


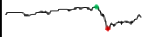


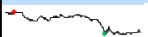
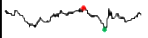







- **FOMC keeps rates unchanged, with no rate increases expected through 2022** ([link](#))
- **US Treasury yields decline on dovish FOMC** ([link](#))
- **US Treasury market liquidity recovers but remains fragile** ([link](#))
- **European stocks drop with banks, autos and travel underperforming** ([link](#))
- **China's credit continues to expand spurred by policy support measures** ([link](#))

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Market sentiment deteriorates post FOMC

Global stocks dropped as the FOMC's dovish tone and cautious growth outlook dented market sentiment. Reports of coronavirus infection rates increasing in parts of the US raised concerns over a second wave of Covid-19 infections and gave investors another reason to pause the rally in risky assets seen in recent weeks. The Committee's median projection showed no rate increases through 2022, with nearly all of the members expecting to keep rates close to zero until then. The FOMC indicated that it would continue asset purchases at the current monthly pace of at least \$80 bn of Treasuries and \$40 bn of MBS, while some analysts speculated that the Fed opened the door to yield curve control. Members expected the US economy to contract by 6.5% this year, before bouncing back in 2021 with 5% growth. The risk-off mood drove advanced economy sovereign bond yields lower, with credit spreads widening and the dollar strengthening. The VIX rose by 3.4 pts to 31.0, its highest level since May 15. Oil prices were under pressure after weekly US data showed crude inventories rose to a record high. In emerging markets, equities dropped and currencies weakened on the increasing risk aversion.

Last updated: 6/11/20 8:22 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3190	-0.5	2	9	11	-1
Eurostoxx 50		3202	-2.8	-2	11	-6	-15
Nikkei 225		22473	-2.8	-1	10	6	-5
MSCI EM		41	-2.2	2	13	-2	-8
Yields and Spreads			bps				
US 10y Yield		0.69	-9.9	-13	-2	-145	-123
Germany 10y Yield		-0.40	-6.7	-8	11	-17	-21
EMBIG Sovereign Spread		475	7	-2	-97	123	182
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.7	-0.7	0	6	-11	-9
Dollar index, (+) = \$ appreciation		96.4	0.4	0	-4	0	0
Brent Crude Oil (\$/barrel)		40.0	-4.1	0	35	-36	-39
VIX Index (% change in pp)		31.0	3.4	5	3	15	17

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

United States

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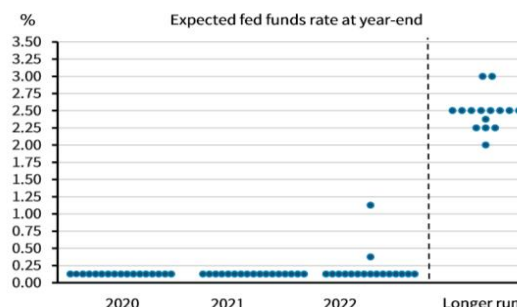
The FOMC kept rates unchanged and its tone was dovish, as expected. The Committee's median projection showed **no rate increases through 2022, with nearly all of the members expecting to keep rates close to zero until then.** The Fed indicated that it would continue to increase its holdings of Treasuries and MBS at least at the current pace - \$80 bn Treasuries and \$40 bn MBS per month. **Treasury yields declined**, with 10-years down by 10 bps to 0.73%, and the 7-to-30-year yield curve steepening by 3 bps. The Committee will likely need to see additional data before providing stronger guidance on asset purchases, consistent with comments by Vice-Chair Clarida before the meeting. In the Summary of Economic Projections, the Fed is expecting the US economy to contract by 6.5% this year, with unemployment falling to 9.3%, before bouncing back in 2021 with 5% growth. In the press conference, Chair Powell was not eager to provide more explicit forward guidance, saying that "what we're waiting for is to learn more." At the same time, he stressed that they are not even thinking about raising rates, emphasizing the risks ahead for the US economy. **Some analysts speculated that the Fed opened the door to yield curve control (YCC).** On YCC, the Committee "reviewed the historical and foreign experience," and noted that whether such an approach complements their primary tool is "an open question." Chair Powell said that the Fed is "very strongly" considering the expansion of the Main Street Lending Program, which is expected to open for business within days, to nonprofits.

