GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JUNE 6, 2022

- **More analysts are lowering their earnings estimates for US equities** (link)
- **Reduced duration supply could initially dampen QT impact on US term premium** (link)
- **Italian sovereign spreads tighten on news of support for anti-fragmentation tool** (link)
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China reopening optimism drives rebound in risk appetite

Global risk assets have started the week on a more upbeat tone as optimism builds around a recovery in China due to a roll back in virus related restrictions. On Friday, a better-than-expected US jobs report resulted in a move higher in core sovereign bond yields and further substantiated market expectations for Fed rate hikes in the near-term. The S&P 500 lost over 1.5% and the tech-heavy Nasdaq index dropped over 2%. However, risk appetite has returned to start the week with US equity futures pointing to gains of over 1% and European bourses also up over 1%. Risk sentiment has been boosted by news that Beijing's COVID-related restrictions are being eased following the removal of lockdowns in Shanghai last week. Most major Asian equity indices closed higher with Chinese stocks outperforming and gaining close to 2%, and Hong Kong stocks moving even higher on reports the tech sector crackdown could conclude soon. Core sovereign bond yields have been steady so far this morning. A couple of key areas of focus this week will be the ECB meeting on Thursday where the council is widely expected to announce the end of QE and lay the groundwork for a potential lift off in the policy rate at the July meeting, while in the US, Friday's CPI print for May should provide some further evidence on the trajectory of inflation with possible effects on the market's expectations for the Fed's path of policy tightening.

Key Global Financial Indicators

Last updated: 6/6/22 8:06 AM	Level Last 12m	Level Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities				%			%	
S&P 500		4109	-1.6	1	0	-3	-14	-3
Eurostoxx 50		3830	1.2	0	6	-6	-11	-4
Nikkei 225		27916	0.6	2	3	-4	-3	6
MSCI EM		42	-1.6	2	4	-24	-13	-11
Yields and Spreads				bps				
US 10y Yield		2.96	2.2	22	-17	140	145	96
Germany 10y Yield		1.27	0.0	22	14	149	145	105
EMBIG Sovereign Spread		446	-2	-8	2	118	79	34
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		53.1	0.5	1	2	-9	1	0
Dollar index, (+) = $ appreciation		102.0	-0.1	0	-2	13	7	6
Brent Crude Oil ($/barrel)		119.9	0.1	-1	7	67	54	24
VIX Index (%, change in pp)		25.3	0.5	0	-5	9	8	-6

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

The ECB's latest monetary policy decision on Thursday will be the key focus for markets this week. The ECB is widely expected to announce the end of QE and lay out the normalization roadmap for an expected lift-off in the policy rate of at least 25 bps at the July meeting. With the Fed's balance sheet reduction having started last week, investors will also be watching US Treasury debt auctions which see $96 bn in supply across the 3y, 10y and 30y tenors. In terms of data, investors will focus on Friday's US CPI print for May, and the euro area is printing Q1 GDP data on Wednesday. On Tuesday, the Reserve Bank of Australia will announce its latest interest rate decision, with expectations for a 40 bp hike to 0.75%.

Mature Markets

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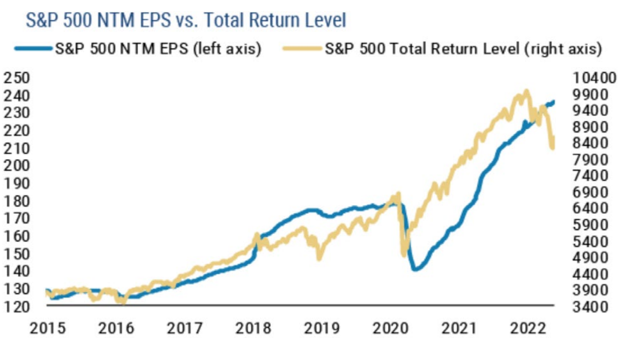
United States

