



- Treasury yields rally on a softer-than-expected US CPI release for May ([link](#))
- The US long-run neutral rate may be higher but any increase in the dot plot will be slow ([link](#))
- Analysts do not expect a quick narrowing of French-German spreads ([link](#))
- Chinese equities mixed amid concerns of European tariffs on Chinese electric vehicles ([link](#))
- Bank of Thailand stays pat as expected; more members voted for a pause instead of cut ([link](#))
- Inflation in Brazil exceeds expectations, ending a seven-month streak of cooling prices ([link](#))
- Inflation softens more than expected in Romania ([link](#))

[Mature Markets](#)







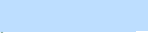


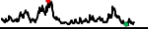
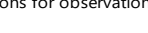
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## US CPI softer-than-expected ahead of the FOMC later today

**US Treasury yields rallied and the dollar weakened after the release of a softer-than-expected CPI print for May.** The 10-year Treasury yield fell over 10 bps immediately after the release, with market participants awaiting the FOMC's decision later today. The Fed is widely expected to remain on hold but investors will be closely watching the guidance from the press conference along with the updated dot plot. The softer CPI reading means a September rate cut may be back in play, with Fed fund futures showing a 20 bps of a cut now priced, versus 15 bps yesterday. Prior to the release, European equities recovered some ground after 3 consecutive trading days of losses amid heightened political uncertainty in the aftermath of the European parliamentary elections. Volatility in euro area sovereign bond yields also appeared to subside, with 10-year French OAT yields down 2 bps and their spread to bunds unchanged this morning. 10-year OAT-bund spreads are exceeding 60 bps, with market contacts not anticipating a quick narrowing of the spread but noting limited signs of fragmentation and relatively limited spillovers to European corporate credit so far. The iTraxx crossover CDS spread was 3 bps tighter this morning after widening 14 bps on Monday and Tuesday.

Key Global Financial Indicators

Last updated: 6/12/24 8:23 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		5375	0.3	2	3	24	12.69
Eurostoxx 50		4998	0.7	-1	-2	16	11
Nikkei 225		38877	-0.7	1	2	18	16
MSCI EM		42	-0.3	1	-2	5	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.39	-1.6	11	-11	65	51
Germany 10y Yield		2.60	-2.3	9	8	21	58
EMBIG Sovereign Spread		390	5	2	23	-65	7
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		45.9	-0.2	-1	-2	-8	-5
Dollar index, (+) = \$ appreciation		105.1	-0.1	1	0	1	4
Brent Crude Oil (\$/barrel)		82.8	1.0	6	0	15	7
VIX Index (% change in pp)		13.1	0.2	0	1	-2	1

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

## Mature Markets

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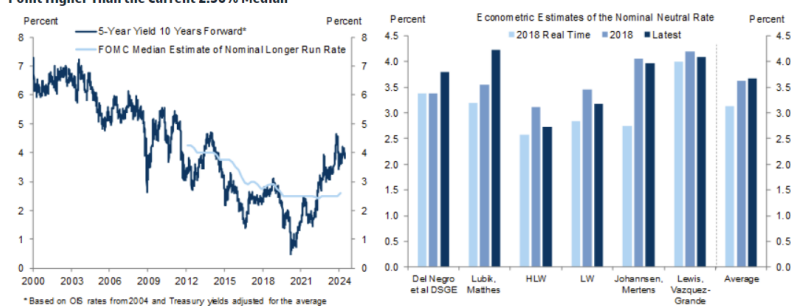
### United States

This morning, **Treasury yields plunged on a softer-than-expected US CPI release for May**. 10-year yields fell over 10 bps and the dollar (-0.6%) was weaker immediately after the release. The downward surprise was broad based in the headline (0.0% m/m vs. +0.1% m/m exp.) and core (+0.2% m/m vs. +0.3% m/m exp.) figures. Energy prices contributed to the decline of the headline number (-0.1%, +0.1% prior). The pace of price increases in core services also declined notably (+0.1%, +0.3% prior).

