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- **Bearish views take hold on US interest rates** ([link](#))
- **Japanese authorities met to discuss weaker yen** ([link](#))
- **US commercial real estate outlook to improve next year** ([link](#))
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- **Brazil faces credit crunch as high interest rates bite** ([link](#))
- **Special Feature: EM Local Currency Bond Holdings Monitor** (attached)

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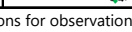
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Markets cautiously optimistic over US debt ceiling deal

Over the weekend, the US President and the Speaker of the House announced a deal to raise the debt ceiling until January 1, 2025. Voting on the deal in Congress is expected to begin on Wednesday. The yield on the T-Bill maturing on June 6 began to decline, reflecting hopes that the risk of default is receding. Nevertheless, markets are still nervous that holdouts on both sides of the aisle could hinder the negotiations. Last Friday, Treasury Secretary Yellen stated that the debt ceiling would be triggered on June 5 rather than June 1 as originally announced. Meanwhile, the Japanese authorities held an unscheduled meeting to discuss the rapid depreciation of the yen, which has crossed the 140 level versus the dollar, prompting speculations of government intervention to stabilize the currency. Most US equity index futures and European stocks were slightly higher, while Treasury and bund yields were lower. Technology stocks in Europe posted gains in the wake of last Friday's strong performance by their US counterparts.

Key Global Financial Indicators

Last updated: 5/30/23 8:00 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities								
							%	
S&P 500		4205	1.3	0	1	1	10	0
Eurostoxx 50		4334	0.3	0	-1	13	14	9
Nikkei 225		31328	0.3	1	9	15	20	18
MSCI EM		39	1.8	0	0	-7	3	-18
Yields and Spreads								
							bps	
US 10y Yield		3.71	-8.9	2	29	97	-17	172
Germany 10y Yield		2.37	-6.6	-10	6	131	-20	214
EMBIG Sovereign Spread		478	3	-3	-16	15	26	65
FX / Commodities / Volatility								
							%	
EM FX vs. USD, (+) = appreciation		49.9	0.0	-1	-2	-5	0	-6
Dollar index, (+) = \$ appreciation		104.0	-0.2	1	2	2	0	8
Brent Crude Oil (\$/barrel)		76.0	-1.3	-1	-4	-38	-11	-21
VIX Index (% change in pp)		17.1	-0.4	0	1	-9	-5	-14

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

The US debt ceiling drama continues to dominate discussion among market participants, overshadowing even this week's crucial US jobs report due on Friday, with the consensus forecast predicting 188K new jobs and the unemployment rate ticking up from 3.4% to 3.5%. Apart from payrolls, the US data calendar is fairly light, with the ISM services and manufacturing reports on Thursday the most notable items. In the euro area, reports are due on inflation in Germany and France, along with GDP in France and PMIs for the eurozone as a whole. Markets are still analyzing the implications of the new PMI data from China today, with more information on PMIs due tomorrow.

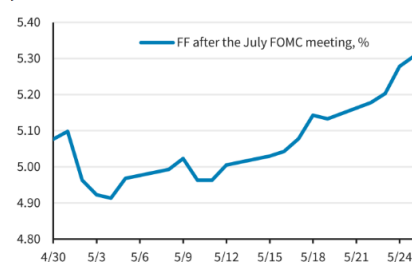
Mature Markets

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United States

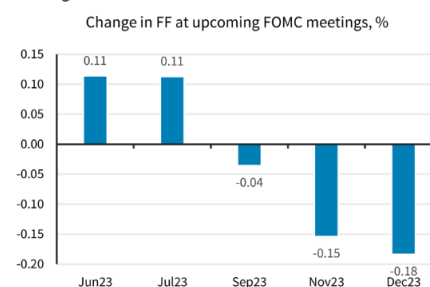
With stronger than expected economic data on multiple fronts and inflation higher than expected, US interest rate futures markets are growing more bearish on the Fed outlook. Barclays points out that short term expectations for the Fed Funds rate have gone up sharply this month, and that markets are close to pricing a full rate hike at the July 26 FOMC meeting. Moreover, markets think the probability of a rate hike at the June 14 FOMC meeting is now above 50%. The more bearish outlook is being driven by the relentless rise in two-year Treasury yields, which are up over 50 bps in May in the face of strong economic data and continued worries about inflation. While far from the levels seen in March, the US Treasury yield curve has begun to invert further as short term interest rate expectations move higher. Nevertheless, markets still expect rate cuts by the end of the year despite continued hawkish comments from Fed officials that rate cuts in 2023 are highly unlikely.

