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- US rates markets see higher-for-longer as the base case for 2024 ([link](#))
- Higher revision to the long-run dot from the Fed could steepen the US Treasury curve ([link](#))
- Chinese developer troubles deepen as Dexin gets liquidated ([link](#))
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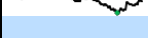



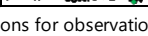
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European assets underperform on higher political uncertainty

European assets extended Monday's losses as jitters about political uncertainty in France continued in the aftermath of the European parliamentary elections. The euro weakened for the third consecutive day and the spread of French OATs over bunds continued to widen. 10-year French OAT yields rose another 9 bps this morning, after increasing 13 bps yesterday. ECB officials' cautious tone on future rate cuts seemed to provide further impetus to the euro area government bond selloff yesterday, with president Lagarde saying that interest rates "are not on a linear declining path." In the UK, markets brought forward BoE rate cut expectations slightly following data showing a cooling in the UK labor market. This morning, markets were pricing 36 bps of BoE easing in 2024, compared to 32 bps yesterday. Across the pond, US Treasury yields fell ahead of the release of May's CPI tomorrow and the FOMC's rate decision. In emerging markets, Chinese stocks underperformed as property developer troubles deepened on news of Dexin being liquidated.

Key Global Financial Indicators

Last updated: 6/11/24 8:23 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5361	0.3	1	3	25	12.39
Eurostoxx 50		4966	-1.0	0	-2	16	10
Nikkei 225		39135	0.2	1	2	21	17
MSCI EM		42	0.6	0	0	6	5
Yields and Spreads			bps				
US 10y Yield		4.43	-3.6	11	-6	69	55
Germany 10y Yield		2.65	-2.4	11	13	27	62
EMBIG Sovereign Spread		386	0	2	18	-70	2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.1	-0.1	-1	-1	-7	-4
Dollar index, (+) = \$ appreciation		105.3	0.1	1	0	2	4
Brent Crude Oil (\$/barrel)		81.4	-0.2	5	-2	9	6
VIX Index (% change in pp)		13.1	0.4	0	1	-1	1

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

Mature Markets

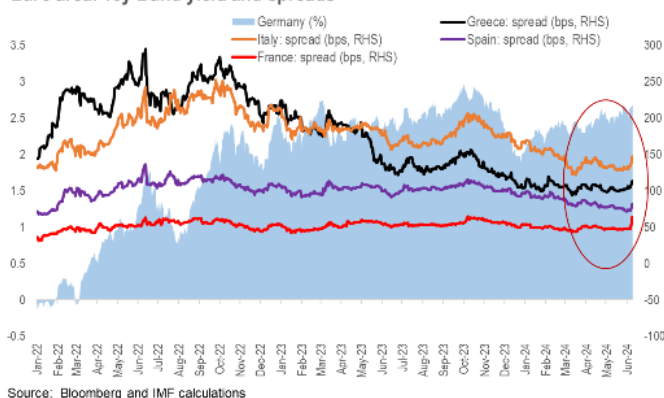
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Euro area

Equity markets were lower this morning, while the euro was marginally weaker (-0.2%) against the dollar. Equity indices in Spain (-1.4%), France (-1.2%) and Italy (-1.2%) were underperforming, with the Stoxx 600 index lower (-0.6%) this morning. All sectors were trading in the red., with the banking sector underperforming (-1.8%). The euro is now roughly 1% weaker than at the start of the month, with ING analysts expecting the euro to continue trading at around 1.07 this month, with downside risks, against a backdrop of France's fiscal concerns.

European government bond spreads remain under pressure with the spread between German and French 10-year sovereign yields widening to levels last seen in October 2023. Unicredit analysts note that the snap election heightens uncertainty regarding France's fiscal trajectory and also the risk for EU integration. French OATs saw the most significant impact with 10-year yields ending 13 bps higher yesterday. This morning, 10-year Germany bund yields were little changed, trading at around 2.66%, while 10-year French OAT yields continued to increase (+9 bps to 3.31%), seeing the spread between 10-year German bund and French OATs widening further to 65 bps, its widest level since October 2023. 10-year Italian spreads were 8 bps wider at 149 bps, while the 10-year spreads of Spain, Portugal and Greece were also roughly 4 bps wider this morning. **Analysts think 10-year OAT-bund spreads could widen further.** Deutsche Bank analysts commented the Franco-German 10y spread could widen further, noting the relative vulnerability of French government debt to adverse events because of its relatively higher reliance on non-domestic investors. Commerzbank analysts also note that overseas investors were the largest net buyers of French OATs in Q1 and highlight a similar pattern in other euro area markets. In the meantime, **ECB officials' cautious tone on future rate cuts seemed to provide further impetus to the European government bond selloff yesterday.** President Lagarde yesterday said that interest rates "are not on a linear declining path."

