



- Markets see US rate hiking cycle ending sooner ([link](#))
- Demand for inverse ETFs signals pessimism about US stocks ([link](#))
- Markets pare back ECB rate hike expectations amid growth concerns ([link](#))
- Chinese central bank liquidity injection via OMOs largest since March ([link](#))
- Banxico delivers rate hike of 75 bps and signals more tightening ([link](#))
- Turkish regulator takes additional measures to deter lira short sellers ([link](#))
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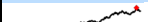


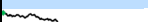



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## Reprieve as markets price out some Fed and ECB tightening

Equities have generally traded with a better tone after traders priced out some central bank tightening. Markets have priced out Fed rate hikes beyond the December meeting, with almost 50 bps of rate cuts expected for next year. Some analysts furthermore argue that a US recession may be relatively shallow if it materializes. In the euro area, markets have scaled back rate hike expectations. Nevertheless, central banks are expected to continue to respond to inflationary pressures even as sentiment and economic data disappoint. Yesterday, the central bank of Mexico lifted its key rate by 75bps, a record hike since the country adopted inflation targeting in 2008.

Key Global Financial Indicators

Last updated: 6/24/22 1:19 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3796	1.0	0	-4	-11	-20
Eurostoxx 50		3498	1.8	2	-4	-15	-19
Nikkei 225		26492	1.2	2	-1	-9	-8
MSCI EM		40	0.3	-3	-3	-28	-19
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.11	2.6	-11	36	162	160
Germany 10y Yield		1.48	5.6	-18	52	167	166
EMBIG Sovereign Spread		510	1	8	34	175	143
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		51.7	0.0	0	-3	-10	-2
Dollar index, (+) = \$ appreciation		104.4	-0.1	1	2	14	9
Brent Crude Oil (\$/barrel)		111.9	1.6	-1	-2	48	44
VIX Index (% change in pp)		28.8	-0.3	-4	-1	13	12

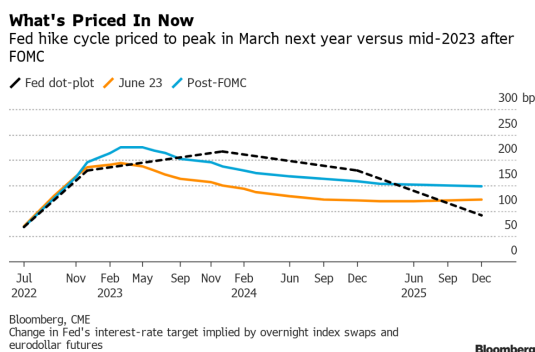
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

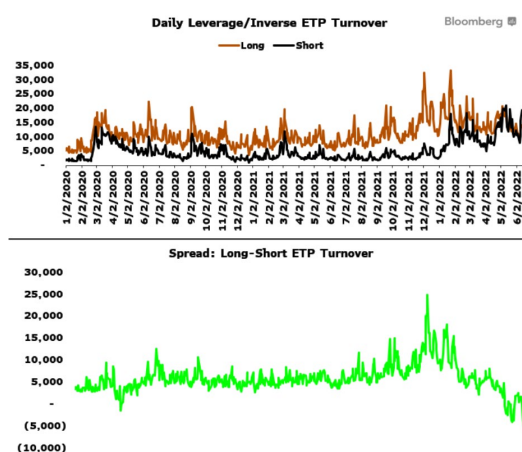
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### United States

**Traders expect the US rate tightening cycle to end sooner.** With fears of recession growing, markets are starting to price out further rate hikes beyond the December meeting, and instead pricing in almost 50-bp of rate cuts into next year. Just one week after a sharp upwards re-pricing in the path of monetary policy rates following the hawkish twist of the FOMC, the latest data shows an additional 175-bp of hikes priced before the December Fed meeting. Yesterday's comments of Federal Reserve Governor Michelle Bowman in favor of a 75bps move in July, reinforced markets views that there is widespread support among Fed officials for another increase of that magnitude.



