



- Yields rise after weak treasury auctions ([link](#))
- Federal Deposit Insurance Corporation reports rise in banks' unrealized losses ([link](#))
- ECB reportedly set to impose first fines for banks' climate failures ([link](#))
- Swedish Q1 GDP surprises on the upside ([link](#))
- Rand weakens pending outcome of South Africa's general elections ([link](#))
- China's central bank pledged to deepen markets for yuan assets ([link](#))

[Mature Markets](#)

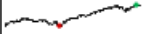
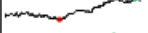
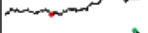
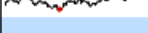






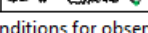
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Risk sentiment remains shaky as markets see higher for longer

While this week's rise in yields has continued to weigh on markets, risk assets are seeing some recovery this morning as yields reverse. The weak US treasury auctions, both Tuesday and yesterday, has pushed the yield on the 10yr UST about 15bp higher than where it closed just last Friday. The move has helped push out market pricing of Fed cuts with now just over one full cut priced for 2024. This morning is already seeing some reversal (UST 10yr: -4bp) that has gained steamed after this morning's US GDP release, helping to avert a further fall in risk assets. European equities have moved into positive territory on the day after starting in the red, and US equity futures are slightly higher. Despite the improvement, emerging market currencies remain weak, led by the South African rand. South African assets in general are under pressure as election results show the ruling party unlikely to reach a majority for the first time in 30 years, implying a need to partner with other parties.

Key Global Financial Indicators

Last updated: 5/30/24 8:32 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5267	-0.7	-1	5	25	10.42
Eurostoxx 50		4971	0.2	-1	1	16	10
Nikkei 225		38054	-1.3	-3	-1	23	14
MSCI EM		42	-1.5	-2	3	10	5
Yields and Spreads			bps				
US 10y Yield		4.57	-4.0	10	-11	89	69
Germany 10y Yield		2.67	-2.0	7	9	33	65
EMBIG Sovereign Spread		368	-7	1	28	-110	-15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.8	-0.1	-1	1	-6	-3
Dollar index, (+) = \$ appreciation		104.9	-0.2	0	-1	1	4
Brent Crude Oil (\$/barrel)		83.1	-0.6	2	-5	13	8
VIX Index (% change in pp)		14.4	0.1	2	-1	-3	2

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

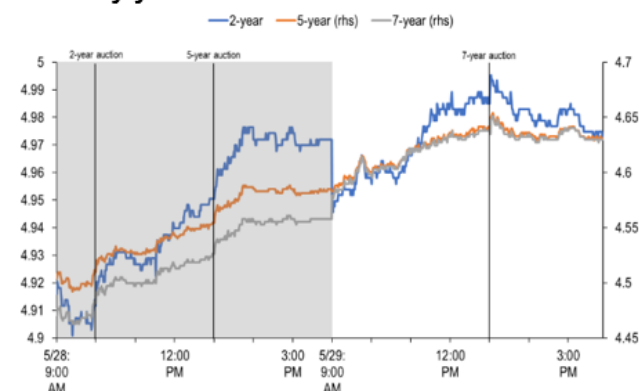
Mature Markets

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United States

Yields hit session highs after tailed 2-, 5- and 7-year auctions. Poor demand for Tuesday's 2- and 5-year Treasury auctions was followed by a weak \$44 billion 7-year Treasury auction on. This was the lowest aggregate bid/cover for coupon auctions since 2021, contacts report. The 7-year auction ended at 4.65%, just above the pre-auction level of 4.637%. Despite month-end activity (this month's Treasury extension is 0.10 years, compared to the 12-month average of 0.08 years), analysts believe that there may be some hesitation to buy ahead of Friday's core PCE data, as seen by the poor bid/cover of 2.43% and below-average indirect takedown of 66.9%. Long dated bond yields edged higher as well, with the 10-year Treasury rising to 4.62% (+7 bp).