Euro area: 10y Bund yield and spreads



United Kingdom

Markets brought forward BoE rate cut expectations slightly following labor market data, with some analysts noting that an August rate cut is underpriced by markets. Data released this morning were seen to indicate a general cooling of the UK labor market. Data showed the ILO unemployment rate increasing further to 4.4% in April (versus expectations to remain unchanged at 4.3%). The headline measure of average weekly earnings in April surprised on the upside (5.9% 3m y/y versus expected 5.7% from an upwardly revised 5.9%), while weekly earnings excluding bonuses was slightly lower than expected at 6.0%. JP Morgan analysts see a BoE rate cut in June as unlikely, but think that next week's inflation print could help guide expectations regarding the possibility of a rate cut in August. ING analysts also note the importance of the services component of the inflation print next week, but think that markets are underpricing the likelihood of a summer rate cut. Markets are now pricing in 11 bps of BoE easing by August (compared to 9 bps yesterday), and a total of 36 bps of easing in 2024 (compared to 32 bps yesterday). The first 25 bps BoE rate cut is fully priced in by November. Gilt yields were roughly 3 bps lower across the curve this morning (10-year gilt -3 bps at 4.29%), with Bloomberg analysts also noting **that the 10-year syndicated gilt sale this morning that saw record orders led to gilt yields easing across the curve.**

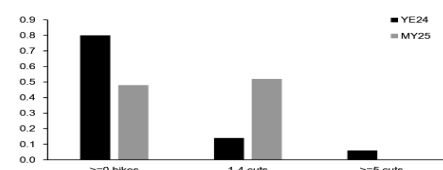
United States

Spillovers from the results of the European parliamentary election to the US were limited yesterday. The S&P 500 remained buoyant and added marginally to its year-to-date gains (+0.3%). Treasury yields were up by a few basis points (+3 bps) with the dollar maintaining its strength yesterday. Investors are keenly waiting for Wednesday's CPI release in the morning followed by the FOMC's interest rate decision and its updated dot plot in the afternoon. Volatility in rates markets is expected to remain elevated until there is some clear guidance on when (and if) the Federal Reserve will start its cutting cycle this year.

US rates markets are seeing higher-for-longer as the base case for 2024. US economic outperformance has paved the way for yields to increase (+67 bps ytd). While the divergence between soft and hard data along with soft forward guidance from the Fed has fueled volatility in Treasury markets, investors see the central bank holding rates as the base case scenario for the rest of the year. The current pricing goes against the FOMC members' median dot projection of three cuts for 2024. Thus far in the year, options markets seem to have pushed out uncertainty towards mid-2025 where the likelihood of the central bank cutting is more evenly split. The higher-for-longer theme is also visible across tenors of the yield curve according to a methodology that decomposes nominal yields into the average of the expected short-rate and term premia.

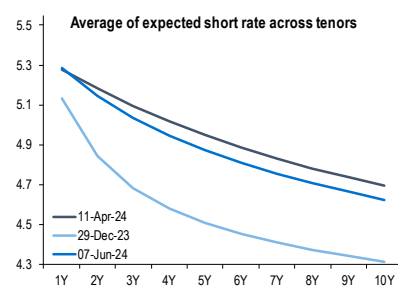
Figure 3: Deconstructing implied distributions on Z4 and M5 SOFR futures suggests that a high-for-long outlook is now dominant for the remainder of this year

Total weights for scenarios with ≥ 0 hikes (which includes the unchanged scenario), 1 Cut - 3 Cuts, and ≥ 4 Cuts scenarios* for conditional Normal distributions that can be combined to create a composite distribution that recovers prices of SFRZ4 and SFRM5 calls and puts at various strikes**, 6/7/2024**



