



- **US nonfarm payrolls stronger-than-expected** ([link](#))
  - **US consumers expected to remain resilient into Q3 2024** ([link](#))
  - **Back-to-back ECB rate cuts seen as unlikely** ([link](#))
  - **Heavily positioned LATAM bonds could be impacted from India's index inclusion** ([link](#))
  - **Reserve Bank of India keeps the policy rate unchanged at 6.5%, as expected** ([link](#))
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- Special Feature: EM Local Currency Bond Holdings Monthly Monitor** (attached)

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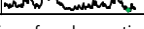
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## Treasury yields jump after a stronger-than-expected US jobs report

**US Treasury yields soared and the dollar strengthened immediately after the release of a stronger-than-expected nonfarm payrolls report, with 10-year yields up over 10 bps.** Prior to the release, European equities were lower following yesterday's hawkish ECB cut when the central bank did not pre-commit to any particular rate path and raised its inflation forecasts in 2024 and 2025. Contacts commented that the cautious and non-committal nature of the press conference suggests that there is little agreement amongst ECB members on the pace and timing of any further cuts. Markets have downwardly adjusted expectations for the total amount of easing from the ECB in 2024 with around 38 bps of additional cuts expected by year-end, down from around 41 bps yesterday. In emerging markets, Indian equities continued to recover after the central bank kept the policy rate unchanged, as expected. In currencies, the volatility in the Mexican peso and the South African rand remains elevated, with the latter seeing some support this morning on news that the ANC is looking to form a government of national unity. In fixed income, recent analysis shows that flows into LATAM bonds could be impacted in coming months to accommodate for India's inclusion in the JP Morgan GBI-EM-GD index.

Key Global Financial Indicators

Last updated: 6/7/24 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5353	0.0	2	3	25	12.23
Eurostoxx 50		5030	-0.8	1	0	17	11
Nikkei 225		38684	-0.1	1	1	20	16
MSCI EM		43	0.5	1	1	8	6
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.30	1.0	-20	-16	50	42
Germany 10y Yield		2.58	2.8	-9	16	12	55
EMBIG Sovereign Spread		392	1	23	19	-69	9
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.6	0.2	0	0	-6	-3
Dollar index, (+) = \$ appreciation		104.0	-0.1	-1	-1	0	3
Brent Crude Oil (\$/barrel)		80.4	0.6	-2	-3	4	4
VIX Index (% change in pp)		12.8	0.2	0	0	-1	0

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

## Mature Markets

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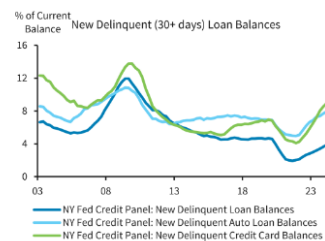
### United States

This morning, **the change in nonfarm payrolls of 272k came in significantly above market expectations (185k)** while the unemployment rate of 4.0% was slightly above consensus (est. 3.9%, prior 3.9%). Average hourly earnings were also higher than forecasted by analyst at 0.4% m/m and 4.1% y/y (compared to 0.3% m/m and 3.9% y/y). Labor participation rate fell by 0.2pp to 62.5%. US Treasury yields spiked, and the dollar strengthened immediately after the release.

	Current	Estimated	Prior
Change in non-farm payrolls	272k	185k	Revised to 165k (-10k)
Unemployment rate	4.0%	3.9%	3.9%
Average hourly earnings (m/m)	0.4%	0.3%	0.2%
Average hourly earnings (y/y)	4.1%	3.9%	Revised to 4.0% (+0.1%)

