



- Markets price probability of Fed rate hike by July close to 80% ([link](#))
- Bank of Japan to retain Yield Curve Control for now ([link](#))
- Weak inflation data prompt worries about recovery in China ([link](#))
- ECB terminal rate seen at 3.75% with first rate cut expected in 2024 ([link](#))
- Global markets outperformed bonds so far in 2023 ([link](#))
- Investors remain pessimistic about equity markets ([link](#))

[Mature Markets](#)

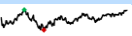

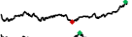


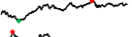




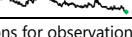
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## Markets cautious ahead of key central bank meetings

**Stocks in the euro area were down and US equity index futures were mixed as market participants head into a potentially eventful week ahead of key Fed, ECB, and BOJ meetings.** Recent surveys found that the Fed is expected to stay on hold for the rest of the year with the first rate cut coming in 2024, while the ECB is expected to do the same. This is at variance with market pricing, which predicts a strong chance of a 25 bps hike from both the Fed by July and the ECB next week. Next week's US CPI and reports which come out before the FOMC announcement could play a role in the Fed's decision making. News from the BOJ that there was no need to adjust the policy of Yield Curve Control in the near future was a bit of a surprise, but removal of the policy sometime this year remains the baseline for most investors. Weaker than expected inflation data in China increased fears that the economy is slowing down.

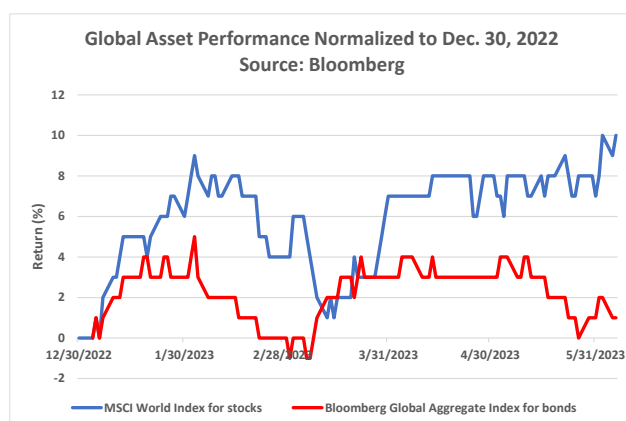
Key Global Financial Indicators

Last updated: 6/9/23 8:04 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		4294	0.6	2	4	7	12	2
Eurostoxx 50		4288	-0.2	-1	-1	15	13	8
Nikkei 225		32265	2.0	2	10	16	24	22
MSCI EM		40	0.7	2	1	-5	5	-16
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.75	3.5	6	23	71	-12	176
Germany 10y Yield		2.41	0.4	9	6	98	-17	218
EMBIG Sovereign Spread		461	8	-20	-22	8	9	48
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		49.8	0.1	0	-2	-5	0	-6
Dollar index, (+) = \$ appreciation		103.4	0.1	-1	2	0	0	7
Brent Crude Oil (\$/barrel)		76.3	0.5	0	-1	-38	-11	-21
VIX Index (% change in pp)		13.7	0.0	-1	-4	-12	-8	-17

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

## Global Asset Markets

**Equities have significantly outperformed bonds so far in 2023.** This outcome has surprised many market contacts, who expected that tighter central bank policies would hurt the global economy and lead to disappointing corporate earnings, leading them to favor bonds over stocks this year. In reality, corporate earnings were much stronger than expected in Q1 and analysts are upgrading their estimates for the rest of the year. Economic data were stronger than expected in the US and much of Asia (ex-China), as well as in other countries despite across-the-board central bank rate hikes. A number of other market predictions for the year have also turned out to be wrong. The consensus forecast was that lower interest rates would cause the dollar to weaken, favoring emerging markets over developed markets. In reality, US interest rates are up sharply and the dollar has appreciated significantly. The US leads global equity markets, especially in the technology sector, while emerging market equities have lagged most advanced economy equities.



