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- Treasury yields bear-steepen on weak demand in 2y and 5y government auctions ([link](#))
- Japanese government bond (JGB) yields continue climbing ([link](#))
- ECB bank lending survey shows that Eurozone bank lending remained tepid in April ([link](#))
- Inflation deceleration in Brazil sparks rising expectations on more rate cuts ([link](#))
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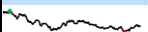



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Steeper yields on weaker duration demand

Yesterday, Treasury yields portrayed a rare instance of ‘bear-steepening’, which is when longer-term yields rise at a faster pace than shorter-term ones. The reaction in yields was prompted by real rates that have risen following a weak takedown of 2y and 5y auctions, which market participants took as a sign that investors might have reached a saturation point for absorbing duration supply, which spilled over this morning into higher rates in Asia and Europe. Meanwhile, US consumer confidence data notably surprised to the upside amid Fed officials having continued to stick to their script that even though slowing April inflation data was a step in the right direction, there remains much further improvement that needs to be felt before the Fed can start cutting. In the Euro area, flash estimates for Germany’s May headline inflation printed slightly above expectations, showing an acceleration from April while enticing little market reaction, consistent with the view that euro area wide flash inflation data unlikely derails the ECB rate cut next week. In Asia, Australian yields notably shifted up on reaccelerating April headline inflation and May policy meeting minutes that revealed that the central bank resumed rate hike discussions on renewed inflation concerns. China shows a continuation of regulatory easing as more cities are following Shanghai by loosening homebuying rules as Shenzhen and Guangzhou ease requirements for home down-payments.

Key Global Financial Indicators

Last updated: 5/29/24 8:28 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		5305	0.7	0	4	26	11.21
Eurostoxx 50		5043	-0.3	0	1	16	12
Nikkei 225		38855	-0.1	0	2	24	16
MSCI EM		43	0.3	-2	4	10	7
Yields and Spreads							
US 10y Yield		4.46	-0.4	5	-20	66	58
Germany 10y Yield		2.56	0.9	6	-2	2	53
EMBIG Sovereign Spread		371	1	8	30	-109	-12
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		47.3	0.2	0	2	-6	-2
Dollar index, (+) = \$ appreciation		104.4	-0.2	0	-1	0	3
Brent Crude Oil (\$/barrel)		83.4	0.3	1	-7	8	8
VIX Index (% change in pp)		12.5	0.1	0	-3	-5	0

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

Mature Markets

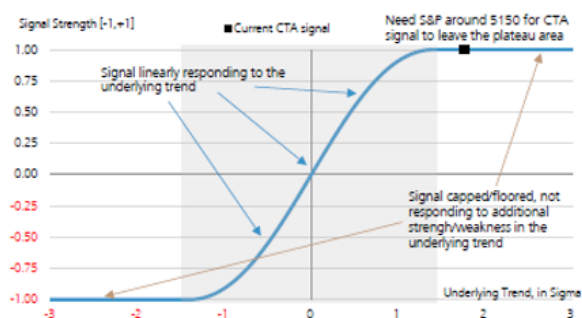
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United States

Yesterday, the S&P 500 held steady after a volatile session. The Conference Board's measure of confidence increased to 102 (exp. 96 from revised 97.5), raising concerns about a possible rebound in consumer spending while Minneapolis Fed President Kashkari pointed to “*many more months*” of easing inflation data as a precondition for rate cuts. The S&P closed flat on the day at 5306 points, while the Dow Jones Industrial Average fell (-0.55%). Nvidia's shares continued their upward momentum (+7%), following last week's reassuring earnings results, lifting the Nasdaq, which closed at +0.6%. Treasury yields bear steepened, with the 2y-10y yield differential rising (+5bps) to -43bps, driven by longer-term yields and real rates on weak demand of 2y and 5y Treasury auction takedown which permeated to longer maturities.

