



- Sharp moves in equities and mortgage rates suggest US household wealth may peak ([link](#))
- Record low corporate bond defaults may reverse as growth and policy support fades ([link](#))
- LME faces lawsuits over nickel trade suspension ([link](#))
- UK Prime Minister Johnson wins confidence vote ([link](#))
- Reserve Bank of Australia surprises with 50 bp hike; signals more tightening ahead ([link](#))
- South African rand appreciates following upside surprise to Q1 GDP ([link](#))

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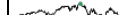



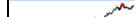






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Angst around central bank tightening dampens risk sentiment

Equity markets are drifting lower, and core sovereign bond yields have paused their move higher over the past day as the follow-through from some recently strong data reads has continued to cool any hopes that major central banks could slow the pace of policy rate hikes. US stocks closed marginally higher yesterday after fading earlier session gains as Treasury yields rose up to 10 bps across the curve, driven mostly by higher real rates and ultimately tempering the risk rebound. Although stabilizing this morning, 10-year US Treasury yields have now risen back above 3% for the first time since early May, and rates in Europe are also higher as 10-year UK gilt and German bund yields hit 8-year highs. Overnight and this morning, Asian equities generally closed lower while European stocks and US futures are retreating amid increasing signs of more aggressive monetary policy tightening. The Reserve Bank of Australia hiked its policy rate by more than expected and guided that further steps would be taken to ensure inflation returns to target. The US dollar has also restarted its strengthening trend in reaction to higher US rates and has seen the Japanese yen depreciating back to its weakest level in two decades to the dollar, while the UK pound initially bounced between gains and losses following news UK PM Johnson won the confidence vote.

Key Global Financial Indicators

Last updated: 6/7/22 8:03 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4121	0.3	-1	0	-2	-14	-2
Eurostoxx 50		3800	-1.0	0	5	-7	-12	-4
Nikkei 225		27944	0.1	2	3	-4	-3	6
MSCI EM		43	0.5	1	4	-24	-13	-10
Yields and Spreads			bps					
US 10y Yield		3.03	-1.3	18	-10	146	152	104
Germany 10y Yield		1.31	-1.2	19	18	151	149	108
EMBIG Sovereign Spread		443	-3	-11	-1	111	76	30
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.7	-0.3	0	1	-9	0	-1
Dollar index, (+) = \$ appreciation		102.7	0.3	1	-1	14	7	7
Brent Crude Oil (\$/barrel)		119.1	-0.4	-3	6	67	53	23
VIX Index (% change in pp)		25.9	0.9	0	-4	10	9	-5

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

Mature Markets

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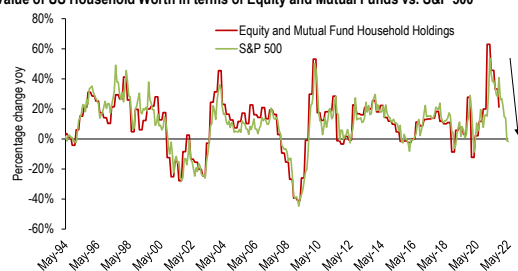
United States

Absent major economic data releases, fixed-income investors focused on the impending US Treasury auctions this week, **inducing a sharp sell-off in Treasuries with 10-year yields rising 10 bps, topping 3% for the first time since May 9**. The dollar continued to gain (0.3%). Risk assets gained due to optimism surrounding Beijing's incipient reopening, leading to a modest increase in the S&P 500 (0.3%).

The scale of changes in equities and mortgage rates suggest that household wealth has peaked.

From a US household perspective, the last two years have seen a notable rise in housing and financial wealth. As household wealth statistics are available with a time lag, with the latest observations as of Q4 2021, it is instructive to overlay changes in household wealth with more timely indicators such as the S&P 500 and Case-Shiller home price indices, as well as mortgage rates, to arrive at a timely approximation on the impact of policy tightening. The recent fall in equities and rising mortgage rates suggests that household wealth may have peaked, which could confirm the effectiveness of the tools at the Fed's disposal to ease the demand-pull inflationary pressures. Notably, reflecting that only about 15% of US mortgages have variable rates, a mean reversion in accumulated real estate household wealth will likely occur very gradually over time as households roll over maturing mortgages. Conversely, the decline of the S&P 500 has a contemporaneous relationship with household wealth invested in equity and mutual funds.