FIGURE 1. The median forecast is for a three-year disruption to the economy (if not longer)

June 2020 Summary of Economic Projections (versus Dec 2019 projections)				
Q4/Q4 %chg (unless indicated)	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8
Dec projection	2.0	1.9	1.8	1.9
Unemployment rate (% Q4 avg)	9.3	6.5	5.5	4.1
Dec projection	3.7	3.8	3.9	4.1
PCE inflation	0.8	1.6	1.7	2.0
Dec projection	1.9	2.0	2.0	2.0
Core PCE inflation	1.0	1.5	1.7	
Dec projection	1.9	2.0	2.0	
Federal funds rate	0.1	0.1	0.1	2.5
Dec projection	1.6	1.9	2.1	2.5

Note: Median, or middle, projection of forecasts submitted by FOMC participants.
Source: Federal Reserve, Barclays Research

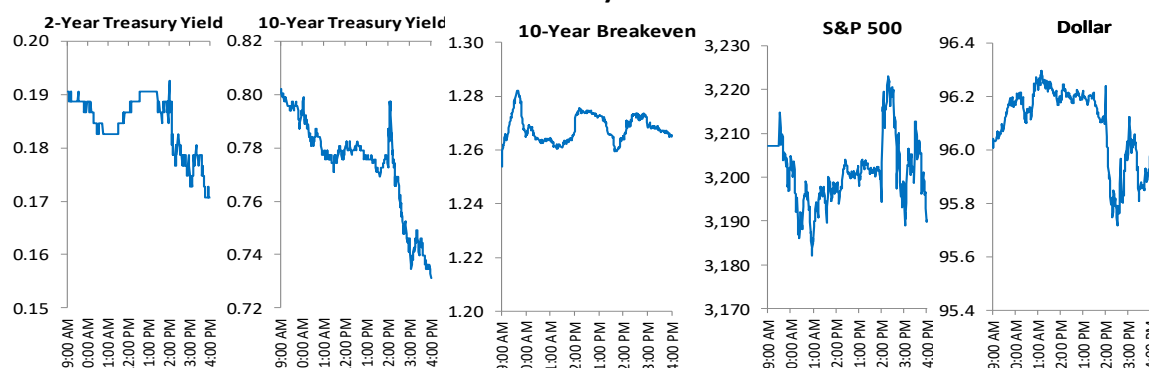
FIGURE 2. The Fed sees a prolonged zero-lower bound episode ahead



Note: Midpoint of the target range or target level of the federal funds rate
Source: Federal Reserve, Barclays Research

Although the Fed's tone was dovish, the reaction in the stock market was mixed on Wednesday. The S&P 500 seesawed around 3,200 after 2 pm to close 0.5% down on the day, while the Nasdaq was up by 0.7%. Bank stocks plummeted -with the KBW bank index down 6%- on lower yield expectations, as some analysts noted that investors of bank shares wanted YCC off the table. The VIX was little changed and the dollar was weaker.

Intraday Moves

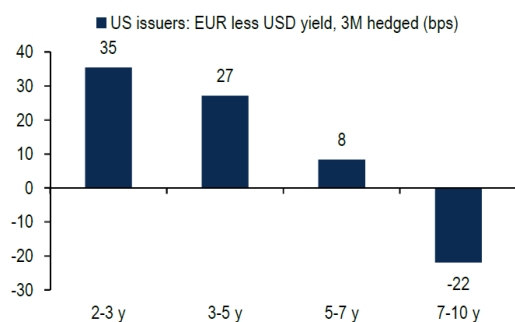


Source: Bloomberg

This morning, **initial jobless claims came in slightly better than expected** (1542k vs. 1550k cons.) while PPI final demand was higher than expected in May (+0.4% mom vs. +0.1% cons.). The market response was relatively muted, with stock futures down marginally, and 10-year Treasury yields down 1 bp. The dollar was little changed.