Source: J.P. Morgan, CME, Bloomberg Finance L.P.
 * For a detailed discussion of the methodology and the scenarios corresponding to various hikes and cuts, see *What's the rush?*
 ** Weights reflect live values as of 9:30 AM ET on 6/7/2024

Average expected short-rate remains significantly above levels seen at the start of the year
Percent

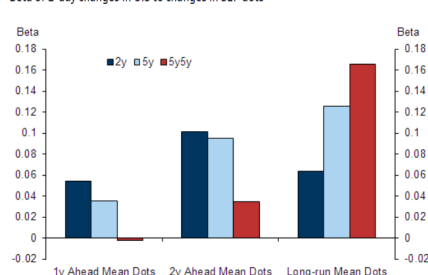


Source: Adrian, Crump & Moench (2013), Bloomberg, NYFRB.

Higher long-run average dots from the Fed could steepen the US Treasury curve. FOMC members are due to update their dot plot during this week's monetary policy meeting. Goldman Sachs strategists think the median dot for 2024 moving to two cuts from three should be the baseline scenario for markets given current market pricing. Another point of focus for investors will be whether there will be any revisions to the long-term dot projection, which has been at 2.5% since Q2-2019. Discussion of the neutral rate has picked up pace recently with six Fed speakers commenting on the measure last month. A higher revision in the long-term dot has historically steepened the yield curve, which could result in higher term premia for US yields.

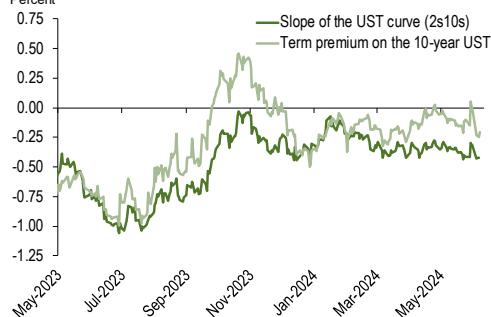
Exhibit 2: Increases in near term dots have typically flattened the curve, while long-run dot upgrades have resulted in steepening

Beta of 1-day changes in OIS to changes in SEP dots



Source: Goldman Sachs Global Investment Research

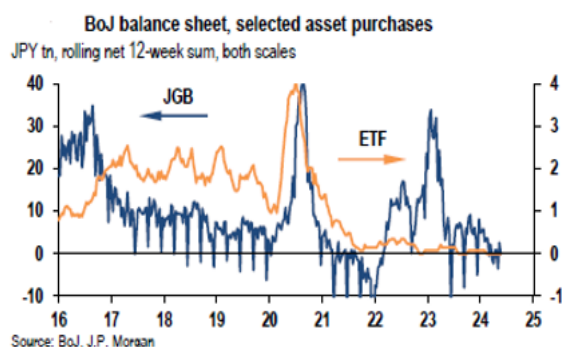
Term premia could increase following a higher revision to the longer-term dot
Percent



Source: Adrian, Crump & Moench (2013), Bloomberg, NYFRB, IMF Staff calculations

Japan

Japanese government bonds and yen are moving in a tight range prior to the FOMC and the Bank of Japan (BOJ) meetings this week. Media reports suggested that the BOJ is preparing to formalize a change in the balance sheet policy, JP Morgan noted. Market contacts expect the BOJ to provide more clarity on its plans to reduce government bond purchases. Separately, agricultural fund Zenkyoren, a major investor in Japanese super-long bonds with total government debt holdings of about ¥38 tn (\$242 bn) as of September 2023, said it will buy JGBs on dips as current yield levels remain attractive, Bloomberg reported. Zenkyoren believes domestic interest rates will not go up that much and may instead follow overseas counterparts down moving forward. Separately, machine tool orders rebounded to +4.2% y/y (previous: -8.9% y/y) in May. The Japanese yen depreciated -0.1%, 10-year bond yields fell -1.8 bps, equities were mixed (Topix: -0.2%; Nikkei: +3%).



