



- **Federal Reserve delivers a hawkish skip** ([link](#))
- **Euro area sovereign yields increase after ECB hikes policy rate 25 bps** ([link](#))
- **Italian spreads widen as attention turns to fiscal rules and TLTRO repayments** ([link](#))
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- **People's Bank of China cuts the MLF rate to 2.65% as expected** ([link](#))
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Hawkish skip vs. hawkish hike

Yesterday the Federal Reserve delivered a hawkish skip, while today the ECB opted for a hawkish 25 bps hike. The Fed left rates unchanged yesterday but revised its estimates for the policy rate at end 2023 significantly higher, to 5.635%, implying two additional hikes. In the press conference, Fed Chair Powell also pushed back on any near term rate cuts, saying that those would be probably a couple of years out. The market reaction was relatively muted however with expectations for end 2023 rates up 5-10 bps to 5.25%, still below the Fed's new dot plot. Today, the ECB hiked key rates by 25 bps to take the deposit rate to 3.5%, in line with expectations. Inflation forecasts were however revised up, especially for core inflation, and the statement reiterated that inflation is projected to remain too high for too long. Markets are now eager to listen to ECB president Lagarde's press conference for further clues regarding the ECB's monetary policy outlook. There were also notable developments in emerging markets with the Central Bank of Nigeria allowing the currency to depreciate significantly and making significant operational changes to its FX market. In Brazil, assets rallied after Standard and Poor's changed the sovereign rating outlook to positive.

Key Global Financial Indicators

Last updated: 6/15/23 1:49 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4373	0.1	2	6	15	14
Eurostoxx 50		4339	-0.8	1	1	23	14
Nikkei 225		33485	-0.1	6	12	27	28
MSCI EM		41	0.7	3	4	0	7
Yields and Spreads			bps				
US 10y Yield		3.78	-0.4	6	28	50	-9
Germany 10y Yield		2.52	7.2	12	22	88	-5
EMBIG Sovereign Spread		445	0	-8	-39	-36	-7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.7	-0.1	0	-2	-4	0
Dollar index, (+) = \$ appreciation		102.9	-0.1	0	0	-2	-1
Brent Crude Oil (\$/barrel)		73.9	0.9	-3	-2	-38	-14
VIX Index (% change in pp)		14.1	0.3	0	-3	-15	-8

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

Mature Markets

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US markets bounced around following the FOMC but ended the day little changed. Treasury yields jumped higher and stocks sold off immediately following the release of the FOMC statement and Statement of Economic Projections (SEP), but largely erased the moves following the press conference. The S&P500 gained 0.1% yesterday, while the yield curve inverted somewhat, with 2yr yields 3 bps higher.

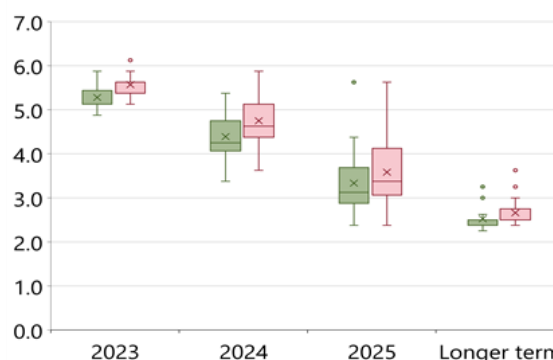
The Fed left rates unchanged, while revising upwards its estimates for the year end policy rate significantly higher to 5.625%, implying two additional hikes (dot plot). Per the opening statement,

nearly all FOMC members view it as likely that further hikes will be appropriate this year. The median dot for end 2023 now sits at 5.625, vs 5.125 previously. In addition to the upward revision to the dot plot, Chair Powell also pushed back verbally on any near term rate cuts, saying “it will be appropriate to cut rates at such time as inflation is coming down really significantly, and we’re talking about a couple years out”. The few changes to the statement emphasized data dependency

by noting that holding rates steady “allows the Committee to assess additional information and its implications for monetary policy. Many seemed to read the press conference as dovish, at least relative to the initial release of the dots. Several analysts noted his acknowledgement of the effects of recent tightening on housing and fixed investment, as well as the lagged effects still to come.

