



- US headline CPI meets expectations but core CPI lower than consensus ([link](#))
- The increase in US yields may have been exacerbated by poor market liquidity ([link](#))
- Deteriorating affordability expected to weigh on US home price appreciation ([link](#))
- ECB lending survey shows net tightening of credit standards for firms ([link](#))
- Chinese equities recover on optimism around additional support to growth ([link](#))
- Russia Railways ruled in default ([link](#))
- Sri Lanka suspends payments on some foreign debt ([link](#))

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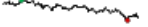
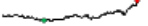

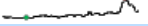




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Treasury yields fall after US CPI release

Markets sentiment remains fragile with European bourses lower this morning and measures of option implied volatility elevated. The VIX index was trading at 24 ppts, a near 4-week high. Following the release of US CPI, Treasury yields fell sharply after having risen for 7 consecutive trading days previously, reversing some of the large increase witnessed this month. In Europe, bank stocks underperformed as banks expect a considerably stronger net tightening of credit standards for firms in Q2 and the assessment of the economic situation in Germany worsened again in the ZEW survey. In emerging markets, Chinese equities recovered as investors speculated that the authorities will take additional measures to support growth after Premier Li Keqiang issued a third warning about risks to economic growth in less than a week. Elsewhere, Sri Lanka suspended payments on some foreign debt and Russian Railways JSC was ruled in default by the Credit Derivatives Determinations Committee.

Key Global Financial Indicators

Last updated: 4/12/22 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4413	-1.7	-4	5	7	-7
Eurostoxx 50		3818	-0.6	-3	4	-4	-11
Nikkei 225		26335	-1.8	-5	5	-11	-9
MSCI EM		44	-1.2	-5	4	-17	-9
Yields and Spreads			bps				
US 10y Yield		2.76	-1.7	22	77	110	125
Germany 10y Yield		0.82	0.4	21	57	111	100
EMBIG Sovereign Spread		403	6	12	-93	56	37
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.0	0.0	0	6	-6	1
Dollar index, (+) = \$ appreciation		100.2	0.2	1	1	9	5
Brent Crude Oil (\$/barrel)		102.8	4.4	-4	-9	62	32
VIX Index (% change in pp)		24.2	-0.2	3	-7	7	7

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

Mature Markets

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United States

Equities traded lower, led by the energy and rates-sensitive tech sector. Oil prices declined by -3.8%. Meanwhile, high-yield corporate bond spreads widened by +11 bps. **Treasury 10-year yields rose on Thursday for 7th consecutive trading day, reaching 2.78%, a new three-year high.** 10-year real yields increased by 1.5 bps to -0.16%, the highest since March 2020, although they remain in negative territory. The 2-to-10-year yield curve steepened by 8 bps while option implied volatility rose. **Analysts commented that poor liquidity conditions have likely exacerbated recent yield moves.** Market depth in Treasury markets remains at depressed levels by historical standards, and the price impact measure has risen to its highest levels since the pandemic.

Exhibit 3: Market depth remains depressed and seems to have settled around historically low levels

Duration-weighted Treasury market depth; \$mn of 10-year equivalents

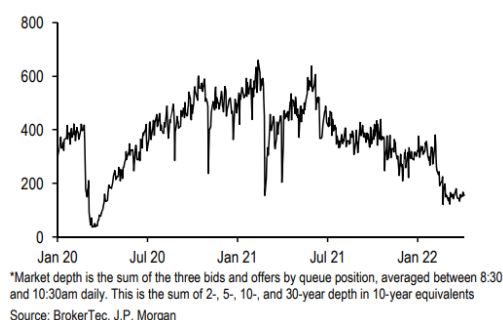
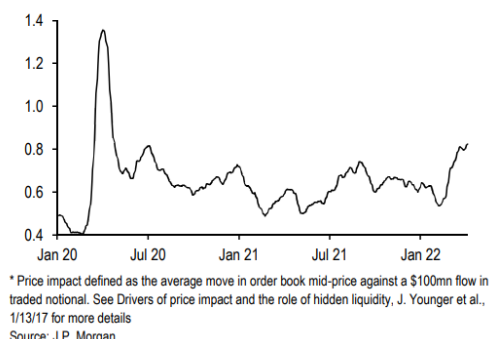


