



- US equities surged Friday after consumer inflation expectations eased fears ([link](#))
- Market measures for euro area medium-term inflation little changed in June ([link](#))
- BoJ meeting summary confirms persisting easing bias ([link](#))
- EM outflows continue for 11th consecutive week ([link](#))
- China plans to extend onshore yuan trading hours ([link](#))
- Turkish bank regulator further restricts access to loans for FX-rich corporates ([link](#))
- Russia defaults on its foreign-currency sovereign debt ([link](#))

[Mature Markets](#)




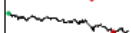


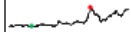

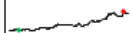


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Risk sentiment continues to bounce higher on easing fears of policy hikes

Markets are continuing their move higher this morning, after Friday's rally. European markets are up around 0.8% and US futures are pointing to a rise of about 0.6% following Friday's 3% rise. Lower than expected consumer inflation expectations from the University of Michigan survey is credited with easing fears of rapid Fed rate hikes, and that sentiment seems to be carrying over for another day. The end-of-year implied Fed funds rate has dipped to 3.46% after its recent peak of 3.72% following June's 75 bps hike. Most emerging market currencies are appreciating on the day, led by the Turkish lira after authorities placed further pressure on corporates to reduce their FX holdings. Russia's default on its hard currency debt has finally come, as the grace period expired for interest payments originally due May 27. Bondholders were unable to receive the coupons due to sanctions blocking the payment chain. The market implication is minimal as a default has long been priced in.

Key Global Financial Indicators

Last updated: 6/27/22 8:17 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		3912	3.1	7	-6	-9	-18	-7
Eurostoxx 50		3554	0.6	2	-7	-14	-17	-11
Nikkei 225		26871	1.4	4	0	-7	-7	2
MSCI EM		41	2.4	3	-3	-27	-17	-14
Yields and Spreads			bps					
US 10y Yield		3.19	5.6	-4	45	166	168	120
Germany 10y Yield		1.55	10.8	-20	59	171	173	132
EMBIG Sovereign Spread		506	-4	6	24	171	139	93
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.7	0.0	0	-2	-10	-2	-3
Dollar index, (+) = \$ appreciation		104.1	-0.1	-1	2	13	9	8
Brent Crude Oil (\$/barrel)		113.9	0.7	0	-5	50	46	18
VIX Index (% change in pp)		28.2	0.9	-3	2	13	11	-3

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

In the week ahead, the ECB will hold a forum on central banking in Sintra, where markets expect to get signals on the outlook for monetary policy and growth. On the economic data front, the US will release Q1 GDP (third estimate) and the PCE deflator. PMI data will also be released this week. Outside of the US, CPI data in European countries (Eurozone, Germany, France, Italy, among others) will be closely watched. China will release PMI. On the monetary policy front, central banks in Hungary (50 bp hike expected), Sweden (50 bp hike), and Colombia (125 bp hike) will have meetings. Elsewhere, G7 leaders and NATO countries will meet this week.

Mature Markets

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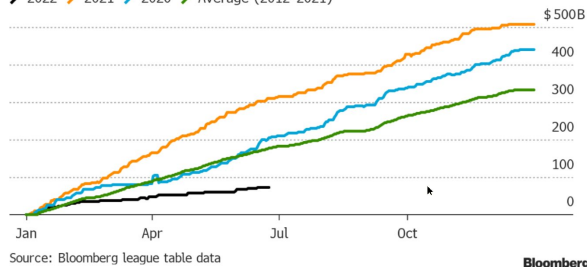
US equities surged on Friday, with the S&P 500 closing up 3%, after lower-than-expected University of Michigan's longer-term consumer inflation expectations (3.1% vs. 3.3% expected) eased market fears of aggressive Fed policy tightening. St. Louis Fed President Bullard's comment that market concerns over US recessions are overdone also supported the market. **The S&P 500 rose nearly 6.5% this week after third consecutive weekly losses.** US Treasury yields were higher by 4–6 bps across tenors as risk assets went higher.

