GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, FEBRUARY 15, 2022

- **Considerable damage seen in the speculative segment of the US stock market** (link)
- **Global funds flows showed demand for equity; outflows from credit continues** (link)
- **Strong UK labor market data reinforces March hike expectations** (link)
- **China's central bank leaves MLF rate unchanged, injects liquidity** (link)
- **Risk sentiment improves on news of Russian troops withdrawal** (link)

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Easing tensions lift markets

The pullback of some Russian troops from the Ukraine border is easing market fears of the risk of a potential conflict. Russia announced that some troops are returning to their base after completing drills, and diplomatic efforts continue with president Putin set to meet with the German chancellor today. NATO officials have expressed cautious optimism over the announcement and indicated they have not yet seen evidence of a withdrawal. European equities are up over 1% this morning, erasing some of yesterday's losses. US equity futures are similarly up by about 1.5% before the market open. Treasury yields are higher, led by the long end, undoing some of the safe haven flows seen in recent days. The 30-year yield is 4 bps higher while the 2-year is up 1 bp. Emerging market currencies are mostly stronger on the improved risk sentiment, led by the Russian ruble (+1.9%).

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
2/15/22 8:05 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4402	-0.4	-2	-6	12	-8
Eurostoxx 50		4128	1.6	0	-3	11	-4
Nikkei 225		26865	-0.8	-1	-4	-12	-7
MSCI EM		48	-0.7	0	-3	-16	-1
Yields and Spreads					bps		
US 10y Yield		2.03	3.8	6	24	82	52
Germany 10y Yield		0.31	2.6	4	36	69	49
EMBIG Sovereign Spread		388	0	8	7	49	21
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		53.6	0.3	0	1	-8	2
Dollar index, (+) = $ appreciation		96.1	-0.3	0	1	6	0
Brent Crude Oil ($/barrel)		93.7	-2.9	3	9	48	20
VIX Index (%, change in pp)		26.0	-2.4	5	7	6	9

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

Mature Markets

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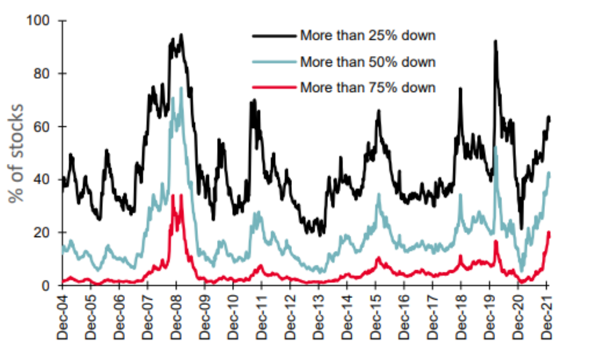
United States

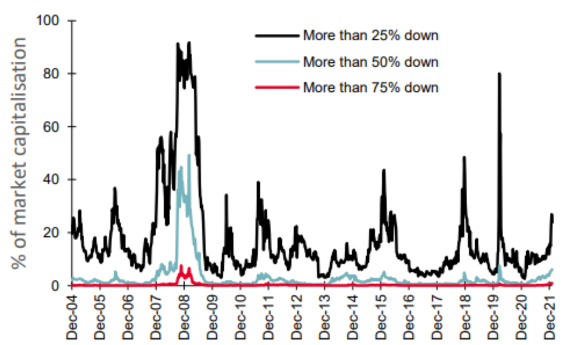
Stocks dropped and Treasury yields climbed amid headlines around geopolitical developments and monetary policy outlook. Russia signaled openness to a diplomatic solution, while some of the military drills are reportedly concluded with others to end later. St. Louis Fed President Bullard once again urged front-loading rate hikes and repeated his call to raise interest rates by 100 bps by July 1 and start tapering in Q2. However, for the March FOMC meeting, he would defer to Chair Powell on whether the initial increase should be 25 bps or 50 bps. His comments yesterday were perceived as slightly less hawkish compared to his post-CPI comments last week, which spurred speculation of an emergency inter-meeting rate hike. Separately, Richmond Fed President Barkin favors a steady move back towards pre-pandemic levels with a data dependent path. The S&P500 dropped for a 3rd straight session after paring some losses in the afternoon. Treasury yields closed markedly higher, with the 2-year yield up 8 bps to 1.58% and 10-year yield up 6 bps to 1.99%, with both real rate and breakevens widening by 3 bps. The curve flattening resumed, with 2-10 spread down 3 bps to 41 bps.

