



- Fed expected to upgrade near-term growth and inflation ([link](#))
- China steps up efforts to control commodity prices ([link](#))
- U.K. Headline and Core inflation surged in May ([link](#))
- European Commission bans 10 global banks from NGEU syndications ([link](#))
- ECB to reportedly extend bank capital relief ([link](#))

[Mature Markets](#)

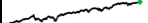



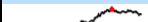

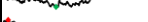




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Range-trading ahead of the FOMC

Markets are range-trading of today's FOMC decision. The Fed is expected to upgrade its near-term growth and inflation projections but push back on any speculation of near-term tapering. Contacts believe that the median expectation for the first fed funds hike could move from 2024 to 2023 but that any changes to the terminal rate are unlikely. Oil prices edged higher, but metal prices fell after the Chinese government stepped up efforts to control commodity prices.

Key Global Financial Indicators

Last updated: 6/16/21 12:39 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4247	-0.2	0	2	36	13
Eurostoxx 50		4149	0.1	1	3	28	17
Nikkei 225		29291	-0.5	1	5	30	7
MSCI EM		55	-0.7	-1	4	39	7
Yields and Spreads			bps				
US 10y Yield		1.49	-0.3	0	-14	74	58
Germany 10y Yield		-0.24	-1.0	0	-11	19	33
EMBIG Sovereign Spread		332	4	1	-1	-156	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.9	0.1	0	1	5	0
Dollar index, (+) = \$ appreciation		90.5	0.0	0	0	-7	1
Brent Crude Oil (\$/barrel)		74.4	0.6	3	8	82	44
VIX Index (% change in pp)		17.2	0.2	-1	-2	-16	-6

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

Mature Markets

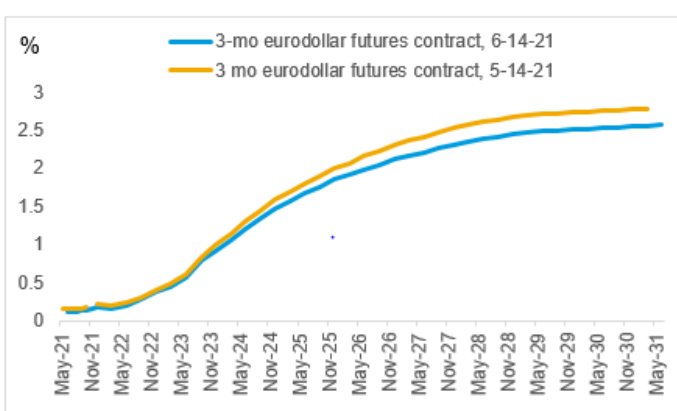
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United States

U.S. Treasury yields, equities and the U.S. dollar were little changed ahead of the FOMC meeting. Contacts note that European flows in the wake of a relatively dovish ECB's June meeting, as well and

pension and bank duration bids have provided considerable support to U.S. and euro area sovereign debt. Some believe that even in the case of a hawkish surprise from the Fed, duration flows from pension funds and long-only asset managers in the US and Europe may cap any increase in core sovereign yields.

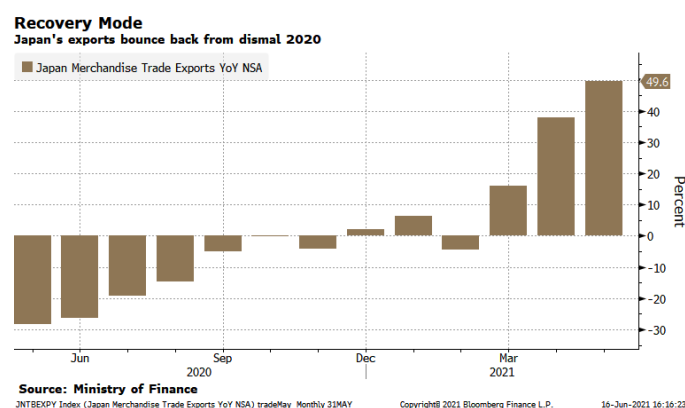
Contacts expect the FOMC to upgrade its outlook to near-term growth and inflation but do not make any meaningful changes to medium-term forecasts in the quarterly Summary of Economic Projections (SEP). Contacts note that the FOMC's longer-run projections, including for inflation, NAIRU, trend growth and the r^* have been relatively stable. **Consensus appears to expect the “median” dot for the first fed funds hike in this cycle to move from 2024 to 2023, with some members projecting the first rate hike to occur in 2022 (which would be closer to market expectations, based on Eurodollar futures pricing).** However, the terminal rate is seen as less likely to change. Consensus also calls for little change to the statement, and for the Committee continuing to characterize inflation strength as “transitory”- consistent with expectations for minimal revisions to longer-run inflation projections.