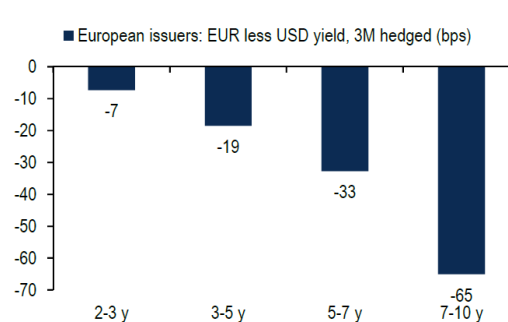
Investment-grade new issuance totaled \$5.6 bn across six deals yesterday, bringing the weak-to-date amount up to \$27 bn, \$77 bn month-to-date, and \$1,147 bn year-to-date. Despite the booming corporate bond issuance, the market has absorbed it easily, as indicated by small concessions in yield at the time of issuance. This week's new issues are trading 3.8 bps tighter on average from the initial pricing. Foreign investors have shown healthy demand, as FX-hedged US IG bond yields are more attractive than local bond yields. There have been also **strong inflows into US bond funds**, with inflows into investment-grade bond funds stepping up significantly in recent weeks as the Fed started purchasing corporate bond ETFs.

Figure 14: EUR less USD IG bond yields, hedged with 3M FX forwards: European issuers



Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC

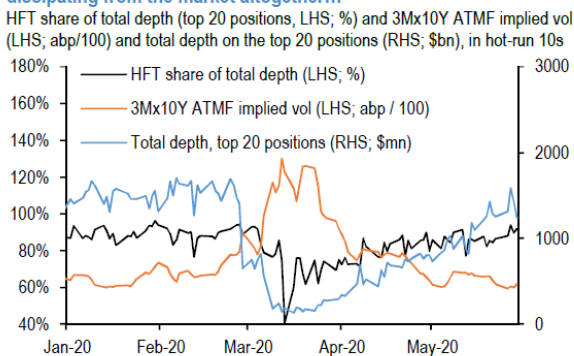
Figure 15: EUR less USD IG bond yields, hedged with 3M FX forwards: US issuers



Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC

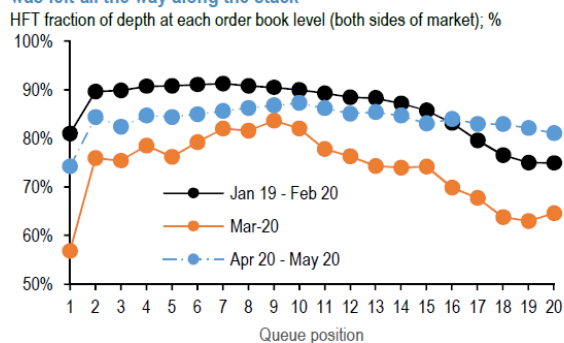
Treasury market liquidity has recovered but remains fragile. The share of high-frequency traders (HFT) of market-making activities has increased, from 35% just after the GFC, to 76% in the two months before the COVID-19 crisis, according to JPMorgan. The rapid withdrawal of HFT activity in March contributed to the spike in intra-day and inter-day volatility and disorderly price action. In particular, HFT activity and liquidity have not returned to their normal status at ultra-long maturities. Some analysts noted that as the Treasury begins to lean more on longer maturities to fund the largest budget deficit to GDP since World War II, including a newly re-introduced 20-year benchmark, market liquidity is essential to ensure smooth market functioning.

Exhibit 3: Total depth across the top 20 positions on both sides of the market dropped significantly in March, consistent with HFTs dissipating from the market altogether...



Source: J.P. Morgan, BrokerTec

Exhibit 4: ... While this effect was acute closest to the front price, it was felt all the way along the stack