Exhibit 4: Price impact has moved up to its highest levels since the spring of 2020, indicating the footprint of each trade in the Treasury market has increased

10-year Treasury price impact*, 1-month moving average; 32nds



This morning, **core CPI was lower than expected** (0.3% m/m vs. 0.5% consensus; 6.5% y/y vs. 6.6% consensus), **while headline CPI came almost in line with expectations** (1.2% m/m vs. 1.2% consensus; 8.5% y/y vs. 8.4% consensus). Treasury yields plummeted following the data release across the curve, with 2-years down by 12 bps and 10-years by 6 bps. The dollar was little changed.

Deteriorating housing affordability is expected to weigh on home price appreciation. The Case-Shiller house price index rose +19% y/y as of the end of January, despite the 50 bps rise in 30-year mortgage rates. Goldman Sachs' analysts noted that the resilience in house prices was due to 1) constrained supply of existing homes and 2) boosted demand by a short-run impulse from buyers to complete purchases before affordability worsens. However, analysts are lowering their home price appreciation (HPA) forecast for the full-year 2022 and 2023 to 8.7% y/y and 2.3% y/y, respectively, believing that the deteriorating housing affordability could push HPA below the historical trend as the supply of new homes expands. The NAR affordability index as of February 2022 is hitting a post-GFC low, and mortgage rates have continued to rise since January, with the 30-year fixed average exceeding 5%.

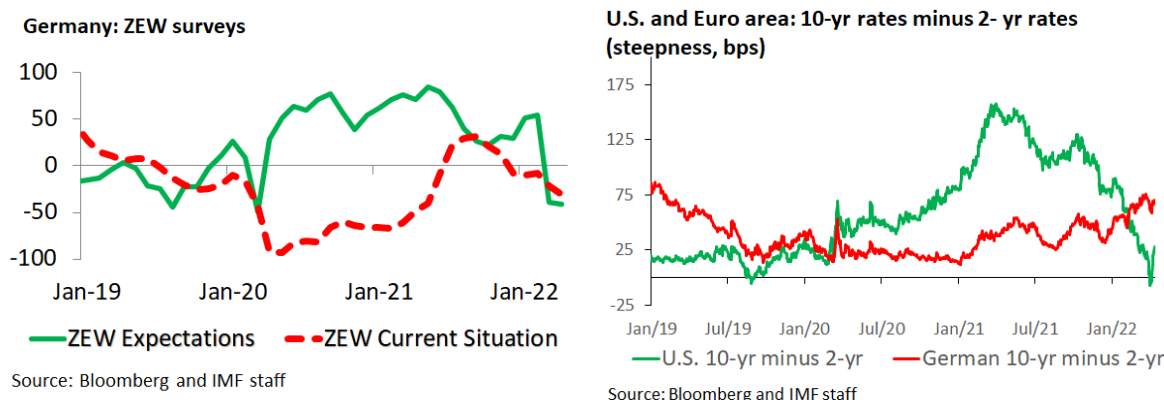
US Homebuyer Affordability Index and Mortgage Rate



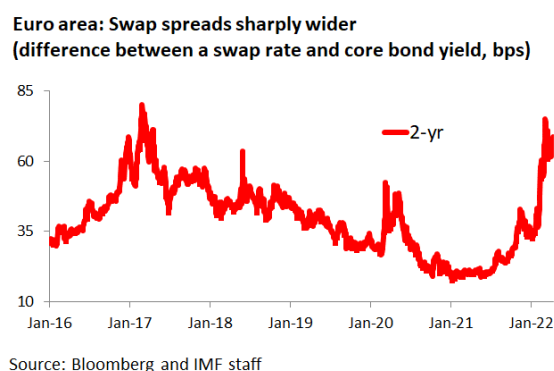
Euro area

Equities (-0.6%) fell with European bank stocks underperforming. Shares in Deutsche closed 6% lower yesterday and are 2% lower today after an unidentified investor reportedly sold a €1.3 bn stake. According to Bloomberg data, only Blackrock and Capital Group had large enough positions to sell so many shares. Shares in Commerzbank traded 9% lower today after an unidentified seller sold €475 mn of its shares.

