



- Equity markets correct following large gap between equity and bond returns ([link](#))
- The decline in RRP usage bodes well for international dollar funding costs ([link](#))
- ECB President Lagarde maintains hawkish tone at ECB retreat ([link](#))
- RMB appreciates after the PBoC set the daily RMB fixing stronger than expected ([link](#))
- Kenya hikes benchmark rates by 100bps at an unscheduled meeting ([link](#))

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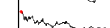

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Rate and growth worries continue

Markets were mixed this morning with European equities slightly lower and sovereign bond yields little changed as markets weighed hopes for stimulus from China with the outlook for monetary policy in major economies. European markets were fairly muted with the Stoxx 600 index marginally lower after ECB president Lagarde's hawkish opening speech at the ECB annual retreat in Sintra this morning. The Stoxx 600 index is now trading lower for the seventh consecutive day. US futures, however, were higher, after the Nasdaq dropped as much as 1.2% Monday - suffering its worst week since March, with some analysts arguing that a reallocation from stocks to bonds is likely taking place. Asian equities were mostly higher, while the RMB appreciated after the People's Bank of China increased support for the currency by setting the daily fixing rate stronger than expected. Elsewhere on the central bank front both Kenya and Pakistan called unscheduled meetings and raised rates 100bps each to 10.5% and 22% respectively, to anchor inflation expectations. Despite some lingering uncertainty around developments in Russia and the potential impact on commodity prices, oil prices eased.

Key Global Financial Indicators

Last updated: 6/27/23 12:48 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		4329	-0.4	-2	3	11	13	2
Eurostoxx 50		4283	0.1	-1	-1	21	13	8
Nikkei 225		32538	-0.5	-3	5	20	25	23
MSCI EM		39	0.3	-4	1	-3	4	-17
Yields and Spreads			bps					
US 10y Yield		3.72	-0.4	0	-8	52	-16	173
Germany 10y Yield		2.30	-1.0	-11	-24	75	-27	207
EMBIG Sovereign Spread		441	-2	-3	-36	-65	-10	29
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.4	0.0	-1	-1	-5	-1	-7
Dollar index, (+) = \$ appreciation		102.6	-0.1	0	-2	-1	-1	7
Brent Crude Oil (\$/barrel)		72.9	-1.7	-4	-5	-37	-15	-25
VIX Index (% change in pp)		14.3	0.0	0	-4	-13	-7	-17

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

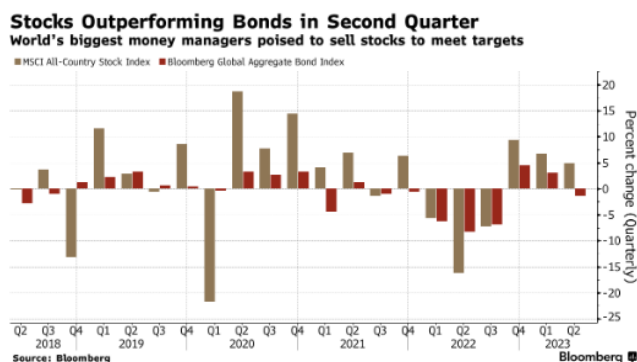
Mature Markets

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United States

Equity markets correct as the gap between equity and bond returns widened significantly in Q2.

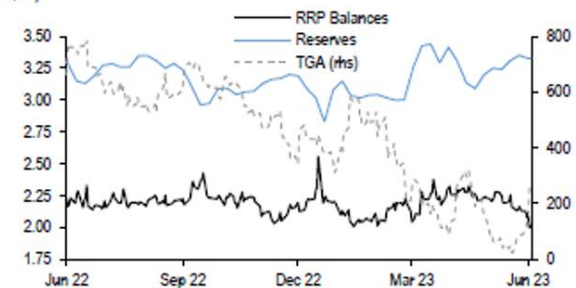
What looked like a relentless rally in equities up to mid-June has since turned into a protracted downfall. JP Morgan analysts considered that a reallocation from stocks to bonds is likely taking place, which contributes to the market drag. Typically, quarters with positive total returns for equities and negative returns for bonds are followed by equity corrections. The larger the gap between equity and bond returns, the larger the equity correction to the downside. The gap between equity and bond returns in Q2 2023 has been the widest since Q4 2021. This pattern can be partly explained by selling pressures from balanced mutual funds, who need to tilt back into bonds to meet quarterly allocation targets between equities and bonds.



