



- Oil prices jumped following the OPEC+ meeting ([link](#))
- Higher US interest rates create worries about potential future volatility ([link](#))
- Office sector woes darken outlook for US commercial real estate ([link](#))
- Analysts caution that Italian spreads could widen ([link](#))
- EM bond funds experienced largest outflow in 7 weeks ([link](#))
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- China mulls targeted measures for property sector ([link](#))

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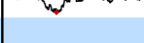

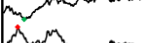




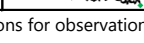
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Markets shift to Fed and ECB Meetings after Debt Ceiling and Jobs Reports

With the US debt ceiling resolved and a large upside surprise in the US jobs report in the rear view mirror, and given a relatively light data calendar in advanced markets this week, markets are focusing on the upcoming Fed and ECB meetings next week, on June 14 and 15 respectively. Despite the large upside in non-farm payrolls in the US on Friday (339k vs. 195k expected) and other strong US data prints last week, markets still expect the Fed to pause in June. Saudi Arabia's surprise announcement yesterday that it would cut oil production by 1mn barrels/day in July sent oil prices up 3% in early trade before retracing back to \$73/barrel, roughly 2% higher than last Friday. Given this backdrop, equities were up in Asia, but broadly flat in Europe, while bond yields were up globally. Turkish markets saw significant price moves after the appointment of Finance minister Simsek on Saturday, as analysts believe that this signals a shift back to conventional macroeconomic policies in Türkiye.

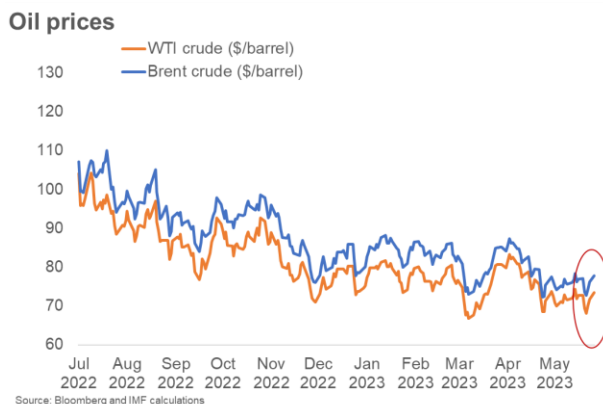
Key Global Financial Indicators

Last updated: 6/5/23 1:24 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4282	1.5	3	4	4	12
Eurostoxx 50		4326	0.1	0	0	14	14
Nikkei 225		32217	2.2	3	10	15	23
MSCI EM		40	1.7	3	0	-7	4
Yields and Spreads			bps				
US 10y Yield		3.74	5.4	-5	31	81	-13
Germany 10y Yield		2.39	7.5	-5	10	111	-18
EMBIG Sovereign Spread		464	-17	-14	-26	16	12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.8	-0.1	-1	-2	-6	0
Dollar index, (+) = \$ appreciation		104.3	0.2	0	3	2	1
Brent Crude Oil (\$/barrel)		77.5	1.8	1	3	-35	-10
VIX Index (% change in pp)		15.2	0.6	-3	-2	-10	-6

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

Global

Oil prices jump following OPEC+ meeting. Saudi Arabia announced a surprise additional 1mn barrels/day ‘extendible’ cut in production in July, to take production levels to the lowest in many years. WTI prices jumped by over 3% in early trade before retracing back to \$73/barrel, roughly 2% higher than last Friday. Oil prices ended May roughly 10% lower than at the start of the month amid demand concerns.

