



- US banks pass the Fed's stress test ([link](#))
- Italian and Spanish data send mixed picture ahead of Euro Area inflation release ([link](#))
- Swedish krona continues to depreciate despite rate hike ([link](#))
- Czech Republic issues sovereign bonds at lowest spreads in two years ([link](#))
- LatAm economies seen leading the rate cut cycle amongst EMs ([link](#))
- RMB depreciates despite the PBOC's strong signal to support the currency ([link](#))

[Mature Markets](#)



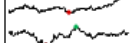
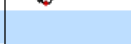







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Markets push higher despite hawkish sentiment

Equity markets are positive this morning despite signals from several advanced economy central banks that rate increases have further to go. At yesterday's forum on central banking in Sintra, Fed chair Powell signaled that at least two more hikes could be necessary this year to bring inflation back to target, while ECB president Lagarde indicated that rates have a way to go. Those statements, combined with national inflation data in Europe, have helped push sovereign bond yields higher on the day with 2-year bund and UST up 4 bp and 5 bp respectively. The more hawkish stance has not damped equity markets so far today, in part due to strong economic data so far this week, including this morning's 1Q GDP report showing larger growth than expected. And while short-term rates now no longer price any cuts by the Fed this year, they continue to point to expectations of significant easing in 2024. In the US, financial stocks received a boost after the Fed's bank stress tests showed that large US banks are capable of withstanding a severe downside scenario.

Key Global Financial Indicators

Last updated: 6/29/23 8:12 AM	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		4377	0.0	0	4	15	14	4
Eurostoxx 50		4364	0.5	1	1	24	15	10
Nikkei 225		33234	0.1	0	8	26	27	26
MSCI EM		39	-0.6	-1	1	-2	4	-17
Yields and Spreads			bps					
US 10y Yield		3.74	3.5	-5	-6	65	-13	175
Germany 10y Yield		2.35	3.2	-15	-9	83	-22	212
EMBIG Sovereign Spread		442	4	-5	-36	-80	-10	29
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.1	-0.1	-1	-2	-5	-2	-8
Dollar index, (+) = \$ appreciation		102.8	-0.1	0	-1	-2	-1	7
Brent Crude Oil (\$/barrel)		74.3	0.3	0	-4	-36	-14	-23
VIX Index (% change in pp)		13.5	0.1	1	-4	-15	-8	-18

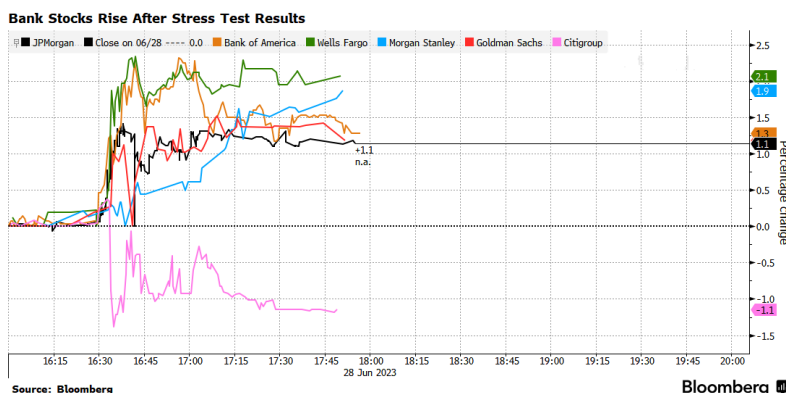
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

US banks sailed smoothly through the Fed's Stress test, despite regional bank turmoil earlier in the year. After market close, the Federal Reserve Board released the results of its annual bank stress test. The 23 largest US lenders showed they can withstand a severe global recession and turmoil in real estate markets according to the latest stress test results. Under the severely adverse scenario, the 23 largest banks would have collective losses of \$541 billion and their capital ratios would fall from 12.4% to 10.1%, which, according to the Fed, is comparable to previous years. The Fed's report did show some relative weakness among the midsize banks and some regional banks, which registered the lowest capital ratios in the exercise. Nevertheless, the results point to the strength and the resilience of the US banking system according to the Fed. The Fed's report also alluded to earlier comments by Vice Chair of supervision Barr, that the Fed should consider a wider range of risks and scenarios that could derail banks in a process he described as "reverse stress tests". In post market trading, Bank of America and Wells Fargo were leading gains among most US bank stocks.