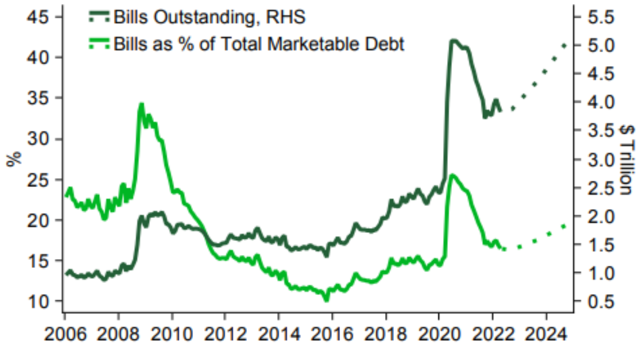
More and more analysts are lowering their earnings estimates for US equities. With 496 of the S&P 500 companies having released their quarterly disclosures, the Q1 2022 earnings season is drawing to a close, prompting equity analysts to digest the updated information. A look at their earnings revisions reveals that the pace of downward revisions has been accelerating relative to upward revisions, which translates into a decreasing breadth of earnings revisions. Notably, the decline seen so far still seems muted relative to y/y equity performance in the S&P 500. In addition, such dynamics often precede a consolidation in EPS estimates, which so far during 2022 continued to increase by 7 points from 220 points on January 1 to 227 points on June 3. Hence, this consolidation is likely to put further pressure on fundamental valuation metrics such as price-to-earnings multiples, which may not have bottomed yet.



Source: Refinitiv, FactSet, Morgan Stanley Research.

Reduced duration supply could initially dampen the impact of QT on term premium. From an equilibrium perspective, the Fed's QT should lead to a rise in longer-term interest rates as market participants demand reasonable compensation for bearing the additional duration risk. However, the supply perspective could give two comforting reasons why the impact might be muted at first. First, market participants expect Treasury to fund the refinancing of the $330 billion of maturing securities primarily through T-bill issuance to make up for the T-bill scarcity that emanated in recent months as a result of larger than expected tax receipts. Second, because of that, the issuance of longer duration T-bonds and T-notes should slow, leading the gross duration supply in terms of 10-year Treasury equivalents to decline from $2539 bn in 2021 to $2442 bn in 2022 according to an analysis by JP Morgan.

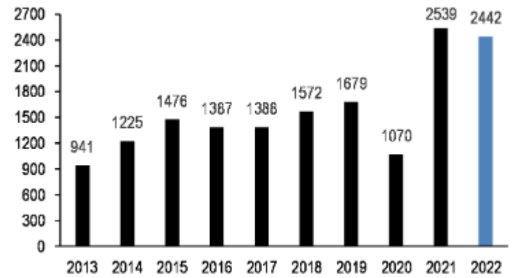
Figure 6: Treasury Bill Supply Likely to Rise Toward the Top of the 15-20% Guidance Range



Note: Dotted lines represent TD Securities forecasts.
Source: Bloomberg, TD Securities

Exhibit 7: We expect duration supply to decline modestly from last year's record level

Gross duration supply of Treasury coupons minus Fed purchases; $bns of 10-year Treasury equivalents



Source: J.P. Morgan, US Treasury

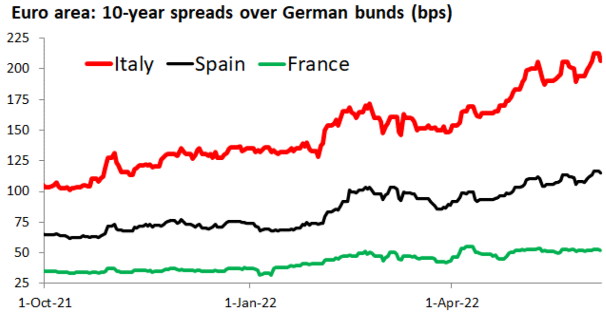
Euro area

European equities (+1.1%) are higher in a quiet day for data releases with several countries on holiday.

