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









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Data surprises boost market sentiment

Equity markets are trading in the green with market sentiment boosted by recent data releases, ahead of the policy panel at Sintra. Upside surprises in US economic data releases yesterday - including new home sales, durable goods orders and consumer confidence - stifled imminent recession fears and saw US equity markets rally. However, Nasdaq futures are lower this morning as large US chipmakers are trading in the red following news last night that US lawmakers are considering tightening the exports of artificial intelligence chips to China. Elsewhere European equity markets are trading in the green, after the Stoxx 600 index snapped a 6-day losing streak yesterday. On the data front inflation figures from Australia and Italy surprised on the downside. Markets are focused on German inflation data, set to be released tomorrow, ahead of the euro area wide inflation print due on Friday. In the meantime, the ECB policy panel in Sintra, set to feature Fed Chair Powell, ECB President Lagarde, BoJ Governor Ueda and BoE Governor Bailey, is a key event taking place later today. The Fed is also set to announce its widely anticipated stress test results later today. While analysts largely expect the tests to confirm that US banks are strong, the Fed is expected to announce changes to bank supervision following the regional bank turmoil.

Key Global Financial Indicators

Last updated: 6/28/23 12:48 PM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		4378	1.1	0	4	15	14	4
Eurostoxx 50		4342	0.8	0	0	22	14	9
Nikkei 225		33194	2.0	-1	6	24	27	25
MSCI EM		40	1.0	-1	2	-2	5	-16
Yields and Spreads			bps					
US 10y Yield		3.74	-2.1	2	-6	57	-13	175
Germany 10y Yield		2.32	-4.0	-12	-22	69	-26	209
EMBIG Sovereign Spread		437	-4	-13	-41	-67	-15	25
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.2	-0.2	-1	-2	-5	-1	-7
Dollar index, (+) = \$ appreciation		102.6	0.1	1	-2	-2	-1	7
Brent Crude Oil (\$/barrel)		72.2	0.0	-6	-6	-39	-16	-25
VIX Index (% change in pp)		13.8	0.1	1	-4	-15	-8	-17

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

Mature Markets

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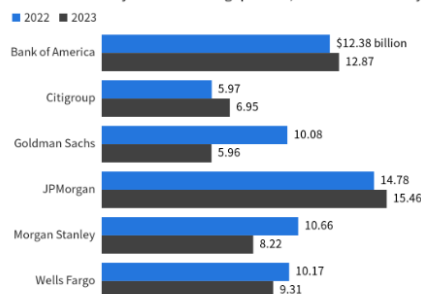
United States

Additional upcoming capital reforms temper payout expectations post US stress-test results.

The Fed will announce its widely anticipated stress test results later today. Analysts largely expect the tests to confirm that US banks are strong. In the run-up to the results of the Fed's stress test, ETFs tracking regional lenders were up. Despite the positive outlook, the expectation of upcoming additional, more stringent regulatory actions make US lenders weary about dividend distributions and share buybacks. The Fed is expected to announce changes to bank supervision following the regional bank turmoil, while Basel III finalization and implementation is also pending. Adding to the uncertain economic environment, bank executives appeared prudent about returning any excess capital to their shareholders before additional regulatory clarity on capital reforms. The largest US banks are expected to curtail shareholder payouts by roughly 8%.

Banks Temper Shareholder Payout Expectations

The biggest US banks are expected to return just \$58.8 billion through dividends and buybacks in coming quarters, down 8.2% from a year ago



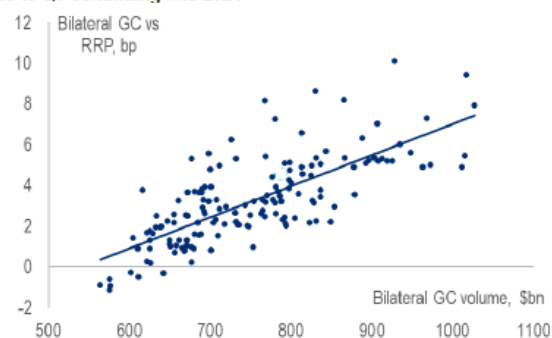
Source: Bloomberg News analysis of Barclays Plc estimates
Note: To derive dividend payouts, Bloomberg News used outstanding share counts on June 30, 2022, and March 31, 2023

Bloomberg

Repo rates could move materially higher next year if QT continues into 2024.

