



- **Hawkish Fed meeting minutes emphasize data dependency** ([link](#))
- **Fed minutes also underscore vigilance in monitoring the banking sector** ([link](#))
- **European bond yields reach highest levels in 15 years** ([link](#))
- **UK terminal rate estimates increase to 6.4%** ([link](#))
- **Japanese yen appreciated on safe-haven demand** ([link](#))
- **Market pricing for rate cuts in CEE could be tested** ([link](#))
- **Hungarian forint continues to weaken following disappointing economic data** ([link](#))
- **Bank Negara Malaysia kept its policy rate unchanged at 3.0% as expected** ([link](#))
- **Special Feature: 2023-Q1 GSIB Report** ([attached](#))

[Mature Markets](#)



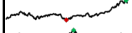








[Emerging Markets](#)

[Market Tables](#)

The minutes from the June Fed meeting left investors on tenterhooks

The Federal Reserve's June meeting minutes revealed a close call on the rate skip decision, emphasizing the central bank's data-dependent approach to monetary policy. Hence, market participants are closely watching the upcoming employment report tomorrow and June CPI data next week as key drivers for the Fed's July meeting. Meanwhile, global stock indexes continued their decline amid concerns of a recession, which were prompted by yesterday's downward revisions in Euro Area PMI and softer Caixin services PMI figures. In regional developments, the People's Bank of China (PBC) has set the daily fixing for the yuan stronger than expected while continuing to drain liquidity that was previously injected to ease quarter-end funding pressures. Meanwhile, Chinese banks have stopped buying bonds issued in the Shanghai free trade zone after increased regulatory scrutiny raised further concerns about financial strains of local government financing vehicles. In other parts of the world, the National Bank of Poland left its policy rate at 6.75% while the Bank of Thailand said that its monetary policy normalization could end as early as this year.

Key Global Financial Indicators

Last updated: 7/6/23 8:56 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		4447	-0.2	2	4	16	16	5
Eurostoxx 50		4267	-1.9	-2	-1	25	12	7
Nikkei 225		32773	-1.7	-1	3	24	26	24
MSCI EM		40	-0.6	0	0	1	5	-16
Yields and Spreads			bps					
US 10y Yield		4.04	10.4	20	37	111	16	204
Germany 10y Yield		2.60	12.1	18	23	139	3	237
EMBIG Sovereign Spread		421	-5	-21	-43	-127	-31	8
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.5	-0.5	-1	-3	-2	-3	-9
Dollar index, (+) = \$ appreciation		103.3	-0.1	0	-1	-4	0	7
Brent Crude Oil (\$/barrel)		76.0	-0.8	2	0	-25	-12	-21
VIX Index (% change in pp)		15.3	1.2	2	1	-11	-6	-16

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 Fed's June meeting minutes left investors with an impression that a rate skip was a close call. Conversely, a rate hike in July emerges as the Fed's FOMC base case scenario. Treasuries displayed modest weakness in response to the release, while the yield curve remained steeper on the day.

This morning, continuing claims extended surprising declines. Initial jobless claims came in aligned with expectations. Continuing claims continue their steady decline at 1720k (expected 1734k from downward revised 1733k from 1742k), approaching their 2019 average of 1699k. In reaction, 2y Treasuries sharply rose by 15 bps from 4.96% to 5.11% driven by real yields and 10y Treasuries increased by 9 bps from 3.97% to 4.05% similarly driven by real yields, prompting a further 2s10s inversion up to -107 bps. The dollar appreciated by +0.3% vs. majors while S&P 500 E-Mini futures inched down by -0.1%.

