



- Breakeven inflation rates have unwound most of the post-invasion move higher ([link](#))
- Bank of Spain governor does not anticipate need for new ECB tool ([link](#))
- London Metals Exchange to reportedly ask for weekly reports on OTC positions ([link](#))
- China's April activity data came out weaker than expected ([link](#))
- Russia's inflation edges higher, analysts expect another interest rate cut ([link](#))

[Mature Markets](#)



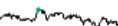
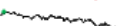







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## Markets mixed after a short-lived bounce

The positive sentiment that percolated through markets on Friday now seems only temporary, with a more cautious stance taking hold this morning. Equity markets had rallied sharply on Friday seemingly breaking the risk-off trend. Today, so far, lacks a clear direction with Asian and European equity markets mixed, and US equity futures pointing to a lower opening. Weak economic data out of China is one reason for the dampened mood as April industrial output and consumer spending recorded their lowest figures since the beginning of the pandemic. Emerging market currencies are mixed with the Turkish lira the main underperformer after current account data showed a widening deficit in March. The Russian ruble meanwhile is outperforming and is now 20% stronger versus the dollar than it was before the invasion of Ukraine.

Key Global Financial Indicators

Last updated: 5/16/22 8:07 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		4024	2.4	-2	-8	-4	-16	-5
Eurostoxx 50		3680	-0.6	4	-4	-8	-14	-7
Nikkei 225		26547	0.5	1	-2	-5	-8	0
MSCI EM		40	2.8	-1	-8	-24	-17	-15
Yields and Spreads			bps					
US 10y Yield		2.92	0.0	-12	9	129	141	93
Germany 10y Yield		1.00	5.4	-9	16	113	118	77
EMBIG Sovereign Spread		469	-6	25	57	134	102	56
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.7	0.1	0	-2	-10	-2	-3
Dollar index, (+) = \$ appreciation		104.5	-0.1	1	4	16	9	9
Brent Crude Oil (\$/barrel)		110.4	-1.0	4	-1	61	42	14
VIX Index (% change in pp)		29.4	0.5	-5	7	11	12	-2

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

**In the week ahead**, market participants will be eyeing US retail sales on Tuesday for any sign that inflation is chipping away at consumer demand. Housing starts will be released on Wednesday. Several Fed officials will be giving interviews, including Chair Powell on Tuesday. Elsewhere, Japanese Q1 GDP will be

announced on Tuesday and UK CPI inflation on Wednesday. South Africa's central bank has a policy meeting on Thursday, with analysts expecting a 50 bp hike.

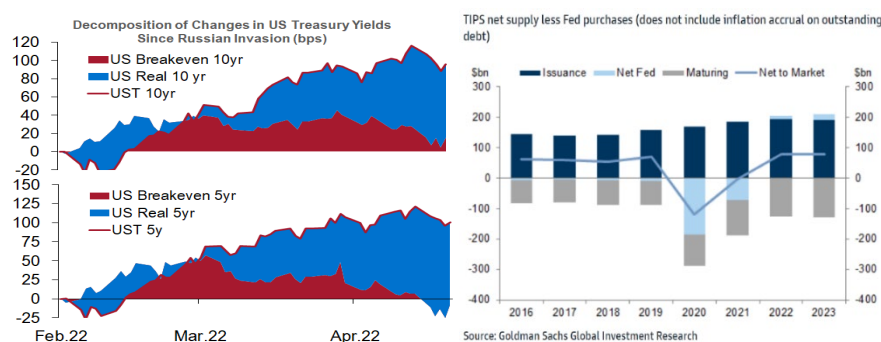
## Mature Markets

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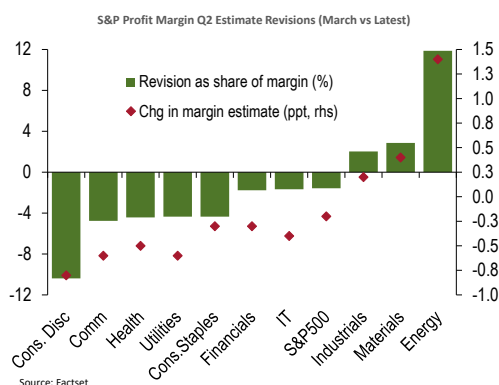
### United States

**Stocks rallied on Friday but closed 2.4% lower for the week, with tech and financials underperforming.** Treasuries sold off, with the 10-year gaining 7 bps on Friday to reverse about half of the drop in yields seen earlier in the week. The dollar index slipped 0.4% but has rallied another 1.5% through the first half of May. University of Michigan inflation expectations moved sideways, with the 1-year outlook coming in below expectations for May at 5.4% (vs 5.5%), matching the March and April figure. The longer-term survey held firm at 3.0%.

