



- Tighter U.S. financial conditions trigger upward revision of recession risks ([link](#))
- Secured funding rates signal excess liquidity in U.S. funding markets ([link](#))
- Euro area yields fall after disappointing flash PMI data ([link](#))
- Germany activates second alarm-stage for natural gas ([link](#))
- Norway surprises with a 50 bps hike ([link](#))
- Bank Indonesia keeps its policy rate at 3.5%, as expected ([link](#))
- Bond yields continue to decline in Central and Eastern Europe ([link](#))

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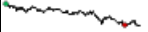
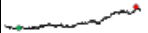

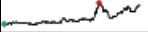
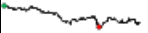
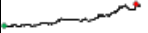

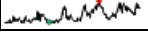
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## Fears of hard landings persists

The U.S. dollar is stronger and core yields are lower after Fed Chair Powell said that a soft landing will be **very challenging**. Meanwhile, analysts warn that tighter financial conditions have materially increased the risk of a recession in the U.S. This morning, German 10-yr bund yields traded a remarkable 17 bps lower after euro area PMI data disappointed. The German government also warned that the reduction in natural gas supplies from Russia risked sparking a collapse in energy markets. The Norwegian krone was little changed after the central bank surprised with a larger-than-expected interest rate hike. Bank Indonesia kept its policy rate at 3.5%, as expected.

Key Global Financial Indicators

Last updated: 6/23/22 1:21 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3760	-0.1	1	-5	-11	-21
Eurostoxx 50		3469	0.1	1	-6	-15	-19
Nikkei 225		26171	0.1	-1	-2	-9	-9
MSCI EM		40	-1.8	-2	-4	-27	-19
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.11	-4.3	-8	26	163	160
Germany 10y Yield		1.46	-17.5	-25	45	164	164
EMBIG Sovereign Spread		509	14	21	20	172	142
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		51.6	-0.5	0	-3	-10	-2
Dollar index, (+) = \$ appreciation		104.6	0.4	-1	2	14	9
Brent Crude Oil (\$/barrel)		111.9	0.2	-7	-1	49	44
VIX Index (% change in pp)		29.1	0.1	-1	1	13	12

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

## Mature Markets

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### United States

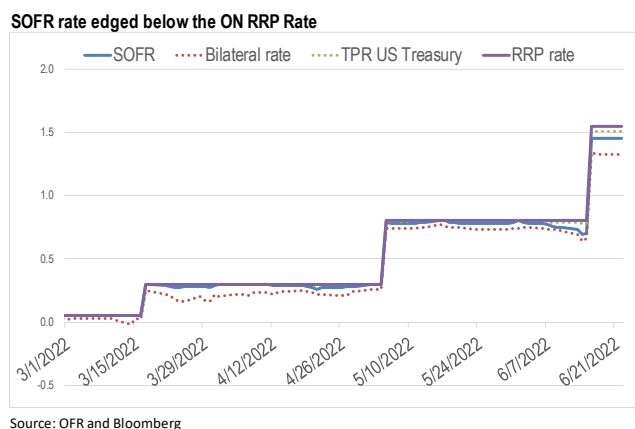
**Analysts warn that tighter financial conditions have increased the risk of a recession.** In his US Senate testimony, Chair Powell noted that achieving a soft landing would be very challenging, that a recession risk is certainly possible, but its likelihood is not particularly elevated. **According to Goldman Sachs, however, the aggressive front loading of interest rate hikes last week led to significant further tightening in financial conditions, which will likely further weigh on growth outcomes and decrease the likelihood of a smooth landing.** As a result, they see recession risk as higher and more front-loaded. They assess a 30% probability of entering a recession over the next year, and a 48% cumulative probability of entering a recession in a two-year horizon. **In separate news, jobless claims decreased by 2k (to 229k) last week. The median estimate called for 226k. The claims held close to a five-month high.**

Exhibit 6: The Recent Tightening in Financial Conditions Will Provide an Even Larger Drag on Growth



