



- US Treasury yields rise as job gains surprise to the upside for May ([link](#))
- US banks are wary of competition with money market funds for deposits ([link](#))
- Euro area rates markets price in higher chances for a 50 bp ECB rate hike ([link](#))
- Inflation rises above 5% and hits 13-year high in South Korea ([link](#))
- Assets in emerging Europe continue to underperform the broader EM complex ([link](#))
- Pemex debt refinancing falls short of full amount amidst weak demand ([link](#))

[Mature Markets](#)



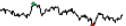
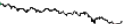







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## Sovereign bond yields rise amid robust jobs data

Price action this morning continues to suggest investors' focus is swinging between growth prospects and concerns about central bank policy tightening. Although US equity futures are trading slightly lower, most major equity markets have gained over the last day as investors digested a mixed set of data releases that culminated with the US employment data this morning. The report showed the US added an above forecast 390k jobs in May along with a slight decline in average hourly earnings and an unchanged unemployment rate. Core sovereign bond markets are reacting by yields rising 6 to 7 bps across the US Treasury curve, while yields in Europe have continued to move higher with 10-year German bund yields hitting 1.27%, the highest level in almost a decade. Market-implied policy rate expectations have also inched higher in response as the stronger-than-expected jobs reading has investors thinking the Fed may need to stay the course to quell inflationary pressure in the economy, while odds of a 50 bp ECB rate hike have continued to build. Elsewhere, oil prices are steadying this morning after resuming their move higher yesterday as recent data showed still tight markets as inventories fell, which overshadowed OPEC's announcement of an acceleration in production quotas in the coming months.

Key Global Financial Indicators

Last updated: 6/3/22 8:50 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		4177	1.8	5	0	0	-12	-1
Eurostoxx 50		3808	0.3	0	1	-7	-11	-4
Nikkei 225		27762	1.3	4	3	-4	-4	5
MSCI EM		43	1.7	5	1	-22	-12	-9
Yields and Spreads			bps					
US 10y Yield		2.97	6.6	24	0	135	146	98
Germany 10y Yield		1.27	3.5	31	31	146	145	104
EMBIG Sovereign Spread		448	0	-15	9	120	81	35
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.8	-0.4	0	1	-9	0	-1
Dollar index, (+) = \$ appreciation		102.1	0.3	0	-1	13	7	6
Brent Crude Oil (\$/barrel)		118.1	0.4	-1	12	66	52	22
VIX Index (% change in pp)		25.1	0.4	-2	-4	7	8	-6

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

## Mature Markets

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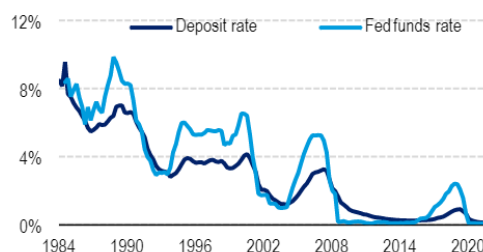
### United States

In data releases this morning, the May US employment report showed job gains slowed by less than expected alongside a small downshift in average hourly earnings growth, reflecting ongoing tightness in the labor market. Nonfarm payroll employment increased by 390k, higher than expected by the median consensus estimate for a 320k gain. Average hourly earnings rose 0.3% m/m (below 0.4% median expectation), and 5.2% y/y (versus 5.5% prior). The unemployment rate held at 3.6% (median expectation at 3.5%), just above the immediate pre-pandemic low of 3.5%. Stock futures remained slightly lower following the report and US Treasury yields rose 6 to 7 bps across the curve.

**Deposit competition between banks and money market funds (MMFs) could lead to higher lending costs.** With another 100 bps of rate hikes in June and July fully priced in by markets, banks may soon be forced to raise their deposit rates to retain balances and remain competitive. The main competitors to banks are MMFs, who are seen by investors as alternatives to banks for liquidity management purposes and are one of the main participants in the Federal Reserve's Reverse Repo (RRP) facility. MMFs are typically faster in increasing their yields compared to bank deposit rates, which are lagging significantly behind policy rate hikes. According to market sources, some banks are getting worried about deposit outflows to MMFs, who can then repo them out to the Federal Reserve at the RRP rate. Deposit competition will squeeze the net interest margins of banks, who may then need to pass along the rate rises to borrowers.