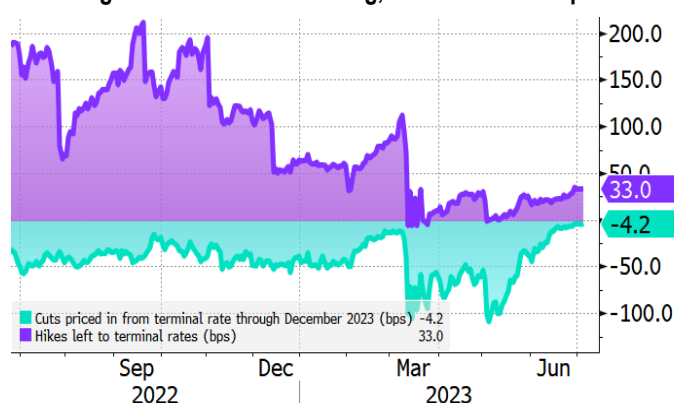
US June Labor Market Report

	Previous Release	Consensus Forecast	Actual Number
Initial Jobless Claims	239k	245k	248k
Continuing Claims	1742k	1734k	1720k

Source: Bloomberg

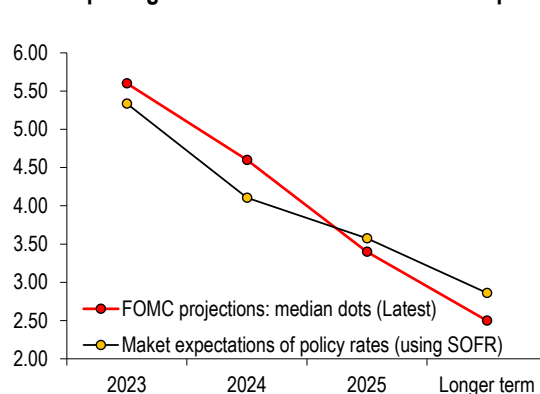
The Fed's June meeting minutes revealed a divided sentiment among committee members, which some market contacts see as a harbinger for another rate hike at the upcoming meeting on July 26. Indeed, some FOMC members expressed favor for a 25bps increase, citing factors such as a tight labor market, stronger-than-expected economic activity, and the absence of obvious signs of inflation returning to the inflation target. Market pricing for future rate cuts has already diminished after the June meeting, indicating reduced expectations for further cuts and one more rate hike until reaching the terminal rate (left chart). But a disparity persists between market pricing and the Fed's median Fed Fund dots given that the Fed's projections represent a most likely outcome, whereas market pricing considers probability-weighted projections, including potentially severe recession scenarios that could motivate cuts. Hence, market pricing indicates a more accommodative Fed by 2024 but a more restrictive stance beyond (right chart below).

Following last month's Fed meeting, rate cuts became priced out



Source: Bloomberg

Market pricing vs. June median Fed Funds dot plot

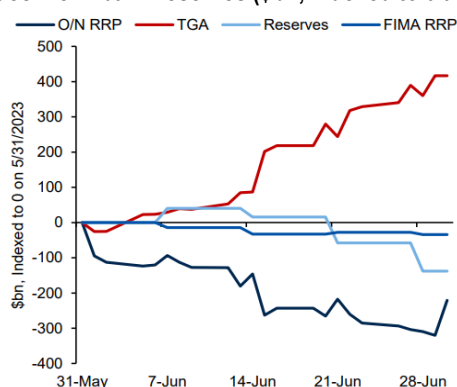


Source: Bloomberg, Fed, IMF staff calculations

The minutes also underscored the vigilance in monitoring developments within the banking sector. Resolving the debt ceiling impasse brought relief, removing a major uncertainty for the Fed's economic outlook. However, the issuance of more Treasury bills and the rebuilding of the Treasury's checking account

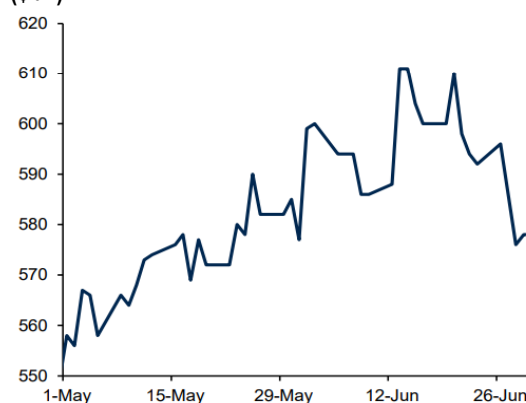
at the Fed (TGA) were noted as factors that could exert near-term upward pressure on money market rates. Notwithstanding this, the TGA rebuild and the net issuance of around \$477bn in bill supply have been so far smoothly absorbed by money markets. Bill auctions in June consistently attracted strong demand, showing no signs of strain. The Fed's decision to skip in June may have facilitated the absorption, preventing hedge funds and arbitrageurs from filling the void by withdrawing bank deposits to purchase Treasury bills, which would have offset the rise in the TGA with a corresponding decline in bank reserves, which some analysts feared as a tail scenario. Consequently, the shifting investment behavior of Money Market Funds (MMFs) who withdrew funds from the Fed's Overnight Reverse Repurchase Agreement (ON-RRP) has played a key role in dampening the decline in bank reserves (see left chart below). In addition, analysts from RBC note that not all the decline in ON-RRP was necessarily reflecting a rotation into bills. Before the typical decline in repo volumes into quarter-end, triparty activity had been rising in June. From May month-end to June 20, volumes were up ~\$30bn (right chart below).