The decline in MMFs' reverse repos with the Fed (RRP) bodes well for international dollar funding costs. The recent decline in RRP usage was not the baseline scenario for market analysts, who expected it to be stickier, but was well received. The quick rebuild of the Treasury's General Account (the checking account of the Treasury with the Fed) has so far been mainly absorbed by a decline in RRP, alleviating downward pressures on bank reserves. Higher reserves reduce risks in bank funding and therefore bode well for the cross-currency basis, the difference between borrowing a currency directly and borrowing it by swapping it against another currency. According to analysts in City, this is particularly important post the US banking turmoil, which has potentially led several smaller US banks with too few reserves. The analysts observed that 3m basis in major currencies tightened significantly in June. Term premia in forward funding markets should also decline.

Figure 8: The TGA has begun to rise, offset primarily by a decline in ON RRP balances, while reserves remain flat

ON RRP Facility and Reserve balances (lhs, \$bn) versus Treasury General Account (rhs, \$bn)



Cross currency basis for major currencies against the dollar tightened in June

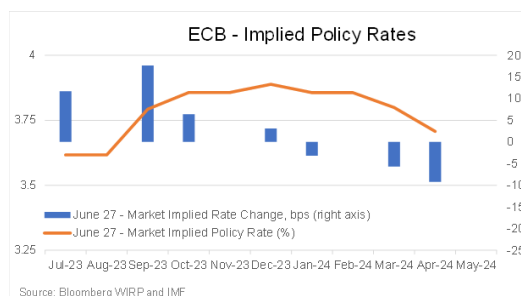


Euro Area

European markets were fairly muted even after ECB president Lagarde's hawkish opening speech at the ECB annual retreat in Sintra (Portugal). The equity market (Stoxx Europe 600) was slightly down

(-0.2%), but banking stocks were up 0.5%. The euro was strengthening 0.3% to 1.09/\$. German 10y bund yields were up 2 bps at 2.33%, and Italian spreads were flat at 163 bps.

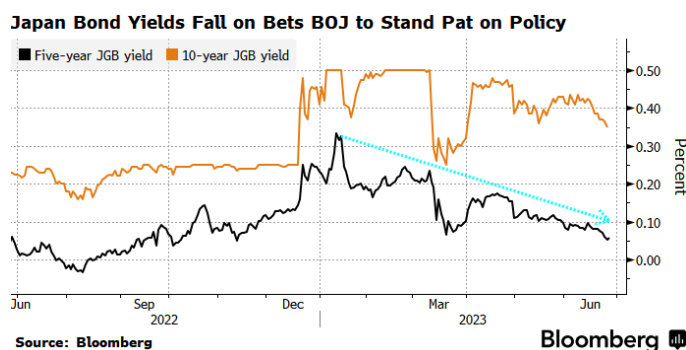
Even though ECB President Lagarde's tone in her opening speech at the ECB annual retreat in Sintra (Portugal), was more hawkish than markets expected, the market reaction has been muted so far. In her first intervention since the publication of disappointing PMI for the eurozone on Friday, ECB president Lagarde said that it is unlikely that the ECB will be able to state with full confidence in the near future that peak interest rates have been reached. She added that barring a material change to the outlook, the ECB will continue to increase rates in July. She also said that rates will stay at the terminal level for as long as necessary and that it is important to avoid expectations of a too-rapid policy reversal.



Earlier this morning in Sintra, Latvian governor Kazaks stroke a similar tone. He said that while the eurozone economy is on the soft side, it is not weak enough to bring inflation down by itself and argued that the ECB would need to raise rates further beyond July. He emphasized that the ECB remains data dependent, but also added that interest rates will "by no means" be lowered in the first half of 2024. Instead, inflation must consistently undershoot 2% for rate cuts to happen. Markets are currently pricing in about 30 bps of ECB rate cuts between December 2023 (3.9%) and May 2024 (3.6%).

Japan

Japanese yen depreciated slightly (-0.1%), touching 143.7 yen per dollar. Masato Kanda, the key person behind FX interventions last year, was reappointed as chief currency official and vice minister of finance for international affairs. Markets saw his reappointment as Japanese authorities' firm commitment to entering FX markets if needed. **Japan reinstated Korea as a preferred trading partner**, a step toward strengthening relations that will help both countries enhance cooperation with the United States. Long-end JGB yields were mixed (10-yr: +1.3 bps; 30-yr: -0.5 bps), partly due to the 20-yr debt auction that drew a lower-than-expected cut-off price. Market participants noted the lack of outright buyers who want to hold long-term bonds. The 10-yr JGB yield closed at 0.366%, roughly 5 bps lower on the month. More generally, **receding expectations that the Bank of Japan will soon adjust its monetary policy have weighed on JGB yields.** As a result, firms are postponing their bond issuances as the 5-yr JGB bond yield keeps falling; the tenor of corporate bonds is around 5 years. Japanese equities declined (NIKKEI: -0.5%).