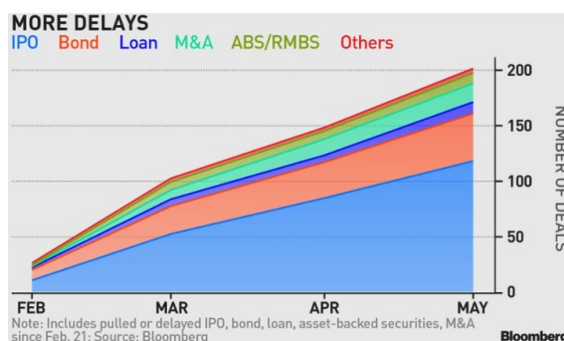
**Exhibit 4: Bank deposit rates vs fed funds rate**

Deposit rates frequently lag changes in the fed funds rate



Source: BofA Global Research, Bloomberg, FDIC

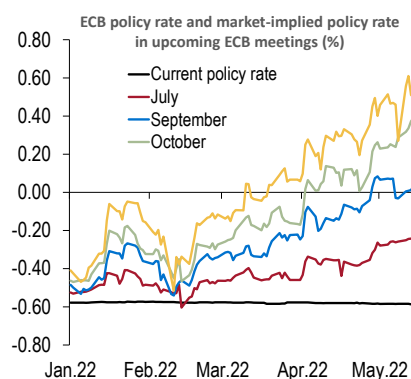
**More companies have delayed financing plans amidst the volatility in financial conditions.** The number of companies that have delayed or canceled financing plans has increased considerably from its low levels in February of this year. According to Bloomberg analysts, the ongoing market volatility causes hesitation from investors and leads them to postpone or cancel financing deals—including IPOs, bonds, loans and acquisitions. So far, these deals amount to more than \$170 bn and more are expected to be added in the coming weeks.



## Euro Area

**Market moves were subdued this morning in the euro area.** Equity markets were slightly higher (+0.2%). The euro was flat as market participants awaited the US job report, core sovereign bond yields were higher (Germany 10y: +3 to 4 bps) and peripheral spreads were little changed.

**Euro area rates markets continue to price a higher chance of a 50 bp hike at the coming ECB meetings.** Assuming that next week's meeting is not *live* the market is now pricing close to 125 bps in total over 4 ECB meetings. This implies a strong chance of a 50 bp hike in at least one of these meetings. While ECB officials have long signaled that a 25 bp hike is coming, some ECB members have suggested that a bigger hike is possible. The 8.1% inflation print this week has ignited speculation that the June meeting next week could shift the signaling towards some 50 bp move this year.

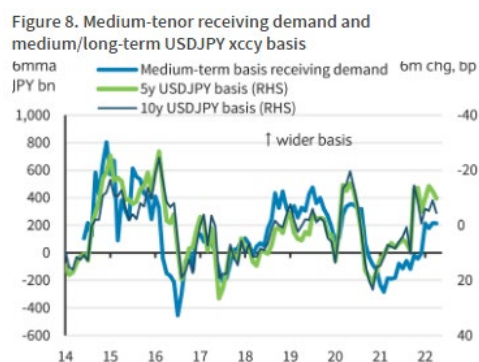


Source: Bloomberg

**The EU formally approved a 6th package of sanctions, including a partial ban on Russian oil imports, after Hungary dropped objections that had been holding it up for weeks according to reports.** Russian crude oil will be phased out over six months, and other refined petroleum products over eight months. *A temporary exception is foreseen for landlocked countries—like Hungary, the Czech Republic and Slovakia—that suffer from a specific dependence on Russian supplies and have no viable alternative options.* Bulgaria and Croatia will also get temporary exception for certain kinds of oil. EU leaders say the move means that around 90% of Russia's oil exports to Europe will be blocked by year's end. According to reports, in the final hour the Russian Orthodox leader Patriarch Kirill was removed from EU sanctions list after objections from Hungary.