With the end of the tightening cycle approaching and while the Fed has not given concrete guidance on halting QT, markets broadly expect that QT will stop when the Fed starts cutting rates. This is currently expected to happen in H2 2024, but the resilience of the US economy as well as inflation persistence has pushed back a recession scenario and bolstered hawkish monetary policy outcomes several times in the past already. Citigroup analysts see risks of QT continuing through 2024, notwithstanding interest rate policies. In that case, the additional supply of Treasuries, most likely taking the form of T-Bills, and further RRP drainage would tend to increase repo volumes and, with them, repo rates. The amount of increase could be capped ultimately by the Fed's standing repo facility, although this could be a soft cap.

Repo rates will be pressured higher as volumes increase due to QT continuing into 2024

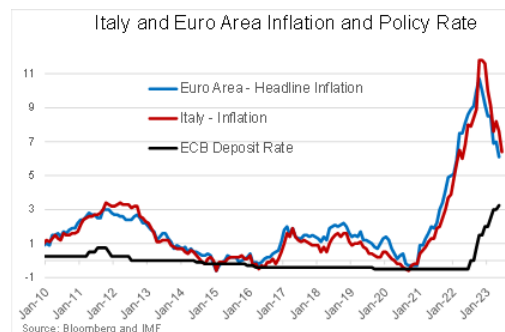


Source: Citi Research, Haver

Euro Area

European markets were tentatively in the green this morning, despite hawkish comments from ECB policy makers at the ECB annual retreat in Sintra (Portugal). The equity market (Stoxx Europe 600) was gaining 0.6% and the euro was slightly weaker (-0.1% to 1.1/\$). German 10y bund yields were down 3 bps to 2.32%, and Italian spreads were up 2bps to 165 bps.

Ahead of the much-awaited release of June inflation for the euro area on Friday, Italian inflation surprised on the downside this morning. June inflation came eased to 6.4%/y/y, lower than the expected 6.7% from 7.6% in May. German inflation data will be released tomorrow, with regional data in the morning and national data in the afternoon. For euro area wide inflation, markets expect headline inflation to ease to 5.6%/y/y, with core expected to increase to 5.5%/y/y, from 5.3% of May. In the meantime, markets are keen to listen to the Policy panel in



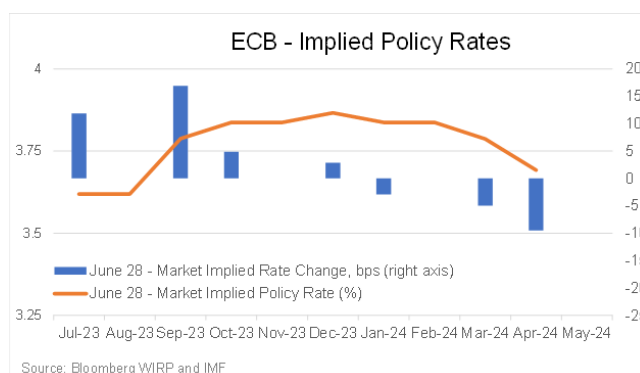
Source: Bloomberg and IMF

Sintra which will be attended shortly by Fed chairman Powell, ECB president Lagarde and Bank of Japan governor Ueda, and Bank of England Governor.

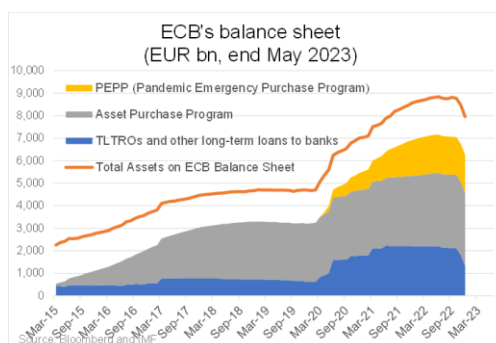
Yesterday, the Italian government picked ECB board member Fabio Panetta to succeed Ignazio Visco as governor of the Italian central bank, when his term expires on November 1. This means that Visco will move from the ECB's executive board to the ECB governing council, leaving a position to be filled at the ECB's executive board.