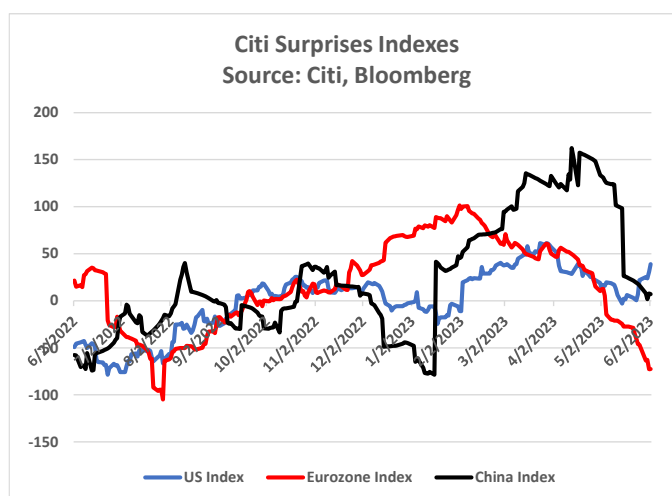


Mature Markets

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United States

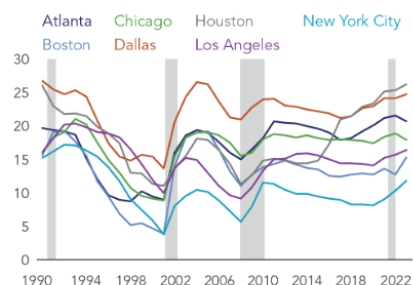
Rising Treasury yields have revived worries about equity valuations, mark-to-market losses at banks and the impact on the economy. The front end of the yield curve saw the largest move, with the two-year Treasury yield up nearly 50 bps since the beginning of May, deepening the yield inversion. The 10-year Treasury yield is up 25 bps over the same period. A key driver for these higher Treasury yields is the string of better than expected economic data releases, while stubbornly high inflation prints have reinforced the move. The US stands out from all other major economies in the strength of its data. The widely followed Citi Economic Surprise Indexes demonstrates the trend.



Problems in the office sector darken the outlook for the US commercial real estate (CRE) market. Prior recessions in 1990-91, 2001 and 2007-09 put severe strains on the office sector pushing occupancy rates lower, reducing cash flows, breaching debt covenants, and eventually resulting in high default rates. Another recession in the US could be highly problematic for an office sector already under pressure in the post-pandemic environment where work from home arrangements have significantly reduced demand for

office space. Valuations are falling and there have already been a number of high profile defaults. Estimates for future demand for office space are continuously being revised lower. The FTSE Office REIT index, which tracks real estate investment trusts (REITs) in the sector has significantly underperformed other CRE sectors, with the office sector down 43% since 2020 compared to a gain of 18% for the industrial sector and 12% for the retail sector, according to the US Office of Financial Research.

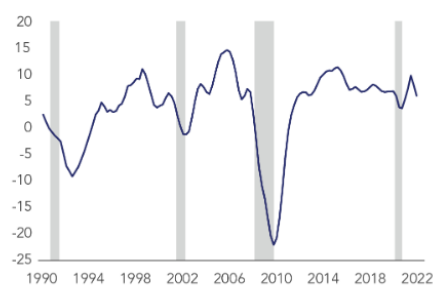
Figure 1. Office Vacancy Rates, Selected Cities (percent)



Note: Shaded areas are U.S. recessions.

Sources: Moody's REIS, Office of Financial Research

Figure 2. Composite Change in CRE Valuation (percent)



Note: Year-over-year change. Shaded areas are U.S. recessions.

Sources: Real Capital Analytics, Office of Financial Research

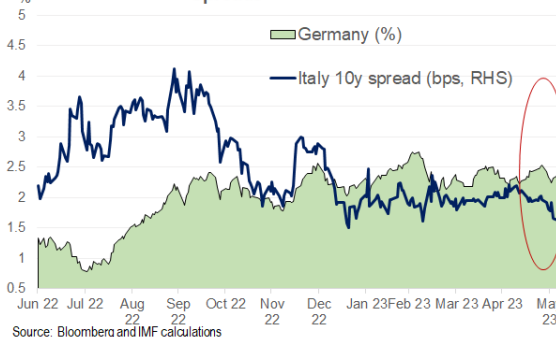
Euro Area

European equities were little changed with the energy sector (+0.7%) outperforming after the OPEC+ meeting over the weekend, where Saudi Arabia pledged an extra production reduction of 1 mn barrels per day in July. The euro (-0.2%) weakened against the dollar while sovereign yields increased (10y bund + 7bps). In the latest ECB commentary General Council member Visco said that he expects core inflation to ease against a backdrop of lower energy costs, and noted that while the ECB's tightening cycle is correct he would have preferred "more gradual" approach to interest rate hikes.

