



- Lower bank deposits likely to boost money market funding for banks ([link](#))
- Euro Area inflation marginally lower than expected in June ([link](#))
- China PMI shows uptick in manufacturing activity, but moderation in service sector ([link](#))
- Brazil's National Monetary Council keeps inflation target at 3% ([link](#))
- Polish inflation surprises on the downside in June ([link](#))

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Signs of easing inflation takes pressure off rising yields

Data out of Europe and the US this morning show prices rising slightly slower than expected. In the US, the core PCE deflator rose 4.6% y/y in May, a bit lower than expected (4.7%) while personal income rose 0.4% m/m compared to an expectation of 0.3%. Following the data release, the yield on the 2-year UST declined 5 bp. That move helped unwind some of the rise yesterday and overnight that followed the stronger than expected US GDP release. Inflation data in the euro area was also reported somewhat lower than expected for June. Although core euro area inflation inched up to 5.4% y/y (from 5.3% in May), that was lower than the expectation of 5.5%. That release however had little immediate impact on bond yields, especially in light of the sharp rise in yields earlier in the week driven by hawkish comments from ECB. In Brazil, the national monetary council left the inflation target unchanged at 3%. The decision removed uncertainty following some pressure to either raise the target rate or remove a strict target altogether.

Key Global Financial Indicators

Last updated: 6/30/23 8:05 AM	Level		Change from Market Close				YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		23-Feb-22
Equities			%				%	
S&P 500		4396	0.4	0	5	16	15	4
Eurostoxx 50		4391	0.8	3	4	27	16	11
Nikkei 225		33189	-0.1	1	5	28	27	25
MSCI EM		39	-0.5	-1	3	-2	4	-17
Yields and Spreads			bps					
US 10y Yield		3.87	3.4	14	19	86	0	188
Germany 10y Yield		2.43	1.4	8	9	109	-14	220
EMBIG Sovereign Spread		436	-6	-5	-42	-99	-16	23
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.9	-0.3	-1	-2	-5	-2	-8
Dollar index, (+) = \$ appreciation		103.4	0.0	0	-1	-1	0	7
Brent Crude Oil (\$/barrel)		74.4	0.1	1	2	-35	-13	-23
VIX Index (% change in pp)		13.5	-0.1	0	-4	-15	-8	-18

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

Mature Markets

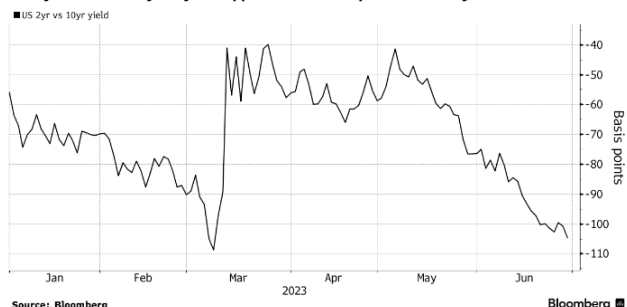
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United States

Surprisingly strong US economy supports higher rates for longer. Yesterday's GDP and labor market releases came in much better than expected and were interpreted by investors as a confirmation that rates will be higher for longer. Markets revised up their terminal rate expectation and raised the odds of a consecutive rate hike in September to 50% during the day. At the same time, Treasury yields surged across the curve, led by short-dated tenors that are most sensitive to policy rates, intensifying the yield-curve inversion.

With the two-year rate exceeding the 10-year by more than 100 bp, the inversion level has returned near to levels seen in March.

