



- Survey finds investors plan to cut back on duration exposure in US ([link](#))
- Fed adjustment pushes money market rates higher ([link](#))
- ECB President sees little inflation spillover risk from US ([link](#))
- Oil rally expected to continue ([link](#))
- Japan stocks have biggest one day gain in 12 months ([link](#))

[Mature Markets](#)





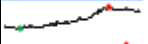





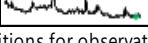
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Waiting for Powell

Markets are holding steady ahead of Fed Chair Powell's testimony before Congress, with Europe little changed and US equity futures slightly higher. His prepared remarks circulated yesterday showed that he expects inflation caused by supply disruptions to be temporary. The turbulence following last week's FOMC meeting has subsided for now, with the S&P 500 back near record highs after its strongest one-day rally in a month. Asia also did well, with Japanese stocks posting their best performance in a year. Reflation trades are back in focus as many analysts view the recent volatility as overblown and driven by technical rather than fundamental factors. Brent crude topped \$75/barrel on expectations of tighter supply, the first time in two years that it breached this level, before slipping on talk of a supply increase. Nevertheless, markets are expected to maintain their focus on inflation and labor market data in the expectation that central banks could quickly move to a more hawkish stance if the global economy continues its recovery. Continued progress on the vaccination front could also play an important role in determining the future of monetary policy.

Key Global Financial Indicators

Last updated: 6/22/21 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4225	1.4	-1	2	36	12
Eurostoxx 50		4120	0.2	-1	2	27	16
Nikkei 225		28884	3.1	-2	2	28	5
MSCI EM		54	0.4	-2	2	35	5
Yields and Spreads			bps				
US 10y Yield		1.49	-0.2	-1	-13	78	57
Germany 10y Yield		-0.17	-0.2	6	-4	27	40
EMBIG Sovereign Spread		333	-3	6	0	-136	-17
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.8	-0.1	-2	-1	4	-2
Dollar index, (+) = \$ appreciation		92.0	0.1	2	2	-5	2
Brent Crude Oil (\$/barrel)		74.4	-0.7	1	12	73	44
VIX Index (% change in pp)		17.5	-0.4	0	-3	-14	-5

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

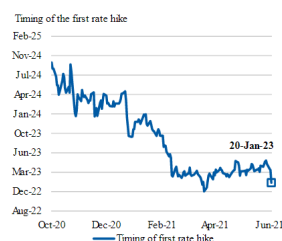
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United States

Markets are pricing the first Fed rate hike in January of 2023 after last week's FOMC, with many forecasting an imminent break into late 2022. In addition, interest rate futures are also predicting 2.25 further rate hikes in the year following the first rate hike, with similar forecasts of a faster expected pace in the weeks ahead. Monday saw the largest Treasury one-day move since February 25 as the 10-year swung from 1.35% in Asian trading when local markets sold off sharply to 1.49% at the US close with the US strong equity market rally. Meanwhile, the latest JP Morgan investor survey found that 79% of investors intend to decrease their duration exposure and cut back on their allocations to bonds in expectations of higher interest rates and volatility. The survey showed that 67% of investors see no value in 10-year Treasuries until the yield reaches 2.25% or higher. However, the overall tone of the survey remained optimistic, with 58% of respondents saying they would increase their allocation to equities in the months ahead.

Exhibit 7: Market-implied date of Fed liftoff broke into 2022 this past week



Source: Morgan Stanley Research

Exhibit 8: Market-implied pace of rate hikes in the 12 months following Fed liftoff