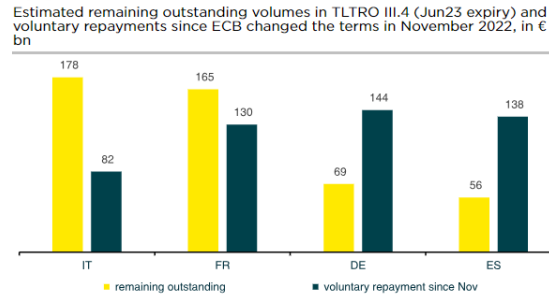
On the data front, the Sentix investor confidence came in lower than expected in June, falling to -17 (vs expected -15 from -13.1 in May). Separate data releases showed the eurozone's final services and composite PMI lower than earlier estimates – with the composite PMI at 52.8 (previous estimate 53.3) and the services PMI at 55.1 (previous estimate 55.9).

Italian spreads have narrowed, but analysts remain cautious given TLTRO repayments and quantitative tightening. On Friday Italian 10y spreads over bunds narrowed to 176bps, close to the lowest level seen so far this year with Commerzbank analysts highlighting improved risk appetite and lower-than-expected euro area inflation data as possible driving factors. However analysts remain cautious and forecast that 10y Italian spreads could increase back above 200bps, arguing that smaller Italian banks might need to sell Italian sovereign bonds in order to raise cash to repay their outstanding TLTROs. Banks are set to repay €477bn of TLTRO loans that fall due at maturity at the end of this month, and Commerzbank analysts estimate that Italian banks have the relative largest outstanding amount due (€178bn). While larger banks are expected to have sufficient liquidity to repay TLTROs, analysts think smaller banks are facing a shortfall of available ECB cash relative to TLTROs. Moreover, analysts highlight that the ECB's complete stop of Asset Purchase Program (APP) reinvestments from July could push spreads wider. Morgan Stanley analysts also forecast that 10y BTP/Bund spreads would widen to 210bps by Q4 2023 against a backdrop of tighter credit conditions, noting that Italian debt would see the largest impact of the 100% ECB's APP roll off. This morning 10y Italian spreads widened marginally (+1bps) to 177bps.

Europe: German 10y bund yield and 10y Southern Spreads



TLTRO III.4: Italian banks with largest outstanding and lowest voluntary repayment



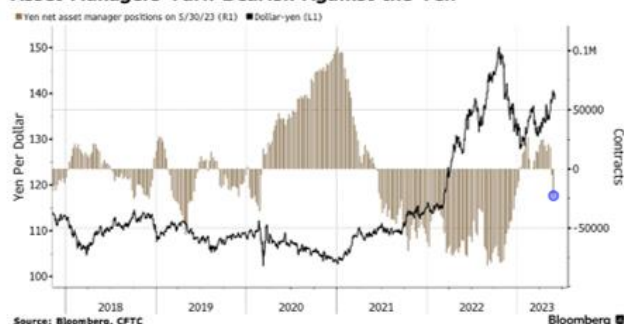
Japan

Japanese stocks continued to rally and the yen weakened -0.3%. The Topix added +1.7% and the Nikkei jumped +2.2% to a record 33-year high on Monday as the Jibun Bank's purchasing managers index (PMI) of activity in Japan's service sector rose to a record 55.9 (previous: 55.4). Asset managers stepped up their net yen short positions to the most in 2023 at over 22 thousand contracts in a week through May 30, Bloomberg estimated. A week earlier leveraged funds increased net shorts on yen to the most on a year betting on no change to the ultra-easy monetary policy in the near-term. **Yields on 10Y bonds increased +2bps.**

Japan Services PMI Business Activity Index Household Services Expenditure



Asset Managers Turn Bearish Against the Yen



Japan's banks seem to be shifting to issuance in yen this year, according to J.P. Morgan. The three mega banks have issued about ¥1.5tn (\$10bn) in yen-denominated TLAC-eligible (total loss absorbing capacity) bonds, including subordinated debt and AT1. This is already significantly higher than the full year yen issuance in 2022 of about ¥860bn. Before the rise in US rates, Japanese banks have historically focused on US dollar issuance in TLAC.