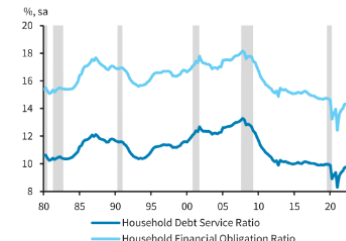
**US consumers expected to remain resilient into Q3 of 2024.** Despite early signs of credit deterioration for the US consumer, Barclays analysts feel confident that aggregate consumption will remain strong. A few negative indicators are: the rise in delinquency rates for certain loan categories; shift towards lower-end retailers; and earnings call negativity. On the other hand, debt service payments as a share of income remain low, consumer credit outstanding is still below pre-pandemic levels and high earners remain strong (who account for disproportionate amount of aggregate spending). Consumption has been one of the main drivers of US GDP over the last quarter. A recent (June 6) Atlanta Fed nowcast increased real personal consumption to 2.4% y/y, contributing to the rise in GDP estimate for Q2 2024 to 2.6%. **The health of the US consumer will be a key metric to watch out ahead of the upcoming FOMC meetings as the probability of a rate cut in September has increased to 65% (from 40% in May).**

Figure 7. Delinquency rates have risen for certain types of loans...



Note: Newly delinquent loans 30+ days overdue.  
Source: NY Fed, Haver Analytics, Barclays Research

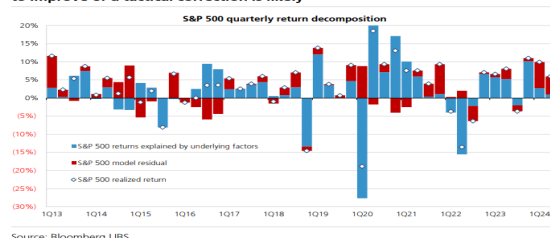
Figure 9. Debt service payments and broader financial obligations remain low relative to income



Note: Percent of household disposable income.  
Source: Federal Reserve, Haver Analytics

**The S&P 500 index may be running ahead of its fundamentals.** UBS analysts decompose S&P quarterly returns into 4 fundamental factors: growth, inflation, risk-free rate, and risk premia. The residual, or the unexplained part of the model reflects the increase in the S&P 500 that cannot be attributable to fundamentals. Their recent estimate shows that the 1H 2024 rally largely cannot be attributable to fundamentals. Their conclusion is quite simple: if fundamentals do not improve, we are poised for a tactical correction. The S&P hit its twenty-fourth record this year on Wednesday, topping the 5,350 mark, and is now trading at 22x forward P/E compared to its 10-year average of 19.5x.

Figure 2: Model residuals don't persist at these levels. Either fundamentals need to improve or a tactical correction is likely

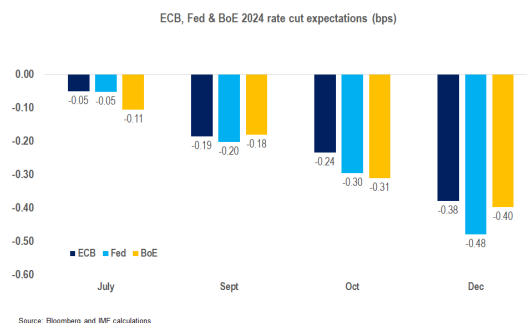


Source: Bloomberg, UBS

## Euro-area

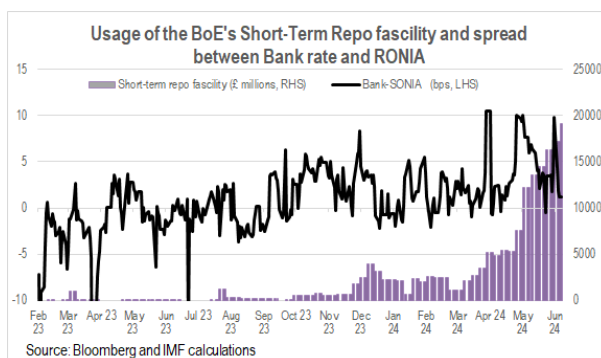
**European equities were lower ahead of the US jobs data release.** The Stoxx 600 equity index fell (-0.4%) in early morning trading led by declines in interest rate sensitive sectors such as real estate and insurance as the ECB signaled a more cautious stance towards future rate cuts. The euro was broadly unchanged this morning while government bond yields were higher (+3 bps) for a second consecutive day with the 10-year German bund yield trading at 2.57%, although it is 9bps lower than at the start of the week.