Yield Curve Inversion Intensifies
Policy-sensitive 2-year yield approaches March peak over 10-year

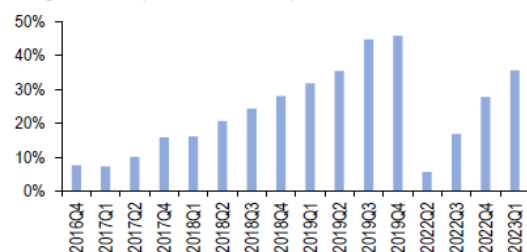


In this morning's data release, the May PCE deflator was softer than April's, while core PCE came in a tick lower than expected at 4.6% y/y, though the monthly change of 0.3% was in line with expectations. At the same time, personal income rose faster than expected, on the back of a strong jobs report, but personal spending moderated as consumers recalibrate their spending habits. The softness in the inflation print on the back of weaker spending may alleviate pressure in the Fed to hike twice in the remaining year. Stock futures extended gains and Treasuries erased losses after the release.

Deposit outflows expected to continue, supporting money market funding for banks. The recent stress tests show that large US banks have enough capital to withstand severe macroeconomic stress. Liquidity, however, remains a key focus of bank analysts. Total commercial bank deposits have declined rapidly this year, decreasing by nearly \$750 bn YTD. Bank deposit betas have remained surprisingly low through the hiking cycle, though betas increased in 4Q22 and 1Q23. JPM analysts expect that deposits will continue to decline during 2H23, mainly as depositors migrate to MMFs, as T-bill supply contributes to reserves draining, and as the Fed continues to shrink its balance sheet. As a result, overall bank funding in money markets could increase as banks look to replenish their lost deposit funding. Analysts expect continued lending from Federal Home Loan Banks (FHLBs). They see financial CP/CD net supply increasing by \$175 bn in 2H23 and a further increase in private repo lending. However, this type of market funding will be more expensive compared to deposits.

Figure 10: Deposit betas have been rising at a faster pace compared to the prior cycle

Average estimated deposit betas across the top 52 banks*, %



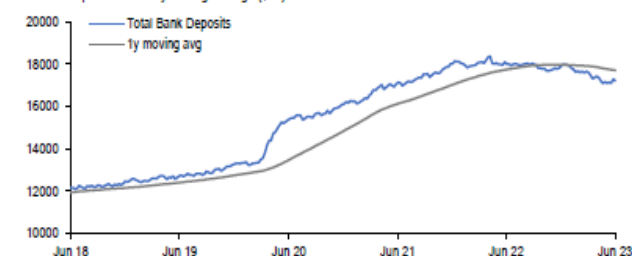
Source: S&P Capital IQ

*Note: Cohort includes GSIBs, Category II-IV banks, and US regional banks with total assets between \$30-100bn (also includes FRC, SBNY, SIVB, PBCT, ISBC, and STI). 4Q'16-4Q'19 periods anchored to 3Q'15 period hiking cycle inception. 2Q'22-1Q'23 periods anchored to 4Q'21 period hiking cycle inception.

For more details, see [U.S. Regional Bank Handbook: 1Q'23 Edition](#), Kabir Caprihan, 6/6/23

Figure 11: Total commercial bank deposits have declined rapidly this year, decreasing by nearly \$742bn YTD

Total bank deposits versus 1y moving average (\$bn)