Figure 1. Markets have significantly repriced the near-term path of fed funds rate...



Source: Bloomberg, Barclays Research

Figure 2. ...and are now pricing in almost a hike by the July meeting



Source: Bloomberg, Barclays Research

The outlook for US commercial real estate as exemplified by the market for Real Estate Investment Trusts (REITs) is expected to improve significantly in 2024 and 2025, according to analysis by Goldman. This year, many REIT sectors extended the sharp declines seen in 2022. Office REITs have attracted the most attention due to significant credit problems and the persistence of hybrid work schemes that have reduced demand. High maintenance costs will probably result in single family REITs also delivering negative returns in 2023. However, industrial REITs are up for the year and the analysts expect them to deliver the best returns over the next two years. These views assume that the US economy continues to do well and that default rates will not rise significantly higher from current levels.

Exhibit 2: We expect Industrial REITs to have the highest average annual growth rate through 2025
REIT coverage FFO growth by subsector, sorted by Avg '23E-'25E growth

Growth by Subsector	2023E	2024E	2025E	Avg '23E-'25E	2025E vs. 2019
Simple Average					
Industrial	7.2%	12.7%	12.3%	10.7%	90.9%
Single Family	-3.1%	8.5%	6.9%	4.1%	92.3%
Apartments	5.1%	3.8%	3.4%	4.1%	26.7%
Strip Centers	1.2%	5.1%	5.6%	3.9%	16.5%
Malls & Outlets	-1.5%	3.3%	3.4%	1.7%	-18.4%
Office	-15.2%	5.5%	6.7%	-1.0%	-3.5%
Average	-1.6%	5.6%	5.6%	3.2%	27.5%
Mkt. Cap Wtd. Avg.	6.1%	8.5%	7.8%	7.5%	59.8%

The total REIT simple/market cap weighted are simple averages by company rather than subsector. TCN is excluded from Single Family subsector

Source: Goldman Sachs Global Investment Research

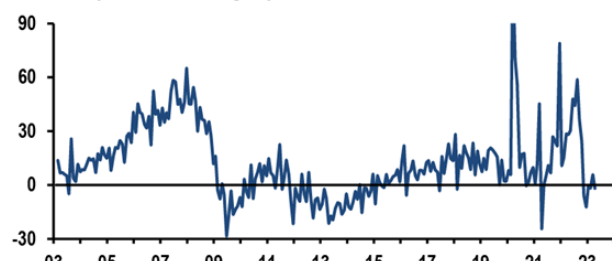
Euro Area

Sovereign bond yields declined (10-yr bund -4bps to 2.39%) as analysts highlight that recent data underscore expectations that the peak in ECB rates is approaching, while the focus this week remains on May's euro area inflation print due on Thursday.

Bank lending and money aggregates continue to slow amid tighter policy. Data released by the ECB this morning showed the annual growth rate of the broad monetary aggregate M3 decreasing to 1.9% in April (from 2.5% in March), with the annual growth rates easing for both loans to households (to 2.5% from 2.9%) and non-financial corporates (to 4.6% from 5.2%). ING analysts expect weak credit demand will weigh on economic activity going forward.

