GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 13, 2022

- **US corporate bond funds continue to see outflows** (link)
- **Global ESG fund flows remain positive** (link)
- **UK inflation surprises on the upside** (link)
- **Japanese yen at weakest level in 2 decades** (link)
- **Reserve Bank of New Zealand delivers bigger-than-expected rate hike, but future rate path remains unchanged** (link)
- **War in Ukraine seen to persist into the second half of 2022** (link)
- **Risk premium for Peruvian bonds widens amid political unrest** (link)

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Markets cautious amid the ongoing inflation concerns

European bourses fell and advanced economy yields rose as investors weighed risks from inflation, the war in Ukraine and monitored the start of the new earnings season. Yields on 10-year UK gilts rose the most among advanced economies after March's CPI exceeded expectations. Yesterday, US Treasury yields fell despite headline CPI for March showing the largest annual increase since 1981, in line with expectations. The corporate earnings season kicked-off this morning, with JP Morgan's strong trading results marred by a $524 mn loss tied to the war in Ukraine. In currency markets, the US dollar continued to appreciate while the Japanese yen depreciated and reached its weakest level to the dollar in 20 years, on the back of growing divergence of monetary policy between Japan and other major advanced economies. Elsewhere, the Reserve Bank of New Zealand surprised with a 50 bps hike but no changes in its future rate path. The Bank of Canada is expected to follow with a 50 bps hike later today. In emerging markets, Chinese equities underperformed as Beijing reiterated the dynamic zero strategy to contain the COVID-19 outbreak.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
4/13/22 8:27 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4397	-0.3	-3	5	6	-8
Eurostoxx 50		3793	-1.0	-1	3	-4	-12
Nikkei 225		26843	1.9	-2	6	-9	-7
MSCI EM		44	-0.3	-4	4	-17	-9
Yields and Spreads					bps		
US 10y Yield		2.76	3.4	16	76	114	125
Germany 10y Yield		0.82	3.3	18	57	112	100
EMBIG Sovereign Spread		411	8	25	-85	69	44
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		53.3	0.3	0	6	-6	1
Dollar index, (+) = $ appreciation		100.4	0.1	1	1	9	5
Brent Crude Oil ($/barrel)		106.1	1.3	5	-6	67	36
VIX Index (%, change in pp)		24.2	-0.1	2	-7	8	7

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

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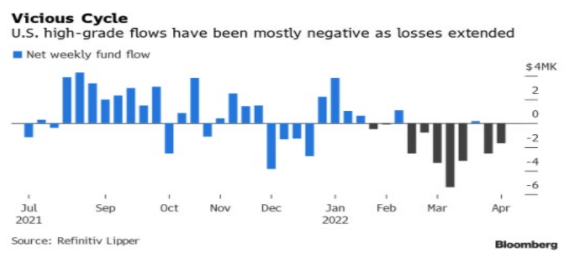
United States

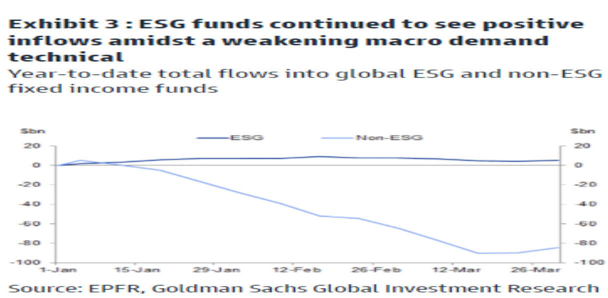
US Treasury yields fell on Tuesday despite headline CPI for March showing the largest annual increase since 1981, in line with expectations. 10-year yields were down by -5.5 bps, reversing some of the yield increases over the past week. The yield curve steepened as 2-year treasury yields were down by -11.5 bps. Speculators, who had bets on further yield rises, rushed to cover their short positions, pushing yields lower. Both market-implied inflation and real rates declined. The market-implied Fed Funds rate for December declined from 2.55% to 2.42%. For May's FOMC, the futures market still prices a near 50 bps hike. In the afternoon, Fed Governor Brainard signaled expectations for a faster pace of policy tightening, endorsing a 50 bps hike in May consistent with other Fed officials. She also said that a decision on the balance sheet could be made as soon as May to start the process in June. **Equities initially traded higher but stalled to finish lower for the day.** Bank shares underperformed ahead of the start of the earnings season. This morning, both **headline and core PPI came higher than expected** (PPI final demand: +1.4% m/m vs. +1.1% cons., +11.2% y/y vs. +10.6% cons; PPI ex food and energy: +1.0% m/m vs. +0.5% cons., +9.2% y/y vs. +8.4% cons.). Market reaction was limited immediately following the release.