## Mature Markets

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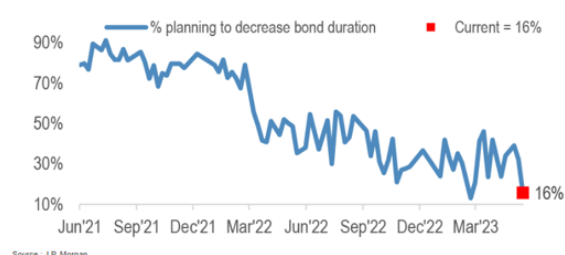
### United States

**Investors remain bearish on the equity market despite the steady rally that has pushed the S&P 500 index up by nearly 20% since the October lows.** The latest JP Morgan investor survey shows that the proportion of investors intending to increase exposure to equities has fallen steadily since the start of the year. The pessimism appears to be driven by fears that economic growth may be at risk, with investors turning bullish on bonds in expectations of lower interest rates in the future. The proportion of investors seeking to decrease portfolio duration is close to its lowest level for the year. The survey respondents also reported historically low exposure to the equity market.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

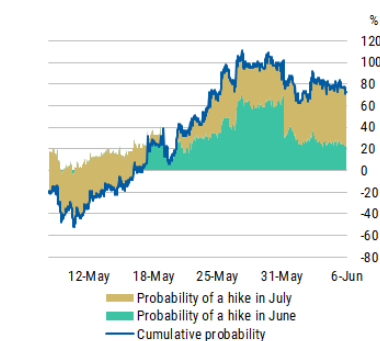


Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



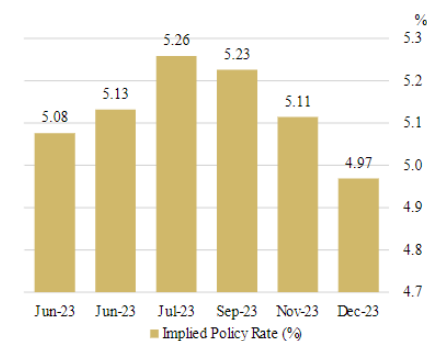
**Markets estimate that the probability of a rate hike at the July 26 FOMC meeting is close to 80%.** Based on the options market for Fed Funds futures, the probability of a hike at the next FOMC meeting on June 14 has fallen steadily and is now down at 30%. Markets still expect a rate cut in December or January despite Fed rhetoric that a rate cuts are not imminent. Morgan Stanley analysts expect the US economy to slow down and predict that the Fed will remain on hold in both June and July. They also expect the dot plot to remain unchanged from March, and that the forecasts for growth and inflation in the Staff Economic Projections will see limited changes, although the median forecast for the unemployment rate for 2023 is expected to be lowered to 4%.

**Exhibit 4:** Probability of rate hike at June and July FOMC meetings



Source: Bloomberg, Morgan Stanley Research

**Exhibit 5:** Market-implied policy rate through December 2023



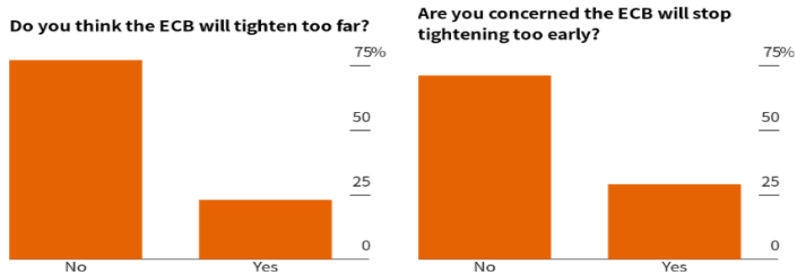
Source: Bloomberg, Morgan Stanley Research

## Euro Area

**European equities were edging lower (Stoxx 600 -0.1%) while the euro weakened against the dollar (-0.2%), retracing some of yesterday's gains.** Core sovereign bond yields were edging higher. Greek 10 year spreads over bunds tightened to a multi-month low ahead of Fitch's rating review scheduled for later today. On the data front, Italian industrial production data disappointed in April (-7.2% y/y versus expected -4.1% from -3.2% the month before).

**The ECB is expected to deliver two additional 25 bps hikes and then keep rates on hold until June 2024,** according to median expectations in a recent Bloomberg survey of economists. As regards to monetary policy tightening, only 23% of respondents thought that the ECB would tighten too far, and just under 30% of respondents thought the ECB would be too

### ECB Seen Getting Its Inflation Fight Just Right



Source: Bloomberg survey of economists conducted June 2-6

Bloomberg

early when it comes to ceasing tightening. Roughly a third of participants see the ECB complementing the Asset Purchase Program (APP) roll offs with sales in the future. Moreover, while the ECB has committed to reinvesting maturing bonds under the PEPP until the end of 2024 - roughly a fifth of participants expect PEPP reinvestments to end earlier. No respondents expect the ECB to make use of its new Transmission Protection Instrument in the next 12 months. **A 25 bps rate hike is almost fully priced in for the ECB meeting next week, with the terminal rate priced in at around 3.8%**

## Japan

**Bank of Japan (BOJ) officials said that there is little need to adjust the yield curve control at present.** Officials noted that the functioning of the bond market has improved and that the yield curve has a smooth shape. At the same time, they recognized that inflation is running stronger than expected, with a possibility that the BOJ may upgrade its inflation forecast in its quarterly economic outlook report due in July. Analysts also noted that signs of short-selling bets for a policy change next week were limited. In particular, the so-called calendar spread—the difference in price between the current quarter's 10-year JGB futures and the following quarter—has narrowed from elevated levels seen at the beginning of the year.