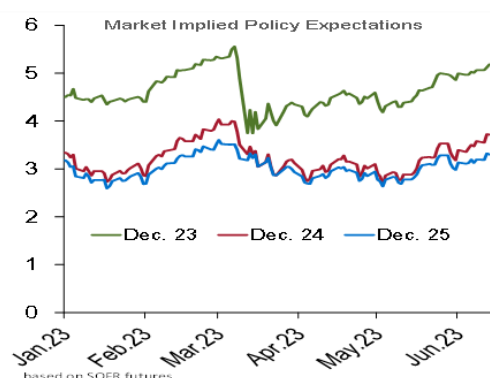
FOMC Dot Plot Distribution

■ Mar. 23 ■ Jun. 23



FOMC members revised up their estimates of growth, lowered their view of unemployment, and increased their expectations for core PCE inflation. In the SEP, participants lowered their projection for the unemployment rate to 4.1% (from 4.5%) and 4.5% (from 4.6%) for end 2023 and 2024 respectively. Core PCE for 2023 was revised upwards to 3.9% (from 3.6%), even as headline PCE estimate moved slightly lower to 3.2%. With 6-month annualized core PCE at 4.6%, the next 6-month period would need to see roughly a 3.2% annualized inflation to reach that estimate. Longer term estimates of macroeconomic variables and the neutral rate were left unchanged.

Market expectations did not shift significantly, with about 5-10 bps of additional hikes priced in for Dec.23/Jan. 24. Nevertheless, consistent with Chair Powell’s statement, July is seen as a live meeting with a 63% probability of a hike. Early market narratives gave way to some confusion, with the press conference pushing a more data dependent view given Chair Powell’s acknowledgement of signs of weakness in housing and investment, the still lagged effects of tightening, alongside a *very tight* labor market. Ultimately, the net effect on the market’s perspective seems limited after one day.



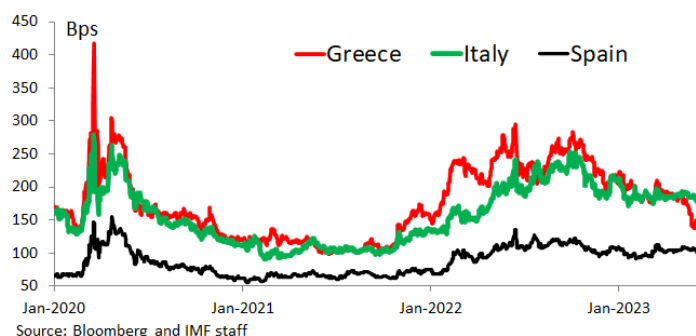
Today, retail sales came in somewhat stronger than expected. The headline print for May was 0.3% m/m (vs -0.2%), while the control group was in line at 0.2% m/m. Retail sales ex auto and gas beat expectations at 0.4% m/m (vs 0.2% m/m). Initial jobless claims were higher than expected at 262k (vs 245k expected) from 261k last week, while continuing claims rose to 1.775 mn from 1.757 mn previously. Treasury yields fell 2-3 bps following this morning's data.

Euro Area

Core sovereign yields extended early morning increase (10y bunds +10bps) after the ECB hiked key rates by 25 bps to take the deposit rate to 3.5%, in line with expectations. While noting that inflation has eased, the monetary policy statement reiterated that inflation is projected to remain too high for too long. Eurosystem staff now forecast headline inflation at 5.4% average in 2023, 3% in 2024 and 2.2% in 2025. The statement also reiterated that policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary. The Governing Council confirmed that APP portfolio reinvestments will be discontinued at the end of July 2023 and said that it intends to reinvest principal payments from securities purchases under the PEPP until at least the end of 2024. The euro (+0.2%) appreciated right after the announcement.