Emerging Markets

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Asian equities broadly declined, as Hong Kong SAR (-1.1%) and Mainland China (-0.9%) caught up on the recent global markets sell-off after returning from holidays. India bucked trend and gained +0.3%, led by the IT and energy sectors. **Asian currencies were mixed**, and bond yields were mostly little changed. **Indonesia's** central bank (BI) said the rupiah should stay below 16,300 against the dollar and noted that ample dollar supply from exporters and inflows into domestic assets will also support the currency. Meanwhile, the BI continues to intervene in forex spot, domestic non-deliverable forwards and bond markets. **Singapore's** authorities have reportedly ramped up scrutiny of family offices and hedge funds with stricter reporting requirements, Bloomberg reported. **EMEA equities continued to mostly trade lower today, and currencies weakened.** Equities in Türkiye (+1.1%) bucked the trend, while the lira was stable to the dollar. **Stocks in Latin America were mostly flat yesterday.** Currencies were also mixed, experiencing relatively small movements. The **Mexican peso** (+0.2%) rebounded yesterday but weakened again on Tuesday, testing the 18.50 support level to the dollar, and remaining the worst-performing EM currency this month. Mexican president-elect Sheinbaum and AMLO held a press conference after the close yesterday, reaffirming their stance to not rush a package of constitutional reforms. **Brazilian assets** remained under pressure as investor concerns over fiscal issues persist. The Brazilian real weakened on Monday (-0.2%) and is the worst underperforming currency after the Mexican peso this quarter (-6%). Brazilian domestic stocks are down -5.7% over the same period.

China

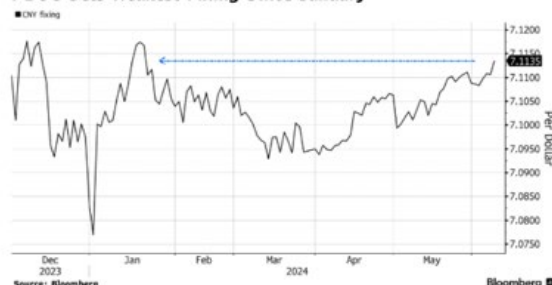
Chinese stocks fell (-0.9%) as property developer troubles deepened on news of Dexin being liquidated. Some analysts noted renewed concerns around the property sector and weak domestic travel spending during the holidays. Average spending per traveler during the three-day dragon boat festival holidays, was 12.3% below 2019 levels, Citibank estimated. Meanwhile, Chinese developer Dexin China Holdings received a liquidation order from a Hong Kong SAR court. Dexin China's shares slumped -6.6%

and trading has been suspended since mid-day. Dexin has a total liability of 64.4 bn yuan (\$8.9 bn) as of end-2023. The yuan (-0.1%) depreciated to the weakest level since November 2023, with state banks reportedly selling dollars. 10-year bond yields were little changed.

Chinese Stocks Fall Amid Fragile Investor Mood



PBOC Sets Weakest Fixing Since January

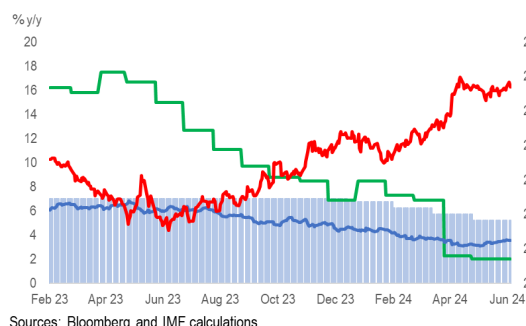


Czechia

The Czech koruna was weaker (-0.3%) against the euro today, as CPI inflation printed below expectations at 2.6% y/y in May (consensus 2.8%), from 2.9% y/y in April. Consumer prices were flat in May (0% m/m vs. +0.1% expected). Goldman Sachs continues to expect that the central bank (CNB) will cut its policy rate by 50 bps on June 27, while JP Morgan expects the CNB to diminish the easing pace, cutting its policy rate by only 25 bps to 5%, given the still elevated wage growth (7.1% y/y in Q1) and its impact on consumer demand. JP Morgan noted that the koruna is doing well on the premise that the CNB is more hawkish than their peers. The koruna outperformed quarter-to-date other CEE currencies, appreciating to the euro by 1.8%.

