GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, APRIL 1, 2022

- **Good US jobs report pushes yields higher** (link)
- **Global markets suffer worst quarter in two years** (link)
- **Yields rise at historic pace in 2022 as bond liquidity dries up** (link)
- **Euro area high yield spreads back at pre-invasion levels** (link)
- **Export revenues expected to boost Russia's current account surplus in 2022** (link)

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Markets gain on hopes of progress in Ukraine peace talks

Markets have started the new quarter in a cautiously optimistic mood, with European stocks higher and US equity index futures pointing to a positive start. US Treasury yields were also higher ahead of this morning's jobs report, ending a week of gains. Sentiment was bolstered by news that peace talks in Ukraine are to resume later today, with Russia expected to respond to proposals made earlier in the week by the Ukrainian side. Chinese stocks listed in the US were up in pre-market trading on news that the authorities in China may give US regulators access to company audit data. Headline euro area inflation was higher than expected, but markets were reassured by the fact that core inflation met forecasts. The focus will soon turn to the Q1 earnings season, which will kick off later this month. Meanwhile, the OECD warned that the fallout from the fighting in Ukraine could be higher than most forecasts, cutting global GDP growth by as much as 1% and with inflation even higher than many expect.

Key Global Financial Indicators

Last updated: 4/1/22 7:51 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4530	-1.6	0	5	13	-5
Eurostoxx 50		3926	0.6	2	4	-1	-9
Nikkei 225		27666	-0.6	-2	6	-7	-4
MSCI EM		45	-1.5	-1	-2	-16	-8
Yields and Spreads			bps				
US 10y Yield		2.40	6.1	-7	67	73	89
Germany 10y Yield		0.57	2.2	-2	64	90	75
EMBIG Sovereign Spread		399	-40	-64	-71	46	32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.4	-0.1	2	4	-5	2
Dollar index, (+) = $ appreciation		98.5	0.2	0	1	6	3
Brent Crude Oil ($/barrel)		103.9	-0.8	-14	-1	60	34
VIX Index (%, change in pp)		20.2	-0.4	-1	-13	3	3

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

Mature Markets

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Global Markets Q1 Recap

As the first quarter of 2022 ended, markets delivered their worst quarterly performance in two years. Most equity indexes were lower and Bloomberg's global bond index is down over 6% so far this year, the most in its history. Yield curves are flatter and interest rates higher, with the German two-year Schatz rate climbing briefly above zero for the first time since 2014. However, most of the damage was done in January and February after the Fed pivot to tighter policy, high inflation, and the shock of the invasion. Stocks have managed to rally from the worst levels seen after the invasion of Ukraine. For example, the S&P 500 up 10% from the invasion low. In addition, many equity markets posted outright gains in March as they rallied back from oversold conditions at the height of the invasion panic, although China stood out again with more heavy losses. Credit spreads also did well in March, while rising commodity prices remain a challenge for the global economy.

Q1 2022 Recap: Selected Market Indicators

Source: Bloomberg

Market Variable	Month-to-Date	Year-to-Date
Equities		
S&P 500	+3.5%	-5%
Euro Stoxx 600	+0.6%	-9.1%
Nikkei	+4.8%	-3.4%
Shanghai CSI 300	-7.8%	-14.5%
MSCI EM ETF	-4.4%	-7.5%
Credit		
US investment grade	-6 bps	+24 bps
US high yield	-25 bps	+41 bps
EMBIG EM Credit Spread	-31 bps	+71 bps
Government Bonds		
10-year US Treasury	+52 bps	+82 bps
2-year US Treasury	+70 bps	+58 bps
2/10 Treasury Yield Spread	-38 bps (yield curve flatter)	-76 bps (yield curve flatter)
10-year Bund	+41 bps	+73 bps
2-year Schatz	+53 bps	+61 bps
Currencies and Commodities		
EUR	+1.3% (euro stronger)	+3% (euro stronger)
JPY	-5.8% (yen weaker)	-6% (yen weaker)
Brent	+6.7%	+39%
Wheat	+8.6%	31%

United States

The March jobs report was mixed, with the payrolls number below forecasts but the unemployment rate lower than expected. However, earnings growth was strong while the data from the February report saw significant upgrades to job growth. **Markets treated this as a good jobs report, with Treasury yields up immediately following the data although other markets held steady.**