New Zealand

The government gave the Reserve Bank of New Zealand (RBNZ)’s monetary policy committee a fresh remit. The new remit contains an expanded section of context—for example, the committee “should be aware of the broader context in which monetary policy is conducted”; also, where appropriate, the committee “should seek to understand and communicate material interactions between monetary policy and the government’s economic objectives”; and, the committee should seek to “understand material interactions between fiscal and monetary policy”. While accepting the new remit, the RBNZ would prefer excluding any guidance related to broader government objectives from the remit to avoid additional complexity and perceived erosion of the RBNZ’s operational independence. The New Zealand dollar appreciated (+0.1%) and long-end government bond yields rose (10-yr +1.9 bps).

Emerging Markets

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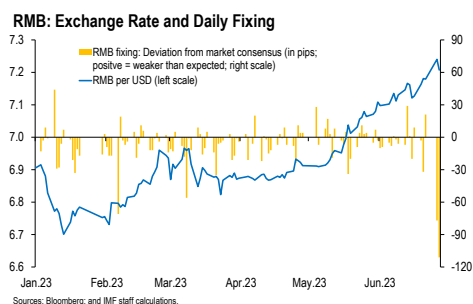
Most Asian equities gained, up 1.2% on net, led by Hong Kong (+1.9%) and Chinese (CSI 300: +0.9%) equities. Meanwhile, share prices fell in Taiwan Province of China (-1%). Most Asian currencies appreciated, led by Philippine peso (+0.7%), Korean won (+0.4%) and Chinese yuan (+0.4%). The RMB strengthening provided supported to other regional currencies. Long-end government bond yields were mixed, with 10-year yields rising in Singapore (+4.4 bps) but falling in Indonesia (-1.8 bps) and Malaysia (-1.8 bps). In Thailand, the Bank of Thailand will ease foreign exchange rules to improve the private sector’s risk management capability while warning against continued volatility of Thai baht. Thai baht depreciated (-0.1%).

EMEA markets were mixed and relatively quiet, in the absence of major data releases or policy announcements. Equity markets were up in South Africa (+0.2%) and Turkey (+0.6%) but slightly down elsewhere. Currencies were range-bound vs. their reference currencies, with the exception of the South African rand strengthening 0.9% vs the dollar (to 18.5/\$). Local bond yields were broadly unchanged. **Both Kenya and Pakistan called unscheduled meetings and raised rates 100 bps each to 10.5% and 22% respectively to anchor inflation expectations.**

Markets in LATAM were steady on Monday. Most regional equities were marginally up, except those in Brazil, which closed 0.6% lower. Currencies partially reversed the losses of last two sessions, gaining 0.2-0.4% against the US dollar, however the Peruvian sol slid a tad to close at 3.66 against the US dollar.

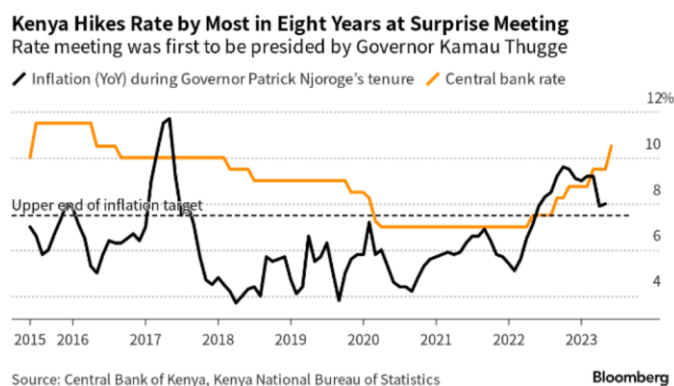
China

The RMB appreciated (+0.4%) after the People’s Bank of China (PBoC) stepped up efforts to moderate the currency’s depreciation. Today, the PBoC set the daily RMB fixing at 7.21 yuan per dollar, stronger than expected by 111 pips. The RMB strengthening also provided support to other Asian currencies, most of which appreciated. Chinese equities gained (CSI 300: +0.9%; Hong Kong SAR-listed: +2.1%), ending the five-day decline. While the rise in share prices was broad-based, **real estate stocks enjoyed the largest gain (onshore: +4.4%; Hong Kong SAR-listed: +6.0%, supported by the news that China Huarong took over a joint venture with Dalian Wanda.** China Huarong, a state-owned asset management company, injected capital of \$232 mn into the joint venture. While the amount of capital injected was relatively small, the gesture from China Huarong helped to boost investor confidence. Offshore USD bonds issued by property developers also rallied. The PBoC injected liquidity in an amount of 37bn yuan (\$5.1bn). The key interbank repo rate (DR007) edged down slightly to 1.9%, while spreads between exchange-trade and interbank repo remained sizeable, showing signs of funding pressures at the quarter end.



