



- 10y French-German spreads widen ahead of first round of the French legislative election ([link](#))
- Signs of upward pressure have emerged in US funding conditions ([link](#))
- Stablecoins and MMFs are becoming functionally similar ([link](#))
- Indian government bond inclusion in JP Morgan EM index starts ([link](#))
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## French assets under pressure while US PCE eases as expected

**French assets are losing ground ahead of the elections while the dollar weakened after the US PCE data eased in May in line with expectations.** The US data release boosted hopes for Fed rate cuts, with US treasury yields easing, US equity futures gaining and the dollar retracing some gains. On the other side of the Atlantic, European equities were marginally higher while French equities lost ground ahead of the first round of the French legislative election on Sunday. Euro area yields edged higher this morning and spreads widened, with the 10yr Franco-German spread trading at around 85bps, after it closed above the 80bps mark for the first time since 2012 yesterday. On the currency front, the Japanese yen touched levels above 161 per dollar for the first time since 1986, with market analysts expecting the next intervention level to be around 165. Elsewhere, Mexico left its benchmark rate unchanged as expected, with forward guidance suggesting a possible rate cut at the next monetary policy meeting. India is expected to attract significant inflows in the coming months as India's government bonds inclusion in the JP Morgan GBI-EM Global Series starts today.

Key Global Financial Indicators

Last updated: 6/28/24 12:13 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5483	0.1	0	3	25	14.95
Eurostoxx 50		4917	0.3	0	-2	13	9
Nikkei 225		39583	0.6	3	2	19	18
MSCI EM		43	0.1	-1	-1	8	6
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.31	2.0	5	-24	60	43
Germany 10y Yield		2.47	2.5	6	-12	16	45
EMBIG Sovereign Spread		395	3	1	24	-42	12
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.0	0.5	0	-3	-6	-5
Dollar index, (+) = \$ appreciation		105.8	-0.1	0	1	3	4
Brent Crude Oil (\$/barrel)		87.0	0.7	2	3	18	13
VIX Index (% change in pp)		12.3	0.1	-1	-1	-1	0

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

## Mature Markets

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### United States

**Core PCE inflation slowed down in May, in line with expectations.** On the month, PCE inflation dropped to 0.1% (vs. 0.2% prior) with the year-over-year figure declining to 2.6% (vs. 2.8% prior), the lowest since March 2021. Personal spending was a touch softer than expected, but personal income rose a tad above expectations. With the economy showing signs of fatigue from high rates and a seemingly cooling labor market, the data gratified investors, who were eager for evidence of ebbing inflation to solidify their expectations for lower rates this year. **Stock futures rose and Treasury yields fell across the curve, with yields dropping around 4bps in the 10-yr horizon.**

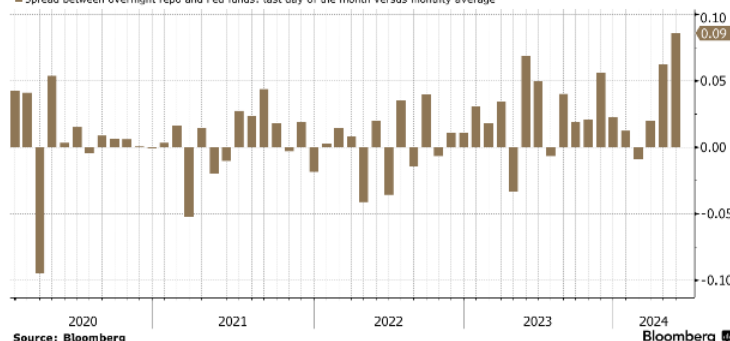
### Signs of upward pressure have emerged in US funding conditions.

Recent patterns in short-term funding markets reveal increased pressure in rates at month-ends. This suggests that despite abundant aggregate liquidity—bank reserves at the Fed have only slightly decreased in 2024 despite ongoing quantitative tightening (QT)—individual institutions may struggle to secure funding. Liquidity redistribution becomes crucial in such cases, but dealers, who facilitate this process, are experiencing congestion in their balance sheets. This congestion has historically exacerbated tensions in funding markets. To mitigate the risk of funding cliffs as liquidity is withdrawn from the system, the Fed starts QT tapering this month. However, with another month-end approaching and the French elections potentially prompting French banks to seek liquidity from US funding markets, market participants remain watchful of funding developments.

