



- Debate on US inflation continues ([link](#))
- PM Johnson could announce a 4-week delay to full reopening later today ([link](#))
- The Bank of Japan has been reducing asset purchases since March ([link](#))
- EM bond funds and EM equity funds see inflows ([link](#))
- **SPECIAL FEATURE: Lending Surveys Monitor Corrected (Attachment)**

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US rates near June lows ahead of FOMC meeting

Markets opened the week with a cautious tone ahead of the Federal Reserve meeting and outlook update on Wednesday. US equity futures are little changed and US rates trade near June lows. US 10-yr rates have traded about 15 bps lower since the release of disappointing job report on May and despite an upside surprise in inflation. In the UK, the local press speculates that PM Johnson will announce a 4-week delay to the full reopening in England, as cases have started to climb again. The central bank of Brazil is expected to increase to hike its policy rate 75 bps (Wednesday) whereas the central bank of Turkey is expected to leave rates unchanged at 19% (Thursday). Emerging market currencies edged lower today.

Key Global Financial Indicators

Last updated: 6/14/21 1:58 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4247	0.2	0	2	40	13
Eurostoxx 50		4131	0.1	1	3	31	16
Nikkei 225		29162	0.7	0	4	35	6
MSCI EM		55	0.3	-1	4	39	7
Yields and Spreads			bps				
US 10y Yield		1.47	2.0	-10	-16	76	55
Germany 10y Yield		-0.26	1.0	-7	-14	18	31
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.0	-0.2	0	1	5	0
Dollar index, (+) = \$ appreciation		90.5	0.0	1	0	-7	1
Brent Crude Oil (\$/barrel)		73.3	0.9	3	7	89	42
VIX Index (% change in pp)		16.1	0.5	0	-3	-20	-7

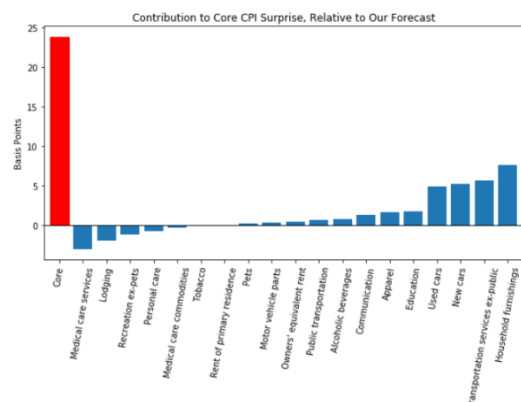
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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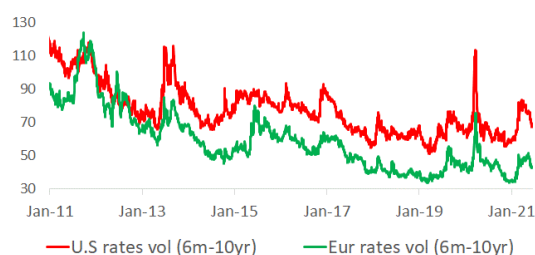
United States

U.S. 10-yr yields (at 1.46%) opened the week near last week's low as investor continue to discuss the outlook for US inflation ahead of the FOMC meeting. One group of contacts argues that the upside surprise in May US CPI was largely due to reopening-sensitive categories and could be temporary. In contrast, others believe that inflation will see a sustainable surge going forward given increases in cyclically-sensitive categories such as shelter, wages and measures for rents. These categories tend to be more cyclical (with rents especially correlated to wages), and may therefore see more persistent increases. Food prices away from home also rose, consistent with low-end wages increases in the leisure category, and supporting the view of faster wage and inflation growth going forward.



Measures of rates volatility have fallen as contacts argue that the June NFP disappointed just enough to price out the more hawkish market view that the Fed could taper before early 2022. This camp expects the strength in Treasuries to persist at least until early fall. The sharp decline in US rates since the May NFP report has taken contacts by surprise. The 10-yr Treasury yield declined by roughly 15 bps since then, despite a stronger-than-expected CPI. There does not appear to be a consensus on the reason for these moves. Many have attributed the moves to positioning effects, such as short-covering from hedge fund and CTA accounts, and pension fund flows. Some expect the strength in Treasuries to reverse in the coming weeks.