Source: J.P. Morgan, BrokerTec

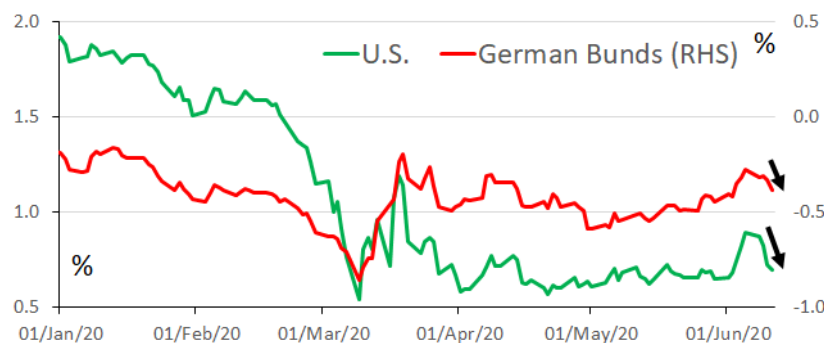
Europe

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European equities (-2.8%) fell in line with other markets with financials and consumer discretionary stocks underperforming. Bank shares fell 4.4%, with Santander (-6.3%) and SocGen (-6.0%) experiencing the largest losses. Consumer discretionary (-3.2%) also underperformed, with autos (-4.9%) and travel and leisure (-3.3%) leading declines. The euro was little changed at \$1.138.

10-year bund yields are 5 bps lower at -0.38%, 10 bps below last week's high. 10-year U.S. rates are 20 bps lower in the same period.

Core Rates: U.S 10-yr yields 20 bps lower this week



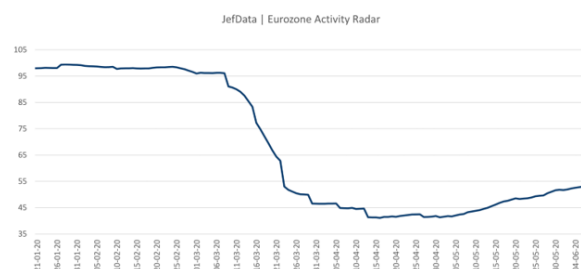
Source: Bloomberg and IMF staff

Italian 10-year spreads are marginally tighter (-1 bps to 186 bps) in a sign of strong demand after the Italian Treasury sold up to €9.5 bn of 3-year, 7-year and 16-year bonds. The auction follows bids of over €100 bn for 10-year debt sold via banks last week and the largest-ever sale of retail bonds (BTP Italia) in May.

The Eurogroup is meeting today and will discuss the EU Recovery Fund ahead of the summit of EU leaders on 19 June. Analysts also expect some potential guidance on the appointment of a new Eurogroup president.

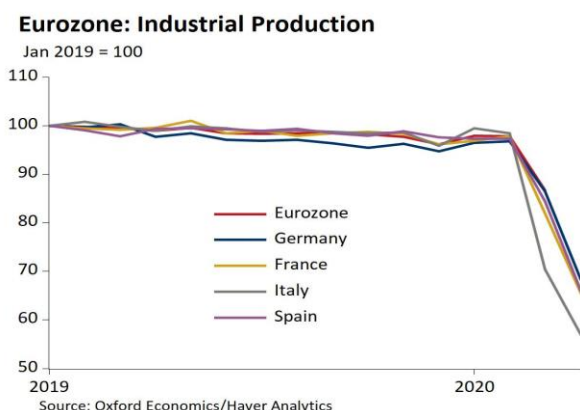
Investors continue to track incoming economic and web-traffic data closely to gauge the speed of the recovery. Jefferies' European Economic Activity Radar suggests euro area activity is running at just 53% of pre-COVID levels, from a revised 52% last week. Analysts see more encouraging trends in web-traffic to Accommodation, Auto Dealer and Property Portal sites, as well as search trends for the major auto manufacturers but such data have yet to translate in higher economic activity. Visits to Accommodation sites are at 66% of normal levels, up from the lows of 18% in late April. Auto Dealer site visits are up to 99% of norms (lows at 54%), whereas visits to Property Portal sites are now above normal observable levels at 116% (lows at 53%).

Jefferies Euro Area Activity Indicator



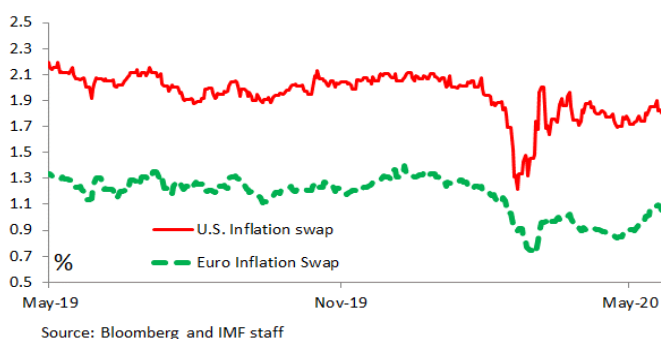
Source: Jefferies

Italian industrial production fell 19% mom in April (24% expected) as the lockdown forced most industrial sectors to close for the whole month. This resulted in a contraction of 42% since February, the biggest fall in output among the largest euro area economics.



