



- **May CPI data seal expectations for a pause in June** ([link](#))
- **So far, investors met the new T-Bill supply with solid demand, but not from MMFs** ([link](#))
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## Anticipation Soars as Fed Meeting Takes Center Stage

**Markets eagerly await today's Fed meeting and the updated Summary of Economic Projections.** Yesterday's US CPI data helped solidifying expectations around a rate pause/skip at today's meeting with the price action in the front end of Treasury yields driven by a pricing out of future cuts instead of a pricing in of more hikes as even the July meeting saw a slight reduction in hiking expectations. A substantial chunk of the fireworks will take place in the updated dot plot, which market contacts expect to show upward revisions for the Fed Funds' trajectory to keep optionality for future hikes, portraying an image that policy remains data-dependent while avoiding signaling that the hiking cycle is over yet. Ahead of the Fed meeting, European equities posted gains and the euro edged higher. In Korea, latest May unemployment rate data declined compared to the previous month and printed lower than expected, indicating a resilient labor market. In India, wholesale prices declined more than expected while in Thailand, central bank officials warned that upside risks for inflation remain prevalent. In Namibia, the central bank increased its benchmark rate by 50bps to 7.75%. Nigeria remains in the headlines as media reports this morning suggested that the country is on the verge of allowing its currency to float more freely in pursuit of exchange rate unification, which prompted the naira to enter a freefall, sharply falling by close to -30%.

Key Global Financial Indicators

Last updated: 6/14/23 8:41 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		4369	0.7	2	6	17	14	3
Eurostoxx 50		4380	0.7	2	1	26	15	10
Nikkei 225		33502	1.5	5	13	27	28	27
MSCI EM		40	1.0	1	5	0	6	-15
Yields and Spreads			bps					
US 10y Yield		3.80	-1.7	0	33	32	-8	180
Germany 10y Yield		2.44	2.0	-1	17	69	-13	222
EMBIG Sovereign Spread		445	-10	-16	-39	-39	-7	32
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.8	0.3	0	-2	-3	0	-6
Dollar index, (+) = \$ appreciation		103.0	-0.3	-1	0	-2	-1	7
Brent Crude Oil (\$/barrel)		75.0	0.9	-3	1	-38	-13	-23
VIX Index (% change in pp)		14.6	0.0	1	-2	-18	-7	-16

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

## Mature Markets

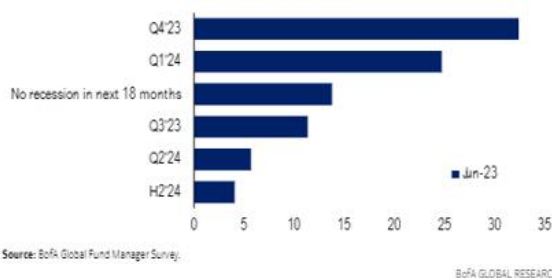
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### United States

**This morning, producer prices printed below expectations.** PPI data for May printed at -0.3% m/m and 1.1% y/y (vs -0.1% m/m, 2.9% y/y expected), while ex food and energy, PPI for May was 0.2% m/m and 2.8% y/y (vs 0.2% m/m, 2.9% y/y). Treasury yields rallied leading into the release, with 2y yields declining -3bps to -4 bps, with little immediate change following the report.

**May CPI data seal expectations for a pause in June.** Consumer prices in May declined on an annual basis and, despite core inflation continuing to rise on the month, the inflation outcome solidified market expectations for a “hawkish hold.” The hold involves a pause in interest rate hiking this week, leaving the door open to future tightening in July. Following the release, swap markets lowered the probability of a rate hike in June (which would-be 11<sup>th</sup> consecutive one) to only 10%. While the odds of a hike in July became trimmed, these remain close to 60%. In the meantime, the Bank of America updated survey of fund managers sees 1-year ahead inflation expectations sinking to a 28-year low, a mild recession seen as materializing towards the end of the year and the Fed cutting rates in 2024.

**Chart 3: Start of recession punted into Q4'23/Q1'24...**  
When do you expect the global economy to fall into recession?