US Payrolls Data 8:30 am

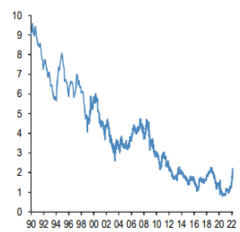
Source: Bloomberg

Indicator	**Consensus Forecast**	**Actual Print**
Nonfarm payrolls	**490K**	**431K**
Unemployment rate	**3.7%**	**3.6%**
Average Hourly Earnings mom	**0.4%**	**0.4%**
Average Hourly Earnings yoy	**5.5%**	**5.6%**

Global yields have shot up at record pace in the first quarter of 2022. The Bloomberg Global Aggregate bond yield index is up 90bps in less than three months, the sharpest increase since 1994. The relentless selloff in the bond market has occurred against a backdrop of low liquidity, with the market depth for two and ten-year Treasuries back at the level seen at the worst levels of the pandemic-era collapse in March 2020. At the same time, bond market volatility is very high, creating a negative feedback loop as high volatility leads to lower liquidity as dealers pull back from market making.

Figure 1: Bloomberg Global Agg bond index yield

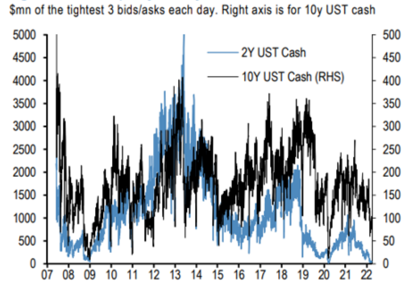
In %



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 2: Market depth 2y and 10y UST cash bonds

$mn of the tightest 3 bids/asks each day. Right axis is for 10y UST cash

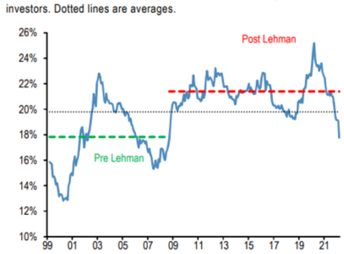


Source: Brokertec, J.P. Morgan

JP Morgan estimates that non-bank investors have just 18% of their portfolios allocated to bonds, the lowest since 2008, meaning that 14 years of bond overweight positions have been wiped out. On the flip side, allocations to equities is very high, and the bond-equity allocation gap is close to the previous cycle lows in 2006-2007. If history is any guide, this could be a dangerously high level of allocations to higher risk equities. Uncertainty is high amidst tightening central bank policy rates, the unwinding of their pandemic era asset purchases, the spillovers from the Ukraine crisis, high inflation and worries about recession.

Figure 3: Implied Bond allocation by non-bank investors globally

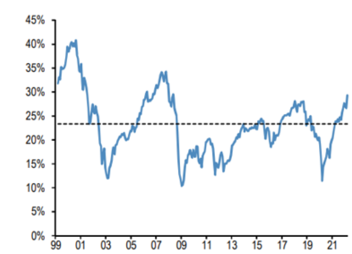
Global equities as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 4: Difference between Implied Equity allocation – Bond allocation by non-bank investors globally

Dotted lines are averages.



Source: Bloomberg Finance L.P., J.P. Morgan

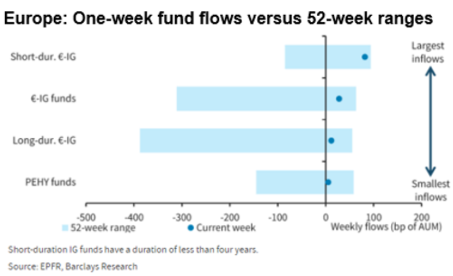
Euro area

Equities (+0.6%) opened the new quarter higher as the final PMI manufacturing data for the euro was slightly below expectations at 56.6 (57 expected). Bank stocks are 2% higher. ECB Vice president De Guindos said that he sees the euro area growing in 2022 but warned that H1 performance will be weak.

German 10-yr bund yields are 4 bps higher after flash headline CPI inflation rose to a new record of 7.5% yoy (6.7% expected). However, core inflation was in line with expectations at 3% yoy (3.1% yoy expected). Analysts had already pointed to upside risks after inflation reports were higher than expected in France, Germany, and Spain earlier this week. Analysts believe that euro area inflation could rise to a double-digit print depending on developments in the war in Ukraine and Covid-19 lockdowns in China.