US HY spreads tightened notably on Friday but are still nearly 100 bps wider since last month. With rising concerns over slower growth and higher volatility in the market, there haven't been public HY bond issuances in the US for over a week. **HY bond issuances this year have been at the slowest pace in the last three years.** Funding opportunities become limited or more expensive for high-yielders as the yield on HY bonds index has increased to 8.6%. In addition, distressed corporate bond and loan volume has surged by 13% wow, and BoA analysts noted that 39% of CCC-rated bonds traded at distress levels.

Junk Freeze

High-yield bond issuance tumbled 75% year-on-year amid rates rout

2022 2021 2020 Average (2012-2021)



Sticker Shock

US high-yield funding cost has soared above the average coupon

US high-yield average coupon US junk YTW



Recent volatile moves in the Treasury market are likely amplified by poor market liquidity conditions as the fitting error of the yield curve model shows a widening trend recently and contacts noted shallower market depth. Meanwhile, **the US Treasury launched a request for information (RFI) to solicit public feedback on additional post-trade data transparency in the Treasury securities market.** This is part of the Inter-Agency Working Group's ongoing work to strengthen the Treasury market's resilience. The RFI includes questions regarding the potential benefits and risks of reducing the timeframe of post-trade data reports (currently, the deadline is by the end of the day, and one alternative is to reduce it to 60 minutes after trades) and expanding data to be released.



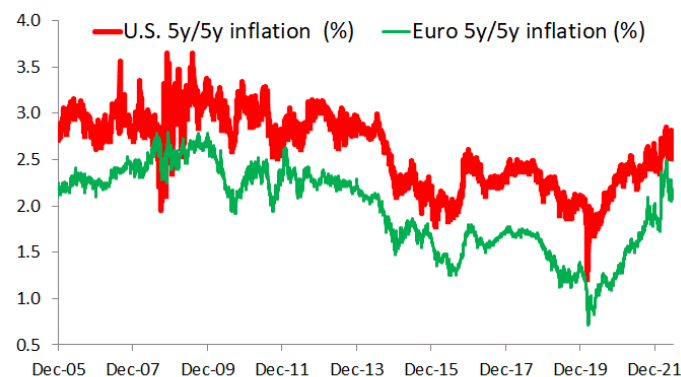
Source: Bloomberg, JP Morgan

Euro Area

Equities (+0.8%) and 10-yr German bund yields (+11 bps to 1.55%) opened the week higher on relatively little news. Investors will keep an eye on the ECB conference on *challenges for monetary policy in a rapidly changing world* taking place in Sintra from June 27–29. **Of particular interest will be Wednesday’s policy panel with BoE governor Bailey, BIS general manager Carstens, ECB President Lagarde, and Fed Chair Powell.**

Contacts will also focus on flash euro area inflation data to be released this week. Consensus is that euro area flash inflation (Friday) is expected to rise to 8.5% y/y in June (from 8.1% y/y in May) with euro area core inflation at 3.9% y/y (3.8% y/y in May). Market-based measures for inflation expectations are little changed in June as 10-yr German bund yields rose 40 bps in June. **This morning, 5-yr/5-yr inflation swaps traded at 2.18% compared to a 2022 high of 2.49%.**

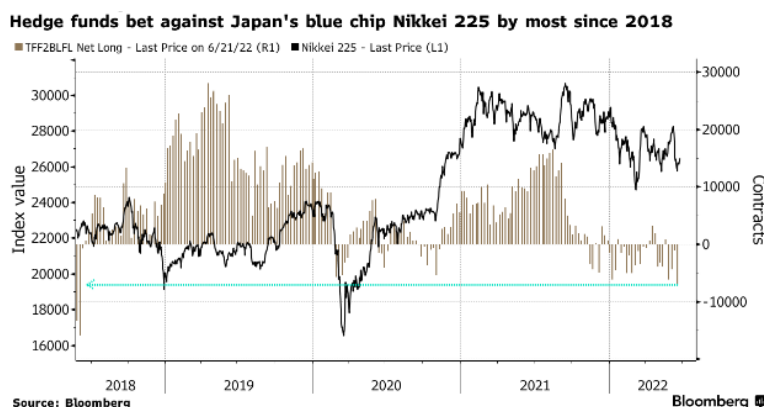
Five-year Forward Five-year Inflation Swaps (%)