The hawks seem to be outnumbering the doves at the ECB retreat in Sintra, but most ECB officials are keen to emphasize that the decision of whether to hike in September will depend on incoming data. There seems to be a consensus that a 25 bps hike in July is a done deal. After ECB president Lagarde said yesterday 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, ECB vice-president Guindos and Estonian governor Muller

said that the decision to continue to tighten after the summer will depend on incoming data. ECB chief economist Lane said that monetary policy should tighten further, and added that inflation in the eurozone will not be back towards 2% for a couple of years, despite expecting good progress this year. He also cautioned markets about pricing in cuts to interest rates within the next two years. In contrast, Portugal governor Centeno said that overtightening would be non-acceptable as a position, and that the ECB must be much more balanced. In his view, inflation is coming down and he sees no clear signs of second-round effects. **Market pricing for the ECB terminal rate has not changed much compared to yesterday.**



On the edges of Sintra, Bloomberg reports that some ECB officials might be in favor of accelerating QT to complement monetary policy tightening, which has essentially been conducted through interest rates hikes so far. Citing unidentified sources, Bloomberg reports that some ECB General Council (GC) members are open to considering sales of securities from the ECB's portfolio, to complement steps taken to date. Other GC members reportedly prefer phasing out the Pandemic Emergency Purchase Program (PEPP) reinvestments. Bloomberg reports that no formal discussion has taken place in the Governing Council and no decision is imminent.



Yesterday, the European Council and the European Parliament reached a deal on the implementation of Basel III banking reforms. The amendments to the Capital Requirements Regulation and the Capital Requirements Directive will toughen capital rules for EU banks and in particular concern the "output floor", which limits the degree to which banks can use their own models to assess risks. Other

measures relate to improvements for assessing credit, market and operational risk; a harmonized “fit and proper” framework to assess the suitability of banks management; and minimum requirements applicable to branches of third country banks and the supervision of their activities in the EU. There are also measures relating to a transitional prudential regime for crypto assets and on amendments to enhance banks' management of ESG risks. The deal still needs to be formally approved by the European council and the EU parliament.

Japan

The Japanese yen appreciated modestly as officials continued with verbal warnings. Chief currency official Kanda said that Japanese authorities are monitoring currency movements and will respond appropriately to excessive movements, repeating comments from Finance Minister Suzuki on Tuesday. Japanese yen depreciated slightly, staying around 144 yen per dollar. Market commentaries suggest that Japanese policymakers and business leaders are more comfortable with the recent slide of Japanese yen than there were last year at the time of FX interventions. One reason they highlight is the perception that rate hike cycles in other major economies could end soon, as this helps to dampen fears that Japanese yen will be in a freefall. Moreover, implied volatility of Japanese yen has been falling. Furthermore, firms may not have to change their current hedging strategies as Japanese yen's movements are in a familiar territory, unlike the situation last year when a sharp depreciation forced firms to adjust. Japanese equities gained (NIKKEI: +2%). Long-end JGB yields edged higher (10-yr: +1.6 bps to 0.38%; 30-yr: +1.3 bps).



Australia

The Australian dollar depreciated (-0.8%) after headline inflation surprised on the downside in May, moderating to 5.6% y/y (versus expected 6.1% from 6.8%). Some analysts note that weaker than expected inflation data print could alleviate pressure on the Reserve Bank of Australia to remain hawkish, while others point out that signs of sticky inflation beyond headline numbers remain. Government bond yields fell (2-yr: -6.2 bps to 4.04%; 10-yr: -6 bps to 3.87%).

Emerging Markets

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Asian equities were mixed, falling 0.4% on net. Korean (-0.7%) and Chinese (CSI 300: -0.1%) equities declined, while share prices rose in India (+0.9%). Most Asian currencies depreciated, led by Thai baht (-0.8%) and Korean won (-0.5%), on the back of USD strengthening after upbeat US data calmed recession fears. Most long-end government bond yields increased, following the rise in US treasury yields. However, 10-year Korean yield dropped (-5.6 bps). In Korea, retail sales increased 5.7% y/y in May, up from 4.0% in April.