#### Rising Liquidity Needs

Month-end repo squeezes are getting a little more intense

Spread between overnight repo and Fed funds: last day of the month versus monthly average

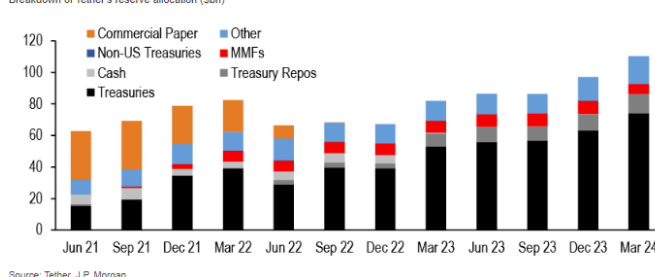


### Stablecoins and Money Market Funds are becoming functionally similar.

Stable coins have been gaining ground in financial markets and their adoption is likely to accelerate further if relevant legislation in the US, which is currently in the making, is enacted. In the meantime, stablecoin issuers have become more conservative in the way they manage their reserves. On the one hand, Tether has moved out from Commercial Paper and moved exclusively into Treasuries (bonds and repo), cash and money market fund (MMF) shares, assuming a similar investment pattern to MMFs. At the same time other stablecoin issuers, such as Paxos, are exploring ways to provide yield to their holders, akin to the yields offered by an MMF. On the other hand, US MMFs such as Blackrock and Fidelity tokenized shares of their MMFs to be used as collateral in OTC derivative trades or margin requirements. According to JPMorgan analysts, these developments could challenge the standard knowledge of how liquidity flows in money markets.

Figure 2: Tether's portfolio has turned significantly more conservative since we started looking at the reserve portfolio two years ago

Breakdown of Tether's reserve allocation (\$bn)

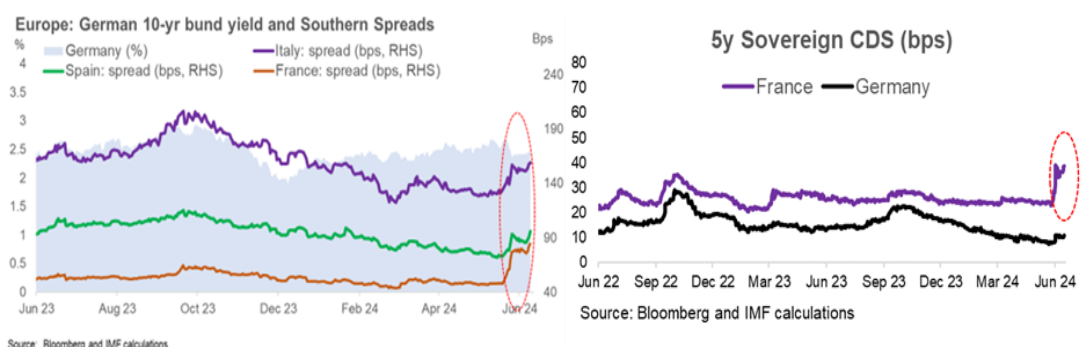


### Euro Area

**European equities traded higher this morning, with the Stoxx 600 Index up by +0.2% led by gains in the banking sector (+0.6%),** following the release of the US Federal Reserve's annual stress test results

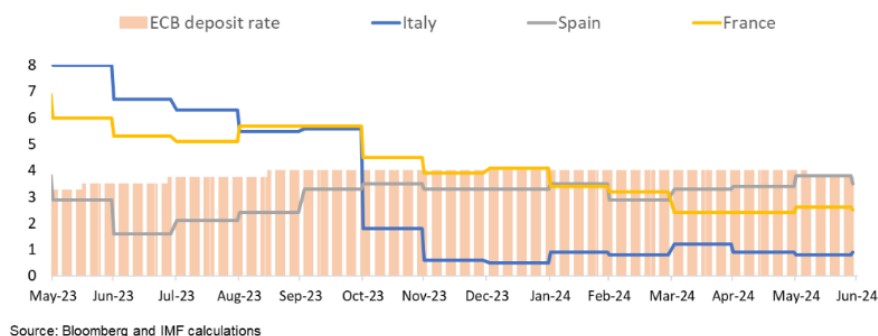
yesterday. The stock market edged higher in Germany (+0.6%), Italy (+0.4%) and Spain (+0.2%), but was lower in France (-0.4%) amid growing concerns on the outcome of the upcoming elections. **The euro was little changed against the dollar, trading at \$1.07/€.**