Intraday movement in US 2-, 5- and 7-year Treasury yields

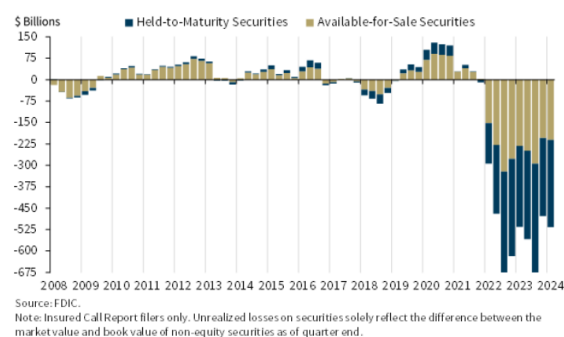


Source: Bloomberg

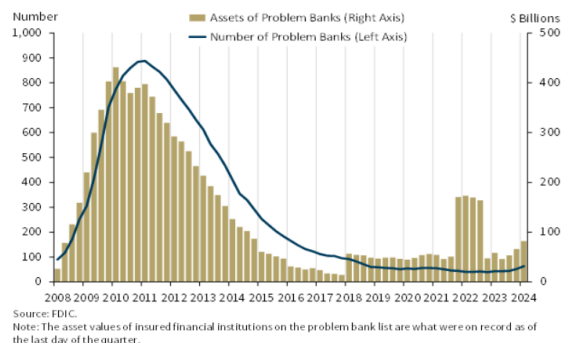
This morning's data showed US GDP's second estimate for Q1 was revised lower in line with consensus (1.3% vs 1.3% expected; prior 1.6%). Business inventories decreased in March (-0.1%) from the first estimate, which had been downwardly revised to 0.3%. March also saw a 0.4% decline in wholesale inventories, construction spending (-0.2% vs. previous 0.0%), while retail inventories came in lower than expected (0.3% vs. consensus 0.5%). Consumer spending was also lower than expected at 2.0% (expected 2.2%; prior 2.5%). 10 US Treasury yields declined 2 bp around the data releases on Thursday, having already declined about 2 bp heading into the release.

Federal Deposit Insurance Corporation reports rise in banks' unrealized losses. According to the latest Federal Deposit Insurance Corporation's Quarterly Banking Profile—released on Wednesday—the banking sector demonstrated resilience in the first quarter due to the recovery in net income, generally positive asset quality, and steady liquidity conditions. At the same time, the FDIC reported that the industry's net interest margin fell by 10 bp to 3.17 percent, due to higher funding costs caused by ongoing competition for deposits and declining yield on earning assets. The first quarter also saw a rise in unrealized losses on available-for-sale and held-to-maturity securities of \$39 billion, to \$517 billion, which was mostly attributed to unrealized losses on residential mortgage-backed securities because of higher mortgage rates. The agency also revealed that total assets on its "Problem Bank List" increased from \$15.8 billion to \$82.1 billion during the first quarter. The number of banks on the list increased to 63 from 52 banks reported in the fourth quarter of 2023—based on a joint evaluation of each bank's Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity (CAMELS) rating of "4" or "5". According to the agency, the 1.4% share of total banks that these institutions represent is still "*within the normal range for non-crisis periods*" of 1–2%.

Unrealized gains (losses) on investment securities



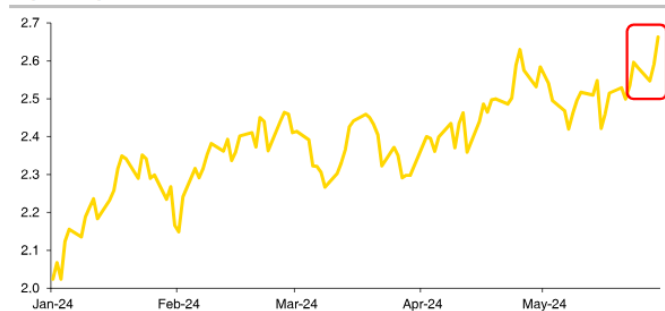
Number and asset of banks on FDIC's "Problem Bank List"