**Inverse ETF are becoming more popular, sending ominous signals about the path ahead for US stocks.** Inverse ETFs, leveraged vehicles that win multiple times over when the market is losing, are seeing large inflows, as investors seek downside protection from falling equity markets. Trading in bearish inverse ETF activity has taken over their bullish counterparts by the largest margin since the pandemic crisis, suggesting that the tendency to buy-the-dip in the markets is waning compared to the more bearish selling-the-rally and marking a stark change in market sentiment. This comes at a time when a growing number of strategists are cautious about long positions in the equity market, despite recent corrections.



**MBS spreads likely to rise further, even discounting QT sales scenarios.** In his recent US Senate and House testimonies, Chair Powell noted that the impact of the balance sheet run-off on the housing market should be "marginal" compared to the effects already witnessed following the sharp interest rate hikes. He also acknowledged that, while the central bank's decision to sell MBS will not be affected by potential losses on the Federal Reserve's MBS portfolio, selling mortgage-backed securities at a loss could raise mortgage rates and spreads even more. Markets currently view the potential of MBS sales as the number one risk for the mortgage market. **Nevertheless, mortgage spreads have widened sharply over the last months,**

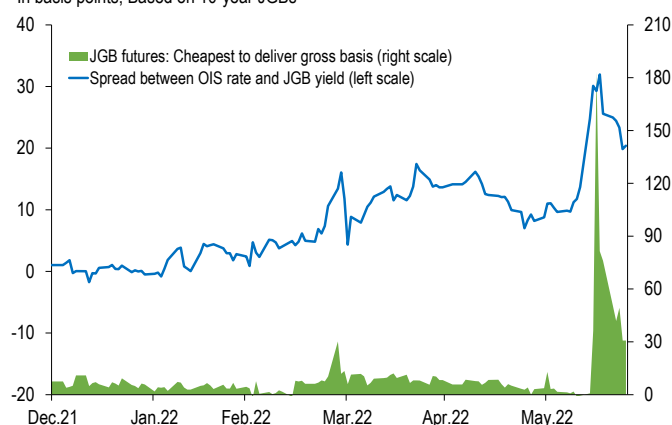
and, looking forward, they may continue to rise, as mortgage activity remains relatively strong ahead of further expected rises in borrowing costs. As a result, there is high supply of mortgages for the market to absorb, and with the Federal Reserve being a passive seller (and likely to become active), spreads could widen further. However, they remain well below US investment grade spreads.

## Japan

**Headline CPI inflation remained unchanged at 2.5% y/y in May as expected.** Core inflation excluding food stayed at 2.1%, exceeding the Bank of Japan (BOJ)'s 2% target for a second month. However, the trimmed mean inflation figure was only at 1.4%, suggesting that underlying inflation pressure is still limited. In fact, core inflation excluding food and energy stayed at 0.8%. **Market pressures on the BOJ's defending of its yield curve control, though remaining elevated, has subsided this week.** The spread between the OIS rate and JGB yield dropped to 20 bps from 32 bps last week, while the cheapest to deliver gross basis of JGB futures fell to 31 bps from 183 bps last week. Long-end JGB yields were mixed (10-year: -0.5 bp; 30-year: +0.9 bp), while Japanese yen appreciated (+0.1%). Equities gained (NIKKEI: +1.2%), similar to the regional trend.