Value of US Household Worth in terms of Equity and Mutual Funds vs. S&P 500



Source: Fred, Bloomberg and IMF calculations

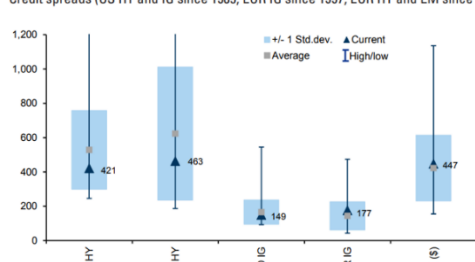
Value of US Household Worth in terms of Real Estate vs. Case Shiller vs. 30Y Mortgage



Source: Fred, Bloomberg and IMF calculations

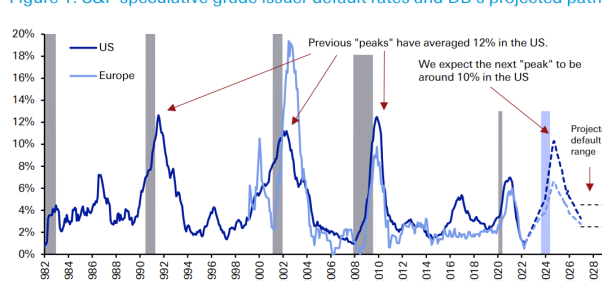
Speculative grade corporate bonds might face substantial headwinds in the years to come. While current credit spreads in USD- and EUR- IG as well as EM hard currency debt appear closely aligned with historical averages, USD- and EUR- HY credit spreads appear compressed compared to historical averages. A closer look at the default rates of HY debt relates the comparatively low credit spreads to the ending default cycle. By historical standards this cycle can be characterized as the shallowest and tightest default cycle since 1982 in reflection of the determined fiscal and monetary accommodation that has helped to keep the economic fallout of the Covid-19 pandemic contained. However, on the back of QT and fading fiscal support, analysis by Deutsche Bank points out that the next default cycle might coincide with the US economy entering into a recession in 2023 and defaults ratcheting structurally higher than seen in the past two decades, possibly peaking at a 10% default rate for US HY debt.

Exhibit 84: Current credit spreads relative to their historical ranges
Credit spreads (US HY and IG since 1985, EUR IG since 1997, EUR HY and EM since 1998)



Source: Haver Analytics, iBoxx, Goldman Sachs Global Investment Research

Figure 1: S&P speculative grade issuer default rates and DB's projected path



Source: Deutsche Bank, S&P

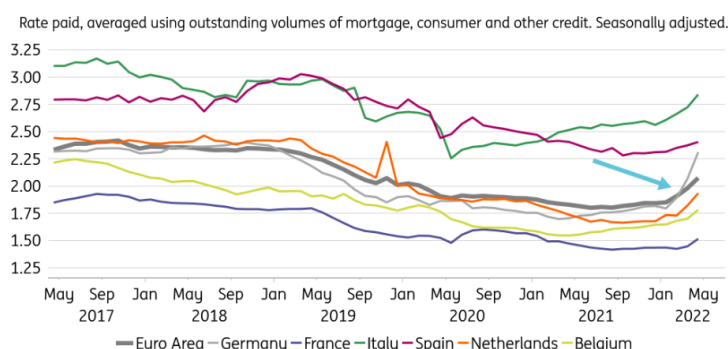
Euro area

European equity markets were mixed, with the Stoxx 600 Europe -0.6% lower while the euro (-0.1%) weakened and sovereign bond yields generally edged lower (10-yr bund -2bps). Peripheral spreads narrowed with Italian 10-year spreads tightening by 4 bps to 204 bps. ECB Council Members are reportedly set to request at the ECB meeting on Thursday that President Lagarde uses stronger language to communicate that fragmentation will not be allowed to occur, and peripheral European economies' borrowing costs will be maintained, according to a Bloomberg report.

On the data front, the Eurozone Sentix Economic index surprised on the upside in June. The overall index rose to -15.8 (vs expected -21.2 from -22.6), with both situation values and economic expectations increasing. Sentix analysts note that the real economy is performing better than anticipated, but caution that companies will likely not be able to indefinitely pass on higher costs to consumers. Separately, **German industrial orders data disappointed**, contracting by -6.2% y/y in April (vs expected -4.1% from -2.9%). This was the third consecutive monthly decline (-2.7% m/m), driven mainly by lower foreign orders, which analysts attribute to lower demand from China. Germany's statistical office note weak demand amid higher uncertainty as a result of Russia's invasion of Ukraine but highlight that order books of companies remain well filled, according to Bloomberg.

