



- **U.S. banks easily pass stress tests; Fed lifts payout restrictions** ([link](#))
- **Short positions increase after the FOMC meeting** ([link](#))
- **Mexico unexpectedly hikes rates by 25 bps** ([link](#))
- **Chinese banks' foreign-currency deposits reach new highs** ([link](#))

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Market's momentum stalls

News of a bipartisan infrastructure deal in the US sent markets higher yesterday, with that momentum carrying over into Asian markets overnight. The rally however fizzled with the opening of European stock markets which are trading sideways on the day with no new catalyst. US bank stocks continued to rally overnight following the positive results from the Fed stress test. Yesterday, the KBW bank stock index rose 1.5% ahead of the results. Emerging market currencies are doing well so far today, led by the South African rand (+0.9%). Markets have raised expectations of rate hikes in South Africa by 15 bps over the next year following yesterday's surprise hike by the central bank of Mexico. JP Morgan's index of EM currencies has risen every day this week.

Key Global Financial Indicators

Last updated: 6/25/21 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4266	0.6	1	2	38	14
Eurostoxx 50		4116	-0.2	1	2	28	16
Nikkei 225		29066	0.7	0	0	29	6
MSCI EM		55	0.9	1	2	36	7
Yields and Spreads			bps				
US 10y Yield		1.49	-0.5	5	-7	80	57
Germany 10y Yield		-0.17	1.5	3	-1	30	40
EMBIG Sovereign Spread		335	0	1	0	-134	-15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.6	0.2	2	0	5	-1
Dollar index, (+) = \$ appreciation		91.8	0.0	0	2	-6	2
Brent Crude Oil (\$/barrel)		75.5	-0.1	3	10	84	46
VIX Index (% change in pp)		16.1	0.1	-5	-3	-16	-7

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

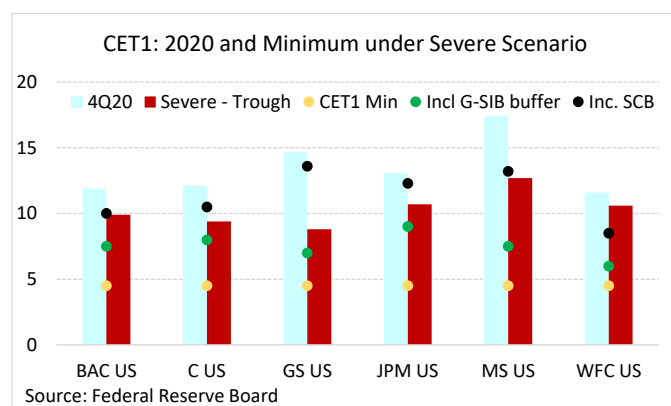
Mature Markets

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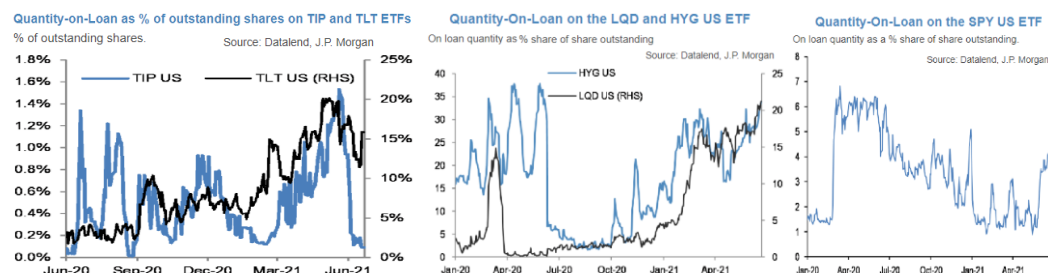
United States

On Thursday, President Joe Biden's bipartisan \$579 billion infrastructure deal added to optimism that the economic recovery will keep pushing ahead. **The S&P500 rose by 0.6%, reaching all-time highs;** recovery-benefiting companies led gains in the index. Even before the Fed' stress-test release, banking shares outperformed the index on expectations of successful results. US Treasury 10Y yields almost didn't change, while the +3.5 bps increase in real yields was offset by an equal drop in breakeven inflation.

