



- Fed officials push back rate hike expectations ([link](#))
- Tech share performance obscure underlying weakness in US stocks ([link](#))
- Analysts speculate solid growth in Canada may lead to additional rate hikes ([link](#))
- Preliminary euro area inflation eases more than expected ([link](#))
- PMIs in CEE and EM Asia largely in line with expectations ([link](#))
- India's 1Q GDP well above expectations, prompts upward growth revisions ([link](#))
- Nigerian Central Bank Denies Devaluation Rumors ([link](#))




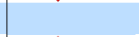


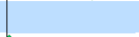
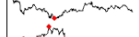


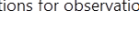
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News Flow and Central Bank Remarks Brush Away Debt Ceiling Narrative

Treasuries rallied on the back of dovish remarks by FOMC voting members Harker and Jefferson, which both advocated for a pause at the June Fed meeting. The House passed the Bipartisan Debt-Ceiling Deal, which is now with the Senate, where leaders promised quick action. In the Euro Area, May flash inflation data eased, portended by slowing inflation data in Germany, France and Spain released earlier this week while President Lagarde warranted caution that the ECB has more room to cover. In the UK, concerns over the housing market remain prevalent while a latest Bank of England business survey indicates that inflation expectations of corporates have increased. In Canada, stronger than expected growth is the latest in a slew of economic data that suggests a rate hike at the impending Bank of Canada meeting next week. India's growth similarly surprised to the upside as India's government announced a plan to sell a 3% stake in Coal India Ltd. China's new home sales by the largest one hundred developers contracted -14.3% m/m while government investment is slowing as mirrored by weaker issuance of local government infrastructure bonds. Sri Lanka's central bank surprised with a 250bps rate cut and standing deposit and lending facility rates reduced to 13% and 14%.

Last updated: 6/1/23 9:16 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4180	-0.6	1	0	2	9	-1
Eurostoxx 50		4233	0.3	-1	-3	13	12	7
Nikkei 225		31148	0.8	1	7	14	19	18
MSCI EM		38	-0.9	-1	-2	-10	1	-20
Yields and Spreads			bps					
US 10y Yield		3.60	-4.2	-22	3	69	-27	161
Germany 10y Yield		2.26	-2.5	-27	-6	107	-31	203
EMBIG Sovereign Spread		477	1	-4	-6	29	25	64
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.7	0.1	-1	-2	-6	0	-6
Dollar index, (+) = \$ appreciation		104.0	-0.3	0	2	1	0	8
Brent Crude Oil (\$/barrel)		72.4	-0.3	-5	-9	-38	-16	-25
VIX Index (% change in pp)		17.4	-0.5	-3	1	-8	-4	-14

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

Mature Markets

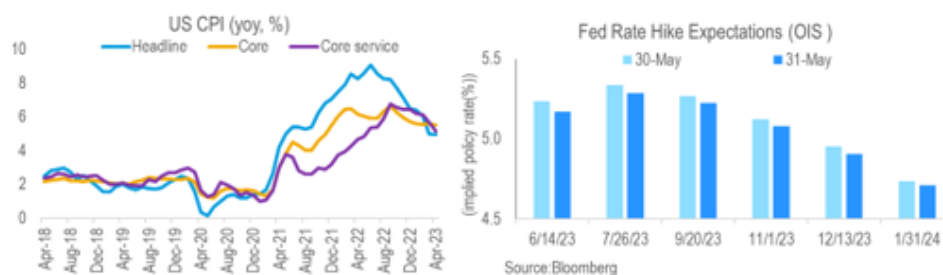
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United States

The market reaction following this morning's ADP and jobless claims data was a mixed reaction.

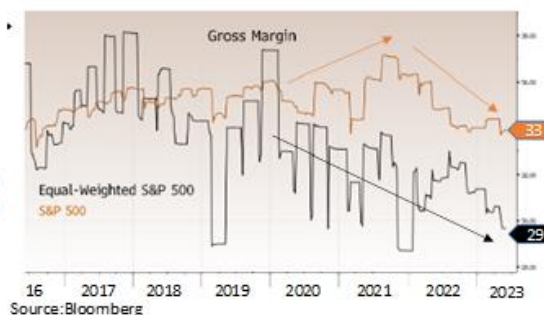
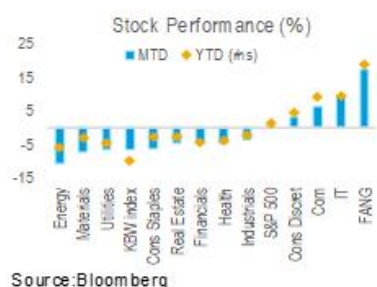
Following the release of the ADP data, 2-year Treasury yields increased from 4.43% to 4.45% while retracing to 4.41% following the release of the jobless claims. The dollar was fractionally moving down. In terms of ADP data, private employers added 278k jobs in May (expected 170k from 291k revised previously). Weekly initial jobless claims increased to 232k (expected 235k from 230k previously) while continuing claims recorded 1795k (expected 1800k from 1794k previously).