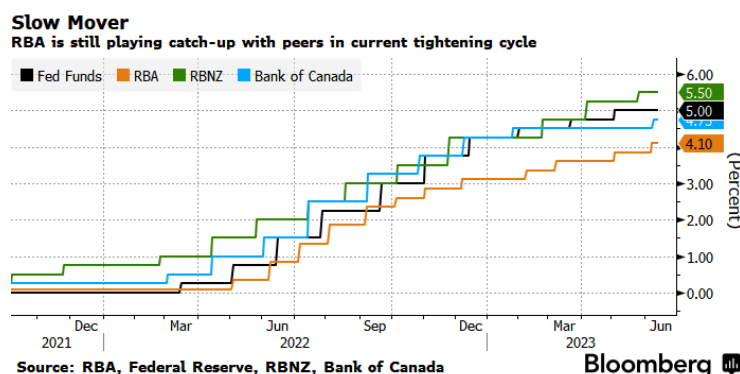
Italian 10-yr spreads widened 4 bps after the sharp rally of the past week. Some contacts fear that the debate on fiscal rules at upcoming Eurogroup and EU summits could be thornier than expected. Commerzbank also writes that Italian banks did not yet sell BTPs to generate liquidity for the upcoming TLTRO payments. The €39 bn increase in excess liquidity by Italian banks in April was largely achieved via a significant increase in deposits from other euro area banks (up a record €29 bn) plus deposits from domestic corporates.

Euro area: 10-year spread over German bunds (bps)



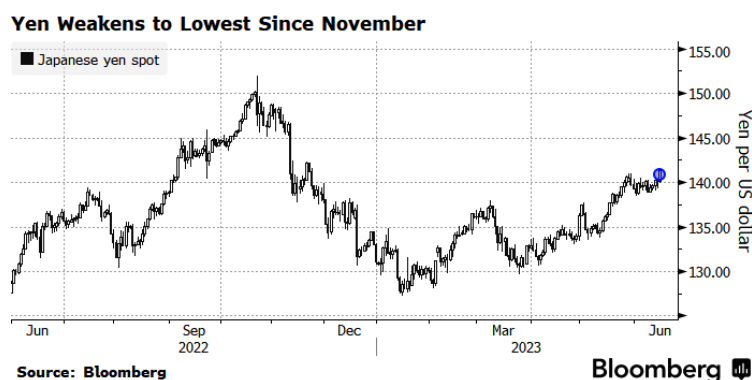
Australia

Better than expected labor market in May is fueling speculation that the Reserve Bank of Australia might hike policy rates. May employment data beat expectations with an increase in 75.9k employees from a month ago (consensus: +17.5k), while the unemployment rate fell to 3.6% in May from 3.7% in April. Government bond yields increased (1-year: +10.2 bps; 10-year: +4.4 bps; 30-year: +1.4 bps), while 1-year OIS also increased (+10.7 bps). The Australian dollar appreciated (+0.4%) despite the broad-based USD strengthening. Equities gained (+0.2%).



Japan

Japanese yen depreciated 0.8%, touching 141.2 yen per dollar, the weakest level since November 2022. The Federal Reserve's latest hawkish stance stood in sharp contrast to the Bank of Japan (BOJ)'s continuation of accommodative monetary policy, leading to the broad-based USD strengthening, with Japanese yen underperforming regional currencies. Japanese equities were little changed (based on NIKKEI). Long-end JGB yields edged down slightly (10-year: -0.1 bp; 30-year: -0.1 bp), following the decline in US treasury yields.



Emerging Markets

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Asian equities were mixed in response to the Federal Reserve's hawkish pause, gaining 0.5% on net. Chinese (CSI 300: +1.4%) and Hong Kong (+1.3%) equities gained after China cut the policy rate, while share prices fell in the Philippines (-0.4%), Korea (-0.3%), Malaysia (-0.3%), and Indonesia (-0.3%). **Most Asian currencies depreciated on the broad-based USD strengthening,** led by Thai baht (-0.4%) and Indonesian rupiah (-0.3%). Meanwhile, the Chinese yuan appreciated (+0.2%). **Long-end government bond yields increased,** with 10-year yields rising in Thailand (+2.7 bps), China (+2.6 bps), and Singapore (+2.4 bps).

