



- Market breadth remains shallow with high concentration of gains in tech sector ([link](#))
- Contingent convertible bond issuance reopens for European banks ([link](#))
- UK yields near September highs after stronger labor market report ([link](#))
- Japanese equities extend their rally ([link](#))
- Chilean peso weakens as the central bank announces international reserve expansion ([link](#))
- People's Bank of China lowered its 7-day reverse repo rate by 10 bps to 1.9% ([link](#))
- Nigeria's exchange rate unification is imminent ([link](#))

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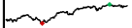



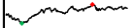





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Hawkish expectations flatten global curves as EMs diverge

More hawkish central bank expectations see an extension of curve flattening. In the UK, unexpectedly strong wage gains spark more hawkish expectations for next week's Bank of England meeting as also the expectations component of German's leading indicator ZEW printed stronger than expected. Today's release of inflation data in the US, printed in line with expectations where market contacts have been attentive to used car prices, which are expected to slow in the next three months, being a large contributor and with slowing shelter inflation confirming a Fed's hawkish skip on Wednesday. Ahead of the release, European equities and interest rates were little changed. In India, industrial production data for April beat expectations while CPI inflation moderated more than expected, which prompted the Indian rupee to appreciate and the Indian government bond yield curve to flatten led by the front-end. While the Central bank of Uganda held rates steady at 10%, the People's Bank of China has cut the 7-day reverse repo rate, prompting Chinese government bonds and stock markets to rally and the renminbi to weaken, reaching its lowest reading in six months. Chile's central bank announced an expansion of its foreign reserves, which coincided with a weaker Chilean peso. In Nigeria, the president's advisor announced a unification of the exchange rate within the next three months amid the naira continuing to depreciate.

Key Global Financial Indicators

Last updated: 6/13/23 8:43 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		4339	0.9	2	5	16	13	3
Eurostoxx 50		4326	0.2	1	0	24	14	9
Nikkei 225		33019	1.8	2	12	24	27	25
MSCI EM		40	0.2	1	4	1	5	-16
Yields and Spreads			bps					
US 10y Yield		3.69	-4.2	3	23	33	-18	170
Germany 10y Yield		2.35	-3.8	-2	7	72	-22	212
EMBIG Sovereign Spread		455	-1	-9	-29	-12	3	42
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.7	-0.1	0	-2	-4	0	-6
Dollar index, (+) = \$ appreciation		103.2	-0.5	-1	0	-2	0	7
Brent Crude Oil (\$/barrel)		73.7	2.6	-3	-1	-40	-14	-24
VIX Index (% change in pp)		15.0	0.0	1	-2	-19	-7	-16

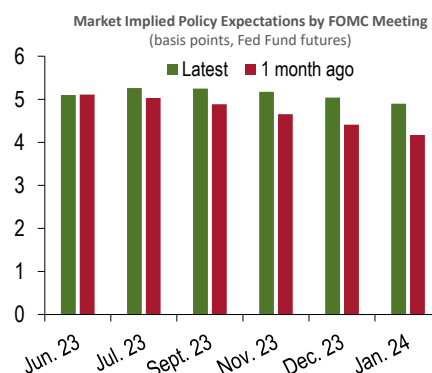
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

US markets climbed 0.9% with tech outperforming again. The S&P500 now sits less than 1% from the level that was seen on March 16, 2022, when the Fed began its tightening cycle. Treasury markets were quiet ahead of the CPI report today, with 2y yields down 3 bps. Market implied policy expectations have turned more hawkish over the last month, with investors pricing out rate cuts in November and December. As a result, while interest rate volatility has declined, it remains elevated at the front end of the curve given the ongoing policy uncertainty. Tuesday's CPI report resulted in only a small dovish reaction (1-2 bps).



Market breadth remains weak, with concentration of gains among tech firms near historical highs. The equal weighted S&P500 has crept higher over the last week to +2.5% YTD, but still lags the headline index (market capitalized weighed) at 13%. The largest 7 firms have posted gains ranging from 40% to 174%. Barclays analysts have attributed the rally to the underweight positioning in tech seen in late 2022, the hype over artificial intelligence, "tech as safe haven" flows during the regional bank crisis, and better than expected earnings. The concentration of gains has only occurred to this extreme twice, in 2020 and in the 2000 tech bubble.