Corporate bond funds have continued to see outflows. This year, the investment-grade (IG) bond fund flows have been mostly negative due to worries about rapid monetary policy tightening, geopolitical concerns, fears of an economic slowdown, and decreasing demand from foreign investors. On pricing, IG corporate bond spreads to US Treasuries remain tight by historical standards, partly thanks to lighter issuance volumes this year. But risks of repricing are mounting amid higher risk-free rates, as the cost of borrowing to refinance old debt is increasing.



ESG

Global ESG fund flows remain positive YTD. Although non-ESG fixed income fund outflows were near $85 bn over the last quarter, ESG funds saw inflows of $5 bn, de-coupling from non-ESG fund flows, bucking the trend on the back of continued strong demand for the segment. Goldman Sachs analysts expect that, as the policy environment supports ESG assets, standards and taxonomies will continue to improve, and ESG demand will continue to create its own supply. Based on their analysis, USD and EUR denominated green bonds contain a significant new issue premium, meaning that green bonds are issued at a tighter spread relative to non-green bonds. The premium, or discount available to borrowers, helps absorb the additional costs associated with reporting and disclosure requirements for green bonds.

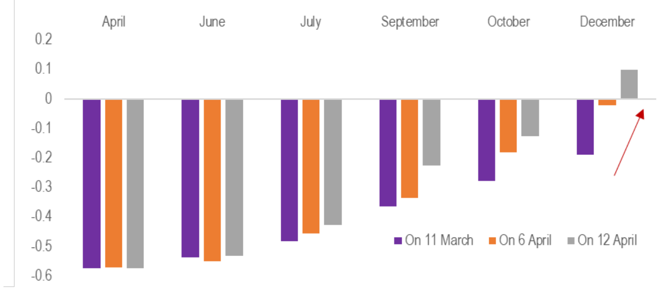


Euro-area

Equity markets were lower, with the energy sector continuing to outperform. **The euro was little changed trading at around 1.08 per dollar** with analysts noting that expectations of escalating tensions in Ukraine, together with higher energy prices and discussions around further sanctions, are weighing on the currency.

Sovereign bond yields increased, with the 10-year bund yield up +3 bps to 0.82%, while Southern spreads were little changed. No policy changes are expected at the ECB meeting tomorrow, with analysts generally expecting further guidance on net asset purchases at the June meeting when new economic forecast data would be available. However, some contacts caution that the recent inflation data could lead to a hawkish press conference. Money markets are pricing in +67 bps of hikes in 2022, compared to +56 bps one week ago.

Implied rates (%) for ECB 2022 meeting dates



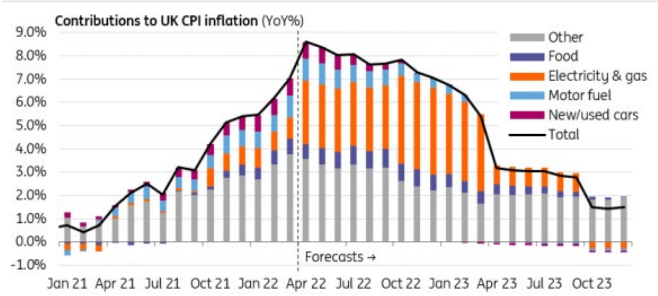
Source: Bloomberg and IMF calculations

On the data front Italy's February industrial production data surprised on the upside, increasing to +3.3% y/y (consensus expectations +0.9% from -2.7%). While the data shows that Italian producers were quite resilient to pre-war supply disruptions, ING analysts notes that interpretation merits caution given commodity prices have already started to erode manufacturing business confidence in March. Separately, **final Spanish inflation data for March (+9.8% y/y) confirmed earlier estimates**.

