



- Market expectations on rate cuts in 2024 entail upward risks ([link](#))
- Decline in UST yield as the Fed goes on hold hindered by shifting investor dynamics ([link](#))
- Yield curves of major economies invert further ([link](#))
- German IFO expectations index suggests substantial downside growth risks ([link](#))
- Japanese yen appreciated after officials' verbal intervention ([link](#))
- Chinese equities declined in catch-up trade after holidays ([link](#))
- Markets expect multiple rate cuts in Poland and Czech Republic ([link](#))
- EM fund inflows rise on the back of local currency bond inflows ([link](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Risk appetite continues to deteriorate

Equities were mostly lower and sovereign bond yields continued to fall as markets grapple to assess the economic outlook, the future path of monetary policy as well as the latest developments in Russia. According to media reports military insurrection in Russia over the weekend ended roughly 24hours after it started, and while financial markets have not moved much on headlines some contacts are hesitant to draw firm conclusions for market implications. This morning European equities were trading mostly lower, extending declines for the sixth consecutive day, with the Stoxx 600 index now close to the level at which it started the month. US futures were also in the red after the S&P closed lower last Friday amid concerns over further rate hikes by major central banks and disappointing PMI data for the euro area. Further adding to growth concerns – this morning the German IFO expectation index pointed to significant downside risks to growth. Equities in China underperformed with markets catching-up after being closed for holidays. Markets are also paying a close attention to potential FX interventions in Japan after Japan's top FX official described recent moves as excessive and said that no options were being ruled out by the government.

Key Global Financial Indicators

Last updated: 6/26/23 12:43 PM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4348	-0.8	-2	3	11	13	3
Eurostoxx 50		4274	0.0	-2	-1	21	13	8
Nikkei 225		32699	-0.3	-2	6	22	25	24
MSCI EM		39	-1.5	-5	0	-4	3	-17
Yields and Spreads			bps					
US 10y Yield		3.68	-5.4	-8	-12	55	-19	169
Germany 10y Yield		2.30	-5.3	-22	-24	86	-27	207
EMBIG Sovereign Spread		443	3	-1	-40	-66	-8	31
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.3	-0.2	-1	-2	-5	-1	-7
Dollar index, (+) = \$ appreciation		102.7	-0.2	0	-1	-1	-1	7
Brent Crude Oil (\$/barrel)		74.3	0.6	-2	-3	-34	-13	-23
VIX Index (% change in pp)		14.4	1.0	1	-4	-13	-7	-17

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

In the week ahead investors will likely focus their attention on inflation data, with the ECB hosting top central bankers and policymakers in its global banking forum in Sintra. In the US, May PCE is expected to be lower than in April, which could reinforce market expectations for one rather than two hikes this year. In Europe several countries will release inflation data, leading to the June preliminary inflation reading, which is expected to see a rebound in core inflation and support further ECB hiking. Japan, Canada, and Australia will also provide inflation readings. The week ahead will see central bank rate decisions from Colombia (hold expected) and Sweden (+50bps expected), while the ECB's conference in Sintra will be in the focus of analysts. In terms of hard data, several May "hard data" figures will be reported for the US, including durables, consumption, inventories, and trade, which will refine the Q2 growth outlook. China's June PMIs will likely show that recovery continues to lose momentum. The Fed will release the annual banking stress tests results. Any follow-up implications from the Russian military uprising will also be scrutinized by markets.

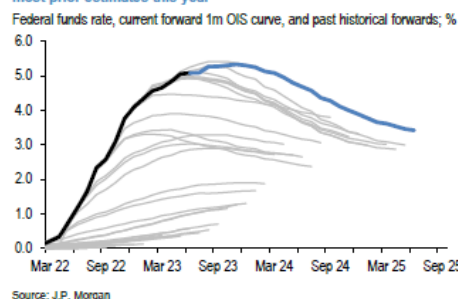
Mature Markets

[back to top](#)

United States

Market expectations for the path of policy rate remain below the Fed dots, despite adjustments. The Fed's median rate expectations, as portrayed in the dot plot last week, were revised higher, showing two additional hikes in 2023 and projecting policy rates to remain restrictive into 2024. As a result, markets are now pricing in a longer pause and a higher terminal rate compared to past 2023 expectations. Nevertheless, the Fed's projection remains more hawkish than market expectations. Markets are pricing in a 25bps hike by September and see material reduction in the fed funds rate starting 2Q24. While the end of the tightening cycle is approaching soon, some analysts believe that the persistence of inflation, the strength of the economy despite material tightening and the Fed's caution to further tightening suggest risks for higher policy rates in 2024.