The rotation towards value stocks helped to cushion the index loss in January, but masked considerable damage to the more speculative segment of the stock markets. For the NASDAQ components, the number of stocks experiencing over 75% drawdown has surpassed the level when Covid started in early 2020, which is not apparent from the index level given nearly half of the market cap is concentrated in the top 10 stocks. Some analysts characterize this as a "speculative growth bust" as the speculative excess built up during the pandemic is now being undone by the withdrawal of liquidity.

A high proportion of Nasdaq constituents are down significantly (% of stocks down from their 52-week highs



However, on a market cap basis the picture does not look so dramatic (% the Nasdaq is down from their 52 weeks highs)

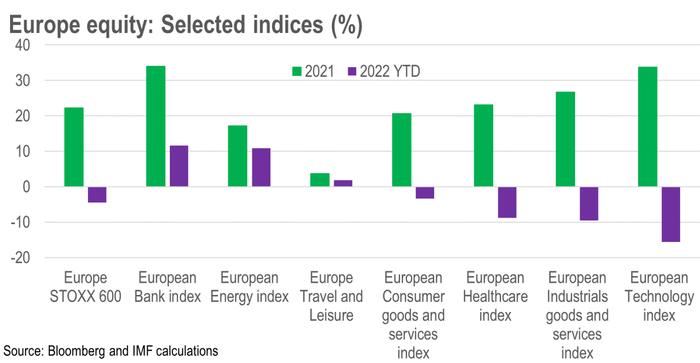


Global fund flows showed accelerated buying of equity funds and continuing selling of bond funds. Net flows into global equity funds accelerated significantly last week ($47bn vs $22bn prior week), primarily reflecting inflows into the US market followed by EM equities. By sector, the largest net inflows were into energy and financials, while industrial, consumer goods and materials saw meaningful net outflows. Flows into global fixed income funds were negative for a 5th straight week (-$10bn vs -$12bn prior week). TIPS bond funds again experienced heavy outflows. In credit funds, investors pulled out from both IG and HY funds. EM fixed income products saw net selling in aggregate, but only in hard currency and blended funds. Cross-border FX flows are mostly favorable to EM currencies, particularly strong for Asian currencies (Korea, China), while investors trimmed exposures to Eastern European currencies.

	USD (mn)					% AUM	
	4wk sum	Feb 9	Feb 2	Jan 26	Jan 19	4week avg	Feb 9
Total Equity	**96,454**	**46,571**	**21,801**	**17,097**	**10,985**	**0.14**	**0.26**
Global Benchmarks	26,927	4,545	8,705	6,663	7,015	0.16	0.11
Including US	17,084	2,374	5,435	4,357	4,919	0.14	0.08
Excluding US	9,843	2,171	3,270	2,306	2,096	0.19	0.17
Developed Markets	48,634	36,718	10,923	2,252	-1,259	0.10	0.31
Emerging Markets	20,893	5,309	2,174	8,182	5,229	0.31	0.31
Equity Sector Flows							
Commodities/Materials	-505	-663	-108	-140	406	-0.09	-0.47
Consumer Goods	-2,336	-988	-1,929	36	546	-0.26	-0.43
Energy	3,473	1,514	633	-77	1,403	0.34	0.58
Financials	8,216	2,510	-58	2,716	3,048	0.49	0.59
Health Care	829	-467	298	853	145	0.06	-0.12
Industrials	-2,878	-388	-735	-1,326	-430	-0.84	-0.45
Infrastructure	612	196	192	43	181	0.22	0.29
Real Estate	404	80	-5	-27	356	0.02	0.01
Technology	-2,121	-641	-970	-50	-460	-0.07	-0.08
Telecom	-348	154	-55	-258	-189	-0.20	0.36
Utilities	2,007	694	820	526	-33	0.39	0.53
Total Fixed Income	**-36,484**	**-10,364**	**-11,743**	**-10,527**	**-3,850**	**-0.12**	**-0.14**
Developed Markets	**-33,285**	**-10,115**	**-11,269**	**-10,251**	**-1,650**	**-0.12**	**-0.15**
Government	5,721	783	2,795	1,753	390	0.20	0.11
Mortgage-backed	-1,071	-397	-303	-344	-28	-0.11	-0.16
Municipal	-3,835	304	-2,196	-1,705	-238	-0.16	0.05
IG credit	-5,665	-2,708	-2,835	1,128	-1,249	-0.20	-0.38
HY credit	-17,845	-5,124	-4,730	-5,204	-2,786	-0.71	-0.83
Bank loan	6,826	1,814	1,287	1,838	1,887	1.49	1.55
Inflation-protected	-5,388	-2,601	-2,430	-514	156	-0.59	-1.15
Emerging Markets	**-3,200**	**-249**	**-474**	**-276**	**-2,200**	**-0.13**	**-0.04**
Hard	-3,138	-183	-412	-720	-1,823	-0.25	-0.06
Blend	-1,507	-248	-533	-215	-512	-0.55	-0.36
Local	1,445	181	470	659	135	0.15	0.08
Money Markets	**-140,646**	**-47,454**	**-24,395**	**14,938**	**-83,735**	**-0.51**	**-0.70**