**A strong 10-year Treasury bond auction paved the way for US equities to touch all time highs yesterday**. Markets were able to absorb \$39 bn worth of 10-year notes following a series of poor auctions for US Treasuries. Yields across the curve rallied in reaction to the auction, with 10-year yields ending the day -6 bps lower. Treasury auctions have been a point of focus for markets since the strong sell-off in long-term yields last year. The US Treasury had spooked investors during last August's refinancing announcement with the amount of long-term bonds that the department was planning to sell to the market. The S&P 500 was able to pare back its losses from early morning trading and end the day in the green at all-time highs (+0.3%). Markets are awaiting the FOMC's decision later today. The central bank is widely expected to remain on hold but investors will be closely watching the guidance from the press conference along with the updated dot plot. Some sell-side analysts' expect to see the dots for 2024 to show two cuts from the current three.

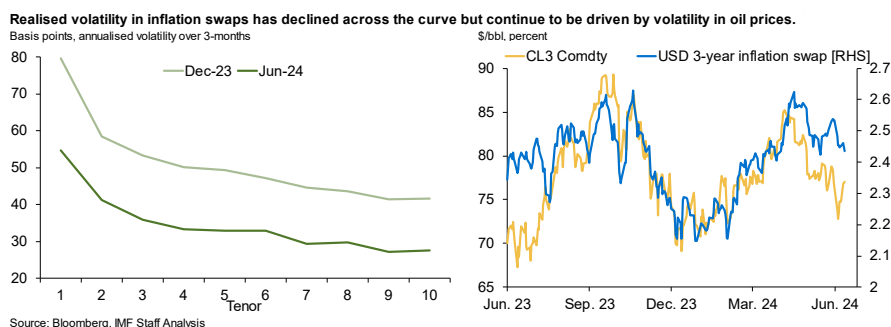
**Market pricing and econometric estimates point to a higher long-run neutral rate for the US**. The topic of  $r^*$  continues to be a topic of discussion among policymakers and whether the pandemic has shifted the steady state level of interest rates higher. Cleveland Fed president Mester has been one policymaker who has raised their estimate of the long run neutral rate at the March meeting (this will be her last meeting as a FOMC member). Atlanta Fed president Bostic thinks the steady state may be back at levels of the 1990s and 2000s. However, not all policymakers agree with a higher neutral rate. Chicago Fed president Goolsbee thinks none of the data contributions that could have raised the neutral rate have changed over the last six months. Goldman Sachs economists think **officials are likely to raise their neutral rate estimate slowly over time**. The current median dot for the longer-term interest rate stands at 2.56%.

Exhibit 8: We Expect FOMC Participants to Raise Their Longer-Run Neutral Rate Estimates Over Time Because Both Market Pricing and Econometric Models Point Higher Than the Current 2.56% Median



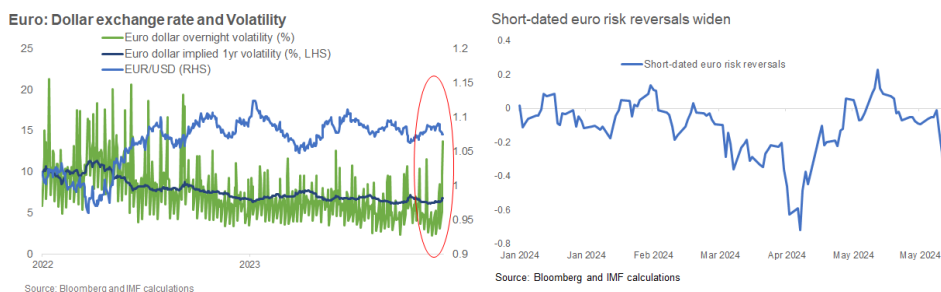
Source: Goldman Sachs Global Investment Research, Federal Reserve