10-year bund yields (+3 bps) continued to make new multi-year highs while German ZEW expectations and assessments of the economic situation remain similar to those at the beginning of the COVID-19 pandemic. Inflation expectations for the euro area declined in the ZEW survey but 48% of experts still expect inflation to increase in the next six months. In contrast to the inversion in the U.S. yield curve, **the German yield curve remains relatively steep.**



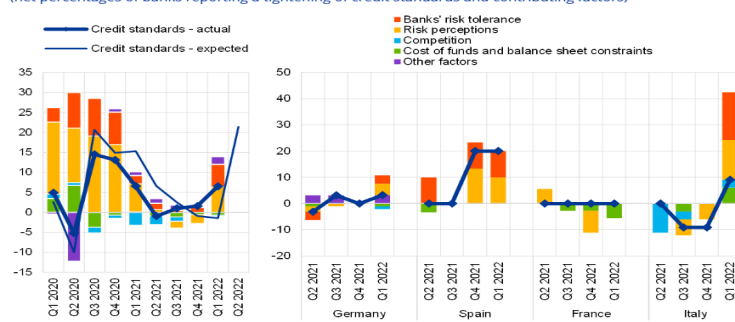
Swap spreads, the difference between a swap rate and the yield on a bond, remain wide as money markets have priced in tighter ECB policy. Sanctions against Russia have so far not caused severe strains in money markets or liquidity shortages in the euro area banking system but equity markets have been volatile and interest rates have sharply moved higher.



The latest ECB bank lending survey shows a net tightening of credit standards on loans to enterprises in the first quarter of 2022, with banks expecting a considerably stronger net tightening of credit standards for firms in Q2. This means that the percentage share of banks reporting a tightening of credit standards was larger than the share of banks reporting an easing. **Banks referred to perceptions of increased risk and decreased risk tolerance, in the context of high uncertainty, supply chain disruptions and high energy and input prices, as factors behind the net tightening of credit standards.** For households, the survey reports a more modest tightening of financial conditions, which is also set to continue in the months ahead. **The survey was conducted between 7 March and 22 March 2022 with 151 banks participating.**

Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)



Japan

PPI increased 9.5% y/y in March, stronger than expected (consensus: +9.2%), accelerating from 9.3% in February. The rise in PPI was mainly driven by higher oil and coal prices. Analysts noted that elevated producer costs will put pressures on firms' pricing. CPI inflation still remains relatively low as firms strive to bear additional costs, but this would hit corporate profits. **Equities declined (NIKKEI: -1.8%), while the Japanese yen depreciated (-0.2%)**. This morning, Finance Minister Suzuki ramped up verbal warnings over the weakening of the yen; nevertheless, his remarks only provided a brief strengthening of the yen. Long-end JGB yields mixed (10-year: +0.5 bp; 30-year: -0.2 bp).

Emerging Markets

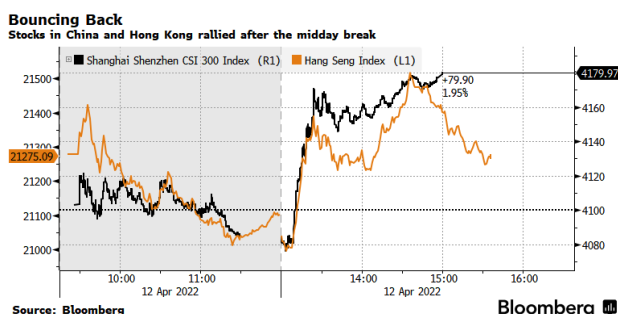
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Most Asian equities declined, led by Philippine (-1.3%) and Korean (-1.0%) stocks. Meanwhile, Chinese equities (CSI 300: +1.9%) gained on optimism around additional policy measures to support growth. **Asian currencies generally depreciated**, led by Sri Lankan rupee (-0.6%), Korean won (-0.2%), and Indian rupee (-0.2%). **Long-end government bond yields increased**, with 10-year yields rising in Hong Kong SAR (+4.8 bps) and Singapore (+4.7 bps), following the rise in U.S. treasury yields. **In Taiwan Province of China**, the government issued its first war handbook advising citizens how to respond in the wake of an attack. **EMEA equity markets were mostly trading lower and currencies depreciated against the dollar** ahead of US CPI data. Sentiment was also dented by pessimistic commentary from the Austrian Chancellor Nehammer on the prospects for peace, following a face-to-face meeting with Russia's President Putin. **On the data front, inflation in Serbia surprised on the upside, with CPI increasing to +9.1% yoy in March** (consensus expectation +9.0% from 8.8%). **Stock markets were mixed on Monday in Latin America**, with Argentina (-1.6%) underperforming while Colombia (+0.3%) gained. The Chilean peso (-0.6%) weakened amid copper declines and expectations of a dovish central bank. The Mexican peso advanced for a third straight day (+0.7% in three days), defying broad gains in the US dollar and Treasury yields.