**Market Pressures on BOJ's Yield Curve Control**

In basis points; Based on 10-year JGBs



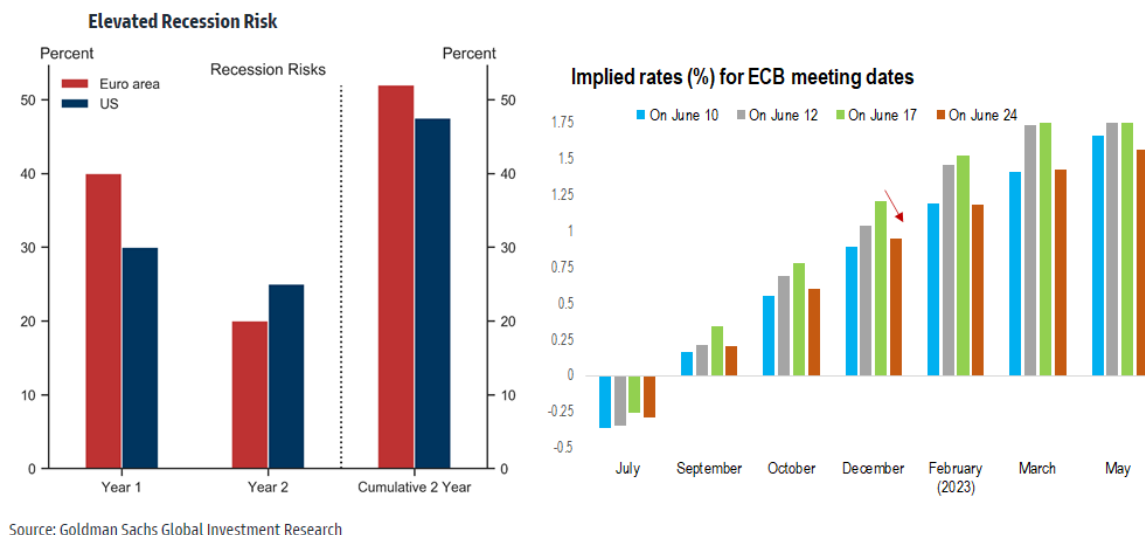
## Europe

**European equity markets were mostly trading higher with the Stoxx 600 Europe up +1.5% while the euro strengthened (+0.2%).** Sovereign yields retraced opening declines and edged higher (10-year bunds +5 bps) while southern spreads widened (Italian 10-yr spread +3 bps).

**Germany's June Ifo Institute business climate index, a leading indicator for Germany, disappointed** with both the current assessment and expectations component deteriorating. The business climate index fell to 92.3 (vs expected 92.8 from 93). Businesses assessed their current situation as marginally worse, while the expectations index dropped to 85.8 from 86.9, below the expected marginal increase to 87.4 with companies flagging higher energy prices and gas supply concerns. A separate data release show Spain's final Q1 GDP data slightly below preliminary estimates (+6.3% yoy vs previously estimated 6.4%).

**Markets have scaled back interest rate hike expectations, roughly +150 bps of tightening now priced in by the end of 2022, compared to roughly +170 bps seen last week.** ECB GC member Kazimir sees the ECB rate at between 1.5 and 2% by mid-2023, but noted that interest rate hikes would be data-dependent. Separately ECB GC member Nagel cautioned that larger hikes could be required if central banks are too slow to respond to higher inflation. Goldman Sachs analysts flag that a complete cease in gas flows from Russia is likely to see Europe falling into a recession in H2. Analysts see a higher

probability of a recession in Europe (40%) than in the US (30%) over the next 12 months, but higher odds of a recession in the US (25% vs 20% for Europe) in the following year.



**European gas prices edged higher (1-m ahead +1% to €132/MWh) with prices now roughly 50% higher than at the start of the month amid supply concerns.** Gas flows from Russia via Nord Stream 1 are reportedly roughly 60% lower. **The head of Germany's regulator said that Germany could do without any Russian gas for roughly 75 days if storage tanks are full.** However, storage is currently at around 58% and the situation could worsen further with the Nord Stream pipeline set to be offline between July 11–21, according to Bloomberg.

## United Kingdom

**The pound was little changed after GfK consumer confidence and retail sales disappointed, but gained (+0.4%) in later trade.** GfK consumer confidence fell to a new record low -41 in June, marginally worse than expected and retail sales also disappointed, contracting by -4.7% yoy (vs -4.5% expected from a revised -5.7%). On a monthly basis retail sales came in slightly better than expected, but still fell into contractionary territory (-0.5% mom vs expected -0.7% from +0.4%).