Dovish Fed speak prompted Treasuries to rally. Treasury bond yields have declined by around 3 bps to 4.05% at the 2-year tenor and 3.65% at the 10-year tenor following Fed Governor Jefferson's remarks that the Fed might pause in June, while more hikes could follow. Jefferson, who is a voting member of the FOMC and known for being a centrist, stated that *"skipping a rate hike at a coming meeting would allow the Committee to see more data before making decisions about the extent of additional policy firming"*. At the same time, he pointed at the stickiness in core service inflation (left chart below) and argued that pause should not be interpreted as the end of the hiking cycle. Philadelphia Fed President Harker who is also seen on the centric spectrum and a voting member leaned similarly dovish by stating that *"I think we can take a bit of a skip for a meeting."* These remarks pushed back market odds of a 25 bp hike in June to 32% from 60% the previous day (right chart below).



Latest JOLTs data indicates strong momentum and a tight labor market. Job openings in April unexpectedly increased by 10.1 mn (expected 9 mn from 9.75 mn upward revised), ending a three-month slide in openings. The ratio of vacancies to unemployed moved up from 1.7% to 1.8%, well above the 1.0-1.2% range that is considered consistent with a balanced labor market. Quits continued to decline, and the quiet rate, which measures voluntary job leavers as a share of total employment, dropped to 2.4%, which is the lowest since 2021. US 2-year Treasury yields jumped 10 bps right after the data releases.

The S&P 500 posted a -0.6% decline, leading to a nimble +0.25% monthly and a +8% ytd gain. Tech shares drove these gains while most of the other major sectors recorded losses in May (left chart). Analysts argue that tech-sector gains were confounding the underlying weakness in US stocks. Indeed, less than 30% among the S&P 500 constituents rose in May, which corresponds to the weakest breadth behind a monthly advance for decades as Bloomberg analysis shows. Moreover, the equal-weighted S&P 500, where tech companies account for a 13% share shows a trend of falling gross margins since the start of the pandemic, whereas the standard market-value-weighted S&P 500, in which tech shares account for a 30% share, shows a downward trend only after late 2021 (right chart).

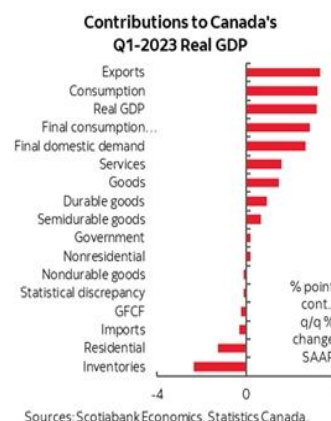
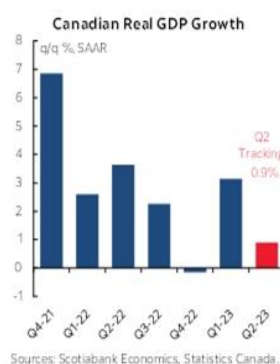


Canada

Latest GDP data came in stronger and broader than expected.

In Q1, Canada's economy in 1Q expanded at a 3.1% q/q annualized pace (expected 2.5% from 0%), which was higher than the Bank of Canada's (BoC) forecast of 2.3%. Preliminary data suggest that GDP increased 0.2% in April, stronger than the anticipated 0.1% contraction, and most analysts expect the Canadian economy to achieve a soft landing, without technical recession in the middle of this year, according to a Bloomberg survey (right chart below). The details behind the Q1 growth