Source: Bloomberg, and IMF staff

Japan

Equities firmed +1.1%. Leveraged funds have turned the most net-short on Nikkei 225 futures since June 2018, amid slow economic growth and higher input costs. Separately, **Bank of Japan’s June meeting summary confirmed a persisting easing bias.** Monetary easing must continue despite broadened inflation and currency fluctuations, as Japan’s output gap remains negative and the price stability target remains unachieved, the summary said. A rapid yen depreciation was noted to have negative economic impacts via increased business uncertainties; a comment about a weak yen being positive for the overall economy was dropped. **The yen appreciated +0.2% and 10-year yields increased +1bps.**



Commodity Prices

Brent oil prices were little changed as the G7 is considering ways to introduce a cap on Russian crude oil to reduce Russia's energy revenues. According to reports, policymakers could try to introduce a cap via a mechanism which will see oil tankers carrying Russian oil ineligible for coverage from European insurers should they not adhere to the price cap. Contacts believe that the goal of the cap is to limit Russia's oil revenues while also containing further increases in energy prices for consumers.

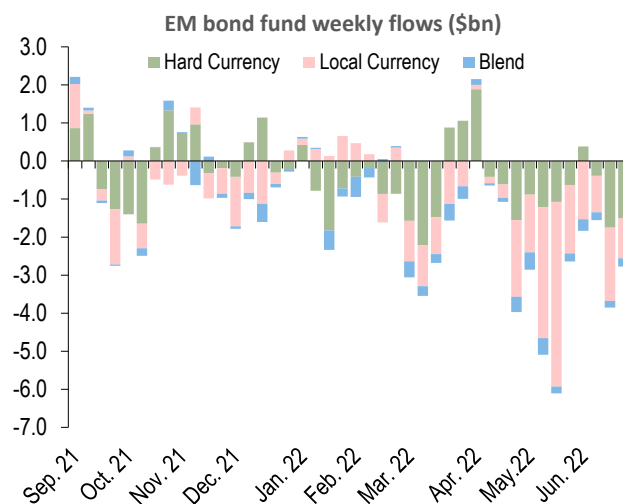
Emerging Markets

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Asian equities continued to rally, +1.8%% on net. Hong Kong SAR (+2.4%) and Taiwan, Province of China (+1.6%) led gains, Sri Lanka slumped -2.4%. Asian currencies mostly strengthened. The South Korean won appreciated +0.9%, followed by the Thai baht +0.5%. 10-year yields were mixed with South Korea up +10 bps. The Bank of Thailand (BOT) signaled imminent tightening during its quarterly analyst meeting, Bloomberg reports. Timely policy adjustments are needed to anchor inflation expectations, with rate hikes unlikely to affect Thailand's economic recovery the BOT said. Indonesia has postponed its plan to implement a carbon tax initially scheduled to take effect in July. The government continues prioritizing state budget to provide subsidies and social protection to offset price increases. The carbon tax will still be implemented in 2022, firstly to the coal-fired power plant sector. **In EMEA**, all main equity markets except Türkiye and the Czech Republic were strongly up in EMEA, with South Africa registering the strongest gains (+2.4%). The Turkish stock market was losing 1.3% but the Turkish lira was appreciating (+1.25% to 16.7/\$) as participants were trying to digest the implications of the latest restrictions for corporate loans announced by the Turkish banking regulator after market close on Friday. Central European currencies recorded small losses vs. the euro. The rally in Central European local bond rates, which in particular saw Polish 10y yields rally 110 bps between Monday and Thursday last week, reversed with Polish yields up 30 bps since Thursday to 7.2%. **In Latin America**, Andean currencies underperformed as copper prices declined for a third week in a row. The Chilean peso declined by 1.5% on Friday and is the worst performing EM currency over the last month declining by 11% as industrial metals are on track for the worst quarter since 2008. The Colombian peso had its worst week in two years declining by 6% following the election results last week. The Mexican peso bounced back appreciating by 0.7% largely following the rebound in US equities. Brazil's swap rates jumped by 20-30 bps across the curve as the government latest plans to increase spending added to the ongoing market concerns about the fiscal outlook ahead of the upcoming election.