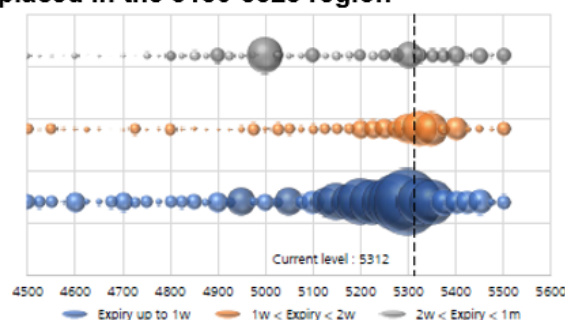
The technical setup in equity markets could amplify a selloff. UBS market contacts note that a persistently strong upward trend in the S&P 500 prompted trend-following systematic funds -abbreviated as CTAs- to turn maximum overweight the index in the second half of May. Their plateauing positioning means that additional strength in the S&P 500 will not prompt additional CTA inflows while a drop below 5150 could spark selling flows (right chart). In equity index derivatives, the technical setup shows most short-dated contracts having exercise prices below the spot price (left chart), so that a selloff could similarly trigger elevated trading flows of dealers to hedge their option books. Other market participants see a larger equity correction as unlikely given the strong Q1 earnings season, broader market breadth, supportive excess liquidity, and low volatility. These factors could help broadening the upward momentum by attracting further inflows from long-only funds and retail and institutional investors.

CTAs turned max long S&P



Source: UBS

Most of the S&P short-dated options are placed in the 5150-5325 region



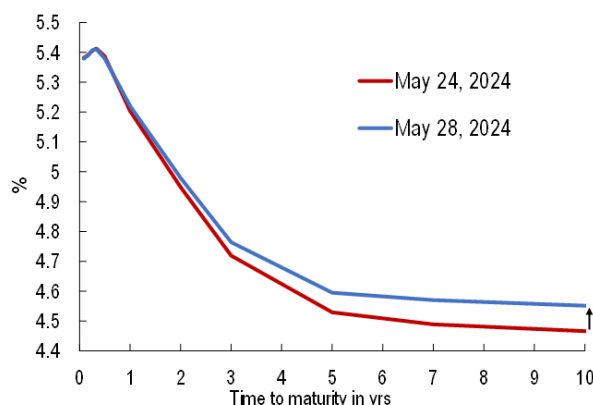
Source: UBS

Weak demand in the 2y and 5y Treasury auctions prompted a bear-steepening of Treasury yields.

Yesterday saw a \$69bn auction of 2y notes and a \$70bn action of 5y notes. Both auctions saw feeble takedown and tailed 1bps each, with the 2y notes being awarded at 4.917% versus a 4.907% when-issued yield and the 5y notes being awarded 4.553% versus a when-issued yield of 4.54%. Both auctions also showed below average non-dealer bidding, which market participants interpreted as suggestive of a market that has reached a saturation point for duration supply. In the follow-through, initially yields rose in the 2y (+3bps to 4.97%) and 5y (+6bps to 4.59%), in the afternoon permeating into longer maturities as exemplified by the 10y tenor, which rose (+8bps) to 4.55% (left chart). Market contacts note three additional reasons that might have contributed to the bear-steepening. First, businesses confirm ability to pass on rising costs to their customers (right chart), suggesting persistent price pressure which put upward pressure on yields. Second, this week's scheduled Fed speeches are expected to reiterate the higher-for-longer narrative. Third, fixed income index extensions—which at the end of a month readjust the index maturity to that of the weighted average maturity of the market to offset the aging—are offering little support. For example, the