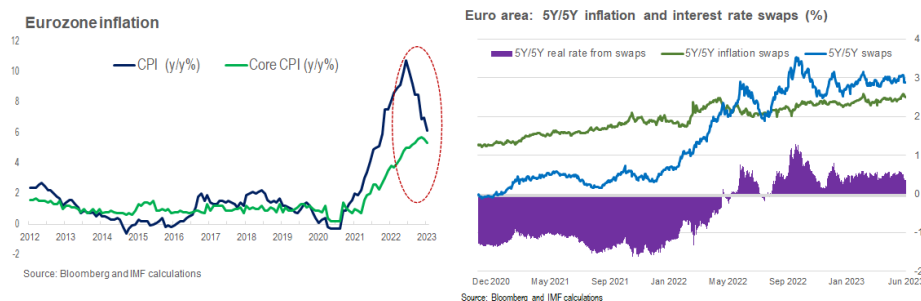
numbers indicate a broad-based economic momentum and more than just retracing from one-off effects that dragged Q4 growth last year. In terms of contributors, goods spending by consumers contributed 1.5 ppts in weighted terms to Q1 GDP growth with services contributing 1.6ppts. This indicates that the interest-sensitive forms of spending were strong including durable goods consumption that contributed 0.9% to overall GDP growth (left chart below). The latest GDP data is the latest in a string of evidence that firms the view among analysts that the Bank of Canada may need additional rate hikes after staying on hold for the last two meetings. In reaction to the latest GDP data, the Canadian dollar appreciated, and 2-year government bond yields rose about 3 bps to 4.23%.



Euro Area

European equities were trading in the green (Stoxx 600 +0.8%) snapping three days of declines, with the banking sector gaining (+1.1%). The euro (+0.2%) retraced opening losses against the dollar in later trade.

Core yields were little changed after May's flash inflation data surprised on the downside. Both headline and core inflation came in lower than expected, with headline inflation easing to 6.1% y/y (expected 6.3% from 7.0% previously) and core inflation falling to 5.3% y/y (expected 5.5% from 5.6% previously) after inflation prints from Germany, France and Spain surprised on the downside earlier this week. Rates of 5y/5y inflation swaps declined (-7 bps since the end of last week to 2.5%). This morning ECB President Lagarde reiterated that the ECB has more ground to cover "to bring interest rates to sufficiently restrictive levels", noting that it is not yet clear that core inflation has peaked. Markets are pricing in two 25bs hikes by September to take the terminal rate to 3.75%.



UK

Concerns over the UK housing markets remain prevalent. Data from Nationwide Building Society show UK house prices have contracted at a pace of -0.1% m/m (expected -0.5% from +0.4% revised previously) and -3.4% y/y (expected -3.7% from -2.7% previously). While seeing a “relatively soft landing” for house prices given household savings and low levels of unemployment, Nationwide’s chief economist expects housing market headwinds to strengthen in the near-term given a backdrop of rates that are anticipated to remain higher for longer, which in turn might push up mortgage rates further. A separate data release showed mortgage approvals declining to 48,700 in April (versus expected 45,500 from 51,500 previously). One-year ahead inflation expectations increased to 5.9% in May (from 5.6% in April), and three-year ahead inflation expectations increased to 3.5% (from 3.4%). Gilt yields and the pound were little changed.

Japan

Strong economic data supports equity rally. Japanese stocks rose +0.8%, while yields on 10Y bonds fell 1.3bps, the yen depreciated -0.4%. Latest Ministry of Finance fund flows indicate that foreign investors remain net buyers for the ninth consecutive week. In terms of economic data, May PMI and firms’ data in Q1 surprised on the upside whereas capital spending of Japanese firms accelerated to +11% y/y (from +7.7% previously). Company profits gained +4.3% y/y (from -2.8% previously) in Q1. The Jibun Bank manufacturing PMI notched at 50.6 in May (from 49.5% previously).

Emerging Markets [back to top](#)

EMEA markets posted mixed results. Equity markets were up in Poland (+0.9%), South Africa (+0.98%), and in Türkiye (+2%), but slightly down elsewhere. The South African rand and the Turkish lira had a weakening bias to the dollar, while central and eastern European currencies were broadly flat.