Figure 2: Markets are pricing in a longer pause and a higher terminal than most prior estimates this year



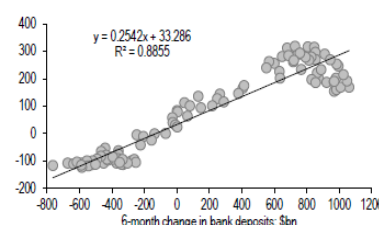
Source: J.P. Morgan

Treasury demand shifts towards more price sensitive buyers, which could hinder a significant decline in longer term yields.

Historically, the end of a Fed tightening cycle has been followed by a sharp decline in yields and steepening in the yield curve over the subsequent months. However, room for yields to decline in the current environment may be more limited according to JPMorgan analysts. For example, over the last year, the growth of the Treasury market outpaced demand from traditionally non-price sensitive investors, such as the Fed, foreign investors, and US commercial banks, who are seeing their joint share of Treasury market ownership currently at record lows. JPMorgan analysts expect this share to decline further: QT is likely to continue up to 2Q24, when markets expect the Fed to start easing. Bank holdings of Treasuries will likely keep shrinking as JPMorgan projects further decline in bank deposits in 2H23. Historical correlations suggest \$25bn of drop in Treasury holdings for every \$100bn drop in commercial bank deposits. Finally, JPMorgan analysts are bullish on the dollar in the remaining 2023, which would support further official sector shedding on Treasuries. The move away from price insensitive and towards more price sensitive investors is a headwind to a significant decline yield even as the Fed goes on hold.

Figure 18: Bank holdings of Treasuries are likely to fall further as deposits continue to shrink

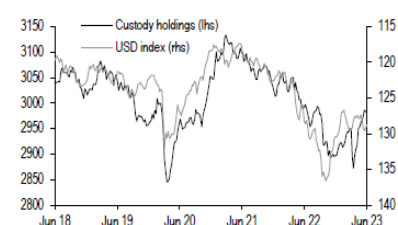
6-month change in commercial bank holdings of Treasuries regressed on 6-month change in commercial bank deposits, regression over the last 2 years; \$bn



Source: Federal Reserve

Figure 19: Foreign official demand for Treasuries tends to be related to the movements in the USD index

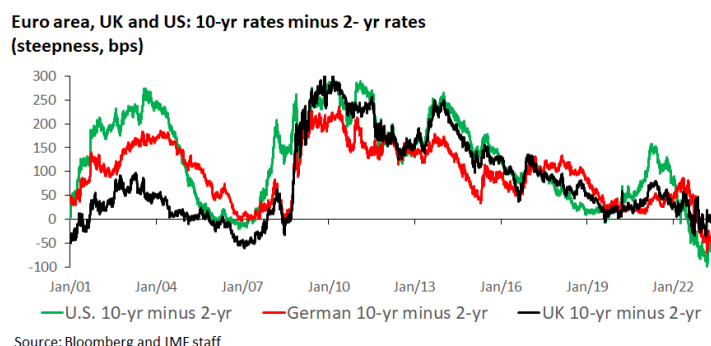
Treasuries held in custody for foreign official and international investors (lhs; \$bn) vs. J.P. Morgan USD index (rhs; index)



Source: Federal Reserve Bank of New York, J.P. Morgan

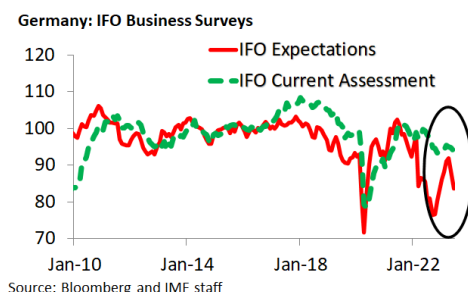
Euro Area

Yields are 3-6 lower after German IFO data disappointed. Some contacts had been positioning for steeper euro area yields curves in recent months (so for the difference between long-term and short-term rates to widen). In contrast to these expectations, the euro area yield curve has sharply flattened in key segments given that German data have challenged the narrative that a strong tourist season will drive a growth rebound in the coming months, and ECB rhetoric has been more hawkish than expected. **Greek 10-yr spreads were little changed at 125 bps after New Democracy gained 158 in the 300-seat parliament, in Sunday's general election.**



Analysts expect flash headline inflation to decelerate to 5.6% y/y from 6.1% in May. In contrast, euro area core inflation is expected to increase to 5.5% y/y in June, up from 5.3% y/y in May. The data prints are due this Friday.