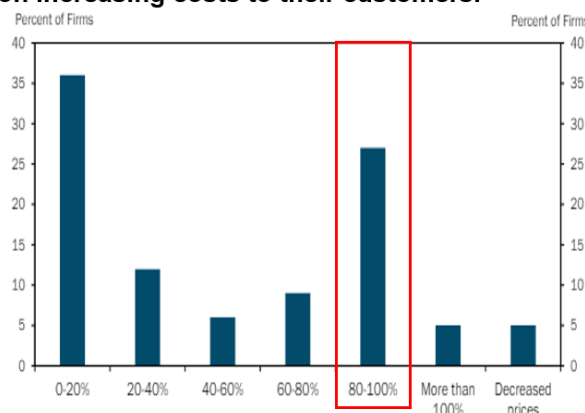
Bloomberg Treasury index extension will only amount to 0.1 year, just below its 12-month average. With that unfavorable backdrop, market contacts are attentive to the outcome of the 7y note \$44bn auction today.

Treasury yields saw a bear-steepening from last Friday to yesterday.



Source: IMF staff calculations

Minneapolis district firms appear able to pass on increasing costs to their customers.



Source: Kansas City Fed May 2024 Services Survey

Note: Reply to question: "If your firm is facing higher costs (input and labor), what share of those increases are you able to pass through customers in the form of higher prices?"

Wall Street returns to a one-day settlement window. Under the new guidelines from the Securities and Exchange Commission (SEC), share trades in New York will settle in a single day starting on Tuesday. According to SEC, a shorter settlement window reduces the possibility of buyer or seller default, lowering broker margin needs and financial risks overall. While Wall Street has employed such a system before (US Treasuries and mutual funds already settle at T+1), international investors might face some operational hurdles. As the SEC clarified last week, the size and scale of the market, the complexity of cross-border investment, and the fact that international investors may struggle to source dollars on time may lead to "short-term uptick in settlement fails and challenges to a small segment of market participants". This week, the T+1 system is set to face two tests already: the so-called double-settlement day on May 29, when US trades from the previous T+2 cycle will mature at the same time with the first batch of T+1 trades; and MSCI's May index rebalancing at the end of the week, when passive funds tracking these indices will be rebalancing their holdings accordingly.

Japan

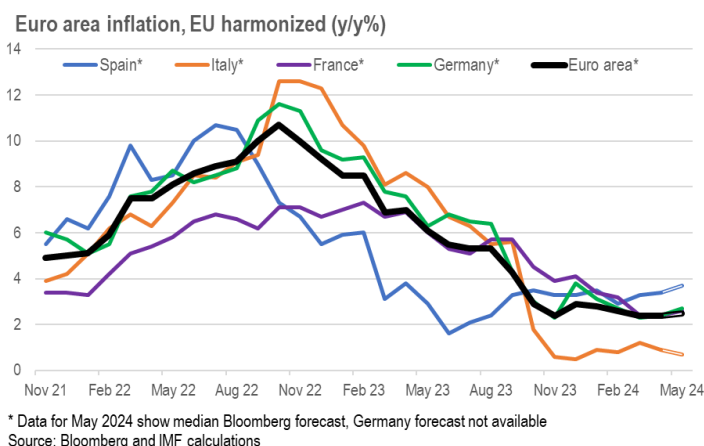
Japanese government bond (JGB) yields continue to climb. At the 10y maturity points, yields rose (+5.3bps) to 1.085%, reflective of the continued bear-steepening of JGB yields driven by the long-end (left chart). Albeit expectations mount for the Bank of Japan (BOJ) to continue raising rates this year with money markets pricing in a cumulative amount of +28.5bps hikes this year (up from +27bps compared to last Friday), the yen continued to depreciate since Friday (-0.2%) to ¥157.27/\$. Deutsche Bank market contacts note that a low and stable volatility supports the low-yielding yen as an attractive funding currency for carry trades, which could continue to drive yen weakness for the time being (right chart). Japanese equities declined (-1%) on downbeat May consumer confidence data that printed at 36.2 (exp. 39.5 from 38.3), the lowest reading since October 2023. Separately, market value of BOJ's holdings of exchange traded funds reached record high of ¥74.5tn (\$474bn) at end March. Asides, in a speech to local business leaders, BOJ board member Adachi stated that a prolonged yen weakness could affect inflation, which in turn could prompt policy normalization with another hike being a possibility. Meanwhile, Adachi also emphasized the need to keep financial conditions easy, as it remains uncertain that BOJ can achieve its 2% price target. On the recent trim in regular bond buying operations in mid-May, Adachi stated that the reduction does not signal any forthcoming policy shift.