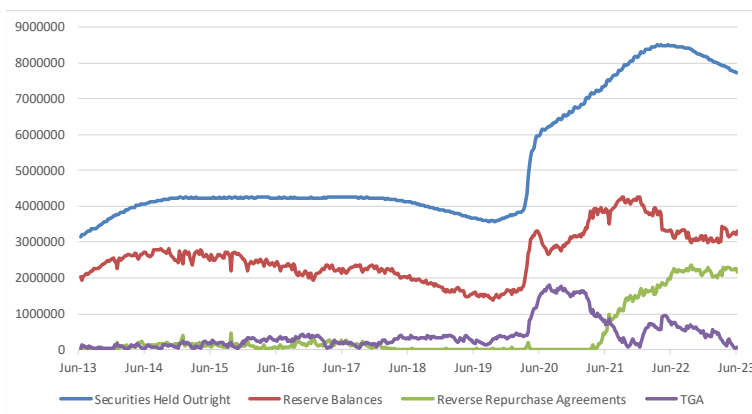


**Chart 8: Only 2% of investors expect higher inflation**  
% expecting higher inflation vs net % expecting higher short-term rates



**Investors received well the additional T-Bill issuance while MMF demands remains tepid.** Following the resolution of the debt ceiling impasse, Treasury has been rebuilding its cash buffers with the Fed, the so-called Treasury General Account (TGA). According to last week's guidance, Treasury aims to raise its TGA from less than \$50bn in early June to \$450bn by the end of June and, with fluctuations to reach \$600bn at the end of September. The guidance suggests a heavily front-loaded T-Bill issuance this month. The plan is to increase T-bill auction sizes for the 1-6months tenors, totaling about \$60b in higher auction sizes, and a regularly issued 6-week cash management T-bill with a starting offering size of \$45bn that is specifically targeting money market fund (MMF) demand. So far, investors received well these auctions with direct bidders (including hedge funds, pension funds, mutual funds, insurers, banks, governments, and individuals) showing strong demand for 4–8-week tenors. Conversely, indirect bidders (foreign entities like central banks and domestic money managers) have demonstrated strong demand for 13–26-week tenors. Meanwhile, since June 2, MMFs have seen \$25bn in inflows, primarily into government institutional funds. MMF market contacts stated that they remain apprehensive that T-bill yields did not yet cheapen enough for them to justify them terming out their holdings in the Fed's Overnight Reverse Repo Facility (ON-RRP) into T-bills. Yet, such a rotation could help dampening the drain of bank reserves brought about by the replenishment of the TGA through T-bill issuance. For this to start happening, today's Fed meeting, including the updated Summary of Economic Projections, will be a critical event.

**A sharp increase of the Treasury's cash balances with the Fed (TGA) will drain liquidity and likely impact both Reserves and RRP**



Source: Bloomberg

## Euro area

**Market contacts expect the ECB to hike its depo rate 25 bps to 3.50%.** Expectations firm that the ECB confirms that all APP reinvestments will end this month. Italian spreads consolidated at recent lows (with the 10-yr at 163 bps) as market contacts are studying the implications of the death of former prime minister Berlusconi for Italian politics and European elections. Market pricing for the terminal ECB depo rate firmed at 3.75% and Euro area rates traded +2bps to +4bps higher ahead of the ECB meeting tomorrow.

**Despite above average profit margins, analysts observe variations among countries and sectors.** Credit Agricole analysts expect profits as a percentage of value added to exceed the historical average from 2012 to 2019 in most countries. This holds true for all countries in the energy sector, with notable emphasis on France's energy sector. In the manufacturing and agriculture sectors, all countries saw an increase in profits as a percentage of value added (except Italy), but of a different magnitude from one country to another. In contrast, profits as a percentage of value added are well below the historic average in services excluding wholesale retail for the four biggest economies, while they are above it for the euro area ex-Big 4. Credit Agricole analysts perceive that high nominal profits in non-services sectors will partially normalize over the medium-term, especially in the energy sector, while seeing room for services profits to recover, which could fuel services inflation.

## Euro area: Profit margin by country and sector (percentage point)

Deviation from avg 2012-2019 (ppt)	Total	Agriculture	Energy and utilities	Manuf.	Construction	Wholesale retail	Services excl. wh. retail
Eurozone	0.5	4.4	6.7	5.0	4.7	1.6	-2.7
Germany	0.8	8.0	7.2	3.1	14.0	6.1	-4.3
France	-0.1	7.0	15.2	1.7	-1.3	0.9	-2.8
Italy	-1.2	-0.1	10.7	0.7	-3.1	-1.7	-2.3
Spain	0.0	2.9	7.8	8.0	-9.9	2.8	-3.8
Rest of Eurozone	1.8	1.4	6.1	8.6	4.2	-0.3	1.4

Source: Eurostat, Crédit Agricole CIB

## Japan

**The rally of Japanese equities continued.** The NIKKEI gained +1.5%, outperforming regional peers. Japanese equities rose 14% over the past month and 28% year-to-date, the best performer among Asian markets. Ahead of the Bank of Japan (BOJ)'s policy meeting this Friday, the Japanese yen appreciated by +0.2%. Markets expected the BOJ to keep its monetary policy setting unchanged, including the yield curve

control. 10-year JGB yields increased by +0.8bps to 0.425%.