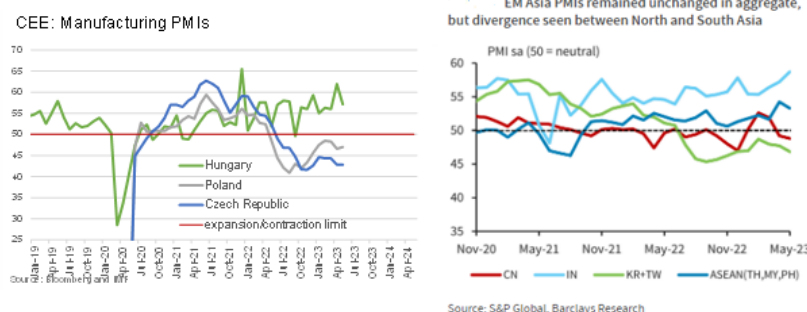
Asian equities posted a nimble gain. Among stocks, Mainland China gained (+0.2%) whereas Philippines underperformed (-0.7%). In currencies, the South Korean won appreciated +0.4% while the Sri Lankan rupee weakened -0.3%.

Latin American currencies were mostly down. Colombia’s equity markets outperformed (+0.6%) while those in Chile contracted (-2.2%) The Colombian peso (-1.3%) led the depreciation against the dollar. The Mexican central bank published its quarterly inflation report for 1Q23 on Wednesday, suggesting rate cuts are not discarded by the end of this year as Core inflation has slowed down but remains at an elevated level.

Emerging Market PMIs

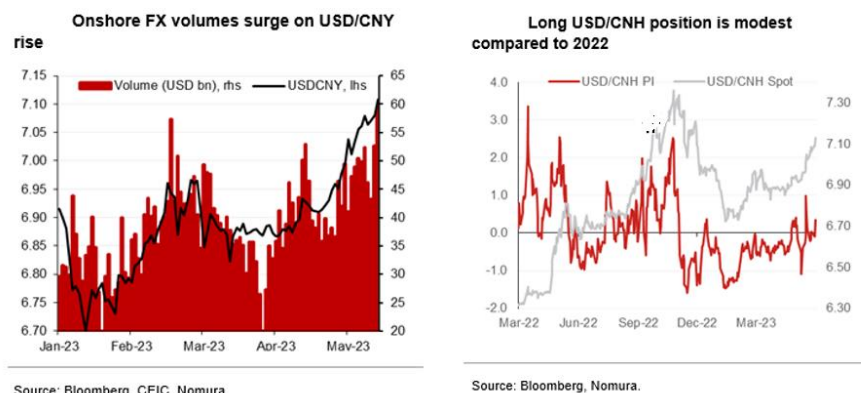
PMI data in central and eastern Europe and Asia was largely unchanged in May. In the Czech Republic, May PMI was 42.8 (expected 41.5), unchanged from April. In Poland, the May PMI printed 47 (expected 46 from 46.6). In Hungary, PMIs continued to expand 57.0 (expected 57.1 from 61.9). Asian

manufacturing PMI were largely unchanged in May. Declines in PMIs in the export-oriented economies (Korea, Taiwan) were offset by gains in the domestically oriented economies (India, the Philippines).



China

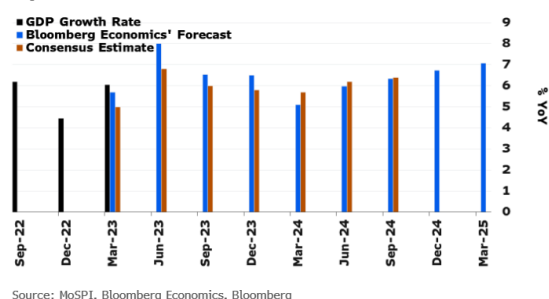
A pickup in onshore FX volumes shows that Chinese exporters have been unwinding their hedges. Nomura analysts point at the latest data that indicates a reduction of short USD/CNH hedges to 20% from around 40-60% at the beginning of 2023. They note that there is scope for the FX hoarding to intensify. Onshore FX volumes have risen sharply to \$59.4bn on Tuesday, which is close to a previous record of \$66.3bn in October 2018. It could reflect authorities' actions to smooth FX volatility and corporate concerns over yuan depreciation.



India

Latest GDP data surprised to the upside. In Q1, India's economy accelerated to +6.1% y/y (expected +5% from +4.5% previously). Market contacts note three factors that helped propelling growth. Government subsidies have bolstered the electronics sector, multinational companies continued to outsource activities to India to reduce costs, and real credit expanded at a faster pace than expected. The upside surprise of the data release prompted a few analysts to raise their outlook for 2023.