**Breakeven rates have unwound most of the post-Russian invasion move higher**, with real rates sustaining any of the lingering upward pressure on yields since late April. 10-yr breakeven rates peaked at 3.1% on Apr. 21<sup>st</sup>, while the 5-year rate hit the 2022 high in late March at 3.73%. Some market participants have expounded the view that inflation has peaked, even if the decline will be slow. **US inflation protected funds and ETFs have seen about \$5 bn in outflows over the last 4 weeks**, compared to around \$70 bn of inflows over the previous 2 years, according to EPFR and Goldman. **Net supply of TIPS is likely to turn positive for the first time since 2019** in 2022 and 2023 to around \$60 bn alongside the shift from asset purchases to balance sheet runoff by the Federal Reserve.



**85% of S&P500 companies have cited inflation in Q1 earnings reports, with downward revisions to margin estimates for Q2.** The share of firms citing inflation is the highest since at least 2010, according to FactSet. The largest relative downward revisions to net profit margin estimates have been seen in the consumer discretionary sector, while estimates for the S&P500 were revised from 12.7% to 12.5%. Aside from energy, materials and industrials have seen small upward revisions.



## Euro area

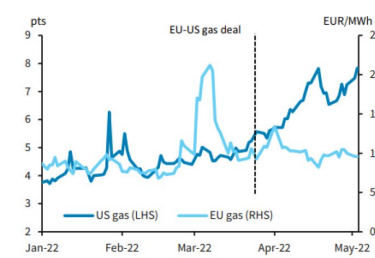
**Shares (-0.3%)** opened the week lower in a relatively quiet week for European data releases aside from sentiment data for May to be published on Friday. The euro (-0.3%) edged lower.

**German 10-yr bund yields (+5 bps)** are back at 1%, with ECB officials continuing to signal that a first hike of 25 bps in July is likely after the ECB ends net asset purchases in July. Bank of Spain governor de Cos said that the ECB is set to agree on the end of APP net asset purchases in June and does not anticipate any shock that would need a new tool. **10-yr Greek and Italian spreads traded 3–4 bps higher.** The ECB releases its account of the April meeting on Thursday.

**The German government reportedly plans to stop Russian oil imports by year-end even if the EU fails to agree on sanctions.** There was some focus on the implications of German regional elections in North Rhine Westphalia after preliminary results showed that the SPD came second at 26.7% (-4.6 ppt). In contrast, the CDU gained 2.8 ppt compared to the last election in 2017 to 35.7%, the Greens rose 11.8 ppt to 18.2%, and the FDP was fourth at 5.9% (-6.7 ppt).

**European natural gas prices (1-month forward prices: -3.5%)** fell as the EU is expected to communicate how European corporates can buy Russian gas without breaking sanctions. According to Barclays analysts, gas prices reacted significantly to recent gas payment-related news. The right chart below shows European gas prices relatively stable while the NY gas index became sensitive to news about Russia's RUB settlement requests, which can be explained, in their view, by the signing of the US-EU gas deal. **The left chart is the aggregate indicator of EU and US gas indices, showing that the gas prices stand close to levels observed in March, and may suggest that the market sees the risks of gas cut-off as significant.**

FIGURE 4. European gas did not react to gas cut off risks that arose after the EU-US gas contract....



Notes: US and EU gas price represents NG1 and TTFONXHR gas price indices reported by Bloomberg.  
Source: Barclays Research, Bloomberg

FIGURE 5. ... but combined gas price index stands almost at levels observed after the war broke out



Notes: Gas price combined is calculated as a simple average of normalised US (NG1) and European (TTFONXHR) gas contracts.  
Source: Barclays Research, Bloomberg

## United Kingdom

**The pound (-0.2%)** is little changed and gilt yields are 5 bp higher ahead of the release of key U.K. labor and inflation data tomorrow. UK PM Johnson is visiting Belfast after he said that there will be a *necessity to act* after the EU refuses to reform the Northern Ireland protocol. The Northern Ireland Protocol was agreed as part of the Brexit deal signed by the UK government in December 2020 and is designed to protect the Good Friday Agreement by avoiding a hard border on the island of Ireland.

