



- Corporate spreads at pre-war levels reflecting optimistic default projections ([link](#))
- Euro area peripheral spreads tighten on headlines about ECB crisis tool ([link](#))
- Analysts expect tighter French presidential victory compared to 2017 ([link](#))
- Global food prices reach new record high ([link](#))
- Chinese equities underperform on COVID-19 concerns and regulatory tightening ([link](#))
- S&P downgrades Russia to selective default ([link](#))
- Sri Lanka's central bank raises the policy rate by 700 bps to 13% ([link](#))

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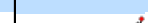


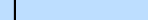



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Advanced Economy sovereign bond yields march higher, equities fall

Global equities fell and 10-year Treasury yields rose for the 7th consecutive trading day to 2.75% this morning, their highest level since early 2019. The Treasury benchmark has increased by a staggering 41 bps in April so far, primarily driven by gains in real yields. Core euro-area yields also rose higher, with 10-year bund yields increasing by 9 bps to 0.80%, their highest mark since 2015. Euro-area peripheral sovereign yields tightened 6–12 bps after Bloomberg reported that the ECB is working on a crisis tool that can be activated in case there is a “jump in bond yields.” In currencies, the euro strengthened after the first round of the French presidential elections confirmed that president Macron and Le Pen will be heading to the second round. In emerging markets, Chinese equities underperformed on COVID-19 concerns and additional regulatory tightening. S&P downgraded Russia’s foreign debt credit to selective default. The Russian authorities noted no plans to conduct local or foreign bond auctions for the rest of the year, given the high borrowing costs, warning of legal action if Russia is forced by the West to default on its sovereign debt.

Key Global Financial Indicators

Last updated: 4/11/22 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4488	-0.3	-1	7	9	-6
Eurostoxx 50		3853	-0.1	-2	5	-3	-10
Nikkei 225		26822	-0.6	-3	7	-9	-7
MSCI EM		45	0.1	-2	6	-16	-8
Yields and Spreads			bps				
US 10y Yield		2.75	5.0	35	76	109	124
Germany 10y Yield		0.80	9.2	29	55	110	98
EMBIG Sovereign Spread		397	2	-1	-128	48	30
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.1	-0.1	-1	6	-6	1
Dollar index, (+) = \$ appreciation		99.9	0.1	1	1	8	4
Brent Crude Oil (\$/barrel)		98.4	-4.3	-9	-13	56	26
VIX Index (% change in pp)		22.8	1.6	4	-8	6	6

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

In the week ahead, the ECB (Thu) is expected to implicitly endorse market expectations for a rate hike in the second half of this year. Other rate decisions planned include New Zealand (Wed), Canada (Wed), Singapore (Thu), Turkey (Thu), and China. The PBOC is likely to cut the banks' reserve requirement ratio. On the macro data front, March CPI in the US (Tue) is expected to indicate prices moderating in the goods sector with supply chain problems easing amid increasing energy and food inflation. UK inflation (Wed) is likely to show further acceleration in March.

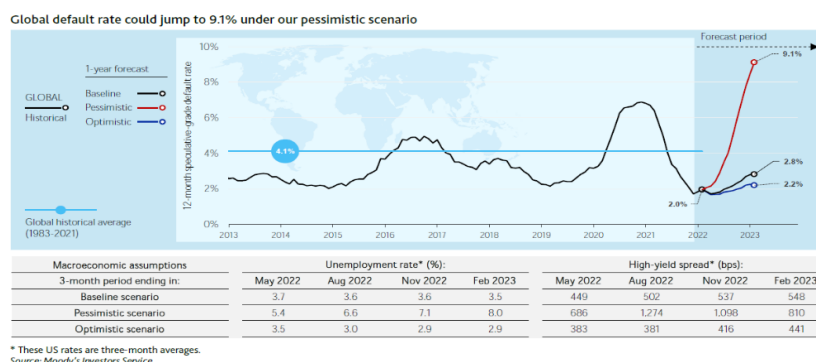
Mature Markets

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United States

Treasury 10-year yields increased further to 2.7% on Friday, up +32 bps for the week. The Treasury 2-to-10-year yield curve flattened slightly while option implied volatility rose. St. Louis Fed President Bullard had said Thursday that the Fed is behind the curve to rein inflation and favors raising rates sharply to 3–3.25% in the second half of this year to counter the highest inflation in four decades. The dollar index strengthened for the seventh consecutive day as oil traded higher. **Equities faltered as Treasury yields rose.** The tech sector underperformed the most with the VIX closing slightly lower.