Big US banks easily pass stress test; Fed lifts payout restrictions. The 2021 [Dodd-Frank Act stress test](#) concluded that big US banks' capital levels should remain over twice the minimum 4.5% requirement under a severely adverse scenario, and the Fed removed limits on capital distributions imposed in 1Q20. The big banks currently meet requirements including G-SIB buffers and stress capital buffers (SCBs), and so are entitled to distribute capital. Analysts estimate that large US banks in aggregate have over \$200bn of excess CET1. US bank share prices rose overnight, led by Wells Fargo (+2.0% from yesterday's close), and the sector has massively outperformed broader equity indices YTD (25% vs. 13% for the S&P500).

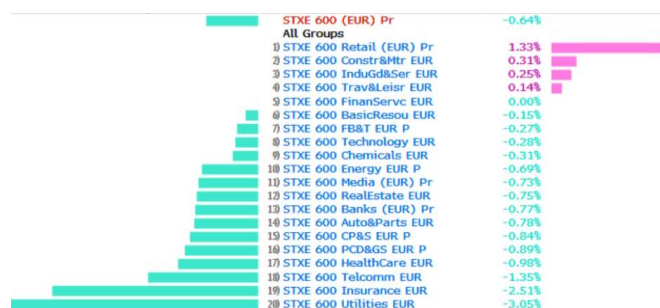


Investors increased short positions in various assets in the aftermath of the FOMC meeting. Using Quantity-on-Loan (QoL) in ETFs as a proxy for short positions, we see that short positions increased across all key asset classes after the FOMC meeting: US Treasury nominal bonds (black line on the left chart), High Yield and Investment Grade bonds (middle chart), and S&P500 index (right chart). Importantly, the short positions declined in US Treasury Inflation-Protected bonds (blue line on the right chart), in contrast to the nominal bonds: this suggests that investors are increasingly positioning for the widening of breakeven inflation.



Euro Area

European equities were trading sideways this morning after gaining around 0.7% yesterday. Since the Fed meeting last week, the Euro Stoxx 600 benchmark is still down 0.6% on a relatively broad basis with only the retail sector showing outperformance.



European bond yields were edging higher with Germany 10-year bunds +2 bps while Southern European spreads were mostly steady. **Since the FOMC meeting last week**, spillovers from the U.S. to Euro area rates have been contained with 5-year swaps rising about 4 bps as compared to 11 bps in the U.S. Analysts at Goldman Sachs note that while historically spillover are mostly dominated by moves in the term premium, **the recent move was attributed to rate expectations** as spillovers through that channel may rise further due to more synchronized post-Covid recovery cycle across advanced economies.

Exhibit 1: Rate expectations spillovers increasing relative to term premium

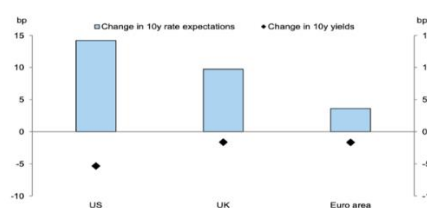
Term premium spillover index and short-rate expectations spillover index based on Nyholm (2016) and Diebold and Yilmatz (2009)



Source: Bloomberg, Goldman Sachs, Goldman Sachs Global Investment Research

Exhibit 2: Since FOMC, rate expectations higher in both UK and Europe

GS term structure model estimates



Source: Goldman Sachs, Goldman Sachs Global Investment Research

According to media reports, the **Italian government is working on an improved package to stimulate the takeover of Monte dei Paschi by Unicredit**. The finance ministry could offer additional fiscal benefits as well as splitting some parts of the business to make the takeover more attractive.

