



- Some investors flag recession as biggest risk to markets ([link](#))
- US Treasury expected to rebuild cash reserves at the Fed ([link](#))
- Australian central bank raises policy rates to 11-year high ([link](#))
- ECB survey shows decline in consumer inflation expectations ([link](#))
- China asks banks to cut deposit rates further ([link](#))
- ASEAN inflation moderates beyond base effects ([link](#))
- Investors expect Chilean bond yields to drop further ([link](#))

[Mature Markets](#)




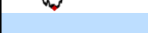



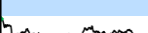



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## Back to Basics

After a rocky spring, markets seem to be back to basics, and mostly concerned with assessing growth and inflation prospects now the tail risks linked to the debt ceiling are behind us, and that concerns over banking stress have abated. Earlier today, the Reserve Bank of Australia surprised markets by raising its policy rates by 25 bps, to highest level in 11 years (4.1%). In Europe, the ECB consumer expectation survey for April showed median expectations for inflation over the next 12 months falling to 4.1% (from 5% in March). In ASEAN, some analysts are of the view that inflation has moderated beyond base effects. In Chile, investors expect bond yields to fall on lower growth and inflation. In the US, views about the probability of a recession differ among analysts, with Goldman Sachs cutting their judgmental probability that the US economy will enter a recession in the next 12 months back to 25%, where it was before SVB's failure.

Key Global Financial Indicators

Last updated: 6/6/23 1:24 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4274	-0.2	2	3	4	11
Eurostoxx 50		4279	-0.3	0	-1	11	13
Nikkei 225		32507	0.9	4	11	16	25
MSCI EM		40	0.0	1	0	-7	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.67	-1.3	-2	23	63	-21
Germany 10y Yield		2.34	-4.6	-1	4	101	-24
EMBIG Sovereign Spread		464	0	-14	-25	17	12
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		49.9	-0.1	0	-2	-6	0
Dollar index, (+) = \$ appreciation		104.2	0.2	0	3	2	1
Brent Crude Oil (\$/barrel)		75.0	-2.2	2	0	-37	-13
VIX Index (% change in pp)		14.9	0.2	-3	-2	-10	-7

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

## Mature Markets

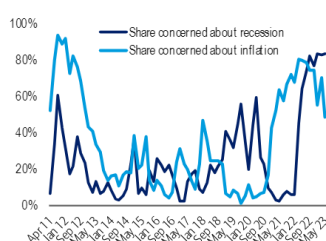
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### United States

In the latest Bank of America survey, some investors flagged recession as the greatest risk to markets, with fears about inflation receding as a potential major risk. Market pricing appears to support this view that inflation is less of a worry, as US Treasury Inflation Protected Security (TIPS) breakeven yields have fallen across the yield curve. Across the two, five and ten year maturities, TIPS breakeven yields are close to their lowest levels in three years. TIPS breakeven yields are viewed as key variables for market forecasts of future inflation. Although most recent economic US data have been stronger than expected, yesterday's durable goods and ISM reports came in below forecasts, underlining investor worries about the health of the economy. Meanwhile, stresses in the US regional banking sector are not expected to have a major impact. **In contrast, Goldman Sachs analysts cut their judgmental probability that the US economy will enter a recession in the next 12 months back to 25%, undoing their upward revision to 35% shortly after the SVB failure.** This is because the tail risk linked to the debt ceiling has disappeared and because they think that the banking stress will subtract only modestly from real GDP growth this year.

**Figure 2: Recession concerns overtaking inflation concerns**

The share worried about Recession remained high (83% in May), while the share for inflation dropped to 49% in May - the lowest since Jan 2021.

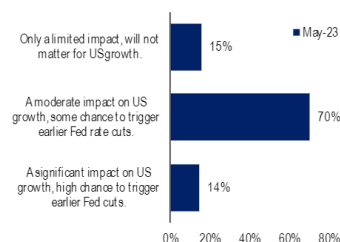


Source: BofA US Credit Investor Survey

BofA GLOBAL RESEARCH

**Figure 3: How much will US regional bank stress impact the US economy?**

Most expect only a moderate impact from the US bank stress.