US and European corporate bond spreads narrowed to pre-invasion levels reflecting optimistic default projections. Global high-yield corporate bond spreads widened by about 100 bps after the onset of the war as defaults increased in February. Since mid-March, however, spreads have narrowed sharply, reflecting more optimism regarding the war and good corporate fundamentals. For example, Moody's projects that the global speculative-grade default rate will be well below the long-term average under their baseline scenario. Moody's, however, noted that their baseline projections might not fully capture all of the risks surrounding the war. Under pessimistic scenarios, the global high-yield default rate would rise to 9.1% by February 2023. Pessimistic scenarios include further escalations of the war, significant tightening of liquidity conditions due to aggressive rate hikes, the spread of new virus variants disrupting the economic recovery, and China's regulatory reset triggering drastic deterioration in credit and growth trajectories.

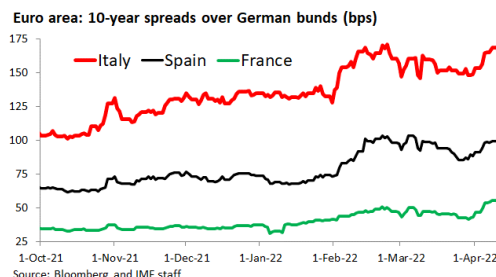


Euro area

The euro (+0.3%) firmed after the first round of the French presidential elections showed that President Macron (28% of the vote) and Le Pen (23%) will be heading to the second round on 24 April, as indicated by polls. Equities fell but bank stocks gained.

On Thursday, the ECB is expected to signal that it still plans to end net purchases in the APP program by July 2022. Money markets are currently pricing in a first hike of 10 bps by the ECB in July 2022, with a total of 60 bps of hikes priced for 2022. **Despite expectations of 60 bps of rate hikes this year, the ECB is expected to not yet explicitly indicate the timing of a first hike given economic uncertainty associated with the war in Ukraine.** Euro area confidence data, for example, have deteriorated sharply following the war in Ukraine.

German 10-year bunds were 8 bps higher but euro area spreads tightened 6–12 bps after Bloomberg reported that the ECB is working on a crisis tool that can be activated in case there is a jump in bond yields. According to the Bloomberg headlines released on Friday, the ECB has yet to decide if the backstop would be unveiled pre-emptively. **Contacts warned that any ECB response is likely to only materialize in case of a substantial rise in spreads.**



Analysts argue that the second round of the French Presidential election on 24 April between President Macron and Marine Le Pen is likely to be much tighter compared to 2017. SocGen points out that the average of the latest opinion polls shows President Macron taking 53% of the vote compared with 66% in 2017. The bank sees a 15% probability of Le Pen winning giving voting intentions, with upcoming polls expected to give further guidance. After Sunday 24 April, attention will turn to the legislative elections on 12 June and 19 June.

Chart 1: Voting intentions for the second round of the French election(%), poll of polls

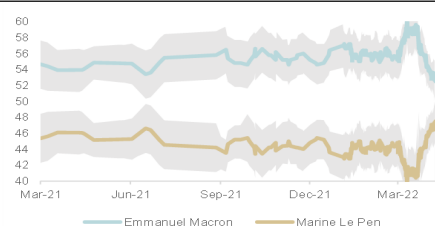
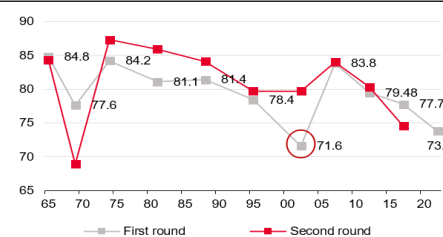


Chart 2: Participation rates in the French elections (%)



United Kingdom

The pound was little changed but 10-year gilt yields rose 7 bps even though a monthly GDP measure disappointed with growth of just 0.1% mom (0.2 mom expected) and U.K. industrial production fell 0.6% mom (gain of +0.3% mom expected) in February. **Bank of America warns that its proprietary UK consumer confidence indicator fell to its lowest level since Jan 2021, corresponding to recessionary territory.**