The German IFO index disappointed, with the expectations component collapsing to 84, compared to 88 expected. Citi writes that the Ifo index plunge combined with last week's drop in PMIs raises the "specter that the winter terms-of-trade recession morphs seamlessly into demand-driven summer recession."

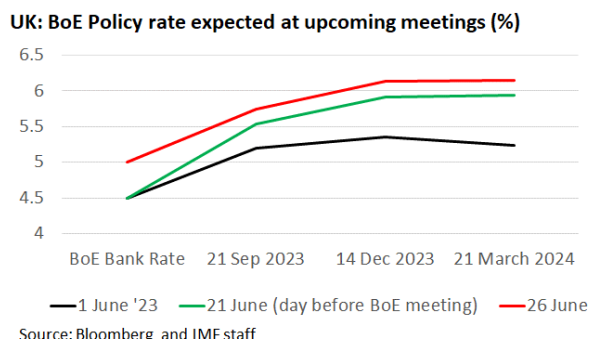


Equities (-0.2%) edged lower as bank stocks fell (-0.6%), adding to recent underperformance. Analysts point out that European banks are trading at price/earnings multiples of around 6, almost 2 standard deviations below the average of 10.5x (since '15), and at a sharp discount compared to other sectors.

United Kingdom

Gilt yields have opened the week lower. The UK yield curve has inverted sharply in what even established sell-side analysts describe as "crazy moves." **Compared to early June, the 2–10-year yield curve has inverted almost 70 bps.** 2-yr yields moved up around 80 bps with 10-yr

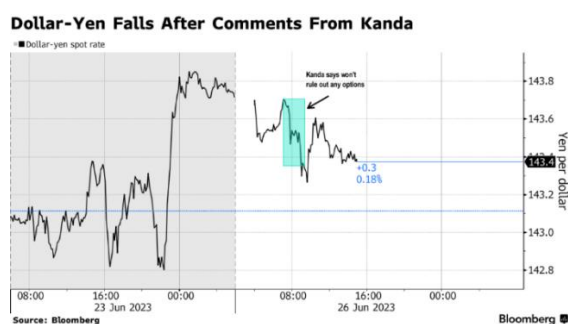
rates just 10 bps higher as the BoE's terminal rate moved higher in response to an upside surprise in inflation and a 50-bps hike by the Bank of England. The pound was little changed.



Japan

The Japanese yen appreciated (+0.4%) after officials' verbal intervention, touching 143.2 yen per dollar. The top currency official, Masato Kanda, commented that the recent movement of Japanese yen was rapid and excessive. He also indicated that Japanese authorities will not rule out any options for handling the currency. Markets are now paying a close attention to potential FX interventions, with some analysts noting that interventions seem likely once Japanese yen move into the range of 145-150 yen per dollar. Separately, **markets now expect that the Bank of Japan's negative interest rate policy will remain in place at least until next year, with 6-month interest rate swaps falling below zero.**

The Japanese government unveiled a plan to take control over JSR Corps, a global leader in chipmaking compounds. Government-backed Japan Investment Corp will make an offer worth of \$6.3 bn to buy shares from existing shareholders. On the data front, **producer prices for services increased 1.6% y/y in May**, lower than expected (consensus: +1.8%). Japanese equities declined (NIKKEI: -0.3%) and long-end JGB yields dropped (10-year: -0.8 bp; 30-year: -1.8 bps), with 10-year yields at 0.35%.



Emerging Markets

[back to top](#)

Asian markets did not have a clear direction today as investors cautiously assessed the market impact from Russia's mutiny. Chinese and Taiwanese markets underperformed due to catching-up effects after holidays. Asian equities were mixed, falling 0.9% on net. Chinese (CSI 300: -1.4%), Thai (-1.0%), Taiwanese (-0.8%) equities declined, while share prices rose in the Philippines (+2.0%) and Korea (+0.5%). Asian currencies were mixed. Chinese yuan (-0.7%) and Taiwan dollar (-0.3%) depreciated, while Philippine peso (+0.1%) and Thai baht (+0.1%) appreciated. Long-end government bond yields were mixed, with 10-year yields falling in Singapore (-3.3 bps) and Thailand (-1.9 bps) while rising in Taiwan Province of China (+1.3 bps) and the Philippines (+1.2 bps). **In Singapore**, industrial production declined 10.8% y/y in May,

larger than expected (consensus: -7.3%). Singaporean dollar depreciated (-0.1%); equities were little changed.