ECB officials reiterate that the Pandemic Emergency Purchase Program is designed to counter a “substantial negative shock to the inflation trajectory.” Chief Economist Philip Lane said that PEPP is a temporary tool but that the ECB’s other pre-pandemic QE program (APP) will still be needed after the critical virus stage as “inflation will still be far from our inflation aim.” The time horizon of the APP program will depend on “robust convergence of inflation to the ECB’s target.” 5-yr/5-yr inflation swaps are trading 2 bps lower at 1.06%.

Inflation swaps: 5-yr/5-yr in euro area and U.S.



Crossover high-yield spreads are 20 bps higher at 397 bps. Analysts argue that comments by ECB GC member Schnabel suggest that the ECB may be hesitant to directly buy fallen angels any time soon. Ms Schnabel welcomes a discussion on a fiscal backstop for buying fallen angels but is not sure that there would be much political appetite, adding that buying bank bonds raises a conflict of interest. Investment-grade CDS spreads are 3 bps higher at 71 bps.

United Kingdom

The pound (-0.7% to \$1.26) fell on reports that EU officials unanimously rejected demands to change EU chief negotiator Barnier’s mandate in order to allow him to offer more concessions to the UK while pointing to “limited progress” in negotiations so far.

Other Mature Markets

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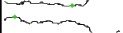



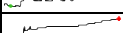

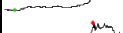

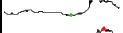


Japanese equities dropped over 2% on the Fed's dovish comments and concerns over a new Covid-19 wave. The Topix fell 2.2% and the Nikkei 2.8%, with financials and real estate stocks underperforming. The yen strengthened 0.3% to ¥106.8. JGB yields were unchanged at 0.01% for the 10-year bond.

Emerging Markets

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The Fed's gloomy economic outlook weighed on emerging market sentiment worldwide. Equities fell across Asia and the EMEA region, led by losses in Vietnam (-3.6%), India (-2.1%), and Thailand (-1.6%); and in the Czech Republic (-3.0%), Russia (-1.6%), and Hungary (-1.6%). Currencies, on the other hand, were relatively stable but with a weakening bias to the US dollar. The largest moves were seen for the Russia ruble (-0.8%), the South Korean won (-0.4%), and the Turkish lira (-0.4%). The South African rand (-1.7%) was the outlier as manufacturing data revealed a 5.4% contraction y/y in March. In Latin America, equities and exchange rates had another day of weakness yesterday after strong gains over the last month. The Brazilian real underperformed again, depreciating by 1.5% against the dollar. The BRL remains the best performing EM currency over the last month (+17%) since BCB started to show more willingness to curb further depreciation. The Mexican peso outperformed appreciating by 0.2% with no obvious key driver.

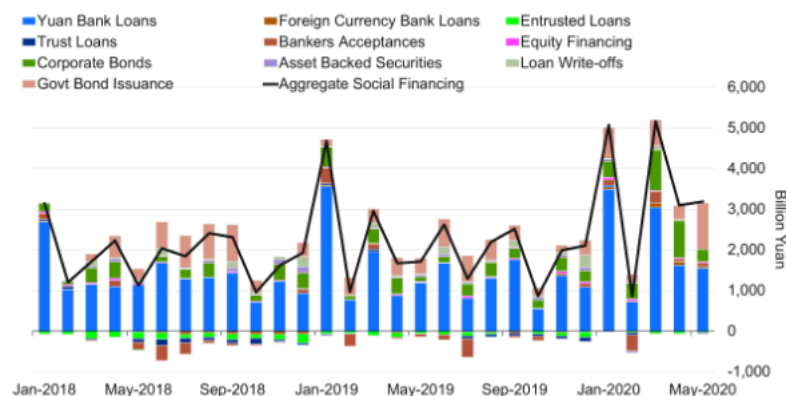
Key Emerging Market Financial Indicators