**Inflation swaps continue to be driven by volatility in oil markets**. Oil prices had a strong Q1 this year (+11%) on the back of increased geopolitical risk but their performance has faded this quarter-to-date (-4.5%). The volatility in the oil market continues to be reflected in inflation swap markets even though inflation swaps are trading near the Fed's target level. There are several reasons for this dynamic. First, energy prices have a significant weight in the CPI index in addition to being the most volatile component of the index. Second, energy prices—especially gasoline prices—have a large impact on inflation expectations. Third, the pass-through from high energy costs could be reflected in the prices of goods and services in the economy.



## Euro-area

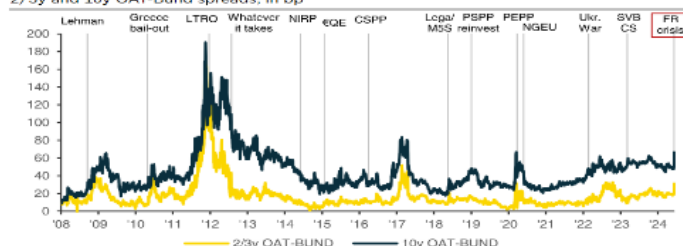
**European equities snapped a three-day losing streak this morning ahead of the US inflation data and FOMC decision later today.** The Stoxx 600 index was 0.5% higher with the banking sector (+1.0%) outperforming. **The euro was marginally stronger (+0.1%) to the dollar after weakening to a six-week low against the dollar yesterday.** In the meantime, euro one-year volatility has increased to 6.7%, the highest level since May 1, and option traders have increased expectations for further euro weakness.



**Euro area sovereign yields edged lower, with the 10-year German bund yield continuing to decline this morning (-2 bps), trading at around 2.6%.** Contacts noted that sovereign bonds benefitted from the risk-off sentiment yesterday, with the 10-year bund yield closing 5 bps lower yesterday. While French, Italian and Spanish 10-year yields also ended yesterday lower, moves were of a smaller magnitude, and therefore the respective spreads over 10-year German yields widened. The 10-year French OAT-bund spread closed 5 bps wider yesterday at 60 bps and was little changed this morning while Italian spreads were tighter (-4 bps) at 141 bps. On the data front, **final German May CPI confirmed earlier estimates (2.4% y/y), while the Banque de France lowered its growth forecasts for the next two years.**

**Analysts do not anticipate a quick narrowing of French-German bond spreads but note limited signs of fragmentation and relatively limited spillovers to corporate credit so far.** Yesterday, the French-German 10-year sovereign spread peaked at 65 bps, the highest level since October 2023, but contacts noted that reports on president

**Nasty spread widening, but not yet comparable to 2017**  
2/3y and 10y OAT-Bund spreads, in bp



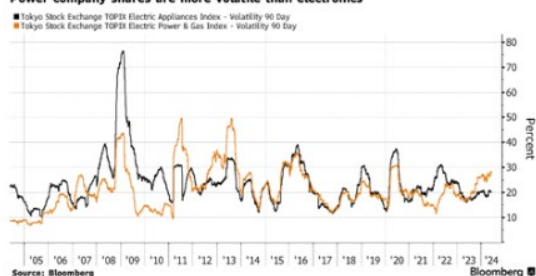
Macron's pushback against rumors over his resignation saw a narrowing in spreads later in the session. 10-year French-German spreads remain roughly 13 bps higher than last week. At the same time other European government bond spreads over German bonds also widened, with the Italian-German 10-year spread now roughly 9 bps wider than last week and the respective spreads of Greece, Portugal and Spain also between 5–8 bps wider. Commerzbank analysts argued there are no clear signs of fragmentation or contagion yet. Moreover, the analysts highlight that the spread dynamics of French sovereign debt are still

different from those observed during the 2017 French election, but also think that the absence of such dynamics likely renders a quick tightening in spreads unlikely. Moreover, the analysts argue that the absence of fragmentation complicates a possible ECB intervention in the near future. As regards to spillovers, the iTraxx crossover CDS spread was 3 bps tighter this morning after widening 14 bps on Monday and Tuesday. While this move was also mirrored in credit spreads on cash bonds, analysts at Raiffeisen noted that spillovers still remain relatively limited.