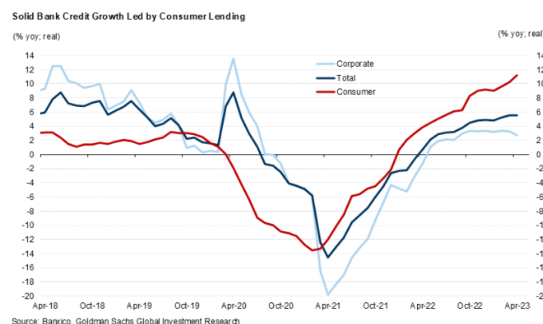
1Q Growth Boost Brushes Off RBI Rate Hikes



Mexico

Bank credit growth remained solid in April led by accelerated consumer credit growth. Total bank real credit grew 5.6% y/y (from 5.6% previously). Consumer credit growth accelerated to 11.2% y/y in April, while corporate credit growth remained sluggish and increased by 2.7% y/y. Credit demand by corporates

was negatively impacted by the weak investment outlook and policy risks. Analysts expect high rates and a soft economic outlook to subdue credit growth in the near term.



Nigeria

The Central Bank of Nigeria (CBN) denies rumors that the Naira had been devalued today. In a statement published in the late morning today, CBN rebuked media reports that the naira had been devalued earlier today. The central bank reaffirmed that the Naira was trading at 465/\$ this morning and not at 630/\$ as reported in some media outlets.

President Tinubu's remarks in his inauguration speech on Monday that he encourages the central bank to work towards a unified exchange rate and that he would scrap fuel subsidies have stirred the country. While the removal of fuel subsidies has not been officially announced yet, some media outlets report panic buying in the country and a tripling of fuel prices. In addition to rumors about the level of the exchange rate, the local media also speculates about the future of CBN governor Godwin Emefiele, whose term expires in June 2024. Nevertheless, Yields on Nigeria's Eurobonds have rallied as investors are keen to see the removal of fuel subsidies and a more liquid FX market.

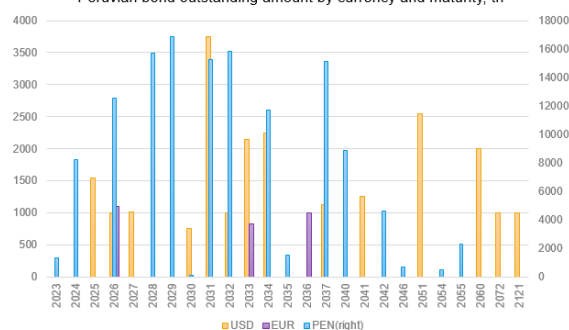
Nigeria: Naira and Eurobond Yields



Peru

Peru is tapping global markets for the first time this year with a sustainability bond to buy back existing sovereign debt. The sol-denominated bonds will mature in 2033 to fund green and social expenditures, and the early price talks call for a yield of 7.7%. Peru is planning to buy back existing sol-denominated sovereign bonds that are coming due this year, 2024, 2026, and 2028, based on a statement by the government. It also planned to buy back existing dollar-denominated bonds that will mature from 2025 to 2027, and those due in 2030 and 2031.






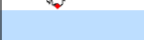






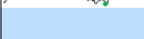




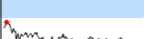


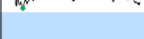



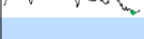

Peruvian bond outstanding amount by currency and maturity, tn



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Global Financial Indicators

6/1/23 9:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4182	-0.6	2	0	2	9
Europe		4232	0.3	-1	-3	13	12
Japan		31148	0.8	1	7	14	19
China		3807	0.2	-1	-6	-7	-2
Asia Ex Japan		65	-0.7	-1	-2	-9	0
Emerging Markets		38	-0.9	-1	-2	-10	1
Interest Rates			basis points				
US 10y Yield		3.60	-4.0	-21	3	70	-27
Germany 10y Yield		2.26	-2.5	-27	-6	107	-31
Japan 10y Yield		0.42	-1.2	0	2	19	0
UK 10y Yield		4.12	-6.7	-26	40	196	44
Credit Spreads			basis points				
US Investment Grade		165	0.1	1	6	14	6
US High Yield		501	2.6	10	30	73	21
Exchange Rates			%				
USD/Majors		104.03	-0.3	0	2	1	0
EUR/USD		1.07	0.1	0	-2	1	0
USD/JPY		139.1	-0.2	-1	1	7	6
EM/USD		49.7	0.1	-1	-2	-6	0
Commodities			%				
Brent Crude Oil (\$/barrel)		72.6	0.0	-5	-8	-24	-13
Industrials Metals (index)		142	1.0	2	-8	-23	-14
Agriculture (index)		65	1.9	0	-2	-13	-6
Implied Volatility			%				
VIX Index (% change in pp)		17.4	-0.5	-2.6	1.3	-8.3	-4.3
US 10y Swaption Volatility		121.7	-3.0	-5.6	5.8	13.1	-4.0
Global FX Volatility		8.9	0.0	0.1	-0.1	-0.8	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		150	0.0	11	-38	-98	-56
Italy		187	6.8	-1	0	-15	-28
Portugal		74	-0.6	-2	-8	-42	-28
Spain		105	0.1	-2	1	-7	-4