## Japan

**Equities gained +0.4%.** PM Kishida said the government will stick to the 2013 joint policy statement with the Bank of Japan, which outlines agencies coordination to achieve 2% inflation and sustainable economic growth. Relatedly, Bank of Japan (BOJ) Governor Kuroda said inflation without accompanying household income gains is undesirable and that it is important to create a macro environment with monetary easing that allows wages to rise. **Japanese yen weakened -0.2%, 10-year yields were little changed.** USDJPY cross-currency basis curve widened significantly in the medium tenor likely driven by increased credit demand, according to Barclays.

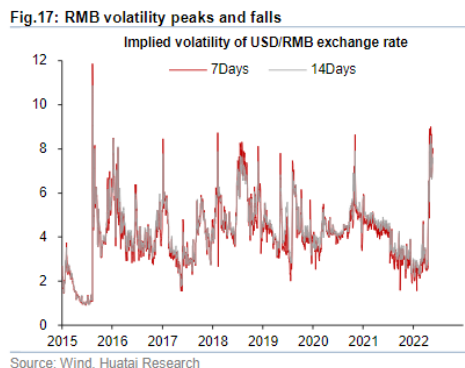


Source: MoF, BoJ, Bloomberg, Barclays Research

## Emerging Markets

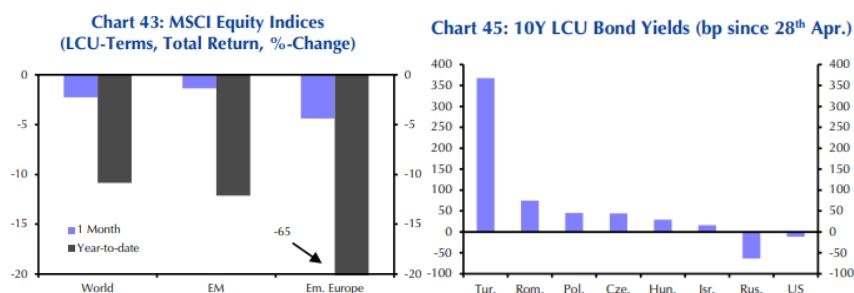
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In **Latin America** the Chilean Peso outperformed, appreciating by 1.4%, likely driven by the surge in copper prices amid optimism for higher demand on a potential China reopening. The **Mexican peso** strengthened by 0.8% close to its strongest level since the pandemic. Hawkish comments from Banxico officials have set the tone for 75 bp hikes in the months ahead, which likely boosted the peso. **Asian equities were unchanged on net.** Some markets, including China and Hong Kong SAR, were closed. **Asian currencies were mixed.** South Korean won appreciated +0.8%, followed by offshore Renminbi (+0.4%). With renminbi volatility still high analysts expect it to decline when China passes pandemic climax and growth starts to stabilize. **10-year yields were mixed.** Sri Lanka yields climbed +7 bps, Indonesia slipped -7.3 bps. In **South Korea**, inflation accelerated to 5.4% y/y in May to hit a 13-year high (previous: 4.8%). Bank of Korea now forecasts about 5% inflation in June and July. Post-release, the Finance Ministry pledged to stabilize vegetables supply and possibly cut import tariffs. In **EMEA**, equity markets are posting modest gains, while currencies are slightly weaker. **Turkey's inflation** print for May showed an increase in headline to 73.5% y/y, up from 70% in April, and just below forecasts for an increase to 74.7%. The lira was little changed after the release, weakening 0.3%, but has depreciated by 2% this week reaching levels last seen in December 2021.