EMEA markets were mixed while markets were trying to assess the latest developments in Russia. Equities in CEE were mostly trading lower with equities in Russia underperforming (-1%), while equities in Türkiye outperformed. EMEA currencies were mixed against the dollar, while CEE currencies were mostly stronger against the euro. Local currency sovereign bond yields were mostly edging lower, with the largest move seen in Hungary (10y -16bps to 6.94%).

Markets in Latin America slid further on Friday. Equities in Chile (-1.5%), Peru (-0.8%), Colombia (-0.7%), and Mexico (-0.4%) fell. Most regional currencies also closed lower on softer commodity prices and weaker global growth outlook. The Colombian peso depreciated the most, -2.1% against the US dollar, while other major regional currencies were down -0.2-0.3%.

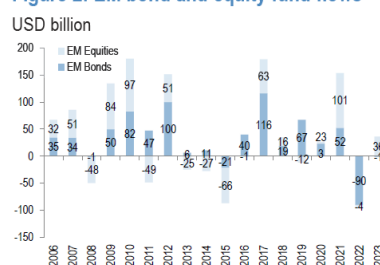
EM fund flows

EM fund flows rose to \$426mn last week, up from \$266mn in the week before. This was driven by higher flows into local currency bond funds, which grew to \$296mn, from \$57mn in the previous week. However, **hard currency funds continued face withdrawals** (-\$167mn) which have accumulated to - \$2.4bn for the YTD. EM equity funds inflows remained flat at \$297mn on the back of sustained ETF demand (\$729mn). **With this, the YTD total EM funds inflows stand at \$35.1bn.**

Figure 1: Weekly cross-asset flows

Asset	9w flows (\$w ago → current)	This wk	YTD
EM Bonds and Equities	8.4	35.1	
EM Bonds	0.1	-1.0	
Hard Ccy	-0.2	-2.4	
Local Ccy*	0.3	1.5	
o/w: EM ex-China	0.4	3.4	
o/w: China	-0.1	-2.8	
Fund Flows			
EM Equities	0.3	36.1	
US HG	5.3	154.9	
US HY	0.9	4.8	
Global Equities	-2.7	-51.7	
EM Bond and Equity ETFs	1.1	32.6	
EM Bond ETFs	0.4	0.7	
EM Equity ETFs	0.7	31.9	
Non-resident EM flows*	1.6	36.0	

Figure 2: EM bond and equity fund flows

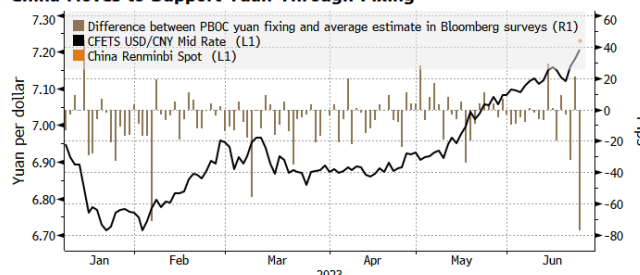


*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

Chinese equities declined in catch-up trade after holidays (CSI 300: -1.4%). China's markets reopened after the Dragon Boat Festival holidays, which did not see strong domestic tourism spending. While the number of domestic travelers exceeded pre-pandemic levels, tourism spending only amounted to 84% of pre-pandemic levels. Soft holiday spending added to concerns that the economic recovery is losing momentum, while Beijing still did not roll out additional stimulus measures that were widely expected. **Onshore RMB depreciated (-0.7%) to the weakest level in seven months**, touching 7.22 yuan per dollar. Meanwhile, offshore RMB depreciated (-0.3%), with the divergence reflecting catch-up trade, as offshore RMB also depreciated 0.5% during the holidays in China. Today, the People's Bank of China (PBC) set the daily RMB fixing at 7.208 yuan per dollar, stronger than expected by 77 pips, but this did not stop RMB from notable depreciation. **The PBC provided liquidity of 56bn yuan**

