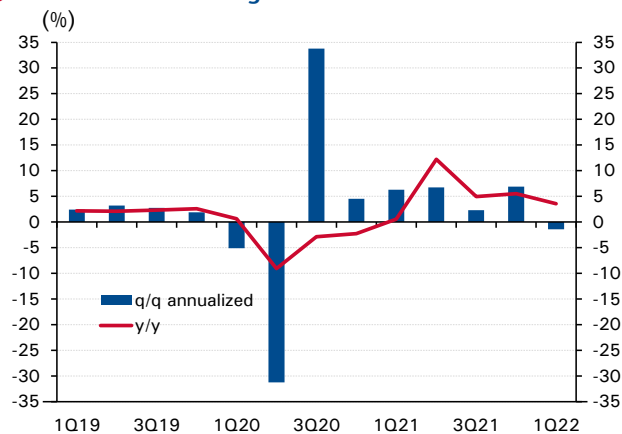


USD index and 10-year treasury yields soar amid high inflation and monetary tightening

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- 1Q22 annualized GDP contracted by 1.4% q/q dragged down by net exports and change in inventories.
- The unemployment rate was unchanged at 3.6% in April, remaining at the lowest since February 2020.
- Wage growth eased to a still-elevated 5.5% y/y in April from a near two-year high of 5.6% in March.
- The 10-year UST yield surged to a multi-year high of 3.14% on hawkish policy and inflation before easing in May.
- Inflation eased to 8.3% in April from a 41-year high of 8.5% in March, on lower energy and core goods price increases.
- The 12-month fiscal deficit eased further to \$1.3trn in April on higher tax-driven revenues and lower spending.
- The USD index strengthened to a 20-year high in May on higher interest rates and increased safe-haven demand.
- The S&P500 fell for seven consecutive weeks on investor concerns of inflation, recession, and monetary tightening.

▶ Chart 1: Real GDP growth



1Q22 annualized GDP contracted by 1.4% q/q, weaker than a +1% forecast dragged down by net exports and change in inventories.

Source: Refinitiv

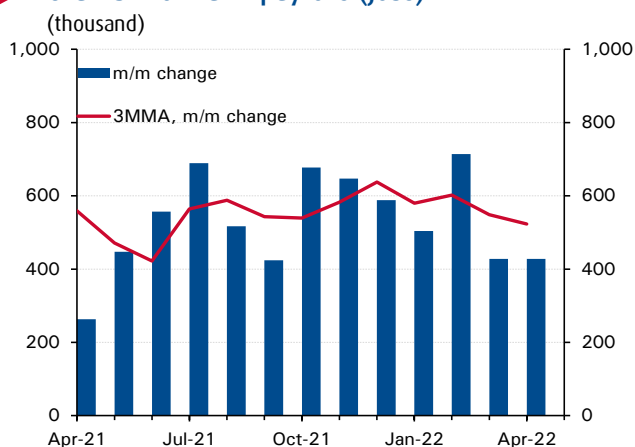
▶ Chart 2: Unemployment rate



The unemployment rate was unchanged at 3.6% in April, remaining at the lowest since February 2020.

Source: Refinitiv

▶ Chart 3: Non-farm payrolls (jobs)



Non-farm jobs rose by 428k in April, unchanged from March's six-month low amid an increasingly tight labor market.

Source: Refinitiv

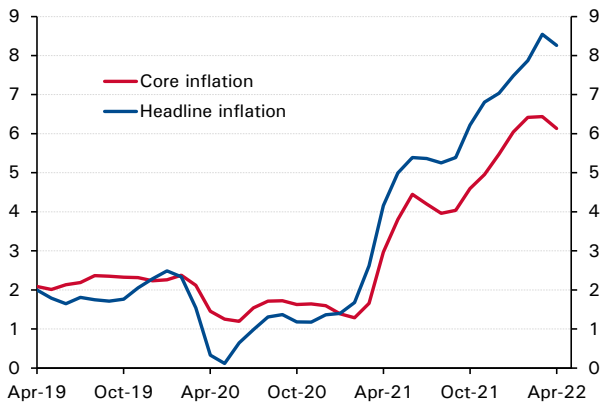
▶ Chart 4: Wage growth



Wage growth eased to a still-elevated 5.5% y/y in April from a near two-year high of 5.6% in March.