Euro area bank lending to nonfinancial corporates

€bn, monthly flow of net lending, adj. for securitizations/loan sales



Source: ECB, J.P. Morgan

Euro area bank lending to households

€bn, monthly flow of net lending, adj. for securitizations/loan sales



Source: ECB, J.P. Morgan

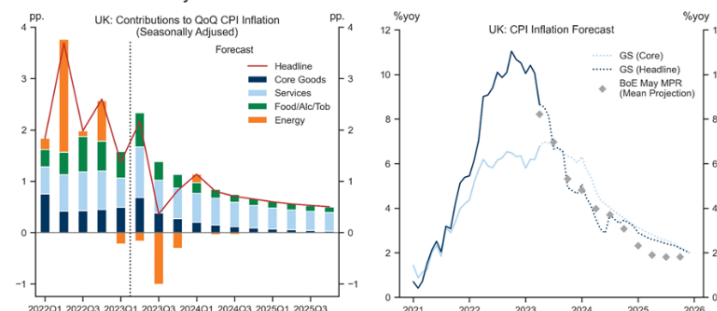
Data released this morning showed economic sentiment data deteriorating and preliminary Spanish inflation data for May easing more than expected. Euro zone economic confidence fell to 96.5 (versus expected 98.8 from 99) while industrial confidence fell to -5.2 (versus expected -4.0 from -2.8). Separately, preliminary Spanish inflation data surprised on the downside in May, with headline inflation falling to 3.2% y/y (versus the expected 3.6% from 4.1% in April) and core inflation easing to 6.1% (versus expected 6.4% from 6.6% in April). Markets are focused on the preliminary euro area inflation data print for May, due on Thursday, where consensus sees headline inflation easing to 6.3% y/y (from 7.0%) and core inflation easing to 5.5% (from 5.6%). In recent ECB commentary, Governing Council member Pablo Hernandez de Cos said that while the ECB would still need to tighten monetary policy further, it is approaching the point where it could stop hiking interest rates.

United Kingdom

Analysts expect additional BoE tightening amid persistent inflationary pressures, resilient growth, and a tight labor market. Following an upside surprise in the April inflation data print last week, analysts at Goldman Sachs have revised their December 2023 core inflation forecasts upwards to 6% y/y (from 5.6% previously) and to 3.3% y/y in December 2024 (from 2.9% y/y previously). Analysts from both Barclays and Goldman Sachs

expect two further 25bps hikes at the BoE's upcoming meetings in June and August to take the terminal rate to 5%. Other analysts expect even more tightening, with Deutsche Bank analysts, for example, now forecasting the terminal rate at 5.25%, with the first rate cut only expected in Q2 2024. Relatedly, data this morning showed that prices in UK stores increased to 9% y/y in May, the highest level on record, according to the British Retail Consortium. Money markets are pricing in roughly 100bps of BoE tightening by

Exhibit 9: Persistent Inflationary Pressures



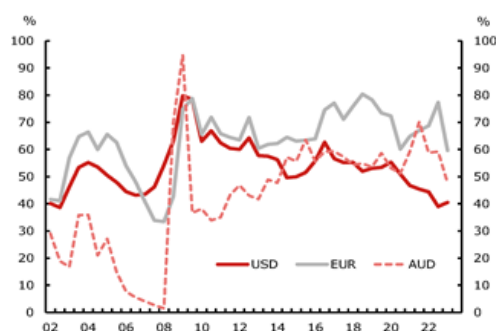
Source: Goldman Sachs Global Investment Research, Haver Analytics, Bank of England

November, to take the bank rate to 5.5%. This morning gilt yields were marginally higher (10yr +1bps) while the pound appreciated against the dollar (+0.6%).

Japan

Japan's Finance Ministry, the Bank of Japan and Financial Services Agency called for an unscheduled meeting on Tuesday after the market closure as yen breached 140 level. After the meeting, top FX official Kanda stated the government will continue to closely monitor market moves and that take steps to ensure that currency markets reflect fundamentals and move in a stable manner. Some analysts were expecting intervention by the authorities to curb yen's weakness. **Separately, major life insurers slashed their exposure to foreign currency-denominated assets over the period October 2022 – March 2023.** According to Nomura, the nine major life insurance companies reported the largest ever reduction in their exposures. FX assets at the end of March 2023 totaled ¥ 54.8tn (\$413bn), down -13% from ¥62.9tn at end-September 2022. The reduction was mostly in FX hedged bonds, as hedging costs for Japanese investors rose, leading to the lowest FX hedge ratio since the Global Financial Crisis.

Major lifers: FX hedge ratio by currency



Note: Calculation based on nine major lifers in Japan.