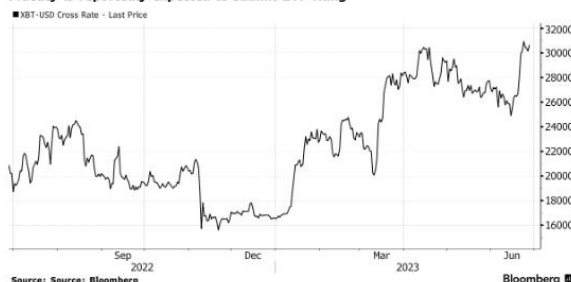


US economic activity and jobless claims came strong this morning, with GDP rising significantly at a 2% annualized pace in the first quarter, well above the 1.4% pace expected. The stronger print reflected upward adjustments to exports and consumer spending. Consumer spending rose at a 4.2% pace in the first three months of the year — the strongest pace in nearly two years. At the same time initial jobless claims also dropped to 239k, below expectations of roughly unchanged claims at 265k. The figure was lower than all estimates in a Bloomberg survey of economists. The yield on two-year Treasury bonds jumped 12 basis points following the releases.

Crypto products boosted by a new wave of Bitcoin ETF applications. Bitcoin has been bolstered by a flurry of recent ETF applications for the digital asset since mid-June. Among the various applications, two stand out. First, Blackrock, which filed on June 15th for a spot Bitcoin ETF. That was followed this week by news that Fidelity is expected to also submit a filing. This would be Fidelity's second attempt. Digital-asset investment products saw the biggest weekly inflows in nearly a year, adding \$199 million last week. So far, the SEC has repeatedly rejected such a structure, citing fraud and manipulation risks in the spot market for Bitcoin, but applicants hope that the new inclusion of surveillance-sharing mechanisms may tilt the balance in their favor.

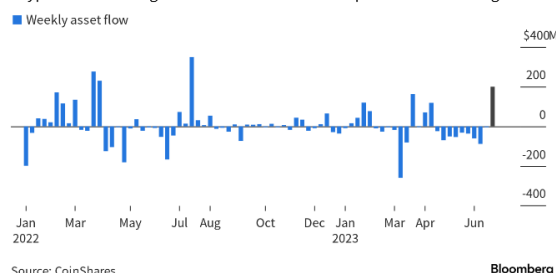
Bitcoin Nears One-Year High

Fidelity is reportedly expected to submit ETF filing



Trend Reversal

Crypto ETPs saw huge inflows after BlackRock's spot Bitcoin ETF filing



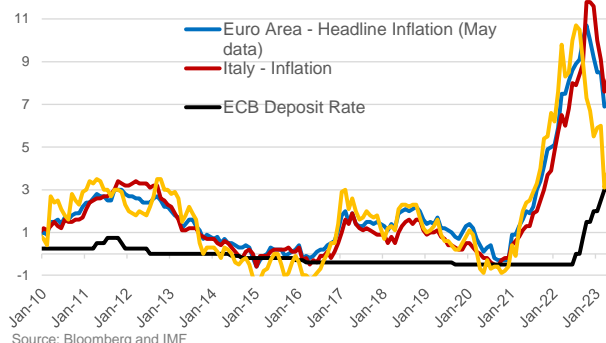
Euro Area

European markets are mixed, with subdued equity and currency moves, while bonds are selling off following higher than expected inflation in Spain and in large German regions. The equity market (Stoxx Europe 600) was broadly flat, and the euro was unchanged at 1.09/\$. German 10y bund yields were up 4 bp to 2.36%, and Italian spreads were stable at 167 bp.

National inflation prints in the euro area are sending a mixed picture ahead of tomorrow's release of euro area wide inflation for June.