China Moves to Support Yuan Through Fixing



Source: Bloomberg

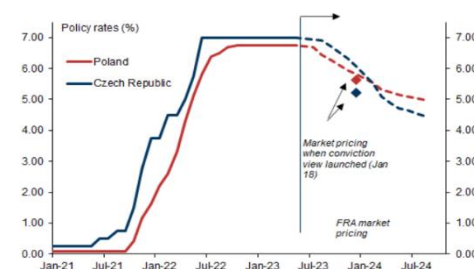
Bloomberg

(\$7.8bn) to ease quarter-end funding pressures. The key interbank repo rate (DR007) edged down to 1.88% (-7.1 bps). CGB yields were mixed (1-year: -0.4 bps; 10-year: +0.1 bps).

Eastern Europe

Markets expect multiple rate cuts in Poland and the Czech Republic by the end of 2023 and early in 2024. Analysts at Goldman think that markets could be in for a disappointment, with the potential for volatility in interest rates and foreign exchange (FX) if hopes for rate cuts are dashed. They point out that recent reductions in headline inflation are being offset by rising core inflation. In addition, inflation expectations are also moving higher, spurred by very rapid wage growth. Contacts agreed with this view, stating that they are putting on FX trades that will benefit from rising volatility. They also expect higher interest rates in the future and are entering interest rate swap trades that will make money if rates go up.

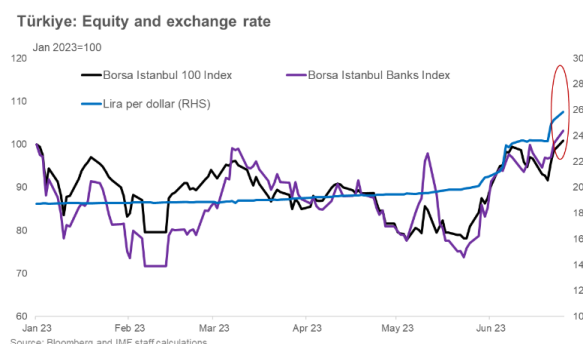
Exhibit 2: Market Pricing of Policy Rates in Poland and the Czech Republic
FRA pricing (assuming constant basis)



Source: Bloomberg, Goldman Sachs Global Investment Research

Türkiye

The Turkish lira weakened (-2.7%) while equities gained (+2.3%), with the banking sector (+3%) outperforming after the central bank took steps towards simpler governing rules for lenders' FX deposits. The central bank announced on Sunday that the securities maintenance ratio would be lowered to 5% from 10% and also reduced the threshold for the share of lira deposits, that required banks to pay a higher maintenance, to 57% from 60%. Bloomberg also reports that foreign investors have increased purchases of US-traded Turkish stock ETFs following recent shifts towards more orthodox policy. CDS spreads narrowed while the lira depreciated to a new record low against the dollar (-2.7% to 28.29/\$).



Source: Bloomberg and IMF staff calculations

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S. Kramer (New York Representative), Aurelie Martin (Senior Economist-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant), Dalila Mujevic (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

6/26/23 12:42 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4346	-0.8	-2	3	11	13
Europe		4274	0.0	-2	-1	21	13
Japan		32699	-0.3	-2	6	22	25
China		3810	-1.4	-3	-1	-14	-2
Asia Ex Japan		66	-1.6	-5	0	-6	2
Emerging Markets		39	-1.5	-5	0	-4	3
Interest Rates			basis points				
US 10y Yield		3.68	-5.4	-8	-12	55	-19
Germany 10y Yield		2.30	-5.5	-22	-24	86	-27
Japan 10y Yield		0.36	-0.8	-4	-6	13	-6
UK 10y Yield		4.26	-6.0	-23	-7	196	59
Credit Spreads			basis points				
US Investment Grade		156	1.6	1	-11	-16	-2
US High Yield		469	11.9	23	-25	-76	-11
Exchange Rates			%				
USD/Majors		102.73	-0.2	0	-1	-1	-1
EUR/USD		1.09	0.1	0	2	3	2
USD/JPY		143.2	-0.4	1	2	6	9
EM/USD		49.3	-0.2	-1	-2	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		74.3	0.6	-2	-3	-20	-11
Industrials Metals (index)		142	-0.8	-5	0	-10	-14
Agriculture (index)		70	0.7	-2	8	1	2
Implied Volatility			%				
VIX Index (% change in pp)		14.4	1.0	0.9	-3.5	-12.8	-7.2
US 10y Swaption Volatility		95.7	0.7	-0.3	-34.4	-30.6	-30.0
Global FX Volatility		8.3	0.1	0.2	-0.6	-2.7	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		125	-0.5	-6	-14	-109	-81
Italy		163	0.6	3	-22	-39	-51
Portugal		69	-0.1	5	-5	-39	-33
Spain		96	0.4	4	-10	-15	-13