Europe

European equities are marginally higher this morning with the STOXX 600 Index up 0.3% after ending yesterday roughly 1.1% lower. The banking sector was trading in the green (+1.0%). **Euro area sovereign yields were slightly lower this morning** (10y bund yield -1bp to 2.68%) retracing some of yesterday's moves where contacts note that inflationary concerns saw 10y German bund yields ending the day 10bp higher at the highest level so far this year. **The euro was marginally stronger against the dollar this morning (+0.1% at 1.08) after yesterday posting its largest depreciation so far this month** according to analysts. ING analysts highlight that global equity corrections have weighed on EUR/USD but analysts do not expect the euro to weaken much further unless the bond sell-off continues. Nevertheless, the euro remains roughly 1.4% stronger against the dollar than at the start of May. On the data front, the **euro area unemployment rate dropped to 6.4% in April**, while consensus had expected it to remain unchanged at 6.5%.

10y Bund yield at year-to-date highs
10y Bund yield, in %



Ahead of the euro-area May flash inflation print due tomorrow, Spain's preliminary May inflation data was marginally higher than expected. Data released this morning showed the EU harmonized measure for Spain's headline inflation increasing to 3.8%/y/y in May (versus expected 3.7% from 3.4%), while core inflation increased to 3.0%/y/y as expected (from 2.9%). This follows yesterday's data release where Germany's headline inflation was also slightly higher than expected. Markets are still pricing in roughly 24bp of easing for the upcoming ECB meeting next week but have scaled back rate cut expectations further out—markets are now pricing in roughly 75bp of easing by April 2025, compared to 83bp at the start of this week.

The ECB is reportedly set to take a milestone step in the supervision of the largest euro area banks by imposing fines for banks' climate failures. According to Bloomberg, up to four lenders are set to face penalties imposed for not adhering to the ECB's deadline for assessing their exposure to climate risks. The size of the fines has not yet been finalized and while it might be largely symbolic, it could reportedly amount to 5% of daily revenue, according to Bloomberg sources. The ECB stated several times that it can resort to several measures, including periodic penalty payments, if banks fail to comply with requirements on how they should manage climate risks. Using the full supervisory toolkit to remediate identified weaknesses is one of the six goals of the ECB's recently revised Supervisory Review and Examination Process framework.

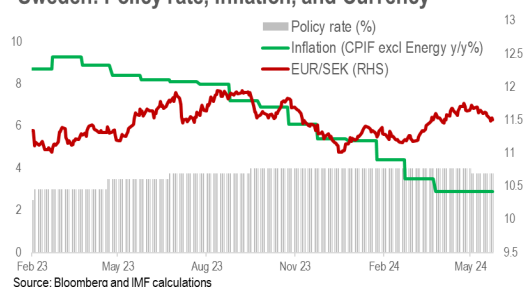
Sweden

The Swedish krone was marginally stronger against the euro while yields edged higher after Sweden's Q1 GDP surprised on the upside. Data released this morning showed GDP expanding by 0.7%q/q in Q1 (versus expectations to remain unchanged at an upwardly revised 0.0%).

Statistics Sweden noted that while several GDP components saw a modest increase, changes in inventories was the main driver. The Riksbank cut its policy rate by 25bp in May to 3.75%, and while noting in the press conference that a June cut was unlikely the Governor saw risks to the forecast of two additional rate cuts in H2 as balanced. JPMorgan analysts think that the Riksbank would see today's data as neutral, while noting that in fact it might be seen as slightly dovish. **The analysts still expect the next rate cut in September, with risks skewed towards an earlier rate cut in August.**

This morning the Swedish krone was trading marginally stronger against the euro (+0.2% at 11.51), and is now roughly 2.2% stronger than at the start of the month, while 10y yields were marginally higher (+2bp at 2.45%).