Source: Refinitiv

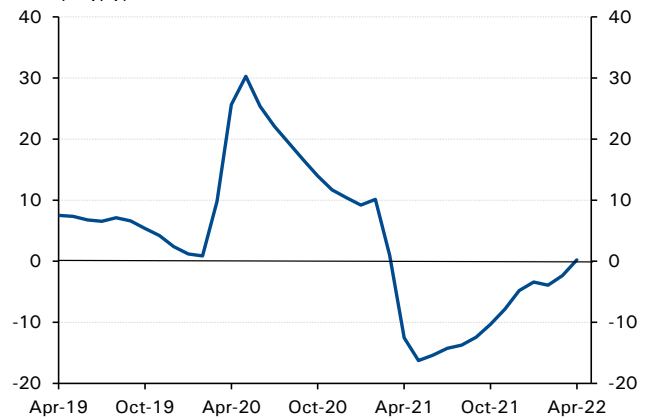
Chart 5: Consumer price inflation
(% y/y, CPI-U: All items)



Inflation eased to 8.3% in April from a 41-year high of 8.5% in March, on lower energy and core-goods price increases.

Source: Refinitiv

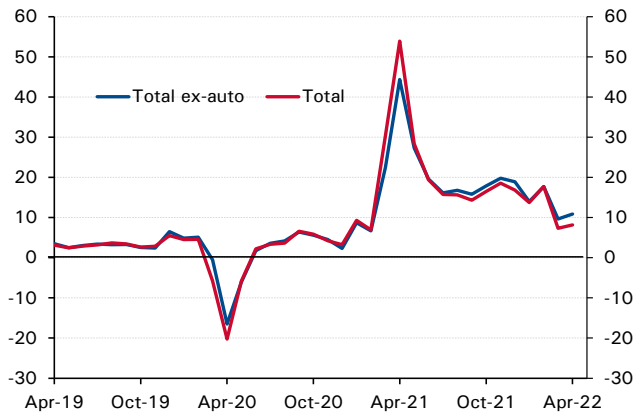
Chart 6: Commercial and industrial loans
(% y/y)



Annual growth in C&I loans turned positive (0.2% y/y) for the first time since March 2021 on fading base effects.

Source: Refinitiv

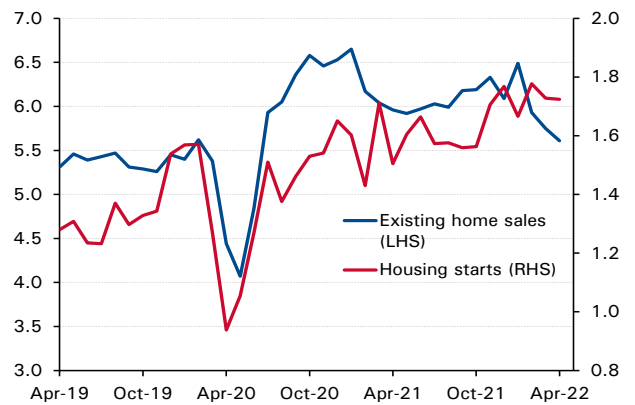
Chart 7: Retail sales
(% y/y)



Retail sales growth (ex-autos) edged up to 10.9% y/y in April (9.6% in March) on ongoing strong spending despite high inflation.