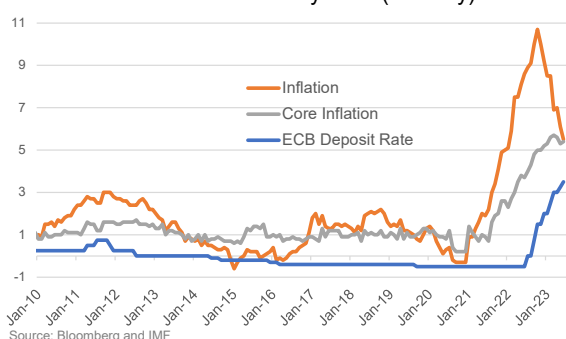
Source: Federal Reserve, J.P.Morgan

Euro Area

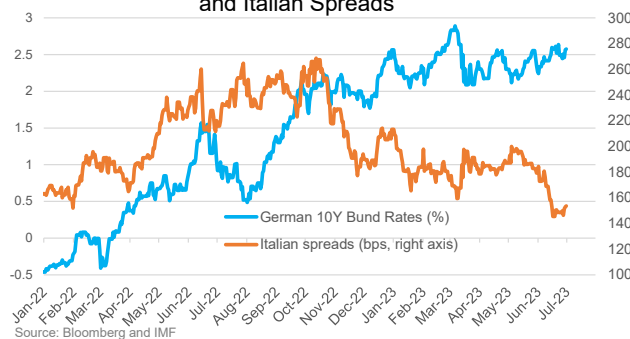
European equity markets are gaining, and bond yields continue to inch higher as core inflation increased slightly to 5.4% in June, marginally less than expected, compared to 5.3% in May. The equity market (Stoxx Europe 600) was up 0.9%, with bank stocks gaining 1.5%. The euro was weakening 0.2% vs. the dollar to 1.08/\$. German 10y bund yields were up 3 bp to 2.44%, and Italian spreads were down 1 bp to 167 bp.

Moves in European core bond yields were relatively muted by recent standards after Euro area inflation came in marginally lower than expectations. Headline inflation for June came in at 5.5% y/y slightly below expectations of 5.6% and down from 6.1% in May. Although core inflation increased slightly compared to May (5.4% from 5.3% y/y), it was also marginally lower than expected (5.5%). Yields on German bonds were little changed, with 2y bond yields broadly flat at 3.18%, and 10y yields up 3 bp to 2.44%. It's noteworthy however that 10y yields have risen 13 bp since Monday, after hawkish speeches from ECB officials at the ECB Forum on Central Banking in Sintra and better than expected data in the US. Market estimates of the ECB's rate path have not changed after the June inflation release, with only an addition 6 bp of cuts priced in from March 2024. As a reminder, the next ECB meeting will be on July 27.

Euro Area: Inflation and Policy Rate (monthly)



German 10Y Bunds Rates and Italian Spreads



Japan

The yen depreciated 0.1% to 144.9 per dollar. Japanese officials, including Finance Minister Suzuki, continued with verbal interventions, while traders continued to assess FX intervention risk. **Industrial production declined 1.6% m/m in May**, deeper than expected (consensus: -1.0%). Meanwhile, Tokyo CPI increased 3.1% y/y in June, lower than expected (consensus: +3.4%). Deputy Bank of Japan Governor Himino said that recent price increases were larger than previously expected and that inflation expectations are rising close to the 2% inflation target. He also indicated that JGB market functioning has improved significantly. Long-end JGB yields edged up (10-year: +1.2 bp; 30-year: +2.9 bp), with the 10-year yield touching 0.395%. Equities declined (NIKKEI: -0.1%).

Yen Weakens to Previous Intervention Levels



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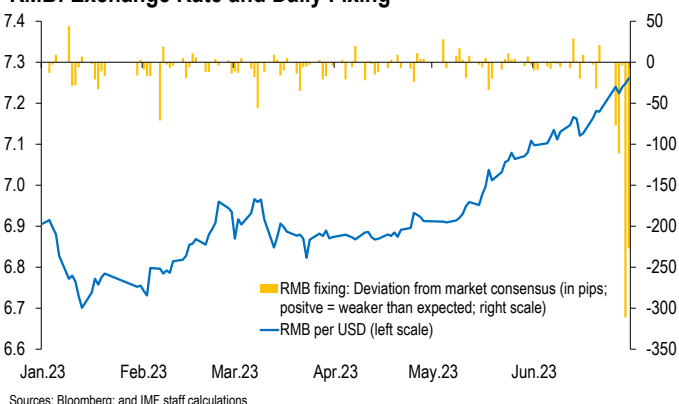
Asian equities were mixed, falling 0.1% on net. Thai (+1.3%) and Indian (+1.0%), equities gained, while share prices dropped in the Philippines (-0.7%) and Malaysia (-0.6%). Asian currencies were also mixed. Thai baht (+0.3%) and Philippine peso (+0.2%) appreciated, while the Taiwanese dollar (-0.3%) and Chinese yuan (-0.2%) depreciated. Long-end government bond yields increased, with 10-year yields rising in the Philippines (+5 bp), Singapore (+4 bp), and Malaysia (+4 bp), following the rise in US treasury yields. **Equity markets in EMEA were mixed.** South Africa (+0.9%), the Czech Republic (-0.7%), and Romania (+0.6%) were leading gains, while other countries saw small losses. In currencies, the South African rand was weakening (-1%), while central and eastern European currencies were range-bound vs. their reference currencies. Local bond yields were broadly stable. **LatAm markets were mixed Thursday with equities closing higher and currencies depreciating.** Equity markets in Brazil (+1.7%) and Chile (+1.3%) saw the largest gains among major markets. Most regional currencies depreciated following the broader EM trend, except for the Brazilian real which remained unchanged. In Argentina, the central bank will allow commercial banks to open accounts in Chinese yuan, as per media reports. This is yet another measure the country has taken to tackle depleted US dollar liquidity and leverage the swap line with China.