The euro and 10-year bund yields were little changed ahead of Thursday's ECB meeting. The ECB is expected to announce the end of its net asset purchases and signal that a first hike of 25 bps is likely in July. Contacts continue to see incremental hikes of 25 bps as most likely going forward.

Italian 10-year spreads tightened 5 bps to 207 bps on a report in the FT that the ECB may show firmer commitment on an anti-fragmentation tool if more vulnerable debt markets are hit by a selloff. No further details were provided, and the ECB reportedly declined to comment on the FT article. Analysts at Citi are doubtful that the ECB can agree on the details on an "anti-fragmentation" instrument, or that it can deploy it outside of extreme market dislocations.

Euro area: 10-year spreads over German bunds (bps)



Source: Bloomberg and IMF staff

United Kingdom

The pound (+0.5%) rose and 10-year gilt yields are 2 bps higher as traders focus on the implications of a potential no-confidence vote in PM Johnson expected to occur later today. According to analysts, a total of 180 MPs voting against PM Johnson would trigger a leadership contest with around 43 MPs having expressed doubts in the PM publicly.

Elliott Investment Management is seeking $456 mn in damages from the London Metal Exchange (LME) over its move in March to cancel nickel trades. Elliott's lawsuit is challenging the LME's decision to cancel trades, claiming it was "unlawful on public law grounds and/or constituted a violation of their human rights."

Japan

Bank of Japan (BOJ) Governor Kuroda said that policy tightening is not suitable for now. Nevertheless, he pointed to some progress toward the BOJ's inflation target, including rising inflation expectations and a higher tolerance for increases among households. **Long-end JGB yields edged up** (10-year: +0.8 bp; 30-year: +0.5 bp), following the rise in US Treasury yields. There was no take-up in the

BOJ's fixed-rate bond-buying operations today; the 10-year JGB yield was traded at 0.239%. Japanese yen appreciated (+0.1%). Equities gained (NIKEI: +0.6%).

Emerging Markets

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In **Latin America,** local markets held relatively steady on Friday amid the selloff in US. Equities in **Brazil** (-1.2%) was the only notable weak spot, likely pressured by concerns about a Thursday report discussing the possibility of the government declaring a state of calamity to open up budget space. **Asian equities were mixed,** gaining 1.7% on net. Chinese (CSI 300: +1.9%) and Hong Kong (+2.7%) equities gained, while share prices dropped in Indonesia (1.2%). Asian currencies were traded in a tight range. In **Thailand,** CPI inflation accelerated to 7.1% y/y in May from 4.7% in April, well above expectations (consensus: +5.9%), driven by rising energy and food prices. In **Hong Kong SAR**, PMI improved to 54.9 in May from 51.7 in April. Equities in **EMEA** are higher, with gains of +1% in Hungary and Poland. **Local rates opened the week higher in several countries.** Currencies are mixed. The **Russian** ruble (+3% to 61/$) gained after Saudi Arabia raised the price of its oil more than expected. According to news reports, Russia and Turkey have agree on a plan to ship Ukrainian grain from Odessa. The National Bank of Kazakhstan left its policy rate unchanged despite further inflation pressures.

Emerging Market Fund Flows

EM hard currency bond funds saw net inflows for the first time in 7 weeks (+$248mn), while outflows from local currency funds held steady. Local currency fund outflows were $1.5bn, with slightly larger outflows from China-focused funds (-$950mn) and similar outflows from EM ex-China funds (-$554 mn), compared to prior week. **EM equity funds reverted to small outflows** (-$59 mn), with outflows from Asia ($510 mn) and EMEA (-$27 mn) offset by inflows to Latam (+$192 mn).