United Kingdom

March inflation surprised on the upside, reaching another multi-decade high of +7.0 y/y (consensus expectations of 6.7%). Price increases were broad based with petrol prices a significant driver. Core inflation increased to +5.7% y/y, ahead of the expected 5.3%. Analysts expect inflation to peak in April, with JP Morgan analysts seeing a close to +9% y/y peak, when the UK energy regulator's energy cap increases. Price increases are seen to remain high thereafter. **The pound was little changed, gilt yields increased (10-year gilt +5bps) while gains in the FTSE 100 index (+0.3%) were later reversed.**

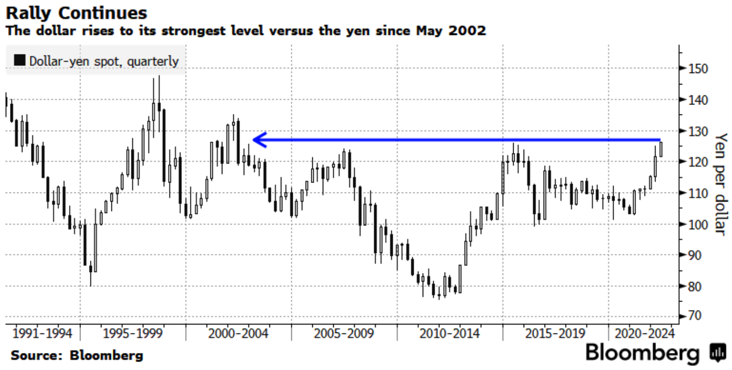
UK inflation unlikely to fall below 7% this year



Source: Macrobond, ING

Overall, analysts continue to expect a +25 bps rate hike by the BoE in May, however, ING analysts cautioned that high inflation numbers could result in expectations for a +50 bps increase. A pause in the hiking cycle is expected around the middle of this year. In contrast, markets are pricing in hikes at each of the next five meetings, **with roughly +30 bps for the May meeting**. The BoE has increased interest rates in the past three consecutive meetings, with the message accompanying the most recent hike placing more emphasis on household income pressures.

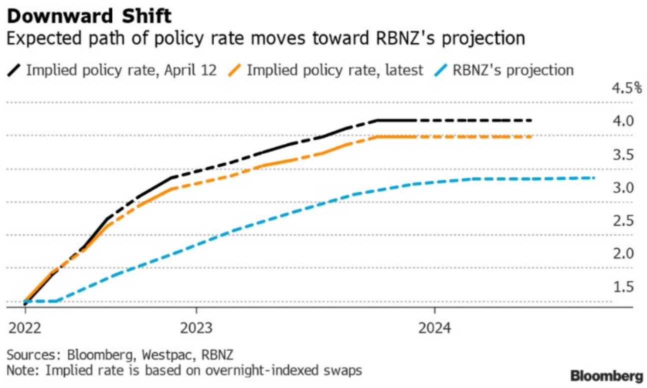
Japan



The Japanese yen continued to depreciate (-0.6%), reaching the weakest level against the dollar in 20 years, on the back of growing divergence of monetary policy between Japan and other major advanced economies. Governor Kuroda reiterated the Bank of Japan's commitment to continue its monetary easing. **Equities rebounded (NIKKEI: +1.9%),** led by electronics and auto makers. Long-end JGB yields dropped (10-year: -0.4 bp; 30-year: -1.4 bps). **Core machinery orders declined 9.8% m/m in February,** the largest in almost two years (consensus: -1.5%), largely driven by service companies. Analysts noted that the economic recovery from the Omicron-driven outbreak may be weaker-than-expected if businesses continue to take a cautious view on spending. **The government explores how to promote financing to startups.** PM Kishida said that the government will seek to direct funds from the Government Pension Investment Fund to startups and venture capital. The government also plans to review the country's IPO process to ensure that startups have access to funding.