For the euro area, markets expect headline inflation to drop to 5.6% y/y, down from 6.1% in May, with core expected at 5.5%, higher than the 5.3% of May. Preliminary Spanish inflation for June surprised significantly on the upside after two consecutive months of downward surprises. Headline inflation came in at 1.9% y/y, down from 3.2% in May, but higher than the 1.7% market expectation. Momentum picked up too, as m/m inflation rebounded to 0.6% in June from zero in May. More importantly, the surprise in core inflation was even larger, as it reached 5.9% y/y in June, against expectations of 5.5%. In contrast, yesterday Italian inflation for June surprised on the downside at 6.4% y/y, lower than the 6.7% expectation and the 7.6% of May. Regional German inflation increased in June compared to May in large regions: 6.2% y/y in North Rhine Westphalia (5.7% in May), 6.2% y/y in Bavaria (6.1% in May), and 6.9% y/y in Baden Wuerttemberg (6.6% in May).

Euro Area Inflation and Policy Rate

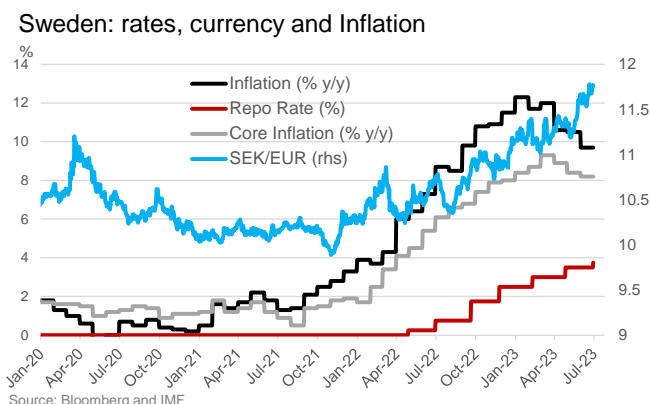


As the ECB forum on central banking in Sintra (Portugal) ended yesterday, there were more comments from ECB policy makers on the monetary policy outlook in the euro area. Spanish governor de Cos said that the September meeting is absolutely open and that it is too early to predict the path of monetary policy in the second half of the year. Yesterday, French governor Villeroy de Galhau said that bringing inflation down could be compatible with a soft landing in the euro area, but that it is unlikely to be painless (slowdown and not recession). He repeated that the length of time at which rates stay at peak levels is more important than the level they reach due to the long transmission lags of monetary policy.

Sweden

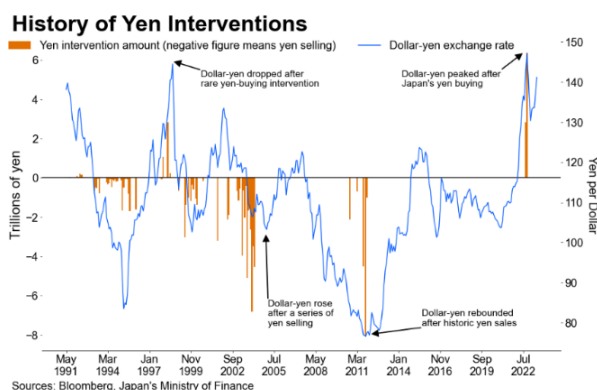
The Swedish krona lost 0.4% to 11.8/euro, its weakest level ever against the euro, after the Swedish Riksbank hiked rates by 25 bp to 3.75% and pledged to raise rates at least one more time this year. While the Riksbank's hike matched expectations, some in the market thought that the central bank could hike by a large amount after the Norges Bank and Bank of England delivered larger than expected rates hikes last week. The Riksbank also announced that it would unwind asset holdings faster than previously planned by expanding monthly government bond sales to 5 billion kronor (\$462 million) from 3.5 billion. The

statement says that this may contribute to a stronger krona and improve the Riksbank's capacity to reduce inflation (9.7% y/y in May) but that interest rates are the most effective tool if monetary policy needs to be tightened further. The press release further adds that it is still uncertain how much monetary policy tightening will be required for inflation to fall back and stabilize close to the target of 2% but says that the Riksbank will do what is needed. The Riksbank's inflation projection for 2023 is 7.4% y/y in 2023 and 2.8% in 2024. Goldman Sachs analysts expect a final 25bp hike in September for a terminal rate of 4% but see upside risks to this projection should the Krona continue to depreciate.