**10y French-German bond yield spread widens ahead of the elections.** The 10y German bund yield rose yesterday (+4bps) and edged higher this morning (+2bps) to 2.47%. The spreads of the 10y French OAT and Italian BTP against the Bund widened yesterday to 83bps and 157bps respectively, the widest closing level for the OAT-Bund spread since 2012 according to Bloomberg, with contacts pointing to increasing concerns on the outcome of the first round of the French upcoming elections this Sunday (June 30). This morning the spreads continued to widen, with the 10y OAT-Bund spread reaching 85 bps, while the BTP-Bund spread moved to 159bps.



**Ahead of the US PCE print later today, June headline inflation data came mostly in line with expectations in France (2.5%/y, vs est. 2.5%, from 2.6% in May), Spain (3.5%/y, vs est. 3.5%, from 3.8% in May) and Italy (0.9%/y, vs est. 0.9%, from 0.8% in May).** Also, today's results of the ECB's survey carried in May on consumers' expectations on inflation in 12 and 36 months ahead were generally in line with expectations, decreasing to respectively 2.8%/y (from 2.9% in April) and 2.3%/y (from 2.4% in April). **Analysts at Bloomberg expect the June headline inflation for the eurozone to fall to 2.3%/y, from 2.6% in May,** with core inflation declining to 2.7% from 2.9% in May. Goldman Sachs also expects the June eurozone headline inflation to decrease to 2.5%/y, and core inflation to remain broadly unchanged to 2.8%/y in June. The flash release is set to be published on July 2.

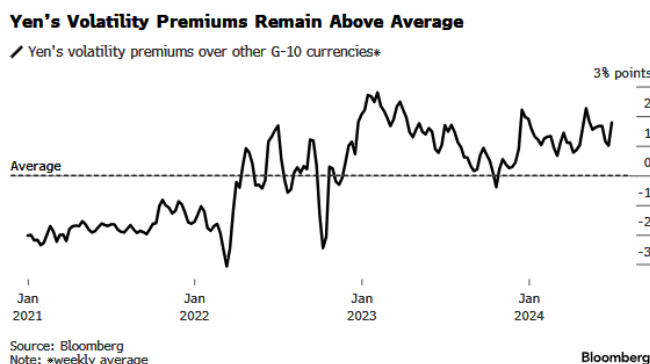
EU Harmonised CPI inflation: selected countries



## Japan

**The yen continued to depreciate despite the authorities repeated verbal warnings, with markets appearing wary about a jump in Japanese yen volatility as intervention risk rises.** The yen depreciated by 0.1%, briefly touching 161.27, its weakest point in 38 years, even as the Japanese FM

Suzuki expressed deep concerns on the economic impact of the yen's rapid and one-sided moves, and reiterated that the authorities would respond to excessive currency moves. While the yen's implied volatility remained subdued, its spread over fluctuations in other currencies is sticking above the average seen since the start of 2021, according to Bloomberg. This reflects a premium demanded by investors to guard against a sudden reversal in yen movements, as investors are building sizable short positions that are susceptible to unwinding. A gauge on trader positioning from CitiGroup pointed to the most negative positioning on the yen since 2022, while the latest data from the Commodity Futures Trading Commission (CFTC) show that traders were holding US\$14bn of yen net short positions as of June 18. **BofA analysts expect the next intervention level to be around 165**, with ammunition left to defend the yen estimated to be US\$200–300 bn. Meanwhile, **Japan names Atsushi Mimura as a new top currency diplomat**, effective 31 July, to replace incumbent Masato Kanda who will soon retire. Market watchers are keen to figure out his stance on currency policy, while some analysts see the big policy direction would not change much. **Japanese equities rallied with Japan's Topix (+0.6%) reaching its highest level since 1990 before paring some of its gains**. The gains were led by banks and insurance companies, the sectors that would potentially benefit from higher interest rates. **Long-end JGB yields declined** (10-year: -2.1 bps, 30-year: -2.6 bps).