Source: Major lifers, Nomura

Emerging Markets

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EMEA equity and currency markets were mixed, while bond yields were mostly lower. Equities in Nigeria (+1.9%) and Egypt (+1%) saw strong gains, while those in Poland (-0.4%) underperformed. **Asian equities were mixed, + 0.2% on net.** The renminbi weakened (-0.2%) with offshore yuan passing 7.1 level for the first time since November 2022. **India's** central bank reported that the 47% increase in revenues in financial year to March 2023 were supported by profits from FX sales reflecting active FX interventions and higher interest income on its holdings of domestic and foreign securities. These sources helped to offset losses on the Reserve Bank of India's (RBI) liquidity operations. **Latam markets were mixed on Monday.**

EM Fund Flows

EM equity funds reverted to material outflows (-\$1.4bn) after nine weeks of continuous inflows, driven by increased outflows by non-ETFs (-\$1.6bn, from -\$329mn). Asia ex-Japan saw outflows of -\$895mn, EMEA had small outflows of -\$66mn, and Latam had inflows of +\$192mn. EM bond outflows were -\$790mn (from -\$377mn), with EM hard currency funds accounting for most of the outflows (-\$774mn, from -\$857mn one week ago), and local currency funds reverted to marginal outflows (-\$16mn) after three weeks of inflows. Within local currency, China-focused funds (-\$144mn) continued to see outflows while EM ex-China (+\$129mn) continued to see inflows.

Figure 1: Weekly Cross-Asset Flows

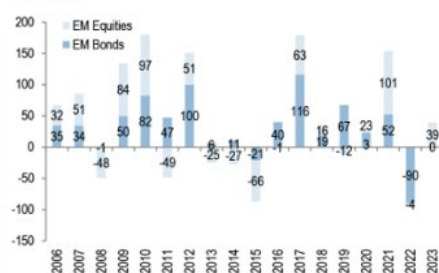
USD billion

Asset	Rw flows (Rw ago → current)	This wk	YTD
EM Bonds and Equities		-2.2	39.2
EM Bonds		-0.8	0.3
Hard Ccy		-0.8	-0.4
Local Ccy*		0.0	0.8
o.w. EM ex-China		0.1	2.5
o.w. China		-0.1	-2.5
EM Equities		-1.4	38.8
US HC		6.2	119.7
US HY		0.6	-6.4
Global Equities		0.9	-46.1
EM Bond and Equity ETFs		-0.2	27.7
EM Bond ETFs		-0.4	-0.8
EM Equity ETFs		0.2	28.4
Non-resident EM flows*		0.5	21.1

*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Figure 2: EM bond and equity fund flows

USD billion



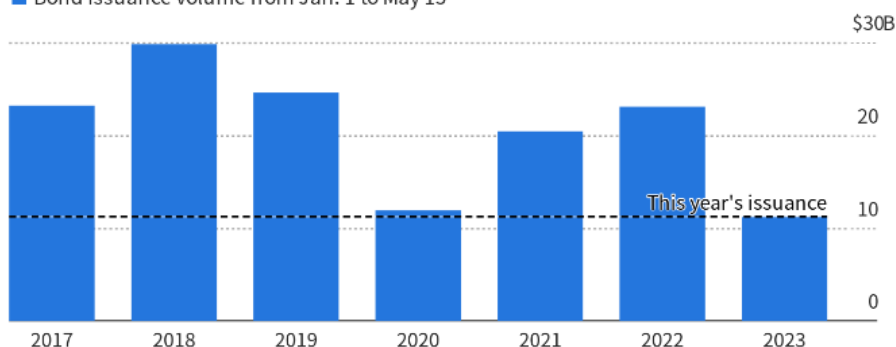
Brazil

Brazilian households are struggling to pay their debts with four out of ten adults facing default, according to Bloomberg. Overdue debts grew 18.42% in April compared with one year ago and the number of households facing default grew around 8%. Elevated borrowing costs due to the high central bank policy rate are one of the reasons that household debt in Brazil remains at an all-time high. The average interest rates on personal and home loans are 42% and 11%, respectively. Meanwhile, the rate hikes also make it harder for corporates harder to borrow. Signs of a credit squeeze have emerged and new issuance out of Brazil has plunged in both domestic and international markets. Analysts expect a slow monetary easing cycle, with the benchmark Selic rate expected to fall to 12.5% by December and 10% at the end of 2024 from its current level of 13.75%.