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

Emerging Market Financial Indicators

	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		3810	-1.4	-3	-1	-14	-2		185	0	-11	-11	8
Indonesia		6665	0.4	0	0	-5	-3		141	1	-5	-66	1
India		62970	0.0	0	1	18	3		131	0	-22	-49	-11
Philippines		6523	2.0	1	0	5	-1		113	2	-8	-34	16
Thailand		1485	-1.3	-5	-3	-6	-11		0	0	0	0	0
Malaysia		1390	-0.1	0	-1	-3	-7		93	1	-6	-37	-7
Argentina		420737	1.3	11	23	409	108		2244	-132	-351	-44	39
Brazil		118977	0.0	0	7	21	8		254	4	-11	-94	-20
Chile		5680	-1.5	-1	1	14	8		131	2	-3	-42	-1
Colombia		1134	-0.7	-3	3	-17	-12		371	10	-38	-47	-1
Mexico		53342	-0.4	-3	-1	12	10		376	-1	-22	-57	-5
Peru		22233	-0.8	-2	5	18	4		164	-3	-18	-34	-16
Hungary		50190	-0.4	1	6	27	15		211	-10	-25	-21	-11
Poland		66759	0.7	-1	3	26	16		137	1	0	57	64
Romania		11973	-0.2	-3	-3	-4	3		229	-6	-26	-90	-26
South Africa		74192	-0.3	-5	-3	12	2		420	19	-35	-30	53
Turkey		5714	2.4	8	25	124	4		499	31	-147	-140	59
Ukraine		507	0.0	0	0	-2	-2		4363	-190	-440	108	284
EM total		39	0.1	-5	0	-4	3		388	-2	-40	-48	12

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

Last updated: 6/26/2023 12:47 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		7.23	-0.8	-1.0	-2	-8	-5		2.8	-1.8	-3	-5	-19	-29	
Indonesia		15015	-0.1	-0.1	0	-1	4		6.3	-0.5	-3	-14	-104	-65	
India		82	0.0	-0.1	1	-5	1		7.4	-1.1	-6	8	(27.2)	-6	
Philippines		56	0.1	0.1	0	-2	0		5.9	0.0	0	5	26	-9	
Thailand		35	0.1	-1.1	-1	0	-2		2.7	-4.0	-8	1	-14	11	
Malaysia		4.68	0.1	-0.9	-2	-6	-6		3.8	-1.5	5	4	-38	-23	
Argentina		253	-0.2	-1.4	-7	-51	-30		109.9	-112.1	-204	463	5031	2165	
Brazil		4.78	-0.3	0.8	4	10	10		11.0	-6.3	-19	-81	-151	-154	
Chile		807	-0.3	-1.5	0	12	6		5.0	-2.0	-4	-32	-118	-33	
Colombia		4187	-2.1	-0.6	7	-2	16		7.7	-4.0	-24	-117	-125	-207	
Mexico		17.14	0.2	-0.3	3	16	14		8.1	-14.5	-26	-43	-74	-68	
Peru		3.6	-0.2	-0.2	1	4	5		7.0	-0.5	-14	-32	-76	-101	
Uruguay		38	0.5	1.3	3	6	6		9.7	-14.7	-15	-26	-102	-94	
Hungary		338	0.5	1.1	2	12	10		7.1	-16.0	-59	-107	-110	-250	
Poland		4.07	0.1	0.0	4	9	7		5.0	-9.8	-36	-55	-200	-116	
Romania		4.5	0.2	0.0	2	3	2		6.4	-2.3	-14	-45	-234	-125	
Russia		84.6	-0.2	-0.7	-6	-36	-12								
South Africa		18.6	0.7	-2.3	6	-15	-8		9.6	-15.5	-26	-63	78	48	
Turkey		25.92	-2.6	-8.9	-23	-36	-28		16.8	36.0	-80	770	-274	696	
US (DXY; 5y UST)		103	-0.2	0.5	-1	-1	-1		3.94	-5.0	-4	1	76	-6	

[back to top](#)