China

June official PMI showed an uptick in manufacturing activity, while the pace of recovery in the services sector moderates.

Manufacturing PMI improved to 49.0 in June albeit remaining in the contractionary zone, in line with expectations, while non-manufacturing PMI moderated to 53.2 in June from 54.5 in May (consensus: 53.5). Composite PMI thus weakened to 52.3 in June from 52.9 in May. According to Huachuang Securities, local government financing vehicles bought about 30% of land sales in May, up from 22% in April. In 2022, LGFV purchases more than half of residential land sales. RMB depreciated (-0.2%), touching 7.26 yuan per dollar, even though the People's Bank of China (PBC) continued to set the daily RMB fixing stronger than expected by 227 pips at 7.226 yuan per dollar. The PBC also injected liquidity in an amount of 103 bn yuan (\$14.2 bn) to ease quarter-end funding pressures. The key interbank repo rate (DR007) increased to 2.18% (+28 bp). CGB yields dropped (1-year: -5 bp; 10-year: -1 bp). Equities gained (CSI 300: +0.5%).

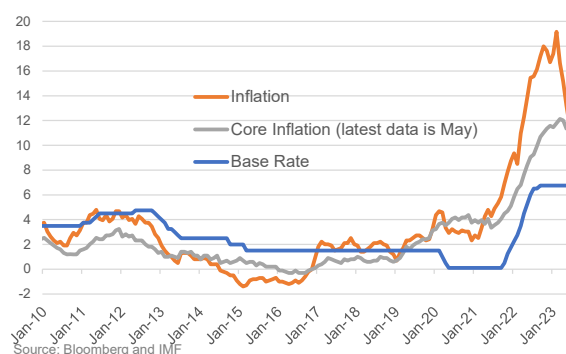
RMB: Exchange Rate and Daily Fixing



Poland

Polish assets were little changed even though June inflation surprised on the downside. Inflation fell to 11.5% y/y (vs. 11.8% expected) down from 13% in May. Momentum has stalled as m/m inflation was zero for the second consecutive month. 10y bond yields were down 4 bp to 5.75% and the zloty was unchanged vs. the euro (at 4.45/euro). The national Bank of Poland is expected to keep rates unchanged at 6.75% next Thursday. JP Morgan analysts write that the macro case for cuts in Q4 is still quite weak but note that the mix of lower inflation, solid external accounts and an easing bias put the odds of cuts on the rise. ING analysts now expect the National Bank of Poland to cut rates in September and possibly in October too, after inflation falls below 10% y/y in August (their estimate).