Japan

The Japanese yen depreciated 0.8%, to the lowest level against the US dollar since 2015. The recent depreciation trend occurred on the back of rising US bond yields. **The Bank of Japan lowered its assessment of regional economies** (8 out of 9 regions), reflecting the impact of the Omicron-driven COVID-19 outbreak and supply-chain bottlenecks. With rising energy prices affecting households and businesses, Prime Minister Kishida has called for supportive measures; meanwhile Bank of Japan Governor Kuroda continues emphasizing the need to stick persistently with monetary easing to support the economic recovery. **Equities declined** (NIKKEI: -0.6%), led by tech stocks, amid ongoing concern about the impact of U.S. monetary policy tightening. Long-end JGB yields rose (10-year: +1.1 bps; 30-year: +2.2 bps).

Emerging Markets

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Asian equities declined, -2.5% on net, led by Chinese (CSI 300: -3.1%) and Hong Kong (-3.0%) equities. Beside China-specific factors (see below), concerns about aggressive US monetary policy tightening affected market sentiment and dampened share prices in the region. **Asian currencies depreciated**, led by Philippine peso (-0.9%), Taiwan dollar (-0.6%), and Korean won (-0.6%). Long-end government bond yields rose, with 10-year yields increasing (Hong Kong SAR: +14.7 bps; Korea: +13.9 bps; Taiwan Province of China: +12.3 bps). **In Thailand**, the central bank said financial stability remains intact. However, risks may emerge from deteriorating debt repayment ability. The property market showed some signs of recovery; though, demand remains sluggish. **Equity markets in EMEA were mixed**, with equities in Turkey (+1.5%) outperforming. **Equities in Egypt were trading lower (-1.3%) after data showed inflation in Egypt increased to +10.5% y/y in March (from 8.8%).** EMEA Currencies were mostly trading stronger against the dollar. The Czech koruna depreciated (-0.1%) against the euro after inflation surprised on the upside, increasing to a more than two-decade record high in March (+12.7% y/y, consensus +12.4% from 11.1%). Analysts expect further monetary policy tightening going forward. **Stock markets were mixed last Friday in Latin America**, with Mexico (-1.1%) underperforming, while Argentina (+0.6%) gained. The **Brazilian real strengthened (+0.2%) after the above-estimate CPI data release in March**, reinforcing bets on an extended monetary tightening cycle beyond May.

Food Prices

The UN Food and Agriculture World Price Index for March reached a new record high, up +33.6% yoy and +67.4% over two years. The upward move has accelerated since the onset of the war in Ukraine. Bloomberg's scorecard points to Nigeria, Pakistan, Egypt, and Sri Lanka as the most vulnerable economies to higher food prices, given the lower-income, higher net imports of food, and higher food contribution to headline inflation.

	Food contribution to headline inflation (% YoY, Feb. 2022)	Net imports of food (% of GDP, 2022)	Income per capita (USD PPP, 2022)	Vulnerability to surge in food commodities (rank)
Nigeria	8.7	1.8	5,533	1
Pakistan	5.1	1.3	5,712	2
Egypt	2.9	2.9	14,227	3
Sri Lanka	7.2	-0.3	14,910	4
India	2.7	-0.7	8,079	5
Colombia	3.5	0.1	16,803	6
Philippines	0.5	2.3	9,575	7
Turkey	16.7	-1.0	35,624	8
Russia	3.8	0.0	32,214	9
Peru	1.8	-3.1	14,265	10
Argentina	15.1	-3.4	23,863	11
Mexico	2.4	-1.4	22,053	12
Indonesia	0.7	-2.4	13,982	13
South Africa	1.0	-1.4	14,722	14
Saudi Arabia	0.4	2.7	51,648	15
Thailand	1.8	-4.3	20,388	16
Brazil	1.5	-5.6	16,764	17
Chile	1.6	-4.1	27,629	18