China

Chinese equities recovered on optimism around additional support to growth. Premier Li Keqiang issued a third warning about economic growth risks in less than a week, highlighting that the economic slowdown is a key concern of Chinese top policymakers. Premier Li said that authorities should add a sense of urgency when implementing existing policies. He also mentioned that China will adopt stronger economic policies as needed to support the economy. **Equities rose (CSI 300: +1.9%) as investors are speculating that Chinese authorities will take additional measures to shore up growth**. Share prices rose in the afternoon trading as foreign investors reportedly accelerated purchases of Chinese stocks. Recently, markets became significantly concerned about China's growth slowdown amidst the ongoing COVID-19 outbreak. Nomura estimated that about 373 mn people in 45 cities are now under full or partial lockdowns, making up 40% of China's GDP. RMB was little changed onshore but appreciated offshore (+0.2%).

Wealth management subsidiaries of Chinese banks faced redemptions of over 1 tn yuan (\$157 bn) in 2022Q1 amidst heightened stock market volatility. Reportedly, some wealth management products see the net asset value ratio below 1.



Russia

Russian Railways JSC has been ruled in default by the Credit Derivatives Determinations Committee (CDDC). A coupon payment due by Russian Railways on March 14 did not reach investors by the end of a 10-day grace period due to 'legal and regulatory compliance obligations within the correspondent banking network'. **Analysts note that this case could set precedent for Russian sovereign debt, as the first Russian default determination since Russia invaded Ukraine.** Contacts expect limited market reaction, noting that Russian foreign debt defaults have been priced in. Equities in Moscow (-2.4%) and the Russian ruble (-0.6%) underperformed this morning, adding to yesterday's losses after the Central Bank of Russia eased capital controls and the 300bps interest rate cut became effective.

Sri Lanka

Sri Lanka suspended payments on some foreign debt. The finance ministry said that all outstanding payments to bond holders, bilateral creditors and institutional lenders will be suspended until a debt restructuring. Sri Lankan authorities aim to preserve foreign reserves to pay for essential food and fuel imports and are seeking to negotiate with creditors. Analysts noted that markets were expecting this default. Markets will now focus on how the government handles the challenging domestic conditions while negotiating a program with the IMF. Local-currency government bond yields rose (1-year: +403 bps; 10-year: +257 bps); EMBIG spread rose to 3,546 bps. Meanwhile, Sri Lankan rupee depreciated (-0.6%).

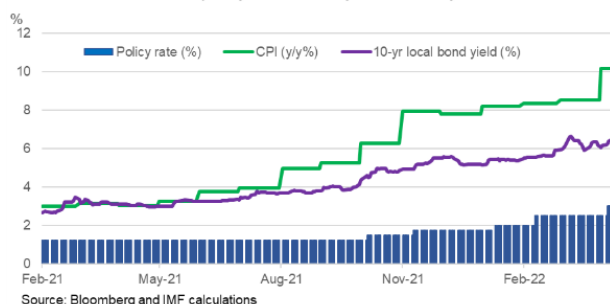
South Africa

South Africa raised \$3 bn in Eurobonds, becoming the third African nation to issue Eurobonds since Russia invaded Ukraine. Yesterday's issuance included \$1.4 bn 10-year securities priced at 5.875% and \$1.6 bn 30-year securities priced at 7.3%. A 2049 Eurobond issued by South Africa in 2019 was priced to yield 5.75%. Yields on the 2049 bond increased to 7% this morning, following a +20 bps increase yesterday. Both Nigeria and Angola issued foreign-denominated debt over the past month.