Euro Area

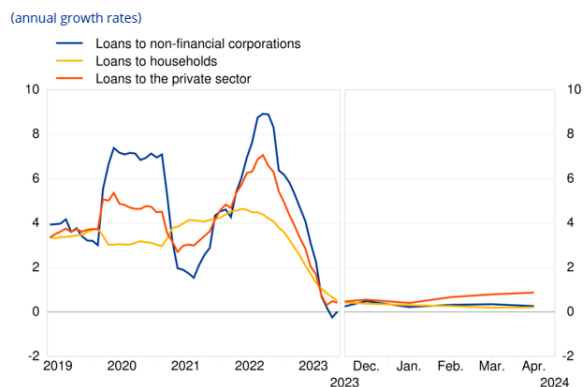
This morning, stock markets mostly retreated amid rising sovereign yields. The STOXX 600 index declined (-0.6%), led by the banking sector (-1.0%). Sovereign yields continue to rise with 10y bunds rising (+4bps) to 2.6%. In addition to the pass-through of the Treasury bear-steepening, market contacts also attribute the rising yields in the euro area to the recent increase in oil prices, which have added to inflationary pressure concerns. The euro fractionally depreciated versus the dollar (-0.1%), standing at \$1.08/€.

Analysts do not expect flash euro area inflation prints for May to derail an ECB rate cut in June. Ahead of the preliminary euro area-wide May inflation print due on Friday, market contacts focus on the release of flash German HICP inflation data, which printed at 2.8% y/y (exp. 2.7% from 2.4%), while several regional prints this morning suggested that the national print might surprise on the downside. For the euro area-wide data later this week, median consensus expectations are for flash May headline inflation to increase to 2.5%y/y (from 2.4%), and for core inflation to remain at 2.7% y/y. In view of well-telegraphed forward guidance among several ECB officials, the outturn of this weeks' inflation data is seen as unlikely to derail a June rate cut. However, in line with ECB board member and chief economist Lane's remarks earlier this week, the latest inflation data in conjunction with a slowdown in wage growth, could make it challenging for the ECB to commit to further guidance beyond June. Markets are pricing in -24bps of easing for the ECB meeting next week, with -62bps of easing priced for the remainder of 2024. Accordingly, ING analysts argue that anything other than a -25bps rate cut by the ECB next week could result in a severe reputational loss for the ECB.



Eurozone bank lending remains tepid in April. Data released by the ECB this morning shows that the growth rate of adjusted loans to the private sector increased to 0.9%y/y (from 0.8%), with loans to households remaining unchanged at 0.2%y/y and adjusted loans to non-financial corporations eased to 0.3%y/y (from 0.4%). Euro Area M3 money supply for April increased by 1.3% y/y, as expected (from 0.9%). ING analysts interpret today's data as indicative that monetary policy is still considerably restrictive on the economy.

Adjusted loans to the private sector



Emerging Markets

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EMEA markets were mixed. In CEE, the stock market gained in Czechia (+0.1%) and Hungary (+0.6%) but lost (-1%) in Poland where today's May inflation print surprised to the downside at 2.5% y/y (exp. 2.8% from 2.4%). CEE currencies depreciated against the euro, in particular the Hungarian forint (-0.3%), which traded at 385.82/€. In Africa, equities performed well in Egypt (+0.7%), while the Zambia kwacha depreciated (-0.4%), trading against the dollar at 107.5/\$ as the country is still renegotiating \$3.3bn loans owed to commercial creditors to exit default. The rand marginally weakened (-0.1%) to R18.30/\$ amid today's start of the general elections in South Africa. In Türkiye, stock markets lost (-0.5%) and the lira traded marginally lower (-0.1%) against the dollar at 32.26/\$.