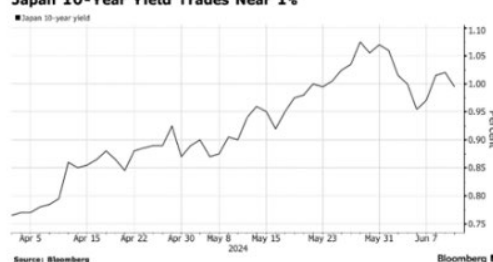
## Japan

**Equities declined -0.7%**, with most sectors in the red. Power companies have become one of the most volatile segments of Japan's stock market. The 90-day historical volatility has soared to 28%, surpassing fluctuations of the electronics sector, Bloomberg estimated. A stock market boom in artificial intelligence may have contributed to a 20% surge in the electric power and gas sectors over the past three months on bets that demand from data centers and chip factories will grow, analysts noted. Separately, **producer price inflation accelerated to +2.4% y/y in May** (consensus: +2%, previous: +1.1%). PPI inflation reached the highest since October 2023, as input prices rose amid higher import costs. The increase also reflected higher renewable energy surcharges for the new fiscal year. **10-year JGB yields fell -4 bps**, trading near 1% ahead of the central bank meeting on Friday.

Power company shares are more volatile than electronics



Japan 10-Year Yield Trades Near 1%



## Korea

The South Korean won appreciated (+0.2%) with yields unchanged after the release of the minutes of the Bank of Korea's (BOK) May meeting. The minutes suggested some board members saw a gradual shift in conditions towards supporting less restrictive monetary policy. At the same time, BoK's senior officers believed the impact from a rate cut on the won could be small if global risk appetite is high and concluded that a weaker won is less likely to deteriorate the financial stability of corporate and financial institutions. Separately, in a speech marking the BOK's founding anniversary, governor Rhee called for a balanced approach in considering the timing of a policy pivot. Market participants continue to expect rate cuts in Q3 as inflation continues to ease.

BOK Against CPI  
Highest rate since 2008 helps cool inflation



## Emerging Markets

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**Asian equities were mixed.** Shares in Taiwan POC and Vietnam (+1.2%) outperformed but stocks in Hong Kong SAR (-1.3%) declined led by EV makers amid speculations about potential tariffs by the European Commission on Chinese electric vehicles. **Asian currencies and bond yields mostly little changed.** **EMEA equities gained while currencies were mixed.** Equities edged higher in **South Africa** (+0.4%) while the rand was marginally weaker (-0.2%). The rand has appreciated +1.5% since the start of the week amid optimism about a market-friendly governing coalition between the ANC and the opposition Democratic

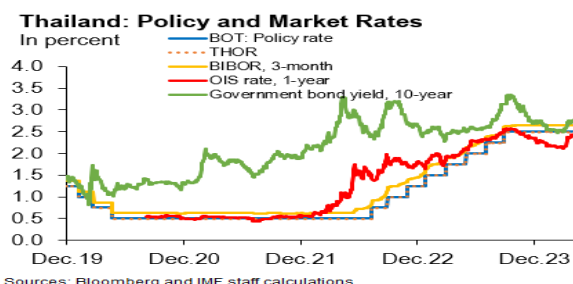
Alliance after the May 29 elections. **In Latin America, the Mexican (-1.8%) underperformed** and the Colombian peso (-0.7%) also weakened after the government increased its debt ceiling. President Petro threatened to “cease payments” if the increase was not approved. Equities were mixed (Colombia -1.7%; Brazil +0.7%).