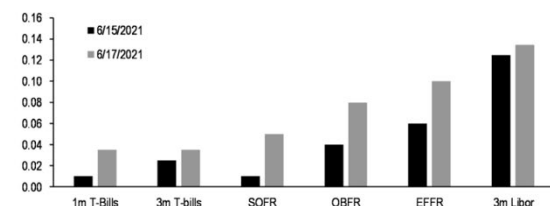


Source: Morgan Stanley Research

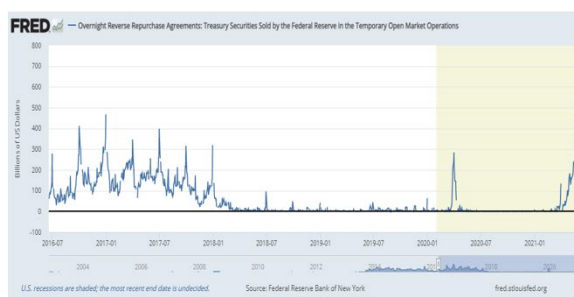
The Fed's move to raise its overnight reverse repo (RRP) rate from zero to 5 bps, and the interest on excess reserves (IOER) from 10 bps to 15 bps has succeeded in pushing money market rates higher. The Effective Fed Funds rate (EFFR), Secured Overnight Funding Rate (SOFR), the Overnight Bank Funding Rate (OBFR) and three-month Libor all moved up following the Fed's actions. Treasury bill rates also moved higher. The Fed was reacting to the heavy buildup of cash at its RRP facility, which threatened to push short term rates into negative territory. The move is directed at keeping the Fed's policy rate in the zero to 25 bps target range. However, many analysts expect the usage of the RRP to keep growing and some see it going as high as \$1 tn. On Monday the New York Fed reported yet another record inflow of \$765 bn into the facility. The market is being flooded with cash due to falling Treasury cash balances held at the Fed as well as the Fed's monthly \$120 bn purchases of Treasuries and mortgage-backed securities.

Exhibit 1: The Fed's technical adjustment seems to be having a high degree of pass through efficiency

Selected money market rates (%)



Source: J.P. Morgan



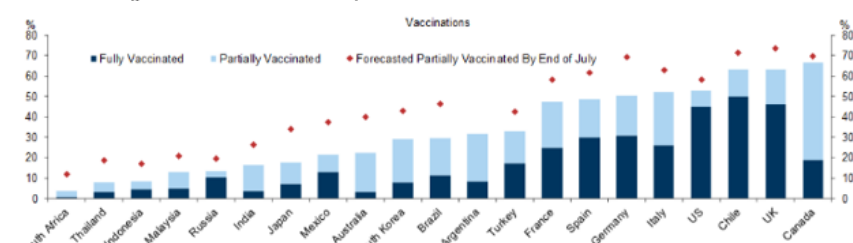
Source: Federal Reserve Bank of New York

Euro area

Equities (-0.1%) traded without much direction as vaccination campaigns continue and concerns about the delta variant are rising. The share of the population having received a first shot stands at 63%

in the UK, 53% in the US, 52% in Italy, 50% in Germany, 49% in Spain, and 47% in France, with emerging markets lagging.

Vaccinations (published June 21st, 2021)



Source: Goldman Sachs

German 10-yr bund yields (-1 bps to -0.17%) are little changed and the euro (-0.3% at \$1.24) fell after ECB President Lagarde reiterated yesterday that she sees limited risk of any US inflation spillover to the euro area. The ECB president emphasized that the euro area is in a different situation in terms of the cycle, inflation, and inflation expectations. The ECB also does not see any serious reasons to believe that wages are negotiated at a level that would lead to stronger underlying inflation factors. **The ECB President reiterated that fiscal support would continue to be needed and that the ECB still has room to cut rates if necessary**

Core rates: 10-yr German and U.S. yields (%)



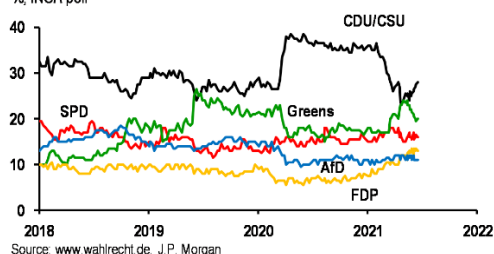
Source: Bloomberg and IMF staff

ECB sources told Reuters there was consensus that the ECB could tolerate inflation exceeding 2% but that policymakers have yet to agree on how to phrase that message, and how specific they should be about the extent to which inflation would be allowed to overshoot and for how long. The ECB reportedly hopes to finish the review before its September 9 meeting.

JP Morgan argues that the German CDU/CSU center-right coalition has remained conservative on domestic and European fiscal policy in its election program. Domestically, the CDU/CSU rejects any softening of Germany's constitutional debt brake and wants to return as quickly as possible to a balanced budget and to debt below 60% of GDP. The CDU/CSU wants to reinstate the existing fiscal rules at the EU level as quickly as possible. The parties want to reduce the flexibilities within the rules and strengthen the conditionality of any support to individual EU countries. **The CDU/CSU also stresses that the Next Generation EU package is a one-off and is not a step towards a "debt union."** Polls have indicated a shift in popularity back in favor of the CDU/CSU.