**Futures Roll Signals Diminishing Bearish Bets**  
Japan 10-year note futures calendar spreads



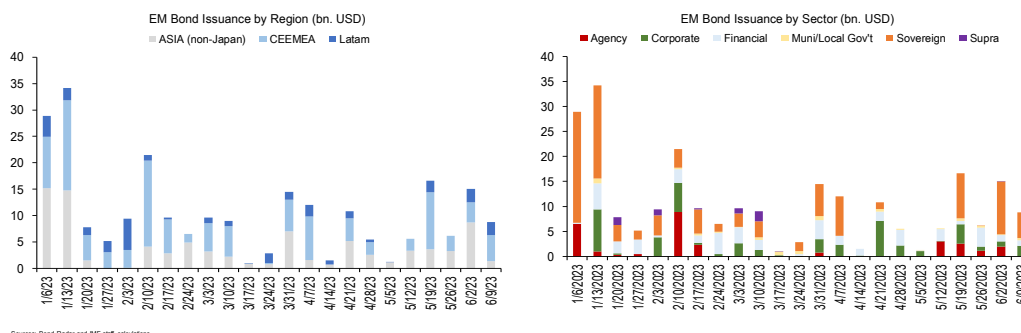
## Emerging Markets

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**EMEA markets were mixed with currencies mostly weaker against the dollar.** On the monetary policy front, the **central bank of Russia left rates unchanged at 7.5%, as expected.** **Asian equities and currencies made gains.** In Malaysia, industrial production declined 3.3% y/y in April, weaker than expected (consensus: +2.0%). **Latin American currencies and stocks were mixed,** with the Colombian peso (+0.93%) outperforming the regional currencies and the Brazilian Ibovespa Index (+0.77%) the equity indices. Slower-than-expected May inflation in Brazil, Colombia, Mexico, and Peru suggest the region is starting to get a grip on rising prices, indicating future rate cuts.

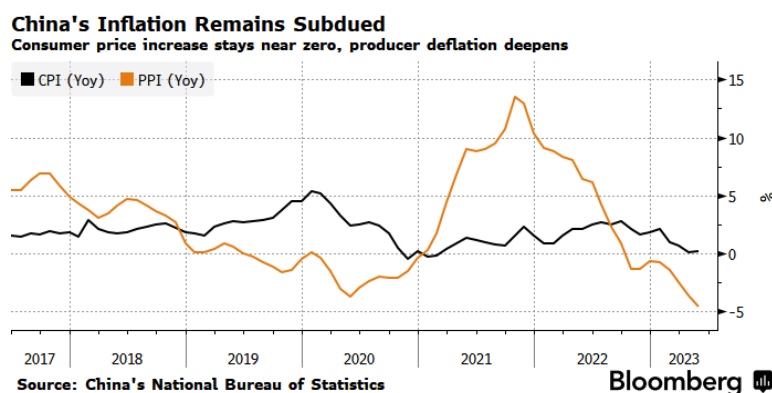
## EM Bond Issuance

**EM bond issuance falls below the 2023 weekly average.** Issuance through Thursday of this week fell to \$8.8bn from \$15.03bn the week before, and currently sits below the weekly average of \$10.6bn. Regionally, Asia (non-Japan) saw the biggest declines in issuance, falling to \$1.41bn from \$8.7 bn. At the sector level, Sovereign issuance experienced a significant drop, falling by more than half of the previous week (\$5.11 bn from \$10.6bn). The bond issued this week had maturities ranging from 2 to 13 years, with the majority having fixed coupons. China issued 38% of the bonds this week, but only equating to 13% of the total volume.