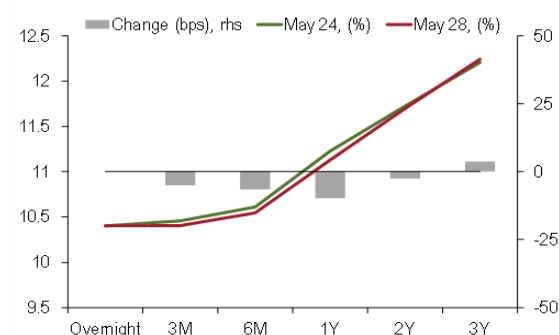
Asian equities and currencies declined. On net, stock markets declined (-1.4%) on hawkish Fed officials' remarks and strong US data. Hong Kong SAR (-1.8%), South Korea (-1.7%) and Indonesia (-1.4%) led the losses. Among currencies, the Philippine peso (-0.8%) and South Korean won (-0.5%) depreciated the most. Vietnam's headline inflation for May printed at 4.44% (exp. 4.5% from 4.4%).

Yesterday, Latin American assets posted mixed results. Stocks declined in Mexico (-0.5%), Brazil (-0.6%), Colombia (-0.4%) and Chile (-0.5%), while Peru's equity market rose (+1.2%). Currencies appreciated in Colombia (+0.6%) and Chile (+0.4%), while the Mexican peso weakened (-0.8%) against the US dollar.

Brazil

Unexpected easing of inflation could allow Brazil's central bank to cut rates again in June. During the first half of the month of May, inflation printed at 3.7% y/y (exp. 3.74% from 3.77%) at a monthly pace of 0.44% m/m (exp. 0.47% from 0.21%). Forward rates on the overnight rate reflective of market pricing of the policy rate within 6 months and 1 year fell by up to -10bps following the release of the inflation report. Median consensus expectations are for another -25bps cut in June as Brazil's central bank survey shows, predicting the Selic at 10% by year-end and at 9% at the end of 2025.

Change in Brazil policy rate expectations from May 24 until yesterday



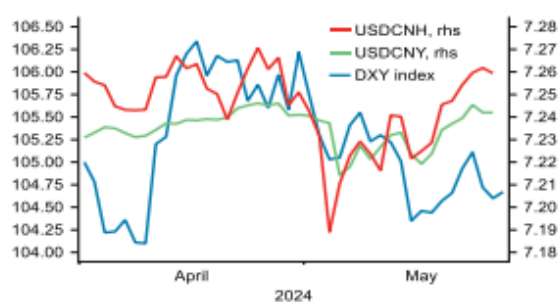
Source: IMF staff calculations, Bloomberg

China

The People's Bank of China (PBC) continued to set yuan fixing higher, reaching the weakest level since January. The Chinese renminbi depreciated -0.1%. A number of market contacts expect the currency to face continued depreciation pressures into the summer. Standard Chartered Bank analysts suggest that the PBC is accommodating greater demand for foreign currencies, noting a preference for carry trades, strong onshore demand for US dollars amid ongoing dividend outflows, and tariff concerns.

Meanwhile, BNP Paribas market contacts also identify Chinese banks as sellers of USDCNH FX swaps to replenish their USD liquidity. Furthermore, Nomura market contacts point at concerns regarding the major banks' strategy on rolling over large swap positions that they accumulated since September 2023, when the yuan was under significant pressure, especially at a time when these banks may still need to borrow USD from the market. 10Y bond yields were little changed while equity markets rose +0.1%.