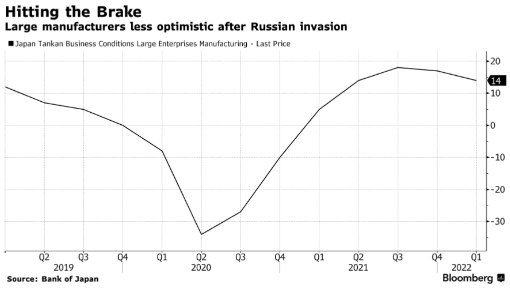
The first round of the French presidential elections will be held on 10 April. According to polls, President Macron is likely to face Le Pen in the second round, though analysts believe that Mélenchon's chances to take the second position have recently increased. Consensus is that Macron would then win the second round against Le Pen or Mélenchon.

Euro-denominated investment grade funds saw inflows in the past week whereas flows were flat for high-yield funds. Weekly fund flows suggest that some investor demand for the credit market has returned. **Euro high-yield corporate credit spreads back at pre-invasion levels.**



Japan

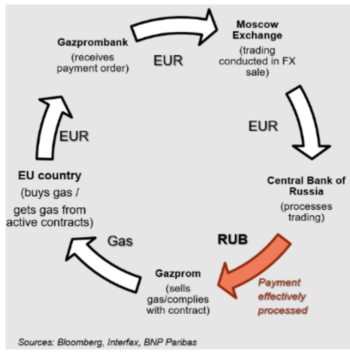
The yen (-0.6%) weakened and stocks fell after business conditions in the March Tankan survey showed a deterioration for the first time since June 2020 in both manufacturing and non-manufacturing sectors. Large manufacturers in Japan have become more pessimistic over business conditions, according to the central bank's Tankan report. The Tankan survey polls corporates to determine if they view business conditions as 'favorable' or 'unfavorable' and arrives at the index result by subtracting the count of the latter from the former. The sentiment index fell to 14 in 1Q2022 from 17, ahead of the expected 12, while the outlook for large manufacturers slipped to 9 from 13, below the expected 10. **The survey flagged Omicron, Ukraine, high energy costs and a weak yen as the key risk factors.**



Commodities

European natural gas prices surged 33% this week but are little changed today after President Putin signed a decree demanding payments for gas purchases to be processed in rubles from "unfriendly countries" (including all EU countries). Payments for Russian gas flows in April are reportedly due only in the second half of April, or even in May, and contacts wonder if changes will materially disrupt supplies. **According to the decree, gas buyers will need to open an account with a Russian bank—likely**

unsanctioned Gazprombank—to send a payment order. This payment order can be conducted in foreign currency. The currency will then be sold in the Moscow Exchange and processed for rubles by the Central Bank of Russia. The value, in rubles, will then be transferred to Gazprom. A schematic representation from BNP Paribas can be found below. **Yesterday, German Chancellor Scholz and Italian PM Draghi said that gas supply would continue after calls with President Putin but analysts will follow developments closely.**



Sources: Bloomberg, Interfax, BNP Paribas

Emerging Markets

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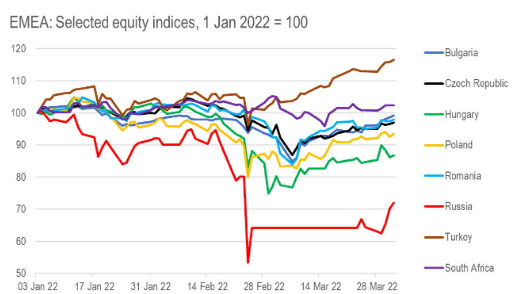
EMEA stocks were mostly higher this morning, with Russia (+2.2%) leading the way on news that peace talks had resumed. Currencies were generally weaker, with the rand being a notable exception on strong manufacturing PMI data. **Equities closed +0.3% higher in Asia** with equities in India (+1.2%) outperforming. Hong Kong suspended trading in 33 firms, including Chinese developers, after several firms did not report annual results ahead of the deadline. **Currencies were mostly trading weaker against the dollar**. In **Latin America**, stocks were mixed.