Last updated: 6/11/20 8:26 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.19	-2.1	2	13	-2	-8
MSCI Frontier Equities		24.54	-0.2	1	9	-18	-19
EMBIG Sovereign Spread (in bps)		475	7	-2	-97	123	182
EM FX vs. USD		55.70	-0.7	0	6	-11	-9
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.07	-0.2	1	0	-2	-2
Indonesian Rupiah		14020	-0.3	1	6	2	-1
Indian Rupee		75.78	-0.3	0	0	-8	-6
Argentine Peso		69.25	-0.1	-1	-3	-35	-14
Brazil Real		4.97	-1.5	2	17	-22	-19
Mexican Peso		22.41	-2.5	-2	7	-15	-16
Russian Ruble		69.34	-1.1	0	6	-7	-11
South African Rand		16.94	-2.4	0	9	-13	-17
Turkish Lira		6.82	-0.6	-1	4	-15	-13
EM FX volatility		9.46	0.0	-0.3	-2.3	1.0	2.9

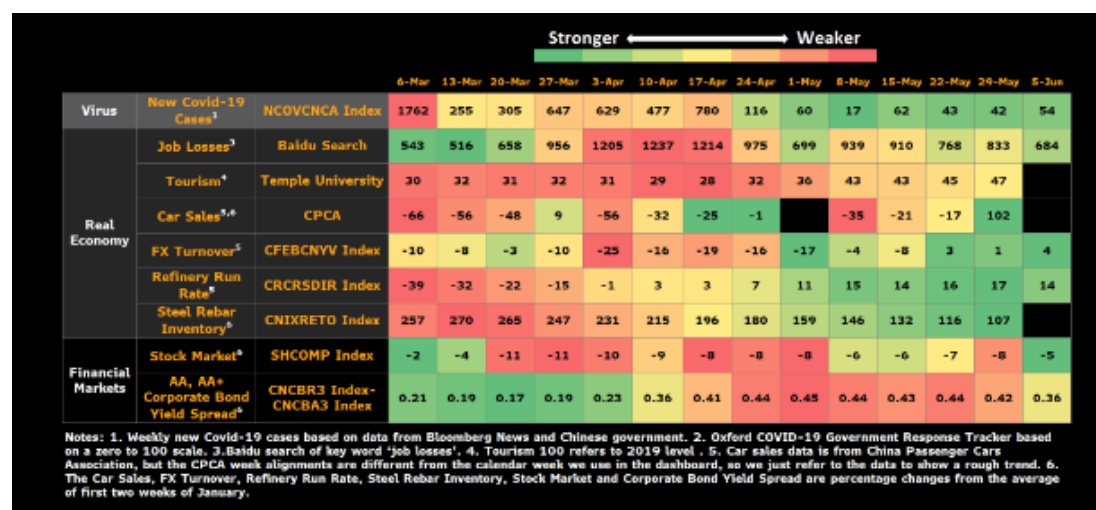
Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

Credit continued to expand in May spurred by policy support measures. The total social financing grew by \$456 bn (3.2 tn yuan) in May, slightly above the \$439 bn (3.1 tn yuan) added in April. A surge in government issuance was one of the main drivers of the increase, with over \$140 bn newly issued, while corporate bond issuance decreased markedly. Analysts expect the PBoC to continue providing support for credit growth via various measures – including low rates – and communications.



High frequency indicators point to an incipient economic recovery, according to data compiled by Bloomberg. Various gauges point to improvements in the labor market as well as the construction sector. Financing conditions remain somewhat accommodative.



The Hong Kong Monetary Authority (HKMA) reportedly sold \$480 mn worth of local currency in a bid to defend the currency peg. With this latest intervention, the HKMA has sold around \$6.2 bn of local currency since it began intervening in April. Analysts forecast demand for the HK dollar to remain strong as investors seek carry-trade profits and purchases of Chinese shares.