Source: BofA US Credit Investor Survey

BofA GLOBAL RESEARCH

With the debt ceiling resolved, the US Treasury is expected to rebuild its cash reserves at the Fed. The cash in the Treasury General Account (TGA) at the Fed has fallen to \$50 billion as Treasury used extraordinary measures to avoid triggering the debt ceiling. JP Morgan expects the Treasury to grow the TGA to \$600 bn by the end of September, mainly by the issuance of large volumes of T-Bills as well as coupon securities. This could have a significant impact on money markets, as the new issuance will have to be bought by money market funds, banks, and other market participants. To the extent that banks purchase the new supply, their reserves at the Fed will be depleted and the liquidity within the money market complex will be reduced. JP Morgan forecasts that bank reserves will fall by \$600 bn through September, with reserve levels stabilizing at \$2.6 tn. The analysts expect MMFs to switch from the overnight reverse repo (RRP) facility to the new issuance, providing a measure of stability.

### Euro Area

Core sovereign bond yields declined (10y bund -7bps to 2.31%) with contacts pointing to a decline in consumer inflation expectations as well as lower crude oil prices. The ECB consumer expectation

**Figure 1: With the passage of a debt limit resolution, we expect the Treasury to swiftly replenish the TGA to ~\$650bn, with declining Reserves being the chief offset**

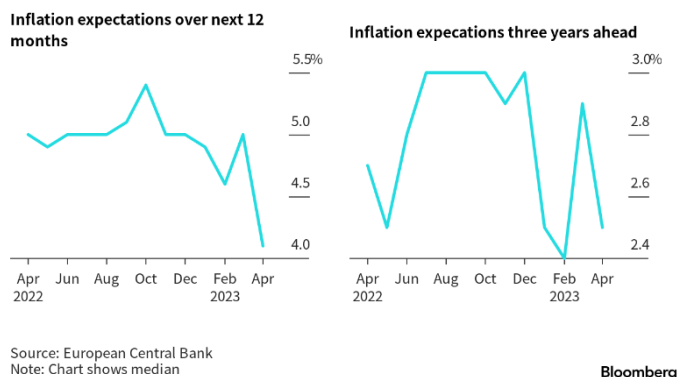
Projected evolution of Fed assets, RRP balances, TGA, reserves, and commercial bank deposits in 2023; \$bn

End-of-the-month	Fed Assets	RRP	TGA	Reserves	Commercial Bank Deposits
May-23	8492	2633	62	3240	17123
Jun-23	8410	2579	250	3023	17007
Jul-23	8326	2494	500	2775	16891
Aug-23	8245	2437	550	2701	16868
Sep-23	8162	2366	600	2639	16860
Oct-23	8083	2288	650	2587	16864
Nov-23	8003	2221	650	2575	16888
Dec-23	7925	2155	650	2564	16912

Source : J.P. Morgan, FRED, Federal Reserve H.4.1

survey for April showed median expectations for inflation over the next 12 months falling to 4.1% (from 5% in March), and expectations for inflation in the coming three years easing to 2.5% (from 2.9% in March). The survey also found that uncertainty around inflation over the next year had decreased, economic growth expectations for the next 12 months became less negative (-0.8% from -1%) and consumer expect a slower increase in their nominal income (1.1% from 1.3%). Elsewhere on the data front **euro area retail sales came in lower-than-expected in April** (+0.0%*m/m* versus expected +0.2% from -0.4%), and **German manufacturing data disappointed** (-0.4%*m/m* versus expected +2.8% from -10.9%). **European equities were edging lower while the euro weakened against the dollar (-0.2%).**

#### Euro-Area Consumers' Inflation Expectations Dropped in April



**Yesterday, ECB President Lagarde and others spoke in favor of further ECB tightening, pointing to strong price pressures.** This morning General Council member Knot cautioned that it would be more difficult to bring down inflation as the euro area is now seeing second-round effects from higher-energy costs. While market pricing for ECB tightening eased slightly, another 50bps of tightening remains fully priced in by September, to take the deposit rate to 3.75%.