## China

**Chinese equities were mixed amid reports that Europe mulls tariffs on Chinese electric vehicles of around 25%.** Mainland equities (Shanghai +0.3%; Shenzhen +0.6%) gained but stocks traded in Hong Kong SAR declined (-1.4%). The European Commission is due to notify Chinese electric-vehicle (EV) manufacturers of the provisional tariff levels on Wednesday, Bloomberg reported. The impact on Chinese EV exports could range from being largely symbolic to more meaningful at the sector level in baseline and risk scenarios but should be mostly muted at the macro level, Citi analysts estimated. China has previously signaled that it will retaliate with measures ranging from agriculture, aviation to liquor. Separately, **China’s consumer and producer prices remained soft in May.** CPI inflation was unchanged at +0.3% y/y; PPI inflation eased to -1.4% y/y (previous: -2.5%). Deutsche Bank expects CPI to stay below 1% in the next two quarters as soft domestic demand continues to weigh on prices, while PPI is likely to rebound in line with global commodity inflation. Separately, Chinese regulators may ban commercial banks from selling private fund products to hedge funds. The national financial regulatory administration is gathering feedback from commercial banks on the revisions. The renminbi and 10-year bond yields were little changed. Meanwhile, overnight borrowing costs for dollars in the onshore market reached 5.41%, potentially signaling challenges among state banks to continue supply US dollar liquidity, Bloomberg reported.

## Thailand

**The Bank of Thailand (BoT) kept its policy rate unchanged at 2.5%, as expected.** The decision was seen as hawkish as more Board members (6–1) voted for a pause than a cut, compared to the previous meeting (5–2). Core inflation for 2024 was revised slightly lower to +0.5% (previous: +0.6%). The BoT kept its GDP growth forecasts unchanged at 2.6% for 2024 and 3.0% for 2025. While the government has revived calls on the central bank to cut the policy rate, the BoT has continued to emphasize the ineffectiveness of monetary policy to resolve structural impediments. BoT assistant governor Piti said the current policy rate is not too high and lowering the rate will not improve loan access. The BoT also flagged concerns on high household debt. **Market participants expect the BoT to remain on hold this year.** Market implied policy rates suggest less than one 25 bps BoT cut within the next twelve months. The Thai baht appreciated (+0.2%), while equities and 10-year bond yields were little changed.



## Brazil

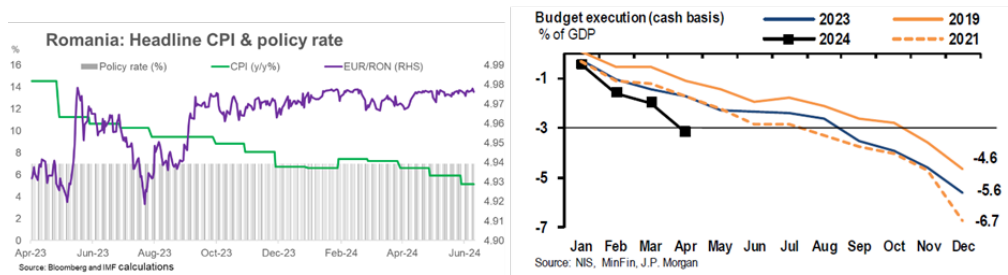
**Inflation in Brazil exceeded expectations in May, ending a seven-month streak of cooling prices.** Annual inflation reached 3.93% y/y in May (from 3.69% prior and 3.88% expected), while monthly inflation was 0.46% (from 0.38% m/m prior and 0.42% expected). Analysts at Standard Chartered now expect a hold instead of a 25 bps cut during the June 19th central bank meeting. The Brazilian real (-0.2%) weakened slightly. Equities rose +0.7% following news that the finance minister is considering a special tax provision to boost government revenues.