The one-month HKD Hibor's premium over U.S. rate is narrowing

■ Gap between one-month HKD Hibor and USD Libor on 6/9/20



Eastern Europe

The pan-European industry association PensionsEurope has reportedly asked the ECB to extend its PEPP purchases to assets from Bulgaria, Romania, and Croatia. The association – comprising national pension fund associations from 21 European countries and with over €4 tn assets under management – has reportedly asked the ECB to consider assets from Bulgaria, Romania, and Croatia to be included in the PEEP. These three countries are under consideration for joining the eurozone soon, and their central banks have already made contributions to the ECB's capital, PensionsEurope has argued. Separately, Croatia successfully placed a new 11-year Eurobond for \$2.3 bn (€2 bn), as it seeks to finance a growing public deficit estimated to reach 6.8% of GDP in 2020.

Euro Aspirations

More countries are applying to join the single currency



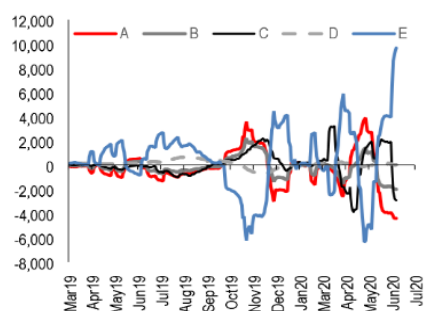
Bloomberg

Chile

Pension funds have increased the repatriation of assets since May, which supports onshore asset prices and the currency. JPM analysts noted that recommendations by influential local advisors have driven inflows into Fund E (local and bond focused) since early May. This have been close to CLP10 tn (over \$12 bn). Furthermore, portfolio managers increased the size of the FX hedge during the month of April by \$1 bn to \$29 bn which represents 35% of offshore holdings, a historical high. Another factor behind currency strength has been increased FX sales by the treasury. Since data became public in mid-April, the treasury sold \$3.2 bn in auctions. JP Morgan analysts expect FX sales to continue for a while in order to fund a fiscal deficit of 8.5% of GDP.

Exhibit 11: Local pension funds have been materially repatriating funds since May

30-day trailing net flows into each fund; in CLPbn



Source: J.P. Morgan, SAIFP

Exhibit 4: The SWFs are USD 2bn down since March

Economic and Social Stabilization Fund (ESSF) and Pension Reserve Fund (PRF); in USDbn



Source: J.P. Morgan, Hacienda






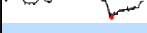




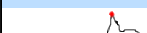






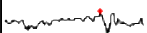




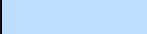



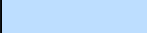


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Global Financial Indicators

Last updated: 6/11/20 8:24 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3190	-0.5	2	9	11	-1
Europe		3202	-2.8	-2	11	-6	-15
Japan		22473	-2.8	-1	10	6	-5
China		2921	-0.8	0	1	0	-4
Asia Ex Japan		70	1.2	2	10	3	-4
Emerging Markets		41	-2.2	2	13	-2	-8
Interest Rates			basis points				
US 10y Yield		0.69	-9.9	-13	-2	-145	-123
Germany 10y Yield		-0.40	-6.7	-8	11	-17	-21
Japan 10y Yield		0.01	-1.4	-3	0	12	2
UK 10y Yield		0.22	-5.2	-9	-5	-64	-61
Credit Spreads			basis points				
US Investment Grade		154	3.8	-2	-55	25	56
US High Yield		584	7.4	-6	-170	143	190
Europe IG		71	3.9	8	-13	11	27
Europe HY		399	22.4	29	-107	130	192
EMBIG Sovereign Spread		475	7.0	-2	-97	123	182
Exchange Rates			%				
USD/Majors		96.36	0.4	0	-4	0	0
EUR/USD		1.13	-0.3	0	5	0	1
USD/JPY		107.1	0.1	2	1	1	1
EM/USD		55.7	-0.7	0	6	-11	-9
Commodities			%				
Brent Crude Oil (\$/barrel)		40	-4.1	0	35	-36	-39
Industrials Metals (index)		102	-1.3	2	6	-8	-11
Agriculture (index)		35	-0.8	-1	1	-14	-15
Implied Volatility			%				
VIX Index (% change in pp)		31.0	3.4	5.2	3.4	15.0	17.2
10y Treasury Volatility Index		4.7	-0.3	0.0	-0.6	0.2	0.6
Global FX Volatility		8.1	0.0	0.5	-1.0	1.4	2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		173	-0.8	0	-95	-128	8
Italy		190	1.6	16	-49	-73	30
Portugal		99	1.4	14	-46	11	36
Spain		102	0.8	14	-31	20	36