Equity markets in EMEA were mostly higher, while currencies were mostly weaker, with local currency bond yields little changed. Equities in Romania (+1.3%) and Nigeria (+1.2%) outperformed, while equities in Russia (-0.3%) saw the largest losses. The South African rand weakened against the dollar

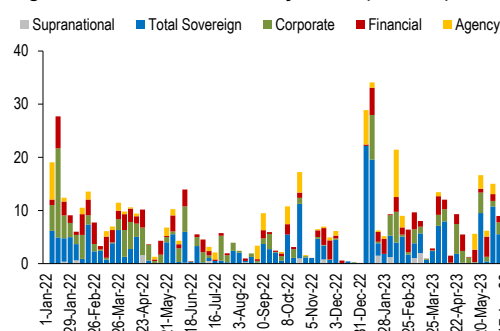
(-0.5% to 18.62/\$), while CEE currencies were mostly trading weaker against the euro, with the Hungarian forint underperforming (-0.3% to 370.87/€). Yesterday Hungary's Minister for Economic Development noted expectations for the country's headline inflation to ease to below 20% in June, and then further easing into single-digits by Q4 2023.

Markets in LATAM were mixed. While equities closed lower in the range of 0.4-0.8%, most regional currencies appreciated, with the Chilean peso gaining the most (+1.1%). In Brazil, the bi-weekly inflation for the first half of June printed at 0.04% m/m (3.4% y/y), higher than the market estimates of 0.02%. Local markets closed lower in response, with equities and the currency sliding -0.6% and -0.9%, respectively. However, the swap curve shifted slightly lower as policy meeting minutes lent more confidence to the possibility of monetary policy easing cycle to start in August.

Emerging Market Bond Issuance

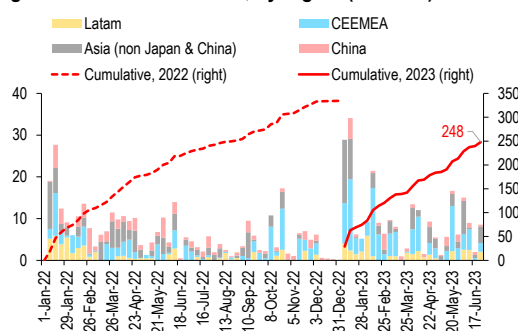
EM bond issuance increased to \$8.5 bn for the week ending on June 24th, rebounding from \$2 bn volume seen in the week before. The increase was primarily driven by the financial sector, that saw highest weekly issuance volume for the YTD at \$5.7 bn, while the corporate sector was the second largest issuer at \$1.9 bn. In terms of regions, EM Asia ex-China saw the largest volumes (\$4 bn) followed by CEEMEA (\$2.1 bn), while issuance activity China weakened further to \$0.4 bn (from \$0.7 bn in the week before). **Despite the rebound, total issuance last week was smaller than the weekly average for the year (\$10 bn).** The cumulative issuance now stands at \$248 bn for the year, vs. \$225 bn for the corresponding period of last year.

Figure 1. EM bond issuance, by sector (bn. USD)



Sources: Bond Radar, and IMF staff calculations.

Figure 2. EM bond issuance, by region (bn. USD)

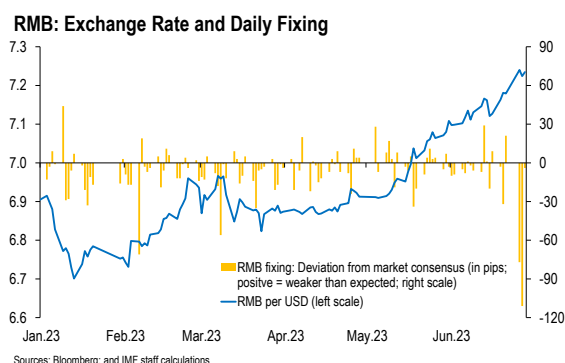


China

President Xi pledged to better protect interest of foreign investors in his meeting with New Zealand Prime Minister Hipkins. President Xi's remarks underscored the Chinese government's attempt to assuage concerns about unpredictable policymaking. **The contraction of industrial profits narrowed to 12.6% y/y in May**, from 18.2% in April. The decline in industrial profits reflected soft demand and producer price deflation. **Chinese equities declined (CSI 300: -0.1%), while RMB depreciated (-0.1%).**