In EMEA, equity markets were mostly lower while currencies were mixed. Polish equities (-0.4%) were underperforming with banking stocks down -1.7% following a ruling by the EU top court in favor of holders of Polish mortgages denominated in Swiss francs. CEE currencies mostly weakened against the euro, with the Hungarian forint (-0.7% to 374.2/€) and the polish zloty (-0.3% to 4.46/€) underperforming. Equities in Türkiye (+1.1%) outperformed while the lira depreciated (-0.5% to 23.68/\$).

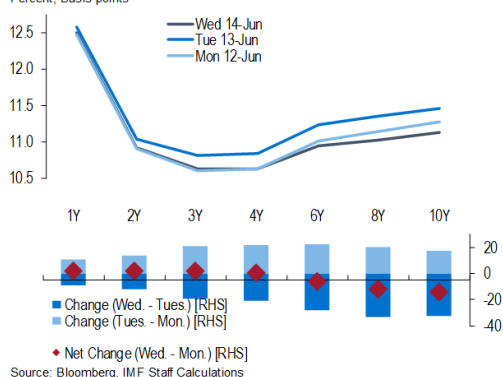
In Latin America, Brazilian assets rallied following S&P's upgrade of the country's sovereign rating outlook. The Brazilian real appreciated 1.1%, but most major Latin American currencies also gain, with the Mexican, Colombian and Chilean peso up against a weaker dollar (+0.7%, +0.5% and 0.3% respectively).

Equity markets in Brazil and Mexico were the main winners on the day (+2.0% and 1.0% respectively) where the former is trading at the highest levels since October.

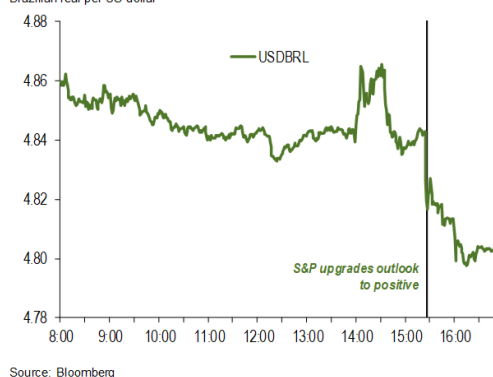
Brazil

Standard and Poor's raised Brazil's sovereign rating outlook to positive while affirming its BB-rating on the grounds that the trajectory of GDP growth and public finances has been better than previously expected. Yesterday's rally in rates more than compensated the sell off from the previous day, which had been driven by reports that the government may adjust the fiscal rule to allow it to avoid cutting expenditure by as much as 40bn real. Following the rating announcement, the Brazilian real continued to appreciate vs. the dollar (+1.1%).

Long-end of the Brazilian yield curve rallies on net as fiscal outlook improves
Percent; Basis points



Brazilian real overperforms relative to regional peers following announcement
Brazilian real per US dollar

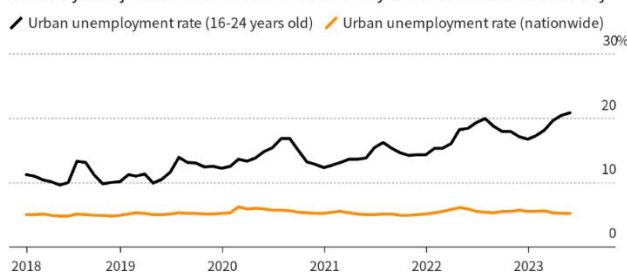


China

The People's Bank of China (PBC) lowered the 1-year medium-term lending facility (MLF) rate by 10 bps to 2.65% as expected. The MLF rate cut was expected after the PBC lowered its 7-day reverse repo rate by 10 bps earlier this week. The PBC also provided MLF funding in an amount of 237 bn yuan (\$33.1 bn), effectively injecting interbank liquidity in an amount of 37 bn yuan (\$5.2 bn). At the same time, **May activity data confirmed the weakening momentum of the economic recovery**, coming in below expectations again.