High Borrowing Costs Cast Chill Over Brazil's Bond Market

Brazilian bond issuance through mid-May lingers below Covid-era

■ Bond issuance volume from Jan. 1 to May 15



Source: Bloomberg League Tables

Bloomberg

Hong Kong SAR

Hong Kong's banks borrowed the biggest amount of short-term cash since 2021 from the Hong Kong Monetary Authority (HKMA). HKMA loaned out \$3.8 bn of Hong Kong SAR dollars (\$482mn) through its discount window on Tuesday. The overnight borrowing rate edged lower to 4.21% after jumping +74 bps on Monday. Analysts noted that the higher rates and recent developments like the banking crisis and the US debt limit standoff have made it harder for banks to raise funds via interbank channels. Aggregate balance, a gauge of interbank cash supply, fell to the lowest level since 2008 amid the HKMA's repeated interventions.

HKMA Boosts Lending to Banks as Money-Market Rates Jump



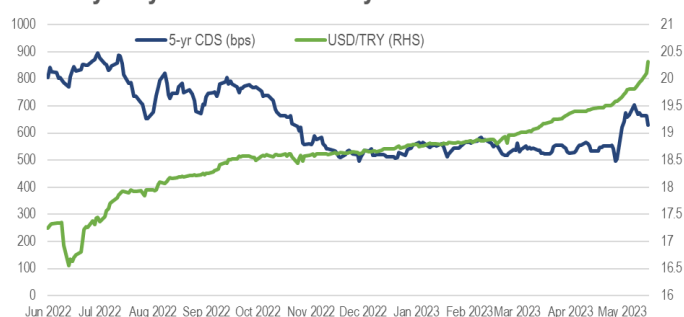
Türkiye

The lira weakened towards a record low after incumbent President Erdogan declared victory in the second round of the presidential election held on Sunday.

According to The Supreme Election Council's official preliminary results, President Erdogan won the second round with 52.18% of the votes. Unlike the first round results which came as a surprise to markets, the outcome of the second round was largely anticipated. Contacts are focused on the composition of the new economic team and Bloomberg cites President Erdogan as saying that he would hire a team with "international credibility."

Erdogan has reportedly met with the market-friendly former finance minister Mehmet Simsek and could announce a new cabinet as early as Friday. **Barclays analysts note expectations for gradual adjustments in both rates and currency in the remainder of this year**, given low FX liquidity and high external financing needs. Local equity markets outperformed this morning (+3.4%), while the lira weakened (-1.4% to 20.42 against the dollar).

Türkiye: 5-yr CDS and currency



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

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Global Financial Indicators

5/30/23 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4231	1.3	1	1	2	10
Europe		4334	0.3	0	-1	13	14
Japan		31328	0.3	1	9	15	20
China		3838	0.1	-2	-5	-6	-1
Asia Ex Japan		66	1.8	0	-1	-6	2
Emerging Markets		39	1.8	0	0	-7	3
Interest Rates			basis points				
US 10y Yield		3.71	-8.9	2	29	97	-17
Germany 10y Yield		2.37	-6.5	-10	6	131	-20
Japan 10y Yield		0.44	-0.6	3	4	20	1
UK 10y Yield		4.30	-3.1	15	58	231	63
Credit Spreads			basis points				
US Investment Grade		164	0.5	-3	3	10	5
US High Yield		491	7.0	-3	10	47	11
Exchange Rates			%				
USD/Majors		103.96	-0.2	1	2	2	0
EUR/USD		1.07	0.3	0	-2	0	0
USD/JPY		139.7	-0.6	1	2	9	7
EM/USD		49.9	0.0	-1	-1	-5	0
Commodities			%				
Brent Crude Oil (\$/barrel)		76.0	-1.4	-1	-5	-22	-10
Industrials Metals (index)		143	0.1	-1	-7	-23	-14
Agriculture (index)		65	-0.4	-1	-3	-17	-6
Implied Volatility			%				
VIX Index (% change in pp)		17.1	-0.4	-0.1	1.3	-8.7	-4.6
US 10y Swaption Volatility		130.1	0.0	10.0	14.2	32.4	4.4
Global FX Volatility		8.8	0.0	0.1	-0.2	-0.8	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		146	7.4	4	-41	-102	-60
Italy		183	-3.0	-3	-4	-12	-32
Portugal		73	-1.1	-5	-9	-39	-29
Spain		105	-1.6	0	1	-2	-4