More rapid decline in ON-RRP cash has dampened the decline in bank reserves (\$bn, indexed to 0 as at 5/31/2023)



Source: Federal Reserve, U.S. Treasury Dept., RBC

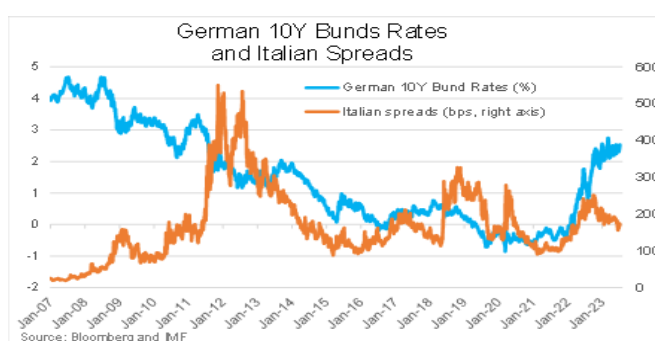
Tri-party repo had been rising until quarter-end (\$bn)



Source: Bloomberg, Fed, IMF staff calculations

Euro Area

European markets are firmly in the red this morning. The equity market (Stoxx Europe 600) is losing -1.2%, with bank stocks declining by the same amount. The euro slightly appreciated by +0.2% vs. the dollar at 1.09/\$. German 10y bond yields are up +6 bps to 2.54%, close to their highest levels since 2011. Italian spreads are marginally up +2 bps to 170 bps. German 2Y bond yields are at 3.35%, their highest level since 2008.

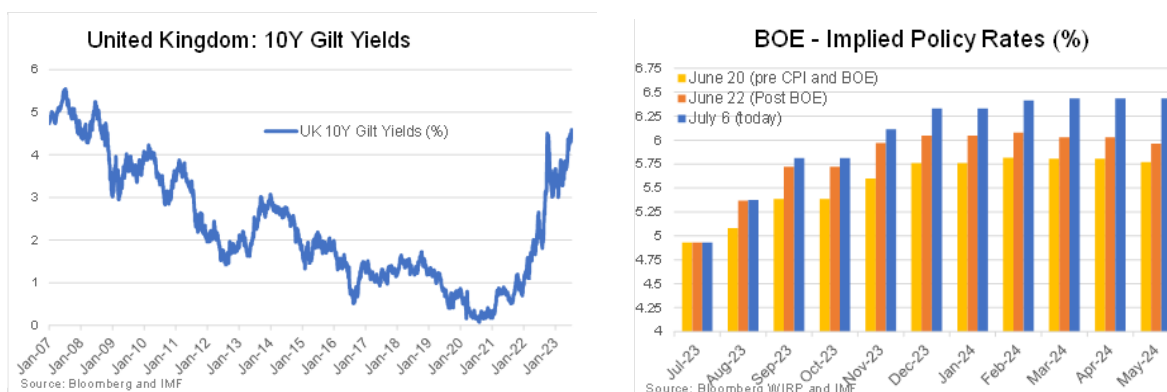


Source: Bloomberg and IMF

United Kingdom

Gilt yields and markets' estimates of the Bank of England (BoE) terminal rate continue to increase. Gilt yields at the 10y tenor increased +10 bps today to 4.6%, their highest level since 2009. That reflects a +22bps increase to the last BoE hike of +50 bps to 5% on June 22 when consensus expected a +25bps hike, and +25 bps higher than on June 20, just before the release of the May inflation data the next day, which surprised to the upside (left chart below). Market pricing for the terminal rate amount to 6.4%, or about +150 bps higher than today's bank rate that stands at 5%. That is around +40 bps higher than after the BOE decision on June 22, and +60 bps higher than on June 20 (right chart below). The release of the decision maker panel survey for inflation expectations today brought little relief either. It showed that while inflation expectations one year ahead dropped just -0.2 percentage points in June compared to May but

