



- US equities post worst weekly post-Covid performance on recession fears ([link](#))
- US IG corporate bond funds record twelve consecutive weeks of outflows ([link](#))
- Euro area spreads tighten on ECB commentary ([link](#))
- Bank of Japan bought record \$81 bn of bonds last week ([link](#))
- RBA Governor Lowe sees 25 or 50 bps hike in July, no imminent recession ([link](#))
- Chilean peso hits record low as copper price falls ([link](#))

[Mature Markets](#)






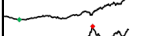




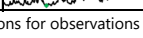
[Emerging Markets](#)

[Market Tables](#)

## Risky assets bounce amid tentative sentiment improvement

**Global equities are higher as investor sentiment showed a tentative improvement after last week's sell-off.** However, uncertainty over the economic outlook lingers as markets continue to digest the higher Fed rate expectations. European yields are higher, but euro area spreads continued to tighten as senior ECB officials came out in support of a new anti-fragmentation instrument. Markets are focused on US Fed Chair Powell's semiannual congressional testimony tomorrow, where further reasoning behind the 75 bps hike last week is expected. Central banks in Mexico and the Philippines are expected to tighten further this week, while central banks in Turkey and Indonesia are expected to keep rates unchanged. On the data front, key data releases include May CPI data for the UK and Japan, and preliminary June PMI data for the eurozone and the UK.

Key Global Financial Indicators

Last updated: 6/21/22 12:35 PM	Level Last 12m Latest	Change from Market Close					YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days	12 M			
<b>Equities</b>		%					%	
S&P 500	 3675	0.2	-6	-6	-12		-23	-13
Eurostoxx 50	 3500	0.9	1	-4	-15		-19	-12
Nikkei 225	 26246	1.8	-1	-2	-9		-9	-1
MSCI EM	 40	0.4	-4	-4	-27		-19	-16
<b>Yields and Spreads</b>		bps						
US 10y Yield	 3.29	6.1	-19	51	180		178	130
Germany 10y Yield	 1.77	2.2	1	83	194		195	154
EMBIG Sovereign Spread	 500	-2	33	33	166		133	87
<b>FX / Commodities / Volatility</b>		%						
EM FX vs. USD, (+) = appreciation	 51.8	0.0	0	-2	-9		-2	-3
Dollar index, (+) = \$ appreciation	 104.3	-0.4	-1	1	13		9	8
Brent Crude Oil (\$/barrel)	 115.1	0.9	-5	2	54		48	19
VIX Index (% change in pp)	 30.3	-0.7	-4	1	10		13	-1

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

## Mature Markets

[back to top](#)

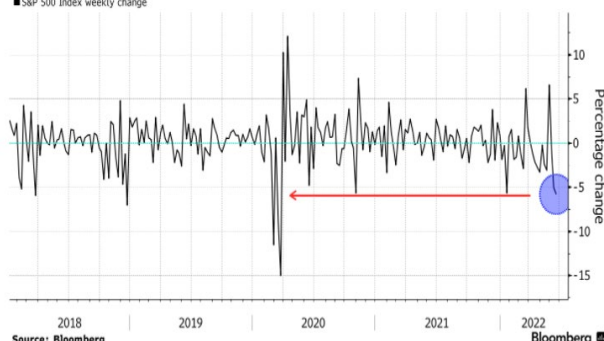
### United States

**Equities edged higher Friday but finished the week with the worst weekly performance since March 2020.** S&P 500 was down -5.8% for the week, during which the Fed delivered the biggest rate increase since 1994. Investors have had growing concerns that more aggressive monetary tightening could drag the economy into recession. Recent economic indicators, including industrial production, Philly Fed business outlook, housing starts, and retail sales, were all weaker than expected. The Atlanta Fed's GDPNow estimate for Q2 has fallen to 0.0%, close to a conventional recession. **Treasury 10-year yields finished a volatile week up +7 bps. The real 10-year yield increased substantially, up +26 bps for the week, as market-implied inflation declined by -19 bps.**