**Back-to-back ECB rate cuts unlikely.** Following yesterday's ECB decision, analysts at Commerzbank noted that the lack of clarity as to whether the ECB has entered the "dialing-back" phase has left markets "confused" over the timing and pace of any further easing. Citing a Reuters news story in which several ECB policymakers were reported as "expressing regret" over pre-committing to yesterday's cut, the analysts believe a back-to-back rate cut in July is unlikely. Furthermore, according to the Reuters story, a small number of ECB officials remarked that they may have voted differently had there been no pre-commitment given recent inflation and wage growth data outturns. Analysts have mostly left their expectations of two additional rate cuts this year unchanged, with cuts seen as likely in September and December, although some analysts see risks skewed towards fewer cuts given recent inflation data outturns alongside the latest updated staff projections. **This morning market pricing suggests a further 38 bps of easing is expected from the ECB for the rest of this year, down from around 41 bps after yesterday's meeting.** Elsewhere on the data front, euro-area wage growth accelerated in Q1. Data released this morning showed that compensation per employee rose by 5.1%/y/y in the first quarter of 2024, up from a revised 4.9%/y/y in Q4 suggesting wage inflation remains stickier than ECB officials had anticipated. During yesterday's policy meeting, where the ECB delivered its first 25 bps rate cut, President Lagarde suggested that euro zone wage growth likely remained steady in Q1 at 4.7% and that "while still elevated, wages [are on] a declining path".



## United Kingdom

**UK banks continued to increase their take-up of funding through the BoE's short-term repo (STR) facility for a seventh consecutive week.** According to Bloomberg, banks borrowed a record £19.1bn in funding through one-week repurchase agreements, up from £17.2bn last week. In a speech last month, governor Bailey urged market participants to prepare for a big increase in repo operations noting that "for much of the Bank's history we have lent on a secured basis, primarily against government securities...perhaps it is time to return to such an approach" adding that "the absence of interest rate risk substantially mitigates the financial risk on the central bank balance sheet, so providing reserves through repo-operations has much appeal." Some contacts have reiterated views that the increased STR uptake does not point to any funding market strains, while others are more cautious. Some analysts, for example, have noted that rising usage of the STR by banks alongside the recent rise in the SONIA fixing-rate has "led to increased focus on reserve scarcity" noting that "continued tightening in the SONIA-Bank Rate basis, further sizeable take-up in the STR or ILTRO operations is likely to push the scarcity narrative further." **This morning, the pound was stable against the dollar at 1.28, while 10-year gilt yields were broadly unchanged.**



## Japan

**Japan likely sold US Treasuries to fund the record FX intervention.** Japan's holding of foreign securities dropped sharply by \$50.4 bn in May, following the FX intervention estimated to be around \$63 bn. Foreign-currency deposits, often seen as an easier funding source for FX interventions, edged up slightly to \$159 bn, out of total reserves of \$1.23 trillion. **Households boosted spending for the first time in 14 months.** Household spending grew 0.5% y/y in April, in line with expectations. Meanwhile, labor cash earnings increased 2.1% y/y in nominal terms but still declined 0.7% y/y in real terms. **Markets have divided views on whether the BOJ will decide to reduce bond purchases at the policy meeting next week.** One view is that the BOJ may indicate some plan to reduce bond purchases partly to support the Japanese yen. Another view is that reducing bond purchases could destabilize the JGB market, making it more difficult for the BOJ to push ahead with rate hikes. Long-end JGB yields increased modestly (10-year: +1.2 bps; 30-year: +0.6 bps). Japanese equities fell slightly (NIKKEI: -0.1%).

