



- China cuts banks' required reserves but surprises by holding policy rates ([link](#))
- US long-term rates jump higher, reaching new multi-year high ([link](#))
- European sovereign yield curves steepen as ECB reinforces Q3 end to APP ([link](#))
- Euro area corporate credit quality improves amid stronger balance sheets ([link](#))
- European natural gas prices fall to lowest level since start of Ukraine war ([link](#))
- Latin American central banks becoming more dovish relative to expectations ([link](#))

[Mature Markets](#)




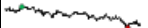
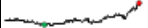






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Government bonds slide further amid thin pre-holiday liquidity

Sharp moves in bond markets took center stage yesterday at the end of a holiday-shortened week. In the US, long-end yields rose sharply on Thursday (+13 bps) on elevated import prices and a key Fed official's endorsement of a 50-bp hike in May. In the euro area, bund yields rose 7 bps on the ECB Governing Council's strong affirmation of its intention to end its bond-buying program in Q3. Stocks slipped in the US on tech sector underperformance. Many markets around the globe are closed today for the Easter holiday, and thin pre-holiday liquidity was cited as exacerbating bond moves. In Asia, Chinese authorities cut banks' required reserve ratios, as was widely anticipated, but declined to cut policy interest rates, disappointing market expectations for stronger easing measures. Local currency government bond yields rose slightly.

Key Global Financial Indicators

Last updated: 4/15/22 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4393	-1.2	-2	3	5	-8
Eurostoxx 50		3849	0.5	1	3	-4	-10
Nikkei 225		27093	-0.3	0	1	-9	-6
MSCI EM		44	-1.3	-1	6	-18	-9
Yields and Spreads			bps				
US 10y Yield		2.83	0.0	13	68	125	132
Germany 10y Yield		0.84	7.6	16	47	110	102
EMBIG Sovereign Spread		403	-9	8	-85	61	36
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.1	0.1	0	4	-7	1
Dollar index, (+) = \$ appreciation		100.5	0.1	1	1	10	5
Brent Crude Oil (\$/barrel)		111.7	2.7	11	4	68	44
VIX Index (% change in pp)		22.7	0.9	1	-7	6	5

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

Mature Markets

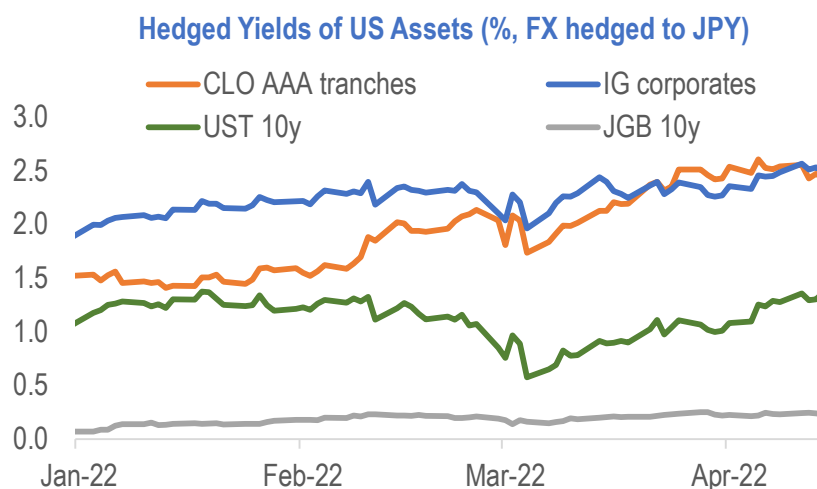
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United States

Treasury yields rose sharply across the curve, with the 10-year note up by 13bps to 2.83%, the highest since 2018. The yield rise was exacerbated by poor liquidity conditions ahead of the long Easter weekend and early bond market closure at 2 pm EST. The outsized move was linked to the higher-than-expected March import prices, stronger University of Michigan consumer sentiment, and New York Fed president Williams' comment endorsing a 50bps hike in May.

US equities traded lower with the rate-sensitive tech sector underperforming. The Nasdaq index was down 2.2% for the day. Large-cap investment banks reported better-than-expected trading revenue amid war-induced volatility, while investment banking fees were down as stock underwriting businesses slowed down, including SPACs.

Currency-hedged yields of US assets become more attractive for foreign investors despite higher hedging costs. Japanese investors typically hedge FX risks with short-term FX swaps on a rolling basis, and the costs have been more expensive given the recent rise in US money market rates. Nevertheless, FX-hedged yields of US assets in Japanese yen have been increasing thanks to credit spreads widening and yield curve steepening, offering more attractive opportunities for investors relative to Japanese government bonds, which yield only 0.2%. Floating coupon CLO tranches are particularly attractive given the prospect of higher money market rates in the coming years.