#### Wall of Anxiety

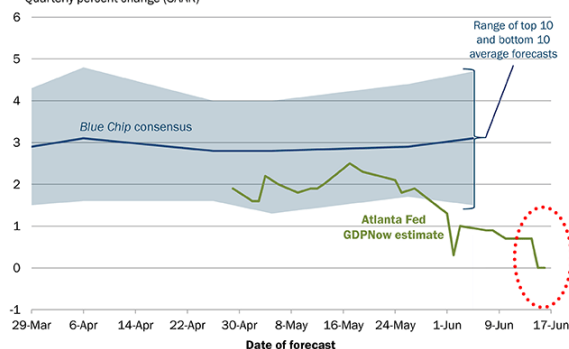
US stocks suffer worst weekly loss since March 2020 as recession fears grow

■ S&P 500 Index weekly change



#### Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q2

Quarterly percent change (SAAR)



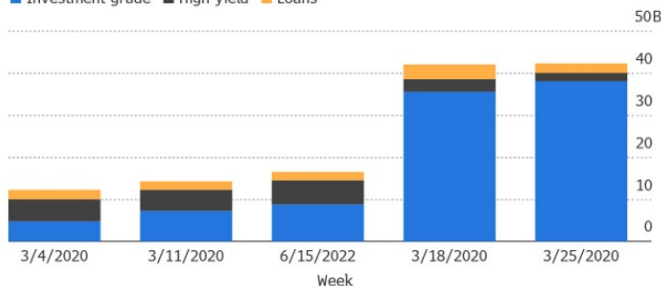
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts  
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

**Investment-grade bond funds have seen twelve consecutive weeks of outflows**, the longest outflow streak on record, according to Refinitiv Lipper. The \$8.7 bn outflows for the period ending June 15 were the largest since March 2020 and the third-largest weekly outflows on record. CDX spreads widened by 12 bps for investment-grade and 68 bps for speculative-grade for the period, respectively.

#### Big Exits

This week's outflows from US credit funds are third biggest on record

■ Investment grade ■ High yield ■ Loans

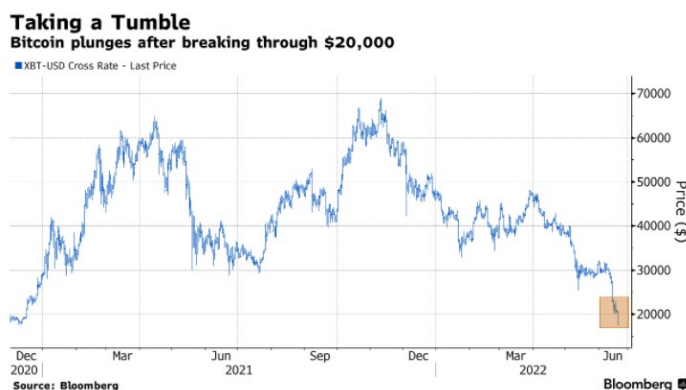


Source: Refinitiv Lipper

Bloomberg

### Cryptocurrencies

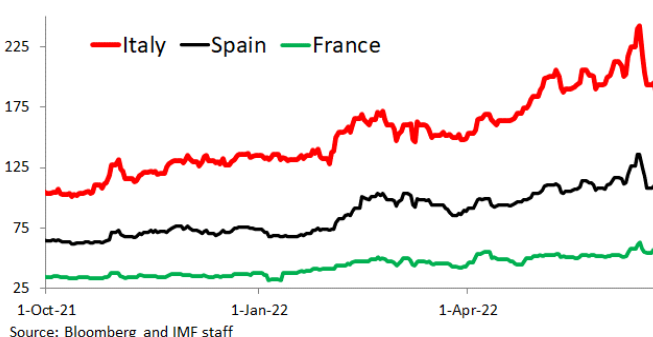
**Cryptocurrencies sold off sharply over the weekend amid risk-off sentiment** on top of a destructive news cycle, including crypto hedge fund Three Arrows Capital failing to meet margin calls and considering asset sales of a bailout. **Bitcoin broke \$20,000 to touch as low as \$17,599, down more than 13% from Friday's level.** Bitcoin has recouped most of its losses Sunday, but the overall tone remains negative.