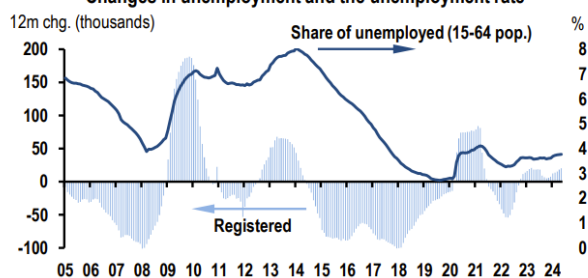
Czech Republic: Policy rate, inflation and currency

Policy Rate Inflation Forward rate 9X12 CZK per EUR (RHS)



Sources: Bloomberg and IMF calculations

Changes in unemployment and the unemployment rate



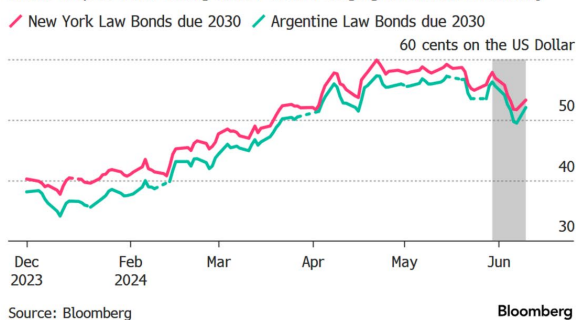
Source: Ministry of Labour and Social Affairs, J.P. Morgan

Argentina

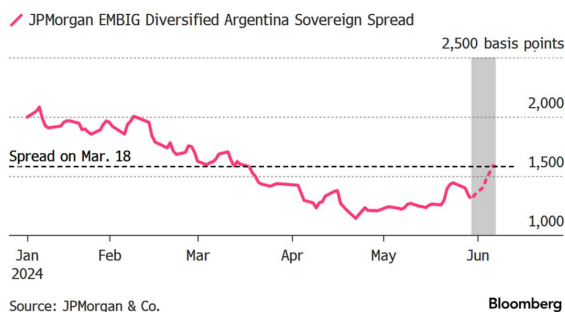
Argentinian benchmark sovereign dollar bonds due in 2030 have fallen about 5 cents on the dollar in the past month, reaching their lowest level in two months before rebounding on Monday. The months-long rally faltered as lawmakers attempt to dilute president Milei's omnibus bill aimed at raising taxes and cutting spending. During this same period, Argentina's sovereign spreads are seemingly returning to their March levels, erasing any positive momentum. However, analysts at Bank of America published a note on Monday praising the value of sovereign bonds due in 2038, citing the recent slide in prices as a buying opportunity.

Argentina Bonds Seesaw on Milei's Political Woes

Bonds drop in week ending June 7 before staging a rebound on Monday

**Wall Street Worries Over The Path of Milei's Reforms**





















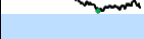


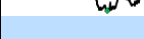

Investors are demanding more yield over US treasuries to hold Argentine debt



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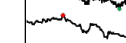











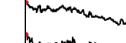
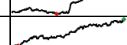

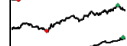






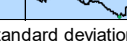










Global Financial Indicators

6/11/24 8:22 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5357	0.3	1	3	25	12
Europe		4966	-1.0	0	-2	16	10
Japan		39135	0.2	1	2	21	17
China		3543	-0.9	-1	-3	-8	3
Asia Ex Japan		72	0.5	1	1	6	7
Emerging Markets		42	0.6	0	0	6	5
Interest Rates			basis points				
US 10y Yield		4.43	-3.6	11	-6	69	55
Germany 10y Yield		2.65	-2.4	11	13	27	62
Japan 10y Yield		1.03	-1.7	0	12	60	41
UK 10y Yield		4.29	-3.5	11	12	5	75
Credit Spreads			basis points				
US Investment Grade		120	0.5	2	3	-43	-14
US High Yield		355	4.5	-1	13	-107	-30
Exchange Rates			%				
USD/Majors		105.31	0.1	1	0	2	4
EUR/USD		1.07	-0.3	-1	-1	0	-3
USD/JPY		157.1	0.0	1	1	13	11
EM/USD		46.1	-0.1	-1	-1	-7	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		81.4	-0.2	5	-1	14	7
Industrials Metals (index)		152	-1.4	-4	-4	5	7
Agriculture (index)		59	-0.1	-1	-2	-11	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.1	0.4	0.0	0.6	-0.7	0.7
Global FX Volatility		7.3	0.0	0.2	0.2	-0.8	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	8.8	13	16	-10	15
Italy		149	9.1	16	15	-24	-18
Portugal		69	4.4	8	4	-3	6
Spain		82	4.8	8	3	-16	-15