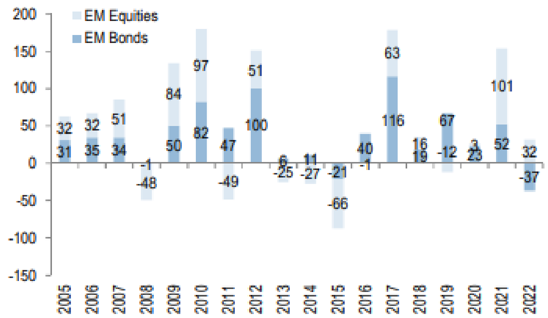
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	EM Bonds and Equities		-1.3	-4.9
	EM Bonds		-1.3	-36.9
	Hard Ccy		0.2	-18.4
	Local Ccy^		-1.5	-18.4
	o.w. EM ex-China		-0.6	-6.6
	o.w. China		-1.0	-12.2
	EM Equities		-0.1	32.0
	US HG		-0.2	-37.6
	US HY		3.8	-31.0
	Global Equities		2.3	94.9
	EM Bond and Equity ETFs		0.1	37.3
	EM Bond ETFs		0.1	-4.9
	EM Equity ETFs		0.0	42.2
	Non-resident EM flows*		4.3	-56.2

Exhibit 2: Annual EM bond and equity fund flows

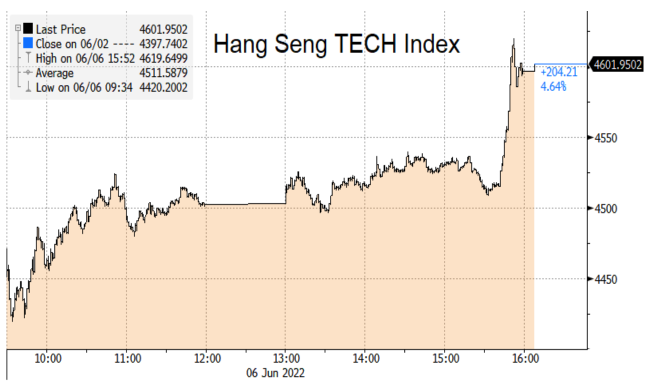
USD billion



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

China

Chinese equities rose on optimism around reopening and a potential end of the tech crackdown (CSI 300: +1.9%). Beijing started re-opening, allowing its residents to move freely as long as they have a negative COVID test result within 72 hours. RMB appreciated (+0.2%). Reportedly, Chinese regulators are preparing to wrap up their data security investigation into Didi and two other platform companies this week. Their companies' main apps are expected to be restored to mobile stores. The three companies are expected to face some financial penalties and offer to transfer 1% of their shares to the state; the latter



aims to give officials greater say in running their business. Didi's share price surged about 50% in pre-market trading in New York; Hang Seng Tech index rose (4.6%). Caixin PMI composite improved to 42.2 in May from 37.2 in April. Both services PMI (41.4; consensus: 46.0) and manufacturing PMI (48.1; consensus: 49.0) improved in May though weaker-than-expected.

Saudi Arabia

Saudi Aramco raised the price for its key Arab light crude grade for Asian customers by $2.10 a barrel from June to $6.50 above its benchmark. According to a Bloomberg survey, consensus was for a hike of $1.50. Aramco also increased its prices for northwest Europe and Mediterranean regions. **Near-term Brent oil prices rose 0.7% to $121/bbl, signaling strong demand for immediate delivery compared to 12-month Brent oil prices trading around $100 last week.**

Turkey

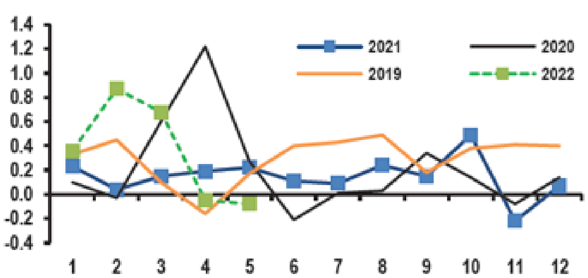
The Turkish lira (-0.8%) fell as Finance Minister Nebati reportedly told AKP lawmakers that Turkey does not plan to cut or raise interest rates. Mr. Nebati expects Turkey's inflation to end the year at 48–49%. He also said that the government's FX-linked lira deposit program cost the budget about 21.1 bn liras ($1.27 bn).