German opinion poll

% INSA poll



Japan

Equities rebounded by more than +3.2%, boosted by electronics and autos, the biggest one day move in 12 months. The Tokyo Olympics will allow spectators, setting a 50% cap on venues of up a maximum of 10k people. The number of fans could be restricted in the event of a state of emergency or amid other restrictions to curb COVID-19. Separately, the government's lead adviser on Japan's new semiconductor strategy said that the country must put at least a trillion yen (\$9 bn) toward chip development this fiscal year in order to have any hope of reviving the industry, according to Bloomberg. Japanese manufacturers currently rely heavily on imports to meet chip demand following years of under-investment. **10-year JGB yield was up +0.9 bps, the yen weakened by -0.1%.**

Topix rises most in 12 months in rebound from tightening scare

■ Topix daily move



Commodities

Oil prices are expected to go higher according to multiple analysts, with Goldman predicting that the Brent oil benchmark will average \$80/barrel in Q3. They also think spikes well above that level are possible. Strong global demand, with US in the lead as the economy reopens combined with static supply will work to support oil prices. Supply from Iran is likely to take longer to return to the market as negotiations on the nuclear deal continue. In the US, shale oil producers have been cautious in bringing wells back online while global inventory drawdowns are proceeding at a faster pace. Meanwhile, Russia is expected to call for higher oil output at the upcoming July 1 OPEC+ conference.

Exhibit 3 : US shale producers continue to display restraint: rigs are only slowly brought back with production held up by drawing down the excess well backlog instead

Permian horizontal oil rig count (lhs), oil well completion (lhs) and well backlog (rhs)

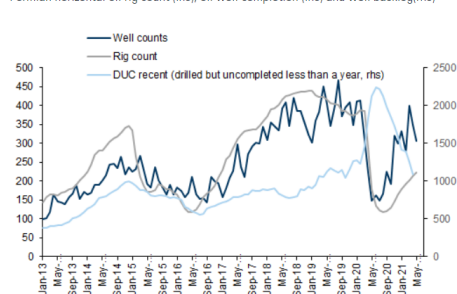
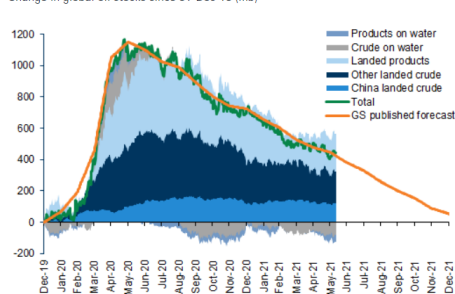


Exhibit 4 : The pace of global inventory draws is accelerating

Change in global oil stocks since 31-Dec-19 (mb)



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EMEA stocks held steady while currencies were generally weaker. The forint underperformed ahead of the Hungarian central bank meeting later today. **Asian stocks were also flat, while currencies depreciated.** China reiterated a ban on cryptocurrency services to top banks and payment service provider Alipay. The Bank of Korea announced that its Financial Vulnerability Index was at its highest since the global financial crisis. **Latin American equity markets were mixed yesterday but regional currencies appreciated across the board on a weaker dollar and rising oil prices.** The Brazilian real stood out with a 1.5% gain boosted by final approval by Congress to privatize Eletrobras, and improved economic prospects underpinned by faster vaccinations.

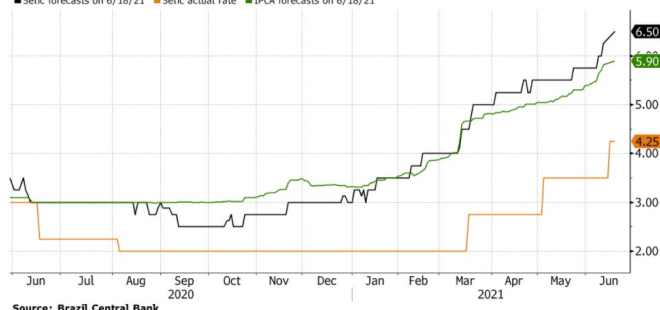
Brazil

Forecasts for the policy rate and inflation were raised in the wake of the latest central bank meeting. The 75 bps rate hike and hawkish statement led analysts to forecast more tightening in the months ahead. The latest central bank survey found that the average inflation forecast was 5.9%, while the benchmark Selic policy rate was expected to hit 6.5% by December from the current level of 4.25%. Inflation in Brazil has been boosted by a bad drought and rising commodity prices.