## Euro area

**Bonds spreads continue to tighten on relatively dovish commentary by ECB officials.** Yesterday, ECB President Lagarde told the European parliament that fighting fragmentation is right at the core of the ECB mandate. She added that fragmentation risk must be “killed in the bud”. **Banque of France governor de Villeroy said that the ECB’s new anti-crisis should make the ECB’s no-limits commitment very clear.** The governor said that there is some agreement on a new anti-crisis tool but that there “should be some constructive ambiguity about the way we use it.” Bank of Finland governor Rehn also said that the central bank is committed to containing unwarranted fragmentation. **ECB chief economist Philip Lane said that the size of the rate increment in September is still undecided.**

Euro area: 10-year spreads over German bunds (bps)



**Governor Villeroy provided no details on any new program, but said that crisis bond buying could be offset by selling other securities and could be more agile in its buying and selling of securities compared to other ECB programs.** Analysts at JP Morgan argue that the ECB is likely to turn to a form of sterilization used in the past in any new anti-fragmentation program by, for example, issuing fixed-term deposits rather than selling bonds from its existing APP or PEPP bond holding.

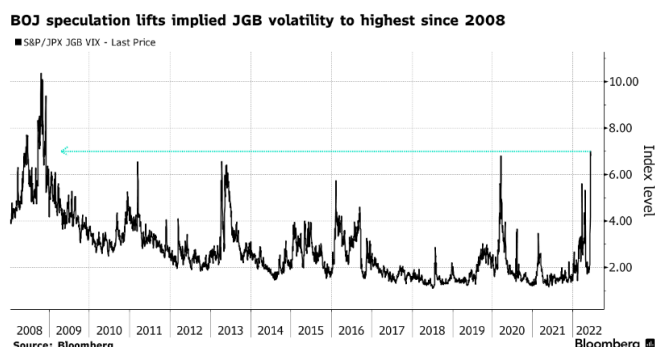
**European bank equities (1.5%) continue to outperform as ECB chief regulator Enria said that banks have been “relatively conservative” in retaining a “significant buffer in overlay provisions” built up during the pandemic.** He also said that the regulator does not intend to ask banks to refrain from paying dividends at the outset of the pandemic in 2020 again.

**Analysts argue that it will be more difficult for President Macron to make big policy changes after his party gained 245 seats out of 577—or 42.5%—in parliamentary elections.** Previously, Chirac (2002), Sarkozy (2007), Hollande (2012) and Macron (2017) all secured an absolute majority at the lower house after being elected president.

## Japan

**The Bank of Japan (BOJ) bought a record ¥10.9 tn (\$81 bn) of bonds last week.** The BOJ is now close to owning half of the government bond market as it tries to defend its 0.25% upper 10-year yield limit, Bloomberg calculations show. Meanwhile, Japan’s 5-year bond auction drew its weakest demand in two

years (bid-cover: 3.2, previous: 3.4). Implied 10-year government bond volatility rose to a post-GFC high last week hindering traders' hedging abilities. **Equities rallied 2%, the yen and 10-year yields were broadly unchanged.**



## Australia

**Reserve Bank of Australia (RBA) minutes suggests further tightening, no imminent recession.** Governor Lowe stated that the RBA Board is to consider 25 bps to 50 bps rate hike in June, and projected inflation to peak at 7% yoy in Q4. In response, overnight-indexed swaps pared +75 bps July hike expectations, to price a +50 bps move instead, according to Bloomberg. Separately, **the RBA said it is unlikely to use yield targeting again, save for extreme cases.** In its review of the yield target policy published on Tuesday, the bank assessed that the yield targeting was successful in lowering funding costs and supporting credit provision given limited scope for additional rate cuts then. However, the bank also noted that a disorderly and market-dislocating exit from yield targeting in 2021 caused reputational damage, June meeting minutes revealed. **Equities rallied +1.4%, while the Australian dollar and 10-year yields were broadly unchanged.**



## Emerging Markets

[back to top](#)

**Asian equities rallied +1.5% on net after several sessions of losses.** Taiwan, Province of China (+2.3%), Indonesia (+2.3%), and Hong Kong SAR (+1.9%) outperformed, Mainland China closed marginally lower. Asian currencies were mixed. Philippine peso weakened -0.4%, Singapore dollar appreciated +0.3%. 10-year yields were mixed, Indonesia up (+4.1 bps). Singapore announced a \$1.1 bn package to aid lower-income households against inflation pressures. Some market participants are watching for possible inter-meeting tightening by Monetary Authority of Singapore, depending on the May inflation print later this week. **Equity markets in EMEA gained as the risk-off sentiment eased,** with all major markets up except Russia and particularly strong increases in Hungary and Poland (+2.3% and +1.6% respectively). Currencies were also gaining against the dollar except for the Turkish lira, but CEE currencies were broadly flat to the euro, with the exception of Hungary (+0.3% to 396.2/euro). **Most Latin American equities**

**declined while most currencies depreciated.** Equities slumped in Mexico (-0.5%), Colombia (-1.3%) and Argentina (-1.6%). Meanwhile, currencies depreciated in Brazil (-0.7%) and Chile (-1.0%) and appreciated moderately in Mexico (0.4%). Petrobras's CEO resigned following pressures from the Brazilian president and congress over fuel price hikes.