Uruguay

Inflation held steady in May on easing food prices but remains above target. CPI inflation moderated to 0.46% m/m in May, leaving the y/y rate stable at 9.37%, above the inflation target ceiling of 7%. Food prices eased more than expected for a second month, in particular fresh food, which helped to offset the higher transportation components from rising gasoline prices. But analysts expect a reversal in food prices in Q3. On monetary policy, the board signaled 50 bps of tightening in both July and August for the policy rate to converge to 10.25%.

Figure 3: Food prices contribution to headline CPI

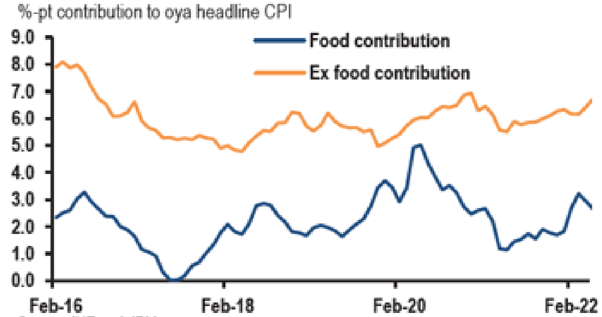
%-pt contribution to m/m CPI variation



Source: INE and J.P Morgan

Figure 4: Food and ex-food CPI

%-pt contribution to oya headline CPI



Source: INE and JPMorgan

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Global Financial Indicators

Last updated: 6/6/22 8:08 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		4003	-1.6	-4	-3	-5	-16	-5
Europe		3830	1.2	0	6	-6	-11	-4
Japan		27916	0.6	2	3	-4	-3	6
China		4166	1.9	4	7	-21	-16	-10
Asia Ex Japan		71	-1.9	2	4	-26	-14	-10
Emerging Markets		42	-1.6	2	4	-24	-13	-11
Interest Rates					basis points			
US 10y Yield		2.96	2.2	22	-17	140	145	96
Germany 10y Yield		1.27	0.0	22	14	149	145	105
Japan 10y Yield		0.25	1.1	1	0	16	17	5
UK 10y Yield		2.18	2.1	19	18	139	121	70
Credit Spreads					basis points			
US Investment Grade		150	-1.3	-4	-6	58	38	7
US High Yield		429	-2.8	-15	1	93	91	23
Europe IG		88	-1.6	3	-9	39	40	16
Europe HY		437	-8.7	17	-25	193	196	85
Exchange Rates					%			
USD/Majors		102.00	-0.1	0	-2	13	7	6
EUR/USD		1.07	0.1	-1	2	-12	-6	-5
USD/JPY		130.7	-0.1	2	0	20	14	14
EM/USD		53.1	0.5	1	2	-9	1	0
Commodities					%			
Brent Crude Oil ($/barrel)		120	0.1	2	8	80	59	32
Industrials Metals (index)		188	1.3	1	1	19	9	0
Agriculture (index)		76	1.5	-2	0	26	25	8
Implied Volatility					%			
VIX Index (%, change in pp)		25.3	0.5	-0.4	-4.9	8.9	8.1	-5.7
US 10y Swaption Volatility		100.1	3.1	2.4	-22.6	39.1	21.1	5.8
Global FX Volatility		9.7	0.1	0.1	-1.4	2.8	2.3	2.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		264	18.9	16	20	161	112	24
Italy		209	-3.7	15	9	101	74	38
Portugal		119	-1.2	8	5	53	55	27
Spain		115	-1.6	7	5	48	41	12