#### Australia

**The Reserve Bank of Australia (RBA) raised its policy rates by +25bps to an 11-year high, bringing its cash rate to 4.1% and the interest rate on exchange settlement balances to 4%.** While some analysts expected the increase, consensus was looking for no change. Looking forward, the RBA warned that further tightening might still be required to curb high inflation. Swaps traders have moved their terminal rate expectations up to 4.35%, although they are betting strongly against a move in July, according to Bloomberg. Morgan Stanley analysts are comfortable with their terminal rate forecast of 4.35% and they expect the final hike to come in July or August. **The RBA's move comes on the heels of increase of minimum wage by +5.75%.** The Fair Work Commission announced on Friday that the new rate will be A\$882.80 (\$580.53) a week from July 1. **Australian stocks receded -1%. Australian dollar strengthened +0.7%. 3-year bond yields went up +11bps, and 10-year bonds yields 2 bps following the decision.**

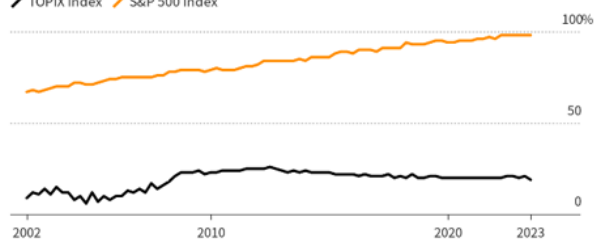


## Japan

**Japanese stocks extended gains (+0.7%) while the yen strengthened +0.3% and yields on 10Y bonds declined -0.9bps.** The Topix Core 30 Index has rallied 21% so far in 2023, double the gains in the Topix Small Index. Goldman Sachs analysts point out that investors face a shortage in coverage of small and medium Japanese stocks as only about 20% of Topix firms are covered by five analysts or more down from 26% in 2012 and sharply trailing the S&P 500 Index's 98%. **Bank of Japan Governor Ueda reiterated that BoJ's easy monetary policy stance will continue until the 2% inflation target is met. He expects inflation expectations to also rise to 2% when that's achieved.** On data releases, household real cash earnings continued to decline, falling -3% y/y in April (previous: -2.3%), as inflation outpaces wage gains. Nominal cash earnings slowed to +1% y/y in April (previous: +1.3%), while household spending slumped -4.4% y/y in April (previous: -1.9%).

Japan Stocks' Sell-Side Coverage Lags US Peers

TOPIX Index S&P 500 Index



Source: Goldman Sachs Global Investment Research  
Note: data shows ratio of stocks covered by at least five sell-side firms

Inflation Outpacing Wage Gains  
Japan's real cash earnings decline for the 13th month

Japan Labour Statistics Avg Monthly Real Cash Earnings YOY - Last Price



Source: Labor ministry

## Emerging Markets

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**Asian equities declined -0.2%**, dragged by Chinese stocks (CSI -0.9%). **Asian currencies were mixed.** The Thai baht weakened -0.7%, followed by the Malaysian ringgit (-0.6%), while the Indonesian rupiah gained +0.2%. **10-year bond yields were little changed.**

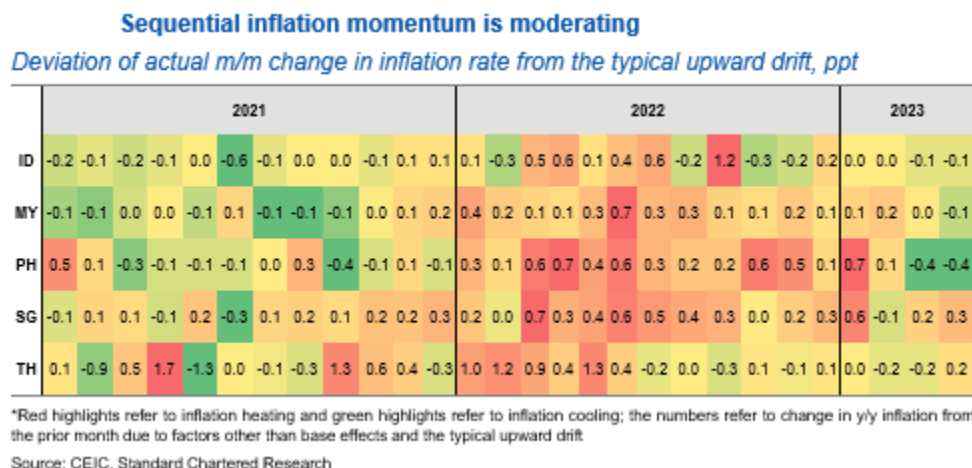
**Shares in Eastern Europe gained as local rates fell in line with European bond markets.** The Turkish lira (-1%) fell as Turkish Finance Minister Simsek reportedly met with Hafize Gaye Erkan, former co-CEO at First Republic Bank and former CEO of commercial property lender Greystone, to discuss a position as head of the central bank. The National Bank of Poland kept its policy rate unchanged at 6.75%, as expected.