Core bond markets: Implied Volatility Measures
(bps per year, swaptions)



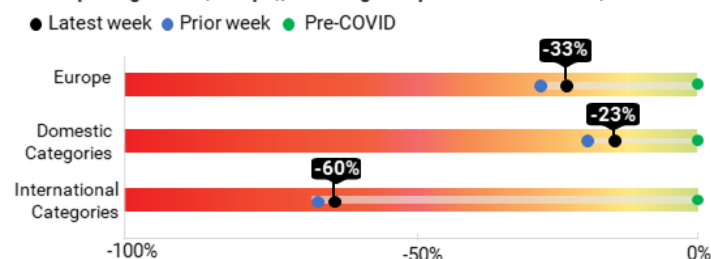
Source: Bloomberg and IMF

Europe

Equity markets opened the week with modest gains ahead of the FOMC meeting later this week. DAX (+0.2%), CAC 40 (+0.3%), EuroStoxx 600 (+0.3%), Italy's Titans 30 (0.2%), and Spanish Ibex (+0.6%). Bank stocks (+0.2%) performed in line with the broad indices.

Although European economies have not fully reopened, risk sentiment remains undergird by expectations of public support. ECB president Lagarde has noted that "it is far too early" to consider an exit for the PEPP in March 2022, reiterating that "our commitment to the euro has no limit."

GS Reopening Scale (Europe), % change vs. pre-Covid baseline (week ending June 6)



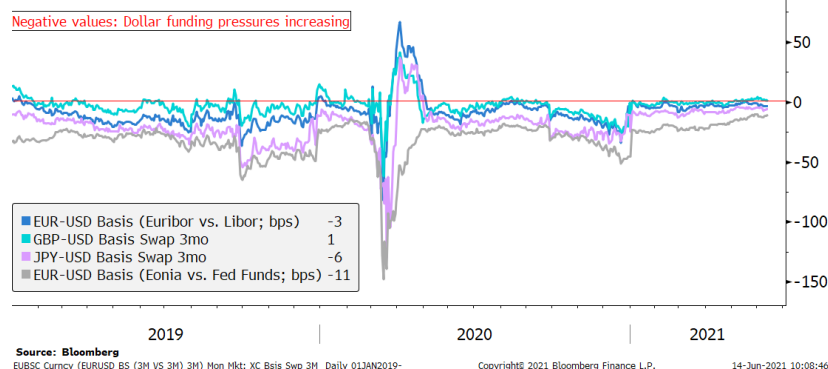
Source: Goldman Sachs Global Investment Research

Sovereign yields are mostly unchanged: German 10-year yields at -0.27% (flat); French OATs are at 0.11% (+1 bps); Italian at 0.76% (+2 bps); Spanish at 0.37% (+1 bps); Greek at 0.73% (flat). Analysts note that bunds have not been able to decouple for UST yields even as inflation dynamics have diverged somewhat.

In **rating news:** Fitch affirmed Spain at A-/stable; Moody's affirmed Netherlands at AAA/stable; DBRS confirmed Slovenia at A (high)/stable.

In **European money markets**, cross-currency basis spreads across various FX-USD has narrowed recently, reflecting ample funding conditions in dollar terms. **Corporate credit spreads** have also tightened for both high-yield and investment grade corporates.

Cross-Currency Basis Swaps (3 mo)



United Kingdom

News outlets speculate that PM Boris' cabinet has agreed to delay the full reopening of the English economy by a further 4-weeks. Restrictions were expected to be lifted on June 21, but the recent surge in infections due to the so-called Delta variant is rising fears of a new wave. The delay would be intended to give more time for a fuller vaccine rollout before the complete reopening. **UK financial assets traded in line with peers across the continent**, with equities gaining 0.2% to 0.5%, gilt yields flat, and sterling 0.2% weaker to \$1.41