Romania

Yields increased (10-year yields +7bps) after March inflation surprised on the upside—increasing to +10.2% y/y (consensus expectation 9.6% from 8.5%). Food and energy inflation were the main drivers. Goldman Sachs analysts expect further energy inflation to remain elevated but contained as a result of government measures, but flag further upside risks to food prices. At the most recent monetary policy meeting, the National Bank of Romania increased the benchmark interest rate by +50 bps to 3%. **Analysts see interest rates reaching 5.5% over the next few months and expect inflation to peak at roughly +11% in May.** Separately, the government of PM Nicolae Ciuca agreed on a \$3.7 bn support package, including aid to businesses and vulnerable citizens.

Romania: Headline CPI, policy rate and 10-yr local bond yields

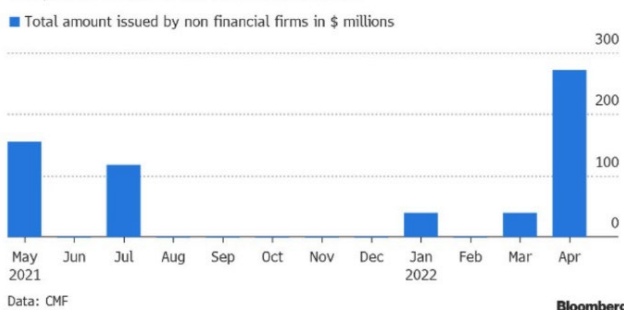


Chile

Local corporate bond issuance returned this month, supported by the central bank's more dovish tone. Chile's central bank raised its key rate by 1.5% on March 29, the minimum expected by analysts, and indicated smaller future increases. In the next seven days, the yield on peso bonds due in 2026 fell by more than 80 bps, attracting some companies back into the local bond market. Then came another inflation shock. On Friday, the statistics agency reported that March consumer prices rose more than expected (+1.9% vs. +1.2% m/m expected) and at the fastest pace in almost 30 years and the yield on peso bonds due 2026 leaped back up 38 points on the same day. Still, the revival in corporate bond issuance may survive the latest inflation shock. Although the inflation data pushes up costs for issuers, it is increasing demand for CPI-linked instruments in the local market. The yield on CPI-linked bonds due in 2026 dropped 17 bps on Friday, extending declines from the week before.

Revival





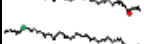



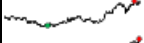







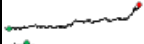




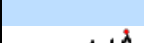


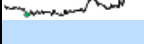
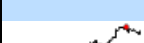


Companies return to the local bond market



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Global Financial Indicators

Last updated: 4/12/22 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4413	-1.7	-4	5	7	-7
Europe		3818	-0.6	-3	4	-4	-11
Japan		26335	-1.8	-5	5	-11	-9
China		4180	1.9	-2	-3	-15	-15
Asia Ex Japan		73	-1.8	-6	3	-21	-11
Emerging Markets		44	-1.2	-5	4	-17	-9
Interest Rates			basis points				
US 10y Yield		2.76	-1.7	22	77	110	125
Germany 10y Yield		0.82	0.4	21	57	111	100
Japan 10y Yield		0.25	0.4	3	6	14	17
UK 10y Yield		1.84	-0.6	19	35	105	87
Credit Spreads			basis points				
US Investment Grade		142	3.3	7	-25	53	30
US High Yield		391	11.1	26	-48	62	54
Europe IG		79	0.3	5	-1	27	31
Europe HY		376	0.9	29	-5	128	135
Exchange Rates			%				
USD/Majors		100.16	0.2	1	1	9	5
EUR/USD		1.09	-0.2	0	-1	-9	-4
USD/JPY		125.5	0.1	2	6	15	9
EM/USD		53.0	0.0	0	6	-6	1
Commodities			%				
Brent Crude Oil (\$/barrel)		103	4.4	-4	-6	72	35
Industrials Metals (index)		208	0.0	-3	-10	45	20
Agriculture (index)		76	1.3	3	2	50	26
Implied Volatility			%				
VIX Index (% change in pp)		24.2	-0.2	3.2	-6.5	7.3	7.0
US 10y Swaption Volatility		129.6	-0.4	16.5	25.9	52.1	50.6
Global FX Volatility		9.1	0.0	0.2	-0.4	1.7	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		207	1.5	2	-27	90	56
Italy		163	-2.4	-2	2	60	28
Portugal		85	-2.8	-5	-1	27	21
Spain		91	-2.5	-7	-8	23	17