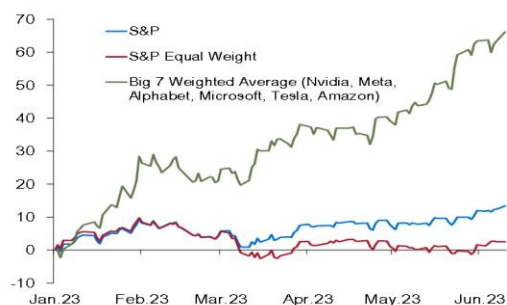
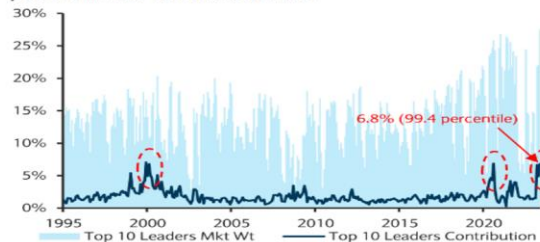


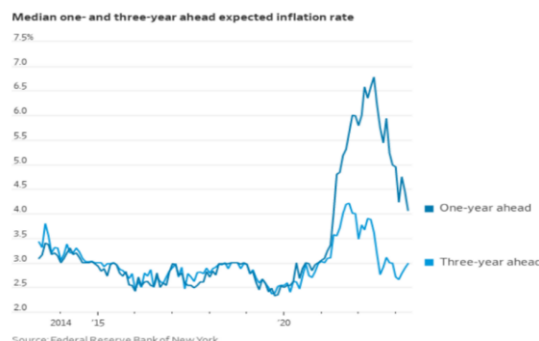
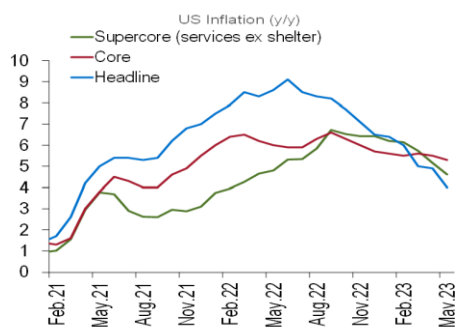
Figure 7. The current concentration level is above the 99th percentile over last three decades



Source: Refinitiv, Barclays Research

The May CPI printed aligned with expectations, while its underlying drivers confirm a 'hawkish skip'.

Headline inflation printed at 0.1% m/m and core inflation at 0.4% m/m. Year on year inflation printed for headline at 4.0% (expected 4.1% from 4.9%) and core at 5.3% (expected 5.2% from 5.5%). 2yr Treasury yields rallied into the release but were little changed afterwards. Used car prices as a contributor topped expectations at 4.4% m/m SA, which on its own accounted for a remarkable 15bps to core. With used cars expected to slow within the next months, market contacts noted the notable contribution of used cars as a 'dovish' beat on Core. Rent/owners' equivalent rent printed in line with expectation at 49bps and 52bps m/m which market contacts see as confirmation of a 'hawkish skip' this week. 1-year ahead consumer inflation expectations declined to 4.1% (from 4.5%) while 3yr ahead expectations increased slightly to 3%, according to the latest data by the NY Fed.



Source: Federal Reserve Bank of New York

Euro area

Contingent convertible bond funding markets reopen for the first time since Credit Suisse's rescue.

The Spanish bank BBVA and the Bank of Cyprus are selling publicly syndicated AT1 bond deals for the first time since the AT1 funding market fell into a hiatus in March following the banking turmoil. AT1 bonds, also known as contingent convertible bonds, are a form of hybrid debt that can become written-off or converted into equity if a bank's capital ratio

falls below a certain level to transfer banking risk away from taxpayers and onto bondholders. Following the stabilization of European bank shares a tighter range, BBVA plans to raise between €750mn to €1 bn at an initial yield of around 8.75%. Bank of Cyprus is offering €220mn notes at an initial yield of around 12.5%, according to market contacts. Also, Barclays, Caixabank, and Société Générale have call dates on their existing AT1 bonds in 2023. Bloomberg analysts report that more than 100 claims have been filed by Credit Suisse's AT1 bondholders challenging the write-down of \$17 billion in AT1 bonds against Swiss regulators.