Today, the People's Bank of China (PBC) set the daily RMB fixing at 7.235 yuan per dollar, slightly stronger than expected by 4 pips, in contrast to a wider deviation of 111 pips yesterday. Markets viewed that the PBC still did not firmly defend against RMB depreciation. Reportedly, state-owned banks sold dollar in the onshore market before the official closing time at 4:30pm for the last two days, which could put pressures on carry traders who had positions in USD. Today, the PBC injected liquidity in an amount of 69 bn yuan (\$9.5 bn) as the key interbank repo rate (DR007) stayed at 1.9%. Spreads between interbank and exchange-traded repo remained wide. CGB yields fell (1-yr: -0.4 bps; 10-yr: -0.9 bps).

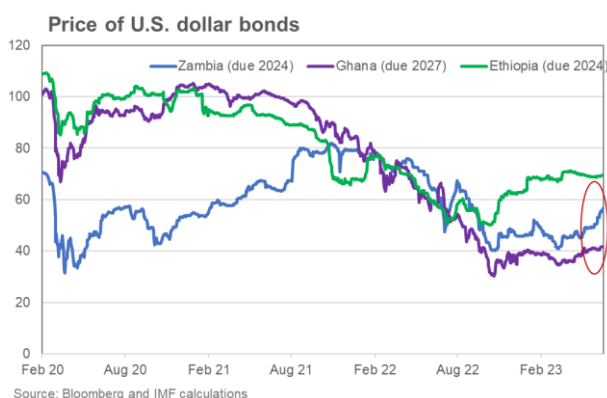
China is finalizing the carbon credit registry, which will help restart supply of carbon credits on a unified national platform in a bid to fund more green projects. The issuance of new carbon credits was suspended in 2017 amid an institutional reshuffle that transferred climate policymaking to the Ministry of Ecology and Environment.



Zambia's Eurobond prices continue to increase as the finance minister provides further details on Zambia's debt restructuring deal. According to Bloomberg Zambia's Finance Minister yesterday

noted that the restructuring deal involves a debt maturity extension of more than 12 years, and that interest rates would be set at "very concessional rates" over the next 14 years with the baseline scenario thereafter seeing the rate at lower than 2.5%. Absa analysts also note that the agreement also provides for higher interest rates and a faster repayment schedule and if Zambia's debt carrying capacity were to improve from the current 'weak' classification to 'medium'.












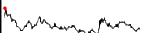










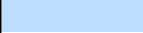



The minister reportedly said that the postponement of payments is expected to generate roughly \$5.8bn in debt service savings between 2023 and 2031. Zambia's Eurobonds prices have gained since the start of the month.



