



- **US stocks rose to new record highs as analysts raised year-end targets** ([link](#))
- **Default rate of lower rated US corporates fell in May despite worsening credit metrics** ([link](#))
- **Reserve Bank of Australia delivered a hawkish hold** ([link](#))
- **French spreads expected to stabilize while broader contagion risk seen as limited** ([link](#))
- **Global investors boosted their holding of Chinese bonds to a record in May** ([link](#))
- **Brazilian economists raise inflation forecasts ahead of central bank meeting** ([link](#))

[Mature Markets](#)




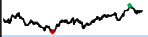







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Yields ease after disappointing US retail sales

Equities were mostly trading higher this morning while sovereign yields declined after disappointing US retail sales. European equity markets are modestly higher this morning, following gains in Asia after a rally in US tech stocks yesterday boosted the S&P 500 to another fresh record. France's CAC-40 Index was also gaining and is now back in positive territory on a year-to-date basis, and the French-German 10y spread was marginally lower this morning. The Australian dollar strengthened after the central Bank of Australia delivered a hawkish hold. The Hungarian forint retraced some early morning losses against the euro after the central bank reduced its pace of easing and cut its policy rate by 25bps, in line with consensus expectations. US Treasury yields were lower this morning after US retail sales data disappointed, with moves also seen in euro area yields.

Key Global Financial Indicators

Last updated: 6/18/24 1:40 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5473	0.8	2	3	24	14.75
Eurostoxx 50		4904	0.5	-1	-3	12	8
Nikkei 225		38482	1.0	-2	-1	15	15
MSCI EM		43	0.6	0	-3	4	6
Yields and Spreads			bps				
US 10y Yield		4.24	-4.5	-17	-18	47	36
Germany 10y Yield		2.39	-2.8	-24	-13	-9	36
EMBIG Sovereign Spread		395	0	9	31	-50	11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.2	0.5	0	-2	-8	-4
Dollar index, (+) = \$ appreciation		105.4	0.1	0	1	3	4
Brent Crude Oil (\$/barrel)		84.3	0.0	3	0	10	9
VIX Index (% change in pp)		12.7	-0.1	0	1	-1	0

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

Mature Markets

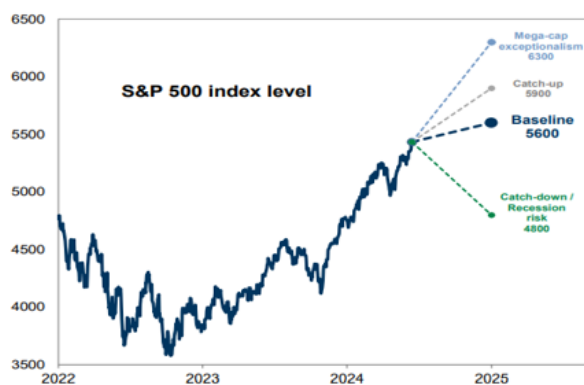
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United States

This morning, Treasury yields sank after US retail sales disappointed with a tepid growth in May. Headline sales gained 0.1% m/m vs the expected 0.3% m/m, on top of a downward revision to the April reading from flat to a 0.2% m/m contraction. Similarly, core sales (ex-auto and gas) gained 0.1% m/m vs the expected 0.4% m/m, with prior reading revised down from -0.1% m/m to -0.3% m/m. **The 2-year Treasury yields sank 7bps after the report, though stock futures were little changed.**

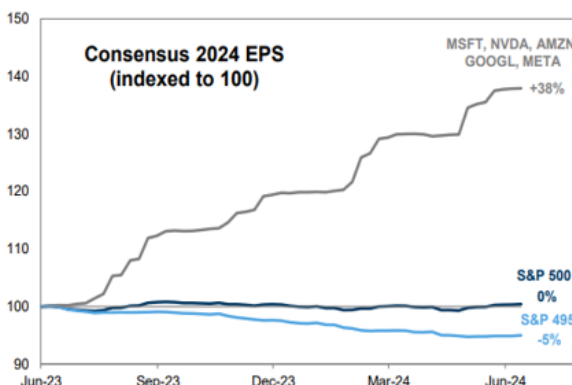
US stocks marched to new record highs despite higher Treasury yields, as stronger than expected regional manufacturing index fueled growth optimism. The Empire Manufacturing index increased by 9.6 pts to -6, beating the consensus estimate of -10. The underlying composition was net positive, with increase in new orders (+15.5 pts), shipment (+4.5 pts) and business condition outlook (+15.6 pts) that offsets a decline in employment (-2.3 pts). Both prices paid and prices received measures declined. All major stock indices closed higher yesterday, led by NASDAQ (+1%) and other growth and cyclical sectors. **Stocks were also lifted by reports from several US investment banks that raised their year-end forecast for the S&P 500**, citing strong earnings growth from mega-cap stocks. The rest of the constituents has seen 5% cumulative negative earnings revision since June 2023, which is also milder than historical average of 7%.