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

Emerging Market Financial Indicators

Last updated: 6/11/2024 8:19 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		7.25	-0.1	-0.2	0	-1	-2		2.2	-0.5	-4	-4	-55	-31
Indonesia		16291	0.0	-0.4	-1	-9	-5		7.0	5.2	14	5	68	54
India		84	-0.1	-0.1	0	-1	0		7.3	-1.0	-9	-20	(12.7)	8
Philippines		59	0.2	0.1	-1	-4	-6		5.5	-0.1	-6	-11	-42	-11
Thailand		37	0.1	-0.3	0	-6	-7		2.8	-2.3	-1	-4	8	12
Malaysia		4.72	0.1	-0.4	0	-2	-3		3.9	-0.1	0	-4	15	14
Argentina		902	-0.3	-0.6	-2	-73	-10		44.8	7.1	443	571	-6594	-4159
Brazil		5.35	0.1	-1.2	-4	-9	-9		12.0	-4.4	8	16	69	159
Chile		921	-0.3	-1.8	1	-12	-4		5.2	-0.2	12	-3	27	33
Colombia		3962	-0.7	-2.5	-2	6	-2		8.2	0.0	-17	-16	14	57
Mexico		18.35	-0.6	-2.6	-8	-6	-7		9.7	0.0	18	40	134	122
Peru		3.8	-0.6	-1.4	-2	-3	-2		7.1	-1.4	8	-4	-18	41
Uruguay		39	0.2	-0.3	-1	-1	0		9.2	3.5	5	5	-68	-31
Hungary		368	-0.8	-1.7	-2	-7	-6		6.6	1.0	2	1	-85	81
Poland		4.04	-0.7	-2.1	-2	2	-3		5.3	-2.5	6	10	10	79
Romania		4.6	-0.3	-1.4	-1	-1	-3		6.6	-0.3	2	8	-4	43
Russia		89.2	-0.4	-0.4	3	-6	0							
South Africa		18.6	0.6	0.6	-1	0	-1		9.5	-8.0	-28	-28	-34	39
Türkiye		32.37	0.0	0.6	0	-27	-9		28.3	19.0	66	106	1280	154
US (DXY; 5y UST)		105	0.2	1.2	0	2	4		4.43	-4.8	9	-8	52	59

	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		3543	-0.9	-1	-3	-8	3		134	0	-6	-54	-24		
Indonesia		6856	-1.0	-3	-3	2	-6		92	-9	-2	-55	-4		
India		76457	0.0	6	5	22	6		92	2	-1	-44	-24		
Philippines		6410	-0.8	0	-2	-1	-1		82	-7	-1	-36	2		
Thailand		1316	-0.2	-2	-4	-15	-7		0	0	0	0	0		
Malaysia		1611	-0.2	0	1	16	11		77	-1	-2	-18	-8		
Argentina		1576628	3.8	-5	12	313	70		1495	81	219	-901	-418		
Brazil		120760	0.0	-1	-5	3	-10		218	0	5	-37	3		
Chile		6622	-0.2	0	0	16	7		119	-1	3	-13	-6		
Colombia		1412	0.1	1	2	19	18		301	-6	13	-67	30		
Mexico		53123	0.3	3	-8	-3	-7		309	6	14	-87	-25		
Peru		29538	-1.0	-2	-2	34	14		152	1	11	-22	8		
Hungary		70005	-0.3	2	1	42	15		147	-4	2	-83	-2		
Poland		84122	-0.9	-1	-3	26	7		95	-4	1	-43	-2		
Romania		17771	-0.6	0	3	45	16		183	0	6	-63	-17		
South Africa		75946	-0.3	-1	-3	-1	-1		329	-3	3	-78	21		
Türkiye		10110	1.1	-2	-1	80	35		282	0	8	-209	-32		
EM total		42	-0.8	0	0	6	5		380	4	54	-18	35		

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

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