **Markets are continuing to price a first policy hike in August 2022 even as the British pound and gilt yields fell in recent weeks.**

UK: British pound and interest rates (%)



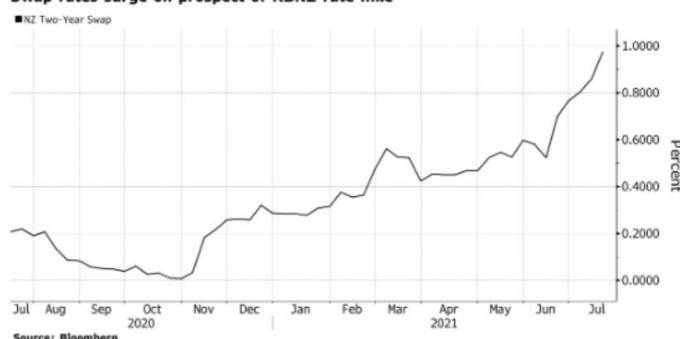
Source: Bloomberg and IMF staff

New Zealand

The central bank surprised markets by announcing the end of bond purchases. The Large Scale Asset Purchase program is to end on July 23. The policy rate was kept unchanged at 0.25%. The New

Zealand dollar appreciated and swap rates rose following the news. The Reserve Bank of New Zealand noted that economic activity had improved despite international border restrictions and agreed that ‘major downside risks of deflation and high unemployment have receded.’ It expects more persistent consumer price inflation pressure to build up over time due to rising domestic capacity pressures and growing labor shortages, barring any further significant economic shock. Bloomberg noted that the monetary policy statement omitted a previous reference to the need for considerable time and patience to achieve its inflation and employment goals. The swap rate market is now fully pricing in a rate hike in November, up from an 82% probability before the policy decision, according to Bloomberg.

Swap rates surge on prospect of RBNZ rate hike



Emerging Markets

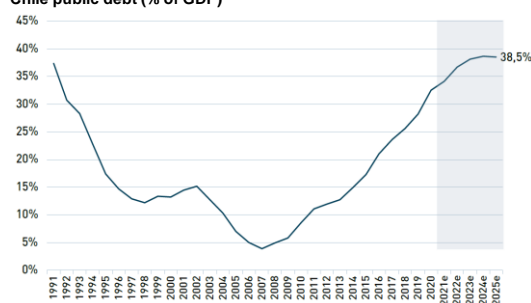
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EMEA bourses were generally higher, although Asia and Latin America were mixed. Currencies were mostly stronger this morning after yesterday's dollar rally. The Brazilian real stands out as a strong performer recently, doing better than most emerging markets. Singapore's Q2 GDP was below forecasts. China's central bank noted that funding costs should decline after the recent 50 bps cut in the reserve ratio requirement (RRR) to 12%.

Chile

Chile plans to raise more debt to fight the pandemic. Chile's government plans to sell \$27bn in debt, up from the \$19bn previously announced. The extra \$8bn will mostly be in foreign currency to avoid a “big shock for domestic rates,” according to Bloomberg, citing FM Cerda. As a result, the debt-to-GDP ratio will continue to rise from 34.1% in 2021 to 38.6% in 2024 before stabilizing at 38.5% in 2025. The new debt will help finance cash transfers and subsidies to households and businesses hit by the pandemic. Following this announcement, analysts expect a temporary deterioration of the exchange rate. Yesterday, the Chilean peso depreciated (-0.8%).

Chile public debt (% of GDP)



Sources: Chile Ministry of Finance

China

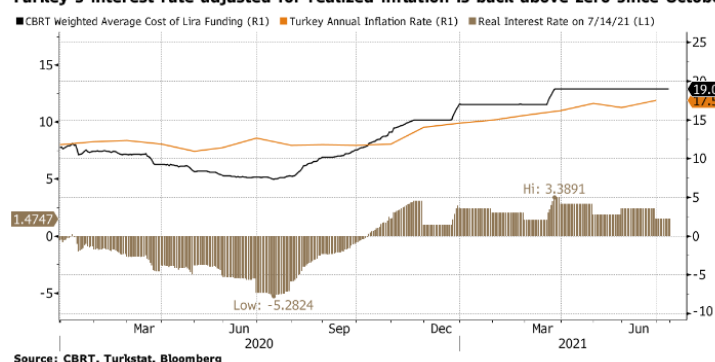
China is on track to start operations on its national carbon market this month. Vice Minister of Ecology and Environment Zhao Yingmin did not specify a date according to Bloomberg but trading is reportedly set

to start on Friday. The trading system initially covers more than 2,200 companies in the power sector accounting for about half of China's emissions. Zhao also said that the government will quickly begin working on setting emission accounting rules and on guidance for pollution rights for industries beyond the power sector.

Turkey

The Central Bank of Turkey is expected to keep rates on hold for a fourth consecutive month. Most analysts expect rates will stay at 19.0% given the steady depreciation of the lira and rising domestic prices. Thus, the bank is not expected to deliver on President Erdogan's call for an interest rate cut. The lira has lost 15% against the dollar since the current central bank governor took over in March.