Japan

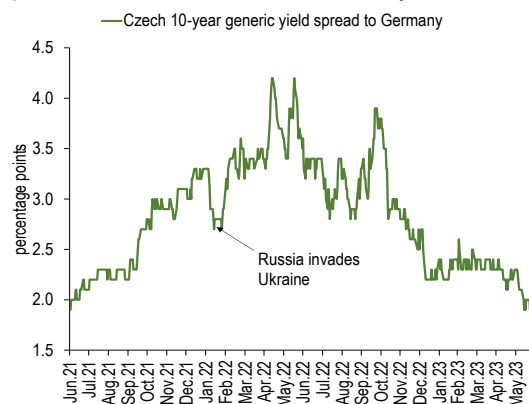
It is possible to start normalizing monetary policy if the Bank of Japan (BOJ) becomes confident in a pickup in inflation for next year, Governor Ueda said. For now, underlying inflation remains below 2%. The BOJ still expects that price increases will slow toward the end of the year. **Retail sales increased 5.7% y/y in May**, beating expectations (consensus: +5.2%), up from 5.0% in April. Equities were little changed. The yen depreciated slightly. Market participants viewed that the underlying Japanese yen's weakness remains due to the BOJ's dovishness but became increasingly cautious about potential FX interventions. A Bloomberg article noted that previous major FX interventions often coincided with a change in Japanese yen's course. Long-end KGB yields were mixed (10-year: -0.1 bp; 30-year: +0.6 bp).



Czech Republic

Government issues floating bonds to raise CZK4 bn (\$185 mn) as spreads decline, while another CZK9 bn was issued at a fixed rate of 6.2%. Owing to the deceleration in inflation and fiscal consolidation, the 10-year sovereign bond spreads (over German bunds) have tightened to 192 bp from 420bp in May 2021. Czech Republic, whose sovereign credit is rated AA-, plans to use the proceeds from the issues to funds its fiscal deficit which reached close to the full year threshold in May. Earlier in the year, the government also introduced measures to improve its fiscal balance, including spending cuts and tax increases in 2024. These bonds are slated to mature between June 2031 and July 2037.

Spreads have reached the lowest level in two years



Source: Bloomberg

Emerging Markets

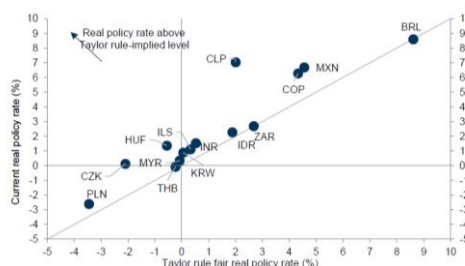
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Asian equities were mixed, falling 0.7% on net. Hong Kong (-1.1%) and Chinese (CSI 300: -0.4%) equities declined, while share prices rose in Thailand (+1.4%). Most Asian currencies depreciated, led by the Korean won (-0.8%), Philippine peso (-0.2%) and Thai baht (-0.2%), following Federal Reserve Chair Powell's hawkish remarks that suggested further rate hikes. Long-end government bond yields were little changed. **Equity markets in EMEA were mixed.** South Africa (-0.3%) was losing, while Romania (+2.2%) and Poland (+0.6%) led gains. Currencies were generally range-bound, with the exception of the Polish zloty, which strengthened 0.5% to the euro (to 4.45/euro). Local bond yields were generally unchanged, except in Romania where 10y yields plunged 20 bp to 6.46%. **LatAm equity markets declined closed across the board on Wednesday.** Amongst the regional major markets, Mexico (-0.9%) and Brazil (-0.7%) saw the large losses, while Argentina's Merval index was down by 2.6%. Regional currencies staged a mixed performance. The Brazilian real and the Chilean peso fell 0.8% and 0.3%, respectively, on global cues. The Colombian peso, however, rose (0.6%) for the third straight session.

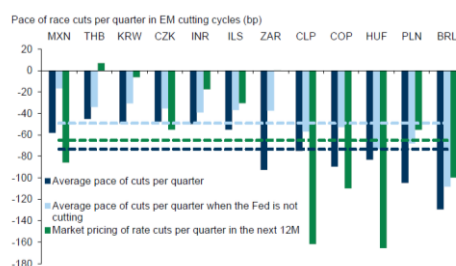
EM policy rate

Policy rate cut cycle is seen to start in 2H2023 in EMs, per estimates from a monetary policy model from Goldman Sachs (based on Taylor rule for fair value of short-term interest rates). Given the decelerating inflation, high real rates (in most economies), and currency appreciation, LATAM economies are likely to be the first ones to start easing policy, and other EMs to follow in due course. While markets are currently pricing in an average rate cut of about 70 bp per quarter, Goldman analysts find this pace aggressive in the context of a still hawkish US Fed. It argues that EM central banks would have to pare down (to ~50 bp cut per quarter) if their rate-cut cycle doesn't coincide with that of the Fed's. In addition, the fact that some of the EM central banks have yet not adopted, or even resisted, dovish guidance, speaks to markets over-estimating the pace of rate cuts in EMs.