European bank equities (Jan 2020: 100)



Source: Bloomberg and IMF

United Kingdom

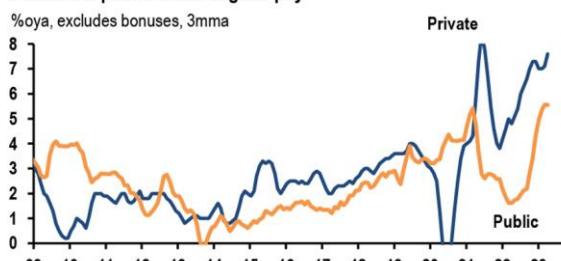
UK gilt yields reach last year September high following unexpectedly strong wage gains. In April, average weekly earnings excluding bonuses surprised to the upside by printing at 7.2% y/y 3mma (expected 6.9% from 6.8%). JP Morgan analysts project that this leaves wage growth on track to converge to 6% by year-end. Private sector regular pay grew 0.8% m/m or 8% on a 3m/3m annualized basis. The UK will publish CPI inflation on Wednesday June 21 before the next week's Bank of England (BoE) meeting. The robust growth in wages increased the expectations of additional monetary policy tightening. Markets now anticipate that BoE will raise rates by 31bps at meeting next week, corresponding to a +3bps increase of policy rate expectations on the day.

UK gilt yields (%)



Source: Bloomberg and IMF staff

Private vs. public sector regular pay



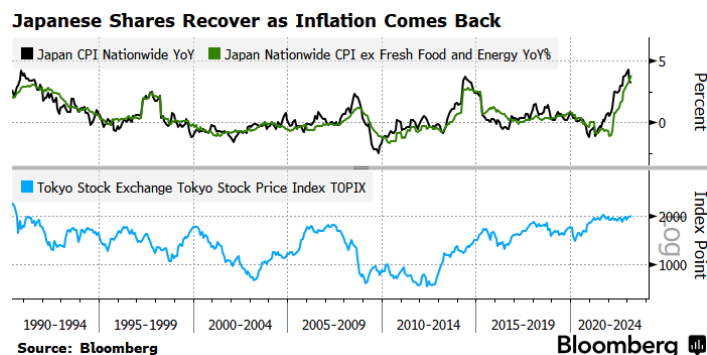
Source: ONS

London-based Odey Asset Management has gated its Brook Developed Markets Fund. As redemption requests exceeded 10% of the fund's net asset value, the asset management company sent a letter sent to investors, which Bloomberg News cited. According to this letter, any requests received on 12 June will be pro-rated. Odey Asset Management broke ties with founder Crispin Odey in the wake of sexual allegations reported in the Financial Times. Portfolio managers other than Crispin Odey oversee the majority of the firm's \$4.3 bn in assets under management.

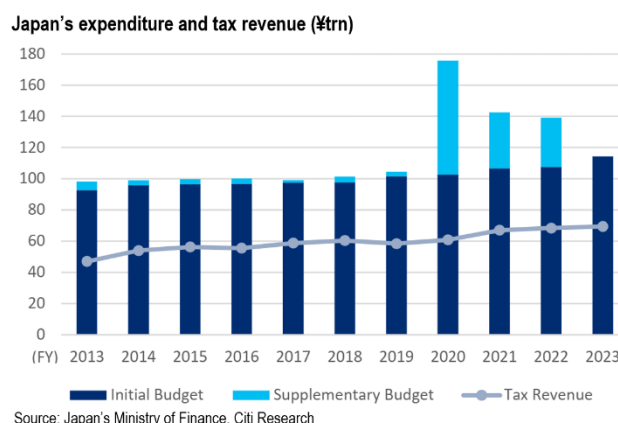
Japan

Japanese equities extend their rally. The NIKKEI posted a +1.8% daily gain, outperforming regional peers. Analysts note the growing acceptance of inflation, which they see as supportive in boosting corporate

margins, lifting Japanese stocks to a 33-year high. Other market contacts also take solace in that an escape from deflation could motivate businesses to increase their capital expenditures. Meanwhile, foreign investors continue expanding their holdings of Japanese stocks, as 3-months yield differentials and cross-currency bases allow dollar-based investors to capitalize a 5.8% return from swapping their in-demand dollar for yen in addition to the 2.3% dividend yield offered by the TOPIX index.



Japan's finance minister Suzuki signals flexibility on tax hike to fund boost in defense spending. He has indicated that the government could postpone a planned tax increase to pay for a sharp rise in military spending, amid resistance from lawmakers and concerns about the economic recovery. The tax hike, which the government originally scheduled for 2024, could become delayed by a year as the government seeks to balance its fiscal consolidation goals with its security needs. Japan's defense budget for this fiscal year jumped by 26 per cent to ¥6.8tn (\$48.8bn), as Tokyo faces growing threats from China and North Korea. The yen fractionally appreciated against the dollar, while long-term Japanese government bond yields dropped, with the 10-year yield down -0.6 bps, closing at 0.42%.