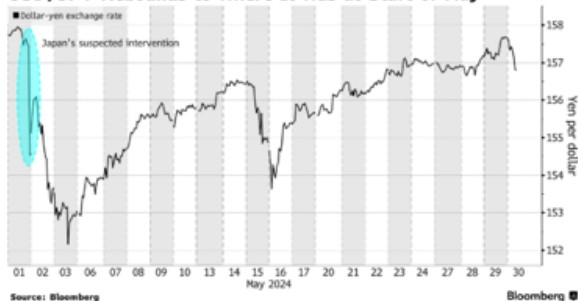
Sweden: Policy rate, Inflation, and Currency



Japan

The Japanese yen appreciated 0.4% and strengthened against all G10 currencies. Market participants may have moved to lock in profits as the yen reached levels of possible May interventions, and it became difficult to hold carry-trade positions, according to Bloomberg sources. OCBC analysts expect authorities to at least attempt to limit yen increase or smooth the pace of a rise despite silence from policymakers. Japan's Ministry of Finance will release May foreign exchange intervention data late Friday. **10Y bond yields declined 2.1bp.** The May auction of ¥2.6tn (\$17bn) 2Y bonds received better demand, with a higher bid-cover ratio at 3.8 (previous: 3.5). Separately, the spread between the 30Y bond yield and the respective swap rate widened to 42bp, the highest level since 2012. The widening spread likely reflects market concern that bonds may be impacted by BOJ's potential reduction in bond buying and expectations of further rate increases, Bloomberg reported. **Japanese equities declined -0.6%**, dragged by industrials and information technology sectors.

USD/JPY Rebounds to Where It Was at Start of May



Japan Bond-Swap Spread Widening as BOJ Cuts Debt Buying



Emerging Markets

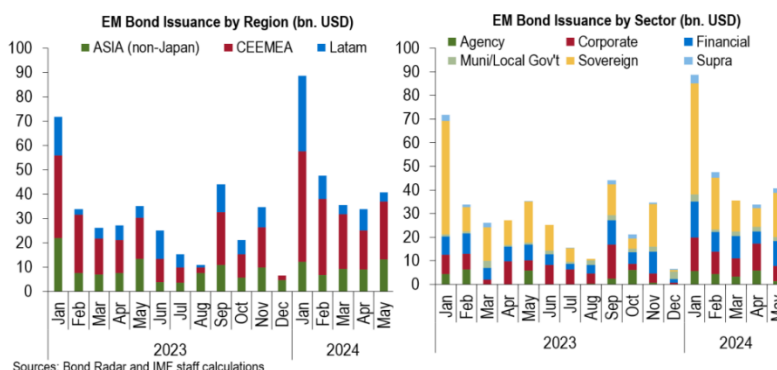
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Asian equities slumped 1.2%, following the overnight retreat in US equities, led by South Korea (-1.6%). **Taiwan POC** stocks declined 1.4% despite an upward revision in the official 2024 GDP forecast to 3.9% (previous: 3.4%) due to a slightly higher Q1 GDP, increase in government and corporate investment in AI and improvements in global exports. **Asian currencies were mixed, while bond yields were little changed.** The South Korean won (-1.1%) and Indonesian rupiah (-0.6%) continued to underperform. **India's central bank (RBI) plans to enhance its FX intervention toolkit to curb rupee volatility,**

according to its annual report. In addition, the RBI will allow the opening of Indian rupee accounts offshore, part of efforts to internationalize the currency. **Vietnam's central bank (SBV) signaled it's ready to defend the dong**, as the currency lost 4.9%YTD after touching a record low against the dollar last week. Some analysts see a rate hike by SBV as early as June amid sustained weakness in the dong; DBS, however, noted that would be SBV's last resort given risks to the economy. **EMEA equities and currencies are under pressure today**, as the rise in US treasury yields led to a global downturn in riskier assets. In CEE, the stock market was in the red, most notably in Poland (-1.5%), while currencies were weaker against the euro; in particular the Hungarian forint extended its losses (-0.3%) today, having depreciated by 1.4% this week. In South Africa, equities lost (-2%) and the rand was weaker (-1.3%) against the dollar, amid uncertainty on the outcome of yesterday's general elections and ahead of the central bank's decision on its policy rate later today, where consensus expects a hold at 8.25%. In Türkiye the lira was marginally weaker against the dollar (-0.1%). Elsewhere, Fitch Ratings yesterday affirmed Namibia at 'BB-' with a stable outlook. **Latin American assets were weaker on Wednesday**, as rising yields weighed on risky assets. Stocks declined in Brazil (-0.9%), Colombia (-1.0%), Chile (-1.1%) and Peru (-0.8%). Currencies depreciated in Brazil (-0.8%), Mexico (-1.1%), Colombia (-0.7%) and Chile (-1.6%).