Chart 1: S&P 500 Year-end Forecast



Source: Goldman Sachs.

Chart 2: Revision of Consensus 2024 EPS since June 2023.



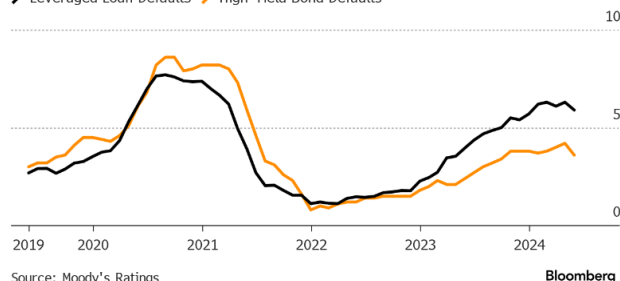
Default rates in the US junk-rated corporate debt market eased in May.

The leveraged loan default rate fell below 6% in May for the first time this year (from 6.3% in April), while the high yield default rate eased to 3.6% from 4.2%, according to Bloomberg citing the latest report from Moody's Ratings. That said, some investors remain cautious in the near term given the prospects of delayed monetary policy easing. In addition, JP Morgan analysts highlight that **credit metrics of high-yield corporates continue to show broad-based deterioration, though overall fundamentals remain historically strong.** Specifically, EBITDA contracted -7.8% q/q and -0.3% y/y, only the second y/y decline since 2020, as profit margins deteriorated to a 3-year low. The analysts note that the continued increase in interest expenses (5.1% y/y) has brought down the interest coverage ratio to below 5x for the first time since 2021.

Defaults Retreat

Leveraged loan and bond defaults slide after rising steadily since 2022

— Leveraged Loan Defaults — High-Yield Bond Defaults



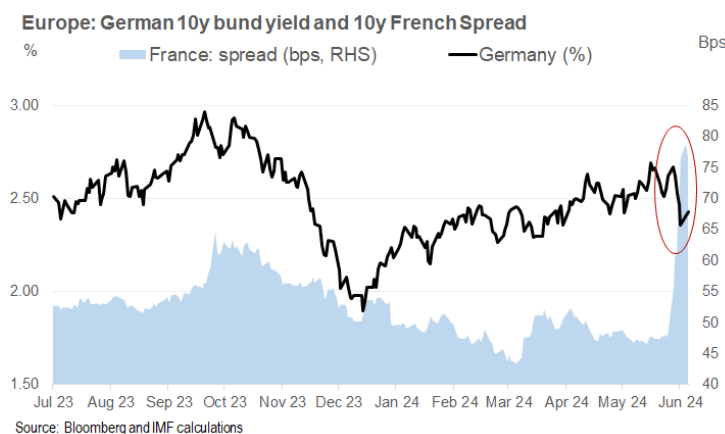
Source: Moody's Ratings

Bloomberg

Euro Area

European equity markets took their cue from Asian and US markets this morning, with a positive open. European equities opened in the green with the Stoxx 600 index higher (+0.5%) with the banking sector outperforming (+0.9%). France's CAC 40 Index was also trading in the green and is now back in positive territory on a year-to-date basis. The euro was marginally weaker against the dollar at 1.0719 this morning. Market expectations for ECB rate cuts this year are broadly unchanged since yesterday with markets pricing in around 44bps of easing over the remainder of 2024.