Source: Bloomberg

EM Fund Flows

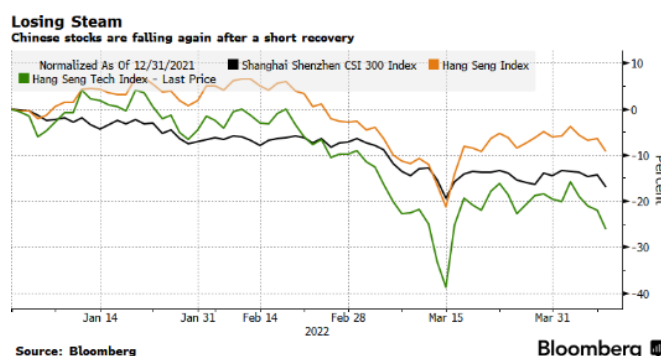
Overall EM bond inflows (+\$1.6bn) increased substantially to the highest level in 30 weeks as hard currency bond funds attracted the largest inflow since February 2021 (+\$2.0bn), which more than offset local currency bond funds outflows (-\$352mn). Inflows were mainly through non-ETFs (+\$1.4bn) but were also observed in ETFs (+\$222mn). China-focused bond funds had their eighth week of outflows (-\$436mn). **EM equity fund inflows (+\$4.6bn) also increased substantially last week** to the highest level since end March 2021, driven mainly by ETFs (+\$4.0bn). Regional equity funds observed inflows across the board: Asia ex-Japan (+\$528mn), EMEA (+\$82mn), Latam (+\$173mn).

China

Chinese equities declined (CSI 300: -3.1%) on concerns about the ongoing COVID-19 outbreak and additional regulatory tightening. Tech stocks, listed onshore and in Hong Kong SAR, led the decline. Analysts noted that pandemic-related lockdowns and ensuing business disruptions have emerged as a key

risk to equities. **The State Council issued new guidelines over the weekend to strengthen antitrust efforts to speed up building of a unified national market.** Among other things, the guidelines removed data monopoly at platform companies and prevented them from restricting competition. The guidelines also strive to step up oversight of capital markets and prevent disorderly expansion of capital. Reportedly, **Chinese authorities limited equity share sales by some mutual funds.** With efforts to put a floor to the stock market decline, the market regulator today gave a window guidance to some big mutual fund managers, asking them to refrain from selling A-shares.

March inflation data were stronger than market expectations. PPI increased 8.3% y/y (consensus: +8.1%), while CPI increased 1.5% y/y (consensus: +1.4%). Both PPI and CPI rose sequentially in March on higher prices of fresh vegetables and energy. Some analysts noted that lockdowns to curb the virus across several provinces have disrupted food supplies; furthermore, some delay in spring planting of crops increases the risk of food shortage in the second half of the year. **Aggregate financing was stronger than expected in March,** with total credit growing 10.6% y/y (from 10.2% in February). A robust credit expansion was driven by a stronger-than-expected increase in bank lending and larger government bond issuances.



Russia

Russia's foreign debt credit rating was downgraded to selective default by S&P. The downgrade was made on Friday, after Russia made coupon and principal payments due on foreign denominated bonds in rubles. The payments were due in dollars on April 4. While there is a 30-day grace period to make the payment, the rating agency note that they do not expect Russia to be able to convert the ruble payments into dollars within the grace period, or that investors would be able to convert ruble payments into the originally due dollar equivalent. **Indicative prices on Bloomberg show the price of the bond for which a principal payment was due on April 4, falling to 25 cents on the dollar from roughly 85 cents last week.** This morning the ruble weakened (-1% to 81.3 against the dollar) while equities in Moscow were trading higher (+0.3%).

Russia does not plan local or foreign bond auctions for the rest of the year, given high borrowing costs according to Finance Minister Anton Siluanov. Bloomberg reports that roughly 128 bn rubles of local-currency government bonds has been sold so far this year, while first quarter sales of 700 bn rubles had been planned. **Russia's Finance Minister also said that Russia will take legal action if the West forces a default on Russian sovereign debt.**