## Emerging Markets

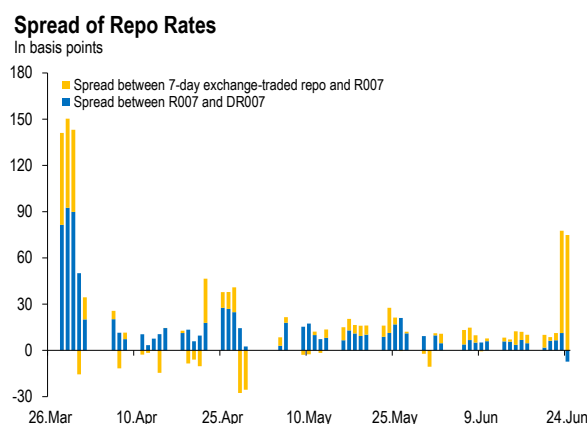
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**Asian equities (+1.7%) rose, led by Korea (+2.3%), Hong Kong (+1.9%), and China (CSI 300: +1.2%). Asian currencies generally appreciated, led by Korean won (+0.2%) and Taiwan dollar (+0.2%).** Meanwhile, Philippine peso depreciated (-0.4%) after the central bank signaled that it would intervene only to reduce volatility but not to stem depreciation. Long-end government bond yields were mixed, with 10-year yields falling in Indonesia (-6.2 bps) while rising in Taiwan Province of China (+3.9 bps). In Malaysia, CPI inflation accelerated to 2.8% y/y in May from 2.3% in April (consensus: +2.3%). **Equity markets were mixed in EMEA, currencies were broadly stable, while local bond yields extended their sharp fall in central and Eastern Europe (CEE).** Equity markets were up in Hungary and Poland (+0.7%), and in South Africa (+1%), but lower Türkiye (-0.3%). The Hungarian forint was losing to the euro (-0.4% to 401.2/euro), while other CEE currencies were broadly flat to the euro. Local bond yields continue to drop as recession overtake inflation concerns, especially in CEE. **For the second day in a row, equities closed lower in Mexico (-1.0%), Brazil (-1.5%), Chile (-2.4%), and Argentina (-2.9%) yesterday.** Colombian equities continue to be shaken by the election of leftist Petro, losing 2.4% yesterday and 8% since Monday. Meanwhile, currencies depreciated in Brazil (-0.9%), Chile (-1.5%), and Colombia (-1.9%), while the

Mexican peso moderately appreciated by 0.2% after Banxico's rate hike.

## China

**The People's Bank of China (PBC) injected net liquidity of 50 bn RMB (\$7.5 bn).** Today's liquidity injection via OMOs was the largest since March. The key interbank repo rate, DR007, increased (+18.6 bps), and the spread between exchange-based and interbank repo rates widened in the past couple days. **Analysts noted that the rise in repo rates reflected quarter-end liquidity demand to meet regulatory requirements.** Equities gained (CSI 300: +1.2%; HKSAR-listed: +2.4%); RMB was little changed.



## Türkiye

The Turkish lira was little changed (at 17.3/\$) as traders assess new restrictions introduced by the banking regulator aimed at tightening lira liquidity abroad and driving up the cost of positioning against the Turkish lira. The banking regulator increased the risk weight of new TRY and FX loans to be extended to the Turkish corporates that engage in derivative transactions with foreign entities to 500% from June 23rd onwards. **Contacts say that the regulation requires further clarification as the scope of derivative transactions is not fully clear, but anticipate that corporate lending in liras to foreign banks in exchange for foreign exchange, will likely be shunned from the loan market.**

## UAE

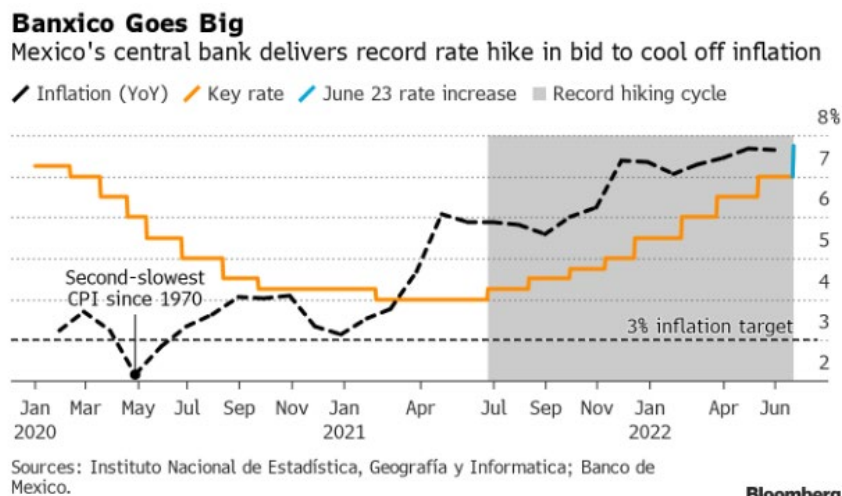
The UAE federal government issued \$3 bn in international bonds yesterday, following their debut sale last October (\$4 bn in 10, 20y and 40z bonds). Bloomberg reports that the country sold \$1.75 bn in 10y bonds at a spread of 100 bps and \$1.52 bn in 30y *Formosa* bonds (bond issued in Taiwan POC in a currency other than the Taiwanese dollar) at a spread of 175 bps. **The UAE are rated Aa2 by Moody's and AA- by Fitch Ratings.**