## Emerging Markets

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**Asian markets traded without clear direction.** Asian equity markets fell -0.4%, led by those rose in Singapore that gained +0.9%, while in Philippine, Korea and Hong Kong, stock prices declined by -1.1%, -0.7%, and -0.6%. Asian currencies were similarly mixed. The Korean won, Thai baht and Indonesian rupiah depreciated by -0.6%, -0.3% and -0.3%, while Indian rupee appreciated by +0.3%.

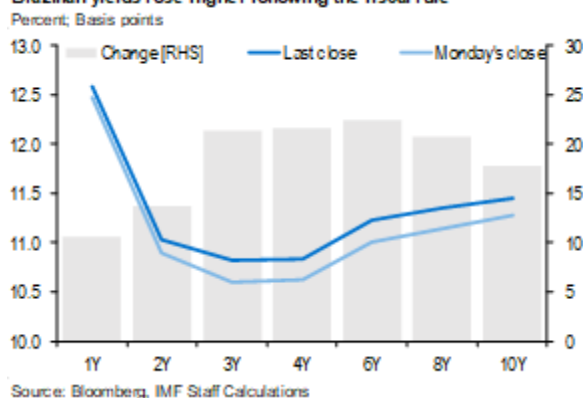
**In EMEA, equity markets gained while currencies posted mixed results.** Equities in Poland increased +1.7% while Türkiye's stock market was continuing to edge lower by -0.2%, now roughly 3.8% lower than at the start of the week. The Turkish lira depreciated for a fourth consecutive day, down -0.2% to 23.68/\$ while the South African rand outperformed by +0.6% to 18.51/\$, retracing to levels last seen early May. CEE currencies mostly weakened, except for the Polish zloty that gained +0.3% to 4.47/€.

**In Latin America, equity markets and currencies broadly gained.** Equity markets in Peru and Mexico gained the most, up +1% and +0.6%. Among currencies, the Chilean peso, Mexican peso and Colombian peso gained the most, up +0.5%, +0.4% and +0.1% while the Brazilian real was flat. Brazilian bond markets sold off by yields rising as much as +20bps as the government is considering adjusting its fiscal rule.

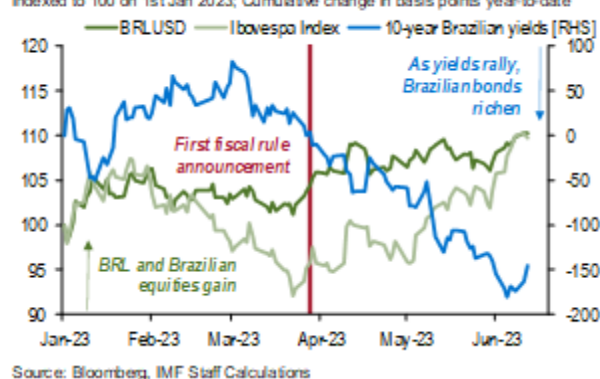
### Brazil

**Brazilian rates sold-off as the government is considering adjustments to its fiscal rules.** These adjustments are seen to allow for cost savings of as much as 40bn real. In reaction to the news, sovereign yields rose mostly in the belly of the curve, increasing in the 3-year tenor by around +20bps to 10.8%. Despite the sell-off in rates on the day, the fiscal rule announced at the end of March remains well received by markets. At the start of the year, uncertainty over the new administration's fiscal policy had been a major headwind for local assets. Since the fiscal rule's announcement, Brazilian markets have rallied across all assets. The Brazilian real has gained +5% against the dollar, meanwhile the main local equity index gained more than 12%. Government yields at the 10-year tenor have rallied by more than 130bps.