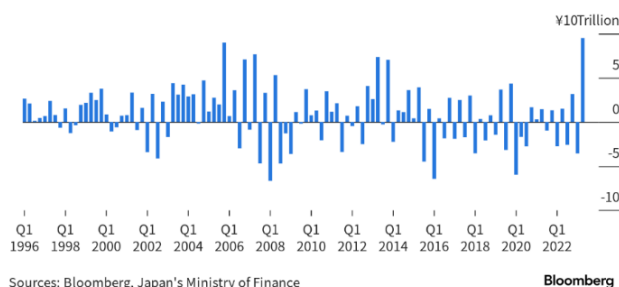
remain at a level of at 5.7% that is stubbornly above the BoE's inflation target. Accordingly, markets eagerly await the release of labor market data next Tuesday next week.



Japan

Japanese yen appreciated on safe-haven demand. Japanese equities declined with the Nikkei down -1.7%. Meanwhile, long-end JGB yields rose, at the 10-year tenor by +2.0 bps and at the 30-year tenor by +0.2 bp, with the 10-year yield touching 0.407%, mirroring the rise in US treasury yields. The higher JGB yields in turn lifted the Japanese yen, which appreciated by +0.4% up to 144 yen per dollar.

Japan Stocks Draw Record Foreign Purchases
Foreigners' quarterly net buying



Foreign buying of Japanese stocks rose to a record in the three months ending June, exceeding quarterly purchases made during the period of economic reforms in 2012. Analysts noted that foreign buying of Japanese stocks was driven by structural changes in Japan's economy, expectations for stronger earnings growth, and a weak Japanese yen.

Emerging Markets

[back to top](#)

Asian markets retreated today amid global risk-off sentiment. Asian equities declined, led by Hong Kong, Taiwanese and Thai equities that declined by -3.0%, -1.7% and -1.0%. Share prices rose in Indonesia, up +0.6%. Most Asian currencies depreciated, led by the Thai baht, Taiwan dollar and Indian rupee, down -0.6%, -0.4% and -0.4%, respectively.

EMEA markets saw equities and currencies weakening. Equities in Türkiye were a notable exception, increasing +1.1%, whereas those in South Africa underperformed by -1.2%. CEE currencies mostly weakened against the euro. The Polish zloty depreciated for a second consecutive day by -0.4% to 4.48/€ ahead of the National Bank of Poland's policy meeting later today. The Romanian leu remained unchanged against the euro this morning after the central bank left the policy rate unchanged at 7% yesterday.

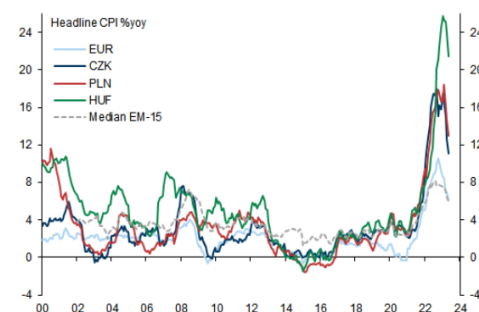
Latin American markets traded lower. Local currency government bond yields traded broadly higher, moving in-tandem with major AE markets. Regional equities declined, apart from Brazilian and Mexican equities, whose benchmark indices rose marginally, by +0.4% and +0.2% respectively.

CEE central banks

Markets pricing is aspirational for rate cutting cycles in Poland, Hungary and Czech Republic.