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

Emerging Market Financial Indicators

Last updated: 6/6/2022 8:09 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.64	0.3	0.3	0	-4	-4	-5		2.9	3.0	6	-3	-36	3	2
Indonesia		14452	-0.1	0.7	0	-1	-1	-1		7.0	2.7	-6	-2	54	59	47
India		78	0.0	-0.1	-1	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	0.0	-1.0	-1	-10	-4	-3		5.5	0.0	0	15	114	98	48
Thailand		34	0.1	-0.7	0	-9	-3	-6		2.9	-1.8	4	-32	100	108	71
Malaysia		4.39	0.0	-0.2	-1	-6	-5	-5		4.2	-3.1	8	-25	96	62	54
Argentina		121	-0.2	-0.9	-4	-21	-15	-11		56.3	-4.9	36	347	1076	576	837
Brazil		4.76	0.3	-0.1	7	6	17	5		11.7	-75.4	-74	-85	271	105	21
Chile		812	0.2	1.7	5	-11	5	-3		6.2	0.0	10	-39	211	73	24
Colombia		3788	-0.4	3.8	6	-4	8	3		8.4	-1.0	-18	-38	256	195	48
Mexico		19.49	0.3	0.2	3	2	5	4		8.7	13.5	39	-27	187	122	90
Peru		3.7	-0.2	-0.5	3	4	8	1		7.7	1.1	24	-65	302	175	165
Uruguay		40	0.4	0.1	3	10	12	6		10.5	-1.3	25	44	246	178	235
Hungary		362	1.1	1.0	0	-21	-10	-12		7.1	2.0	19	5	441	254	224
Poland		4.27	0.3	-0.4	5	-14	-6	-5		6.5	1.3	21	12	457	293	256
Romania		4.6	0.1	-0.4	2	-12	-6	-5		7.9	-0.3	20	88	521	311	278
Russia		61.6	2.8	3.8	10	18	22	33		8.2	-0.2	29	-383	80	-59	-299
South Africa		15.3	1.6	1.2	5	-12	4	-1		8.5	4.5	20	-21	122	104	88
Turkey		16.59	-0.9	-1.2	-10	-48	-20	-17		22.5	0.0	-28	-41	364	-182	8
US (DXY; 5y UST)		102	-0.2	0.3	-2	13	7	6		2.95	1.9	24	-12	217	169	105

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		4166	1.9	4	7	-21	-16	-10		202	-11	1	-8	-1	-6
Indonesia		7097	-1.2	1	-2	17	8	3		184	-16	-11	14	19	-1
India		55675	-0.2	0	2	6	-4	-3		171	-9	0	19	39	17
Philippines		6717	-0.4	-2	-1	-1	-6	-9		126	-16	-21	35	25	-11
Thailand		1646	-0.1	0	1	2	-1	-3		0	0	0	0	0	0
Malaysia		1538	0.0	-1	-2	-3	-2	-3		124	-6	-1	3	7	-9
Argentina		91775	0.4	-2	6	39	10	0		1894	-22	106	417	214	157
Brazil		111102	-1.2	-1	6	-15	6	-1		308	2	14	65	-3	-23
Chile		5352	0.0	-1	11	27	24	22		151	-10	-21	9	11	-23
Colombia		1614	0.2	5	4	30	14	7		332	-21	-52	85	-16	-60
Mexico		50689	-0.6	-3	2	0	-5	-1		380	12	1	56	48	10
Peru		20877	-1.0	0	0	-6	-1	-11		173	-2	-32	14	23	-17
Hungary		41304	0.0	7	-2	-14	-19	-14		201	-21	0	66	77	48
Poland		57533	1.2	-1	4	-14	-17	-8		45	28	48	8	13	29
Romania		12342	0.6	0	1	7	-6	-7		245	-10	0	70	52	12
Russia		2289	-0.8	-5	-4	-40	-40	-26		3411	-577	938	3228	3234	2897
South Africa		70900	0.0	-1	4	5	-4	-5		377	-4	-18	70	22	-12
Turkey		2645	1.7	5	8	85	42	31		575	-21	52	104	-3	12
Ukraine		519	0.0	0	0	-2	-1	0		3338	95	-310	2874	2579	1865
EM total		42	1.8	2	4	-24	-13	-11		377	-14	-20	28	-9	-81

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

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