## Egypt

**Egyptian markets are closed on Fridays so there was little reaction to the central bank's decision to leave the deposit rate on hold at 11.25% yesterday against market expectations of a 100bps hike.** While the MPC had delivered a large hike (200 bps) at its previous meeting in May, yesterday's statement said that the monetary policy committee treats the developments stemming from the Russo-Ukrainian conflict to be among the exogenous shocks that are outside the scope of monetary policy and yet may lead to deviations from pre-announced target rates. **It also said that, in accommodation of the first-round effects of supply shocks, an elevated annual headline inflation rate will be temporarily tolerated relative to the Central Bank's pre-announced target of 7% ( $\pm 2\%$ ) on average in 2022 Q4, before declining thereafter.** Inflation in Egypt was 13% yoy in May.

## Mexico

**Banxico delivered a record rate hike and anticipates additional tightening.** Yesterday, Banxico, the central bank of Mexico, lifted its key rate by 75bps, a record hike since the country adopted inflation targeting back in 2008. This anticipated move is the latest one of a tightening cycle that brought the key rate from 3% to 7.75% in one year to curb inflation. However, inflation is still running high in Latin America's second-largest economy, reaching a two-decade high of 7.9% yoy in early June, and is expected to end the year at 7.5%, well above the 3% target rate. As a result, with elevated headline and core inflation rates, likely negative inflation surprises, and the Fed accelerating its tightening cycle, this hike of 75 bps signals the start of a faster cycle.



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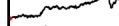
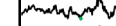

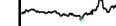
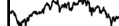




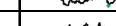

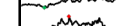







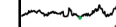

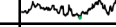












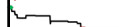

## Global Financial Indicators

Last updated: 6/24/22 1:21 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3804	1.0	4	-3	-11	-20
Europe		3497	1.8	2	-4	-15	-19
Japan		26492	1.2	2	-1	-9	-8
China		3350	0.9	1	7	-7	-8
Asia Ex Japan		68	0.7	-2	0	-27	-17
Emerging Markets		40	0.3	-3	-3	-28	-19
<b>Interest Rates</b>			basis points				
US 10y Yield		3.10	1.7	-12	35	161	159
Germany 10y Yield		1.48	5.0	-18	51	167	166
Japan 10y Yield		0.23	-0.6	0	-1	17	16
UK 10y Yield		2.34	2.5	-16	45	160	137
<b>Credit Spreads</b>			basis points				
US Investment Grade		171	-0.7	6	2	82	59
US High Yield		541	-3.3	19	34	224	204
Europe IG		113	-0.8	1	15	66	65
Europe HY		552	-6.7	-12	73	324	310
<b>Exchange Rates</b>			%				
USD/Majors		104.36	-0.1	1	2	14	9
EUR/USD		1.05	0.1	0	-2	-12	-7
USD/JPY		135.0	0.1	0	6	22	17
EM/USD		51.7	0.0	0	-3	-10	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		112	1.6	-1	-2	48	44
Industrials Metals (index)		158	-2.6	-7	-14	2	-9
Agriculture (index)		70	0.9	-8	-9	28	15
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		28.8	-0.3	-4.2	-0.7	12.8	11.6
US 10y Swaption Volatility		120.8	0.6	-6.3	10.1	55.8	41.8
Global FX Volatility		11.2	0.0	-0.4	0.8	4.6	3.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		237	2.2	0	-30	134	85
Italy		202	6.4	9	1	97	67
Portugal		108	2.2	4	-8	48	44
Spain		111	2.0	3	-1	49	37