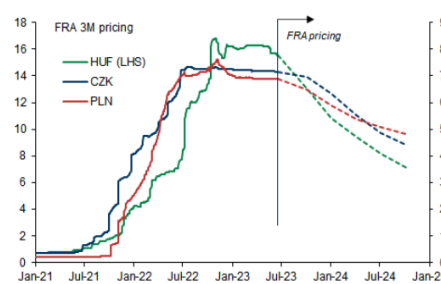
Analysts from Goldman Sachs analysts note that the easing inflation in these three European economies, goes hand in hand with market pricing for

Post Pandemic Inflation Surge Put a Test to the CE3 Convergence Theme
Headline CPI (%yoy)



Source: Goldman Sachs Global Investment Research, National Sources, Eurostat

Markets Are Pricing Significant Rate Cuts Over the Next 12 Months
3M FRA pricing



Source: Bloomberg, Goldman Sachs Global Investment Research

significant rate cutting cycle with roughly -45 bps of rate cuts per quarter over the next 12 months priced in for Poland, roughly -175 bps of easing per quarter priced in for Hungary, and around -60 bps of easing per quarter priced in for the Czech Republic. However, such easing could be challenged by the likelihood that it would occur at a time when major central banks like the US Fed and the ECB are keeping rates on hold, or even continuing to hike rates further. Moreover, wage growth in these three economies remains strong while labor markets remain tight, which might call into question current market pricing.

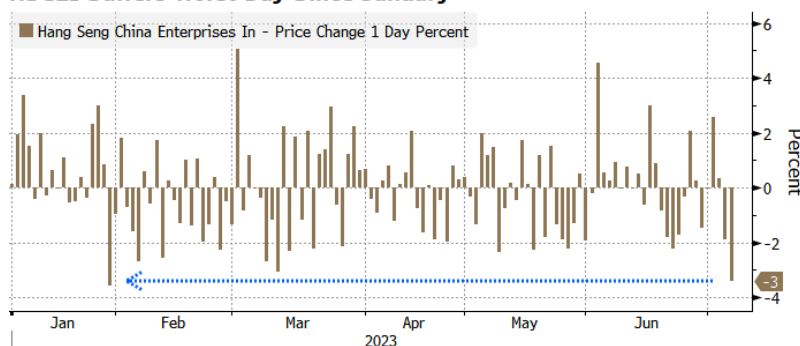
Brazil

Brazil's Markit Composite PMI printed at the lowest reading since March. Latest data for June came in at 51.5 (from 52.3). The slower pace of expansion reflects decelerating growth in services activities while manufacturing sector continue to contract. The manufacturing index declined to 46.6 from 47.1 and remained contractionary (below 50) for the 8th consecutive month. Nonetheless, the services component continued to expand (53.3), albeit at a slower rate compared to the prior month (54.1). The report also signaled a deceleration in output price inflation, indicating easing inflationary pressures. Broad price declines were recorded for the manufacturing sector (both input and output prices), while price pressures decelerated for services charged.

China

Chinese equities continued to decline. Shares listed in Hong Kong suffered their worst day since January, down -3.4% as short selling market rose to a record high relative to total market turnover (see chart below). Onshore, the CSI 300 index corrected by -0.7%. Already adverse market sentiment further soured on news that Chinese banks have stopped buying bonds issued in the Shanghai free trade zone after

HSCEI Suffers Worst Day Since January



Source: Bloomberg

Bloomberg

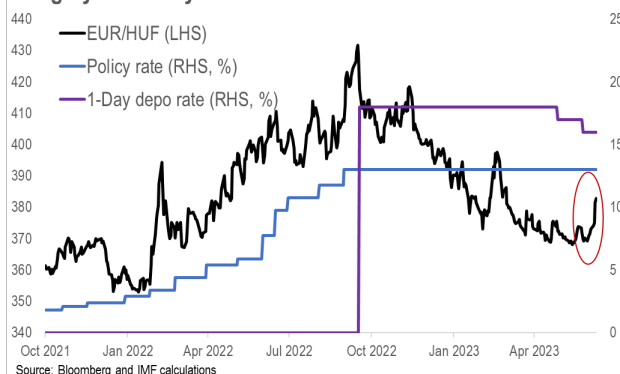
increased regulatory scrutiny, raising concerns about additional financial strains of local government financing vehicles which are the main issuers in that market.

Hungary

Weaker economic data feeds expectations for further monetary easing, prompting a weaker forint.