Source: Goldman Sachs Global Investment Research

**Softness in secured funding rates underscores excess liquidity conditions in funding markets.** Since last week, tri-party repo rates joined bilateral repo rates below the reverse repo rate provided by the Federal Reserve (ON RRP rate). Both rates are contributing to the Secured Overnight Funding Rate (SOFR), which, as a result, is also trailing the Federal Reserve's RRP rate. The move underscores a long-standing imbalance between cash and collateral in short-term funding markets. **According to market contacts, the recent developments point to a net cash addition in short-term markets relating, among others, to a recent drop in the Treasury cash balances with the Federal Reserve finding its way into repo markets, and high and protracted volatility pushing investors to invest their cash in short-term repo instead of deploying them in riskier asset markets.** The increase in repo demand is accentuated by the lack of limited short-term investment alternatives. Looking forward, market contacts expect these factors to dissipate over time, also in view of the impending impact of QT, while noting that the Federal Funds rate has been little affected.



## Australia

**PMI composite dropped slightly in June**, falling to 52.6 from 52.9 in May, due to the weakening in services PMI. Both services and manufacturing PMIs remained expansionary. **Long-end government yields declined** (10-year: -13.4 bps; 30-year: -14.3 bps) following the decline in U.S. treasury yields due to fears about a recession. Australian dollar depreciated (-0.7%).

## Japan

**The yen appreciated (+0.6%)**, supported by market expectations for a pause in the recent depreciation. Japanese yen also benefited from safe-haven demand. Long-end JGB yields dropped (10-year: -0.9 bp; 30-year: -2.8 bps). There was no take-up in the BOJ's fixed-rate bond purchase operations as the 10-year JGB yield was traded at around 0.229%; however, the demand for the BOJ's securities lending facility remained high. **Japan saw large foreign fund outflows from its bond market during the week ending June 17**. The bond outflows amounted to \$35.6 bn, a record weekly outflow, amid growing questions about the Bank of Japan (BOJ)'s capacity to maintain the yield curve control. **PMI composite improved in June**, increasing to 53.2 from 52.3 in May. The improvement was driven by services PMI, which improved to 54.2 from 52.6. meanwhile, manufacturing PMI though remaining expansionary dropped to 52.7 from 53.3. Equities gained (NIKKEI: +0.1%).

## Euro area

**European equity markets were trading lower this morning (Stoxx 600 Europe -0.2%) as risk-off sentiment prevailed following disappointing preliminary PMI data**. The banking sector (-1%) was underperforming. **The euro depreciated (-0.6%) and sovereign yields fell sharply (10-year bunds -17bps) as money markets pared back tightening expectations, with roughly +150 bps of tightening now priced in by the end of 2022, compared to roughly +170 bps yesterday**. Southern spreads widened slightly (Italy-Germany 10-yr spreads +3bps to 194bps), but remain at levels seen at the end of May.

**Euro area June flash PMI fell sharply, with broad based declines across countries and sectors**. Preliminary data show composite PMI dropping to 51.9 (vs expected 54 from 54.8), with both services PMI (52.8 vs expected 55.5 from 56.1) and manufacturing PMI (52.0 vs expected 53.8 from 54.6) disappointing. The Eurozone manufacturing output index fell to a two year low of 49.3 (from 51.3). Together with a slowing of Eurozone economic growth, the survey also notes that price pressures remain elevated. However input cost growth eased for the third consecutive month, a potential hint of inflationary pressures peaking in the near future, according to S&P Global economists. **A separate data release yesterday showed preliminary euro area consumer confidence falling to -23.6 in June**, close to an historical low, while consensus expected a slight improvement (expected -20.5 from -21.2).

**Germany raised the gas risk level to the second-highest *alarm* phase and warned that Russia's moves to slash natural gas supplies to Europe risked sparking a collapse in energy markets, drawing a parallel to the role of Lehman Brothers in triggering the financial crisis.** Economy Minister Habeck said that the cut in gas supplies is an economic attack on Germany and warned that gas rationing would hopefully be avoided but cannot be ruled out.