## EM Fund Flows

**Outflows from EM bond funds increased last week, while EM equity funds printed minor outflows.** EM bond fund outflows increased to -\$3.5 bn last week (against -\$1.5 bn the previous week), with both hard currency bond funds (-\$1.8 bn, the highest since March) and local currency bond funds (-\$1.6 bn) seeing outflows. The local currency bond outflows were seen in both China (-\$0.8 bn) and EM ex-China (-\$0.9 bn). Meanwhile, EM equity fund outflows remained modest, around -\$0.2 bn. Within the regional equity funds, outflows were seen in EMEA (-\$25 mn), while Latin America (\$0.1 bn) and Asia ex-Japan (\$0.8 bn) saw inflows.

Weekly Cross-asset Flows (USD billion)

Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		-3.7	-13.2
<b>EM Bonds</b>		-3.5	-43.7
Hard Ccy		-1.8	-22.3
Local Ccy^		-1.6	-21.4
o.w. EM ex-China		-0.9	-13.3
o.w. China		-0.8	-6.7
<b>EM Equities</b>		-0.2	30.5
US HG		0.1	-52.8
US HY		-5.8	-38.1
Global Equities		19.7	126.4
<b>EM Bond and Equity ETFs</b>		0.1	38.9
EM Bond ETFs		-1.7	-5.9
EM Equity ETFs		1.8	44.8
<b>Non-resident EM flows*</b>		-10.2	-66.8

\*High frequency non-resident EM portfolio flow data

Source: JP Morgan

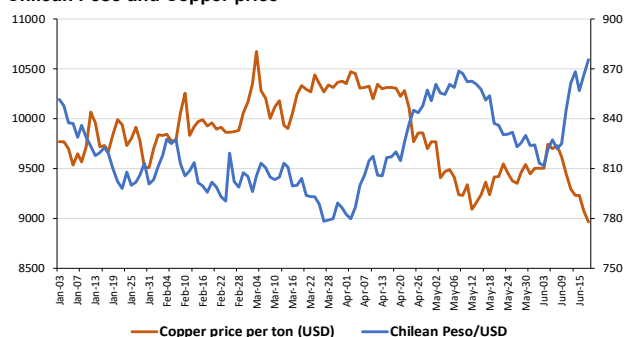
## China

**China kept Loan Prime Rates (LPR) unchanged on Monday, in line with expectations.** The LPR hold (1-year: 3.7%, 5-year 4.45%) may reflect China's expanded growth stabilization policies or external constraint concerns, with the rate cut window likely closed, Huatai noted. Other analysts, however, still see further LPR cuts ahead. Separately, **financial stress among the country's property developers may be shifting to other weaker borrowers.** Dollar bonds from some Chinese industrial companies fell sharply on Tuesday morning. According to Bloomberg's survey of credit traders, the ongoing slump at Fosun is impacting the market sentiment. Meanwhile, Fosun dollar bonds continued sliding with some notes trading at nearly 30 cents on the dollar since Moody's comments last week stoked liquidity concerns about the Chinese conglomerate. **China equities slipped (Shanghai: -0.3%, Shenzhen -0.5%), renminbi and 10-year yields were broadly unchanged. 14-day repurchase rate rose to a 6-week high of 1.88% on high month-end demand for liquidity after a record local government debt issuance in June drove, Bloomberg reported.**

## Chile

**The Chilean peso hit a record low as the copper price fell.** On Monday, the Chilean peso slumped to a record low of 884 against the dollar as copper, the country's main export, fell below \$9000 per ton for the first time since last September. The Andean currency is under pressure externally, from the Fed's aggressive monetary stance, and internally from political uncertainty linked to rewriting the country's constitution. In addition, investors worry that rising interest rates worldwide may trigger a recession and slow demand for copper.