EM Bond Issuance

EM issuers sold \$15.9bn of new bonds last week, more than double from the week before. Of that \$8.7bn was sovereign bonds, \$5.8bn was corporate/financial, \$750mn was agency, and \$720mn was local government bonds. Romania, Qatar, Uzbekistan, and Latvia were the top issuers. The new issuance had maturities from 1 to 13 years and 75% of the new issuance was investment-grade. YTD total hard currency and local currency issuance now stands at \$246bn.



China

The People's Bank of China (PBC) will reportedly sell low-risk bonds, including government bonds, when necessary, Reuters wrote. PBC is monitoring current bond market changes and potential risks. In April, published remarks by President Xi suggested it may start trading government bonds to regulate liquidity in the market. However, there is still no clarity on its potential return to the bond market for the first time in years, according to Bloomberg. Separately, **PBC pledged to improve liquidity of yuan financial assets**. PBC Deputy Governor Tao said in an interview that a strong currency should be stable and easy to use and the PBC will seek greater use of yuan globally by developing more hedging tools for yuan assets and promoting capabilities of China's payment and settlement system. PBC will also improve the yuan liquidity supply mechanism, improve the long-term mechanism of the issuance of overseas sovereign bonds, enrich offshore yuan financial products, and support issuance of panda bonds by foreign central banks and international institutions in China.

The Renminbi appreciated (offshore: +0.3%, onshore: +0.2%). Market participants noted that Chinese financial institutions have reportedly sold dollars in offshore market. **10Y bond yields were little changed. Chinese equities fell 0.5%.**

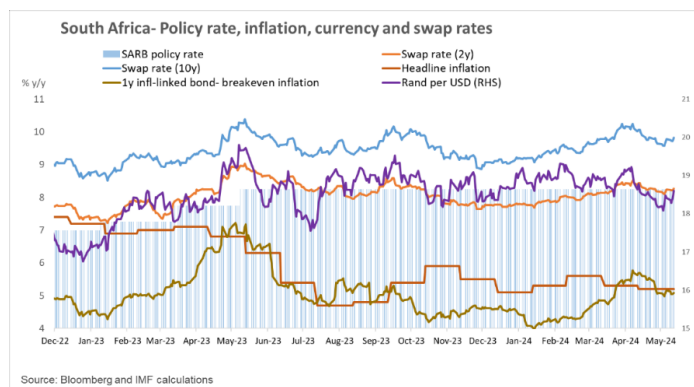
RMB: Exchange Rate and Daily Fixing



Sources: Bloomberg and IMF staff calculations

South Africa

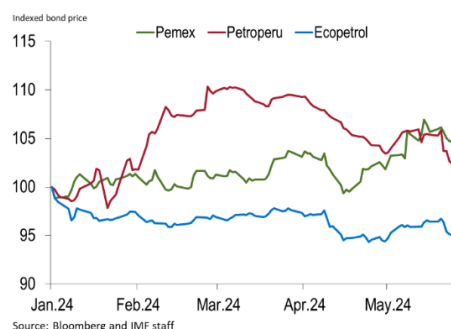
The rand edged lower (-1.3%) against the dollar, amid uncertainty on the outcome of elections and ahead of the central bank's (SARB) announcement of its benchmark repo rate later today, where consensus expects a hold at 8.25%. Although inflation eased in April to 5.2%/y, it remains above the midpoint of the central bank's target range (3%-6%) and today's data showed producer prices rising in April by 5.1%/y (vs consensus of 4.9% and from 4.6% in March). According to projections