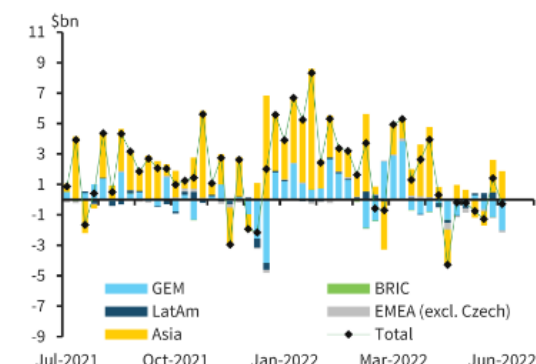
EM Fund Flows

For the week ending 22 June, bond funds suffered outflows for the eleventh consecutive week. Outflows decelerated to \$2.8 bn from -\$3.5 bn last week. YTD hard currency flows stand at -\$16 bn and local currency flows at -\$23 bn. YTD returns stand at -18.9% and -13.2% respectively. EM equity fund flows were close to flat, as flows into Asian funds offset outflows from global funds.



Source: EPFR

Figure 2. Flows into dedicated EM equity funds



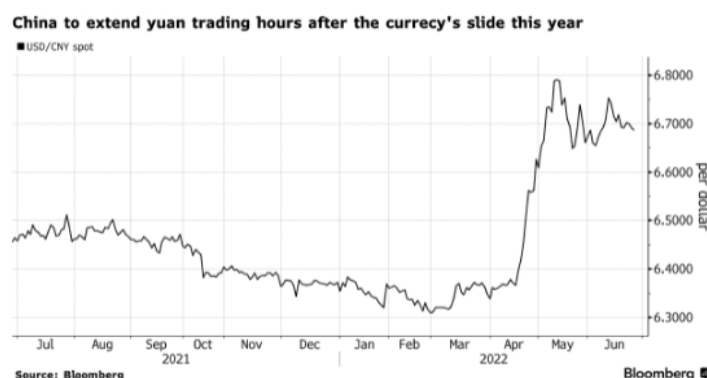
Source: EPFR Global, Barclays Research

Russia

Russia defaulted yesterday on its foreign-currency sovereign debt as payment for two coupons reportedly failed to reach its creditors. The default is mostly symbolic as Russian sovereign bonds have been trading at distressed levels since early March. The grace period on two Eurobond coupons (US\$'26s and EUR'36s for a combined amount of about \$90 mn) due May 27 expired yesterday. According to reports, Russia transferred the funds to its local paying agent, the National Settlement Depository (NSD), the week before the coupons were due. However, international sanctions now seem to prohibit transfers from NSD out of Russia while US sanctions prevent US persons from receiving payment after the US Treasury allowed a sanctions loophole to expire on 25 May (which initially included an exemption that allowed U.S. investors and banks to continue to receive interest payments on Russian bonds). Russia has also sought to pay foreign currency bonds in rubles and introduced regulations to that purpose, but this is not allowed under the prospectus of all bonds. Analysts seem to think that bondholders will now wait and see as the legal consequences of a default due to international sanctions rather than willingness to pay are unclear. Analysts don't think that bondholders will go through the trouble of setting up creditors' committees for the moment and may see little value in seeking to accelerate the bonds or calling cross-default on the rest of the bond stock as long as sanctions are in place.