Data released this morning showed a larger than expected contraction in retail sales in May (-12.3%/y/y versus expected -11% from -12.7%), while industrial production continued to decline in May but came in marginally better than expected (-4.6%/y/y versus expected -6.5% from -5.8%). This follows PMI data released earlier this week, showing that manufacturing PMI had dropped to 44.2 in June (from 57.1). Accordingly, the Hungarian forint continued to depreciate by -0.5% to 383.55/€. Since the start of last week, the Hungarian forint weakened -3.6%, retracing to levels last seen at the end of March 2023. Accordingly, market contacts note that weakening economic activity data together with easing inflation will likely support the National Bank of Hungary to continue easing monetary policy. With that in mind, markets are attentive to the release of June CPI data due tomorrow.

Hungary: Currency and Interest rates

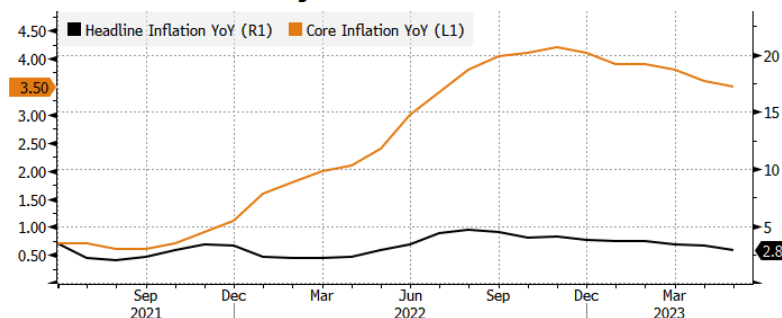


Malaysia

In line with expectations, the Bank Negara Malaysia (BNM) maintained its policy rate at 3.0%. Today, the BNM gathered for the first policy meeting chaired by Governor Shaik Abdul Rasheed Abdul Ghaffour. The central bank indicated that the current level of monetary policy is slightly accommodative and remains supportive of the economy. While seeing upside risks to inflation, the BNM expects both headline and core inflation to continue moderating in 2023H2. The central bank decision saw the Malaysian ringgit slightly depreciating by -0.2%, and long-end government bond yields edged down, by -1 bps in the 10-year tenor. Equities declined by -0.3%, outperforming regional peers that saw larger drawdowns.

Sticky Price Pressures

Core inflation continues to tread higher than headline inflation



Bloomberg

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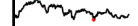

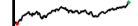







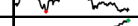
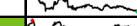




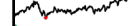







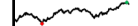

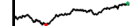
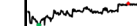
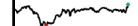







Global Financial Indicators

7/6/23 8:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4425	-0.2	1	3	15	15
Europe		4266	-1.9	-2	-1	25	12
Japan		32773	-1.7	-1	3	24	26
China		3843	-0.7	1	1	-14	-1
Asia Ex Japan		67	-0.8	0	-1	-1	3
Emerging Markets		40	-0.6	0	0	1	5
Interest Rates			basis points				
US 10y Yield		4.04	10.6	20	38	111	16
Germany 10y Yield		2.60	12.3	19	23	140	3
Japan 10y Yield		0.41	2.2	2	-1	17	-1
UK 10y Yield		4.64	15.0	26	44	255	97
Credit Spreads			basis points				
US Investment Grade		146	-0.6	-6	-18	-33	-13
US High Yield		425	-6.6	-19	-51	-165	-55
Exchange Rates			%				
USD/Majors		103.25	-0.1	0	-1	-4	0
EUR/USD		1.09	0.2	0	2	7	2
USD/JPY		144.3	-0.3	0	3	6	10
EM/USD		48.5	-0.5	-1	-3	-2	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		76.0	-0.8	2	0	-9	-9
Industrials Metals (index)		141	-0.2	0	-1	-5	-15
Agriculture (index)		67	-0.5	2	3	6	-2
Implied Volatility			%				
VIX Index (% change in pp)		15.4	1.2	1.9	1.4	-11.4	-6.3
US 10y Swaption Volatility							
Global FX Volatility		8.1	0.0	-0.4	-0.3	-3.6	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		134	2.3	8	-3	-75	-71
Italy		172	2.6	3	-7	-23	-43
Portugal		73	0.7	1	4	-34	-28
Spain		106	0.8	7	6	-1	-3