Emerging Markets

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EMEA markets are in risk-off mode. Except for South Africa stock markets, which gained +1.2%, most stock markets sold off, with Türkiye's losing the most with -2.7%. Currencies weakened against their reference currencies, with the Polish zloty leading losses, declining by -0.7% to 4.47/euro. Local government bond yields continued to increase sharply in Türkiye by +95 bps to 17.0%.

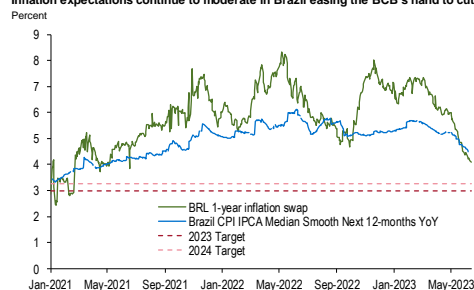
In Asia, equities and currencies gained. Taiwanese and Thai equities lead the gains, up +1.5% and +0.9%. Among currencies, the Korean won appreciated the most with a +1.3% gain, while the Chinese yuan depreciated by -0.1% following the policy rate cut. Government bond yields declined, with 10-year yields falling in China, Singapore, and Indonesia, declining -6.0 bps, -4.3 bps, and -3.6 bps, respectively.

In Latin America, stock markets and currencies traded with a weaker direction. Except for the Chilean peso, which declined -2.4% following the Chile's central bank announcement of an international reserve expansion, currencies marginally weakened against the US dollar. Equity markets in Mexico finished the day in red down -0.4% while Colombia's markets were closed for a local holiday.

Brazil

While remaining above target, inflation expectations continue to moderate. The latest market survey conducted by Banco Central do Brazil (BCB) sees inflation moderating to 4% by year-end 2024, which is still well above the BCB's 3% inflation target. The central bank's monetary policy stance has been restrictive with the Selic rate remaining at elevated levels (+13.75%) in conjunction with hawkish forward guidance. Analysts see the strength of the Brazilian real, which appreciated +8% year-to-date, as a supporting factor in further dampening inflation. Conversely, risk premia in foreign currency forward markets pertaining to policy following last year's elections became priced out. Hence, analysts, including those of Goldman Sachs, project that an improving inflation outlook may allow the BCB to cut rates in August.

Inflation expectations continue to moderate in Brazil easing the BCB's hand to cut rates



Source: Banco Central do Brazil, Bloomberg, IMF Staff Calculations

USDBRL forwards continue to moderate after overcoming policy uncertainty

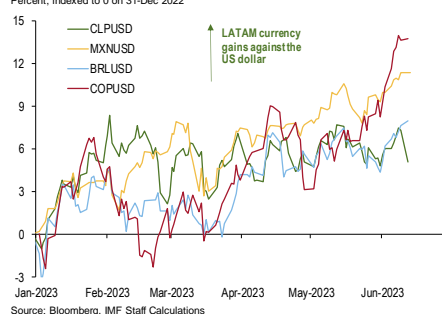


Source: Bloomberg, IMF Staff Calculations

Chile

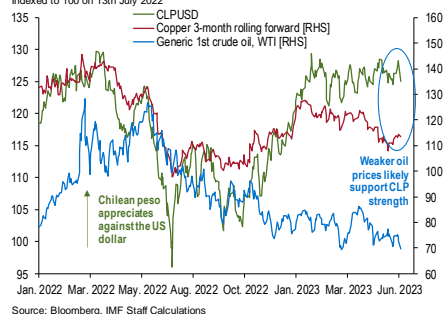
The Chilean peso weakens following the announcement of an international reserve expansion. The currency was the worst performer across major currencies on the day, depreciating by -2.4%. The program aims to increase the central bank's reserves in a year by \$10bn. The depreciation of the currency on the day puts the Chilean peso behind its regional peers in terms of its year-to-date +5.1% appreciation. The currency continues to recover from its significant depreciation last year following a period of political uncertainty. China's re-opening provided a window of opportunity for the Chilean peso to bounce back as the price of copper as Chile's main export good gained from November last year until January this year. Since then, the peso has sustained its gains against the dollar even though growth expectations for China have moderated and copper prices have stalled. As lower oil prices have favored the net oil importer's trade balance, the interest rate return of the currency keeps its year-to-date total returns in double digits +10.2%.