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

Emerging Market Financial Indicators

Last updated: 5/30/2023 8:07 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	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		7.07	0.0	-0.3	-2	-6	-2		2.9	1.0	4	-22	4	-21		
Indonesia		14985	-0.1	-0.7	-2	-3	4		6.4	1.5	-2	-12	-62	-53		
India		83	-0.1	0.1	-1	-6	0		7.3	-2.8	8	6	(31.5)	-11		
Philippines		56	-0.4	-1.2	-2	-7	-1		5.9	0.0	5	-4	46	-9		
Thailand		35	0.1	-0.2	-1	-2	0		2.7	-6.2	-6	6	-21	6		
Malaysia		4.60	0.0	-0.7	-3	-5	-4		3.7	-1.9	-4	2	-41	-30		
Argentina		238	-1.1	-1.6	-7	-50	-26		107.5	2.3	276	1320	5155	1931		
Brazil		5.01	0.2	-0.7	0	-5	6		12.1	42.4	28	-34	-35	-44		
Chile		806	-0.8	-1.2	0	3	6		5.3	-0.8	-4	11	-77	-5		
Colombia		4438	0.2	2.0	6	-14	9		8.9	0.0	1	-20	35	-90		
Mexico		17.55	0.2	2.4	2	11	11		8.5	-0.2	1	14	13	-25		
Peru		3.7	0.1	0.6	1	0	4		7.2	0.2	-20	-27	-19	-76		
Uruguay		39	0.1	0.2	0	3	3		10.0	0.0	2	2	-25	-67		
Hungary		345	0.6	1.1	-2	6	8		8.1	-12.0	-9	22	109	-155		
Poland		4.21	0.2	-1.1	0	1	4		5.4	-3.3	-6	4	-84	-72		
Romania		4.6	0.3	0.0	-3	-1	0		6.9	0.2	-1	-27	-89	-84		
Russia		80.7	-0.3	-0.5	-1	-21	-8									
South Africa		19.7	0.0	-2.4	-6	-21	-13		10.4	13.0	24	105	212	123		
Turkey		20.39	-1.4	-2.7	-5	-20	-8		9.1	0.0	-1	-380	-1369	-74		
US (DXY; 5y UST)		104	-0.2	0.7	2	2	0		3.84	-8.9	10	36	112	-17		

	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		3838	0.1	-2	-5	-6	-1		194	-1	-4	-19	17			
Indonesia		6636	-0.7	-1	-4	-7	-3		142	0	-11	-65	2			
India		62969	0.2	2	3	13	3		151	-1	-11	-42	9			
Philippines		6511	-1.3	-1	-2	-4	-1		114	-2	-10	-34	17			
Thailand		1535	-0.4	0	0	-8	-8		0	0	0	0	0			
Malaysia		1397	-0.6	-1	-1	-11	-7		97	-3	-8	-34	-3			
Argentina		346369	1.4	5	16	271	71		2600	-9	-53	673	395			
Brazil		110333	-0.5	0	6	-1	1		259	-4	-24	-50	-15			
Chile		5599	-0.2	-2	3	4	6		131	2	-11	-36	-1			
Colombia		1101	0.1	-2	-8	-28	-14		406	0	-28	50	34			
Mexico		54213	0.3	1	-2	4	12		396	0	1	24	15			
Peru		21300	0.3	-2	-2	2	0		181	2	0	-4	1			
Hungary		47440	-0.3	2	6	23	8		233	0	4	9	11			
Poland		64256	-0.7	-2	2	11	12		136	2	53	117	63			
Romania		12252	-0.4	0	0	-2	5		255	3	-3	-7	0			
South Africa		76917	0.4	0	-2	7	5		455	-6	31	65	88			
Turkey		4925	3.3	10	7	95	-11		613	-13	87	9	173			
Ukraine		507	0.0	0	0	-2	-2		4946	-54	-328	1655	867			
EM total		39	0.0	0	0	-7	3		424	-2	-1	25	48			

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

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