United Kingdom

Following yesterday's **Bank of England meeting**, most analysts noted that the overall policy tone fell **short of rather elevated market expectations** even as the central bank was more upbeat on the macro outlook. Analysts broadly expect the rate hiking cycle to begin in 2022, although there is a disagreement around the timing of the first hike as well as the number of policy rate increases next year. Markets are pricing 15 bps rate increase by mid-2022 and about a 50% chance of another 25-bps hike that year. Overall, **markets are pricing a relatively shallow hiking cycle** which some analysts attribute to prolonged slack in the economy while others to the tightening through the balance sheet rundown occurring in parallel.

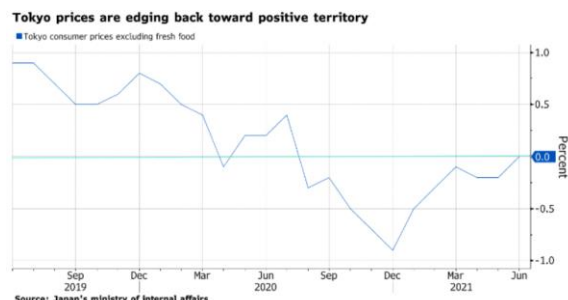
A shallow BoE hiking cycle means there is an implicit cap on front-end GBP rates



Source: Refinitiv, ING

Japan

Equities rose 0.8%, benefitting from positive sentiment spillovers overnight. On economic data, Tokyo's consumer price inflation came in flat in June compared to a year ago, halting a 10-month decline. This came amid rising global energy prices and despite existing restrictions to curb COVID-19. **10-year JGB yield and the yen were little changed.**



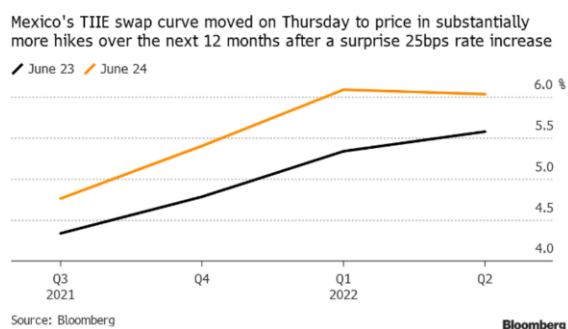
Emerging Markets

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Asian equities rose +1.0%, ending the week on broad-based strength. North Asia – Hong Kong SAR (+1.4%), China (Shanghai +1.2%; Shenzhen +1.2%) – outperformed. Thailand (-0.2%) lagged. Regional currencies appreciated, with strength seen in the Korean won (+0.6%) and the Philippine peso (+0.5%). **EMEA equities were trading little changed this morning.** EMEA currencies were also trading little changed except for the South African rand (+0.9%), as market participants priced about 15 bps of additional policy tightening on a 1-year horizon following yesterday's surprise rate hike in Mexico. **Latin American markets rallied yesterday on monetary policy tightening.** The Mexican peso appreciated 1.7% after an unexpected policy rate hike by the central bank, while the Brazilian real rose 1.0% after the central bank upgraded its 2021 growth forecasts cementing the expectations of further rate increases. The largest index provider, MSCI, downgraded Argentina from "emerging market" to "standalone" status on intensifying capital controls—three years after the country was lifted from "frontier market" status—which may entail an estimated \$0.6 bn in unmitigated outflows from the Argentine companies in the index. Peru is facing a constitutional crisis after the departure of a key election official, with little impact on markets so far.