Analysts at ING think French government bond spreads may stabilize around current levels. While the 10Y French OAT-Bund spread remains around 30bps wider than before the snap election announcement in France, spreads appear to have stabilized around the 80bps mark, which the analysts believe may become a key “benchmark level” going forwards. Analysts at Commerzbank note that while 10Y OAT-Bund spreads are elevated, comments by far-right leader Marine Le Pen over the weekend suggest that developments in French government bonds will likely follow a similar path to that of Italian BTPs following the election of Giorgia Meloni in 2022. The analysts note that there is still some uncertainty around what future economic policies will be implemented under a new French government and whether the policies will be “prudent enough to persuade foreign investors to continue absorbing the substantial post-ECB net supply”. **This morning the 10Y German bund yield was 2bps higher at 2.43%, while the 10Y French OAT-Bund spread was 2bps tighter at 77bps.**

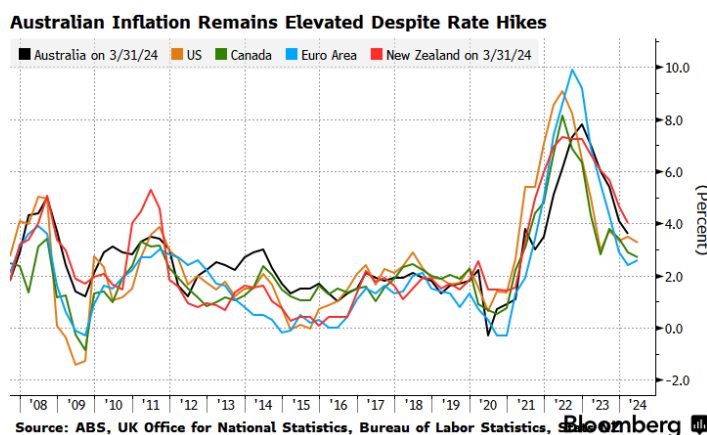


Meanwhile, analysts at Raiffeisen think that risks of broader contagion are limited. While risk premia on other European government bonds have risen, they have risen less sharply than in France, which suggests that markets see the risks as more limited to developments in France's fiscal trajectory and less by fears of a weaker EU overall. The analysts also note that primary market issuance from the French banking sector had already slowed ahead of the snap election announcement, while corporates were still active even after the developments over the weekend. That said, they believe French financial and covered bond issuers have likely already executed a large part of their 2024 financing needs so may hold back somewhat on euro-denominated primary market issuance for the time being.

Australia

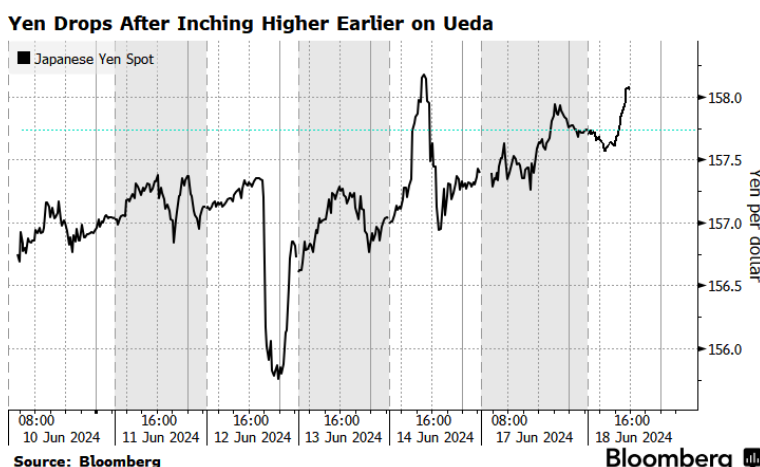
The Reserve Bank of Australia (RBA) delivered a hawkish hold. As expected, the RBA held the policy rate at 4.35% for a fifth straight meeting, maintaining the policy rate at a 12-year high. The RBA said that recent data have been mixed, they reinforced the need to remain vigilant to upside risks to inflation. The RBA will closely look at upcoming data, and its policy decision will be data driven. In the press briefing, Governor Bullock mentioned that the policy committee discussed that case for a rate hike at the policy meeting. In the policy statement, the RBA reintroduced language that it “will do what is necessary” to return

inflation to target. In response to the RBA's more hawkish stance, the Australian dollar appreciated (+0.3%), while government bond yields increased (1-year: +3.9 bps; 10-year: +4.3 bps). The 1-year ORS rate edged up to 4.3% (+4.5 bps). Australian equities gained (+1.0%).