## Emerging Markets

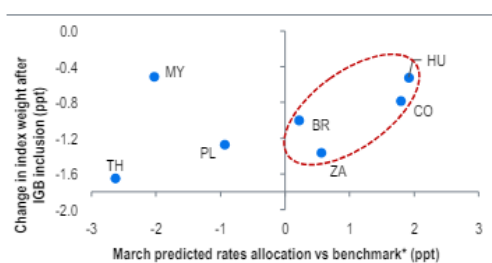
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**Asian equities were mixed**, with India (+2.2%) outperforming and Indonesian (-1.1%) stocks declining. Asian currencies appreciated, led by the Indonesian rupiah (+0.4%). Most long-end government bond yields declined. In Thailand, the Thai baht depreciated marginally after headline CPI increased 1.5% y/y in May, while core CPI inflation stayed low at 0.4%. **EMEA equity markets mostly traded lower with currencies trading in a tight range.** Equities in Poland (-1.1%) and the Polish zloty (-0.2% to 4.29 against the euro) underperformed. Polish central bank governor Glapinski yesterday reiterated previous guidance that interest rate cuts are not likely this year. In Türkiye equities were also lower (-0.6%), with Turkish banking stocks set for the worst weekly performance since March according to Bloomberg. On the monetary policy front, **the central bank of Russia left its key rate unchanged at 16%, as expected.** **In Latam, regional assets were mixed with the price action influenced by idiosyncratic domestic developments.** In currencies, the Mexican peso underperformed (-2.7%) but the Brazilian Real appreciated (+0.8%). Regional equities modestly gained alongside broader AE equities. Argentina was an exception, with the benchmark Merval index declining (-4.3%), marking its third consecutive day of decline, following concerns of stalling progress on pro-market reforms that may be put to vote next week.

## Local currency bonds

**Investors might reduce their heavily positioned LATAM bonds to accommodate for India's inclusion in the GBI-EM-GD index.** According to analysis by Standard Chartered, the inclusion of Indian government bonds starting at the end of June could affect flows to Brazil and Colombia. India's weight in the index is expected to gradually increase from 1% to 10% over the next 10 months, causing the weights of other markets to decline. Other EM markets that could be impacted include Hungary and South Africa, while there appears to be limited scope for outflows from Thailand, Poland, and Malaysia, as investor positions in these markets are likely to be light.

COP, HUF, BRL and ZAR markets are susceptible to outflows after IGB inclusion in June



\*GBI-EM-GD Index; Source: J.P. Morgan, Standard Chartered Research

## China

**Chinese equities declined despite stronger-than-expected exports data.** Onshore equities dropped (CSI 300: -0.5%). Exports grew 7.6% y/y in May in dollar term (consensus: +5.7%), while imports growth moderated to 1.8% (consensus: +4.3%). Exports performance is not much differentiated across products, while exports to key economies (e.g., the US and the EU) improved. The trade surplus expanded to \$82.6 bn. Relatedly, shipping lines have been running short of containers in China, driving up shipping costs. The RMB appreciated slightly to 7.24 yuan per dollar. The People's Bank of China slightly weakened the daily RMB fixing to 7.111 yuan per dollar, while the deviation from market consensus remained sizeable at 1,268 pips. **The PBC halted its gold purchases in May**, ending a buying streak that had run for 18 months after gold price hit a record high. Today, gold price fell 1.5%.

**A notice to further enhance the 'whitelist' mechanism to strengthening financing support to property development projects was jointly issued** by the National Financial Regulatory Administration and the Ministry of Housing and Urban-Rural Development. According to the notice, the 'whitelist' mechanism should be set up in all cities at the prefecture level and above. Projects that meet the criteria should be put on the whitelist, and banks should evaluate whether they can provide loans. If projects face problems, banks must outline specific rectification measures, and the 'whitelist' mechanism should promptly help find the solutions. The National Audit Office reportedly is conducting a comprehensive on-site inspection of the country's largest mutual funds. At least 10 mutual funds have been under the inspection.

## India

**The Reserve Bank of India (RBI) held the policy rate unchanged at 6.5%, as expected.** The RBI stuck to its relatively hawkish stance of "withdrawal of accommodation".