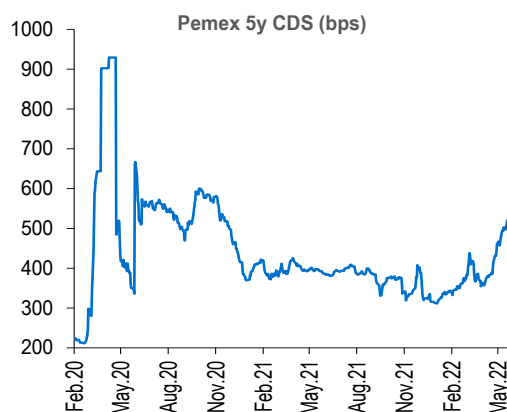
## Emerging Europe

**Equity markets in emerging Europe continue to underperform broad emerging and developed market equities**, with the MSCI EM Europe index falling another 5% over the last month. This takes its total losses since the start of the year to 65%, in local currency terms. At a country level, Czech equities continued to outperform due to strong earnings in the energy sector, while those in Hungary and Poland came under further pressure. In addition, although the rise in US Treasury yields took a breather at the end of May, it did not prevent local currency government bond yields from rising further in most emerging European countries. The sharp rise in Turkey reflected a broader rise in risk premia amid concerns about the central bank's deeply negative real policy rate stance, while local bond yields fell across the curve in Russia as the central bank has cut interest rates by 900 bp since the start of April due to the improvement in inflation dynamics.



## Mexico

**Pemex fell short on refinancing some of its outstanding debt to suppliers.** Pemex sold \$1.5 bn in bonds due 2029 compared with \$2 bn originally planned. The debt was sold at a discount yielding 9.25%, above the 8.75% coupon. According to Bloomberg, Pemex swapped commercial debt with suppliers for new notes, which Citigroup then sought to place in the secondary market. Pemex bonds have been underperforming recently despite the boost from higher oil prices. Analysts highlight a key driver has been the recent announcement suggesting that Pemex was going to pay its upcoming maturities (starting in April) on its own. The lack of additional government support implies a slower pace of debt reduction and free cash flow generation for the rest of 2022.



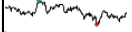


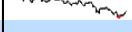
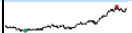











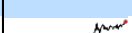






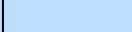




Source: Bloomberg

*This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Research Officer), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (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





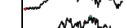


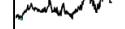



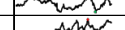




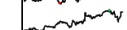


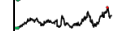



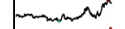



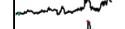

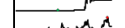

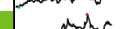
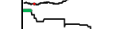
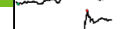



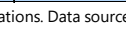


Last updated: 6/3/22 8:51 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4155	1.8	2	0	-1	-13	-2
Europe		3808	0.3	0	1	-7	-11	-4
Japan		27762	1.3	4	3	-4	-4	5
China		4090	0.2	2	2	-22	-17	-12
Asia Ex Japan		72	1.9	6	1	-23	-12	-8
Emerging Markets		43	1.7	5	1	-22	-12	-9
<b>Interest Rates</b>			basis points					
US 10y Yield		2.97	6.6	24	0	135	146	98
Germany 10y Yield		1.27	3.5	31	31	146	145	104
Japan 10y Yield		0.23	-0.7	0	0	15	16	4
UK 10y Yield		2.16	5.4	25	25	133	118	68
<b>Credit Spreads</b>			basis points					
US Investment Grade		150	-0.3	-4	-5	59	38	7
US High Yield		422	-4.3	-22	5	89	85	16
Europe IG		89	0.0	3	1	39	42	18
Europe HY		446	0.0	15	26	199	204	94
<b>Exchange Rates</b>			%					
USD/Majors		102.11	0.3	0	-1	13	7	6
EUR/USD		1.07	-0.3	0	2	-12	-6	-5
USD/JPY		130.5	0.5	3	0	18	13	13
EM/USD		52.8	-0.4	0	1	-9	0	-1
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		118	0.4	2	14	79	57	30
Industrials Metals (index)		186	-0.4	2	-3	20	8	-1
Agriculture (index)		75	-0.5	-3	0	29	24	7
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		25.1	0.4	-2.4	-4.2	7.1	7.9	-5.9
US 10y Swaption Volatility		98.7	0.1	1.0	-25.6	32.5	19.7	4.4
Global FX Volatility		9.6	0.0	-0.1	-1.2	2.7	2.2	2.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		245	-1.9	-9	4	146	94	5
Italy		209	2.2	15	17	100	74	37
Portugal		119	1.1	8	8	54	54	27
Spain		115	1.1	7	9	50	41	12