China

Equities extended gains (CSI 300: +1.1%) led by consumer shares amid further COVID easing in Shanghai. Evergrande is facing a winding-up lawsuit in the Hong Kong High Court, Bloomberg reports. **10-year yields slipped 1 bps**, with benchmark yields close to fresh highs this year on expectations that authorities may issue special government bonds to boost the economy. **The renminbi was broadly unchanged.** China plans to extend onshore yuan trading hours to 3 am the next day, instead of the current 11:30 pm (local time), according to Bloomberg.








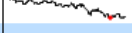








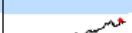



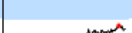






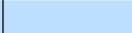


Türkiye

The Turkish lira was gaining (+1.25% to 16.7/\$) and the stock-market losing (-1.3%) as participants are digesting the implications of the latest restrictions for corporate loans announced by the Turkish banking regulator after market close on Friday. This is the latest in a series of attempts by the Turkish authorities to support the lira without resorting to a rate hike. In essence, the risk weighted assets for loans to corporates with large FX holdings (more than 15 million liras—\$890,000—in foreign-currency and if the amount exceeds 10% of total assets or annual sales) are hiked to extremely elevated levels, which in practice means these corporates will not be able to get TRY loans from banks unless they sell their FX holdings, which TEB Investment calculates as 91.5 billion liras (or \$5.6 billion) in total. Analysts reckon that Turkish corporates could also buy Turkish Eurobonds, invest in inventories by pulling forward imports, or switching to FX-protected lira deposit accounts, to avoid restrictions.

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Global Financial Indicators

Last updated: 6/27/22 8:17 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3919	3.1	7	-6	-8	-18	-7
Europe		3554	0.6	2	-7	-14	-17	-11
Japan		26871	1.4	4	0	-7	-7	2
China		4444	1.1	3	11	-15	-10	-4
Asia Ex Japan		70	2.4	4	0	-26	-15	-11
Emerging Markets		41	2.4	3	-3	-27	-17	-14
Interest Rates			basis points					
US 10y Yield		3.19	5.6	-4	45	166	168	120
Germany 10y Yield		1.55	10.8	-20	59	171	173	132
Japan 10y Yield		0.25	1.5	1	1	20	17	5
UK 10y Yield		2.40	9.6	-21	48	162	143	92
Credit Spreads			basis points					
US Investment Grade		169	-0.6	4	14	79	57	26
US High Yield		522	-6.7	0	78	208	184	115
Europe IG		108	-1.1	0	21	62	60	37
Europe HY		530	-3.3	-12	100	300	289	179
Exchange Rates			%					
USD/Majors		104.07	-0.1	-1	2	13	9	8
EUR/USD		1.06	0.1	1	-2	-11	-7	-7
USD/JPY		135.5	0.2	0	7	22	18	18
EM/USD		51.7	0.0	0	-2	-10	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		114	0.7	0	-1	64	51	27
Industrials Metals (index)		160	1.6	-5	-14	3	-7	-15
Agriculture (index)		69	-0.1	-7	-11	29	14	-1
Implied Volatility			%					
VIX Index (% change in pp)		28.2	0.9	-3.0	2.5	12.6	11.0	-2.9
US 10y Swaption Volatility		123.7	3.9	-9.1	26.0	57.6	44.7	29.4
Global FX Volatility		11.1	0.1	-0.3	1.3	4.6	3.6	3.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		232	-1.4	5	-21	131	81	-8
Italy		200	-1.9	5	6	92	65	29
Portugal		109	0.8	3	-2	47	45	17
Spain		112	0.7	2	4	48	38	9