Mexico

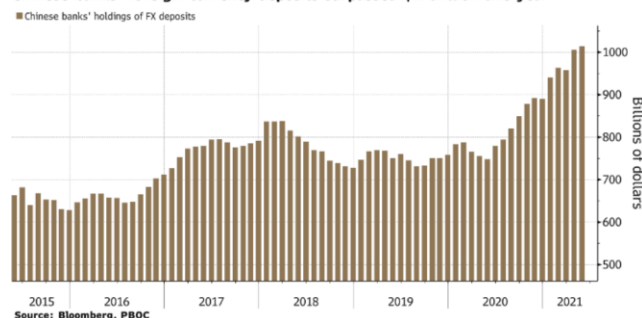
The central bank unexpectedly hiked its key policy rate by 25 bps yesterday. Policymakers raised rates for the first time since 2018 amid rising inflation. Inflation continued to rise climbing to 6% in June, well above the target of 3% with the upper bound of 4%. The peso appreciated 2.4% on the announcement. Markets now expect a more aggressive monetary policy tightening going forward, pricing in an additional cumulative increase of more than 100 bp over the rest of 2021.



China

Chinese banks' outstanding foreign-currency deposits exceeded \$1 tn. Such deposits rose by over \$260 bn in the year through May, the most since data began in 2002, according to Bloomberg. This comes at a time when the central bank's foreign reserves rose to a five-year high of \$3.2 tn. The People's Bank of China is taking steps to ease capital controls. It has increased the quota for investors to purchase overseas assets (known as the Qualified Domestic Institutional Investor program) to \$147.32 bn in June. The authorities are also expected to establish a trading link for wealth products between Mainland China and Hong Kong SAR. **Evergrande said that it was able to raise more cash from property sales and has reduced reliance on one of its major creditors.** According to Bloomberg, the developer said that the cash has resulted in more liquidity, which has led to lower drawdown of credit from Minsheng Bank. The bank reputedly has cut exposure to Evergrande over the past nine months. Evergrande stressed that its credit line from Minsheng Bank remains intact and the developer did not take proactive steps to lower its credit exposure. Most of Minsheng Bank's loans to Evergrande are collateralized by land, property and projects in construction that are adequate and easy to cash in. **Equities (Shanghai +1.2%; Shenzhen +1.1%) rose and the RMB appreciated +0.3%.**






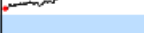
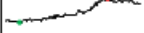
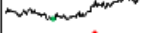

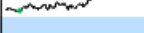

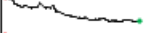








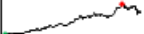







Chinese banks' foreign-currency deposits surpassed \$1 trillion this year



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Global Financial Indicators

Last updated: 6/25/21 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4268	0.6	2	2	38	14
Europe		4116	-0.2	1	2	28	16
Japan		29066	0.7	0	0	29	6
China		3608	1.1	2	0	21	4
Asia Ex Japan		94	0.9	1	1	35	5
Emerging Markets		55	0.9	1	2	36	7
Interest Rates			basis points				
US 10y Yield		1.49	-0.5	5	-7	80	57
Germany 10y Yield		-0.17	1.5	3	-1	30	40
Japan 10y Yield		0.05	-0.9	-1	-3	3	3
UK 10y Yield		0.75	0.7	0	-4	59	55
Credit Spreads			basis points				
US Investment Grade		90	0.1	-2	-3	-63	-6
US High Yield		317	0.0	-10	-29	-304	-62
Europe IG		46	-0.1	-2	-5	-24	-2
Europe HY		227	-0.7	-13	-28	-171	-16
Exchange Rates			%				
USD/Majors		91.77	0.0	0	2	-6	2
EUR/USD		1.19	0.1	1	-2	7	-2
USD/JPY		110.7	-0.2	0	2	3	7
EM/USD		57.6	0.2	2	0	5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		75	-0.1	3	10	84	46
Industrials Metals (index)		155	0.4	4	0	51	17
Agriculture (index)		55	0.5	0	-3	59	14
Implied Volatility			%				
VIX Index (% change in pp)		16.1	0.1	-4.6	-2.8	-16.2	-6.7
US 10y Swaption Volatility		65.0	0.0	-0.5	-1.4	1.0	4.9
Global FX Volatility		6.6	0.0	-0.3	-0.5	-1.9	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	-1.5	-1	-5	-76	-18
Italy		107	1.3	-1	-6	-71	-5
Portugal		60	0.3	-3	-6	-33	0
Spain		62	0.3	-3	-4	-31	1