Source: Bloomberg L.P., IMF

Japan

Exports grew 49.6% y/y in May, broadly in line with expectations. Strong exports performance was boosted by growing shipments to the United States and Europe. Auto exports held up well despite a shortage of semiconductors that has affected auto manufacturing globally. **Core machine orders expanded 0.6% m/m in April, weaker than expected.** Core machine orders, a leading indicator for investment, moderated from a 3.7% mom increase in March, with a divergent trend across sectors. Order from manufacturers boomed, with a double-digits growth; meanwhile, orders from non-manufacturers collapsed amid the state of emergency in various metropolitan areas. **Japanese yen appreciated (+0.1%); equities declined (NIKKEI: -0.5%); long-end JGB yields were mixed (10-year: -0.1 bp; 30-year: +0.7 bp).**



New Zealand

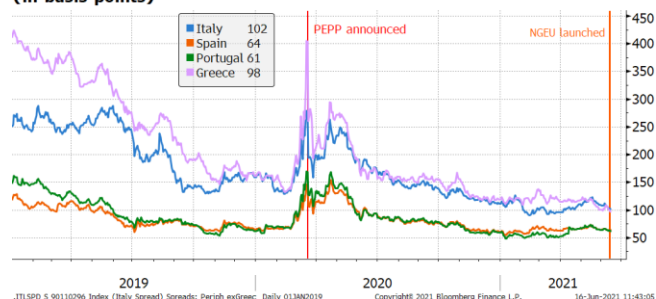
The Reserve Bank of New Zealand (RBNZ) will get a new macroprudential tool to control housing related risks. FM Robertson agreed, in principle, to add debt-to-income limits to the RBNZ's toolkit, which currently already includes loan-to-value limits. The agreement was made on the condition that any implementation should avoid the impact, as much as possible, on first home buyers. A consultation will be conducted with the industry before the rule being implemented. In May, house prices rose 20.5% y/y, and house sales increased 81.4% y/y. **New Zealand dollar appreciated (+0.2%); equities declined (-0.9%); long-end government bond yields increased (10-year: + 2 bps; 20-year: +2.9 bps).**

Europe

Equity markets slipped slightly today. DAX (-0.3%), CAC 40 (flat), EuroStoxx 600 (-0.1%), Italy's Titans 30 (-0.1%), and Spanish Ibex (-0.1%). Bank stocks (-0.9%) underperformed.

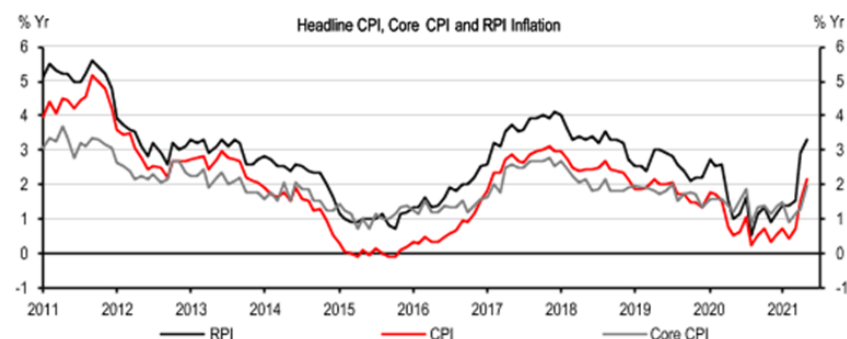
Sovereign paper traded mostly sideways as investors await clues on the Fed's next steps. German 10-yr yields at -0.25% (-1 bps); French OATs are at 0.13% (-2 bps); Italian at 0.78% (-1 bps); and Spanish at 0.39% (-2 bps). sovereign spreads to bunds remain compressed compared to 2020 levels.