Figure 1. LatAm screens as well-positioned to start with rate cuts soon, but others to join as well

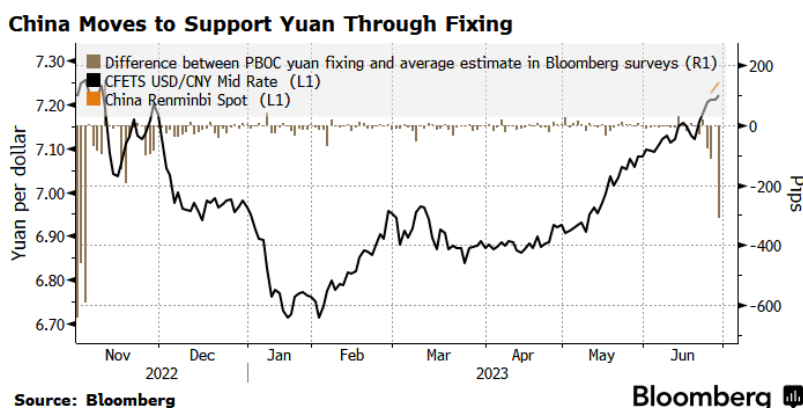


Source: Goldman Sachs Global Investment Research

Figure 2. The pace appears relatively rapid compared with EM history, especially given that major central banks are unlikely to join soon
Average pace of rate cuts in an EM rate cutting cycle (since 2000)

China

RMB depreciated (-0.1%), touching 7.25 yuan per dollar, despite the People's Bank of China (PBC)'s strong signal to support the currency. Today, the PBC set the daily RMB fixing at 7.221 yuan per dollar, stronger than expected by 311 pips, the largest deviation since November 2022. Some analysts noted that the PBC may see the need to send a strong signal this morning following Federal Reserve Chair Powell's hawkish remarks that suggested the possibility of two back-to-back rate hikes. Chinese equities declined (CSI 300: -0.3%; Hong Kong SAR-listed: -1.6%). The PBC injected liquidity in an amount of 193 bn yuan (\$26.6 bn) to ease quarter-end funding pressures. While the key interbank repo rate edged down to 1.88% (-2.1 bps), spreads between interbank and exchange-trade repo further widened. CGB yields declined (1-year: -0.3 bp; 10-year: -0.6 bp).



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Global Financial Indicators

6/29/23 8:35 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4382	0.0	0	4	15	14
Europe		4364	0.5	1	1	24	15
Japan		33234	0.1	0	8	26	27
China		3822	-0.5	-3	1	-15	-1
Asia Ex Japan		66	-0.6	-1	1	-4	3
Emerging Markets		39	-0.6	-1	1	-2	4
Interest Rates			basis points				
US 10y Yield		3.74	3.5	-5	-6	65	-13
Germany 10y Yield		2.35	3.2	-15	-9	83	-22
Japan 10y Yield		0.39	0.2	1	-5	16	-3
UK 10y Yield		4.33	1.0	-4	-1	194	65
Credit Spreads			basis points				
US Investment Grade		154	-0.5	-1	-10	-21	-5
US High Yield		452	-3.6	-5	-32	-110	-28
Exchange Rates			%				
USD/Majors		102.82	-0.1	0	-1	-2	-1
EUR/USD		1.09	0.2	0	2	5	2
USD/JPY		144.2	-0.2	1	3	6	10
EM/USD		49.1	-0.1	-1	-2	-5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		74.3	0.3	0	-4	-22	-11
Industrials Metals (index)		139	-1.1	-5	-2	-13	-16
Agriculture (index)		66	-0.5	-8	1	-6	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.5	0.1	0.6	-4.5	-14.7	-8.2
US 10y Swaption Volatility		95.0	-2.9	-1.1	-35.1	-28.8	-30.7
Global FX Volatility		8.4	0.0	0.4	-0.4	-2.5	-2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		127	-0.5	3	-16	-89	-79
Italy		167	1.0	4	-17	-21	-47
Portugal		71	0.0	3	-2	-34	-30
Spain		99	0.9	3	-8	-9	-11