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

## Emerging Market Financial Indicators

Last updated: 24/06/2022 1:22 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		6.70	0.0	0.3	-1	-3	-5		2.9	4.0	5	8	-26	8		
Indonesia		14848	0.0	-0.2	-1	-3	-4		7.3	-8.1	-15	10	77	95		
India		78	0.0	-0.3	-1	-5	-5		6.3	0.0	0	9	75	0		
Philippines		55	-0.6	-2.2	-5	-11	-7		5.7	0.0	0	23	155	118		
Thailand		35	0.0	-0.8	-4	-10	-6		2.8	0.5	-36	-20	94	90		
Malaysia		4.40	0.1	0.0	0	-6	-5		4.2	-1.7	-15	-4	91	59		
Argentina		124	-0.2	-1.0	-4	-23	-17		59.5	-222.4	-207	429	1471	898		
Brazil		5.21	0.5	-1.2	-8	-6	7		11.7	-84.1	-104	-47	246	102		
Chile		904	-1.8	-4.2	-8	-19	-6		6.2	0.0	-19	18	216	76		
Colombia		4099	-1.9	-4.8	-3	-8	-1		9.0	-12.5	-5	30	312	254		
Mexico		19.94	0.4	2.0	0	0	3		8.8	0.0	-26	37	159	127		
Peru		3.8	-0.9	-1.4	-1	6	6		7.7	-0.8	#####	-8	201	177		
Uruguay		40	0.2	0.7	1	9	12		10.8	0.2	-10	64	286	203		
Hungary		381	-0.4	-0.1	-6	-23	-15		7.7	4.0	-58	107	502	319		
Poland		4.47	0.0	-0.3	-4	-15	-10		6.7	16.5	-70	70	483	317		
Romania		4.7	0.0	0.3	-2	-12	-7		8.8	-24.0	-31	86	601	396		
Russia		53.8	1.2	6.9	3	34	40		8.2	-2.3	-10	-188	95	-55		
South Africa		15.9	0.6	0.9	-1	-10	0		8.7	8.5	-13	58	140	129		
Turkey		17.37	-0.1	-0.3	-7	-50	-23		19.5	-12.0	-12	-521	215	-479		
US (DXY; 5y UST)		104	-0.1	0.7	2	14	9		3.16	1.8	-18	42	225	190		

	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		4395	1.2	2	10	-16	-11		196	3	-17	-8	-7	
Indonesia		7043	0.6	2	0	17	7		207	3	1	36	42	
India		52728	0.9	3	-4	0	-9		180	6	-13	35	48	
Philippines		6218	2.5	-2	-8	-11	-13		147	-5	-1	55	46	
Malaysia		1437	0.4	-1	-7	-8	-8		130	5	-5	6	13	
Argentina		83170	-2.9	-5	-9	24	0		2288	86	371	773	608	
Brazil		98080	-1.4	-5	-11	-24	-6		348	2	25	98	37	
Chile		4935	0.0	-2	-4	12	15		173	-1	-3	27	33	
Colombia		1339	-2.4	-9	-10	5	-5		418	33	31	163	70	
Mexico		46658	-1.0	-2	-9	-8	-12		433	4	38	97	101	
Peru		18501	-2.8	-5	-9	-2	-12		198	-4	2	34	48	
Hungary		39720	0.3	1	-8	-18	-22		232	-9	13	100	108	
Poland		52739	0.9	0	-7	-22	-24		80	-25	63	46	48	
Romania		12459	1.7	3	2	7	-5		320	5	52	139	127	
Russia		2378	-1.1	1	4	-38	-37		3411	-577	938	3228	3234	
South Africa		65824	0.8	1	-3	-1	-11		450	-18	39	130	95	
Turkey		2553	0.4	1	7	81	37		639	-41	52	181	61	
Ukraine		519	0.0	0	0	-2	-1		4255	444	1102	3756	3496	
EM total		40	1.2	-3	-3	-28	-19		435	3	28	83	49	

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

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