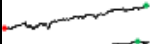








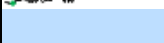

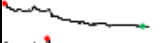

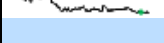





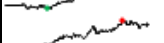

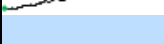



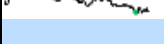

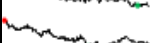
Turkey's interest rate adjusted for realized inflation is back above zero since October



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Global Financial Indicators

Last updated: 7/14/21 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4378	-0.4	0	3	37	17
Europe		4094	0.0	0	-1	23	15
Japan		28608	-0.4	1	-3	25	4
China		3529	-1.1	-1	-1	5	2
Asia Ex Japan		92	0.4	0	-3	23	3
Emerging Markets		54	0.1	0	-3	25	4
Interest Rates			basis points				
US 10y Yield		1.38	-3.7	6	-11	76	47
Germany 10y Yield		-0.30	-0.7	0	-5	15	27
Japan 10y Yield		0.02	-0.6	-2	-2	-1	0
UK 10y Yield		0.66	2.9	6	-8	51	46
Credit Spreads			basis points				
US Investment Grade		90	1.3	0	-1	-51	-5
US High Yield		315	2.6	-2	-11	-292	-65
Europe IG		47	0.2	0	0	-15	-1
Europe HY		233	1.0	2	2	-141	-8
Exchange Rates			%				
USD/Majors		92.51	-0.3	0	2	-4	3
EUR/USD		1.18	0.3	0	-3	4	-3
USD/JPY		110.4	-0.2	0	0	3	7
EM/USD		56.7	0.3	0	-2	3	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		76	-0.1	4	5	78	48
Industrials Metals (index)		157	-0.1	0	-2	41	18
Agriculture (index)		56	0.5	2	-3	59	16
Implied Volatility			%				
VIX Index (%, change in pp)		16.5	-0.6	0.3	0.1	-13.0	-6.2
US 10y Swaption Volatility		72.5	2.0	4.9	7.0	13.2	12.4
Global FX Volatility		6.7	0.0	-0.2	0.2	-0.9	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-0.3	-3	1	-71	-18
Italy		101	-0.2	-3	-2	-65	-11
Portugal		59	-0.5	-1	-5	-28	-1
Spain		62	0.5	-1	-2	-23	1

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

Emerging Market Financial Indicators

Last updated: 7/14/2021 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis pts)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.46	0.2	0.2	-1	8	1		3.1	-13	-16	-8	-18	
Indonesia		14480	-0.1	0.0	-2	0	-3		6.4	-2	15	-74	34	
India		75	-0.1	0.0	-2	1	-2		6.5	-5	20	57	52	
Philippines		50	-0.6	-1.0	-5	-2	-5		4.3	1	6	33	66	
Thailand		33	0.0	-0.9	-5	-3	-8		1.7	-4	-9	28	43	
Malaysia		4.20	-0.2	-1.0	-2	2	-4		3.3	1	1	69	70	
Argentina		96	0.0	-0.2	-1	-26	-12		44.9	-26	-70	-37	-1124	
Brazil		5.14	0.4	1.7	-2	4	1		8.6	10	38	333	301	
Chile		750	-0.8	-0.3	-4	5	-5		4.5	-17	41	184	173	
Colombia		3822	0.1	-1.1	-4	-5	-10		6.8	-4	13	154	169	
Mexico		19.95	0.5	-0.1	0	12	0		6.9	-2	29	112	134	
Peru		4.0	-0.2	-0.3	-2	-12	-9		5.7	21	68	147	214	
Uruguay		44	0.1	-0.2	-1	-1	-4		7.9	0	-1	-191	61	
Hungary		303	0.1	-0.1	-5	3	-2		2.3	-3	7	65	76	
Poland		3.87	0.4	-0.7	-4	1	-4		1.2	-5	5	34	57	
Romania		4.2	0.3	0.2	-3	2	-5		3.0	23	28	-83	26	
Russia		74.1	0.4	0.9	-3	-4	0		7.0	4	13	161	131	
South Africa		14.7	0.5	-2.3	-6	14	0		9.8	16	36	-45	17	
Turkey		8.59	0.4	1.2	-1	-20	-13		17.4	-16	-25	599	430	
US (DXY; 5y UST)		93	-0.2	-0.1	2	-4	3		0.83	5	4	54	46	

	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		5083	-1.1	-1	-2	7	-2		208	2	-2	-34	-21	
Indonesia		5979	-0.5	-1	-2	18	0		174	-6	0	-99	-26	
India		52904	0.3	0	0	47	11		155	10	11	-96	4	
Philippines		6835	0.6	-2	-2	14	-4		107	1	11	-61	-5	
Malaysia		1512	-0.5	-1	-4	-5	-7		130	3	7	-69	-5	
Argentina		64375	0.2	-1	-4	46	26		1572	-18	125	-693	216	
Brazil		128168	0.4	1	-2	28	8		269	-2	20	-107	10	
Chile		4199	0.0	0	-3	0	1		147	-2	-3	-67	-9	
Colombia		1294	-0.4	1	3	13	-10		270	8	32	-26	55	
Mexico		49275	-1.0	-2	-3	36	12		342	-2	18	-168	-15	
Peru		18685	-0.1	-1	-5	13	-10		156	-7	-9	-30	27	
Hungary		47354	-0.5	0	-3	35	13		138	-2	-5	-50	-11	
Poland		67765	0.5	0	1	34	19		32	0	-2	-14	4	
Romania		12068	0.5	1	4	43	23		181	-4	0	-112	-22	
Russia		3855	-0.6	-1	0	40	17		171	-8	2	-56	-8	
South Africa		68009	1.4	2	0	22	14		332	-2	25	-199	-52	
Turkey		1364	1.3	-2	-6	16	-8		470	-9	21	-143	23	
Ukraine		527	0.0	0	-1	6	5		496	-5	23	-207	3	
EM total		54	0.4	0	-3	25	4		360	-4	15	-75	22	

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

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