**The London Metals Exchange has proposed that members submit weekly reports on OTC positions, according to Bloomberg.** The changes would expand the LME's surveillance abilities, going beyond regulatory obligations and setting it apart from other commodity exchanges.

## Japan

**PPI increased 10.0% y/y in April, larger than expected (consensus: +9.4%).** PPI inflation accelerated

from 9.5% in March and touched double digits for the first time since 1980. Higher oil and coal prices were a major driver for rising PPI. Japanese equities gained (NIKKEI: +0.5%), while the yen depreciated (-0.1%). The 10-year JGB yield edged down to 0.24% (-0.1 bp), while longer-end JGB yields edged up (30-year: +0.2 bp).

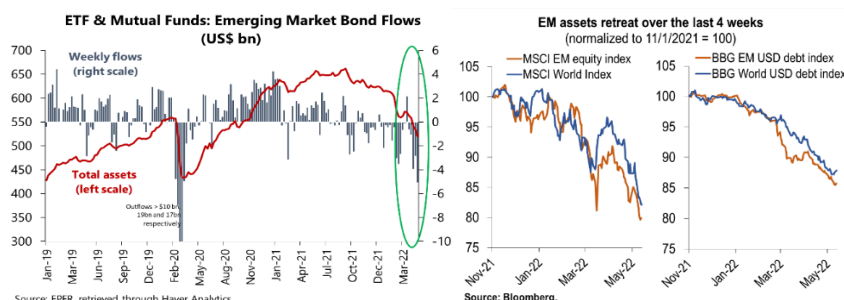
## Emerging Markets

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**Asian equities were mixed**, staying flat on net. Chinese equities declined (CSI 300: -0.8%) on weak April activity data, while share prices rose in Philippines (+1.9%) and India (0.6%). Most Asian currencies were little changed; Chinese yuan depreciated (-0.2%). Some long-term government bond yields increased, with 10-year yields rising in the Philippines (+13 bps). In Korea, Governor Rhee said that a big rate hike by the Bank of Korea cannot be completely ruled out to contain inflation. Government bond yields rose (1-year: +43 bps; 10-year: +4 bps); Korean equities declined (-0.3%); the Korean won was little changed. **Equity markets in EMEA were generally trading higher** this morning with the largest gains seen in Russia (+2.2%) and Poland (+1%). EMEA currencies were generally stronger against the US dollar. The Turkish lira was a notable exception, trading 0.9% weaker after data showed the current account deficit widened to \$5.55bn in March. The South African rand also depreciated (-0.7%) in the aftermath of disappointing Chinese economic data, as China is an important destination for South Africa's commodity exports. **Latin American stocks and currencies rallied**, following a global rebound. Stocks surged in Argentina (3.8%), Peru (3.3%), and Chile (2.9%). The Brazilian real (+1.5%) outperformed its peers, while the Peruvian sol depreciated (-0.8%), as analysts worried about inflationary and financial stability repercussions of the sixth round of possible withdrawals from Peru's private pension funds. Local currency yield curves rose at the two-year front end in Brazil (12 bps), Colombia (11 bps), and Mexico (15 bps), but flattened considerably, while shifting down in Chile and Peru.

## EM funds

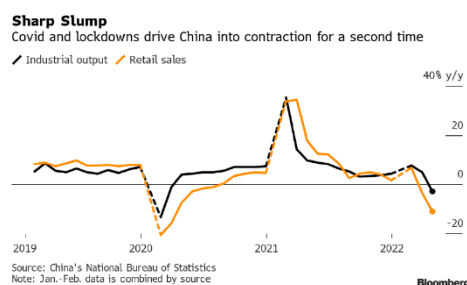
**Emerging market (EM) funds became less appealing as investors continued their retreat.** Investors withdrew \$4.3 bn (0.3% of assets) from EM equity funds and \$5.1 bn (0.9% of assets) from EM bond funds over the last week. Withdrawals from Chinese funds dominated, representing slightly more than half of the outflows in the equity segment and almost 40% of outflows in the bond segment.