Emerging Markets

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Asian equities rose +0.2% and the majority of Asian currencies weakened. Thailand's equities added +0.6% and South Korea gained +0.5%. The Philippine peso weakened -0.6%, Indian rupee -0.3%, and the Indonesian rupiah outperformed +0.7% as markets opened after a holiday. **10-year bond yields increased.** South Korea yields added +4.6bps, Singapore yields +2bps and Philippines +3.6bps.. **Indonesia's** CPI inflation returned to the Bank Indonesia's (BI) 2-4% target range faster than expected, slowing to 4% y/y in May (previous: 4.3%) prompting BI Governor Perry to state in a parliamentary hearing on Monday that the bank will lower its inflation target to a 1.5%-3.5% range in 2024. **Stocks traded sharply higher in Eastern Europe** ahead of a relatively quiet week in terms of data releases and central bank meetings. The South African rand (+0.7%) outperformed in a mixed day for EM currencies. **Latin American assets finished last week on a positive note.** Equities were up across the region, with the

largest gains in Colombia (+2.69%), Chile (+2.45%), Brazil (+1.80%), and Mexico (+0.96%). Most Latin American currencies appreciated against the dollar, led by the Brazilian real (+1.24%), Colombian peso (+1.09%), and Chilean peso (+0.51%), while the Argentine peso (-0.28%) depreciated.

EM Fund Flows

EM bond funds experienced their largest outflow in 7 weeks, while equity flows were slightly positive. Bond fund outflows (-\$941mn) increased from the week prior (-\$790mn), driven by the substantial increase in local currency fund outflows (-\$235mn from -\$16mn the week prior). EM ex-China bond funds (-\$141mn) saw their first weekly outflows in 5 weeks, while China focused fund outflows (-\$94mn) continued. Equity fund flows (+\$66mn) turned positive following the massive outflow seen the previous week (-\$1.4bn). The turnaround was driven by ETF inflows (+\$644mn) which was partially offset by non-ETF outflows (-\$578mn). Regionally, only Asia ex-Japan experienced positive flows (+\$187mn), while EMEA (-\$87mn) and Latam (-\$45mn) saw outflows.

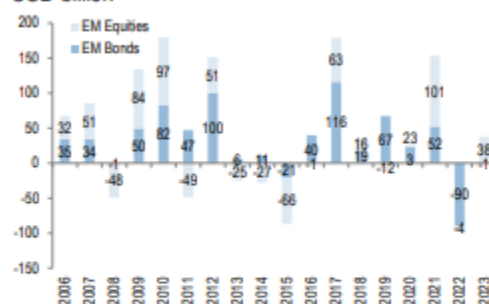
Figure 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-9.9	37.1
EM Bonds		-9.9	-9.7
Hard Coy		-9.7	-1.5
Local Coy*		-9.2	8.9
o.w. EM ex-China		-8.1	2.6
o.w. China		-8.1	-2.6
EM Equities		0.1	37.7
US HG		3.6	128.2
US HY		-9.1	-7.3
Global Equities		15.1	-43.4
EM Bond and Equity ETFs		6.6	28.3
EM Bond ETFs		0.0	-9.2
EM Equity ETFs		6.6	28.5
Non-resident EM flows*		6.0	28.6

Figure 2: EM bond and equity fund flows

USD billion



*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

China Caixin services PMI exceeded expectations and rose to 57.1 in May (consensus: 55.2; previous: 56.4). **Chinese stocks and 10Y bond yields were little changed. Renminbi depreciated further -0.2%.**

China's Services Sector Expansion Continues
Private survey results are stronger than what official poll shows