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

6/28/23 12:50 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4377	1.1	0	4	15	14
Europe		4341	0.8	0	0	22	14
Japan		33194	2.0	-1	6	24	27
China		3841	-0.1	-2	0	-13	-1
Asia Ex Japan		67	1.2	-1	1	-4	3
Emerging Markets		40	1.0	-1	2	-2	5
Interest Rates			basis points				
US 10y Yield		3.74	-2.1	2	-6	57	-13
Germany 10y Yield		2.32	-4.0	-12	-22	69	-26
Japan 10y Yield		0.39	1.5	1	-3	15	-3
UK 10y Yield		4.33	-5.0	-8	-1	186	65
Credit Spreads			basis points				
US Investment Grade		155	-0.7	0	-9	-16	-4
US High Yield		458	-12.3	7	-26	-65	-22
Exchange Rates			%				
USD/Majors		102.66	0.2	1	-1	-2	-1
EUR/USD		1.09	-0.1	0	2	4	2
USD/JPY		144.2	0.1	2	3	6	10
EM/USD		49.2	-0.2	-1	-2	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		72.2	-0.1	-6	-6	-25	-14
Industrials Metals (index)		141	-1.2	-3	-1	-12	-15
Agriculture (index)		67	-1.2	-7	3	-4	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.8	0.1	0.6	-4.2	-14.6	-7.9
US 10y Swaption Volatility		100.2	0.0	1.5	-29.9	-28.7	-25.5
Global FX Volatility		8.3	0.0	0.2	-0.6	-2.3	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		127	4.8	-4	-12	-100	-79
Italy		164	1.4	3	-21	-29	-50
Portugal		70	-0.1	2	-4	-38	-32
Spain		97	0.3	3	-10	-13	-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		3841	-0.1	-2	0	-13	-1		186	0	-8	-10	9
Indonesia		6662	0.0	0	0	-5	-3		136	-10	-6	-55	-4
India		63915	0.8	1	2	21	5		131	0	-20	-46	-11
Philippines		6503	0.0	1	0	2	-1		109	-8	-5	-28	12
Thailand		1467	-0.8	-4	-5	-8	-12		0	0	0	0	0
Malaysia		1388	0.1	0	-1	-4	-7		92	-1	-5	-36	-8
Argentina		416376	-3.7	2	22	372	106		2131	-243	-469	-322	-74
Brazil		117523	-0.6	-2	6	17	7		252	-1	-7	-88	-22
Chile		5659	-0.4	-1	1	13	8		128	-4	-3	-39	-4
Colombia		1130	-0.8	-2	3	-18	-12		370	2	-36	-51	-2
Mexico		53927	1.1	-1	0	11	11		372	-8	-24	-63	-9
Peru		22196	-0.5	-2	4	19	4		163	-5	-18	-31	-17
Hungary		50432	0.7	1	6	25	15		206	-16	-27	-8	-16
Poland		66759	0.5	-1	3	23	16		134	-5	-2	58	61
Romania		12276	1.5	1	0	-2	5		223	-15	-32	-89	-33
South Africa		75016	0.6	-1	-2	10	3		412	-9	-43	-25	45
Turkey		5759	0.0	10	26	131	5		483	-13	-130	-121	43
Ukraine		507	0.0	0	0	-2	-2		4126	-497	-820	-461	47
EM total		40	-0.6	-1	2	-2	5		381	-15	-43	-49	5

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

Last updated: 6/28/2023 12:55 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		7.25	-0.3	-0.9	-2	-7	-5		2.8	-0.1	-2	-7	-20	-29		
Indonesia		14993	0.1	0.0	0	-1	4		6.3	-3.4	-8	-17	-101	-68		
India		82	0.0	0.0	1	-4	1		7.4	-0.7	0	0	(32.1)	-8		
Philippines		55	0.7	0.4	1	-1	1		5.9	0.0	0	0	26	-9		
Thailand		36	-0.9	-2.1	-2	-1	-3		2.8	2.0	-4	1	-18	13		
Malaysia		4.67	-0.1	-0.6	-1	-6	-6		3.8	0.8	3	4	-41	-23		
Argentina		255	-0.3	-2.3	-7	-51	-31		105.0	21.0	-689	-249	4525	1680		
Brazil		4.81	-0.9	-0.5	4	9	10		11.0	3.5	-28	-74	-179	-160		
Chile		798	1.1	0.8	1	15	7		5.0	0.0	4	-27	-141	-31		
Colombia		4170	0.1	-0.2	6	-1	16		7.5	0.0	-21	-136	-152	-226		
Mexico		17.08	0.0	0.2	3	18	14		8.0	6.0	-24	-46	-89	-70		
Peru		3.6	0.3	0.3	1	4	5		7.0	-0.4	1	-33	-78	-101		
Uruguay		38	0.2	1.0	3	5	6		9.9	0.0	0	-12	-72	-79		
Hungary		340	-0.5	-0.9	2	11	10		7.0	-6.0	-39	-113	-125	-256		
Poland		4.09	-0.7	-1.3	3	9	7		5.0	5.5	-22	-53	-195	-114		
Romania		4.5	-0.2	-0.4	2	4	2		6.6	8.6	5	-27	-222	-111		
Russia		85.8	-0.6	-1.9	-6	-38	-14									
South Africa		18.7	-0.9	-2.0	5	-14	-9		9.6	0.0	-26	-69	60	41		
Turkey		26.05	-0.1	-9.5	-23	-36	-28		16.9	8.0	-53	778	-244	704		
US (DXY; 5y UST)		103	0.2	0.6	-1	-2	-1		4.01	-2.5	5	8	77	0		

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