Selected European Sovereign Spreads to 10yr Bunds
(in basis points)



UK inflation surged in May to 2.1% y/y from 1.5% in April. The headline CPI print surpassed expectations of an increase to 1.8% y/y. Core CPI inflation saw similar dynamics coming in at 2.0% y/y, compared to 1.3% in April and 1.5% forecast. **Of note is that (1) the impact of VAT cuts on price growth containment seem to be waning, and that (2) the ONS cautioned that the y/y figure could be distorted by the fact that many prices for May 2020 were imputed rather than actual given last year's lockdowns.** Nonetheless, analysts at HSBC noted that May CPI inflation was 0.6% m/m compared to 0.2% average for May in the ten years to 2019, and that core CPI was 0.8% (vs. 0.2% 10-year average). **Sterling is 0.2% stronger to \$1.41 after the release, while the 2-yr gilt yield inched up 1 bp to 0.09%.**

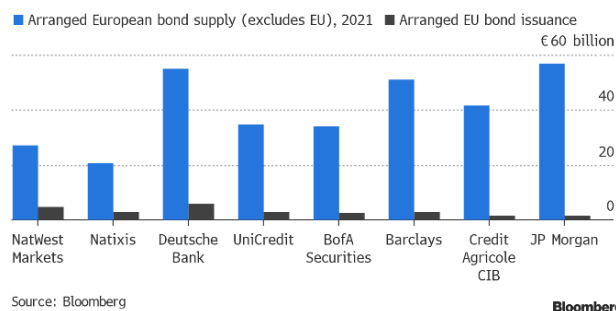
Chart 1: Inflation rose unexpectedly sharply in May



Source: ONS

The European Commission announced yesterday that 10 of the largest global banks will be excluded from participating in syndications of the new NGEU program. The list of banks includes heavy weights such as JP Morgan, Bank of America, Barclays, Citi, Deutsche Bank, Nomura, Unicredit, NatWest, Natixis, and Credit Agricole. The EU based its decision on past misconduct cases by these lenders, who derive substantial revenue from bond issuance arrangements. The NGEU program could reach around \$970 bn, with \$80 bn of expected issuance this year.

EU bond issuance is an important business for banks



The ECB's Supervisory Board is expected to extend the exclusion of central bank exposures in banks' leverage ratio for 9 more months. According to the unconfirmed press reports, the measure would be approved by the ECB's Governing Council soon to continue supporting banks' ability to fund the recovery. The current [exception](#) runs until 27 June 2021.

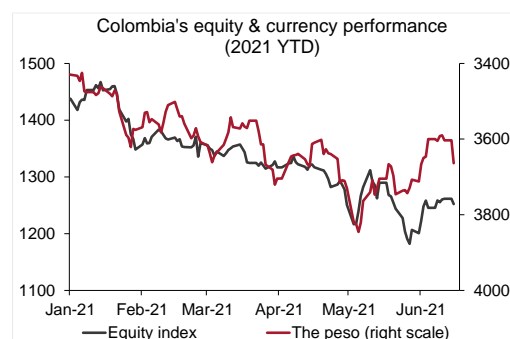
Emerging Markets

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Latin American equities traded in narrow ranges. Local currencies were mostly weaker. The Colombian peso depreciated 1.7% against the dollar, followed by the Chilean peso (-1.2%). 10-year government bond yields were slightly higher. **Most Asian equities declined, led by Chinese (CSI 300: -1.7%), Singaporean (-1.1%) and Hong Kong (-0.7%) equities.** Share prices rose in Korea (+0.6%). Asian currencies traded in a tight range. Long-end government bond yields generally rose, led by Hong Kong SAR (10-year: +3.3 bps) and Philippines (10-year: +2.7 bps). In Hong Kong SAR, a major landlord opened its first flexible office space in the Central business district to capture the demand for agile workplace leasing. **Most EMEA stocks fell today**, led by the UAE (-1.0%), South Africa (-0.9%), Hungary (-0.9%), and Russia (-0.3%). Equities advanced in Romania (+0.6%), Bulgaria (+0.2%), and Poland (-0.2%). **Currencies traded withing a narrow corridor.**

Colombia

According to the Finance Minister, **the government revised up the 2021 GDP growth forecast to 6% (vs. 5% previously) and will maintain its fiscal deficit forecast of 8.6% GDP.** Retail sales printed at +75% y/y in April, slightly below consensus estimates of +77.5%. Colombian risky assets saw losses yesterday, as domestic equities fell 0.7% and the peso weakened 1.7% against the dollar.