## China

**April activity data came weaker than expected**, reflecting the economic impact of lockdowns to contain COVID-19 outbreaks. Retail sales declined 11.1% y/y (consensus: -6.6%), driven by a sharp drop in catering and automobile sales. Industrial production fell 2.9% y/y (consensus: +0.5%), reflecting widespread supply-chain disruptions. Fixed asset investment growth moderated to 2.3% y/y on the back of the weakness in property investment (-10.1%). Meanwhile, property sales volume contracted 39% y/y. The surveyed unemployment rate also rose to 6.1% from 5.8% a month ago (consensus: 6.0%). **The People's Bank of China (PBC) kept the Medium-term Lending Facility (MLF) rate unchanged at 2.85%.** The PBC rolled over the maturing 100 bn yuan (\$14.7 bn) of MLF funding without providing additional liquidity.

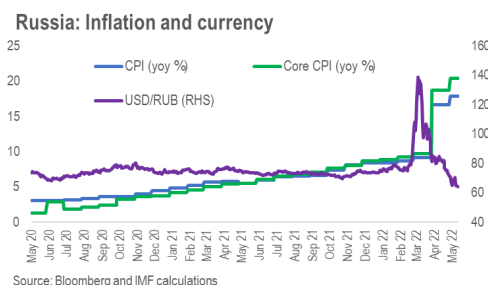
Analysts had split opinions on the MLF rate, with about half expecting no change and others expecting some reductions between 5 and 15 bps. Despite no change in policy rates, interbank repo rates (DR007: 1.59%) have remained well below the policy rate at 2.1%, reflecting ample liquidity conditions in the system. In addition, the PBC lowered the mortgage rate for first-time homebuyers, setting the minimum rate at the 5-year MLF rate minus 20 bps (previously, at the 5-year MLF rate). Analysts noted that the impact on boosting the demand for home purchases would be limited as the change only affects new mortgage lending and potential first-time home (as opposed to second-home) buyers are more affected by the pandemic. Chinese equities declined (CSI 300: -0.8%), while RMB depreciated (-0.1%). Market sentiment was dampened by weak activity data.



## Russia

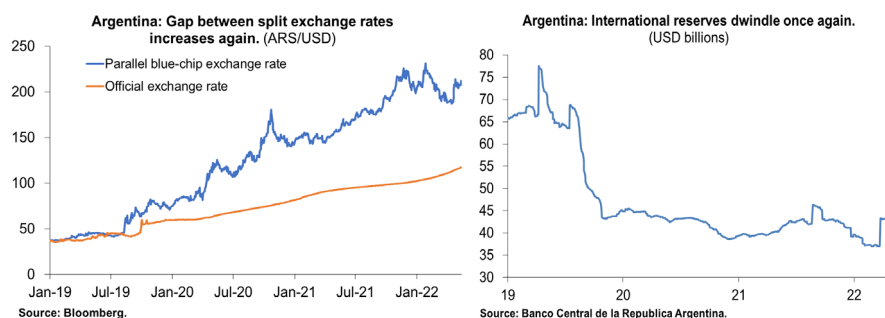
**Russia's headline inflation increased to +17.8% y/y in April, slightly below the expected 18%, from 16.7%.** Higher food and services prices were the main drivers, while core inflation also increased to 20.4% y/y from 18.7%. Noting that the rate of weekly inflation has decreased since mid-March, Goldman Sachs analysts caution that sequential momentum in weekly inflation could pick up again as inventories decrease amid sanctions while the extent would depend on the speed and efficiency of import substitution. Moreover, the collapse in private consumption, investment, and imports amid sanctions will see Russia's economy contract by at least 10% in 2022 and stagnate in 2023—taking activity back to levels last seen prior to the GFC in 2008, according to Scope Ratings.

**The offshore ruble was trading stronger (+1.9%) this morning at 63.5 against the dollar—roughly 20% stronger than prior to Russia's invasion of Ukraine.** Given the ruble strength, Goldman Sachs analysts expect the central bank of Russia (CBR) to ease capital controls and cut interest rates by 200 bps at the next monetary policy meeting in June. In April, the CBR cut interest rates by 300 bps to 14%, with analysts noting the central bank being more focused on the economic outlook than on high inflation.