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

Emerging Market Financial Indicators

Last updated: 6/1/2023 9:15 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		7.11	0.0	-0.4	-3	-6	-3		2.8	-2.0	-4	-27	-6	-27
Indonesia		14993	-0.1	-0.6	-2	-3	4		6.4	-4.2	-5	-16	-67	-57
India		82	0.4	0.4	-1	-6	0		7.4	2.0	6	7	(29.2)	-10
Philippines		56	-0.2	-0.4	-2	-7	-1		5.9	1.3	4	-3	48	-8
Thailand		35	0.0	-0.6	-2	-1	-1		2.6	-1.0	-12	0	-35	-1
Malaysia		4.61	0.0	0.3	-3	-5	-5		3.7	-0.6	-9	-1	-52	-34
Argentina		240	-0.3	-1.8	-7	-50	-26		109.4	21.7	194	1512	5310	2122
Brazil		5.05	0.0	-0.2	-1	-5	4		11.8	10.3	2	-71	-73	-82
Chile		808	0.2	0.1	0	2	5		5.2	-4.5	-18	0	-94	-16
Colombia		4436	0.3	1.2	6	-14	9		8.7	0.0	-18	-43	28	-113
Mexico		17.61	0.4	1.4	2	12	11		8.3	1.5	-19	-1	-26	-39
Peru		3.7	0.1	0.6	1	1	4		7.2	0.0	-9	-26	-31	-75
Uruguay		39	-0.1	0.1	0	3	3		10.0	0.0	0	2	-25	-67
Hungary		346	0.2	0.4	-2	8	8		7.8	-15.0	-36	0	80	-177
Poland		4.24	-0.2	-1.0	-1	2	3		5.2	-9.3	-26	-15	-113	-91
Romania		4.6	0.2	-0.4	-3	0	0		6.8	-4.5	-13	-33	-100	-90
Russia		81.1	0.2	-1.3	-1	-22	-9							
South Africa		19.7	0.0	0.4	-7	-21	-14		10.2	-10.0	-8	86	173	104
Turkey		20.80	-0.2	-4.2	-6	-21	-10		9.1	0.0	0	-380	-1341	-74
US (DXY; 5y UST)		104	-0.3	0.1	2	1	0		3.71	-4.3	-20	8	80	-29

	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		3807	0.2	-1	-6	-7	-2		194	-1	0	-11	17
Indonesia		6633	0.0	-2	-4	-7	-3		148	7	-5	-37	8
India		62429	-0.3	1	2	12	3		145	-6	-14	-22	3
Philippines		6431	-0.7	-2	-4	-4	-2		119	4	-5	-11	22
Thailand		1521	-0.8	-1	0	-8	-9		0	0	0	0	0
Malaysia		1383	-0.3	-1	-3	-11	-8		97	0	-4	-27	-3
Argentina		342079	-0.4	1	15	274	69		2610	12	-87	693	405
Brazil		108339	-0.6	-2	4	-3	-1		269	5	-8	-33	-5
Chile		5472	-2.2	-3	1	3	4		139	8	1	-12	7
Colombia		1099	0.6	0	-8	-32	-15		410	1	-15	75	38
Mexico		52736	-1.1	-1	-4	2	9		401	4	10	36	20
Peru		21179	0.1	-1	-3	2	-1		184	2	5	16	4
Hungary		46826	-0.9	1	4	16	7		239	9	12	27	17
Poland		63277	1.6	-1	1	11	10		143	10	6	134	70
Romania		12230	0.0	0	0	-2	5		258	5	-2	8	2
South Africa		75502	0.6	-1	-3	7	3		466	13	47	83	99
Turkey		4951	1.3	12	7	93	-10		569	-49	63	-17	129
Ukraine		507	0.0	0	0	-2	-2		4989	106	-325	1709	910
EM total		38	0.4	-1	-2	-10	1		420	-4	1	42	44

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

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