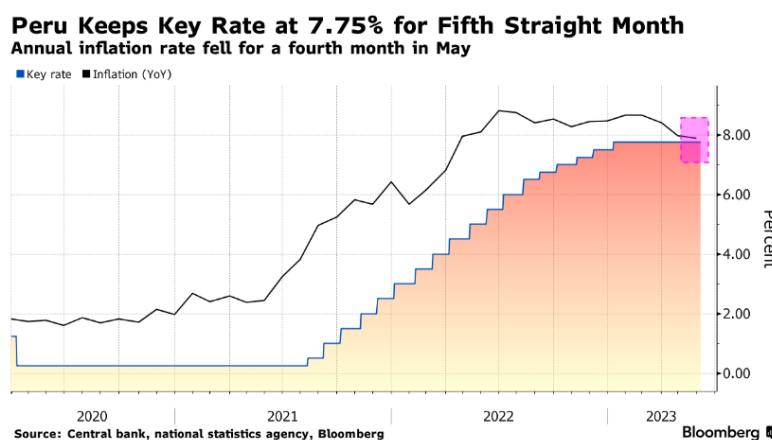
## China

**May inflation data fueled concerns about the weak economic recovery.** CPI increased 0.2% y/y in May, up from 0.1% in April, in line with expectations. CPI inflation remained low, underpinned by m/m flat core inflation, and falling pork and energy prices. Meanwhile, the decline in PPI widened to 4.6% y/y from 3.6%, larger than expected (consensus: -4.3%). In general, food prices continued to soften as the supply recovery outpaced the demand recovery in Q1 2023, with a significant increase of inventory potentially taking months to destock. Analysts generally saw soft inflation data as a reflection of weak domestic demand.



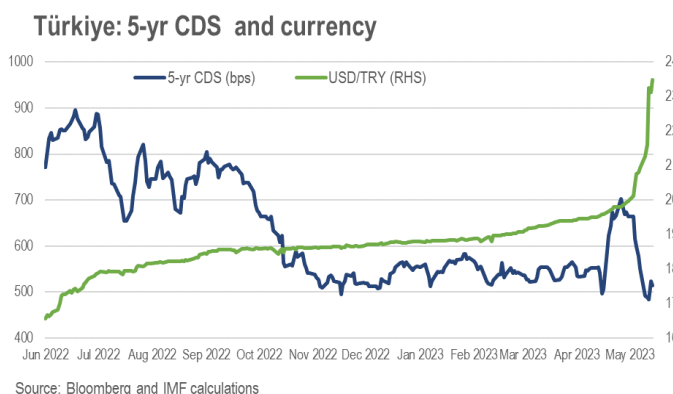
## Peru

**Peru's central bank holds interest rates at 7.75% as expected.** The reference rate has been held steady since January, at the highest level since 2001. The central bank stated that future rate decisions will be data dependent and emphasized that the current decision does not guarantee the end of the tightening cycle. Inflation is currently at 7.97% yoy and is forecasted to fall near the inflation target's upper bound by the end of the year. Bloomberg analysts note that holding the rates steady as inflation declines will allow tightening in real terms. Additionally, they are forecasting rate cuts in the fourth quarter of this year.



## Türkiye

**CDS spreads tightened (-10bps) following news that Hafize Gaye Erkan was named as the central bank governor.** Markets saw the appointment of Erkan, a former co-CEO of First Republic Bank, as further signs of possible policy normalization. The Turkish lira has depreciated by more than 10% against the dollar this week, setting record lows. Many foreign investors have withdrawn from local markets due to the unorthodox economic policies followed by the government in recent years.



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## Global Financial Indicators











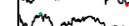

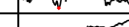
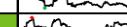















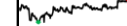








6/9/23 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		4298	0.6	0	4	7	12
Europe		4288	-0.2	-1	-1	15	13
Japan		32265	2.0	2	10	16	24
China		3837	0.4	-1	-3	-9	-1
Asia Ex Japan		67	0.7	2	1	-5	4
Emerging Markets		40	0.7	2	1	-5	5
<b>Interest Rates</b>			basis points				
US 10y Yield		3.75	3.5	6	23	71	-12
Germany 10y Yield		2.41	0.4	9	6	98	-17
Japan 10y Yield		0.43	-1.1	1	0	18	1
UK 10y Yield		4.24	0.5	8	38	192	57
<b>Credit Spreads</b>			basis points				
US Investment Grade		163	-0.5	3	-7	10	4
US High Yield		466	-4.7	-5	-38	15	-14
<b>Exchange Rates</b>			%				
USD/Majors		103.40	0.1	-1	2	0	0
EUR/USD		1.08	-0.1	1	-2	1	1
USD/JPY		139.4	0.3	0	3	4	6
EM/USD		49.8	0.1	0	-2	-5	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		76.3	0.5	0	-1	-25	-9
Industrials Metals (index)		145	0.7	2	-5	-21	-12
Agriculture (index)		67	0.4	3	0	-13	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.7	0.0	-0.9	-4.0	-12.4	-8.0
US 10y Swaption Volatility		101.3	0.6	-6.4	-19.2	-1.5	-24.4
Global FX Volatility		8.1	0.0	-0.3	-0.8	-2.1	-2.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		126	-2.9	-11	-52	-143	-79
Italy		176	-2.9	0	-17	-42	-39
Portugal		72	-1.7	3	-13	-50	-30
Spain		98	-1.8	-2	-11	-21	-11