## Argentina

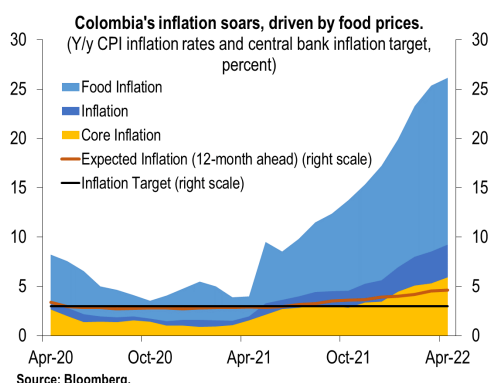
**Arbitrage feeds concerns about split exchange rates.** Bloomberg reports that Argentine banks arbitrage through a particular trade: they buy dollar-denominated local corporate bonds, sell those in secondary peso markets at the parallel exchange rate, and convert the proceeds at the lower official exchange rate. The trade is so popular that local non-investment grade issuers can now issue dollar debt at single-digit yield levels. If the debt service needs to be funded through peso revenues, future debt sustainability issues could result. In addition, such trades add on the margin to the dwindling of official FX reserves.





## Colombia




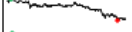
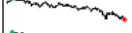

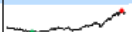











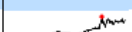
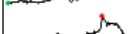
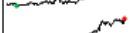
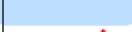



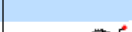


**Markets do not appreciate politicians' central bank criticism.** Prominent Colombian politicians have called on the country's central bank to restrain its monetary tightening course, arguing that higher interest rates would hurt economic growth, as CPI growth would currently be driven by imported food inflation rather than an overheating economy. With core inflation (5.9% y/y) and 12-month ahead expected inflation (4.6%) both well above the 3% inflation target, markets appear to find the argument questionable: Colombian stocks (+0.4%) and the peso (0%) underperformed last Friday in the region, despite gains (+4.1%) in the country's main export commodity, oil, and benign global risk mood.



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## Global Financial Indicators

Last updated: 5/16/22 8:07 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4019	2.4	1	-8	-4	-16	-5
Europe		3680	-0.6	4	-4	-8	-14	-7
Japan		26547	0.5	1	-2	-5	-8	0
China		3957	-0.8	2	-6	-24	-20	-14
Asia Ex Japan		68	2.9	-1	-7	-25	-18	-14
Emerging Markets		40	2.8	-1	-8	-24	-17	-15
<b>Interest Rates</b>			basis points					
US 10y Yield		2.92	0.0	-12	9	129	141	93
Germany 10y Yield		1.00	5.4	-9	16	113	118	77
Japan 10y Yield		0.25	0.1	0	1	16	18	5
UK 10y Yield		1.79	4.1	-17	-10	93	81	31
<b>Credit Spreads</b>			basis points					
US Investment Grade		164	-0.4	1	20	71	52	21
US High Yield		482	-0.3	19	94	142	144	75
Europe IG		93	0.7	-5	14	42	45	22
Europe HY		449	3.0	-20	74	195	207	97
<b>Exchange Rates</b>			%					
USD/Majors		104.48	-0.1	1	4	16	9	9
EUR/USD		1.04	0.0	-1	-3	-14	-8	-8
USD/JPY		129.6	0.3	-1	2	19	13	13
EM/USD		51.7	0.1	0	-2	-10	-2	-3
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		110	-1.0	4	0	71	46	22
Industrials Metals (index)		178	-0.1	-1	-16	12	3	-5
Agriculture (index)		79	1.9	6	3	35	29	12
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		29.4	0.5	-5.4	6.7	10.6	12.2	-1.7
US 10y Swaption Volatility		121.9	6.6	-5.0	0.8	48.6	42.9	27.6
Global FX Volatility		11.2	0.1	-0.1	2.3	4.1	3.8	3.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		257	3.5	4	50	138	106	17
Italy		192	1.9	-13	28	72	57	21
Portugal		112	0.5	-3	13	40	48	20
Spain		107	1.3	-5	13	35	33	3