Covid-19 in the UK



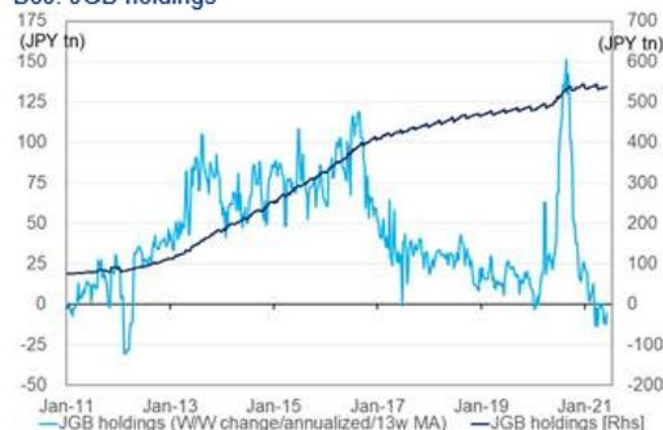
Vaccination rollout



Japan

The Bank of Japan (BoJ) has been aggressively reducing its asset purchase since the policy tweaks in March. Analysis noted that the BoJ's latest JGB holdings decreased, though slightly, compared to that as of the end of March. **The 10-yr JGB yield declined from around 0.08% close to 0.05% last week, indicating strong demand from domestic investors that is absorbing the government's significant bond issuance.** Since the beginning of April, the Japanese central bank executed ETF purchases only once on April 21. Japanese equities traded higher with government bond yields and the yen little changed.

BoJ: JGB holdings



Source: BoJ, CitiFX, Bloomberg

Emerging Markets

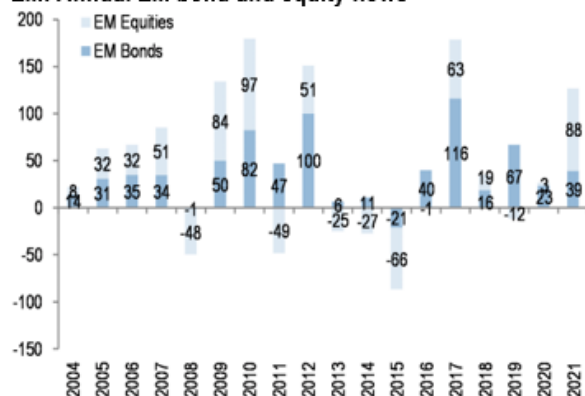
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Latin American equity markets were mixed last Friday. Equities in Argentina (-3%) fell, while Chile (+1.2%) and Colombia (+0.8%) saw gains. Local currencies were broadly weaker. The Brazilian real (-1.2%) led losses, followed by the Mexican peso (-0.9%). 10-yr government bond yields rose 11 bps in Brazil and were little changed in other countries. **Markets in China, Hong Kong, and Australia are closed today but equities traded higher in Vietnam (+0.7%) and India (+0.2%).** Most Asian currencies weakened to the dollar by about 0.1% to 0.2%. **In EMEA, stocks saw larger gains than Asia peers: UAE (+0.9%), South Africa (+0.7%), Poland (+0.7%), Qatar (+0.7%), Kuwait (+0.6%).** Currencies were mixed within a tight range. The Turkish lira (+0.2%) was little changed even though the current account deficit was less than expected in April (deficit of \$1.7 bn compared to \$2.2 bn expected).

The central bank of Turkey is expected to maintain the one-week repo rate at 19% on Thursday. Analysts expect hikes in the next meetings of the Hungarian and Czech national banks. For **Hungary**, contacts note that the inflation rate (5.1% y/y in May) has been above the central bank's 2% to 4% band

for 2 months in a row. Thus, a hike is expected out of the next meeting in June 22. Similarly, inflation has increased in the **Czech Republic** in recent months. While some analysts attribute part of the price increase to temporary factors, others note that labor shortages have led to an increase in wages. The meeting of the central bank is scheduled for June 23.