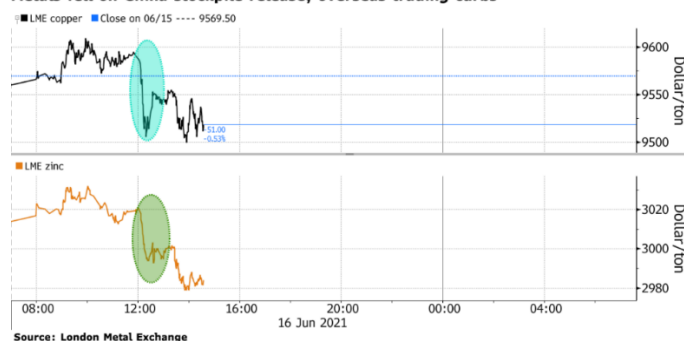
China

China stepped up efforts to control commodity prices. The government expanded its oversight on state firms' commodities trading, including in overseas markets. **The State-owned Assets Supervision and Administration Commission (SASAC) ordered state firms to limit their exposure to overseas commodities markets and report their futures positions.** Separately, the **National Food and Strategic Reserves Administration announced that it will release state stockpiles of metals including copper, aluminum, and zinc**, with no details on volumes to be released. Metals prices declined in international markets on the news. Share prices of Chinese metals firms fell (materials sub-index: -3.1%). **Equities declined (CSI 300: -1.7%).** Share prices of healthcare firms were also hit by the government's crackdown on drug maker monopoly practices. **RMB appreciated (+0.1%).**

Key activity indicators came below expectations in May. Industrial production grew 8.8% y/y, falling short of an expected 9.2% y/y growth. **Auto manufacturing was a main drag to overall industrial production, reflecting semiconductor shortages.** Retail sales growth slowed to 12.4% y/y (from 17.7% in April), below an expected 14% increase. The moderation stemmed from decelerating online goods sales potentially due to postponement of some purchases to the June only shopping festival. On the sequential basis, retail sales, however, rebounded from a m/m contraction in April. Fixed asset investment growth also slowed on the back of moderating manufacturing and infrastructure investment. Meanwhile, the survey-based unemployment rate dropped to 5% in May from 5.1% in April. **Analysts viewed the economy continues to recover albeit at a slower pace.**

Fading

Metals fell on China stockpile release, overseas trading curbs



This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Thomas Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), Xingmi Zheng (Research Assistant), Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 6/16/21 12:40 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4247	-0.2	0	2	36	13
Europe		4149	0.1	1	3	28	17
Japan		29291	-0.5	1	5	30	7
China		3518	-1.1	-2	0	20	1
Asia Ex Japan		94	-1.0	-1	4	38	5
Emerging Markets		55	-0.7	-1	4	39	7
Interest Rates			basis points				
US 10y Yield		1.49	-0.3	0	-14	74	58
Germany 10y Yield		-0.24	-1.0	0	-11	19	33
Japan 10y Yield		0.05	0.0	-2	-4	3	3
UK 10y Yield		0.75	-0.5	2	-10	55	56
Credit Spreads			basis points				
US Investment Grade		91	-0.2	-2	-2	-64	-4
US High Yield		326	0.3	-7	-15	-289	-54
Europe IG		47	-0.2	-1	-4	-18	-1
Europe HY		234	-1.8	-6	-20	-137	-8
Exchange Rates			%				
USD/Majors		90.53	0.0	0	0	-7	1
EUR/USD		1.21	-0.1	-1	0	8	-1
USD/JPY		110.0	-0.1	0	1	2	6
EM/USD		57.9	0.1	0	1	5	0
Commodities			%				
Brent Crude Oil (\$/barrel)		74	0.6	3	8	82	44
Industrials Metals (index)		155	-0.6	-2	-3	52	16
Agriculture (index)		56	-0.5	-6	-4	60	17
Implied Volatility			%				
VIX Index (% change in pp)		17.2	0.2	-0.7	-1.6	-16.5	-5.5
US 10y Swaption Volatility		66.0	0.0	0.0	-7.3	-7.3	2.7
Global FX Volatility		6.6	0.0	-0.1	-0.6	-2.1	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		99	0.2	-9	-21	-60	-21
Italy		103	0.8	-5	-17	-80	-8
Portugal		62	-0.3	-3	-10	-34	2
Spain		64	-0.2	-1	-8	-32	2