### Norway

**The Norwegian krone was little changed after the central bank surprised with a larger-than-expected interest rate hike.** The deposit rate was increased by 50 bps to 1.25%, with consensus having expected a 25 bps hike. Against a backdrop of higher inflation, the Norges Bank said in an online statement that the rate will likely be increased to 1.5% in August.

### United Kingdom

**The pound pared some losses against the dollar (-0.4%) and appreciated against the euro (+0.1%) after flash June PMI data remained steady.** Composite PMI surprised on the upside, remaining unchanged at 53.1 (vs expected decline to 52.4). While the services component remained unchanged at 53.4 (expected 52.9), the manufacturing component disappointed, falling to 53.4 (vs expected 53.6 from 54.6). **Yields fell (2-yr gilt -12bps) this morning as markets scaled back on hiking expectations** (roughly 160 bps of tightening priced in by end 2022, compared to over 170 bps yesterday). **A +50 bps hike in August remains fully priced in.**

## Emerging Markets

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**Asian equities were mixed, staying flat on net.** Chinese (CSI 300: +1.7%) and Hong Kong (+1.3%) gained, while share prices dropped in Philippines (-1.7%), Korea (-1.2%), and Taiwan Province of China (-1.1%). Asian currencies were also mixed. Indonesia rupiah appreciated (+0.2%), while Philippine peso (-0.3%) and Korean won (-0.3%) depreciated. **Long-end government bond yields generally declined, with 10-year yields falling in Singapore (-6.2 bps), Malaysia (-5.9 bps) and Indonesia (-5.7 bps).** In India, the minutes of the latest Reserve Bank of India (RBI)'s policy meeting suggested that the RBI will likely raise interest rates two more times before even consider taking a breather to assess the need for additional hikes. Indian rupee was little changed. In Singapore, headline CPI inflation edged up to 5.5% y/y in May, from 5.4% in April. Core inflation also picked up to 3.6%. Some analysts noted that the heated inflation may prompt the Monetary Authority of Singapore to tighten policy ahead of its next regular meeting. **Almost all equity markets and currencies were down in EMEA.** Local bond yields continue to drop, especially in CEE, with Polish 10Y local bonds leading the trend (down 110 bps since Friday to 6.9%). **The Czech central bank hiked rates 125 bps to 7% yesterday, and the Hungarian central bank held the one-week repo rate on hold at 7.25% earlier today. The Turkish lira was little changed (-0.13% to 17.3/\$) after the central bank kept rates unchanged at 14% as expected.** In Egypt, market participants expect on average a hike of 100 bps in the deposit rate to 12.25%, with some expecting a hike of up to 200 bps. **Latin American equities dived while most currencies depreciated.** Equities slumped in Chile (-0.6%), Argentina (-1.0%), Colombia (-1.9%), Mexico (-2.0%) following Fed Chair Powell's comments about the challenges to secure a soft landing. Meanwhile, currencies depreciated in Colombia (-0.3%), Brazil (-1.3%), and Chile (-1.8%), while the Mexican peso moderately appreciated by 0.4%.

### China

**President Xi pledged to meet the growth target** in his speech at a BRICS business forum yesterday. He said that China will strengthen macro policy adjustment and adopt more effective measures to meet the economic and social targets for 2022 while minimizing the impact of COVID-19 outbreaks. President Xi's reaffirmation of the 5.5% growth target stood in a sharp contrast to analysts' consensus view that the target is out of reach. Separately, **the State Council yesterday urged authorities to roll out as many policy**

**measures as possible to boost consumption.** Potential measures may include extending the tax exemption on new energy car purchases. Equities gained (CSI 300: +1.7%); RMB depreciated (-0.1%).

## Indonesia

**Bank Indonesia kept its policy rate at 3.5% as expected.** While inflation sets to rise above the 2%–4% target range, BI viewed that there is no rush to tighten monetary policy to control inflation. Government subsidies have helped manage price pressures. BI also viewed that the increasing pressure on Indonesian rupiah is in line with regional currencies, indicating that it will intervene to support the currency in line with fundamentals. Indonesian rupiah appreciated (+0.2%); government bond yields declined (1-year: -2.3 bps; 10-year: -5.7 bps); equities gained (+0.2%).