Kenya

Kenya raised its benchmark interest rates by 100 basis points to 10.5% in an unscheduled meeting, the highest level in seven years. The rate hike decision is intended “to anchor inflation expectations”, according to the new governor Thugge who started his role as governor on June 19th. This follows after the benchmark rate was left unchanged at the previous monetary policy meeting, despite an upside surprise in the May inflation print that showed headline inflation accelerating to 8%/y. **Absa analysts expect another 100bps increase by the end of 2023**, but see risks in favor of more aggressive tightening.



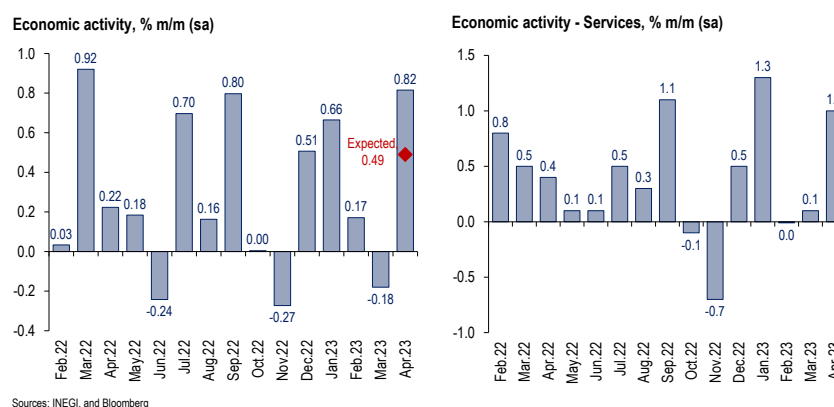
Ukraine

Ukraine's dollar bonds rallied after insurrection over the weekend in Russia, outperforming emerging-market sovereign dollar debt on Monday. Some investors argue that recent developments could potentially see an earlier resolution to the ongoing war. Yesterday, the Ukrainian GDP-linked bonds maturing in 2041 increased to almost 40 cents on the dollar, the highest levels since the start of the invasion. Despite markets being relatively illiquid, Bloomberg notes that Ukraine's debt has been supported recently by hopes of additional financing from the West as well as suggestions to use frozen Russian assets to finance Ukraine's rebuilding.



Mexico






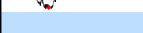


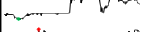
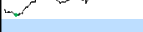





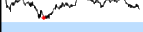







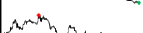


Economic activity in April grew by 0.82% m/m, beating the market expectations of 0.49% m/m. This was driven by 1.2% and 1% monthly sequential growth in primary and services sectors, respectively. Activity growth in the industrial sector, while turning positive in April, saw only a marginal increase of 0.4% m/m. Analysts believe that strong growth in the services sector implies strong domestic consumption, which in turn could counter spillovers from a potential slowdown in the US economy. Hence, some street analysts see an upside risk to their current 2023 GDP growth forecasts. Local markets were nevertheless little changed on Monday with the currency registering a small appreciation.



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.