**Latin American equities continued Friday's rally while currencies were mixed.** Stocks in Argentina (+2.24%) led the gains, followed by Mexico (+0.57%), Colombia (+0.33%), and Brazil (+0.12%). Currencies appreciated in Colombia (+1.60%), Brazil (+0.52%), and Mexico (+0.50%), but depreciated in Argentina (-0.69%), and Chile (-0.04%). The Colombian peso and Mexico peso are the two best performing emerging market currencies year-to-date, up 13.35% and 11.63% respectively.

## ASEAN

**ASEAN inflation has moderated beyond base effects in recent months, according to analysts at Standard Chartered.** The analysts decompose inflation drivers into three factors: technical base effects, the typical upward drift, and the deviation of the actual m/m change in the inflation rate from the typical upward drift. Cumulatively, inflation has slowed the most in Indonesia and Thailand. There could be more to the inflation moderation in Indonesia, Philippines and Malaysia. Sequential inflation in Singapore remains firm due to the GST hike. **Thailand's** inflation data for May released today illustrates this point. Inflation decelerated to +0.5% y/y in May (previous: 2.7%) below the central bank's 1-3% inflation target, as food

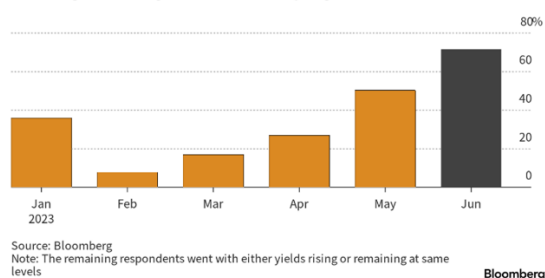
and fuel prices cooled. The soft inflation print raised expectations of a rate pause by the Bank of Thailand in August.



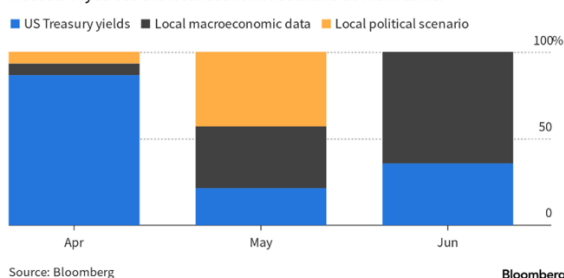
## Chile

**Chilean bond yields are expected to drop after lower-than-expected economic activity and inflation data.** Economic activity in April declined -1.1% yoy, more than expected (-0.5%) and inflation has come down to 9.9% y/y in April from a peak of 14.1% in August, prompting the market to bet on rate cuts. 10 out of 14 of respondents from a Bloomberg News survey believed yields would drop in June, with 3 respondents saying rates would remain at May levels and 1 respondent saying rates will rise. The majority of respondents believe that local macro data will be the main driver of yields, while the rest believe it will be US treasury yields. Swap rates are pricing borrowing costs to fall to 9.25% over the next 6 months and 6.25% over the next year, 50 bps and 75 bps lower than forecasts from 2 weeks ago.