Chilean Peso and Copper price



Sources: Bloomberg and IMF Staff

## Poland

**Yields on local Polish 10y bonds dropped 21 bps to 7.8% as wages and industrial production grew slower than anticipated in May, signaling the economy might be starting to cool.** Average gross

wages grew 13.5% yoy, less than the 14.9% expected by the market, and less than in April (14.1%). Industrial production was 15% yoy, when the market was expecting 16.7%. While producer prices increased 24.7% yoy, broadly in line with expectations but at their highest level since 1995, they seem to be slowing down significantly, growing 1.3% mom (2% expected from 2.5% in April). This prompted MPC member Wnorowski to tell PAP, the Polish press agency, that Poland is closer to the end of rate hikes cycle than to the beginning. He thinks that Poland may have to resort to just two more rate hikes and said that inflation should peak near the end of summer holidays or shortly afterwards.

## Zambia

**Zambian dollar bond prices were largely unchanged after little details emerged from Zambia's first meeting with its G20 official creditors last week, in the context of its Common Framework debt restructuring.** The local press—Lusaka Times—published a statement from the ministry of finance yesterday, clarifying where the country stood with regards to the debt relief process, the approval of a Fund-supported program, and prospects for external financing. The ministry of finance indicated that they aim to have a Fund-supported program in place by the end of 2022.

## Colombia

**A historic presidential election brings leftist Petro to power.** Last Sunday, Petro, a 62-year former guerilla, secured a slim victory with 50.4% of the votes in the Colombian presidential election run-off. The rise of the leftist candidate, who pledges to tax big landowners, raise import tariffs and scale back oil production, has worried investors in a country that has adopted liberalized economic policies in the recent decades. However, the newly elected president would face challenges delivering on his promises with a divided congress, an already high public debt level, an independent central bank, and political checks and balances.

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## Global Financial Indicators

Last updated: 6/21/22 12:36 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3675	0.2	-2	-6	-12	-23	-13
Europe		3500	0.9	1	-4	-15	-19	-12
Japan		26246	1.8	-1	-2	-9	-9	-1
China		4326	-0.1	2	6	-16	-12	-6
Asia Ex Japan		68	0.6	-3	-2	-27	-18	-14
Emerging Markets		40	0.4	-4	-4	-27	-19	-16
<b>Interest Rates</b>			basis points					
US 10y Yield		3.28	5.9	-19	50	180	177	129
Germany 10y Yield		1.77	2.3	1	83	194	195	154
Japan 10y Yield		0.24	-0.2	-1	0	19	17	4
UK 10y Yield		2.61	0.7	3	72	184	164	113
<b>Credit Spreads</b>			basis points					
US Investment Grade		165	-3.5	9	0	76	53	22
US High Yield		522	-5.2	68	45	199	184	116
Europe IG		107	-1.2	-2	11	59	59	35
Europe HY		535	-7.5	-8	63	298	293	183
<b>Exchange Rates</b>			%					
USD/Majors		104.30	-0.4	-1	1	13	9	8
EUR/USD		1.06	0.4	1	-1	-11	-7	-7
USD/JPY		136.0	0.7	0	6	23	18	18
EM/USD		51.8	0.0	0	-2	-9	-2	-3
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		115	1.0	-5	5	70	53	28
Industrials Metals (index)		170	0.9	-3	-8	15	-1	-9
Agriculture (index)		74	-1.3	-2	-5	35	22	5
<b>Implied Volatility</b>			%					
VIX Index (%, change in pp)		30.3	-0.7	-3.7	0.9	9.6	13.1	-0.7
US 10y Swaption Volatility		133.1	0.3	-4.4	22.8	58.3	54.1	38.8
Global FX Volatility		11.4	0.0	-0.5	0.9	4.5	4.0	3.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		213	-14.6	-82	-65	113	61	-27
Italy		188	-7.2	-54	-17	84	53	17
Portugal		102	-3.7	-33	-17	41	38	10
Spain		105	-4.4	-31	-9	43	31	2