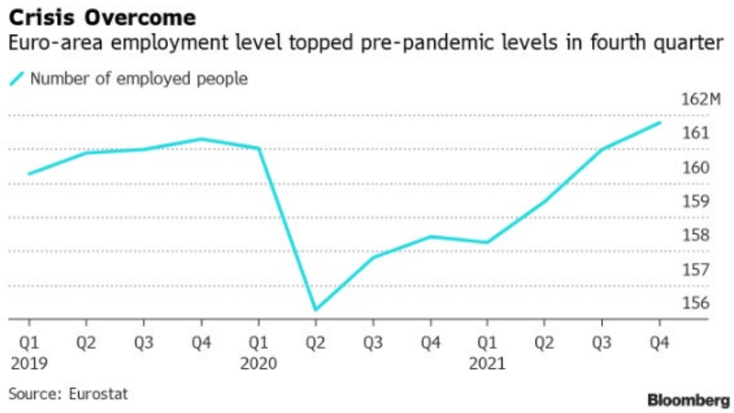
Source: EPFR; Goldman Sachs

European equities rebounded this morning with the STOXX 600 Europe index up by 1.3% following reports that some Russian troops will return to their bases after completing drills. Most sectors rose, while the energy sector (-0.5%) underperformed. That said, the STOXX 600 Europe index is down 4.3% year to date, while the banking sector and energy sector remain the best-performing sectors this year, up +11.8% and 11.1% respectively in the year to date.



The euro (+0.3%) edged higher and European bond yields increased with the 10-yr bund yield up by 3 bps while peripheral spreads generally narrowed (-2 bps). Greek spreads, however, increased by 3 bps. **ECB President Lagarde yesterday reiterated that any policy adjustment by the ECB will be gradual** and emphasized the limits of monetary policy in addressing gas shortages and clearing backlogs. Markets continue to price in +50 bps of tightening by the end of 2022, while median economist expectations point to a +25 bps increase to -0.25%.

On the data front, preliminary data showed euro area GDP expanded by 0.3% q/q in 4Q21 in line with consensus expectations, with annual GDP at +4.6%y/y. Preliminary data also showed that **employment increased by 2.1% y/y 4Q 2021**, with analysts noting optimism that bottlenecks will dissipate and restrictions on movement may soon be loosened.



In a separate release the **German ZEW showed improvement but surprised to the downside in February** with both current assessment (-8 points, consensus -6.5 from -10.2) and expectations (54.3, consensus 55.0 from 51.7) coming in below expectations. ZEW noted that the economic outlook for Germany continues to improve despite growing political and economic uncertainties.

United Kingdom

The UK labor market report continued to point to tight conditions, reinforcing expectations of a rate hike in March. The unemployment rate held steady at 4.1% in the three months to December, in line with expectations, while wage growth increased by +3.7% 3m y/y (consensus 3.6%) and vacancies reached a record-high of 1.3 million in January. **ING analysts see limited signs of a wage-price spiral** and highlight that the route from higher inflation to wages is less direct in the UK, with only 30% of UK employees covered by collective bargaining, in comparison to around 70% or more in other Western European economies. Analysts note that recent data support further monetary tightening but generally see the market pricing of 6 rate hikes in 2022 as unjustified. The sterling appreciated (+0.2%) this morning while 10-yr gilts yields decreased (-2 bps).