The decision to keep the policy rate on hold was not unanimous as two monetary policy committee members voted for a cut, compared with one in the previous meeting. Governor Das said that the RBI may be willing to move before the Fed, indicating that its monetary policy is determined by domestic factors. The RBI also raised its growth forecast for the current fiscal year through March 2025 to 7.2% from 7.0% while maintaining its inflation forecast at 4.5%. Furthermore, Governor Das revealed that the RBI used offshore derivatives to steer the currency. The Indian rupee appreciated slightly (+0.1%). **Indian equities continued rising (today: +2.2%).** Indian stocks set to recoup their losses after the election result sparked a record selloff on Tuesday. Indian equity funds attracted the biggest weekly inflows on record as investors appeared to buy the dip.

India's Benchmark Stock Gauge Is Headed for Record



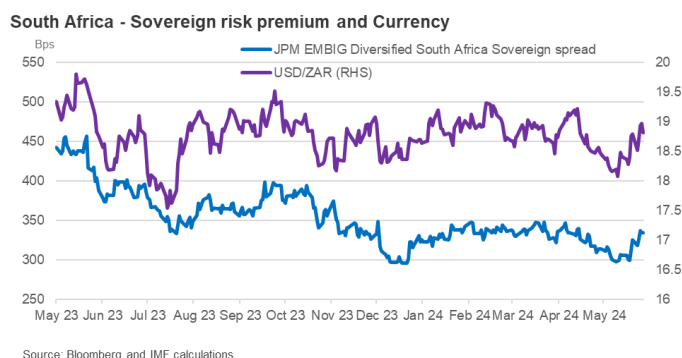
Source: Bloomberg

Bloomberg



## South Africa

The South African rand strengthened following news that the ANC's National Executive Committee confirmed its preference to form a Government of National Unity (GNU). This follows after the ANC did not secure a parliamentary majority in the May 29 election. JP Morgan analysts noted that uncertainty remains high and think it could be challenging for the main political parties to find unifying common ground in just over a week before the election of the President is due. The rand was +0.9% stronger to the dollar today but remains almost 3% weaker than on May 28. South Africa's sovereign-risk premium, or the additional yield investors demand to hold South Africa's dollar debt rather than US Treasuries, has increased to 335 bps, from around 300 bps prior to the election, underperforming African peers according to Bloomberg.



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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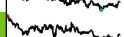





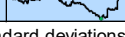

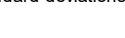




## Global Financial Indicators

6/7/24 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5354	0.0	1	3	26	12
Europe		5030	-0.8	1	0	17	11
Japan		38684	-0.1	1	1	20	16
China		3574	-0.5	0	-3	-7	4
Asia Ex Japan		72	0.5	1	2	8	8
Emerging Markets		43	0.5	1	1	8	6
<b>Interest Rates</b>			basis points				
US 10y Yield		4.30	1.0	-20	-16	50	42
Germany 10y Yield		2.58	2.8	-9	16	12	55
Japan 10y Yield		0.98	1.2	-9	10	55	36
UK 10y Yield		4.18	1.0	-13	6	-7	65
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	0.8	4	4	-44	-14
US High Yield		356	-0.8	6	19	-113	-29
<b>Exchange Rates</b>			%				
USD/Majors		104.05	-0.1	-1	-1	0	3
EUR/USD		1.09	0.1	0	1	2	-1
USD/JPY		155.6	0.0	-1	1	11	10
EM/USD		46.6	0.2	0	0	-6	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		80.4	0.6	-1	-3	10	5
Industrials Metals (index)		157	-1.4	-3	-1	9	10
Agriculture (index)		60	-1.0	-1	-1	-8	-4
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		12.8	0.2	-0.1	-0.4	-1.2	0.3
Global FX Volatility		7.0	0.0	0.1	-0.2	-1.4	-1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		105	1.0	2	4	-28	1
Italy		133	1.0	2	-1	-50	-34
Portugal		60	0.3	1	-5	-11	-3
Spain		73	0.1	0	-5	-28	-24