New Zealand

The Reserve Bank of New Zealand (RBNZ) delivered a bigger-than-expected rate hike, but its future rate path remains unchanged. The policy rate was raised by 50 bps (consensus: +25bps) to 1.5%; it was a first 50 bps hike in 22 years. Nevertheless, market participants viewed this bigger-than-expected rate hike as dovish as the RBNZ kept the future path of the policy rate unchanged. In particular, the RBNZ indicated that it sees no need to take the policy rate higher than 3.25% at end-2023. The RBNZ also noted that it is appropriate to continue to tighten monetary conditions as inflation is above the target and employment is above its maximum sustainable level. New Zealand dollar depreciated (-1.0%) after appreciating briefly after the policy decision; long-end government bond yields dropped (10-year: -9.0 bps; 20-year: -7.2 bps).



Emerging Markets

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Most Asian equities gained, +1.3% on net, led by Korean (+1.9%) and Taiwan (+1.8%) equities. Meanwhile, Chinese equities declined (CSI 300: -1.0%). Korean equities also benefited from stronger-than-expected unemployment data; the unemployment rate remained unchanged at 2.7% in March (consensus: 3.0%). **Most Asian currencies were little changed** except for Korea won which appreciated (+0.7%) after the finance minister said that the government would take steps to stabilize the current if needed. **Long-end government bond yields generally declined,** with 10-year yields falling in Hong Kong SAR (-8.1 bps) and Singapore (-4.4 bps). **In India,** CPI increased 7.0% y/y in March, larger than expected (consensus: +6.4%). Government bond yields rose (10-year: +2.9 bps**). In Hong Kong SAR**, 470 thousand people applied for pandemic-related unemployment relief, more than the government expected. **EMEA equity markets were mostly trading in positive territory,** with equities in Hungary (+2%) outperforming, while the equity benchmark in South Africa (-0.8%) was trading lower. **EMEA currencies were trading mixed against the dollar. Stock markets were down on Tuesday in Latin America,** with Peru (-1.3%) underperforming. In currencies, the Chilean peso (+1.2%) outperformed, while the Mexican peso (+0.5%) advanced for a fourth straight day.

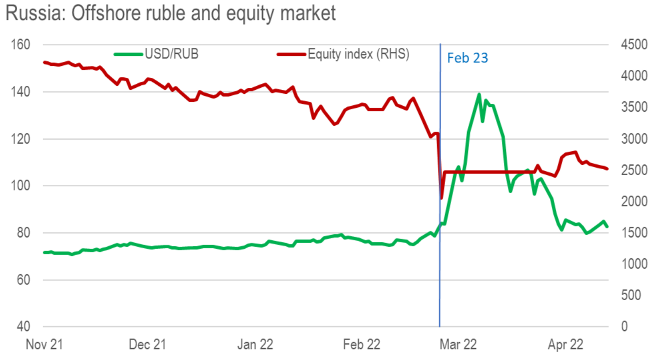
China

Chinese equities declined (CSI 300: -1.0%) as Beijing reiterated the dynamic zero strategy to contain the COVID-19 outbreak. At the same time, eight cities, including Shanghai, will be allowed to shorten the quarantine time in trial for overseas travelers and close contacts with infected individuals. The quarantine period will be reduced to 10 days from 14 days. However, market participants do not see this policy change as a meaningful step towards normalizing economci activity affected by pandemic-related restrictions. **Imports in RMB terms declined 1.7% y/y in March** (consensus: +6.3%), mainly dragged by non-oil ordinary imports, reflecting falling demand and port congestion. In volume terms, imports of major commoditied declined across the board, led by crude oil and iron ore. Meanwhile, exports still grew 12.9% y/y, stronger than expected (consensus: 12.4%). Nevertheless, analysts viewed that a sharp slowdown in April is likely amid escalating lockdowns. The RMB was little changed.

Russia

President Putin said yesterday that peace talks with Ukraine have hit a "dead-end". Contacts expect that the war will persist into the second half of 2022, accompanied by further sanctions. Analysts noted expectations for further restrictions on EU energy imports.