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 6/27/2022 8:19 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since 23-Feb-22	Level		Change (in basis points)					Since 23-Feb-22
	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		6.69	0.0	0.0	0	-4	-5	-6		3.0	4.0	7	19	-24	12	11
Indonesia		14797	0.3	0.3	-2	-2	-4	-3		7.3	-6.0	-23	19	73	89	77
India		78	0.0	-0.5	-1	-5	-5	-5		6.3	0.0	0	9	75	0	
Philippines		55	0.3	-1.3	-5	-11	-7	-7		5.7	0.0	0	23	155	118	68
Thailand		35	0.4	0.0	-3	-10	-6	-9		2.9	12.5	-2	1	104	103	65
Malaysia		4.40	0.0	-0.1	-1	-6	-5	-5		4.2	5.0	-8	12	95	65	57
Argentina		124	-0.1	-1.1	-4	-23	-17	-14		59.7	10.9	-196	380	1470	909	1169
Brazil		5.25	-0.1	-1.1	-10	-6	6	-5		13.0	33.7	38	89	385	235	151
Chile		918	-1.5	-4.6	-10	-20	-7	-14		6.3	14.0	-5	32	230	90	41
Colombia		4137	-0.9	-5.7	-4	-9	-2	-5		9.0	8.0	30	49	319	262	116
Mexico		19.90	-0.2	1.8	-2	0	3	2		8.8	4.5	-22	42	164	131	99
Peru		3.8	-0.7	-1.8	-2	5	6	-1		7.7	0.5	3	35	212	183	173
Uruguay		40	0.1	1.0	1	9	12	7		10.7	-3.7	-10	60	282	200	257
Hungary		381	-0.1	-0.8	-4	-23	-15	-16		8.1	28.0	-27	128	545	363	333
Poland		4.45	0.0	-0.5	-4	-15	-9	-9		7.0	22.0	-61	75	508	345	308
Romania		4.7	0.1	0.6	-2	-12	-7	-7		8.6	-17.6	-48	73	583	378	345
Russia		54.0	0.8	2.8	23	34	39	51		8.1	-10.1	-21	9	85	-65	-306
South Africa		15.9	-0.6	0.9	-2	-10	0	-5		8.9	12.5	11	66	160	148	132
Turkey		16.50	2.6	5.0	-2	-47	-19	-16		19.3	-22.0	-34	-403	214	-501	-311
US (DXY, 5y UST)		104	-0.1	-0.6	2	13	9	8		3.23	4.2	-11	51	231	197	132

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		4444	1.1	3	11	-15	-10	-4		197	5	-16	-6	-6	-11	
Indonesia		7016	-0.4	1	0	18	7	1		199	-1	-18	28	34	14	
India		53161	0.8	3	-3	1	-9	-7		179	6	-15	36	47	25	
Philippines		6239	0.3	-2	-7	-10	-12	-15		140	-5	-21	48	39	3	
Thailand		1580	0.7	1	-4	0	-5	-7		0	0	0	0	0	0	
Malaysia		1438	0.1	0	-7	-7	-8	-9		129	4	-5	6	12	-4	
Argentina		82606	-0.7	-7	-12	27	-1	-10		2358	141	424	820	678	621	
Brazil		98672	0.6	-1	-12	-22	-6	-12		344	0	16	94	33	13	
Chile		4984	1.0	-1	-7	15	16	14		169	-4	-14	26	29	-5	
Colombia		1366	2.0	-7	-11	6	-3	-10		417	31	36	164	69	25	
Mexico		47742	2.3	-1	-9	-6	-10	-7		431	3	35	94	99	61	
Peru		18855	1.9	-3	-10	-1	-11	-19		194	-8	-7	32	44	4	
Hungary		39469	0.1	-1	2	-19	-22	-17		223	-18	-1	90	99	70	
Poland		53633	1.2	1	-5	-21	-23	-15		89	-11	66	58	57	73	
Romania		12577	1.2	2	2	6	-4	-5		318	5	44	138	125	86	
Russia		2409	0.7	0	0	-37	-36	-22		3411	-577	938	3228	3234	2897	
South Africa		68230	2.7	3	-3	3	-7	-9		442	-16	27	121	87	53	
Turkey		2534	-0.8	0	4	82	36	26		630	-40	18	172	52	67	
Ukraine		519	0.0	0	0	-2	-1	0		4540	663	1299	4042	3781	3067	
EM total		41	#VALUE!	3	-3	-27	-17	-14		432	3	17	78	46	-26	

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

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