## Romania

**The leu was stable against the euro after today’s May CPI inflation printed at 5.12% y/y, down from 5.9% y/y in April and below expectations (est. 5.6%).** The central bank (NBR) had surprised consensus expectations by keeping the key interest rate unchanged at 7% in May due to concerns on fiscal deficit and

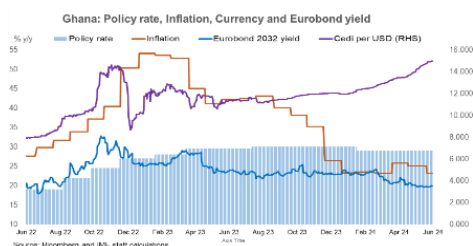


increasing wages fueling inflation. The central bank forecasts inflation at 4.9% y/y in 2024 and below 3.5%, the upper end of its target range (2.5% +/-1%), only in 2026. Still, analysts at Raiffeisen expect a first rate cut at the next MPC meeting on July 5, followed by more cuts in August and November taking the policy rate to 6.25% by the end of 2024. Goldman Sachs also noted that progress on disinflation and the ECB providing its first cut paved the way for a cautious cutting cycle starting already in July. While ING continues to view limited NBR's policy easing in 2024 and 2025 and expects rate cuts only in August and November. JP Morgan also expects two 25 bps rate cuts in August and November, on the backdrop of raising concerns on budget execution this year. JP Morgan estimates a structural deficit of -6.5% of GDP (European Commission est.-6.4%) and a total deficit of -7% of GDP in 2024, from -6% in 2023.



## Ghana

The cedi was little changed today, trading at GHS15.00/\$, after today's CPI inflation print surprised to the upside moving to 23.1% y/y in May (consensus 21.7%), from 25% y/y in April. Inflation was driven by increased demand for imports against the declining value of the currency, as the cedi depreciated -11.8% QTD against the dollar (-20% YTD). Given the currency pressures, analysts at JP Morgan now expect the central bank to stop further rate cuts in the short term after it kept the policy rate unchanged at 29% on May 27. **Ghana has reportedly reached a deal today with creditors** that will open the way for the disbursement of aid from the IMF, as the country has restructured almost all of its \$40 bn defaulted obligations as condition for a \$3 bn IMF program. The government's dollar denominated bonds due in 2027 gained 0.30 cents on the dollar to trade at 51.2 this morning.



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

6/12/24 8:22 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		5379	0.3	0	3	24	13
Europe		4998	0.7	-1	-2	16	11
Japan		38877	-0.7	1	2	18	16
China		3544	0.0	-2	-3	-8	3
Asia Ex Japan		71	-0.5	1	0	5	7
Emerging Markets		42	-0.3	1	-2	5	4
<b>Interest Rates</b>			basis points				
US 10y Yield		4.39	-1.6	11	-11	65	51
Germany 10y Yield		2.60	-2.3	9	8	21	58
Japan 10y Yield		0.99	-4.1	-3	7	56	37
UK 10y Yield		4.24	-3.2	5	7	-10	70
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	-0.6	1	3	-44	-14
US High Yield		355	-0.2	-2	12	-109	-31
<b>Exchange Rates</b>			%				
USD/Majors		105.08	-0.1	1	0	1	4
EUR/USD		1.08	0.3	-1	0	0	-2
USD/JPY		157.2	0.1	1	1	13	11
EM/USD		45.9	-0.2	-1	-2	-8	-5
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		82.8	1.0	6	0	19	9
Industrials Metals (index)		153	0.6	-2	-3	7	7
Agriculture (index)		59	-0.5	-1	-3	-11	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.1	0.2	0.4	0.5	-1.9	0.6
Global FX Volatility		7.3	0.0	0.3	0.3	-0.7	-0.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		111	-5.1	8	7	-22	7
Italy		141	-4.2	10	7	-26	-27
Portugal		65	-1.0	5	1	-2	2
Spain		79	-0.2	6	-1	-16	-18