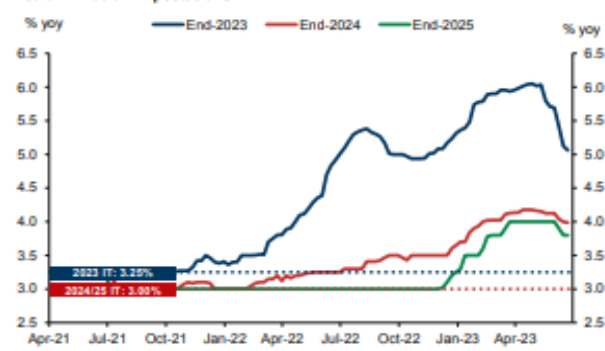
Poland: Inflation and Policy Rate



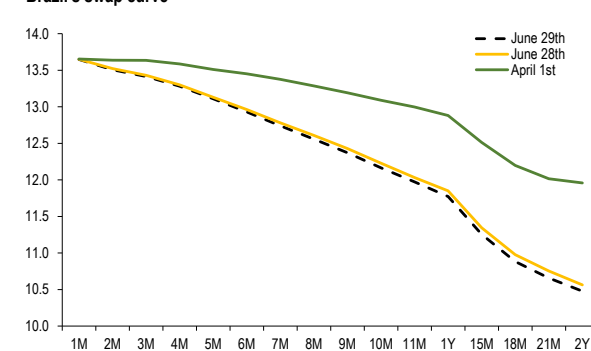
Brazil

Inflation target kept unchanged for 2024–25 at 3% with a tolerance range of +/- 1.5%, in a unanimous decision of the National Monetary Council. The council is comprised of the Central Bank president, along with the ministers of finance and planning. Further, the council decided that from 2025 the current set up of year-end targets will be replaced with a constant medium-term inflation goal. Hence, whenever inflation deviates from the target band, the central bank should act to bring it back within the target band over a period of 24 months. Markets reacted positively to the news, as equities were up (1.5%), the currency unchanged (bucking the selloff seen in other regional peers), and the swaps curve shifted further down (5–10bp over 8–24 month tenors).

Median Inflation Expectations





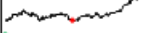


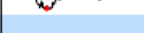


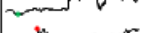






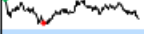
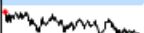


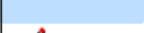

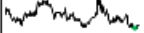
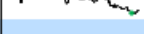
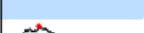

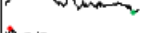
Brazil's swap curve



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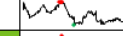
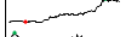




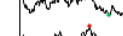



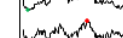

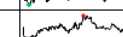












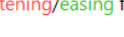
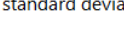
Global Financial Indicators

6/30/23 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4404	0.4	1	5	16	15
Europe		4391	0.8	3	4	27	16
Japan		33189	-0.1	1	5	28	27
China		3842	0.5	-1	-1	-14	-1
Asia Ex Japan		66	-0.8	-1	2	-5	2
Emerging Markets		39	-0.5	-1	3	-2	4
Interest Rates			basis points				
US 10y Yield		3.87	3.4	14	19	86	0
Germany 10y Yield		2.43	1.4	8	9	109	-14
Japan 10y Yield		0.40	1.0	3	-3	17	-2
UK 10y Yield		4.45	6.6	13	20	222	78
Credit Spreads			basis points				
US Investment Grade		152	-0.1	-5	-12	-27	-7
US High Yield		440	-4.1	-29	-49	-144	-40
Exchange Rates			%				
USD/Majors		103.38	0.0	0	-1	-1	0
EUR/USD		1.09	0.0	0	2	4	1
USD/JPY		144.7	0.0	1	4	7	10
EM/USD		48.9	-0.3	-1	-2	-5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		74.4	0.1	1	3	-19	-11
Industrials Metals (index)		140	-0.2	-2	0	-10	-15
Agriculture (index)		66	0.7	-5	4	-4	-4
Implied Volatility			%				
VIX Index (% change in pp)		13.5	-0.1	0.0	-4.5	-15.2	-8.2
US 10y Swaption Volatility		102.3	0.2	7.3	-22.4	-25.8	-23.4
Global FX Volatility		8.5	0.0	0.3	-0.4	-2.6	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		129	2.4	4	-21	-99	-76
Italy		167	-1.3	4	-13	-26	-47
Portugal		72	-0.6	3	-2	-36	-30
Spain		99	0.0	3	-6	-10	-10