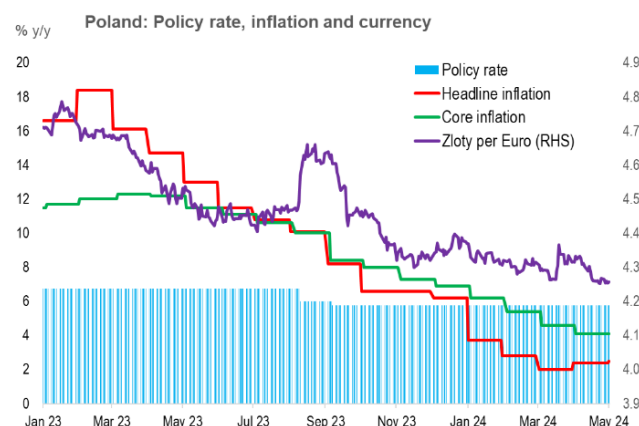
RMB remains high despite USD strength easing



Sources: Macrobond, BNP Paribas

Poland

The zloty marginally depreciated on preliminary CPI data that shows broadly slowing inflation. Today, flash headline inflation for May printed 2.5%/y/y (exp. 2.8%, from 2.4%). Energy prices fell by -1.8% (from -2.2%) and also food price inflation slowed to 1.6% (from 1.9%). Conversely, fuel prices rose by 3.6% (from -1.2%). The zloty depreciated (-0.1%) against the euro, trading at 4.25/€. Market contacts at ING recall the implications of base effects emanating from the lapsing of household inflation-shielding measures and the reintroduction of VAT, warranting caution that today's data might not mark the end of the upward inflationary trend as headline inflation could rebound to 5% by the end of 2024, leaving




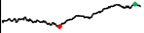















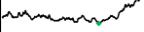
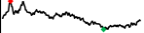






Source: Bloomberg and IMF calculations

their call for the upcoming central bank for a rate hold at 5.75% while expecting rate cuts only from mid-2025 onwards. While Goldman Sachs market contacts also expect a rebound in headline inflation in the coming months, they perceive it as temporary absent signs of spillover from tight labor market conditions and wage growth, paving the way for rate cuts from end-2024 on.

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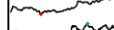



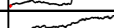
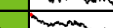


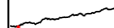






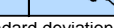




Global Financial Indicators

5/29/24 8:29 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5298	0.7	0	4	26	11
Europe		4979	-1.0	-1	0	15	10
Japan		38557	-0.8	0	0	23	15
China		3614	0.1	-2	0	-6	5
Asia Ex Japan		72	0.0	-1	5	10	8
Emerging Markets		43	0.3	-2	3	10	7
Interest Rates			basis points				
US 10y Yield		4.56	-0.4	14	-5	76	68
Germany 10y Yield		2.64	5.1	11	11	21	62
Japan 10y Yield		1.09	5.5	8	19	64	47
UK 10y Yield		4.35	6.8	12	6	2	81
Credit Spreads			basis points				
US Investment Grade		117	1.3	0	-1	-47	-17
US High Yield		343	1.4	-1	-2	-141	-42
Exchange Rates			%				
USD/Majors		104.68	0.1	0	-1	0	3
EUR/USD		1.09	0.0	0	1	1	-2
USD/JPY		157.2	0.0	0	1	12	11
EM/USD		47.0	-0.3	-1	1	-6	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		84.8	0.7	4	-3	15	11
Industrials Metals (index)		167	-0.3	-3	4	17	17
Agriculture (index)		62	-0.7	1	4	-4	0
Implied Volatility			%				
VIX Index (% change in pp)		13.9	1.0	2.0	-0.8	-4.1	1.5
Global FX Volatility		6.8	0.0	0.0	-0.7	-2.0	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-0.1	2	1	-42	-3
Italy		131	0.0	2	-2	-54	-37
Portugal		61	-0.6	-2	-1	-12	-2
Spain		75	-0.9	-2	-2	-31	-22