ING analysts expect eurozone bank lending volumes to weaken going forward, against a backdrop of higher lending rates, a tightening of loan-approval criteria and higher economic uncertainty. Household borrowing rates have seen increased across the eurozone this year, with the largest increase seen in in Germany (+50 bps this year).

Average household borrowing rates (%)



Source: ECB, ING-calculations

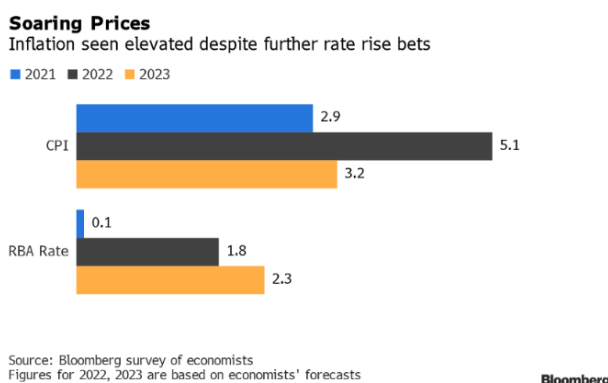
United Kingdom

The pound was trading weaker (-0.1%) this morning with analysts generally remaining bearish on the currency. Prime Minister Boris Johnson won the vote of no-confidence yesterday, but analysts note that his leadership tenure was brought into question as 41% of his own MPs voting against him. Several analysts highlight that Johnson could face difficulty given the division within the party. JPMorgan analysts see a higher probability that the Prime Minister will announce new policy measures—such as tax cuts or further fiscal support—to win both public support and support within his party.

Jane Street, a Wall Street trading house, is seeking roughly \$15 mn in damages from the London Metal Exchange (LME) as a result of the nickel trade cancellation in March. This follows a lawsuit from Elliott Investment Management seeking \$456 mn in damages. Jane Street said that LME's decision to suspend nickel trades "severely undermines the integrity of the markets and set a dangerous precedent that calls future contracts into question", according to Bloomberg.

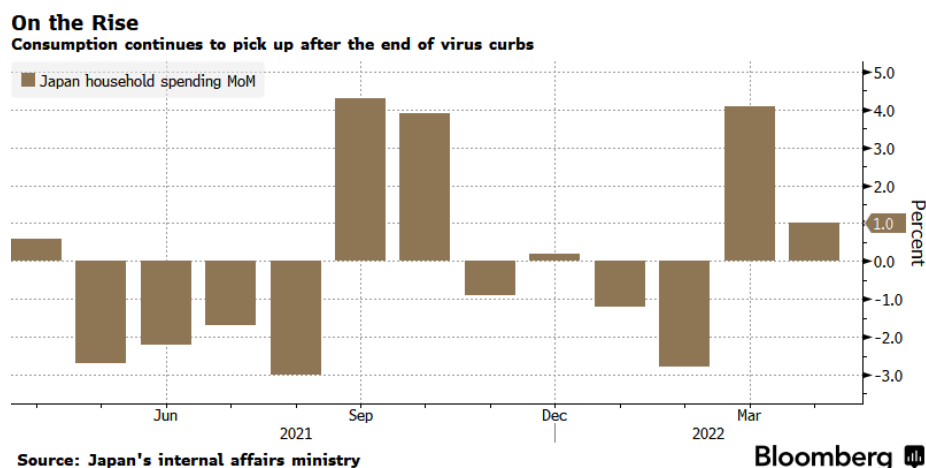
Australia

The Reserve Bank of Australia (RBA) raised its policy rate by 50 bps to 0.85%, higher than expected. Markets expected a 25 bp hike. Governor Lowe noted that inflation is expected to increase further but will return to the 2–3% target next year. The economy is resilient, with household and business balance sheets generally in good shape. The labor market is also strong, and wage growth is expected to pick up. However, he pointed to how household spending will respond to higher inflation as a source of uncertainty to the economic outlook. With respect to forward guidance, Governor Lowe said that the RBA expects to take further steps in the process of normalizing monetary conditions in Australia over the months ahead to ensure that inflation return to the target over time. **Government bond yields rose sharply** (1-year: +19.3 bps; 10-year: +6.4 bps). Australia dollar depreciated (-0.3%). Equities declined (-1.4%).