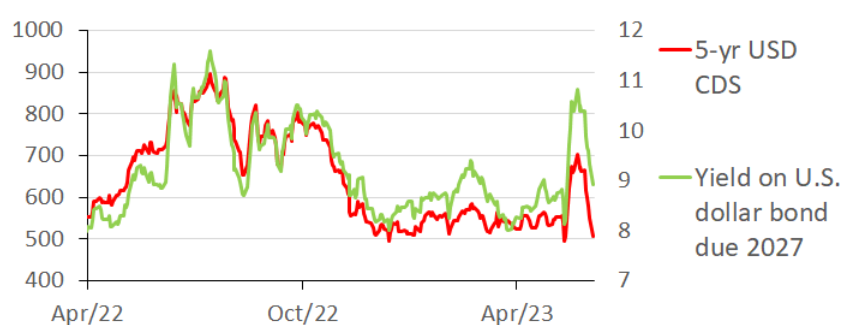
China is reportedly working on targeted measures for the property sector. According to Bloomberg, regulators are considering reducing the down payment in some non-core neighborhoods of major cities, lowering agent commissions on transactions, and further relaxing restrictions for residential purchases. The

government may also refine and extend some policies laid out in the 16-point rescue package it rolled out in 2022. Analysts are saying that these targeted moves may raise doubts of broader stimulus measures such as interest rate cuts. Separately, Beijing urged local authorities to tackle their debts, official media reported.

Türkiye

U.S. dollar yields and CDS spreads fell, and stocks jumped 3% as analysts believe that the appointment of Finance Minister Simek on Saturday signals a shift to conventional policies. In a speech, FM Simsek focused on the need for coherent and predictable policies in line with international norms. **Analysts now expect cuts in budget expenditures and an increase in revenues combined with a rate hike as soon as the next monetary policy meeting.** BNP expects the FX-protected deposit program to continue in the short term, but to end in the medium term. In separate news, Turkish inflation was little changed mom but remains elevated at 39%, with core inflation unexpectedly rising to 46.5% yoy. The lira opened the week 1.3% weaker.

Türkiye: 5-yr U.S. CDS (bps) and yield on U.S. dollar bond (%)






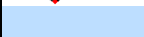


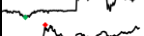
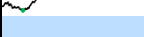






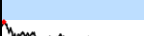
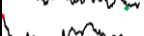

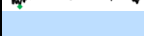



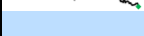




Source: Bloomberg and IMF staff

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Global Financial Indicators

6/5/23 1:24 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4282	1.5	3	4	4	12
Europe		4326	0.1	0	0	14	14
Japan		32217	2.2	3	10	15	23
China		3844	-0.5	0	-4	-8	-1
Asia Ex Japan		67	1.8	3	0	-6	3
Emerging Markets		40	1.7	3	0	-7	4
Interest Rates			basis points				
US 10y Yield		3.74	5.4	-5	31	81	-13
Germany 10y Yield		2.39	7.5	-5	10	111	-18
Japan 10y Yield		0.43	2.0	-1	1	20	1
UK 10y Yield		4.21	5.5	-12	43	206	54
Credit Spreads			basis points				
US Investment Grade		159	-1.3	-5	-9	7	0
US High Yield		469	-3.0	-15	-35	37	-12
Exchange Rates			%				
USD/Majors		104.26	0.2	0	3	2	1
EUR/USD		1.07	-0.2	0	-3	0	0
USD/JPY		140.3	0.3	0	4	6	7
EM/USD		49.8	-0.1	-1	-2	-6	0
Commodities			%				
Brent Crude Oil (\$/barrel)		77.5	1.9	1	3	-21	-7
Industrials Metals (index)		143	-0.2	0	-7	-23	-14
Agriculture (index)		65	0.0	0	-4	-13	-5
Implied Volatility			%				
VIX Index (%, change in pp)		15.2	0.6	-2.8	-2.0	-9.6	-6.5
US 10y Swaption Volatility		107.7	0.0	-22.4	-10.8	6.2	-18.0
Global FX Volatility		8.5	0.1	-0.3	-0.6	-1.1	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		137	-0.7	-6	-38	-108	-68
Italy		176	0.2	-8	-14	-37	-38
Portugal		68	-0.7	-6	-17	-52	-34
Spain		100	-0.7	-7	-9	-17	-10