Japan

Japan's Q4 GDP rebounded driven by private consumption. According to the preliminary, GDP grew by 5.4% q/q saar (consensus: 6%, previous -2.7%) with private consumption up by +11.2% q/q saar. Analysts note that the reading was registered before Japan's recent Omicron surge and expect performance to worsen in Q1 amid fresh virus control measures. **Bank of Japan (BOJ) made its first real estate investment trust (REIT) purchase in more than a year.** The ¥1.2 bn ($10.4mn) REIT purchase came after the Tokyo Stock Exchange REIT Index declined 2% during early session trading, according to Bloomberg. In early 2021, the BOJ scrapped its annual purchase targets of ETFs and J-REITs, pledging instead to purchase the instruments as necessary during times of heightened market instability. **Equities slipped 0.8%, Japanese yen and 10-year yields were broadly unchanged.**

Australia

The central bank's minutes from its February meeting stated that the board is "prepared to be patient" and agreed "it was too early to conclude" inflation is "sustainably within the 2 to 3 per cent target band" for rate hikes to proceed.

Emerging Markets back to top

Asian stocks gained 0.2% on net. India (+3%) and Vietnam (+1.4%) led gains; South Korea (-1%) underperformed. **Asian currencies were mixed**. The Thai baht (+0.5%) was an outperformer while the South Korean won (-0.5%) fared the worst. Asia EM 10-year yields were little changed overall while

Philippines moved lower (-6 bps). **EMEA Equities gained** in what seems like a classic relief rally after Russia announced that some troops near the Ukrainian border are returning to base after completing drills. German Chancellor Scholz is meeting Russian President Putin today after the Russian parliament voted to appeal to President Putin to immediately grant formal recognition to separatist entities in Eastern Ukraine. Russian equities (+3.2%) outperformed, with strong gains also in Poland (+2.5%) and Turkey (+2.5%). The Russian ruble (+1.3%) also appreciated as did the Polish zloty (+0.9%) and Hungarian forint (+0.7%). Russian swap yields fell 25 bps across the curve but there was some divergence elsewhere. Hungarian 2-yr swap yields (+15 bps to 5.77%) rose following stronger-than-expected GDP growth of 2.1% q/q in Q4 (1.2% expected). In contrast, Polish 2-yr swap yields (-12 bps to 4.49%) fell after headline inflation was slightly below expectations at 9.2% y/y (9.4% expected). **Latin American equity markets** were mostly lower on Monday. Mexico led the losses (-1.7%), followed by Chile (-1.0%) and Colombia (-0.8%). Local currencies were mixed. The Brazilian real and the Mexican peso outperformed (+0.6%), while the Chilean peso saw losses (-0.6%). 10-year government bond yields were mixed and traded in narrow ranges.

EM Bond Issuance

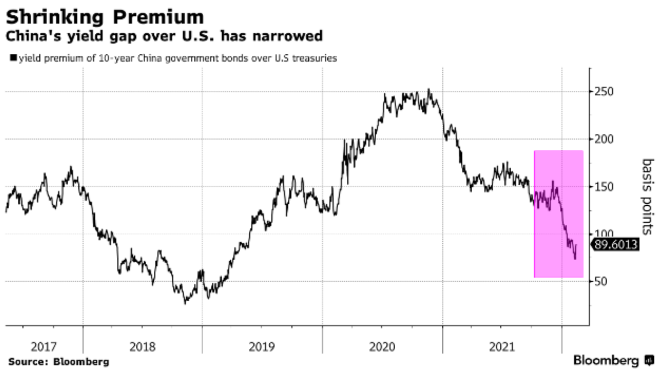
EM corporate issuance decreased to $3.5 bn last week, from $1.7 bn the week before, and EM sovereign issuance declined to $0.9 bn last week, from $2.8 bn the week before. Year-to-date total issuance of $85.2 bn was nearly one-half of the 2021 issuance over the same period ($159.9 bn). Last week's sovereign issuance was placed entirely by Mexico ($0.9 bn).