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

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Emerging Market Financial Indicators

Last updated: 6/11/2020 8:27 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		7.07	-0.2	0.6	0	-2	-2		2.9	0.1	2	39	-36	-25
Indonesia		14020	-0.3	0.5	6	2	-1		7.4	-3.1	22	-76	-53	23
India		76	-0.3	-0.3	0	-8	-6		6.1	-0.6	-3	-3	-107	-79
Philippines		50	-0.7	-0.4	0	3	1		4.1	-2.8	-7	-50	-89	-17
Thailand		31	0.5	1.9	4	1	-4		1.4	-3.2	-1	10	-98	-19
Malaysia		4.25	0.1	0.8	2	-2	-4		2.9	-4.9	12	13	-80	-46
Argentina		69	-0.1	-0.6	-3	-35	-14		49.1	119.5	343	626	1735	-1349
Brazil		4.97	-1.5	1.9	17	-22	-19		5.2	-10.1	5	-58	-209	-103
Chile		772	-0.3	-0.2	7	-10	-3		2.7	-3.3	11	-2	-77	-60
Colombia		3675	-0.5	-1.9	6	-11	-11		5.6	16.7	21	-13	-36	-39
Mexico		22.41	-2.5	-2.2	7	-15	-16		6.3	-8.8	3	25	-154	-65
Peru		3.4	0.5	-0.7	0	-3	-3		4.3	-5.2	1	-12	-78	-21
Uruguay		43	-0.4	0.5	2	-17	-13		10.1	0.1	-21	-133	-104	-77
Hungary		304	-0.8	0.0	6	-7	-3		1.7	0.6	8	-1	1	55
Poland		3.94	-0.6	-0.8	7	-5	-4		0.9	-2.3	2	-21	-123	-100
Romania		4.3	-0.3	0.1	5	-2	0		3.7	-1.0	-12	-36	-38	-28
Russia		69.3	-1.1	-0.3	6	-7	-11		5.4	-1.8	8	-31	-212	-73
South Africa		16.9	-2.4	-0.2	9	-13	-17		10.0	-0.9	46	4	56	50
Turkey		6.82	-0.6	-1.0	4	-15	-13		10.7	-6.4	21	-110	-850	-98
US (DXY; 5y UST)		96	0.4	-0.3	-4	0	0		0.31	-0.8	-10	-4	-161	-138

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2921	-0.8	0	1	0	-4		229	0	-6	-26	54	53
Indonesia		4855	-1.3	-1	5	-23	-23		262	4	12	-63	73	106
India		33538	-2.1	-1	6	-16	-19		238	7	-20	-88	86	113
Philippines		6476	0.6	-1	14	-19	-17		158	2	14	-16	78	92
Malaysia		1557	-1.1	1	13	-6	-2		186	6	6	-67	61	74
Argentina		46476	0.0	6	20	21	12		2576	51	3	-498	1723	807
Brazil		94686	-2.1	2	20	-4	-18		364	10	21	-50	123	149
Chile		4064	-1.5	5	7	-20	-13		214	4	13	-51	81	81
Colombia		1178	-2.6	1	7	-22	-29		284	5	13	-62	97	121
Mexico		38266	-2.3	0	2	-12	-12		507	18	11	-96	182	215
Peru		17325	0.0	6	13	-15	-16		185	6	14	-47	57	78
Hungary		36870	-1.8	-1	6	-11	-20		163	1	0	-53	73	77
Poland		51487	0.0	4	15	-13	-11		63	2	3	-31	26	45
Romania		8617	-2.4	-4	3	0	-14		288	9	-10	-56	102	114
Russia		2729	-2.0	-1	3	-1	-10		214	3	26	-36	9	83
South Africa		53185	-0.9	0	6	-9	-7		504	14	-4	-153	192	184
Turkey		109288	-0.5	0	12	18	-4		578	9	10	-109	55	177
Ukraine		499	0.0	0	0	-10	-2		627	22	-13	-117	62	207
EM total		41	-2.1	2	13	-2	-8		475	7	-2	-97	123	182

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

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