Topping Record Highs

China's youth jobless rate hit new record in May as national rate held steady



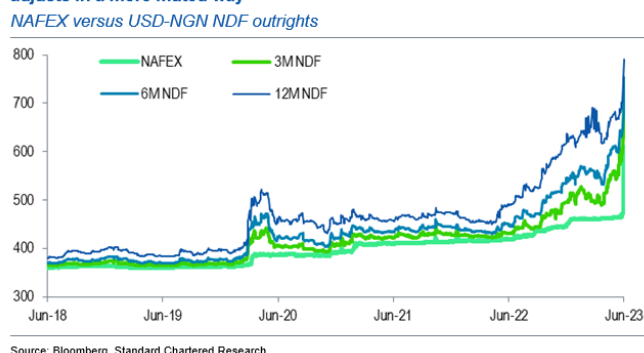
Bloomberg

Nigeria

The Naira closed sharply lower against the dollar yesterday while the stock market gained (+3.1%) as investors were positively surprised by operational changes to the FX market. The central bank released an online statement at mid-day announcing operational changes to liberalize FX markets - including that Nigeria's exchange rates would be merged, with all segments collapsed into the Investors & Exporters (I&E) Window and establishing that the operational rate for all government related transactions

shall be the weighted average rate of the preceding day's transactions at the I&E window. The central bank also allowed the naira to depreciate sharply: Bloomberg data show the naira weakened by roughly 30% from 470/\$ past 600/\$, while some reports indicate that the naira was trading close to 750/\$ in local bank transactions. Some restrictions remain though, for example there is no interbank trading, and trades are conducted on a matching 'willing buyer, willing seller' principle, and a limit of NGN 1 on bid-ask spreads remains in place. Goldman Sachs analysts note that the central bank statement did not make any reference to de facto FX restrictions that apply to both current account (imports) or capital account transactions, and point out that they have no visibility on whether these will be eased and, if so, under what timeframe. In their view, unifying the official and parallel market exchange rates is likely to depend mostly on easing these restrictions and clearing the outstanding FX backlog (that they estimate at around US\$12bn). Citi analysts also caution that current foreign exchange problems remain, and argue that more efforts are required to increase liquidity. Standard Chartered analysts see the naira trading at 685/\$ at the end of Q2, but then expect the initial move to retrace with the naira back at 520/\$ at the end of Q3.

Figure 1: USD-NGN NDFs rise following the news of FX policy changes; NAFEX adjusts in a more muted way
NAFEX versus USD-NGN NDF outright





























Source: Bloomberg, Standard Chartered Research

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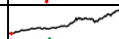




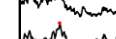



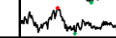




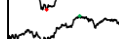




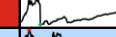
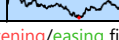







Global Financial Indicators

6/15/23 1:50 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4359	0.1	1	5	15	14
Europe		4339	-0.8	1	1	23	14
Japan		33485	-0.1	6	12	27	28
China		3926	1.6	3	-1	-8	1
Asia Ex Japan		69	0.5	3	3	-1	6
Emerging Markets		41	0.7	3	4	0	7
Interest Rates			basis points				
US 10y Yield		3.78	-0.4	6	28	50	-9
Germany 10y Yield		2.52	7.2	12	22	88	-5
Japan 10y Yield		0.43	-0.2	-1	2	17	1
UK 10y Yield		4.40	1.1	17	59	194	73
Credit Spreads			basis points				
US Investment Grade		161	1.6	-2	-12	-2	3
US High Yield		452	2.3	-19	-56	-47	-28
Exchange Rates			%				
USD/Majors		102.88	-0.1	0	0	-2	-1
EUR/USD		1.09	0.4	1	0	4	2
USD/JPY		140.8	0.5	1	3	5	7
EM/USD		49.7	-0.1	0	-2	-4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73.9	0.9	-3	-2	-25	-12
Industrials Metals (index)		148	-0.1	2	1	-15	-11
Agriculture (index)		68	1.5	2	1	-9	-1
Implied Volatility			%				
VIX Index (% change in pp)		14.1	0.3	0.5	-3.0	-15.5	-7.5
US 10y Swaption Volatility		98.8	-3.0	-1.9	-16.7	-31.2	-26.9
Global FX Volatility		7.9	0.0	-0.2	-0.9	-3.7	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		138	6.9	9	-32	-121	-67
Italy		167	3.5	-11	-21	-50	-47
Portugal		68	-1.3	-5	-14	-53	-34
Spain		96	0.6	-4	-11	-28	-13