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

Emerging Market Financial Indicators

Last updated: 7/6/2023 8:57 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		7.24	0.1	0.0	-2	-7	-5		2.7	-0.5	-3	-9	-26	-35
Indonesia		15045	-0.2	-0.3	-1	0	3		6.2	2.6	-6	-15	-107	-74
India		83	-0.3	-0.5	0	-4	0		7.5	10.9	13	9	18.7	4
Philippines		56	-0.2	-0.3	1	0	0		5.9	1.3	1	1	28	-8
Thailand		35	-0.5	1.6	-1	3	-1		2.7	1.8	-4	18	7	12
Malaysia		4.66	-0.2	0.3	-1	-5	-6		3.9	-0.3	8	20	-25	-15
Argentina		259	0.0	-1.3	-6	-51	-32		91.4	90.8	-1307	-1919	2567	314
Brazil		4.89	-0.8	-0.7	0	11	8		11.0	10.6	1	-23	-210	-157
Chile		802	-0.6	0.2	-1	21	6		5.2	9.5	8	0	-118	-17
Colombia		4138	0.1	0.2	3	3	17		7.4	0.0	-14	-99	-154	-237
Mexico		17.10	-0.5	0.2	2	21	14		8.2	10.8	10	-19	-59	-53
Peru		3.6	-0.2	0.0	1	6	5		6.7		-23	-61	-108	-129
Uruguay		38	-1.6	-1.6	2	5	4		9.6	-0.4	-9	-42	-112	-109
Hungary		353	-0.4	-3.1	-2	14	6		6.9	12.0	-13	-87	-140	-270
Poland		4.12	-0.3	-0.7	1	14	6		5.1	16.5	10	-15	-120	-102
Romania		4.6	0.2	0.3	2	7	1		6.6	-2.2	4	-21	-217	-110
Russia		91.8	-1.4	-4.9	-11	-32	-19							
South Africa		19.0	-1.3	-1.3	1	-12	-10		9.7	13.5	13	-25	62	57
Turkey		25.97	0.5	0.3	-17	-34	-28		16.9	14.0	0	249	-210	704
US (DXY; 5y UST)		103	-0.1	0.4	-1	-4	0		4.40	15.1	27	59	142	40

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					YTD	Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD	
									basis points					
China		3843	-0.7	1	1	-14	-1		180	-8	-13	-28	3	
Indonesia		6757	0.6	1	2	2	-1		124	-17	-25	-109	-16	
India		65786	0.5	3	4	21	8		129	-3	-16	-77	-13	
Philippines		6474	-0.6	-1	-1	2	-1		97	-18	-23	-82	0	
Thailand		1490	-1.2	1	-3	-5	-11		0	0	0	0	0	
Malaysia		1386	-0.3	0	1	-2	-7		90	-3	-7	-48	-10	
Argentina		436733	-1.1	7	15	359	116		1974	-119	-557	-679	-231	
Brazil		119549	0.4	2	4	21	9		242	-15	-22	-134	-32	
Chile		5835	-1.0	2	2	17	11		122	-9	-12	-60	-10	
Colombia		1122	-1.1	-1	-6	-16	-13		363	-16	-21	-80	-9	
Mexico		54040	0.2	1	-1	13	12		363	-13	-35	-86	-18	
Peru		22388	-0.1	1	2	24	5		151	-16	-27	-55	-29	
Hungary		49523	-1.1	-2	3	26	13		199	-12	-32	-42	-23	
Poland		66351	-0.2	-1	0	27	15		126	-13	-14	38	53	
Romania		12751	-0.6	1	5	4	9		215	-13	-31	-132	-41	
South Africa		74972	-1.2	0	-2	14	3		398	-25	-34	-117	31	
Turkey		6151	0.7	7	14	155	12		479	-11	-9	-256	39	
Ukraine		507	0.0	0	0	-2	-2		4283	63	-725	-838	204	
EM total		40	-1.3	0	0	1	5		379	-7	-28	-91	3	

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

[back to top](#)