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

## Emerging Market Financial Indicators

Last updated: 6/21/2022 12:37 PM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.70	-0.1	0.6	-1	-3	-5	-6		2.9	-0.4	2	5	-32	4	3
Indonesia		14812	0.1	-0.8	-1	-3	-4	-3		7.5	-1.1	6	27	89	111	99
India		78	-0.1	-0.1	-1	-5	-5	-5		6.3	0.0	0	9	75	0	
Philippines		54	-0.4	-1.9	-4	-10	-6	-6		5.7	0.0	20	23	155	118	68
Thailand		35	0.0	-0.9	-3	-10	-5	-9		2.8	-9.0	-16	-15	100	95	58
Malaysia		4.40	0.1	0.6	0	-6	-5	-5		4.3	-2.0	-8	-6	104	71	64
Argentina		123	-0.2	-1.0	-4	-22	-16	-13		61.6	0.0	136	616	1676	1105	1365
Brazil		5.19	-0.7	-1.4	-6	-3	7	-4		12.7	-8.5	-27	61	329	197	114
Chile		882	-0.8	-2.4	-5	-15	-3	-10		6.4	0.0	-25	34	252	95	46
Colombia		3902	0.0	1.0	3	-5	5	0		8.7	-26.0	-31	-46	308	233	86
Mexico		20.18	0.4	2.0	-2	2	2	0		9.1	-10.3	4	31	221	153	121
Peru		3.7	-0.1	0.5	0	6	7	0		7.7	#####	-26	-11	196	179	169
Uruguay		40	0.2	-0.1	0	9	12	5		10.8	0.0	-11	71	292	210	267
Hungary		376	0.6	2.4	-5	-21	-14	-15		8.3	-10.0	12	162	559	380	350
Poland		4.40	0.5	1.6	-2	-14	-8	-8		7.5	-10.8	7	156	564	394	357
Romania		4.7	0.4	1.3	-1	-12	-7	-7		9.2	8.6	87	126	644	435	403
Russia		54.9	1.0	6.4	7	33	37	49		8.3	0.0	-4	-215	103	-44	-285
South Africa		15.9	0.7	0.7	-1	-11	0	-5		8.8	-5.0	-25	60	139	132	116
Turkey		17.35	-0.1	-0.5	-8	-49	-23	-20		19.9	23.0	23	-458	186	-444	-254
US (DXY; 5y UST)		104	-0.4	-0.8	1	13	9	8		3.38	3.7	-21	58	249	212	148

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD		Since 23-Feb-22	Level		Change (in basis points)			YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M				Last 12m	Latest	7 Days	30 Days	12 M		
								basis points								
China		4326	-0.1	2	6	-16	-12	-6		192	0	-18	-10	-11	-16	
Indonesia		7044	1.0	0	2	16	7	2		200	15	-3	24	35	15	
India		52532	1.8	0	-3	0	-10	-8		173	12	-11	32	41	19	
Philippines		6285	-0.8	-3	-7	-9	-12	-15		145	6	-3	47	44	8	
Thailand		1575	1.0	-2	-3	-2	-5	-7		0	0	0	0	0	0	
Malaysia		1458	1.2	-2	-6	-7	-7	-8		125	5	-12	4	8	-8	
Argentina		87061	-1.6	-2	-4	31	4	-5		2217	171	287	739	537	480	
Brazil		99853	0.0	-5	-8	-23	-5	-11		344	22	33	97	33	13	
Chile		5084	0.3	-1	2	18	18	16		173	14	6	23	33	-1	
Colombia		1454	-1.3	-2	0	16	3	-4		386	6	0	141	38	-6	
Mexico		47781	-0.5	-1	-7	-5	-10	-7		428	34	42	96	96	58	
Peru		19450	0.3	-2	-4	4	-8	-17		202	21	14	37	52	12	
Hungary		40546	2.2	5	-3	-16	-20	-15		241	20	41	105	117	88	
Poland		53659	1.4	2	-4	-19	-23	-15		100	40	101	66	68	84	
Romania		12416	0.7	3	3	7	-5	-6		313	47	84	131	121	81	
Russia		2373	-1.3	4	0	-38	-37	-23		3411	-577	938	3228	3234	2897	
South Africa		67034	1.0	1	-1	2	-9	-11		458	46	50	142	103	69	
Turkey		2571	1.3	2	8	84	38	28		670	-13	81	208	92	107	
Ukraine		519	0.0	0	0	-2	-1	0		3877	380	557	3390	3118	2404	
EM total		40	0.9	-4	-4	-27	-19	-16		429	26	23	78	43	-29	

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

[back to top](#)