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

Emerging Market Financial Indicators

Last updated: 6/15/2023 1:50 PM	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	0.0	-0.7	-3	-6	-4		2.7	0.9	-11	-21	-17	-35
Indonesia		14945	-0.3	-0.3	-1	-1	4		6.3	3.8	-7	-14	-114	-65
India		82	-0.1	0.5	0	-5	1		7.5	0.0	2	26	(45.5)	0
Philippines		56	0.0	0.3	0	-4	0		5.9	0.0	0	6	24	-9
Thailand		35	-0.4	0.0	-3	1	-1		2.8	4.0	11	13	-23	15
Malaysia		4.63	-0.1	-0.1	-3	-5	-5		3.7	2.3	2	10	-60	-29
Argentina		248	-0.3	-1.8	-7	-51	-29		110.5	-101.0	-50	1152	4959	2228
Brazil		4.84	-0.5	1.9	1	5	9		11.3	-5.3	-3	-46	-156	-126
Chile		803	-0.3	-2.0	-2	7	6		5.0	0.0	-14	-33	-164	-37
Colombia		4173	0.5	0.9	8	-5	16		8.0	0.0	-19	-47	-109	-177
Mexico		17.22	-0.7	0.9	1	18	13		8.3	0.5	-2	8	-84	-41
Peru		3.7	-0.1	0.1	0	3	4		7.1	-0.7	-12	-6	-83	-83
Uruguay		38	0.4	1.7	2	5	4		9.9	0.0	-12	-18	-104	-79
Hungary		346	-1.0	-1.1	-2	10	8		7.6	19.0	1	-18	-61	-202
Poland		4.11	-0.1	0.8	1	8	6		5.4	9.8	6	11	-206	-78
Romania		4.6	0.3	0.7	0	4	1		6.6	-7.5	-17	-31	-213	-111
Russia		83.6	0.5	-1.2	-5	-33	-11							
South Africa		18.4	-0.2	2.4	3	-14	-7		9.9	12.1	-4	19	104	74
Turkey		23.67	-0.4	-2.3	-17	-27	-21		17.6	-15.0	274	600	-217	776
US (DXY; 5y UST)		103	-0.1	-0.4	0	-2	-1		4.00	0.9	14	53	63	-1

	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	7 Days	30 Days	12 M		
								basis points						
China		3926	1.6	3	-1	-8	1		184	-2	-16	-2	7	
Indonesia		6714	0.2	1	1	-5	-2		142	4	-4	-41	2	
India		62918	-0.5	0	2	22	3		131	-8	-30	-43	-11	
Philippines		6461	0.4	-2	-2	1	-2		113	4	-7	-13	16	
Thailand		1558	-0.2	0	1	0	-7		0	0	0	0	0	
Malaysia		1382	-0.3	1	-3	-6	-8		93	-1	-10	-28	-7	
Argentina		378695	-0.8	0	18	328	87		2350	1	-235	221	145	
Brazil		119069	2.0	4	9	16	9		248	-5	-28	-83	-26	
Chile		5716	0.0	1	2	11	9		129	-1	-4	-37	-3	
Colombia		1178	-0.6	-2	3	-19	-8		353	-16	-68	-43	-19	
Mexico		55145	1.0	2	0	14	14		387	-5	-19	-35	6	
Peru		22380	0.4	1	3	13	5		168	-5	-14	-24	-12	
Hungary		49697	-0.5	1	8	26	13		224	-1	7	8	2	
Poland		67334	0.5	2	6	26	17		134	2	4	65	61	
Romania		12062	0.1	-2	0	0	3		238	-1	-13	-42	-17	
South Africa		77826	-0.3	1	-1	15	7		393	-25	-65	-43	26	
Turkey		5407	0.9	-3	20	114	-2		464	-12	-5	-211	24	
Ukraine		507	0.0	0	0	-2	-2		4998	-13	-433	1358	919	
EM total		41	-0.2	3	4	0	7		388	-6	-30	-26	13	

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

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