Russia: Offshore ruble and equity market



Source: Bloomberg and IMF calculations

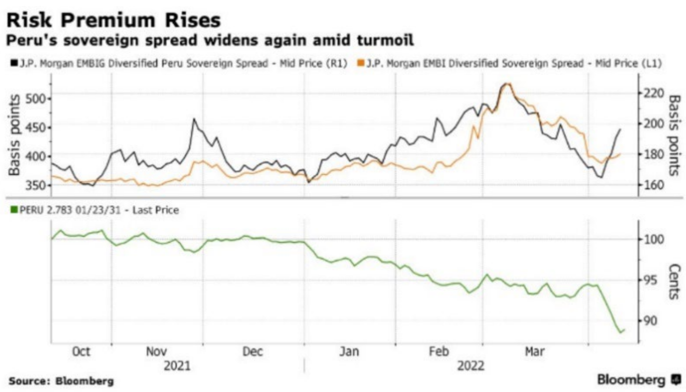
Fitch Solutions analysts noted signs that Central bank of Russia (CBR) is preparing a sustained isolation of the Russian economy. Analysts said that the policy measures taken – including capital controls – have helped the ruble to retrace losses that followed after Russia invaded Ukraine. Following the unscheduled CBR interest rate cut, analysts expect further interest rate cuts in the next quarter to support the Russian economy, with continued reliance on capital controls and high energy prices to limit ruble depreciation. Analysts do not expect the ruble to be freely traded on global markets this year. **This morning the offshore ruble appreciated (+3.8%) while equities in Moscow (-0.3%) fell.**

Turkey

The Turkish lira appreciated modestly (+0.1%) amid reports of a plan that aims to increase reserves. An official reportedly said that Turkey plans to increase the rate at which exporters are forced to convert hard currency revenue into lira to 40%, from the current 25%, according to Bloomberg. A change in the measure would require approval from the Treasury and the Finance Ministry, but contacts do not expect a push back. **Analysts expect the central bank of Turkey to leave interest rates unchanged at 14% tomorrow,** with some contacts noting expectations for monetary policy tightening by the end of the year.

Peru

The risk premium for Peruvian bonds has widened amid political unrest. The price of government bonds due in 2031 have tumbled 5.5 cents since early last week to nearly an all-time low at 89 cents on the dollar on Tuesday. The risk premium for Peru's bonds over US Treasuries is at 194 bps, versus 165 a week prior, according to JP Morgan estimates. At the same time, President Castillo is struggling to deal with a wave of social unrest amid quickening inflation exacerbated by the war in Ukraine. There is mounting pressure for Castillo to resign, with investors increasingly worried about the stability of the country. Peru's dollar bonds are the second-worst performing globally in April so far.