## Emerging Markets

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**Ahead of this afternoon's US inflation data equities in EMEA were mostly trading higher while CEE3 currencies were firmer against the euro.** The Turkish lira was relatively flat against the dollar to trade at 32.87/\$. On the data front, preliminary June inflation data for Poland printed broadly in line with expectations increasing to 2.6%/y (2.5% prior). Meanwhile, the South African rand staged a significant rally against the dollar in early morning today (+1.4%) to trade at 18.21/\$ on reports that the recently formed coalition government was close to concluding discussions on the formation of a new cabinet. South African equities were also boosted by the news and general risk-on tone in markets and were higher (+1.2%) in early morning trading.

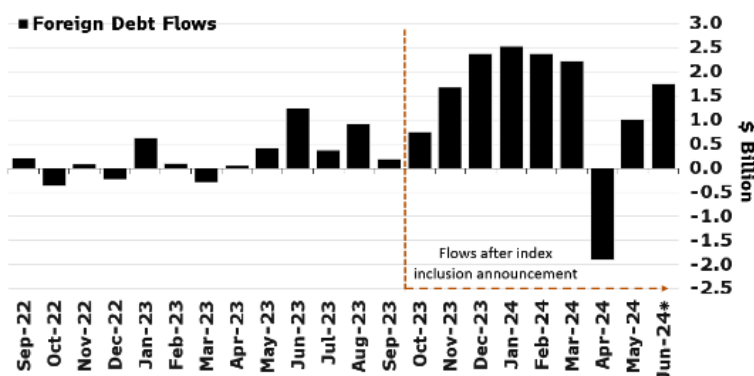
**Asian equities were mixed** (EM Asia: +0.3%). Gains were led by Indonesia (+1.4%) and Korean (+0.5%) equities, while Vietnamese (-1.1%) and Thai (-0.6%) equities declined. **Asian currencies mostly appreciated**, led by Korean won (+0.7%) and Taiwan dollar (+0.3%). **Most long-end government bond yields fell**, tracking a decline of US treasury yields, with 10-year yields down in Philippines (-5.0 bps), Singapore (-4.9 bps) and Korea (-4.0 bps).

**Latin American assets saw mixed performances.** Stocks gained in Brazil (+1.4%) and Colombia (+0.6%), while Mexico and Peru equity markets declined 0.3% and 0.7%, respectively. Currencies depreciated in Mexico (-0.6%), Colombia (-0.7%), and Chile (-0.4%), while the Brazilian real strengthened 0.4% against the US dollar. **Moody's Ratings revised Colombia's long-term rating outlook to negative from stable.**

## India

**India is expected to attract significant inflows as India's government bonds inclusion in the JP Morgan GBI-EM Global Series starts.** JPMorgan is adding India's government bonds to its EM index today. Long duration papers are expected to benefit more from incremental flows, given better supply through regular auctions and investors' willingness to take on duration risk. With India's weighting scheduled to increase by 1% monthly to 10% by March 2025, JP Morgan expects between US\$20bn and US\$25bn worth of inflows over the next 10 months, which would see foreign ownership of Indian government bonds increasing to 4.4% from the current 2.5%. The monthly inflows are expected to be more gradual and persistent, given that global funds have already invested almost US\$11bn into index-eligible bonds since JP Morgan's announcement last September. The Indian rupee appreciated (+0.1%) while long-end government bond yields rose slightly (10-year: +0.8 bp; 30-year: +1.7 bps)

Foreign Inflows in Indian Debt on the Rise



Source: Central Depository Services India Ltd., Bloomberg

## China

**Chinese developer Sino-Ocean faces winding-up petition in Hong Kong**, filed by the London branch of Bank of New York Mellon, with the next hearing date set for September 11. Sino-Ocean said it would oppose the petition vigorously, as it is related to a dollar bond due in 2026 issued by one its subsidiaries and guaranteed by the Sino-Ocean, with an aggregate principal amount of US\$400mn. **Analysts note that the ongoing property market downturn is now affecting even developers with state-owned shareholders, though not as controlling owners.** RMB and long-end CGB yields were little changed. Chinese equities gained (CSI 300: +0.2%), with some analysts arguing that the market rally today was showing signs of "suspected state-sponsored fund" entering the market in the morning session, as several major broad-based ETFs, such as CSI 1000 ETF, saw significant trading volume increases, with no obvious major positive catalysts.