Chilean peso underperforms against regional peers following announcement



Source: Bloomberg, IMF Staff Calculations

The currency continued to gain against the dollar despite lower copper prices



Source: Bloomberg, IMF Staff Calculations

China

Today's release of the new monthly aggregate social financing statistics missed expectations. The aggregate financing for May amounted to 1.56 tn yuan (expected 1.9 tn yuan from 1.22tn yuan). The growth of total social financing thus moderated to 11.6% y/y in May from 12.4% in April, which rekindles the view that more policy support might be needed, particularly via monetary easing.

The People's Bank of China (PBC) lowered its interest rate for open market operations. The PBC has cut the 7-day reverse repo rate by 10 bps to 1.9%, while not injecting additional liquidity. With the 7-day reverse repo rate cut, market participants increasingly expect for a reduction in the PBC's medium-term lending facility (MLF) on June 15, as well as a reduction in banks' loan prime rates (LPRs) on June 20. Market contacts view the sluggish economic activity, weak credit growth, lingering low confidence, the ongoing property sector downturn, and growing strains on local government financing as the driving forces that underpin the PBC's latest decision. The yields on CGBs dropped by -6.0bps to 2.63%, while 1-year rate on interest rate swaps (vs. FR007) declined by -2.4bps to 2.03%. Correspondingly, the RMB depreciated by -0.1% to 7.1525/\$, reaching the lowest reading six months and underperforming other regional currencies. Chinese stock markets gained +0.5%.

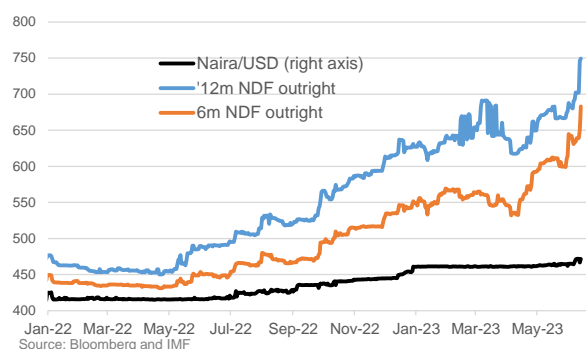
Stimulus Sends Yuan to Weakest in Over 6 Months



Nigeria

Nigeria sees an imminent unification of its exchange rates. The advisor to President Tinubu Wale Edun announced in an interview with Bloomberg that a unification of Nigeria's exchange rates is imminent within a quarter rather than within a year. He also referred to the naira's implicit exchange rate of 650/\$ -based on which the fuel price is based on- as an indication of the naira's fair value. The naira currently trades at about 472/\$. Last Friday, the suspension of Nigeria's central bank governor prompted non-deliverable forward contracts (NDFs) to markedly jump, pricing a naira depreciation to 682/\$ in 6 months and to 749/\$ in 12 months.

Nigeria: Naira Spot and NDFs



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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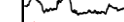





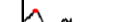

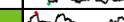






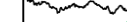








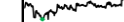








Global Financial Indicators

6/13/23 8:44 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4349	0.9	2	5	16	13
Europe		4326	0.2	1	0	24	14
Japan		33019	1.8	2	12	24	27
China		3865	0.5	1	-2	-8	0
Asia Ex Japan		67	0.4	1	4	0	4
Emerging Markets		40	0.2	1	4	1	5
Interest Rates			basis points				
US 10y Yield		3.69	-4.2	3	23	33	-18
Germany 10y Yield		2.35	-3.8	-2	7	72	-22
Japan 10y Yield		0.43	-0.6	0	3	17	0
UK 10y Yield		4.38	4.0	17	60	185	71
Credit Spreads			basis points				
US Investment Grade		163	-0.3	0	-7	4	5
US High Yield		465	1.8	-11	-44	-15	-15
Exchange Rates			%				
USD/Majors		103.16	-0.5	-1	0	-2	0
EUR/USD		1.08	0.5	1	-1	4	1
USD/JPY		139.2	-0.3	0	2	4	6
EM/USD		49.7	-0.1	0	-2	-4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73.7	2.6	-3	0	-27	-12
Industrials Metals (index)		145	1.7	2	-1	-17	-12
Agriculture (index)		67	0.5	3	1	-11	-3
Implied Volatility			%				
VIX Index (% change in pp)		15.0	0.0	1.0	-2.1	-19.0	-6.7
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	23.9	7.0
Global FX Volatility		8.1	0.0	-0.4	-0.9	-3.6	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		131	-1.6	-6	-43	-157	-74
Italy		165	-2.4	-14	-26	-75	-50
Portugal		68	-0.1	-1	-15	-69	-34
Spain		95	0.2	-5	-13	-41	-14