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

## Emerging Market Financial Indicators

Last updated: 6/7/2024 8:00 AM	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		7.24	0.0	0.0	0	-1	-2		2.2	-0.8	-3	-8	-57	-31
Indonesia		16196	0.4	0.4	-1	-8	-5		6.9	-1.0	-2	-2	56	42
India		83	0.1	0.1	0	-1	0		7.3	-2.0	-13	-17	(6.7)	7
Philippines		59	0.2	0.0	-2	-4	-5		5.6	2.5	1	-5	-36	-5
Thailand		36	-0.1	0.9	1	-5	-6		2.8	-0.5	-5	-4	19	11
Malaysia		4.69	0.1	0.3	1	-2	-2		3.9	-0.9	-4	-5	17	13
Argentina		899	0.0	-0.5	-2	-73	-10		42.5	203.8	419	358	-6824	-4385
Brazil		5.25	0.8	-1.0	-3	-7	-8		11.8	-6.5	-18	25	58	141
Chile		909	0.1	1.0	2	-12	-3		5.1	0.0	-21	5	-2	23
Colombia		3936	0.0	-1.8	-1	7	-2		8.2	0.0	-25	8	-18	56
Mexico		17.87	0.6	-4.8	-5	-3	-5		9.3	-8.5	-3	13	86	82
Peru		3.8	-0.2	-0.2	-1	-2	-1		7.0	-0.4	-13	-6	-31	32
Uruguay		39	0.1	-0.7	-2	0	0		9.2	-4.1	3	5	-82	-34
Hungary		357	0.3	0.6	1	-3	-3		6.4	-9.0	-27	-1	-136	62
Poland		3.93	0.0	0.1	2	7	0		5.1	-4.5	-14	4	-16	67
Romania		4.6	0.1	0.5	1	2	-1		6.6	-0.9	-1	-2	-16	41
Russia		88.8	0.4	1.8	3	-8	1							
South Africa		18.8	0.9	0.0	-1	2	-2		9.7	-10.5	-23	-10	-34	56
Türkiye		32.26	-0.1	0.0	0	-28	-8		27.9	16.0	24	-60	1301	111
US (DXY; 5y UST)		104	0.0	-0.6	-1	0	3		4.31	1.5	-19	-16	37	47

	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		3574	-0.5	0	-3	-7	4		136	-3	-5	-53	-22		
Indonesia		6898	-1.1	-1	-3	3	-5		101	5	-2	-48	5		
India		76693	2.2	4	6	22	6		93	2	-6	-49	-23		
Philippines		6519	0.1	1	0	0	1		90	7	1	-29	10		
Thailand		1333	0.3	-1	-3	-14	-6		0	0	0	0	0		
Malaysia		1618	0.2	1	1	18	11		79	1	-2	-17	-6		
Argentina		1503728	-4.3	-8	3	295	62		1596	288	362	-808	-317		
Brazil		122899	1.2	0	-5	6	-8		227	16	24	-34	12		
Chile		6688	0.5	1	1	18	8		124	10	3	-11	-1		
Colombia		1411	0.3	0	2	18	18		313	9	29	-60	42		
Mexico		54477	0.1	-2	-5	0	-5		311	17	7	-87	-23		
Peru		29826	0.3	-2	2	35	15		154	4	10	-24	10		
Hungary		69710	0.1	3	1	43	15		154	11	0	-80	5		
Poland		85048	-0.9	-1	-2	29	8		102	8	4	-39	5		
Romania		18102	-0.4	3	5	49	18		189	14	4	-57	-11		
South Africa		76995	-0.2	0	0	0	0		348	25	18	-89	40		
Türkiye		10217	-0.6	-2	-1	84	37		292	18	15	-192	-22		
EM total		43	0.0	1	1	8	6		388	58	61	-15	42		

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

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