## Mexico

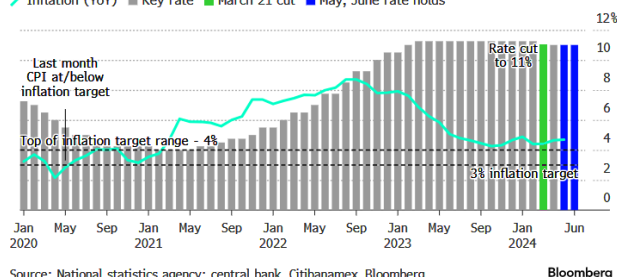
**Mexico's central bank maintained its key rate at 11%, in line with consensus expectations, with forward guidance suggesting a possible rate cut at the next monetary policy meeting.** The decision yesterday saw a split vote, with Deputy Governor Omar Mejia favoring a 25bps cut, while the four other board members voted in favor of a hold. Mexico has faced rising annual consumer prices for three consecutive months and after delivering its first policy rate cut in the cycle in March, the central bank left rates unchanged at the previous monetary policy meeting in May. The accompanying policy statement yesterday was perceived as dovish, with the central bank's forward guidance noting that the inflationary environment might allow for discussing policy rate adjustments. BofA analysts expect a 25bps rate cut at the August monetary policy meeting, and forecast that the policy rate would reach 10% by end-2024.



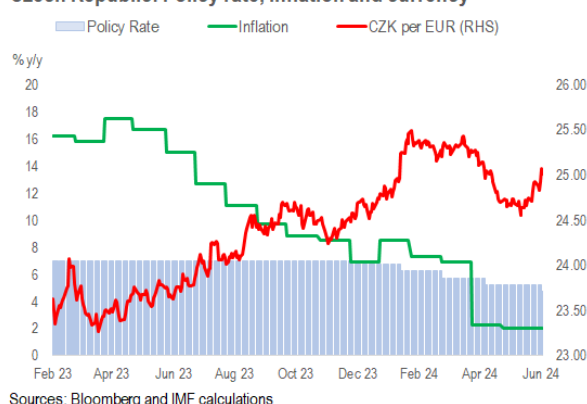
**Banxico Holds Key Rate at 11% for Second Straight Meeting**

Annual inflation rate has been above central bank's 3% target since 2020

Inflation (YoY) ■ Key rate ■ March 21 cut ■ May, June rate holds

**Czechia****Czech koruna weaker on yesterday's larger than expected rate cut.**

Yesterday the Czech National Bank (CNB) delivered a 50bps rate cut, taking the policy rate to 4.75% in a decision that surprised most analysts who had been expecting a 25bps rate cut. The decision was not unanimous, with two out of seven of the board members voting for a smaller, 25bps rate cut. Reflecting the dovish surprise, the koruna depreciated against the euro by 0.6% yesterday to close the day at 25.07/€ while Czech government bond yields declined across all tenors. During the press conference, Governor Michl struck a more hawkish tone suggesting that the next move is "more likely to be 25bps or a pause" citing upside risk to inflation in the outlook. Analysts at JP Morgan expect the CNB will slow the easing pace to 25bps per meeting from August with the policy rate reaching 4% by year-end. Meanwhile, analysts at Goldman Sachs expect that policy rates will decline by more than market expectations driven by a "weakening in underlying inflation dynamics" and expect a terminal rate of 3% by the first half of 2025. **This morning, the koruna was regaining some of yesterday's ground to trade a touch firmer (+0.2%) against the euro at 25.01/€.**

**Czech Republic: Policy rate, inflation and currency**

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## Global Financial Indicators

6/28/24 12:13 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5483	0.1	0	3	25	15
Europe		4918	0.3	0	-2	13	9
Japan		39583	0.6	3	2	19	18
China		3462	0.2	-1	-4	-10	1
Asia Ex Japan		72	0.0	-1	0	8	8
Emerging Markets		43	0.1	-1	-1	8	6
Interest Rates			basis points				
US 10y Yield		4.31	2.0	5	-24	60	43
Germany 10y Yield		2.47	2.5	6	-12	16	45
Japan 10y Yield		1.06	-1.9	8	3	67	44
UK 10y Yield		4.16	2.5	7	-13	-16	62
Credit Spreads			basis points				
US Investment Grade		129	0.5	2	12	-27	-5
US High Yield		363	3.4	1	20	-95	-22
Exchange Rates			%				
USD/Majors		105.83	-0.1	0	1	3	4
EUR/USD		1.07	0.0	0	-1	-2	-3
USD/JPY		160.5	-0.1	0	2	11	14
EM/USD		45.9	0.5	0	-3	-6	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		87.0	0.7	2	4	20	14
Industrials Metals (index)		152	1.3	1	-9	8	6
Agriculture (index)		58	0.4	0	-8	-12	-8
Implied Volatility			%				
VIX Index (%, change in pp)		12.3	0.1	-0.9	-0.6	-1.1	-0.1
Global FX Volatility		7.5	0.0	0.0	0.7	-0.9	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		129	1.6	6	28	2	25
Italy		160	2.5	7	30	-6	-7
Portugal		78	0.1	4	16	7	15
Spain		95	4.8	8	20	-2	-1