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

Emerging Market Financial Indicators

Last updated: 6/29/2023 8:37 AM	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		7.24	0.0	-0.8	-2	-7	-5		2.7	-2.4	-4	-10	-22	-32
Indonesia		14993	0.2	0.1	0	-1	4		6.3	-3.4	-8	-17	-101	-68
India		82	0.0	0.0	1	-4	1		7.4	-0.4	-1	-1	(24.7)	-9
Philippines		55	-0.1	0.5	1	0	1		5.9	0.0	0	0	26	-9
Thailand		36	-0.2	-1.5	-3	-1	-3		2.8	2.0	0	3	-15	15
Malaysia		4.67	-0.1	-0.6	-1	-6	-6		3.8	0.8	3	6	-42	-23
Argentina		256	-0.2	-1.6	-7	-51	-31		104.4	-58.8	-771	-308	4455	1621
Brazil		4.84	0.2	-1.5	4	7	9		11.1	4.3	-5	-66	-196	-153
Chile		804	-0.4	0.1	0	15	6		5.0	0.0	0	-27	-138	-31
Colombia		4148	0.5	0.0	7	-1	17		7.5	0.5	-25	-138	-154	-228
Mexico		17.11	-0.1	0.4	3	18	14		8.0	0.6	-18	-48	-99	-72
Peru		3.6	0.0	0.1	1	4	5		6.9	-4.0	-2	-29	-82	-105
Uruguay		38	0.0	0.9	3	5	6		9.7	-20.4	-8	-32	-92	-100
Hungary		341	-0.2	-1.1	2	11	10		6.9	-8.0	-49	-126	-120	-269
Poland		4.08	0.5	-1.1	3	10	7		5.1	1.9	-16	-48	-178	-109
Romania		4.6	-0.1	-0.5	2	4	1		6.6	-2.9	8	-30	-226	-114
Russia		87.5	-1.4	-4.9	-8	-41	-15							
South Africa		18.8	-0.5	-1.2	5	-13	-9		9.5	-1.1	-30	-72	61	37
Turkey		26.04	0.0	-4.4	-23	-36	-28		16.9	8.0	-53	778	-244	704
US (DXY; 5y UST)		103	-0.1	0.4	-1	-2	-1		4.09	11.8	4	16	94	8

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3822	-0.5	-3	1	-15	-1		188	3	-6	-9	11
Indonesia		6662	0.0	0	0	-5	-3		141	-2	-1	-58	1
India		63915	0.0	1	2	21	5		132	2	-19	-51	-10
Philippines		6511	0.1	1	1	6	-1		115	1	1	-29	18
Thailand		1480	0.9	-2	-4	-6	-11		0	0	0	0	0
Malaysia		1388	0.0	0	-1	-4	-7		93	1	-4	-38	-7
Argentina		409623	-1.6	-5	18	365	103		2093	-186	-507	-343	-112
Brazil		116681	-0.7	-3	6	17	6		257	4	-2	-100	-17
Chile		5657	0.0	-2	1	13	8		131	-1	0	-48	-1
Colombia		1127	-0.2	-1	2	-16	-12		379	8	-27	-66	7
Mexico		53460	-0.9	-1	-1	11	10		376	-2	-20	-81	-5
Peru		22141	-0.2	-2	4	19	4		167	0	-14	-41	-13
Hungary		50517	0.0	1	6	27	15		211	-8	-22	-7	-11
Poland		67192	0.8	0	4	23	17		139	-1	3	60	66
Romania		12577	2.4	4	2	0	8		228	-9	-28	-94	-28
South Africa		74774	-0.1	0	-2	10	2		423	2	-32	-39	56
Turkey		5759	0.0	10	26	131	5		490	0	-123	-145	50
Ukraine		507	0.0	0	0	-2	-2		4220	-333	-726	-532	141
EM total		39	-0.5	-1	1	-2	4		386	-6	-38	-61	11

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

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