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

## Emerging Market Financial Indicators

Last updated: 6/12/2024 8:20 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	0.0	-0.1	0	-1	-2		2.2	1.0	-1	-3	-54	-30
Indonesia		16295	0.0	0.0	-1	-9	-5		7.0	0.7	12	6	71	55
India		84	0.0	-0.2	0	-1	0		7.3	0.0	-6	-20	(12.7)	8
Philippines		59	0.2	0.3	-1	-4	-5		5.5	-1.2	-7	-12	-43	-12
Thailand		37	0.3	-0.1	0	-5	-6		2.8	1.0	-2	-3	9	13
Malaysia		4.72	0.0	-0.4	0	-2	-3		3.9	-0.8	-2	-6	13	13
Argentina		902	0.0	-0.6	-2	-73	-10		44.9	7.2	443	579	-6587	-4152
Brazil		5.38	-0.3	-1.6	-4	-10	-10		12.1	5.5	19	24	77	167
Chile		923	-0.2	-1.7	0	-13	-5		5.2	0.0	7	-6	24	30
Colombia		3990	-0.7	-1.4	-3	5	-3		8.3	0.0	-6	-12	18	62
Mexico		18.86	-1.6	-7.1	-11	-8	-10		9.9	0.0	53	60	154	142
Peru		3.8	0.2	-0.7	-1	-3	-2		7.1	0.5	7	-4	-9	40
Uruguay		39	-0.6	-0.6	-1	-1	-1		9.2	0.1	5	5	-68	-31
Hungary		367	0.2	-2.1	-2	-7	-5		6.6	-4.0	4	-1	-87	79
Poland		4.03	0.2	-2.1	-2	2	-2		5.3	-0.2	10	11	11	80
Romania		4.6	0.2	-1.0	0	0	-3		6.6	0.7	2	9	-3	44
Russia		89.3	-0.1	-0.3	3	-6	0							
South Africa		18.6	-0.2	1.7	-1	0	-1		9.6	3.0	-32	-23	-29	44
Türkiye		32.38	0.0	-0.4	0	-27	-9		28.5	7.0	83	130	1183	178
US (DXY; 5y UST)		105	-0.1	0.8	0	1	4		4.41	-1.2	11	-11	51	56

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)						Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points						
China		3544	0.0	-2	-3	-8	3		135	0	-5	-53	-23		
Indonesia		6850	-0.1	-1	-4	2	-6		99	-2	5	-48	3		
India		76607	0.2	3	5	21	6		91	1	-2	-45	-25		
Philippines		6410	0.0	0	-2	-1	-1		88	-2	5	-30	8		
Thailand		1317	0.0	-2	-4	-16	-7		0	0	0	0	0		
Malaysia		1609	-0.2	0	0	17	11		78	1	-1	-17	-7		
Argentina		1544869	-2.0	-2	10	305	66		1531	36	255	-865	-382		
Brazil		121635	0.7	0	-5	4	-9		224	3	11	-31	9		
Chile		6541	-1.2	-2	-1	15	6		122	0	6	-10	-3		
Colombia		1388	-1.7	-1	0	17	16		306	-5	18	-62	35		
Mexico		53134	0.0	-1	-8	-2	-7		314	6	19	-82	-20		
Peru		29373	-0.6	0	-2	33	13		156	3	15	-18	12		
Hungary		70377	0.9	2	2	41	16		155	0	10	-75	6		
Poland		84336	0.5	-1	-3	27	7		102	0	8	-36	5		
Romania		17802	0.4	-1	3	46	16		192	1	14	-55	-9		
South Africa		76618	0.7	0	-2	0	0		329	-11	3	-78	21		
Türkiye		10093	0.4	-2	-1	81	35		288	-4	14	-203	-26		
EM total		42	0.6	1	-2	5	4		385	3	60	-12	40		

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

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