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

## Emerging Market Financial Indicators

Last updated: 6/28/2024 12:15 PM	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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.26	0.1	0.0	0	0	-2		2.2	0.5	-5	-6	-59	-35
Indonesia		16375	0.1	0.5	-2	-8	-6		7.1	-4.9	-7	14	81	59
India		83	0.1	0.2	0	-2	0		7.3	-0.5	3	-7	(6.2)	9
Philippines		59	0.2	0.3	-1	-6	-6		5.5	10.0	4	-14	-49	-17
Thailand		37	0.5	-0.1	0	-3	-7		2.7	-3.5	-3	-10	-6	1
Malaysia		4.72	0.0	-0.1	-1	-1	-3		4.0	11.9	13	10	18	26
Argentina		911	0.0	-0.6	-2	-72	-11		44.0	12.1	-14	888	-6103	-4240
Brazil		5.50	0.4	-0.9	-6	-13	-12		12.2	6.5	8	48	123	181
Chile		955	-0.4	-2.4	-6	-16	-8		5.4	0.0	2	10	35	47
Colombia		4168	-0.8	0.1	-7	0	-8		8.3	0.0	4	-11	83	68
Mexico		18.33	0.6	-1.2	-8	-7	-7		9.4	2.8	-6	17	143	98
Peru		3.8	-0.1	-0.7	-2	-5	-3		7.1	-6.2	-9	4	18	42
Uruguay		40	-0.1	-0.3	-3	-5	-2		9.5	2.5	17	37	-37	-1
Hungary		369	0.4	0.5	-4	-8	-6		6.5	0.0	-2	-29	-49	73
Poland		4.02	0.1	0.6	-3	2	-2		5.1	3.9	-4	-25	9	66
Romania		4.6	0.0	0.1	-1	-2	-3		6.6	-0.5	-2	5	6	45
Russia		85.5	0.1	4.2	4	1	5							
South Africa		18.2	1.5	-1.2	0	3	1		9.2	-12.0	8	-54	-36	8
Türkiye		32.88	-0.1	-0.1	-2	-21	-10		28.5	-6.0	-26	82	1165	177
US (DXY; 5y UST)		106	-0.1	0.0	1	3	4		4.31	1.8	4	-28	35	47

	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		3462	0.2	-1	-3	-10	1		139	1	-1	-47	-19			
Indonesia		7064	1.4	3	1	6	-3		109	4	15	-27	13			
India		79033	-0.3	2	5	24	9		100	3	10	-31	-16			
Philippines		6412	0.3	4	-1	-1	-1		91	1	8	-18	11			
Thailand		1301	-0.6	0	-3	-13	-8		0	0	0	0	0			
Malaysia		1590	0.3	0	0	16	9		87	4	9	-5	2			
Argentina		1635667	3.9	5	4	299	76		1449	42	-2	-682	-464			
Brazil		124308	1.4	3	0	7	-7		233	0	21	-19	18			
Chile		6505	-0.1	-1	-4	15	5		124	-1	8	-4	-1			
Colombia		1377	0.6	1	-2	22	15		312	-12	0	-58	41			
Mexico		52311	-0.3	-2	-5	-2	-9		320	6	21	-52	-14			
Peru		29636	-0.7	-1	-4	34	14		146	-6	-8	-17	2			
Hungary		71781	0.4	2	5	42	18		156	-5	14	-50	7			
Poland		88863	0.8	3	2	33	13		102	-2	9	-32	5			
Romania		18258	1.1	1	2	49	19		195	-4	18	-28	-6			
South Africa		79864	1.1	0	2	7	4		327	11	9	-85	19			
Türkiye		10691	0.1	-1	0	86	43		296	-3	20	-187	-18			
EM total		43	0.9	-1	-1	8	6		386	0	50	5	40			

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

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