Japan

Household spending increased 1% m/m in April, providing an indication that the economic recovery is on track. April was the first full month free of COVID-related restrictions. While spending continued increasing, it was still down 1.7% from a year ago. Meanwhile, labor cash earnings increased 1.7% y/y in April, stronger than expected (consensus: +1.5%). However, earnings in real term fell on the back of rising inflation. Equities gained (NIKKEI: +0.2%). Long-end JGB yields rose (10-year: +0.4 bp; 30-year: +2.4 bps), following the increase in US Treasury yields. **Japanese yen depreciated (-0.7%)**, reaching 132.9 yen per dollar, the weakest level in 20 years, on the back of the growing divergence of monetary policy between Japan and other major advanced economies. Bank of Japan Governor Kuroda insisted on maintaining the ultra-easing monetary policy.



Emerging Markets

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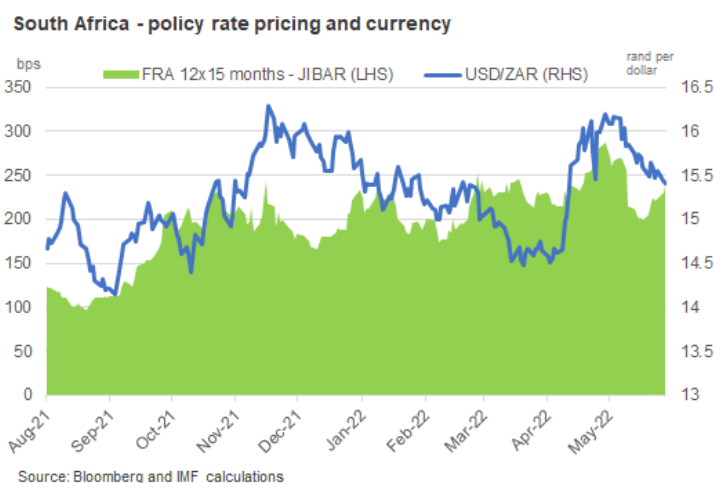
In **Latin America**, local rates rose across the board following US yields, pressuring local equities, with 5-year government bond yields up 19 bps in Colombia and 10 bps in Brazil and Mexico. Local currencies weakened on dollar strength, led by the Chilean peso (-1.2%) amid a tight election race, and Peruvian sol (-0.7%). **Asian markets generally retreated amid renewed risk aversion**, following a rise in US treasury yields. Asian equities were mixed, falling 1.4% on net, while Asian currencies depreciated, led by Korean won (-1.3%) and Thai baht (-0.6%). In the **Philippines**, CPI inflation increased to 5.4% y/y in May, as expected, from 4.9% in April. The new central bank governor, Felipe Medalla (his term will start on July 1), also signaled policy rate hikes in the coming months. Philippine peso depreciated (-0.1%); government bond yields were little changed. **Equities were mixed in EMEA while currencies were mostly trading weaker against the dollar**. Equities in Hungary (-1.4%) underperformed, while stocks in Czech Republic (+0.8%) increased. **The Turkish lira (-1%) depreciated following comments from President Erdogan that interest rates will not be increased**, instead he anticipates further cuts.

China

Chinese equities were flat, outperforming regional peers. Onshore market sentiment was still supported by re-opening optimism. However, Chinese tech stocks listed in Hong Kong SAR declined (-0.8%) as investors are waiting for a clearer stance of regulators, following a rise in share prices yesterday (+4.6%) on Didi's news. RMB depreciated (-0.3%).