EM: Annual EM bond and equity flows



Source: JP Morgan

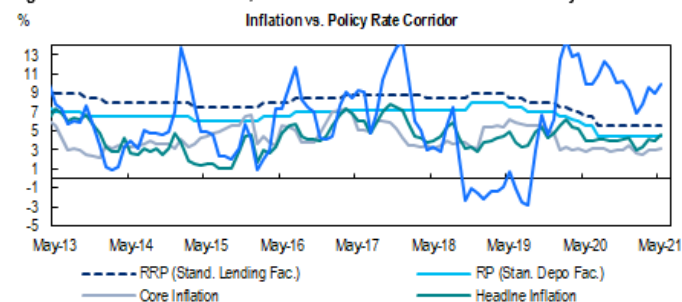
EM Capital Flows

Both EM bond funds and EM equity funds saw inflows last week, with the numbers printing at +\$1.8 bn and +\$2.2 bn, respectively. Of EM bond funds, inflows to hard currency bond funds printed at +\$646 mn, while inflows to local currency bond funds largely increased to +\$1.1 bn. Inflows to EM ex-China local currency bond funds reached the highest level since January 2020 at +\$543 mn. From a regional perspective, inflows to Asia ex-Japan equity slowed to +\$863 mn (from +\$2.0 bn). EMEA equity funds saw inflows (+\$72 mn), offset by outflows from Latin America equity funds (-\$195 mn). Year-to-date flows to EM bonds and equities were +\$39 bn and +\$88 bn, respectively.

Sri Lanka

The Sri Lankan government hiked fuel prices (averaging about 11% across fuel types) for the first time since Sep 2019. Barclays analysts note that this is a credit positive step, aimed at helping curb losses in state-owned Ceylon Petroleum Corporation. While this fuel price hike could help marginally ease the pressure on the external accounts, this could also put further pressure on the already rising inflation trajectory, per analyst reports.

Figure 3. Sri Lanka – Headline, Food and Core Inflation vs. CBSL Policy Rate Corridor

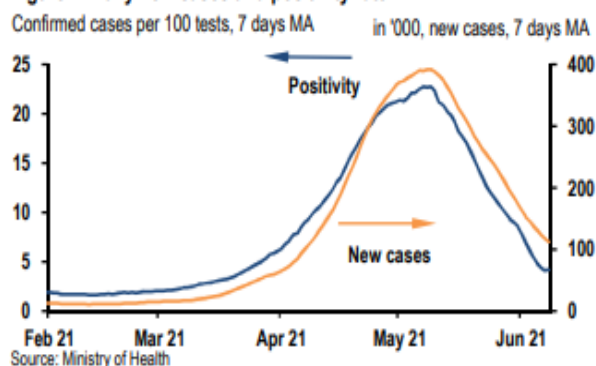


Source: CEIC, Citi Research

India

Industrial Production printed above expectations in April, expanding 134% yoy, largely on account of very favorable base effects from last April, when the country had just entered a national lockdown. IP rose 1.1% mom sa in April, despite several local lockdowns starting mid April – reflecting the impact of global growth and demand – per JP Morgan analysts. **Analysts also note that second wave appears to be abating almost as rapidly as it rose with daily reported cases declining from about 400,000/day in early May to less than 100,000/day by the first week of June.** Similarly, the positivity rate peaked at about 23% in early May but has now declined to below 5%. This has allowed different states to start unlocking.















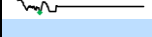







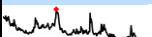





Figure 1: Daily new cases and positivity rate



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Global Financial Indicators

Last updated: 6/14/21 1:58 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4247	0.2	0	2	40	13
Europe		4131	0.1	1	3	31	16
Japan		29162	0.7	0	4	35	6
China		3590	-0.6	0	3	23	3
Asia Ex Japan		95	-0.1	-1	4	39	6
Emerging Markets		55	0.3	-1	4	39	7
Interest Rates			basis points				
US 10y Yield		1.47	2.0	-10	-16	76	55
Germany 10y Yield		-0.26	1.0	-7	-14	18	31
Japan 10y Yield		0.04	0.6	-4	-5	3	2
UK 10y Yield		0.72	0.9	-9	-14	51	52
Credit Spreads			basis points				
US Investment Grade		91	-0.4	-2	-3	-68	-4
US High Yield		327	-1.4	-6	-13	-289	-53
Europe IG		47	-0.2	-2	-4	-24	-1
Europe HY		230	-1.1	-14	-22	-174	-12
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates			%				
USD/Majors		90.52	0.0	1	0	-7	1
EUR/USD		1.21	0.0	-1	0	7	-1
USD/JPY		109.8	-0.1	0	0	-2	-6
EM/USD		58.0	-0.2	0	1	5	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73	0.9	3	7	89	42
Industrials Metals (index)		159	0.1	1	0	57	20
Agriculture (index)		57	-3.8	-4	-3	61	18
Implied Volatility			%				
VIX Index (%, change in pp)		16.1	0.5	-0.3	-2.7	-20.0	-6.6
Global FX Volatility		6.5	0.1	-0.3	-0.7	-2.2	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-0.1	-2	-18	-71	-18
Italy		103	1.4	-8	-17	-86	-8
Portugal		63	0.7	-3	-9	-38	3
Spain		64	1.3	-3	-7	-39	3