**Most Analysts See Peso Bond Yields Falling in June**  
Percentage is at its highest since the survey began



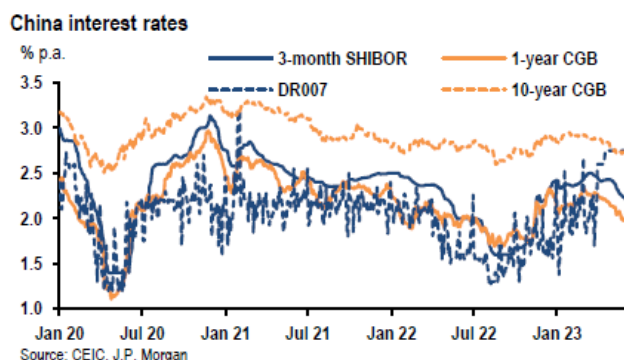
**Local Macroeconomic Data Moves to Center Stage**  
Most surveyed see the local economic scenario as main driver



## China

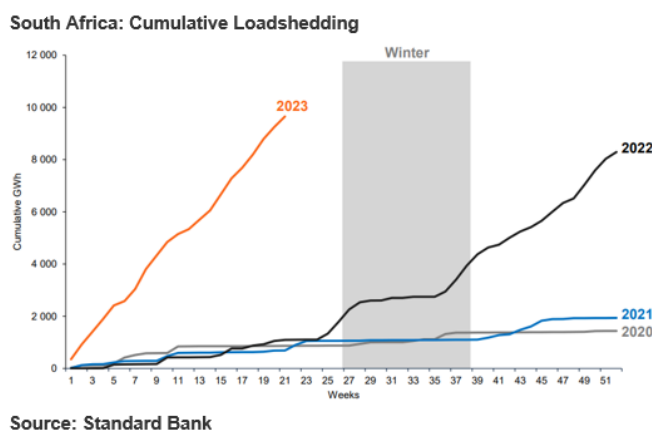
**The Chinese authorities have reportedly asked the biggest banks to cut their deposit rates again.** Bloomberg reports that the rates adjustment may come as early as this week, although the move is not mandator. The guidance will help to ease pressure on banks as they balance shrinking margins and government directives in providing support to the economy. **Chinese stocks fell -0.9%. 10Y bond yields declined -0.8bps and the renminbi weakened -0.2%.**





## South Africa













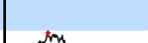



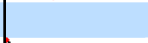
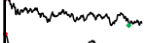







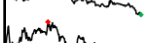
The rand (+0.4%) gained after GDP data showed that South Africa avoided a technical recession with growth of 0.4% qoq in 2023Q1 (after a revised drop of 1.1% qoq in 2022Q4). Nevertheless, analysts point out that South Africa has experienced a much higher cumulative loadshedding so far in 2023 than over the same period last year. Contacts warn that loadshedding is expected to worsen materially into South Africa's winter months from July onwards. **The rand appreciated in June but is still 11% lower ytd.**



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). 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

6/6/23 1:25 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4274	-0.2	2	3	4	11
Europe		4279	-0.3	0	-1	11	13
Japan		32507	0.9	4	11	16	25
China		3808	-0.9	-1	-5	-9	-2
Asia Ex Japan		67	-0.3	1	0	-7	3
Emerging Markets		40	0.0	1	0	-7	4
<b>Interest Rates</b>			basis points				
US 10y Yield		3.67	-1.3	-2	23	63	-21
Germany 10y Yield		2.34	-4.6	-1	4	101	-24
Japan 10y Yield		0.43	-0.8	-1	1	18	0
UK 10y Yield		4.19	-2.1	-6	41	194	52
<b>Credit Spreads</b>			basis points				
US Investment Grade		163	3.3	-1	-4	12	4
US High Yield		478	6.3	-6	-26	46	-3
<b>Exchange Rates</b>			%				
USD/Majors		104.16	0.2	0	3	2	1
EUR/USD		1.07	-0.2	0	-3	0	0
USD/JPY		139.5	-0.1	0	3	6	6
EM/USD		49.9	-0.1	0	-2	-6	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		75.0	-2.2	2	0	-24	-10
Industrials Metals (index)		142	-0.3	0	-8	-25	-14
Agriculture (index)		66	1.0	3	-3	-13	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.9	0.2	-2.5	-2.3	-10.1	-6.7
US 10y Swaption Volatility		104.6	0.0	-21.5	-16.7	3.1	-21.1
Global FX Volatility		8.5	0.0	-0.4	-0.6	-1.4	-2.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		137	0.4	-9	-38	-119	-68
Italy		177	1.7	-3	-13	-32	-37
Portugal		68	0.0	-4	-17	-50	-33
Spain		100	0.0	-5	-9	-17	-10