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Global Financial Indicators

Last updated: 4/13/22 8:26 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4399	-0.3	-2	5	6	-8
Europe		3793	-1.0	-1	3	-4	-12
Japan		26843	1.9	-2	6	-9	-7
China		4140	-1.0	-3	-1	-17	-16
Asia Ex Japan		73	-0.3	-4	3	-21	-12
Emerging Markets		44	-0.3	-4	4	-17	-9
Interest Rates					basis points		
US 10y Yield		2.76	3.4	16	76	114	125
Germany 10y Yield		0.82	3.3	18	57	112	100
Japan 10y Yield		0.24	-0.5	-1	6	13	17
UK 10y Yield		1.87	7.1	17	38	110	90
Credit Spreads					basis points		
US Investment Grade		145	0.5	8	-21	54	33
US High Yield		399	0.8	26	-40	62	61
Europe IG		79	1.8	4	-1	28	32
Europe HY		379	9.3	20	-2	130	138
Exchange Rates					%		
USD/Majors		100.41	0.1	1	1	9	5
EUR/USD		1.08	-0.1	-1	-1	-9	-5
USD/JPY		126.0	0.5	2	7	15	9
EM/USD		53.3	0.3	0	6	-6	1
Commodities					%		
Brent Crude Oil ($/barrel)		106	1.3	5	-3	76	39
Industrials Metals (index)		211	0.4	-1	-8	46	22
Agriculture (index)		76	-0.5	3	1	47	25
Implied Volatility					%		
VIX Index (%, change in pp)		24.2	-0.1	2.1	-6.6	7.5	7.0
US 10y Swaption Volatility		120.0	1.0	-1.7	16.3	43.2	41.0
Global FX Volatility		9.0	0.0	-0.1	-0.5	1.8	1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		205	-1.5	-6	-29	84	53
Italy		161	-1.2	-5	1	57	26
Portugal		99	13.0	8	14	42	35
Spain		93	0.7	-6	-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: 4/13/2022 8:11 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.37	0.0	-0.1	0	3	0		2.8	1.6	2	4	-34	0
Indonesia		14363	0.0	0.0	0	2	-1		6.9	4.4	14	21	34	55
India		76	-0.1	-0.6	1	-1	-2		6.3	0.0	0	9	75	0
Philippines		52	0.1	-1.2	1	-7	-2		5.3	0.0	0	23	60	78
Thailand		34	0.1	0.2	0	-6	-1		2.6	-0.5	20	28	64	74
Malaysia		4.23	0.0	-0.4	-1	-2	-2		4.0	-2.3	4	37	93	45
Argentina		113	-0.2	-0.9	-3	-18	-9		50.1	-46.0	53	206	433	-49
Brazil		4.66	0.3	1.2	10	23	19		11.7	-8.3	32	-103	206	98
Chile		806	1.4	-2.4	1	-12	6		6.5	-1.0	17	43	301	103
Colombia		3751	-0.3	-0.3	1	-2	8		7.9	0.0	40	-29	268	152
Mexico		19.77	0.2	2.0	6	2	4		8.7	-3.3	38	14	194	119
Peru		3.7	-0.4	-0.9	0	-3	7		7.2	0.0	29	54	242	131
Uruguay		41	0.5	0.3	3	7	8		9.3	-0.2	26	90	187	57
Hungary		349	-0.1	-0.2	-2	-14	-7		6.4	-9.0	-20	56	386	184
Poland		4.29	0.0	-0.1	1	-11	-6		5.3	-2.0	30	71	359	178
Romania		4.6	0.0	-0.6	-1	-10	-5		6.4	-0.9	33	47	381	162
Russia		82.3	3.2	0.2	47	-8	-9		12.9	6.6	-74	-1834	533	415
South Africa		14.5	0.2	1.2	4	0	10		8.0	2.5	7	-5	51	60
Turkey		14.59	0.0	0.8	1	-44	-9		24.0	-40.0	-221	-172	577	-33
US (DXY; 5y UST)		100	0.1	0.8	1	9	5		2.68	-0.8	0	73	185	142

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
								basis points					
China		4140	-1.0	-3	-1	-17	-16		207	3	-20	1	4
Indonesia		7263	0.7	2	4	20	10		174	18	-36	10	9
India		58339	-0.4	-2	3	20	0		165	19	-30	2	33
Philippines		6985	1.3	-2	2	7	-2		121	15	-34	25	20
Thailand		1674	0.0	-2	1	9	1		0	0	0	0	0
Malaysia		1597	0.0	0	2	0	2		115	7	-33	-9	-2
Argentina		90346	-0.3	-2	2	89	8		1734	18	-83	170	54
Brazil		116147	0.0	-2	4	-3	11		289	14	-38	17	-22
Chile		4909	0.0	-1	6	0	14		148	11	-29	17	8
Colombia		1626	-0.3	0	5	24	15		342	25	-36	123	-6
Mexico		53907	-1.0	-3	1	13	1		347	13	-26	13	15
Peru		23957	-1.3	-4	-3	12	13		176	24	-13	22	26
Hungary		42588	2.0	2	-1	-1	-16		160	36	-7	28	36
Poland		63929	0.1	-1	4	8	-8		12	3	-61	-30	-20
Romania		12696	0.6	0	5	14	-3		205	8	-44	22	13
Russia		2532	-0.4	-3	2	-28	-33		3411	-577	938	3228	3234
South Africa		73153	-0.9	-2	-1	9	-1		340	4	-38	-3	-15
Turkey		2483	0.8	7	21	80	34		540	20	-93	41	-38
Ukraine		519	0.0	0	0	-2	-1		3088	237	-956	2520	2329
EM total		44	0.4	-4	4	-17	-9		386	27	-211	19	-1

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

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