## Philippines

**Bangko Sentral Pilipinas (BSP) raised its key rate by 25 bps to 2.5% as expected.** The rate hike decision came as BSP expected inflation to rise above its 2%–4% target for this year and next year. BSP revised its inflation forecasts to 5% for this year and 4.2% for next year. BSP also said that it is prepared to take all necessary actions to bring inflation toward a target-consistent path over the medium term. Philippine peso depreciated (-0.3%); government bond yields rose (1-year: +1.3 bps; 10-year: +10.5 bps); equities declined (-1.7%).

## Central and Eastern Europe

**Currencies remain under pressure while bond yields continue to decline.** The Hungarian forint depreciated 0.8% to 399.2/euro as the Hungarian central bank held the one week repo rate steady at 7.25% earlier today, as per expectations, having raised it 50 bps last week. The Czech koruna was broadly unchanged vs. the euro as the central bank hiked the policy rate 125 bps yesterday to 7%, at the higher range of expectations (consensus was 6.9%). This was the 9<sup>th</sup> consecutive rate hike in the Czech Republic, for a total of 675 bps over the past year. At the same time, inflation was 16% in May, and the Central Bank has been intervening to limit the currency's depreciation. Yields on local currency bonds in CEE continue to drop sharply, with yields on Polish 10Y local bonds leading the trend (down 110 bps since Friday to 6.9%).

## Argentina

**Dollar-denominated bonds due in 2030 traded at around 25 cents on the dollar, their lowest levels since their issuance in September 2020.** In addition, the 5-year CDS hits its highest level since 2005 amid increasing fears of default despite the recent deal with the IMF. The Argentinian authorities have been battling a weakening currency, falling reserves, and soaring inflation that reached 60% yoy in May. While the central bank lifted the interest rate for the sixth time this year, up to 52%, analysts remain concerned about inflation.

**Deal Disappointment****Bonds haven't gained since Argentina reached a deal with the IMF**

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## Global Financial Indicators

Last updated: 6/23/22 1:21 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3767	-0.1	-1	-5	-11	-21
Europe		3469	0.1	1	-6	-15	-19
Japan		26171	0.1	-1	-2	-9	-9
China		3320	1.6	1	8	-7	-9
Asia Ex Japan		68	-1.8	-1	-2	-27	-18
Emerging Markets		40	-1.8	-2	-4	-27	-19
<b>Interest Rates</b>			basis points				
US 10y Yield		3.11	-4.3	-8	26	163	160
Germany 10y Yield		1.46	-17.5	-25	45	164	164
Japan 10y Yield		0.24	-1.0	-2	0	18	17
UK 10y Yield		2.36	-13.6	-15	39	158	139
<b>Credit Spreads</b>			basis points				
US Investment Grade		170	-0.6	2	-1	81	59
US High Yield		545	5.7	17	44	224	207
Europe IG		113	1.7	1	17	67	65
Europe HY		562	9.8	-6	90	332	320
<b>Exchange Rates</b>			%				
USD/Majors		104.61	0.4	-1	2	14	9
EUR/USD		1.05	-0.6	0	-2	-12	-8
USD/JPY		135.3	-0.7	2	6	22	18
EM/USD		51.6	-0.5	0	-3	-10	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		112	0.2	-7	-1	49	44
Industrials Metals (index)		164	-1.2	-6	-12	7	-5
Agriculture (index)		71	-1.9	-6	-9	29	16
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		29.1	0.1	-0.6	0.6	12.7	11.8
US 10y Swaption Volatility		118.9	-4.7	-13.3	8.6	51.0	39.9
Global FX Volatility		11.4	0.0	-0.4	1.0	4.5	3.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		233	9.1	-23	-40	130	81
Italy		197	5.8	-7	-5	89	62
Portugal		108	4.3	-4	-7	47	44
Spain		109	1.4	-8	-3	47	35