Brazilian yields rose higher following the fiscal rule



Local assets have rallied since the announcement of the first fiscal rule



### China

**Government bond yields declined on expectations of further monetary policy easing.** Long-end CGB yields dropped at the 30-year tenor by -1.2bps to 3.0% against the backdrop of market contacts expecting the People's Bank of China (PBC) to lower the rate in the medium-term lending facility by 10 bps to 2.65% tomorrow. Onshore Chinese equities stayed flat (based on CSI 300) as the gain in the morning session, supported by investors' anticipation of a potentially broader package of stimulus measures, has dissipated. Financial stocks underperformed, falling -1.2% due to concerns of compressed margins following the PBC's

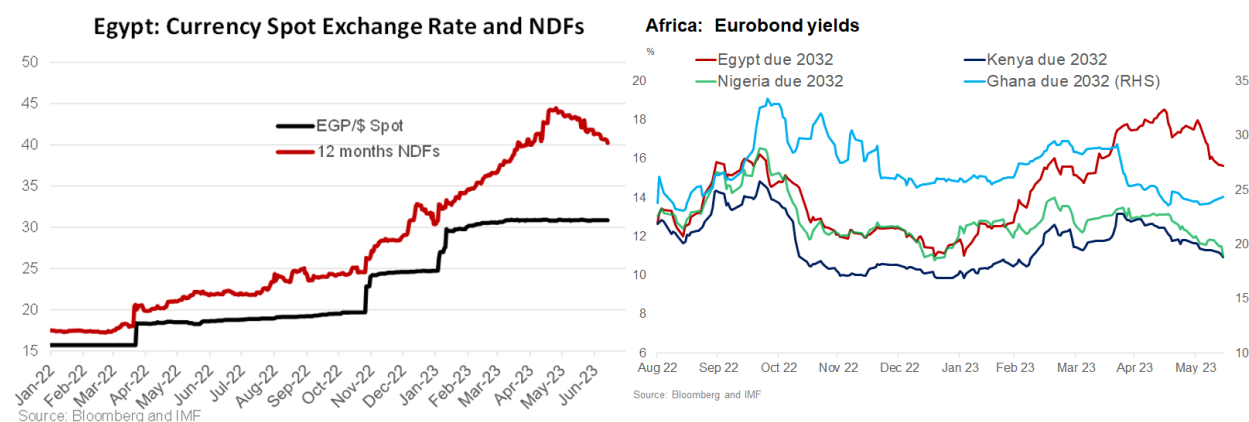
recent monetary policy easing. Senior Chinese officials are seeking advice from business leaders and economists on how to revitalize the economy in a series of meetings which attendees described as unusually urgent in their tone. The RMB appreciated, up +0.1%.

### Chinese Bond Yields Fall Further Amid Easing Bets



## Egypt

**Expectations for a devaluation of the Egyptian pound pared back over the last two months.** Right now, non-deliverable forward outright contracts (NDFs) 1-year trade at 36.3/\$ down from 50/\$ in late April, while the spot rate has remained at 30.9/\$. Citi analysts perceive that Egypt will hold-off devaluing the pound until at least September, with expectations that the prospect of bumper tourism revenue and asset sales could help easing pressure on the economy. Goldman Sachs analysts similarly anticipate that Egyptian authorities could have a strong preference to prioritize reforms such that asset sales precede a move toward FX flexibility. They highlight that asset sales could provide a liquidity buffer to lean against a potential overshoot of the pound under a more liberal exchange rate regime, enabling an orderly transition to a unified market clearing exchange rate. Earlier this week, Egyptian supply minister Mr. Ali El-Mosilhy announced that India may provide Egypt with an unspecified credit line. Market participants became puzzled when later he explained that a credit line had not been opened. He clarified that discussions were underway with India and other countries to boost trade. Meanwhile, Egypt's Eurobond yields have eased since mid-May, after increasing concerns over reform implementation and large external financing needs.





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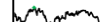

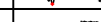



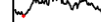









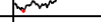









## Global Financial Indicators

6/14/23 8:42 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4368	0.7	2	6	17	14
Europe		4380	0.7	2	1	26	15
Japan		33502	1.5	5	13	27	28
China		3864	0.0	2	-3	-10	0
Asia Ex Japan		68	1.2	1	5	-1	5
Emerging Markets		40	1.0	1	5	0	6
<b>Interest Rates</b>			basis points				
US 10y Yield		3.80	-1.7	0	33	32	-8
Germany 10y Yield		2.44	2.0	-1	17	69	-13
Japan 10y Yield		0.43	0.6	0	4	18	1
UK 10y Yield		4.41	-2.2	16	63	183	74
<b>Credit Spreads</b>			basis points				
US Investment Grade		162	1.3	-1	-8	0	3
US High Yield		454	2.9	-14	-55	-38	-26
<b>Exchange Rates</b>			%				
USD/Majors		103.00	-0.3	-1	0	-2	-1
EUR/USD		1.08	0.3	1	0	4	1
USD/JPY		139.8	-0.3	0	3	3	7
EM/USD		49.8	0.3	0	-2	-3	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		75.0	0.9	-3	1	-25	-10
Industrials Metals (index)		147	1.1	2	1	-15	-11
Agriculture (index)		67	-0.6	2	0	-11	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.6	0.0	0.7	-2.4	-18.1	-7.1
US 10y Swaption Volatility		134.6	0.0	0.0	0.0	23.9	7.0
Global FX Volatility		8.0	0.0	-0.4	-0.9	-3.8	-2.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		131	2.9	-2	-43	-164	-74
Italy		165	1.8	-18	-26	-77	-49
Portugal		68	0.1	-3	-15	-68	-34
Spain		96	1.0	-6	-12	-40	-14