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Global Financial Indicators

6/27/23 12:49 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4329	-0.4	-2	3	11	13
Europe		4283	0.1	-1	-1	21	13
Japan		32538	-0.5	-3	5	20	25
China		3845	0.9	-3	0	-14	-1
Asia Ex Japan		66	0.3	-4	0	-6	2
Emerging Markets		39	0.3	-4	1	-3	4
Interest Rates			basis points				
US 10y Yield		3.72	-0.4	0	-8	52	-16
Germany 10y Yield		2.30	-1.0	-11	-24	75	-27
Japan 10y Yield		0.37	1.3	-2	-5	13	-5
UK 10y Yield		4.31	1.3	-2	-2	192	64
Credit Spreads			basis points				
US Investment Grade		156	-0.4	0	-8	-13	-3
US High Yield		470	1.5	25	-13	-58	-10
Exchange Rates			%				
USD/Majors		102.56	-0.1	0	-2	-1	-1
EUR/USD		1.09	0.4	0	2	3	2
USD/JPY		143.5	0.0	1	2	6	9
EM/USD		49.4	0.0	-1	-1	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		72.9	-1.7	-4	-5	-22	-13
Industrials Metals (index)		142	0.9	-3	0	-11	-14
Agriculture (index)		68	-2.2	-4	5	-1	-1
Implied Volatility			%				
VIX Index (% change in pp)		14.3	0.0	0.4	-3.7	-12.7	-7.4
US 10y Swaption Volatility		100.5	2.1	0.1	-29.6	-25.8	-25.2
Global FX Volatility		8.3	0.0	0.1	-0.6	-2.3	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		124	0.5	-8	-14	-107	-81
Italy		164	-0.2	1	-22	-33	-50
Portugal		70	0.0	3	-4	-39	-32
Spain		97	-0.1	3	-10	-14	-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		3845	0.9	-3	0	-14	-1		187	2	-7	-10	10
Indonesia		6662	0.0	0	0	-5	-3		140	0	-2	-59	0
India		63416	0.7	0	1	19	4		132	1	-19	-47	-10
Philippines		6503	-0.3	1	0	2	-1		113	2	-1	-27	16
Thailand		1478	-0.5	-4	-3	-7	-11		0	0	0	0	0
Malaysia		1387	-0.2	0	-1	-5	-7		93	1	-4	-36	-7
Argentina		432406	2.8	10	27	404	114		2116	-260	-484	-242	-89
Brazil		118243	-0.6	-1	7	17	8		254	4	-5	-90	-20
Chile		5680	-1.5	-1	1	14	8		130	1	-1	-39	-2
Colombia		1138	0.4	-2	3	-17	-11		373	12	-33	-44	1
Mexico		53336	0.0	-3	-1	10	10		376	-1	-20	-55	-5
Peru		22303	0.3	-1	5	19	5		164	-3	-17	-30	-16
Hungary		50027	-0.1	0	5	27	14		210	-11	-23	-13	-12
Poland		66727	-0.6	0	3	24	16		137	1	1	48	64
Romania		12065	0.9	-2	-2	-4	3		227	-8	-29	-91	-29
South Africa		74405	0.2	-3	-3	10	2		421	20	-34	-21	54
Turkey		5759	0.5	10	26	128	5		498	30	-115	-132	58
Ukraine		507	0.0	0	0	-2	-2		4121	-432	-825	-419	42
EM total		39	0.8	-4	1	-3	4		384	-6	-39	-48	9

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

Last updated: 6/27/2023 12:52 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		7.22	0.3	-0.5	-2	-7	-4		2.8	0.1	2	-7	-19	-29	
Indonesia		14993	0.1	0.0	0	-1	4		6.3	-3.4	-8	-17	-101	-68	
India		82	0.0	0.1	1	-4	1		7.4	-2.0	-8	0	(29.2)	-8	
Philippines		55	0.7	0.4	1	-1	1		5.9	0.0	0	0	26	-9	
Thailand		35	-0.2	-1.5	-1	0	-2		2.7	0.0	-9	-1	-14	11	
Malaysia		4.67	0.2	-0.6	-1	-6	-6		3.8	-0.9	4	4	-42	-23	
Argentina		254	-0.5	-2.0	-7	-51	-30		104.8	-506.0	-710	-270	4514	1659	
Brazil		4.77	0.3	0.2	5	10	11		10.9	-10.1	-32	-75	-182	-164	
Chile		806	0.0	-1.4	-1	14	6		5.0	-2.0	-4	-32	-118	-33	
Colombia		4173	0.4	-0.3	7	-1	16		7.6	0.0	-24	-129	-145	-219	
Mexico		17.09	0.3	0.7	3	17	14		8.0	-8.0	-34	-52	-95	-76	
Peru		3.6	-0.3	-0.3	1	4	4		7.0	-0.2	-3	-32	-79	-101	
Uruguay		38	-0.3	1.0	3	5	6		9.9	14.8	0	-12	-83	-79	
Hungary		337	0.6	1.2	3	13	11		7.0	-21.0	-58	-119	-122	-262	
Poland		4.04	0.6	0.6	4	9	8		5.0	-7.5	-31	-58	-203	-119	
Romania		4.5	0.3	0.3	2	3	2		6.5	5.4	-7	-35	-211	-120	
Russia		85.2	-0.8	-0.6	-5	-36	-13								
South Africa		18.5	1.0	-0.5	6	-14	-8		9.6	-9.0	-35	-69	72	41	
Turkey		26.04	-0.4	-9.5	-23	-36	-28		16.9	8.0	-53	778	-244	704	
US (DXY; 5y UST)		103	-0.1	0.0	-2	-1	-1		3.97	-0.2	1	4	71	-4	

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