Japan

Governor Ueda reiterated that it is possible for the Bank of Japan (BOJ) to raise its policy rate in July. In response to parliamentary inquiry, Governor Ueda indicated that a rate hike at the July policy meeting is possible even as the BOJ is set to announce the detail of its plan to reduce JGB purchases. Today, the Japanese yen depreciated to 158 yen per dollar (-0.1%) after appreciating briefly on Governor Ueda's remarks. Japanese equities gained (NIKKEI: +1.0%) after recovering from losses driven by concerns over policy turmoil in France. The stock market gain was also supported by the rise in US chip-related shares yesterday. Long-end JGB yields increased (10y +0.8 bps; 30-year: +3.2 bps).



Emerging Markets

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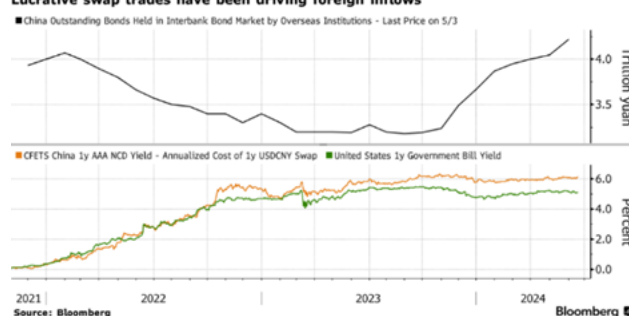
EMEA equities traded higher today as EM investors regained sentiment on the backdrop of signs of easing political uncertainties in France, while currencies were mixed. In CEE, the stock market outperformed in Poland (+0.6%) and Czechia (+0.3%), while currencies were mixed against the euro. **Asian equities rose, gaining 0.8% on net, led by Taiwanese (+1.2%) and Korean (+0.7%) stocks. The gain was led by tech stocks,** such as TSMC and Samsung, following the advance of US chip-related stocks. Asian currencies were mixed and long-end government bond yields increased following the rise in US treasury yields. **Latin American currencies mostly depreciated, and stocks were down on net.** The

Colombian peso (+0.2%) outperformed in Latam, while the Brazilian real (-0.8%) was the worst performing EM currency yesterday.

China

Global investors boosted their holding of Chinese bonds to a record in May, taking advantage of a market anomaly that allowed premiums when swapping dolalr into renminbi. Foreign investors held \$582 bn of onshore RMB bonds in the interbank market at end-May. Most of the purchases were in short-term debt, while government bonds still saw outflows in 2024. Foreign funds have returned to China since late 2023, driven by higher currency-hedged yields for Chinese bonds over US treasuries. Analysts noted that such a market anomaly arose from a dollar shortage onshore despite the divergence between USD and RMB interest rates. **Chinese Government Bond (CGB) futures saw a record closing high as the buying frenzy of CGBs continued despite warnings from Chinese authorities.** Futures on 10-year CGBs closed at 104.87, the highest on record since data started in 2015. The benchmark 10-year CGB yield also lingered near the lowest level in more than two decades. Analysts noted that mixed May activity data prompted investors to shift toward safe assets. Furthermore, speculative buying from retail investors and demand from fund managers, driven by anticipated inflows from households and businesses seeking higher yields than bank deposit rates, also fueled the rally. Today, long-end CGB yields dropped (10-year: -1.1 bps; 30-year: -2.3 bps). Chinese equities gained (CSI 300: +0.1%). RMB was little changed at 7.26 yuan per dollar.

Foreign Holdings of China Bonds Hit Record High in May
Lucrative swap trades have been driving foreign inflows