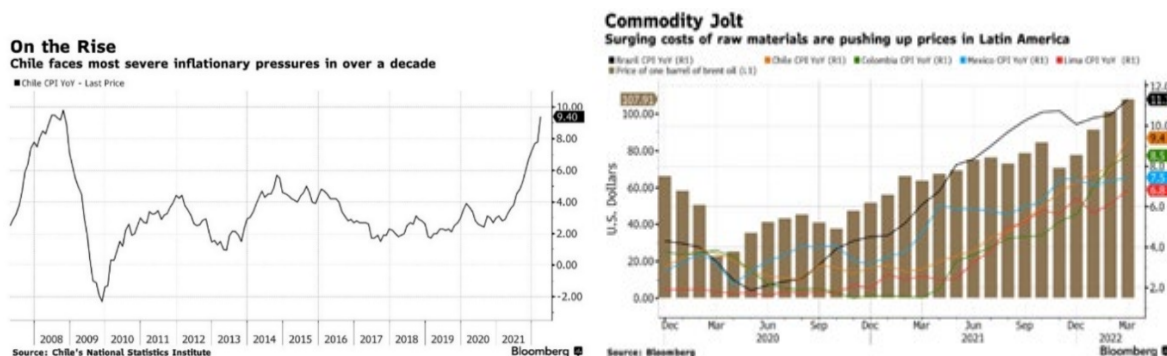
Headline inflation increased to +16.7% yoy in March from +9.15%, slightly below the expected +16.9% yoy; while core inflation surprised on the upside, increasing to +18.69% yoy (consensus expectations +17.3% yoy; from +9.74%). JPMorgan analysts expect inflation to jump above 20% yoy by mid-2022 but argue that the acute phase of the inflation shock has passed. Goldman Sachs expect inflation to rise to 20% yoy in April and the plateau till early next year. **Analysts generally expect the Central Bank of Russia to cut interest rates further in the coming months.**

Sri Lanka

The central bank of Sri Lanka raised the policy rate by 700 bps to 13% last Friday. The hike was the first policy move by Governor Nandalal Weerasinghe, who was the former deputy governor and was appointed as the new governor last week. Some analysts noted that the policy rate hike aimed to bolster the central bank's credibility with investors given intensifying inflationary pressures and heightened external challenges. The central bank's forward guidance also suggested that further tightening is underway. Analysts viewed that while this steep policy rate hike should help the currency, stabilizing it would require progress on bridge financing along with a clearer path toward a Fund program. Political uncertainty and social unrest could delay a Fund program. Government bond yields rose (1-year: +33 bps; 10-year: +101 bps); the Sri Lankan rupee depreciated (-1.0%).

Chile



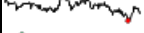







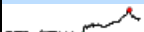










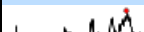


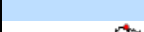

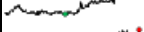

Chile posted faster-than-expected inflation as commodity prices spiked. In March, consumer prices rose 1.9% m/m and 9.4% y/y. Although policy rates have risen by 650 basis points since July, inflationary pressures are challenging the central bank's desire to slow the pace of future rate hikes. Over the past few months, prices were pressured by lingering demand from last year's emergency stimulus and, most recently, they have been propelled by more expensive raw materials. Last week, policy makers signaled plans to slow the pace of rate hikes going forward. Chile is not the only country in Latin America facing persistent inflation. In March, Mexico's consumer prices rose more than expected by all economists in a Bloomberg survey, while Peru has been dealing with mass social unrest and strikes sparked by the fastest inflation in 24 years.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (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), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

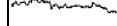

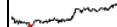









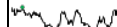

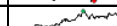









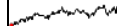




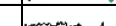










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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4488	-0.3	-1	7	9	-6
Europe		3853	-0.1	-2	5	-3	-10
Japan		26822	-0.6	-3	7	-9	-7
China		4100	-3.1	-3	-5	-17	-17
Asia Ex Japan		75	0.0	-2	5	-20	-10
Emerging Markets		45	0.1	-2	6	-16	-8
Interest Rates			basis points				
US 10y Yield		2.75	5.0	35	76	109	124
Germany 10y Yield		0.80	9.2	29	55	110	98
Japan 10y Yield		0.24	1.1	3	6	13	17
UK 10y Yield		1.82	7.4	28	33	105	85
Credit Spreads			basis points				
US Investment Grade		138	1.1	3	-28	49	26
US High Yield		380	2.4	13	-60	55	42
Europe IG		77	0.2	7	-3	26	30
Europe HY		372	0.2	40	-15	123	130
Exchange Rates			%				
USD/Majors		99.88	0.1	1	1	8	4
EUR/USD		1.09	0.2	-1	0	-8	-4
USD/JPY		125.7	1.1	2	7	15	9
EM/USD		53.1	-0.1	-1	6	-6	1
Commodities			%				
Brent Crude Oil (\$/barrel)		98	-4.3	-9	-10	66	29
Industrials Metals (index)		209	-1.9	-3	-9	44	21
Agriculture (index)		75	-0.1	3	1	46	24
Implied Volatility			%				
VIX Index (% change in pp)		22.8	1.6	4.2	-8.0	6.1	5.5
US 10y Swaption Volatility		128.1	3.1	22.8	30.3	50.6	49.1
Global FX Volatility		9.0	0.0	0.2	-0.5	1.5	1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		206	-12.8	-5	-28	89	55
Italy		162	-6.6	6	2	59	27
Portugal		87	-6.0	2	1	29	23
Spain		93	-6.5	-2	-6	25	19