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 5/16/2022 8:09 AM	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		6.79	0.0	-0.9	-6	-5	-6	-7		2.9	-1.4	-3	-3	-35	1	0
Indonesia		14697	-0.6	-0.8	-2	-3	-3	-2		7.4	-1.6	40	45	95	100	89
India		78	-0.5	-0.5	-2	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	-0.1	0.3	0	-9	-3	-3		5.4	0.0	5	15	109	93	43
Thailand		35	-0.2	-0.7	-3	-10	-5	-7		3.3	6.5	7	73	144	147	110
Malaysia		4.39	0.1	-0.2	-3	-6	-5	-5		4.4	2.5	-2	35	130	85	77
Argentina		117	-0.1	-1.0	-4	-20	-13	-9		53.2	8.8	55	304	742	262	523
Brazil		5.07	-0.1	1.9	-8	4	10	-1		13.2	71.7	70	121	376	254	171
Chile		861	0.2	-0.2	-6	-18	-1	-8		6.3	0.0	-20	-8	257	92	43
Colombia		4111	0.0	-1.5	-9	-9	-1	-5		9.1	9.0	15	118	324	267	120
Mexico		20.09	0.1	1.5	-1	-2	2	1		8.7	-0.5	-42	2	175	117	85
Peru		3.8	-0.8	0.6	-2	-4	5	-1		7.9	-2.7	-41	60	309	199	189
Uruguay		41	0.7	0.3	0	7	8	2		10.1	0.0	6	83	272	140	197
Hungary		371	0.0	-2.7	-6	-22	-12	-14		7.1	-3.0	-13	89	443	257	227
Poland		4.48	0.4	-0.9	-4	-17	-10	-10		6.2	-2.3	-33	94	426	270	233
Romania		4.7	0.0	-1.4	-4	-15	-8	-8		7.9	3.3	56	150	522	312	279
Russia		64.1	0.9	8.4	27	15	17	27		11.2	-14.3	-81	-113	390	245	4
South Africa		16.2	-0.4	-0.3	-10	-13	-2	-7		8.5	2.5	-27	48	99	111	95
Turkey		15.66	-1.1	-3.7	-6	-47	-15	-12		25.1	-9.0	207	144	688	76	266
US (DXY, 5y UST)		104	-0.1	0.8	4	16	9	9		2.87	0.2	-8	8	205	160	96

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
									basis points						
China		3957	-0.4	2	-6	-24	-20	-14		208	7	-1	-4	5	0
Indonesia		6598	-3.2	-9	-9	11	0	-5		208	26	35	36	43	23
India		52974	-2.1	-3	-9	7	-9	-7		185	12	15	20	53	31
Philippines		6502	-2.0	-4	-7	3	-9	-12		159	20	33	61	58	22
Thailand		1584	-1.8	-3	-5	2	-4	-7		0	0	0	0	0	0
Malaysia		1544	-0.7	-1	-3	-2	-1	-3		135	11	20	11	18	2
Argentina		88796	3.8	3	-2	62	6	-3		1894	87	185	326	214	157
Brazil		106924	0.0	2	-8	-12	2	-5		308	16	22	67	-3	-23
Chile		4850	0.0	2	-1	6	13	11		169	8	21	38	29	-5
Colombia		1512	0.4	0	-6	17	7	0		383	7	36	152	35	-9
Mexico		49580	0.5	0	-8	1	-7	-3		383	14	37	55	51	13
Peru		19841	3.3	-5	-16	-9	-6	-15		190	2	20	40	40	0
Hungary		41320	1.0	-1	-4	-9	-19	-13		204	20	47	65	80	51
Poland		55070	2.2	2	-14	-12	-21	-12		2	0	-5	-34	-30	-14
Romania		12152	-0.6	-1	-7	5	-7	-8		234	7	27	54	42	2
Russia		2378	-0.4	-1	-2	-35	-37	-23		3411	-577	938	3228	3234	2897
South Africa		68906	0.7	3	-6	3	-7	-8		413	20	73	78	58	24
Turkey		2397	-2.3	-3	-4	66	29	19		602	67	72	127	24	39
Ukraine		519	0.0	0	0	-2	-1	0		3407	-109	221	2888	2648	1934
EM total		40	-0.5	-1	-8	-24	-17	-15		410	17	26	54	24	-48

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

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