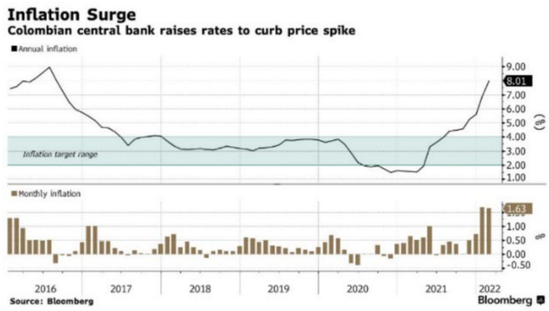
Source: Bloomberg and IMF calculations

China

Factory activity in China fell into contractionary territory in March. The Caixin China PMI manufacturing index fell to 48.1 from 50.4, coming in below the expected 49.9. Analysts note that the recent data releases highlight business activity disruptions amid renewed Covid-19 outbreaks, with the war in Ukraine also weighing on the economy. **Separately, Bloomberg reports that issuers in China sold $9.3bn green bonds in on- and off-shore credit markets in March.** The issuance represents a 10% decline compared to March 2021.

Colombia

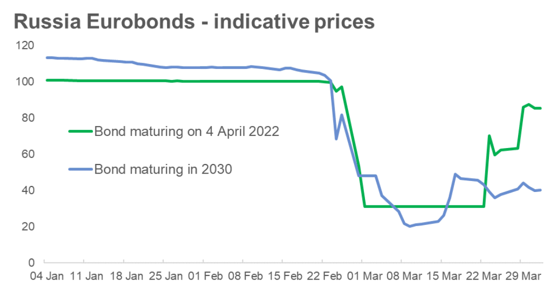
The central bank surprised markets by raising its policy rate less than expected. Analysts were expecting a 150 bps hike given the recent surge in inflation, but the bank hiked just 100 bps to 5%. Five of the seven board members were in favor of the move while two voted for 150 bps. CPI was up 8% in February, the fastest pace since 2016 and way above the 2-4% target range. However, a strong appreciation of the peso this year has ameliorated some of the impact of the rise in prices. Local markets rallied on the news of the central bank's dovish turn. Latin American policy makers seem to be taking the view that the rise in inflation will be temporary.



Russia

Analysts expect Russia's current account surplus to increase in 2022, but caution that further sanctions could impact export volumes. Institute of International Finance analysts project that Russia's current account surplus would increase to between $200–$240bn in 2022, from $120bn in 2021, supported by favorable terms of trade and lower domestic demand. This analysis takes into account the current set of sanctions. Similarly, JPMorgan economists expect a $233 bn current account surplus this year (15% of GDP) which assumes discounted Brent prices and lower commodity export volumes. Bloomberg estimates that Russia could earn roughly $321bn from energy exports in 2022, an increase of over 30% from 2021. **Analysts expect the large current account surplus to support the ruble** given lower domestic demand and higher commodity prices. **The ruble was trading weaker (-1.6%) this morning at $82.6, compared to roughly $81 on 23 February and $136 on 9 March.**

Russia's finance ministry repurchased $1.45 bn of a $2 bn outstanding Eurobond that matures on 4 April 2022. The payment was made in rubles. ING analysts note that as the bondholders accepted early repayment in rubles, there is no default. **Market participants remain focused on Monday when the remaining bondholders are due to receive payment.** In addition, the finance ministry said yesterday that it met its obligations in full on the 2030 Eurobond coupon payment that was due. According to media reports, JPMorgan processed the $447mn payment and the clearing house received payment for the coupon.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

Last updated: 4/1/22 7:54 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4530	-1.6	0	5	13	-5
Europe		3926	0.6	2	4	-1	-9
Japan		27666	-0.6	-2	6	-7	-4
China		4276	1.3	2	-5	-17	-13
Asia Ex Japan		75	-1.9	-1	-4	-20	-9
Emerging Markets		45	-1.5	-1	-2	-16	-8
Interest Rates					basis points		
US 10y Yield		2.40	6.1	-7	67	73	89
Germany 10y Yield		0.57	2.2	-2	64	90	75
Japan 10y Yield		0.23	0.5	-1	5	11	15
UK 10y Yield		1.65	3.9	-5	52	85	68
Credit Spreads					basis points		
US Investment Grade		138	-0.4	-5	-8	48	26
US High Yield		374	-2.7	-18	-38	35	36
Europe IG		72	-1.0	-8	-4	22	24
Europe HY		336	-2.3	-33	-35	90	94
Exchange Rates					%		
USD/Majors		98.47	0.2	0	1	6	3
EUR/USD		1.11	-0.1	1	-1	-6	-3
USD/JPY		122.5	0.6	0	7	11	6
EM/USD		53.4	-0.1	2	4	-5	2
Commodities					%		
Brent Crude Oil ($/barrel)		104	-0.8	-12	3	71	36
Industrials Metals (index)		213	0.3	-2	9	49	23
Agriculture (index)		73	0.1	-4	0	45	20
Implied Volatility					%		
VIX Index (%, change in pp)		20.2	-0.4	-0.6	-13.1	2.9	3.0
US 10y Swaption Volatility		109.1	-1.4	4.1	-9.0	27.2	30.0
Global FX Volatility		9.0	0.0	-0.1	0.3	1.3	1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		210	-3.0	-13	-29	94	58
Italy		153	3.7	3	5	57	18
Portugal		81	0.6	7	1	27	17
Spain		91	2.0	5	-2	27	17