South Africa

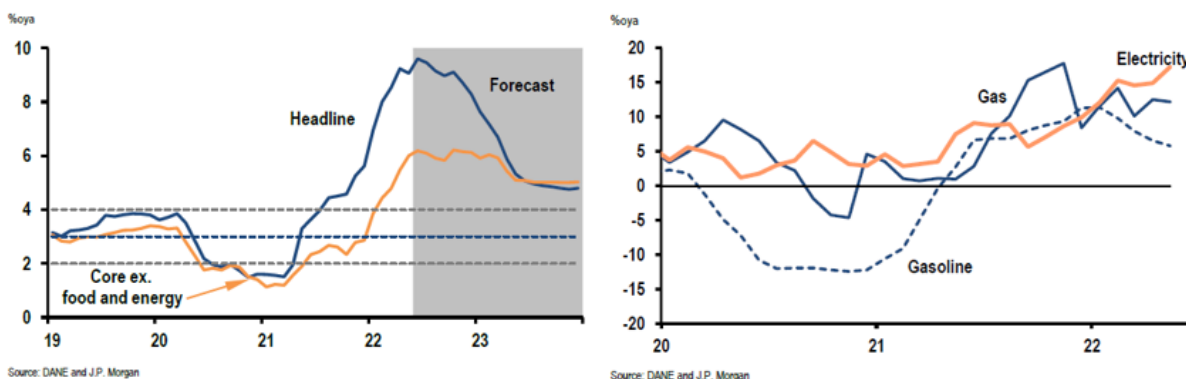
The rand strengthened (+0.6%) and yields increased (5-year yields +9bps) after stronger than expected Q1 GDP data. GDP increased by +1.9% q/q in Q1 (vs expected +1.2% from 1.4%) and is now back at pre-pandemic levels. Standard Chartered analysts forecast economic growth of 2% in 2022, noting that the improving fiscal trajectory is supporting the macroeconomic outlook while unstable electricity supply remains a growth constraint. **The South African Reserve Bank increased the key interest rate by 50 bps to 4.75% at the May monetary policy meeting and markets continue to expect further monetary policy tightening**.



Colombia

Headline inflation decelerated modestly in May, but core inflation surprised to the upside. May inflation was 0.84% m/m and 9.07% y/y, lower than April, helped by slowing fresh food prices and the base effect of the April 2021 strike. Energy prices however surged 1.19% m/m despite falling gas prices. Core inflation printed a larger than expected 0.63% m/m, with the annual rate accelerating to 6.5% y/y. Both



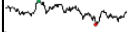



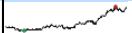



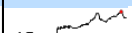





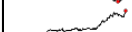

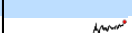






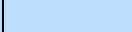


headline and core inflations are expected to remain well above target till at least 2023. BanRep hiked its policy rate by 100 bps in April to 6% in a 4–3 vote, with the minority favoring a 150 bp hike and warning that expectations were de-anchoring. Governor Villar commented at the end of May that the output gap is no longer negative, which the markets interpreted as opening door for a faster pace of rate hikes. **For the June policy meeting, markets are expecting a 150 bp hike followed by another 100 bps in July.**



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: 6/7/22 8:04 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4106	0.3	-1	0	-3	-14	-3
Europe		3800	-1.0	0	5	-7	-12	-4
Japan		27944	0.1	2	3	-4	-3	6
China		4179	0.3	4	7	-20	-15	-10
Asia Ex Japan		72	1.0	2	5	-24	-13	-9
Emerging Markets		43	0.5	1	4	-24	-13	-10
Interest Rates			basis points					
US 10y Yield		3.03	-1.3	18	-10	146	152	104
Germany 10y Yield		1.31	-1.2	19	18	151	149	108
Japan 10y Yield		0.25	0.3	1	0	17	18	5
UK 10y Yield		2.27	2.1	17	27	146	130	79
Credit Spreads			basis points					
US Investment Grade		149	-2.0	-5	-7	57	37	6
US High Yield		432	2.4	-2	4	99	94	25
Europe IG		89	1.7	2	-9	40	41	18
Europe HY		446	9.5	9	-23	203	205	95
Exchange Rates			%					
USD/Majors		102.74	0.3	1	-1	14	7	7
EUR/USD		1.07	-0.3	-1	1	-13	-6	-6
USD/JPY		132.9	0.8	3	2	22	15	16
EM/USD		52.7	-0.3	0	1	-9	0	-1
Commodities			%					
Brent Crude Oil (\$/barrel)		119	-0.4	3	7	79	58	31
Industrials Metals (index)		185	-2.0	0	-1	18	7	-1
Agriculture (index)		76	-0.2	0	0	28	24	8
Implied Volatility			%					
VIX Index (% change in pp)		25.9	0.9	-0.3	-4.3	9.5	8.7	-5.1
US 10y Swaption Volatility		101.5	0.0	-5.1	-25.4	40.5	22.5	7.2
Global FX Volatility		9.8	0.0	0.2	-1.2	3.1	2.4	2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		250	-5.8	4	6	147	99	10
Italy		206	-3.7	6	5	94	71	34
Portugal		119	0.6	6	6	53	55	27
Spain		115	-1.3	4	4	48	41	11