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 4/11/2022 8:04 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		6.37	0.0	-0.1	0	3	0		2.9	1.4	1	0	-40	1
Indonesia		14365	0.0	-0.1	0	2	-1		6.9	5.8	11	14	40	48
India		76	-0.1	-0.5	1	-1	-2		6.3	0.0	0	9	75	0
Philippines		52	-0.9	-1.3	0	-7	-2		5.3	0.0	0	23	60	78
Thailand		34	0.0	-0.4	-1	-6	-1		2.6	6.5	21	31	65	75
Malaysia		4.23	-0.2	-0.2	-1	-2	-2		4.0	3.4	11	36	99	44
Argentina		112	-0.2	-0.9	-3	-18	-8		50.2	8.9	99	162	406	-32
Brazil		4.72	-0.4	-2.6	8	22	18		11.5	-2.1	18	-97	199	81
Chile		816	-1.2	-4.0	-1	-13	4		6.6	0.0	42	62	310	113
Colombia		3758	0.2	-0.1	0	-3	8		8.0	24.0	15	-28	280	154
Mexico		20.04	0.0	-1.2	4	1	2		8.6	11.5	39	28	212	110
Peru		3.7	-0.2	-2.1	1	-3	8		7.0	0.5	20	31	218	108
Uruguay		42	1.2	-0.8	3	6	7		9.3	26.2	27	90	188	57
Hungary		347	0.0	-3.1	1	-14	-7		6.8	2.0	73	97	424	226
Poland		4.26	0.0	-1.1	3	-11	-5		5.4	11.6	60	86	366	191
Romania		4.5	0.3	-0.6	0	-9	-4		6.3	2.4	32	11	366	144
Russia		81.4	-1.3	2.5	65	-5	-8		11.1	1.0	-295	-2066	331	228
South Africa		14.6	0.3	-0.1	3	0	9		8.1	6.5	24	9	55	66
Turkey		14.73	0.1	-0.3	0	-45	-10		25.2	-24.0	-25	-53	688	86
US (DXY, 5y UST)		100	0.1	0.9	1	8	4		2.80	4.3	25	85	193	153

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4100	-3.1	-3	-5	-17	-17		205	-6	-20	-2	2
Indonesia		7204	-0.1	1	4	21	9		158	-14	-62	-16	-7
India		58965	-0.8	-3	6	23	1		157	9	-51	-3	25
Philippines		6988	-0.4	-2	-2	7	-2		111	-12	-59	8	10
Thailand		1678	-0.4	-1	1	9	1		0	0	0	0	0
Malaysia		1605	-0.2	0	2	0	2		113	-5	-41	-12	-4
Argentina		92091	0.6	0	3	89	10		1714	-8	-265	129	34
Brazil		118322	0.0	-3	6	1	13		283	-6	-60	13	-28
Chile		4969	0.0	0	7	0	15		142	-8	-46	10	2
Colombia		1626	-0.2	0	5	23	15		325	-21	-81	105	-23
Mexico		54687	-1.1	-3	3	15	3		340	-3	-49	0	8
Peru		24260	0.0	-3	-2	12	15		175	16	-26	29	25
Hungary		41894	-0.7	-8	-2	-4	-17		149	14	-36	13	25
Poland		64227	0.8	-2	5	8	-7		0	-9	-73	-41	-32
Romania		12723	0.1	-1	5	13	-3		200	-5	-85	15	7
Russia		2589	-0.2	-7	5	-26	-32		3411	-577	938	3228	3234
South Africa		74587	-0.3	-2	1	11	1		323	-36	-88	-25	-32
Turkey		2442	2.0	6	19	75	31		531	0	-155	27	-47
Ukraine		519	0.0	0	0	-2	-1		2954	140	-1920	2409	2195
EM total		45	-1.4	-2	6	-16	-8		371	1	-260	1	-15

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

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