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

## Emerging Market Financial Indicators

Last updated: 23/06/2022 1:23 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.71	-0.1	0.0	-1	-3	-5		2.9	-0.5	1	4	-31	4		
Indonesia		14841	0.1	-0.5	-1	-3	-4		7.4	-7.0	2	23	82	103		
India		78	0.1	-0.3	-1	-5	-5		6.3	0.0	0	9	75	0		
Philippines		55	-0.3	-2.1	-4	-11	-7		5.7	0.0	0	23	155	118		
Thailand		36	-0.4	-1.4	-4	-10	-6		2.8	0.5	-36	-20	94	90		
Malaysia		4.41	0.0	-0.1	0	-6	-5		4.2	-8.3	-16	-6	92	60		
Argentina		124	-0.1	-0.9	-4	-23	-17		61.8	4.2	66	631	1701	1120		
Brazil		5.19	0.1	-2.6	-7	-4	7		12.8	18.8	-12	78	341	206		
Chile		888	-1.6	-3.5	-7	-16	-4		6.2	0.0	-24	18	225	79		
Colombia		4020	0.0	-3.0	-1	-6	1		9.1	0.0	8	42	324	267		
Mexico		20.10	-0.3	1.5	-1	0	2		9.0	0.0	-19	49	188	144		
Peru		3.7	-0.1	0.0	0	7	7		7.8	-0.2	-19	0	205	186		
Uruguay		40	0.1	0.6	1	9	12		10.8	-4.6	-18	64	286	203		
Hungary		381	-1.5	-0.8	-6	-23	-15		7.8	-28.0	-42	109	513	327		
Poland		4.48	-0.8	0.0	-4	-15	-10		6.6	-44.8	-92	64	468	302		
Romania		4.7	-0.6	-0.5	-2	-12	-8		9.0	-15.3	6	110	626	420		
Russia		54.4	-0.4	5.5	8	34	38		8.2	-1.6	-8	-223	97	-52		
South Africa		16.0	-0.7	-0.1	-2	-11	-1		8.6	1.0	-24	48	133	120		
Turkey		17.36	-0.1	-0.4	-8	-50	-23		19.7	0.0	5	-465	213	-467		
US (DXY; 5y UST)		105	0.4	-0.5	2	14	9		3.15	-7.8	-13	28	227	189		

	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		4344	1.7	2	10	-16	-12		193	2	-21	-12	-10	
Indonesia		6998	0.2	-1	1	16	6		204	8	-17	30	39	
India		52266	0.9	1	-3	-1	-10		173	-1	-22	28	41	
Philippines		6065	-1.7	-5	-8	-12	-15		144	7	-15	48	43	
Malaysia		1431	0.0	-3	-7	-8	-9		130	5	-10	5	13	
Argentina		85662	-1.0	-3	-5	30	3		2268	153	316	749	588	
Brazil		99522	-0.2	-2	-10	-23	-5		346	13	17	94	35	
Chile		5056	0.0	-2	-1	16	17		175	7	-11	27	35	
Colombia		1372	-1.9	-6	-7	10	-3		412	33	7	156	64	
Mexico		47144	-2.0	-2	-8	-6	-12		432	12	26	96	100	
Peru		19039	-2.5	-4	-7	1	-10		202	8	-3	36	52	
Hungary		40073	0.1	2	-8	-18	-21		237	5	10	100	113	
Poland		52941	-0.1	-1	-7	-21	-24		99	7	55	62	67	
Romania		12310	0.1	2	1	6	-6		325	29	47	143	132	
Russia		2389	0.7	1	4	-38	-37		3411	-577	938	3228	3234	
South Africa		65615	-0.1	-3	-4	0	-11		464	19	27	140	109	
Turkey		2564	-0.4	3	8	83	38		649	-12	36	186	71	
Ukraine		519	0.0	0	0	-2	-1		4013	307	901	3505	3254	
EM total		40	0.2	-2	-4	-27	-19		436	17	15	80	49	

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

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