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

## Emerging Market Financial Indicators

Last updated: 6/14/2023 8:43 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		7.16	0.1	-0.3	-3	-6	-4		2.7	-0.4	-8	-22	-16	-35
Indonesia		14900	-0.3	-0.1	-1	-1	4		6.3	-2.7	-8	-14	-117	-68
India		82	0.3	0.5	0	-5	1		7.5	4.8	10	26	(51.2)	0
Philippines		56	0.0	0.3	0	-5	0		5.9	0.0	0	6	46	-9
Thailand		35	-0.4	0.2	-3	1	0		2.7	2.5	13	9	-22	11
Malaysia		4.62	-0.1	-0.5	-3	-4	-5		3.7	1.6	4	9	-65	-31
Argentina		247	0.0	-1.4	-7	-50	-28		111.5	55.1	74	1253	5126	2329
Brazil		4.85	0.2	1.5	1	5	9		11.5	8.2	19	-24	-163	-105
Chile		802	0.2	-1.3	-2	8	6		5.0	0.0	-17	-32	-164	-36
Colombia		4195	-0.6	0.8	7	-5	16		8.0	0.0	-43	-52	-137	-183
Mexico		17.18	0.3	1.1	1	20	14		8.4	2.0	-5	13	-91	-36
Peru		3.7	-0.2	0.9	0	2	4		7.2	-0.2	-14	-2	-85	-81
Uruguay		38	0.5	1.4	1	4	4		9.9	0.0	-12	-18	-105	-79
Hungary		342	0.2	0.7	-1	12	9		7.4	-1.0	-36	-37	-81	-221
Poland		4.11	1.1	2.0	1	9	6		5.3	4.3	-5	0	-216	-90
Romania		4.6	0.5	1.3	-1	4	1		6.7	0.0	-11	-24	-166	-103
Russia		84.1	0.0	-2.6	-5	-31	-12							
South Africa		18.4	1.4	3.9	4	-13	-7		9.8	-1.0	-20	10	82	65
Turkey		23.58	0.3	-1.4	-17	-27	-21		18.0	-7.0	313	363	-167	815
US (DXY; 5y UST)		103	-0.3	-1.1	0	-2	-1		3.96	-3.2	2	51	37	-4

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					YTD	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	YTD	
									basis points					
China		3864	0.0	2	-3	-10	0		185	-4	-15	-5	8	
Indonesia		6700	-0.3	1	0	-4	-2		139	-10	-7	-45	-1	
India		63229	0.1	0	1	20	4		134	-8	-27	-40	-8	
Philippines		6434	-1.1	-1	-1	2	-2		109	-10	-11	-28	12	
Thailand		1561	-0.1	2	1	-2	-6		0	0	0	0	0	
Malaysia		1385	0.3	0	-2	-5	-7		94	-2	-9	-29	-6	
Argentina		381896	0.1	0	19	337	89		2313	-91	-272	184	108	
Brazil		116743	-0.5	4	8	14	6		246	-15	-30	-87	-28	
Chile		5712	0.3	1	2	12	9		126	-9	-7	-43	-6	
Colombia		1185	0.1	-1	2	-21	-8		354	-19	-67	-41	-18	
Mexico		54575	0.5	0	-1	13	13		386	-12	-20	-31	5	
Peru		22288	1.0	1	3	14	4		165	-13	-17	-29	-15	
Hungary		50191	0.6	3	9	30	15		220	-14	3	-3	-2	
Poland		66966	2.1	1	5	26	17		132	-9	2	72	59	
Romania		12009	0.0	-1	0	0	3		235	-11	-16	-45	-20	
South Africa		77952	0.2	1	0	19	7		392	-45	-66	-43	25	
Turkey		5429	0.0	-2	13	116	-1		469	-15	0	-239	29	
Ukraine		507	0.0	0	0	-2	-2		5024	10	-407	1441	945	
EM total		40	-0.1	1	5	0	6		386	-16	-31	-32	11	

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

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