Still Going Up

Economist lifted their forecasts for Brazil's 2021 inflation and key rate

■ Selic forecasts on 6/18/21 ■ Selic actual rate ■ IPCA forecasts on 6/18/21

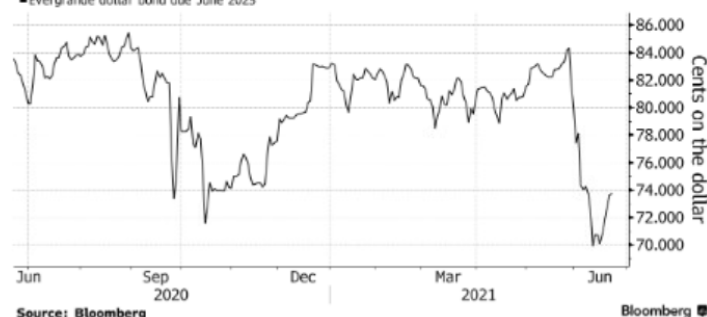


China

Several large Chinese banks are restricting credit to the large property developer Evergrande amid concerns over the developer's financial health. According to Bloomberg, three banks with a combined RMB46 bn yuan (\$7.1 bn) of credit exposure to Evergrande as of June 2020 have decided in recent months not to renew loans to the company when they mature this year. Three other banks are meanwhile allowing Evergrande to roll over portions of credit lines it has already tapped but are limiting the company's access to untapped credit lines. Some trust companies – the second largest lenders to Evergrande after banks – are also reassessing their exposure. Evergrande's annual report showed that bank loans and other borrowings from firms including trusts accounted for about 81% of the developer's RMB335.5 bn of interest-bearing debt coming due in 2021.

Evergrande's debt has slumped on liquidity fears

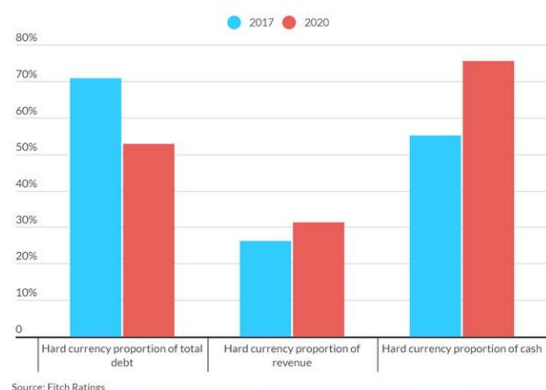
■ Evergrande dollar bond due June 2025



Turkey

Fitch analysts note that Turkish corporates have taken steps to address their FX mismatches. Since 2017 corporates have both reduced the proportion of hard currency debt but also increased their foreign cash holdings. That said, FX borrowing remains widespread and not always effectively hedged, while reliance on uncommitted short-term funding lines also increases debt roll-over risks. The Turkish lira was trading at a record low, just below 8.80 liras per dollar, overnight in Asia with recent weakness amplified by the broader dollar recovery.







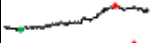
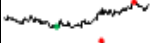













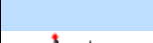
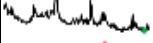
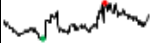

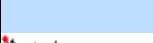


Turkish Corporates' Currency Mismatches Are Narrowing



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Global Financial Indicators

Last updated: 6/22/21 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4227	1.4	0	2	36	13
Europe		4120	0.2	-1	2	27	16
Japan		28884	3.1	-2	2	28	5
China		3557	0.8	0	2	20	2
Asia Ex Japan		93	0.2	-2	2	34	4
Emerging Markets		54	0.4	-2	2	35	5
Interest Rates			basis points				
US 10y Yield		1.49	-0.2	-1	-13	78	57
Germany 10y Yield		-0.17	-0.2	6	-4	27	40
Japan 10y Yield		0.06	0.6	1	-3	4	4
UK 10y Yield		0.77	0.1	1	-6	58	57
Credit Spreads			basis points				
US Investment Grade		91	-0.2	0	-1	-56	-4
US High Yield		324	-4.3	-2	-21	-272	-56
Europe IG		48	-0.5	0	-4	-19	0
Europe HY		235	-2.2	0	-23	-156	-6
Exchange Rates			%				
USD/Majors		92.00	0.1	2	2	-5	2
EUR/USD		1.19	-0.2	-2	-3	6	-3
USD/JPY		110.5	0.2	0	2	3	7
EM/USD		56.8	-0.1	-2	-1	4	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		74	-0.7	1	12	73	44
Industrials Metals (index)		150	0.3	-3	-2	45	13
Agriculture (index)		55	-0.5	-3	-4	57	14
Implied Volatility			%				
VIX Index (%, change in pp)		17.5	-0.4	0.4	-2.7	-14.3	-5.3
US 10y Swaption Volatility		75.0	0.7	9.2	8.1	11.6	14.9
Global FX Volatility		6.9	0.0	0.4	-0.1	-1.5	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	1.4	3	-9	-71	-18
Italy		104	-0.4	2	-12	-68	-7
Portugal		60	-0.3	-2	-8	-32	0
Spain		62	-0.9	-2	-7	-28	0