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



## Emerging Market Financial Indicators

Last updated: 6/3/2022 8:53 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.66	0.4	1.2	-1	-4	-5	-5		2.8	-1.9	7	-3	-33	-1	-2
Indonesia		14438	0.3	1.0	0	-1	-1	-1		6.9	-7.4	-14	-5	53	56	44
India		78	0.0	-0.1	-1	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	-0.1	-1.0	-1	-10	-4	-3		5.5	0.0	0	15	114	98	48
Thailand		34	0.0	-0.5	0	-9	-3	-6		3.0	-2.0	14	10	105	110	73
Malaysia		4.39	0.0	-0.2	-1	-6	-5	-5		4.2	-3.1	8	-15	98	62	54
Argentina		120	-0.1	-0.9	-4	-21	-15	-11		56.4	-15.0	41	360	1078	581	841
Brazil		4.82	-0.5	-1.8	3	5	16	4		12.7	16.0	56	47	360	202	118
Chile		813	0.0	1.6	5	-11	5	-3		6.2	0.0	13	-14	228	76	27
Colombia		3774	0.7	3.9	6	-3	8	4		8.4	0.0	-17	-37	257	196	49
Mexico		19.58	-0.3	0.0	4	3	5	3		8.6	0.5	20	-40	182	108	76
Peru		3.7	0.7	-1.2	4	3	8	1		7.6	3.4	22	-26	272	170	160
Uruguay		40	0.1	-0.3	3	9	12	6		10.5	26.3	40	46	241	179	237
Hungary		369	-0.5	-0.4	-2	-22	-12	-13		7.1	2.0	19	5	441	254	224
Poland		4.29	-0.7	-0.8	4	-14	-6	-6		6.5	8.5	23	50	460	292	255
Romania		4.6	-0.4	-0.2	2	-12	-6	-5		7.9	15.2	18	115	523	312	279
Russia		62.1	2.4	6.8	10	18	21	31		8.2	1.0	15	-421	85	-58	-299
South Africa		15.6	-0.6	0.2	1	-12	2	-3		8.4	-2.0	16	-7	108	98	82
Turkey		16.54	-0.4	-1.9	-10	-47	-20	-16		22.5	0.0	-84	121	359	-182	8
US (DXY; 5y UST)		102	0.3	0.3	-1	13	7	6		2.97	6.0	25	-5	213	171	107

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
									basis points							
China		4090	0.0	2	2	-22	-17	-12		203	-10	3	-9	0	-5	
Indonesia		7183	0.5	4	-1	18	9	4		188	-19	9	17	23	3	
India		55769	-0.1	2	2	7	-4	-3		173	-20	4	22	41	19	
Philippines		6741	0.8	0	0	-1	-5	-8		130	-18	-4	37	29	-7	
Thailand		1648	0.0	1	0	2	-1	-3		0	0	0	0	0	0	
Malaysia		1538	-0.8	-1	-2	-3	-2	-3		125	-6	0	4	8	-8	
Argentina		91452	0.1	-2	2	42	10	0		1897	-30	79	439	217	160	
Brazil		112393	0.9	0	6	-13	7	0		306	-3	5	64	-5	-25	
Chile		5353	1.0	-1	12	27	24	22		150	-17	-25	8	10	-24	
Colombia		1610	0.4	7	1	28	14	7		333	-23	-51	85	-15	-59	
Mexico		50971	-1.0	-2	0	1	-4	-1		375	3	-11	54	43	5	
Peru		21079	1.8	2	-7	-1	0	-10		170	-15	-39	9	20	-20	
Hungary		40910	0.2	6	-6	-14	-19	-14		207	-17	18	68	83	54	
Poland		57372	0.3	1	1	-14	-17	-9		85	66	83	46	53	69	
Romania		12278	-0.8	0	-2	6	-6	-7		248	-14	15	71	55	16	
Russia		2301	-1.7	-4	-6	-40	-39	-25		3411	-577	938	3228	3234	2897	
South Africa		71461	0.6	1	0	5	-3	-5		380	-10	-5	71	25	-9	
Turkey		2599	-0.1	7	7	82	40	29		578	-26	71	106	0	15	
Ukraine		519	0.0	0	0	-2	-1	0		3344	53	-388	2880	2585	1871	
EM total		43	-0.4	5	1	-22	-12	-9		378	-21	-17	29	-9	-80	

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

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