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 4/12/2022 8:10 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		2.8	-2.3	-1	2	-43	-2
Indonesia		14366	0.0	-0.1	0	2	-1		6.9	3.1	13	17	36	51
India		76	-0.2	-1.1	1	-1	-2		6.3	0.0	0	9	75	0
Philippines		52	-0.1	-1.7	1	-7	-2		5.3	0.0	0	23	60	78
Thailand		34	0.0	-0.3	-1	-6	-1		2.6	-0.5	20	28	64	74
Malaysia		4.23	0.0	-0.5	-1	-2	-2		4.1	2.9	13	39	101	47
Argentina		113	-0.4	-0.9	-3	-18	-9		50.5	28.4	126	252	482	-3
Brazil		4.68	0.3	-0.6	9	23	19		11.8	6.0	58	-66	214	106
Chile		817	-0.2	-4.6	-2	-13	4		6.6	0.0	46	60	318	120
Colombia		3741	0.5	-0.9	2	-2	9		8.0	0.0	32	-21	271	160
Mexico		19.86	0.4	0.7	5	1	3		8.7	0.0	41	18	198	122
Peru		3.7	-0.1	-1.9	0	-3	8		7.1	0.2	22	41	230	119
Uruguay		41	0.1	-0.3	3	7	7		9.3	0.0	27	90	187	57
Hungary		348	0.0	-0.7	-2	-14	-7		6.5	-15.0	19	71	397	199
Poland		4.28	0.0	-0.6	1	-11	-6		5.3	-11.3	36	68	351	175
Romania		4.5	-0.2	-0.4	-1	-9	-4		6.5	19.5	46	48	382	163
Russia		83.7	-0.3	0.3	44	-8	-10		12.9	62.5	-41	-1839	514	410
South Africa		14.6	-0.1	0.6	4	0	9		8.1	0.0	17	-1	54	65
Turkey		14.69	-0.2	0.2	1	-44	-9		24.8	-6.0	-79	-90	661	49
US (DXY; 5y UST)		100	0.2	0.7	1	9	5		2.77	-1.9	7	82	189	151

	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		4180	1.9	-2	-3	-15	-15		204	-6	-23	-2	1
Indonesia		7215	0.2	1	4	22	10		160	-8	-50	-8	-5
India		58576	-0.7	-3	5	21	1		163	14	-32	2	31
Philippines		6895	-1.3	-4	-3	7	-3		114	-4	-41	17	13
Thailand		1674	-0.2	-2	1	9	1		0	0	0	0	0
Malaysia		1597	-0.5	0	2	0	2		113	-3	-35	-10	-4
Argentina		90630	-1.6	-3	2	88	9		1724	26	-93	132	44
Brazil		116953	0.0	-4	5	-2	12		287	4	-40	18	-24
Chile		4919	0.0	0	6	-1	14		147	5	-30	16	7
Colombia		1631	0.3	0	5	24	16		336	13	-42	119	-12
Mexico		54464	-0.4	-3	2	15	2		348	12	-25	12	16
Peru		24282	0.1	-3	-2	14	15		179	27	-10	32	29
Hungary		41906	-0.2	-4	-2	-3	-17		148	19	-19	15	24
Poland		64012	-0.7	-1	4	7	-8		3	-8	-70	-41	-29
Romania		12627	-0.6	-2	5	13	-3		197	0	-52	13	4
Russia		2499	-2.3	-6	1	-29	-34		3411	-577	938	3228	3234
South Africa		73831	-0.8	-2	0	11	0		335	-17	-43	-9	-20
Turkey		2441	-0.3	5	19	77	31		532	4	-101	31	-46
Ukraine		519	0.0	0	0	-2	-1		3006	215	-1038	2457	2247
EM total		44	0.2	-5	4	-17	-9		379	17	-218	11	-7

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

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