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

Emerging Market Financial Indicators

Last updated: 6/22/2021 8:04 AM	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	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.47	-0.1	-1.1	-1	9	1		3.2	-1	7	30	-4	
Indonesia		14403	0.2	-1.2	0	-2	-2		6.5	18	0	-85	39	
India		74	-0.4	-1.4	-2	2	-2		6.4	10	11	31	43	
Philippines		49	0.0	-1.3	-1	3	-1		4.2	-9	-12	11	58	
Thailand		32	-0.5	-1.8	-1	-2	-6		1.8	1	0	37	52	
Malaysia		4.16	-0.3	-1.0	0	3	-3		3.3	0	-3	41	70	
Argentina		95	0.0	-0.3	-1	-27	-12		44.9	-75	-77	-168	-1129	
Brazil		5.02	0.0	0.6	6	5	4		8.4	18	6	305	278	
Chile		747	0.1	-3.9	-4	9	-5		4.2	7	31	186	143	
Colombia		3758	0.0	-2.8	0	-1	-9		6.7	5	-20	118	160	
Mexico		20.59	-0.5	-2.7	-4	9	-3		6.8	19	-4	73	123	
Peru		4.0	0.0	-1.5	-5	-11	-8		5.6	44	84	132	205	
Uruguay		44	0.3	-0.3	1	-3	-3		7.9	7	18	-229	63	
Hungary		298	-0.7	-2.9	-5	3	0		2.4	11	0	68	82	
Poland		3.81	-0.3	-2.0	-4	4	-2		1.2	7	2	35	60	
Romania		4.1	-0.1	-1.9	-3	4	-4		2.7	2	-2	-98	0	
Russia		73.2	-0.2	-1.3	0	-5	1		6.9	2	13	168	120	
South Africa		14.3	-0.7	-3.9	-3	21	2		9.8	29	-2	-33	14	
Turkey		8.69	0.9	-1.6	-4	-21	-14		17.8	10	6	732	467	
US (DXY; 5y UST)		92	0.1	1.6	2	-5	2		0.88	10	6	54	52	

	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		5122	0.6	-1	0	24	-2		204	-5	-6	-45	-25	
Indonesia		6088	1.5	0	5	25	2		170	0	-1	-103	-30	
India		52589	0.0	0	4	48	10		143	-2	-13	-97	-8	
Philippines		6870	0.6	-2	11	9	-4		91	-2	-3	-76	-21	
Malaysia		1574	0.1	0	1	4	-3		123	-1	3	-94	-12	
Argentina		65136	0.0	-1	16	59	27		1505	49	-10	-987	149	
Brazil		129265	0.0	-1	5	36	9		248	-1	-1	-133	-11	
Chile		4294	0.0	-1	5	7	3		147	-2	6	-73	-9	
Colombia		1246	0.0	0	0	7	-13		253	12	9	-51	38	
Mexico		50316	0.0	-1	1	32	14		331	4	-1	-169	-26	
Peru		18628	0.0	-5	-9	10	-11		163	-1	4	-30	34	
Hungary		48295	-0.2	-2	4	30	15		135	-5	-7	-57	-14	
Poland		66108	0.2	0	4	31	16		31	-6	-6	-23	3	
Romania		11615	0.1	0	-1	33	18		178	1	-4	-108	-25	
Russia		3826	0.3	0	5	38	16		167	1	4	-55	-12	
South Africa		65526	-0.1	-4	-1	21	10		318	13	-1	-183	-66	
Turkey		1405	0.4	-3	-3	22	-5		463	12	-1	-115	16	
Ukraine		531	0.0	0	0	6	6		497	23	9	-132	4	
EM total		54	-0.2	-2	2	35	5		351	5	-2	-82	12	

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

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