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

Emerging Market Financial Indicators

Last updated: 16/06/2021 12:43 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	-0.2	1	11	2		3.3	1.1	2	5	43	-1	
Indonesia		14238	-0.1	0.1	0	-1	-1		6.3	3.7	-5	-14	-108	24	
India		73	0.0	-0.5	0	4	0		6.3	5.2	4	3	24	38	
Philippines		48	-0.1	-0.7	0	4	0		4.3	0.6	0	9	21	68	
Thailand		31	-0.1	-0.1	1	0	-4		1.8	0.0	-6	2	42	52	
Malaysia		4.12	0.0	0.0	0	4	-2		3.3	1.4	0	0	41	72	
Argentina		95	0.0	-0.3	-1	-27	-12		45.4	-16.1	9	-22	-341	-1070	
Brazil		5.05	0.3	-0.2	5	2	3		8.2	-1.1	20	-19	291	259	
Chile		727	-1.2	-1.2	-1	8	-2		4.2	4.2	1	51	145	140	
Colombia		3698	-1.2	-2.8	0	2	-7		6.7	2.9	20	-9	96	158	
Mexico		19.98	0.2	-1.2	-1	12	0		6.7	4.6	18	-15	51	108	
Peru		3.9	0.3	1.3	-4	-10	-7		5.3	10.6	30	53	98	172	
Uruguay		44	-0.2	-0.3	1	-2	-3		7.8	0.0	-10	30	-233	57	
Hungary		290	-0.1	-2.0	0	6	2		2.3	8.5	7	6	67	80	
Poland		3.73	0.2	-1.4	0	6	0		1.2	1.0	-11	-9	27	54	
Romania		4.1	-0.1	-0.5	0	6	-2		2.7	-1.0	-2	0	-103	-3	
Russia		72.0	0.3	0.5	3	-3	3		7.0	6.3	-4	17	156	124	
South Africa		13.8	0.1	-0.2	2	25	7		9.6	9.2	10	-30	-62	-6	
Turkey		8.55	0.1	0.5	-3	-20	-13		17.8	14.1	-40	18	712	471	
US (DXY; 5y UST)		91	0.0	0.5	0	-7	1		0.78	-0.2	3	-3	44	42	

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5080	-1.7	-3	-2	26	-3		199	0	-2	-9	30	-9
Indonesia		6079	-0.2	1	4	22	2		158	0	-9	-25	-5	-29
India		52502	-0.5	1	6	57	10		145	0	1	-20	-98	-6
Philippines		6973	0.0	1	11	11	-2		83	0	-9	-17	13	-22
Malaysia		1578	-0.2	0	0	3	-3		113	0	-2	-3	9	3
Argentina		67006	0.0	1	22	57	31		1459	0	19	8	-570	91
Brazil		130091	0.0	0	7	39	9		253	0	0	-16	58	3
Chile		4362	0.0	5	-5	11	4		126	0	-6	-16	-14	-18
Colombia		1252	0.0	-1	-3	8	-13		207	0	-4	-15	44	2
Mexico		50908	0.0	0	3	34	16		348	0	-9	-34	55	-12
Peru		19202	0.0	-6	-12	13	-8		133	0	-4	-3	22	1
Hungary		48921	-0.8	1	8	29	16		65	0	-6	-15	-42	-31
Poland		66351	0.1	0	7	32	16		-22	0	-4	-11	-54	-21
Romania		11687	0.6	3	1	34	19		179	2	-4	-1	-120	-24
Russia		3823	0.0	-1	5	39	16		159	0	-5	-3	19	-7
South Africa		67311	0.0	0	1	29	13		357	0	-4	-35	25	-23
Turkey		1443	0.0	0	0	30	-2		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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