from the Council for Scientific and Industrial Research, cited by Bloomberg, the currently ruling party African National Congress (ANC) will fail to reach a majority of votes for the first time in 30 years, obtaining 42% of the votes (polls reported by the Economist show ANC in the 41%-45% range), and will need to partner with either the market-friendly Democratic Alliance (expected at 22%) or one of two populist parties that reportedly support nationalisation of "strategic" businesses (both projected in the 10%-14% range). Concerns on possible policy changes that would deter investment weakened the rand this morning and triggered losses in the stock market (-2%), with yields on 10y government bonds rising by 10bp to 12.11%. Looking beyond today's SARB decision, analysts at Standard Chartered suggest that renewed gains on the rand (that appreciated QTD by 1.4% against the dollar) from a possible post-election rally in South African assets could soften the inflation outlook enabling easing of the policy rate in 2024. Goldman Sachs also continues to see the SARB cutting rates in Q3 2024. ING views the ANC at 45% of votes or higher as ensuring some level of policy continuity in South Africa but keeps a bearish view on the rand, which they see as highly correlated to China's growth and thus unlikely to appreciate to trade below R18.00/\$.

Peru, Colombia, and Mexico


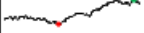
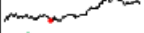


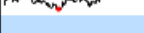









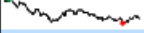
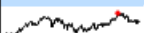


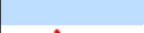





Latin American state-owned oil companies are receiving downgrades from rating agencies. Last week, Colombia's Ecopetrol SA lost its last investment-grade rating. Petroleos del Peru received a triple downgrade from Fitch. And S&P Global Ratings also lowered the company's rating deeper into junk on Tuesday. This has been a concern for Petroleos Mexicanos SA for years. The companies are facing cash flow problems and demand more investments. Together, the main oil companies in Peru, Colombia, and Mexico have debt totaling around \$136 billion, \$85 billion of which is in hard-currency bonds. The downgrades helped drive bond prices for Ecopetrol and Petroperu to drop more than 3.



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), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), 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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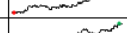
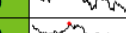







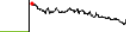

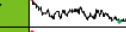

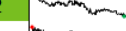


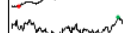


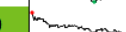



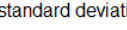


Global Financial Indicators

5/30/24 8:32 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5262	-0.7	-1	5	25	10
Europe		4971	0.2	-1	1	16	10
Japan		38054	-1.3	-3	-1	23	14
China		3594	-0.5	-1	0	-5	5
Asia Ex Japan		71	-1.6	-2	4	9	7
Emerging Markets		42	-1.5	-2	3	10	5
Interest Rates			basis points				
US 10y Yield		4.57	-4.0	10	-11	89	69
Germany 10y Yield		2.67	-2.0	7	9	33	65
Japan 10y Yield		1.06	-2.1	6	19	63	45
UK 10y Yield		4.37	-3.2	11	2	12	83
Credit Spreads			basis points				
US Investment Grade		117	0.5	0	-1	-47	-17
US High Yield		350	3.0	6	3	-140	-36
Exchange Rates			%				
USD/Majors		104.92	-0.2	0	-1	1	4
EUR/USD		1.08	0.2	0	1	1	-2
USD/JPY		156.7	-0.6	0	-1	12	11
EM/USD		46.8	-0.1	-1	1	-6	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		83.1	-0.6	2	-4	17	9
Industrials Metals (index)		163	-2.4	-1	3	15	14
Agriculture (index)		62	0.0	0	5	-2	-1
Implied Volatility			%				
VIX Index (% change in pp)		14.4	0.1	2.1	-1.3	-3.1	1.9
Global FX Volatility		7.0	0.0	0.1	-0.5	-1.9	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-1.5	1	1	-45	-3
Italy		130	-2.5	1	-3	-51	-37
Portugal		60	-1.3	-2	-2	-12	-3
Spain		74	-1.4	-2	-3	-31	-23