Sector	Last week	The week before	YTD
Corporate	3.5	1.7	34.2
Sovereign	0.9	2.8	21.9
Financial	4.8	0.6	16.6
Agency	1.2	-	8.9
Muni/Local Gov't	-	-	2.6
Supra	-	0.6	1.0
Total	**10.5**	**5.8**	**85.2**

Source: Bond Radar, Bloomberg, and IMF staff

China

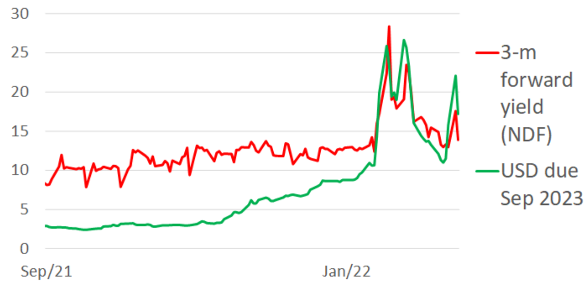
China's central bank expectedly kept 1-year medium-term lending facility (MLF) rate at 2.85%. This follows a surprise 10 bps 1-year MLF rate cut in January. Also, the central bank injected RMB 100 bn ($15.7 bn) of liquidity into the banking system. Some analysts continue to eye more easing later this year, including further 1-year MLF cuts totaling 20 bps (10 bps in Q2, 10 bps in Q3) and additional reserve requirement ratio reductions. Nomura, however, noted that since 1Y MLF is an expensive source of funding (compared to OMO and RRR cut), a higher proportion of liquidity provision via MLF could actually reduce the likelihood of interbank money market rates dropping. Separately, **foreign institutional buying of Chinese onshore bonds eased in January.** The investors bought net RMB 66.3 bn ($10.4 bn) of bonds, compared to the RMB 69.8 bn ($11bn) seen in December, with increased holdings in sovereign bonds and short-term bank debt, but reduced holdings in policy bank notes, Bloomberg calculates. **Chinese equities rallied (Shanghai: +0.5%, Shenzhen: +1.4%)**, spurred by the liquidity injection, according to Bloomberg. **Renminbi mildly appreciated (onshore: +0.1%, offshore: +0.1%). 10-year yields were unchanged.**



Ukraine

U.S. dollar bond yields fell to 17% (from 22% yesterday) on news that Russia is withdrawing some of its troops. The hryvnia (+1%) also rose.

Ukraine: Yields on forwards and U.S. dollar bonds (%)



Source: Bloomberg and IMF

Russia

According to news reports, the Russian central bank maintains that there are too many risks related to crypto assets and has proposed a ban. In contrast, the finance ministry reportedly wants to regulate digital currencies. The Finance Ministry and central bank were supposed to prepare a draft law on the matter by Feb. 18, according to news reports last week. Russia's existing laws acknowledge crypto assets but do not allow them to be used as payment. Bitcoin (+4.8%) traded higher today.

Brazil

Analysts now see higher Selic rates in 2022 as the central bank indicated no imminent pause of the hiking cycle. According to a weekly central bank survey published on Monday, analysts expected the benchmark rate to end 2022 at 12.25% (vs. 11.75%) and kept their expectations unchanged for 2023 at 8.0%. The inflation expectations for 2022 increased to 5.5%, while it remained stable for 2023 at 3.5%. The real strengthened 0.6% on the day.

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

Global Financial Indicators

Last updated: 2/15/22 8:05 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		4430	-0.4	-2	-5	13	-7
Europe		4128	1.6	0	-3	11	-4
Japan		26865	-0.8	-1	-4	-12	-7
China		4600	1.1	0	-3	-21	-7
Asia Ex Japan		81	-0.9	-1	-4	-21	-2
Emerging Markets		48	-0.7	0	-3	-16	-1
Interest Rates			basis points				
US 10y Yield		2.03	3.8	6	24	82	52
Germany 10y Yield		0.31	2.6	4	36	69	49
Japan 10y Yield		0.22	0.1	0	8	14	15
UK 10y Yield		1.57	-2.4	8	42	99	59
Credit Spreads			basis points				
US Investment Grade		131	0.8	3	16	43	19
US High Yield		404	-3.9	21	65	57	66
Europe IG		66	-1.8	2	13	20	18
Europe HY		324	-8.9	14	64	87	82
Exchange Rates			%				
USD/Majors		96.06	-0.3	0	1	6	0
EUR/USD		1.13	0.4	-1	-1	-6	0
USD/JPY		115.6	0.1	0	1	10	0
EM/USD		53.6	0.3	0	1	-8	2
Commodities			%				
Brent Crude Oil ($/barrel)		94	-2.9	3	9	48	20
Industrials Metals (index)		186	0.6	2	5	31	7
Agriculture (index)		66	-1.0	0	8	32	9
Implied Volatility			%				
VIX Index (%, change in pp)		26.0	-2.4	4.5	6.8	6.0	8.8
US 10y Swaption Volatility		94.0	-3.9	13.6	13.0	33.0	15.0
Global FX Volatility		8.1	0.0	0.7	0.9	0.9	0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		240	2.4	16	82	124	88
Italy		165	-3.4	7	34	75	30
Portugal		87	-2.0	8	28	34	23
Spain		100	-1.7	14	31	36	25