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

Emerging Market Financial Indicators

Last updated: 6/5/2023 1:26 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		7.12	-0.3	-0.6	-3	-6	-3		2.8	2.5	-1	-15	-4	-23
Indonesia		14890	0.7	0.5	-1	-3	5		6.4	1.9	-1	-6	-55	-55
India		83	-0.5	-0.1	-1	-6	0		7.4	14.0	7	26	(27.5)	-1
Philippines		56	-0.6	-0.2	-2	-6	-1		5.9	0.0	1	-3	48	-8
Thailand		35	0.8	0.4	-1	-1	0		2.6	-1.5	-12	-2	-34	-2
Malaysia		4.58	0.8	0.5	-2	-4	-4		3.7	-1.7	-9	-3	-51	-35
Argentina		241	-0.3	-2.1	-7	-50	-26		110.3	22.2	282	1550	5394	2210
Brazil		4.96	1.1	0.7	2	-3	6		11.5	-16.5	-22	-98	-108	-111
Chile		799	0.5	0.0	1	2	6		5.2	0.0	-12	4	-102	-16
Colombia		4350	1.1	2.2	8	-13	12		8.6	-2.5	-31	-63	21	-121
Mexico		17.56	0.0	0.2	1	11	11		8.5	9.0	-4	11	-16	-28
Peru		3.7	0.2	-0.3	1	0	3		7.3	7.7	-2		-37	-71
Uruguay		39	0.2	0.2	1	3	3		10.0	0.0	0	2	-51	-67
Hungary		346	0.0	0.4	-2	5	8		7.9	4.0	-28	-1	84	-171
Poland		4.19	0.0	0.6	-1	2	4		5.3	0.9	-22	12	-116	-84
Romania		4.6	-0.2	-0.2	-4	-1	-1		6.8	0.8	-5	-32	-114	-89
Russia		81.3	-0.3	-1.0	-4	-25	-9							
South Africa		19.4	0.7	1.4	-5	-20	-12		10.1	-3.5	-15	81	158	95
Turkey		21.22	-1.4	-5.2	-8	-22	-12		12.8	82.0	371	2	-970	297
US (DXY; 5y UST)		104	0.2	0.0	3	2	1		3.90	5.4	-3	49	96	-11

	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		3844	-0.5	0	-4	-8	-1		189	-5	-11	-14	12
Indonesia		6633	0.0	-1	-2	-7	-3		144	2	-14	-44	4
India		62787	0.4	0	3	13	3		142	-9	-22	-31	0
Philippines		6522	0.1	-1	-2	-3	-1		113	-1	-17	-17	16
Thailand		1531	0.0	0	0	-7	-8		0	0	0	0	0
Malaysia		1381	0.0	-2	-3	-10	-8		96	-1	-8	-29	-4
Argentina		352937	-0.1	3	19	285	75		2565	-35	-101	668	360
Brazil		112558	1.8	1	7	1	3		263	4	-19	-43	-11
Chile		5654	0.0	1	3	6	7		131	0	-10	-19	-1
Colombia		1148	2.7	4	-1	-29	-11		397	-9	-31	64	25
Mexico		53233	1.0	-1	-3	5	10		394	-2	-1	19	13
Peru		21845	1.6	3	-1	5	2		173	-8	-11	3	-7
Hungary		48225	0.7	1	4	17	10		225	-8	-3	18	3
Poland		66238	0.9	2	6	16	15		136	0	-3	51	63
Romania		12134	0.0	0	0	-1	4		243	-12	-20	-5	-13
South Africa		76438	-0.9	0	-2	8	5		437	-18	6	57	70
Turkey		5336	4.3	12	21	105	-3		529	-84	7	-49	89
Ukraine		507	0.0	0	0	-2	-2		4997	51	-372	1653	918
EM total		40	-0.5	3	0	-7	4		407	-17	-18	29	32

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

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