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

Emerging Market Financial Indicators

Last updated: 6/13/2023 8:44 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		7.15	0.0	-0.4	-3	-6	-3		2.7	-5.1	-10	-22	-17	-35
Indonesia		14860	0.0	0.0	0	-1	5		6.3	-3.7	-7	-11	-108	-66
India		82	0.1	0.3	0	-5	0		7.4	-1.9	0	21	(62.5)	-5
Philippines		56	0.2	0.5	0	-5	0		5.9	0.0	-1	6	46	-9
Thailand		35	0.2	0.7	-2	1	0		2.7	-2.3	15	6	-31	8
Malaysia		4.62	0.1	-0.1	-3	-4	-5		3.7	-1.0	3	7	-65	-32
Argentina		247	0.0	-1.4	-6	-50	-28		111.0	22.7	41	1198	5148	2274
Brazil		4.86	0.2	1.1	1	5	9		11.4	13.6	20	-34	-150	-115
Chile		803	0.6	-0.8	-2	7	6		4.9	-2.5	-23	-36	-164	-40
Colombia		4170	0.0	4.3	9	-8	16		8.1	-12.5	-50	-74	-97	-171
Mexico		17.26	0.1	0.7	1	19	13		8.3	-3.0	-10	6	-94	-43
Peru		3.6	0.0	0.9	0	3	4		7.2	-0.3	-13	-3	-80	-81
Uruguay		39	0.2	0.6	1	4	3		9.9	-0.2	-12	-18	-77	-79
Hungary		342	0.2	0.6	-1	12	9		7.3	-13.0	-47	-46	-97	-230
Poland		4.14	-0.1	1.2	0	8	6		5.2	-1.0	-12	-10	-220	-100
Romania		4.6	0.4	1.1	-1	3	1		6.7	-1.6	-14	-24	-166	-104
Russia		83.9	-0.1	-2.7	-5	-31	-12							
South Africa		18.5	0.1	3.5	3	-13	-8		9.8	-2.5	-16	10	75	65
Turkey		23.65	0.0	-8.6	-17	-27	-21		18.1	135.0	367	370	-352	822
US (DXY; 5y UST)		103	-0.5	-0.9	0	-2	0		3.84	-5.3	3	39	36	-16

	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		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3865	0.5	1	-2	-8	0		188	-5	-12	-4	11	
Indonesia		6719	0.0	2	0	-5	-2		149	0	3	-36	9	
India		63143	0.7	1	2	20	4		135	-10	-26	-26	-7	
Philippines		6507	0.0	0	-1	1	-1		119	-1	-1	-20	22	
Thailand		1562	0.7	2	0	-3	-6		0	0	0	0	0	
Malaysia		1381	-0.4	0	-3	-7	-8		95	-2	-8	-25	-5	
Argentina		381673	0.0	6	19	334	89		2353	-178	-232	307	148	
Brazil		117336	0.3	4	8	14	7		254	-10	-22	-68	-20	
Chile		5693	0.0	0	2	11	8		132	-2	-1	-27	0	
Colombia		1184	-0.6	3	2	-23	-8		365	-19	-56	-15	-7	
Mexico		54278	-0.4	1	-1	12	12		394	-4	-12	0	13	
Peru		22060	0.3	1	2	11	3		173	-5	-9	-8	-7	
Hungary		49725	-0.6	3	8	31	14		231	0	14	10	9	
Poland		65893	-0.6	0	3	25	15		139	-1	9	79	66	
Romania		12018	-1.4	-1	0	-3	3		246	0	-5	-21	-10	
South Africa		77502	1.6	1	-1	17	6		396	-36	-62	-16	29	
Turkey		5474	-2.1	2	14	118	-1		490	2	21	-193	50	
Ukraine		507	0.0	0	0	-2	-2		5058	50	-373	1561	979	
EM total		40	1.0	1	4	1	5		396	-10	-21	-7	21	

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

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