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

Emerging Market Financial Indicators

Last updated: 2/15/2022 8:06 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		6.34	0.2	0.4	0	2	0		2.8	-0.8	9	1	-50	-1
Indonesia		14300	0.2	0.7	0	-3	0		6.5	-0.1	1	12	27	13
India		75	0.4	-0.8	-1	-4	-1		6.3	0.0	0	9	75	0
Philippines		51	0.0	0.2	0	-7	-1		5.0	10.0	30	48	175	50
Thailand		32	0.2	1.7	2	-8	3		2.2	1.0	1	8	97	37
Malaysia		4.19	0.1	0.0	0	-4	0		3.7	-0.2	-1	5	80	10
Argentina		106	-0.1	-0.6	-2	-17	-4		50.1	-36.8	15	176	533	-51
Brazil		5.21	0.2	1.0	6	3	7		11.7	-1.9	-4	16	354	101
Chile		807	0.8	2.6	2	-11	6		6.0	2.0	11	11	314	56
Colombia		3945	-0.1	0.2	2	-12	3		8.0	0.0	64	66	365	155
Mexico		20.37	0.3	1.2	0	-2	1		7.9	-0.5	31	27	230	37
Peru		3.8	-0.5	1.2	2	-4	5		6.1	-0.5	-1	-3	228	17
Uruguay		43	0.0	0.9	3	-1	3		8.2	-13.5	-37	-46	112	-53
Hungary		313	0.9	-1.1	0	-6	4		4.9	7.0	20	11	273	34
Poland		3.97	1.4	-0.1	0	-7	2		4.1	-4.5	18	19	256	52
Romania		4.4	0.4	-0.6	-1	-8	0		5.2	2.7	11	16	285	35
Russia		75.3	1.7	-0.3	1	-3	0		10.0	-25.4	65	18	337	121
South Africa		15.1	0.0	1.4	2	-4	5		7.6	0.0	-12	-18	81	13
Turkey		13.63	-0.3	-0.5	-1	-49	-2		22.0	-1.0	-64	-199	898	-234
US (DXY; 5y UST)		96	-0.3	0.4	1	6	0		1.93	1.7	11	37	144	67

	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	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4600	1.1	0	-3	-21	-7		205	3	7	-19	2
Indonesia		6807	1.1	0	2	8	3		183	0	11	10	18
India		58142	3.1	1	-5	12	0		155	10	19	0	23
Philippines		7310	-0.7	-2	1	4	3		131	8	27	38	30
Malaysia		1600	1.0	5	3	0	2		127	3	10	-8	10
Argentina		87804	-0.4	-2	3	71	5		1799	20	-75	360	119
Brazil		113899	0.3	1	7	-5	9		324	8	5	65	13
Chile		4628	0.5	1	3	0	7		162	5	16	25	22
Colombia		1481	-0.8	-3	3	8	5		364	1	20	150	16
Mexico		52335	-1.7	2	-3	19	-2		361	18	19	20	29
Peru		23703	-0.1	6	1	7	12		181	9	26	54	31
Hungary		51379	0.2	-3	-2	17	1		149	12	30	12	25
Poland		67486	2.1	-1	-7	16	-3		8	-4	-7	-23	-24
Romania		13349	1.9	0	-2	27	2		211	1	19	24	18
Russia		3593	3.2	1	0	3	-5		274	31	59	101	97
South Africa		75975	0.3	0	1	13	3		383	9	24	23	28
Turkey		2043	2.0	2	-1	31	10		536	-21	-23	115	-42
Ukraine		519	0.0	0	-1	0	-1		982	136	16	499	223
EM total		48	1.3	0	-3	-16	-1		424	10	15	86	38

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

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