China Bond Futures See Record Closing High



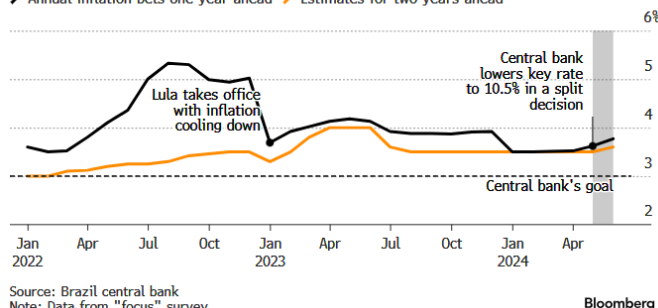
Brazil

Brazilian economists continue to raise inflation forecasts ahead of the June central bank meeting, where consensus expect rates to remain on hold. According to the central bank's Focus survey, economists have lifted year-end inflation forecasts for 2024 and 2025 ahead of the next monetary policy meeting on June 19. Bloomberg analysts highlight that this is the sixth (2024) and seventh (2025) consecutive week of inflation forecast being revised higher. Market pricing seem to mirror these forecasts, as two-year breakeven rates have increased almost 50 bps since the last monetary policy meeting on May 8. Bloomberg reports that confidence in the central bank has declined amid mounting concerns over the country's budget plan and independence from President Lula. Following the survey results, Brazilian equities (-0.8%) retreated, the yield curve shifted upward, and the real (-0.8%) was the worst performing EM currency yesterday. For the policy decision tomorrow, consensus expect the central bank to leave the Selic rate

Brazil Inflation Bets Have Recently Worsened

Central bank shows concern with future inflation bets

Annual inflation bets one year ahead / Estimates for two years ahead

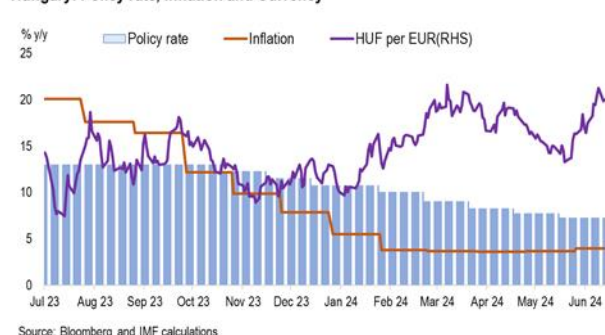


unchanged at 10.5%. BofA analysts, however, forecast a 25bps rate cut with expectations that the monetary policy committee would emphasize tighter financial conditions and also the benign behavior of current inflation.

Hungary

The Hungarian forint gained marginally (+0.1%) against the euro, trading at 395.18/€, after Hungary's central bank cut by 25bps its benchmark interest rate to 7% today, in line with expectations. The central bank also lowered the symmetric interest rate corridor, bringing the overnight deposit rate to 6% and the collateralized lending rate to 8%. The Hungarian forint has depreciated by -1.4% against the euro on the month, mirroring a similar downward move of the Polish zloty (-1.7%). JP Morgan analysts link these moves with unwinding of carry trades in the region, with the forint weighed down by a weaker euro (CEE currencies show negative beta to EUR-USD), against a backdrop of heightened political uncertainty in Europe. Inflation accelerated less than expected to 4%/y/y in May (est. 4.2%), from 3.7%/y/y in April, but above the upper bound of the medium-term inflation target range of the central bank (3%, +/-1%). The central bank (NBH) has progressively slowed the pace of rates reduction from -1% in February to -50 bps in April and May, and -25bps today. Analysts at Crédit Agricole see this as the last rate cut for 2024.

Hungary: Policy rate, Inflation and Currency



CEE Currencies, Jun 2022 = 100



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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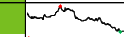





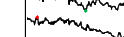






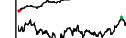




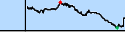

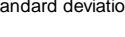




Global Financial Indicators

6/18/24 1:29 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5482	0.8	2	3	24	15
Europe		4901	0.4	-1	-3	12	8
Japan		38482	1.0	-2	-1	15	15
China		3546	0.3	0	-4	-10	3
Asia Ex Japan		72	0.7	1	-2	5	8
Emerging Markets		43	0.6	0	-3	4	6
Interest Rates			basis points				
US 10y Yield		4.28	0.2	-12	-14	52	41
Germany 10y Yield		2.42	0.1	-21	-10	-6	39
Japan 10y Yield		0.94	0.7	-9	-1	53	33
UK 10y Yield		4.10	-1.9	-17	-3	-32	56
Credit Spreads			basis points				
US Investment Grade		126	0.2	6	11	-29	-7
US High Yield		362	-0.6	8	21	-84	-23
Exchange Rates			%				
USD/Majors		105.54	0.2	0	1	3	4
EUR/USD		1.07	-0.2	0	-1	-2	-3
USD/JPY		158.1	0.2	1	1	11	12
EM/USD		46.1	0.4	0	-2	-8	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		84.3	0.1	3	1	15	11
Industrials Metals (index)		149	-1.0	-2	-11	0	4
Agriculture (index)		59	0.0	-1	-3	-18	-6
Implied Volatility			%				
VIX Index (%, change in pp)		12.7	-0.1	-0.2	0.7	-0.8	0.3
Global FX Volatility		7.5	0.0	0.2	0.8	-0.4	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	-5.9	3	18	-12	15
Italy		148	-4.8	3	18	-8	-19
Portugal		73	-3.4	6	10	9	9
Spain		86	-3.3	7	11	-5	-10