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

Emerging Market Financial Indicators

Last updated: 5/29/2024 8:29 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		7.25	-0.1	-0.1	0	-2	-2		2.2	-0.5	-4	-20	-62	-30
Indonesia		16160	-0.4	-1.0	1	-7	-5		6.9	0.9	1	-28	55	46
India		83	-0.2	-0.1	0	-1	0		7.4	4.1	1	-13	4.6	20
Philippines		58	-0.8	-0.6	-1	-4	-5		5.5	-7.3	-7	-24	-44	-11
Thailand		37	-0.3	-1.2	1	-5	-7		2.8	3.0	-2	-6	8	14
Malaysia		4.70	-0.3	-0.2	1	-2	-2		3.9	-0.1	1	-9	13	16
Argentina		893	0.0	-0.5	-2	-73	-9		36.9	175.6	244	-369	-7064	-4952
Brazil		5.18	-0.3	-0.5	-1	-3	-6		11.9	7.4	0	17	15	147
Chile		897	0.5	-1.0	5	-10	-2		5.3	0.0	12	-9	-2	37
Colombia		3847	0.7	-0.8	1	15	0		8.4	0.0	29	-4	-45	79
Mexico		16.83	-0.2	-1.0	1	5	1		9.3	0.0	7	-25	78	82
Peru		3.7	-0.1	-0.5	0	-2	-1		7.1	3.3	2	-25	-12	42
Uruguay		39	-0.2	-0.7	-1	0	1		9.1	-0.7	1	6	-86	-38
Hungary		357	-0.7	0.3	2	-3	-3		6.8	0.0	21	-23	-138	102
Poland		3.93	-0.3	0.4	2	7	0		5.3	-7.5	16	-5	-16	84
Romania		4.6	-0.1	0.3	1	1	-2		6.6	-0.3	6	-1	-25	40
Russia		89.5	-1.0	0.8	4	-10	0							
South Africa		18.3	-0.4	-0.4	2	7	0		9.7	-1.5	15	-30	-55	61
Türkiye		32.22	0.0	-0.1	1	-38	-8		27.8	11.0	26	-15	1872	106
US (DXY; 5y UST)		105	0.1	0.0	-1	0	3		4.59	-0.7	12	-6	66	74

	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		3614	0.1	-2	0	-6	5		140	0	-4	-55	-18	
Indonesia		7254	-1.6	-1	1	9	0		94	2	-5	-47	-2	
India		75170	-0.9	2	1	20	4		90	-3	-12	-61	-26	
Philippines		6501	-1.4	-2	-4	-1	1		83	2	-2	-32	3	
Thailand		1363	-0.9	-1	0	-12	-4		0	0	0	0	0	
Malaysia		1616	-0.6	-1	2	15	11		78	0	-5	-19	-7	
Argentina		1572474	3.4	2	23	360	69		1451	181	243	-1147	-462	
Brazil		124496	-0.6	-3	-2	12	-7		212	-7	-3	-52	-3	
Chile		6811	-0.8	1	7	21	10		116	2	-1	-15	-9	
Colombia		1414	-0.4	-2	3	28	18		312	17	14	-97	41	
Mexico		55453	0.1	-3	-4	3	-3		299	5	-9	-98	-35	
Peru		30369	0.3	-1	5	43	17		154	11	9	-28	10	
Hungary		69340	0.2	2	3	46	14		142	2	-6	-88	-7	
Poland		86941	-1.2	-2	3	34	11		93	0	0	-40	-4	
Romania		17975	-0.7	3	6	46	17		177	5	-4	-76	-24	
South Africa		78762	0.0	-1	4	3	2		318	5	-32	-135	10	
Türkiye		10633	-1.0	-2	7	132	42		276	-2	-9	-342	-38	
EM total		43	-1.2	-2	3	10	7		335	11	49	-89	-10	

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

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