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 6/25/2021 8:11 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	7 Days	30 Days	12 M	YTD	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.46	0.3	0.0	-1	10	1		3.2	-5	5	24	-5	
Indonesia		14425	0.1	-0.3	-1	-2	-3		6.4	11	-3	-84	36	
India		74	0.0	-0.4	-2	2	-2		6.4	3	12	30	44	
Philippines		48	0.6	-0.1	-1	3	-1		4.3	-8	-2	13	60	
Thailand		32	0.2	-1.0	-1	-3	-6		1.8	0	0	40	52	
Malaysia		4.16	0.1	-0.4	0	3	-3		3.3	-1	-1	44	72	
Argentina		96	0.0	-0.2	-1	-27	-12		45.0	6	-68	-10	-1119	
Brazil		4.91	0.2	3.8	9	9	6		8.3	0	-5	288	273	
Chile		735	0.1	0.4	-1	12	-3		4.3	14	39	190	157	
Colombia		3767	0.4	-1.0	-1	-1	-9		6.8	24	-15	123	172	
Mexico		19.82	0.2	4.2	0	14	0		7.0	33	23	89	145	
Peru		4.0	-0.1	-1.7	-4	-12	-9		5.6	24	64	122	195	
Uruguay		43	0.0	0.6	1	-3	-3		7.9	4	23	-220	64	
Hungary		294	0.1	1.9	-3	7	1		2.3	0	-4	85	79	
Poland		3.78	0.3	1.6	-3	5	-1		1.3	5	11	44	65	
Romania		4.1	0.1	0.7	-3	5	-4		2.8	4	3	-91	4	
Russia		72.1	0.2	1.1	2	-4	3		6.9	-5	10	158	118	
South Africa		14.1	0.8	1.8	-2	22	4		9.7	0	-10	-43	2	
Turkey		8.69	0.2	0.5	-3	-21	-14		17.4	-37	-32	695	429	
US (DXY; 5y UST)		92	-0.1	-0.5	2	-6	2		0.91	4	14	58	55	

	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		5240	1.6	3	-2	27	1		203	1	-7	-46	-26	
Indonesia		6022	0.2	0	3	23	1		171	-5	-1	-99	-29	
India		52925	0.4	1	3	50	11		143	2	-12	-95	-8	
Philippines		6951	0.9	1	4	12	-3		92	-6	-3	-76	-20	
Malaysia		1560	0.3	-2	-2	5	-4		123	2	3	-91	-12	
Argentina		66933	0.0	-1	19	59	31		1538	60	28	-928	182	
Brazil		129514	0.0	1	5	35	9		250	3	-1	-130	-9	
Chile		4421	0.0	2	8	9	6		143	-7	-1	-75	-13	
Colombia		1279	0.0	2	6	14	-11		253	8	5	-57	38	
Mexico		50558	0.0	1	4	34	15		337	5	3	-180	-20	
Peru		18859	0.0	1	-7	13	-9		162	-3	-4	-28	33	
Hungary		48732	0.3	1	6	32	16		133	-3	-11	-60	-16	
Poland		68058	0.5	3	6	34	19		31	-3	-6	-28	3	
Romania		11801	1.0	1	1	38	20		180	-3	-2	-105	-23	
Russia		3815	-0.2	0	3	38	16		169	-1	3	-48	-10	
South Africa		66289	0.0	1	0	23	12		321	5	1	-193	-63	
Turkey		1405	-0.4	1	0	23	-5		458	-4	-7	-136	11	
Ukraine		531	0.0	0	0	6	6		498	11	15	-144	5	
EM total		55	0.8	1	2	36	7		354	3	0	-81	16	

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

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