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

Emerging Market Financial Indicators

Last updated: 6/18/2024 1:30 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		7.26	0.0	0.0	0	-1	-2		2.2	-0.5	2	-3	-57	-30
Indonesia		16400	-0.8	-1.3	-2	-9	-6		7.2	21.3	30	17	94	72
India		83	0.2	0.2	0	-2	0		7.3	2.0	-2	-17	(17.8)	6
Philippines		59	0.0	0.1	-1	-5	-6		5.4	-0.1	-16	-27	-58	-27
Thailand		37	0.0	-0.2	-2	-6	-7		2.8	1.8	-2	-4	-3	10
Malaysia		4.71	0.2	0.1	-1	-2	-3		4.0	12.2	12	12	25	26
Argentina		903	-0.1	-0.4	-2	-73	-10		43.2	0.0	-156	726	-6867	-4315
Brazil		5.43	-0.2	-1.2	-6	-12	-11		12.2	16.4	21	41	97	183
Chile		936	-0.1	-1.6	-5	-15	-6		5.2	-0.3	0	8	17	30
Colombia		4131	0.2	-4.7	-7	1	-7		8.3	0.0	8	25	39	69
Mexico		18.36	0.9	1.1	-10	-7	-8		9.7	0.0	-13	57	144	129
Peru		3.8	-0.3	-0.4	-1	-4	-2		7.1	0.2	2	2	-1	41
Uruguay		39	-0.4	-0.6	-2	-3	-1		9.3	6.5	8	20	-59	-23
Hungary		369	0.0	-0.2	-4	-7	-6		6.6	-2.0	-5	4	-114	78
Poland		4.06	-0.2	-0.4	-3	0	-3		5.2	-4.8	-9	5	-17	71
Romania		4.6	-0.2	-0.2	-1	-2	-3		6.6	1.2	-1	9	4	42
Russia		86.8	2.2	2.8	5	-3	3							
South Africa		18.1	0.8	2.6	0	0	1		9.3	-16.5	-27	-38	-65	15
Türkiye		32.65	0.6	-0.9	-1	-28	-10		28.6	-3.0	64	133	1083	182
US (DXY; 5y UST)		106	0.2	0.3	1	3	4		4.31	0.5	-11	-14	33	46

	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	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points						
China		3546	0.3	0	-4	-10	3		137	3	-3	-48	-21		
Indonesia		6735	0.0	-2	-8	1	-7		104	12	12	-36	8		
India		77301	0.4	1	4	22	7		97	5	4	-34	-19		
Philippines		6369	-0.2	-2	-4	-1	-1		89	7	8	-22	9		
Thailand		1297	0.1	-1	-6	-17	-8		0	0	0	0	0		
Malaysia		1606	-0.1	-1	-1	16	10		83	6	5	-9	-2		
Argentina		1582372	-1.4	4	7	286	70		1394	-101	124	-982	-519		
Brazil		119138	-0.4	-1	-7	0	-11		233	15	14	-17	18		
Chile		6507	0.0	-1	-2	13	5		125	6	11	-4	0		
Colombia		1379	0.0	-1	-4	17	15		330	29	35	-31	59		
Mexico		52397	0.3	-1	-9	-4	-9		323	14	29	-54	-11		
Peru		29432	0.8	0	-2	30	13		152	0	9	-15	8		
Hungary		69788	0.1	0	2	39	15		160	13	20	-61	11		
Poland		85403	0.1	2	-4	26	9		105	10	12	-31	8		
Romania		18020	0.8	2	4	47	17		200	16	28	-35	-1		
South Africa		79673	3.4	5	0	1	4		321	-8	8	-80	13		
Türkiye		10471	0.0	3	-2	91	40		301	19	23	-167	-13		
EM total		43	0.5	0	-3	4	6		386	6	62	-4	41		

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

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