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

Emerging Market Financial Indicators

Last updated: 6/7/2022 8:06 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		6.67	-0.3	0.0	1	-4	-5	-5		2.9	-0.8	1	-2	-37	2	1
Indonesia		14457	0.0	0.9	1	-1	-1	-1		7.0	6.4	-1	5	61	65	53
India		78	-0.1	-0.1	0	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	-0.2	-1.1	-1	-10	-4	-3		5.5	0.0	0	10	105	98	48
Thailand		34	-0.5	-0.7	0	-10	-3	-6		2.9	-0.2	-3	-35	100	108	71
Malaysia		4.39	-0.1	-0.4	0	-6	-5	-5		4.2	2.0	3	-23	97	63	55
Argentina		121	-0.4	-0.9	-4	-22	-15	-11		56.1	-20.4	-1	348	1050	555	816
Brazil		4.82	-0.4	-1.7	7	5	16	4		13.1	50.9	72	54	404	238	154
Chile		822	-1.2	1.0	5	-13	4	-4		6.2	-0.5	10	-35	214	77	28
Colombia		3795	-0.2	3.6	7	-5	8	3		8.6	0.0	35	-43	291	216	69
Mexico		19.56	0.0	0.5	4	1	5	4		8.9	1.0	41	-19	217	137	105
Peru		3.7	-0.7	-1.8	2	5	7	0		7.7	0.0	21	-56	273	184	174
Uruguay		40	0.6	1.0	5	10	13	7		10.5	0.0	25	44	256	178	235
Hungary		365	-0.9	1.3	-1	-22	-11	-12		7.2	10.5	16	-6	448	265	235
Poland		4.30	-0.2	-0.6	3	-15	-6	-6		6.6	16.5	31	8	474	311	274
Romania		4.6	-0.3	-0.6	1	-13	-6	-6		8.1	16.8	36	73	537	328	295
Russia		61.2	0.1	2.0	13	19	23	33		8.2	0.0	8	-384	80	-58	-299
South Africa		15.4	0.3	1.7	5	-12	4	-2		8.6	9.5	22	-18	138	120	104
Turkey		16.76	-1.0	-2.1	-10	-49	-21	-18		22.5	0.0	-9	-41	361	-182	8
US (DXY; 5y UST)		103	0.4	1.0	-1	14	7	7		3.03	-0.8	21	-5	223	176	112

	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		4179	0.3	4	7	-20	-15	-10		198	-15	-3	-11	-5	-10	
Indonesia		7141	0.6	1	-1	19	9	3		175	-25	-7	-3	10	-10	
India		55107	-1.0	-1	0	5	-5	-4		166	-14	-7	16	34	12	
Philippines		6754	0.6	0	0	-1	-5	-8		118	-24	-21	21	17	-19	
Thailand		1632	-0.9	-1	0	1	-2	-4								
Malaysia		1526	-0.8	-1	-2	-4	-3	-4								
Argentina		90352	-1.6	-3	4	33	8	-1		1908	-8	101	423	228	171	
Brazil		110186	-0.8	-1	5	-16	5	-2		306	0	14	59	-5	-25	
Chile		5333	-0.4	0	10	29	24	22		147	-14	-14	1	7	-27	
Colombia		1608	-0.4	0	3	29	14	6		334	-19	-42	88	-14	-58	
Mexico		50071	-1.2	-4	1	-3	-6	-3		382	14	13	56	50	12	
Peru		20554	-1.5	-2	-2	0	-3	-12		171	-4	-17	9	21	-19	
Hungary		40651	-1.6	5	-3	-16	-20	-15		202	-20	18	61	78	49	
Poland		56829	-1.3	-1	3	-15	-18	-10		78	61	76	40	46	62	
Romania		12442	0.6	0	1	10	-5	-6		242	-13	14	61	49	9	
Russia		2272	-0.4	-4	-5	-41	-40	-26		3411	-577	938	3228	3234	2897	
South Africa		70069	-1.5	-3	3	4	-5	-7		377	-4	-16	65	22	-12	
Turkey		2643	-0.2	4	7	83	42	31		570	-26	35	93	-8	7	
Ukraine		519	0.0	0	0	-2	-1	0		3325	82	-191	2847	2566	1852	
EM total		43	-0.9	1	4	-24	-13	-10		375	-16	-18	21	-11	-83	

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

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