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

## Emerging Market Financial Indicators

Last updated: 6/6/2023 1:26 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		7.12	-0.2	-0.5	-3	-7	-3		2.8	-3.0	-5	-20	-7	-26
Indonesia		14860	0.2	0.8	-1	-3	5		6.4	-3.4	-6	-9	-61	-59
India		83	0.1	0.1	-1	-6	0		7.4	-4.0	6	17	(31.4)	-5
Philippines		56	0.0	0.1	-2	-6	-1		5.9	-1.3	0	6	46	-9
Thailand		35	-0.7	0.0	-3	-1	-1		2.6	-4.5	-12	0	-37	-7
Malaysia		4.61	-0.7	-0.1	-4	-5	-4		3.7	-0.6	-4	-3	-51	-35
Argentina		243	-0.7	-1.8	-7	-50	-27		110.5	22.8	302	1421	5422	2233
Brazil		4.93	0.5	1.7	0	-3	7		11.3	-19.2	-43	-95	-128	-130
Chile		800	0.0	0.8	-1	3	6		5.2	0.0	-6	-4	-100	-15
Colombia		4281	1.6	3.5	6	-11	13		8.4	0.0	-25	-37	-15	-135
Mexico		17.45	0.1	1.2	2	12	12		8.4	0.0	7	6	-46	-31
Peru		3.7	0.2	-0.2	1	1	3		7.3	3.6	7	#VALUE!	-46	-69
Uruguay		39	-0.3	-0.3	0	2	3		10.0	0.0	0	-4	-50	-67
Hungary		345	0.0	0.1	-2	5	8		7.6	-20.0	-42	-27	58	-197
Poland		4.20	-0.5	0.6	-1	2	4		5.2	-7.0	-25	1	-127	-94
Romania		4.6	-0.2	-0.2	-4	0	0		6.8	0.0	-5	-29	-114	-89
Russia		81.2	-0.4	-0.3	-4	-24	-9							
South Africa		19.2	0.3	2.5	-5	-20	-11		10.0	-5.0	-45	64	142	79
Turkey		21.50	-1.1	-4.9	-9	-23	-13		14.4	94.0	529	160	-812	455
US (DXY; 5y UST)		104	0.2	0.0	3	2	1		3.80	-1.6	0	39	77	-20

	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		3808	-0.9	-1	-5	-9	-2		193	-1	-7	-9	16	
Indonesia		6619	-0.2	-1	-2	-7	-3		149	7	3	-35	9	
India		62793	0.0	0	3	14	3		145	-6	-19	-26	3	
Philippines		6480	-0.6	0	-3	-4	-1		120	6	1	-6	23	
Thailand		1529	-0.2	-1	0	-6	-8		0	0	0	0	0	
Malaysia		1383	0.1	-2	-3	-9	-8		97	0	-7	-27	-3	
Argentina		360826	2.2	4	21	299	79		2531	-69	-58	637	326	
Brazil		112696	0.1	2	7	2	3		264	5	-17	-44	-10	
Chile		5654	0.0	1	3	6	7		134	3	-5	-17	2	
Colombia		1152	0.3	5	-1	-28	-10		384	-22	-42	52	12	
Mexico		53536	0.6	-1	-3	7	10		398	2	-5	18	17	
Peru		21937	0.4	3	-1	7	3		178	-3	-7	5	-2	
Hungary		48433	0.4	2	5	17	11		231	-2	10	30	9	
Poland		66211	0.6	4	6	15	15		140	4	4	95	67	
Romania		12149	0.2	-1	0	-1	4		246	-10	-12	1	-10	
South Africa		76367	-0.3	1	-2	7	5		432	-23	0	55	65	
Turkey		5322	-0.1	7	21	101	-3		488	-125	-40	-87	48	
Ukraine		507	0.0	0	0	-2	-2		5008	62	-346	1670	929	
EM total		40	-0.2	1	0	-7	4		407	-17	-16	30	31	

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

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