Source: Refinitiv

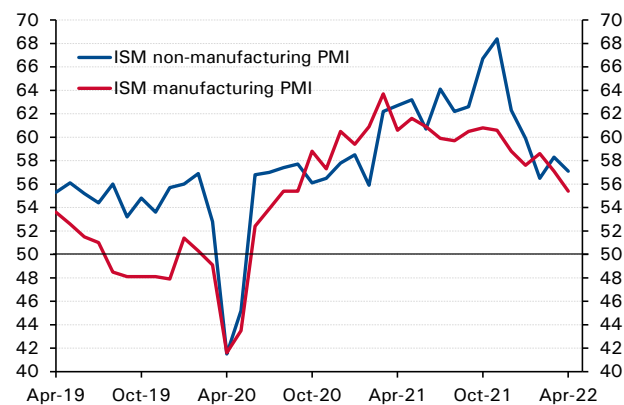
Chart 8: Existing home sales and housing starts
(million units)



Existing home sales fell 2.4% m/m in April to a 22-month low of 5.6 million units curbed by rising mortgage rates and elevated prices.

Source: Refinitiv

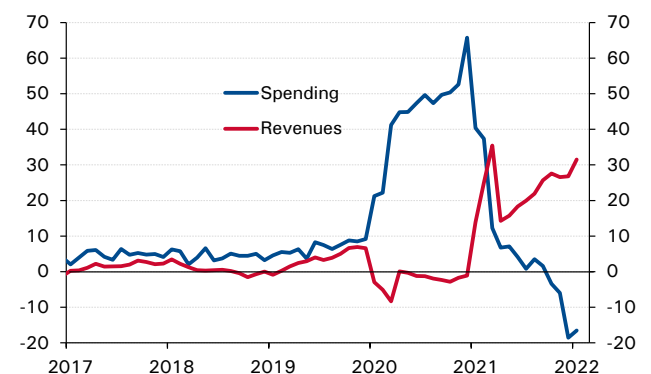
Chart 9: Business activity surveys
(index)



The ISM manufacturing index eased for the second consecutive month to 55.4 in April (lowest since October 2020) on slower expansion in production, new orders and employment.

Source: Refinitiv

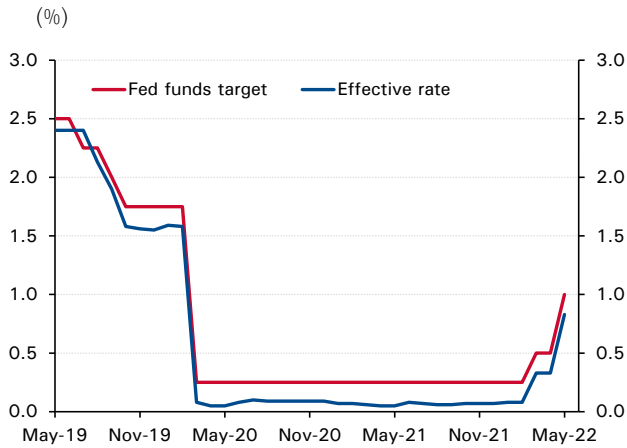
Chart 10: US government spending and revenues
(% y/y, 12-month cumulative total)



As expected, the 12-month fiscal deficit eased further to \$1.3trn in April on higher tax-driven revenues and lower spending.

Source: Refinitiv

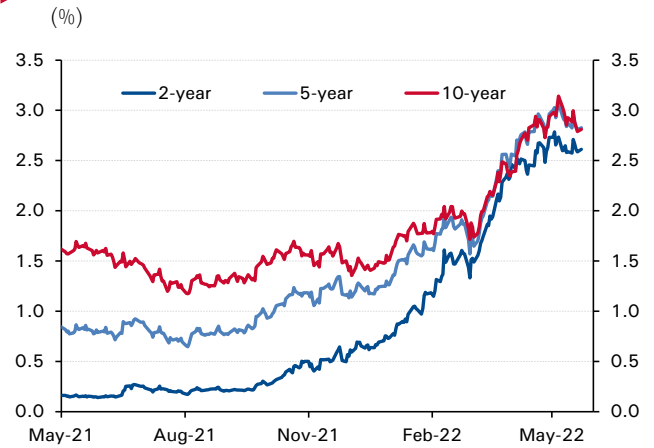
▶ **Chart 11: Policy interest rates**



The Fed as expected raised its policy rate by 50 bps to the range of 0.75-1.00%, the second in a series of planned rate hikes.