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



## Emerging Market Financial Indicators

Last updated: 6/9/2023 8:08 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		7.13	-0.2	-0.4	-3	-6	-3		2.8	-2.5	-2	-20	-4	-27
Indonesia		14840	0.4	1.0	-1	-2	5		6.3	-2.2	-3	-16	-86	-60
India		82	0.1	-0.2	-1	-6	0		7.4	-1.0	12	19	(36.7)	-3
Philippines		56	0.2	-0.2	-1	-5	-1		5.9	0.0	-1	6	46	-9
Thailand		35	0.1	0.6	-3	0	0		2.7	2.0	8	9	-18	6
Malaysia		4.61	0.2	-0.8	-4	-5	-5		3.7	-0.6	2	2	-50	-32
Argentina		244	-0.3	-1.7	-7	-50	-28		110.5	-48.9	41	1364	5391	2229
Brazil		4.92	0.1	0.8	1	0	7		11.2	-12.6	-26	-127	-150	-136
Chile		787	0.6	2.1	1	4	8		5.1	0.5	-7	-14	-135	-23
Colombia		4171	0.9	5.4	8	-9	16		8.2	0.0	-38	-62	-84	-158
Mexico		17.38	0.0	1.0	2	13	12		8.3	-7.7	-2	-2	-60	-39
Peru		3.7	0.3	1.2	1	3	4		7.3	0.0	2	#VALUE!	-49	-71
Uruguay		39	0.0	-0.3	0	2	3		9.9	-11.9	-12	-10	-77	-79
Hungary		342	0.1	1.0	-1	9	9		7.5	-5.0	-33	-44	5	-208
Poland		4.14	0.2	1.3	0	5	6		5.2	-13.3	-13	-3	-159	-97
Romania		4.6	-0.1	0.8	-2	1	0		6.7	-6.9	-11	-41	-140	-101
Russia		82.6	-0.1	-1.9	-6	-30	-10							
South Africa		18.7	0.6	4.3	0	-17	-9		9.9	-5.2	-25	42	120	73
Turkey		23.32	-0.8	-10.2	-16	-27	-20		15.5	64.0	351	280	-1023	566
US (DXY; 5y UST)		103	0.0	-0.6	2	0	0		3.90	4.6	6	41	84	-10

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3837	0.4	-1	-3	-9	-1		189	-6	-12	-9	12	
Indonesia		6694	0.4	1	0	-6	-2		150	-5	8	-28	10	
India		62626	-0.4	0	1	15	3		139	-8	-26	-27	-3	
Philippines		6507	-0.5	0	-1	0	-1		123	-3	8	0	26	
Thailand		1555	-0.3	2	0	-5	-7		0	0	0	0	0	
Malaysia		1376	0.1	-1	-3	-8	-8		95	-3	-8	-27	-5	
Argentina		380908	0.1	8	24	329	88		2396	-237	-200	426	191	
Brazil		115488	0.8	7	9	7	5		257	-17	-20	-54	-17	
Chile		5673	-0.1	0	2	9	8		134	-4	-2	-14	2	
Colombia		1191	-0.7	4	3	-22	-7		372	-40	-51	25	0	
Mexico		54338	0.1	3	-2	10	12		397	-5	-4	19	16	
Peru		22237	0.0	2	0	9	4		175	-5	-7	3	-5	
Hungary		49188	-0.3	3	5	24	12		235	-4	25	3	13	
Poland		66705	0.9	5	6	19	16		143	-3	11	68	70	
Romania		12272	0.2	0	1	-2	5		250	-8	1	-1	-6	
South Africa		76910	-0.1	0	-1	12	5		423	-52	-1	36	56	
Turkey		5564	0.2	9	23	116	1		511	-54	-7	-123	71	
Ukraine		507	0.0	0	0	-2	-2		5054	-8	-348	1633	975	
EM total		40	0.3	2	1	-5	5		403	-20	-16	16	27	

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

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