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

Emerging Market Financial Indicators

Last updated: 14/06/2021 1:53 PM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	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	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.40	-0.1	-0.1	0	10	2		3.3	1.1	4	4	36	-3
Indonesia		14203	-0.1	0.4	0	-1	-1		6.3	-4.5	-11	-20	-108	18
India		73	-0.3	-0.6	0	4	0		6.3	-1.4	-6	-3	17	32
Philippines		48	-0.4	-0.5	0	5	0		4.3	-7.2	-5	4	13	60
Thailand		31	-0.1	0.1	1	0	-4		1.8	-1.3	-4	2	41	52
Malaysia		4.11	-0.1	0.3	0	4	-2		3.3	-0.6	-1	-2	40	70
Argentina		95	0.0	-0.3	-1	-27	-12		45.6	2.4	-2	-51	-357	-1055
Brazil		5.11	0.3	-1.2	3	1	2		8.2	6.2	30	5	299	263
Chile		723	0.0	-1.0	-3	9	-2		4.1	-3.1	-1	52	140	132
Colombia		3638	-1.1	-0.8	2	4	-6		6.6	4.7	7	-26	76	156
Mexico		19.91	-0.2	-0.5	0	12	0		6.6	4.0	1	-18	41	105
Peru		3.9	0.0	-1.3	-5	-11	-7		5.1	3.7	38	26	70	146
Uruguay		43	0.0	0.3	1	-1	-3		7.9	0.0	-7	51	-223	62
Hungary		290	-0.6	-1.8	1	6	3		2.2	-3.6	-6	15	58	69
Poland		3.73	-0.2	-1.6	0	5	0		1.2	-4.3	-8	0	27	53
Romania		4.1	0.0	-0.6	0	5	-2		2.7	-1.0	-1	7	-100	-2
Russia		72.2	-0.3	0.9	2	-4	3		6.9	-7.2	-1	16	151	118
South Africa		13.8	-0.5	-2.1	2	24	7		9.5	1.1	-10	-33	-58	-19
Turkey		8.37	0.3	2.9	1	-19	-11		17.7	-19.6	-58	8	688	455
US (DXY; 5y UST)		90	-0.1	0.6	0	-7	1		0.75	1.5	-4	-6	43	39

	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		3590	0.0	0	3	23	3		199	0	-2	-9	30	-9
Indonesia		6080	-0.2	0	2	26	2		158	0	-9	-25	-5	-29
India		52552	0.1	0	8	58	10		144	-2	-6	-22	-91	-7
Philippines		6917	0.1	2	10	12	-3		83	0	-9	-17	13	-22
Malaysia		1582	0.5	0	0	6	-3		113	0	-2	-3	9	3
Argentina		66094	-3.0	0	20	52	29		1459	0	19	8	-570	91
Brazil		129441	-0.5	-1	6	39	9		253	0	0	-16	58	3
Chile		4311	1.2	4	-6	8	3		126	0	-6	-16	-14	-18
Colombia		1262	0.1	0	-2	10	-12		207	0	-4	-15	44	2
Mexico		51286	0.8	2	4	36	16		348	0	-9	-34	55	-12
Peru		19810	-0.9	-11	-9	18	-5		133	0	-4	-3	22	1
Hungary		48883	0.1	1	8	31	16		65	0	-6	-15	-42	-31
Poland		66586	0.6	0	7	33	17		-22	0	-4	-11	-54	-21
Romania		11563	0.4	3	0	32	18		180	-6	-1	1	-119	-23
Russia		3853	0.3	1	6	40	17		159	0	-5	-3	19	-7
South Africa		68124	0.6	1	2	27	15		357	0	-4	-35	25	-23
Turkey		1463	0.2	1	2	33	-1		421	0	-5	-47	34	-24
Ukraine		531	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		55	0.3	-1	4	39	7		421	0	17	-10	97	128

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

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