Source: Refinitiv

▶ **Chart 12: Government bond yields**

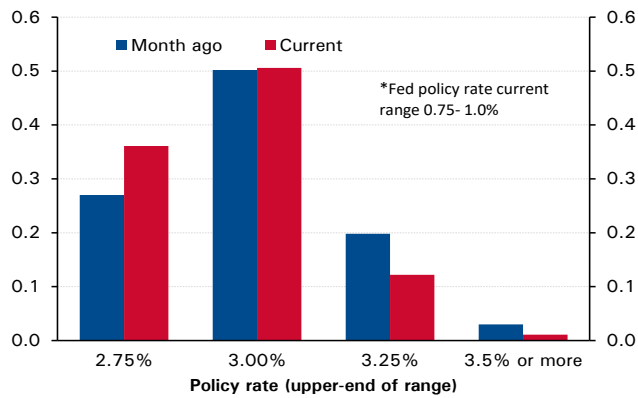


The 10-year treasury yield surged to a more than 3-year high of 3.14% on hawkish Fed policy and high inflation before easing recently to around 2.8%.

Source: Refinitiv

▶ **Chart 13: Fed policy action outlook for Dec. 2022**

(futures market probability, as of 23 May 2022)

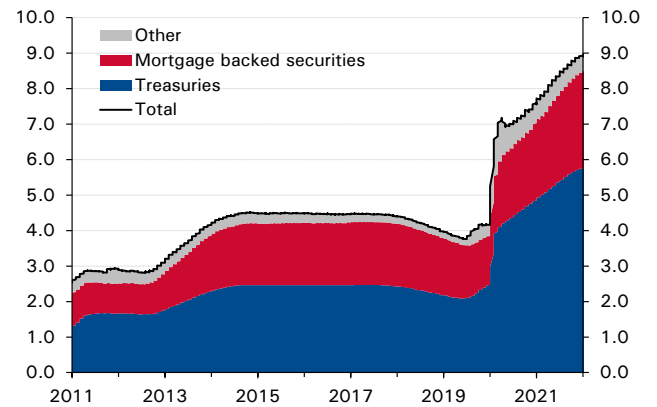


Futures markets probabilities that the Federal Funds rate will reach a range of 2.75-3% in 2022 have risen to 87%.

Source: CME Group

▶ **Chart 14: Fed balance sheet size and composition**

(total assets, \$ trillion)



Federal Reserve assets were little changed at \$8.9 trillion as of mid-May, expected to shrink on planned quantitative tightening.

Source: Refinitiv

▶ **Chart 15: Stock market**

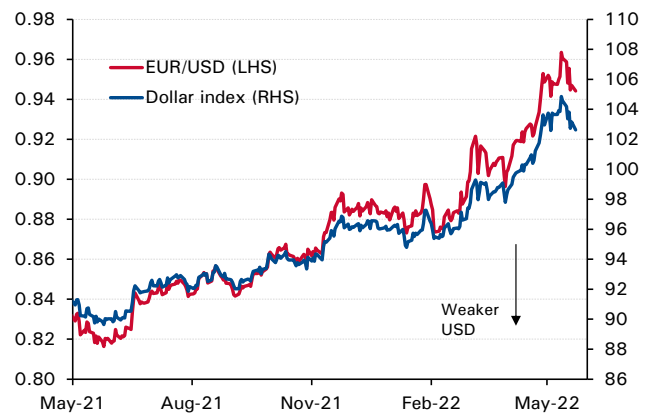
(S&P 500)



The S&P500 fell for seven consecutive weeks on investor concerns of inflation, recession, and monetary tightening.

Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD index strengthened to a 20-year high in May on higher interest rates and increased safe-haven demand.

Source: Refinitiv

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