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

Emerging Market Financial Indicators

Last updated: 5/30/2024 8:34 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	0.2	0.1	0	-2	-2		2.2	1.5	-1	-13	-61	-29
Indonesia		16265	-0.6	-1.7	0	-8	-5		7.0	1.9	3	-28	55	48
India		83	0.0	0.0	0	-1	0		7.4	1.0	2	-13	8.5	21
Philippines		59	-0.3	-0.8	-1	-4	-6		5.6	4.9	0	-16	-39	-6
Thailand		37	0.2	-0.3	1	-6	-7		2.9	2.0	0	-6	17	16
Malaysia		4.70	0.0	0.0	1	-2	-2		3.9	0.6	2	-7	17	18
Argentina		894	-0.1	-0.5	-2	-73	-10		38.2	137.6	457	-243	-6929	-4815
Brazil		5.20	-0.8	-1.0	-2	-4	-7		12.0	20.4	13	30	28	160
Chile		915	-0.4	-0.6	5	-12	-4		5.4	0.0	20	2	12	46
Colombia		3873	-0.7	-1.2	0	15	0		8.6	0.0	28	9	-12	92
Mexico		16.98	0.0	-1.5	1	4	0		9.4	-0.1	12	-21	101	90
Peru		3.8	-0.3	-0.5	-1	-2	-1		7.2	1.7	5	-14	-1	48
Uruguay		39	-0.3	-0.8	-1	0	1		9.2	2.5	3	8	-84	-36
Hungary		359	0.0	-0.6	2	-4	-3		6.8	2.0	10	-20	-123	105
Poland		3.95	0.2	-0.3	3	7	0		5.3	0.6	9	-2	-11	87
Romania		4.6	0.2	0.0	1	1	-2		6.6	2.2	8	0	-23	42
Russia		89.8	-0.3	2.0	4	-10	0							
South Africa		18.6	-1.0	-0.6	1	6	-1		9.8	10.5	14	-24	-58	71
Türkiye		32.27	0.0	-0.3	0	-37	-8		28.1	26.0	26	-13	1904	138
US (DXY; 5y UST)		105	-0.2	0.0	-1	1	4		4.59	-3.9	6	-12	79	75

	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		3594	-0.5	-1	0	-5	5		138	-2	-7	-56	-20	
Indonesia		7034	-1.5	-2	-3	6	-3		89	-4	-17	-53	-7	
India		73886	-0.8	-2	-1	18	2		91	-2	-9	-60	-25	
Philippines		6372	-0.6	-4	-5	-2	-1		78	-5	-14	-36	-2	
Thailand		1352	0.1	-1	-1	-12	-5		0	0	0	0	0	
Malaysia		1604	-0.1	-2	2	16	10		77	0	-6	-20	-8	
Argentina		1567732	-0.2	0	18	357	69		1345	-56	133	-1255	-568	
Brazil		122707	-0.9	-2	-3	13	-9		210	-6	-4	-49	-5	
Chile		6682	-1.1	-1	3	19	8		112	-1	-7	-19	-13	
Colombia		1394	-1.0	-1	3	28	17		308	6	13	-98	37	
Mexico		55213	0.1	-2	-3	4	-4		297	5	-7	-99	-37	
Peru		30489	-0.8	1	4	44	17		152	4	4	-29	8	
Hungary		68088	-0.6	0	0	43	12		139	-2	-11	-94	-10	
Poland		85697	0.0	-3	1	34	9		89	-4	-6	-47	-8	
Romania		17556	-1.2	1	3	43	14		171	-4	-13	-85	-30	
South Africa		76921	-2.1	-3	1	0	0		311	-2	-23	-144	3	
Türkiye		10484	0.0	-3	4	112	40		270	-8	-1	-343	-44	
EM total		42	-0.3	-2	3	10	5		330	0	46	-93	-15	

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

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