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

Emerging Market Financial Indicators

Last updated: 4/1/2022 7:57 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		6.36	-0.3	0.1	-1	3	0		2.8	-2.0	-2	-5	-42	0
Indonesia		14370	0.0	-0.2	0	1	-1		6.7	0.6	5	23	5	36
India		76	0.2	0.8	-1	-4	-2		6.3	0.0	0	9	75	0
Philippines		52	0.2	0.9	-1	-6	-1		5.3	-5.0	3	15	60	78
Thailand		33	-0.4	0.5	-2	-7	-1		2.4	10.3	-14	18	52	52
Malaysia		4.21	-0.2	-0.1	0	-2	-1		3.9	2.8	3	22	69	29
Argentina		111	-0.1	-0.8	-3	-17	-7		49.6	11.1	21	116	328	-101
Brazil		4.74	0.6	1.8	9	19	18		11.6	-7.7	-29	-7	216	90
Chile		784	0.3	-0.7	3	-8	9		6.0	0.0	-35	33	266	60
Colombia		3764	-0.2	0.7	4	-3	8		7.8	0.0	-77	-19	224	134
Mexico		19.83	0.2	1.0	4	2	4		8.2	0.5	-42	31	131	65
Peru		3.7	0.9	1.5	3	2	9		6.6	-5.7	-7	35	162	66
Uruguay		41	-0.2	1.6	3	8	8		8.9	3.0	30	72	148	14
Hungary		333	-0.2	2.0	2	-8	-3		6.0	6.0	-40	95	331	146
Poland		4.20	-0.1	1.5	2	-7	-4		4.8	8.9	-25	112	293	129
Romania		4.5	-0.2	0.7	-1	-7	-3		5.8	-4.4	-14	32	322	102
Russia		83.1	-2.3	23.1	30	-8	-10		14.0	15.2	-571	-275	655	523
South Africa		14.6	-0.2	-0.6	5	0	9		7.9	2.0	-16	26	24	51
Turkey		14.69	-0.1	1.0	-5	-45	-9		25.4	-1.0	-225	102	710	103
US (DXY; 5y UST)		98	0.2	-0.3	1	6	3		2.51	5.2	-3	92	161	125

	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		4276	1.3	2	-5	-17	-13		213	-3	-1	11	10
Indonesia		7079	0.1	1	2	18	8		169	-15	-41	-1	4
India		59277	1.2	3	9	18	2		147	-16	-23	-1	15
Philippines		7153	-0.7	0	-3	11	0		114	-21	-49	15	13
Thailand		1701	0.4	1	2	7	3		0	0	0	0	0
Malaysia		1602	0.9	0	0	1	2		116	-11	-30	-7	-1
Argentina		90960	0.1	1	3	90	9		1724	-95	-90	158	44
Brazil		119999	0.0	1	6	4	14		290	-13	-41	21	-21
Chile		4937	0.0	-1	11	1	15		149	-6	-34	20	9
Colombia		1616	0.9	1	5	23	15		338	-9	-45	119	-10
Mexico		56537	1.3	1	6	20	6		341	-4	-26	0	9
Peru		24916	-1.1	-2	3	17	18		156	-19	-36	10	6
Hungary		44954	0.5	2	16	2	-11		140	0	-38	11	16
Poland		65542	1.0	2	9	12	-5		8	-41	-54	-29	-24
Romania		12740	0.2	3	2	12	-2		206	-10	-49	17	13
Russia		2770	2.4	11	12	-21	-27		3411	-577	938	3228	3234
South Africa		75833	0.4	2	-2	13	3		364	-8	-48	1	9
Turkey		2252	0.8	3	14	58	21		529	-36	-68	3	-49
Ukraine		519	0.0	0	0	0	-1		2800	-662	-396	2282	2041
EM total		45	1.3	-1	-2	-16	-8		368	-185	-188	-2	-18

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

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