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

Emerging Market Financial Indicators

Last updated: 6/30/2023 8:06 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		7.27	-0.3	-1.2	-2	-8	-5		2.7	0.0	-4	-7	-17	-32
Indonesia		15066	-0.5	-0.4	0	-1	3		6.3	-3.4	-8	-17	-101	-68
India		82	0.0	0.0	1	-4	1		7.4	7.1	3	10	(10.2)	-2
Philippines		55	0.2	1.0	2	0	1		5.9	1.3	1	1	28	-8
Thailand		35	0.6	-0.6	-2	0	-2		2.8	-1.0	-1	14	-12	14
Malaysia		4.67	0.1	0.3	-1	-6	-6		3.8	4.0	2	14	-41	-19
Argentina		256	-0.1	-1.4	-7	-51	-31		104.4	3.1	-653	-307	4447	1624
Brazil		4.87	-0.3	-1.7	4	8	9		11.0	-3.8	-8	-70	-196	-162
Chile		803	-0.4	0.2	0	15	6		5.1	0.0	8	-14	-129	-25
Colombia		4182	-0.8	-1.8	6	-2	16		7.6	0.0	-16	-110	-146	-223
Mexico		17.08	0.3	0.6	4	18	14		8.1	0.0	5	-23	-79	-63
Peru		3.6	0.0	-0.1	1	4	5		6.9	-0.9	-6	-31	-85	-106
Uruguay		37	0.2	0.7	3	5	6		9.6	-6.3	-27	-39	-98	-106
Hungary		342	-0.2	-0.7	1	10	9		7.0	-1.0	-24	-96	-86	-258
Poland		4.09	0.2	-0.3	4	10	7		5.0	-3.5	-8	-33	-161	-114
Romania		4.6	0.0	-0.4	2	3	1		6.7	9.9	19	-20	-208	-104
Russia		88.6	-1.5	-4.7	-8	-39	-16							
South Africa		18.9	-1.0	-1.0	4	-14	-10		9.7	6.5	-13	-64	62	50
Turkey		26.06	-0.1	-3.2	-20	-36	-28		16.9	8.0	-53	778	-244	704
US (DXY; 5y UST)		103	0.0	0.5	-1	-1	0		4.17	3.9	18	36	113	17

	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		3842	-1.3	-1	-1	-14	-1		186	2	-8	-12	9	
Indonesia		6662	-2.0	0	0	-5	-3		132	-4	-10	-78	-8	
India		64719	8.2	2	3	22	6		129	-1	-22	-65	-13	
Philippines		6468	-2.1	1	-1	5	-1		105	-2	-9	-51	8	
Thailand		1503	-6.9	0	-2	-4	-10		0	0	0	0	0	
Malaysia		1377	-5.0	-1	0	-5	-8		92	0	-5	-41	-8	
Argentina		416467	1.7	0	22	371	106		2078	-139	-522	-296	-127	
Brazil		118383	1.5	0	9	20	8		251	2	-8	-114	-23	
Chile		5728	1.3	-1	5	16	9		127	0	-4	-56	-5	
Colombia		1131	0.3	0	3	-15	-12		376	10	-30	-80	4	
Mexico		53585	0.2	0	2	13	11		376	3	-20	-85	-5	
Peru		22141	-0.2	-1	5	20	4		164	3	-17	-49	-16	
Hungary		50453	17.8	0	7	29	15		209	-1	-24	-20	-13	
Poland		67237	10.9	1	8	26	17		133	0	-3	46	60	
Romania		12543	0.6	5	3	2	8		225	-3	-30	-112	-30	
South Africa		75878	-2.3	2	1	15	4		415	0	-40	-75	48	
Turkey		5759	5.7	10	26	131	5		480	-16	-133	-205	40	
Ukraine		507	0.0	0	0	-2	-2		4158	-229	-788	-669	79	
EM total		39	0.4	-1	3	-2	4		382	-2	-41	-75	7	

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

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