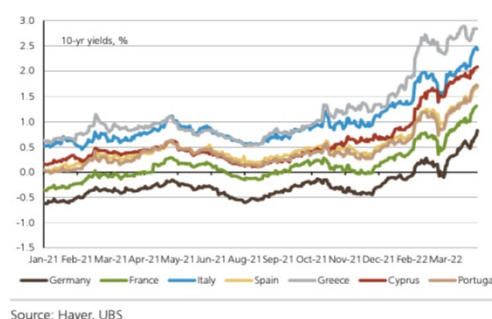


Source: Bloomberg, IMF staff calculation

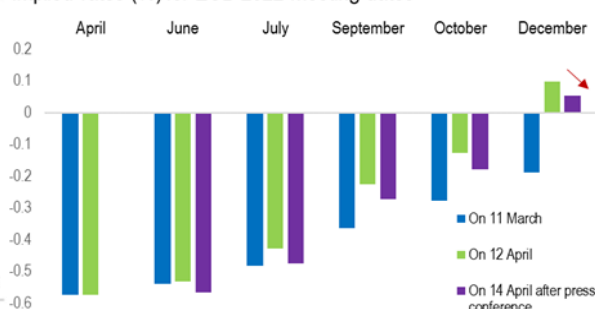
Euro area

Long-end European sovereign bond yields closed higher yesterday following the ECB statement and press conference that reinforced expectations that the asset purchase program (APP) would most likely conclude in Q3. Without pre-committing to a more precise end-date to the APP, the meeting statement and press conference signaled that incoming data provided a much stronger affirmation of the Governing Council's expectations for the APP to end in Q3. Ten-year bund yields rose 7 bps and the yield curve steepened, while Italian bonds' spreads to bunds widened (+3 bps) back above 160 bps. The euro depreciated intraday to 1.076 against the dollar, a level last seen in May 2020, but recovered to trade roughly -0.8% lower on the day. **Markets scaled back interest rate hike expectations slightly**, with roughly +62 bps now priced in for end-2022 compared to roughly +69 bps prior to the meeting, as ECB President Lagarde insisted on *gradualism* before getting to policy rate hikes. **Major European equity markets are closed today for Good Friday.**

Figure 4: European 10y yield, %



Implied rates (%) for ECB 2022 meeting dates



Despite recent ECB communication that net asset purchases could end in Q3 of this year, European investment grade (IG) corporate credit spreads have compressed and have moderately outperformed US IG corporate credit more recently. Contacts note that the resilience in European IG credit has likely been driven by the technical tailwind from ongoing ECB net purchases having so far outpaced net IG issuance this year, a backdrop that is less likely to persist as the ECB slows purchases.

Exhibit 5: EUR IG spreads have recently outperformed their USD peers

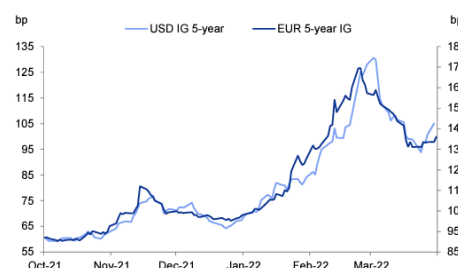
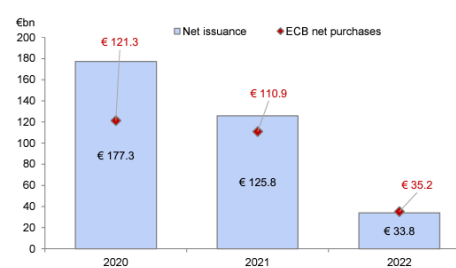
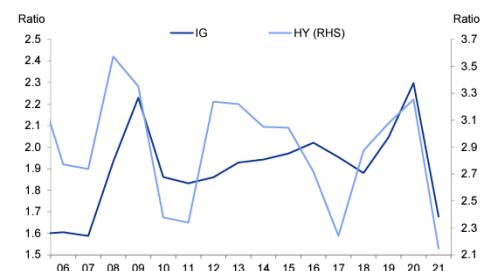


Exhibit 6: The ECB's net purchases have absorbed the entirety of this year's net supply



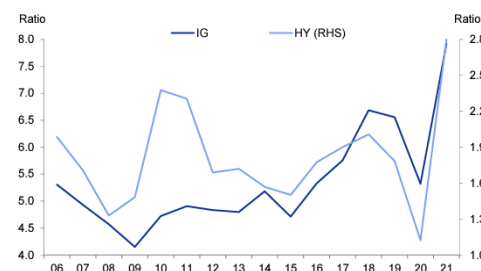
European corporate credit quality has improved as balance sheets have strengthened. At the end of last year, net leverage, as captured by the ratio of net debt to EBITDA, for European-domiciled non-financial investment grade and high yield corporations declined to its lowest level since 2006. Similarly, interest coverage ratios jumped to their highest level since 2006, while cash balances also increased further after an already sizable upward move in 2020. Although corporate credit fundamentals have improved, many credit strategists note that downside risks to growth loom large in the Euro area. Coupled with the potential for persistent upward pressure on prices, these factors could weigh on profitability and ultimately damage credit quality.

Exhibit 2: Net leverage among European-domiciled companies ended 2021 at the low end of its historical range
Net debt to EBITDA ratio for the median IG and HY-rated non-financial corporations domiciled in Europe

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 3: Debt servicing capacity in Europe is the strongest it has ever been

Interest coverage ratio for the median IG and HY-rated non-financial corporations domiciled in Europe



Source: FactSet, Goldman Sachs Global Investment Research

Commodities

European natural gas prices fell sharply (-13% to €90/MWh), close to reversing all its gains since the start of the invasion (€87.5 on February 23), as trading declined ahead of Easter. Traders note that trading and demand typically declines ahead of the holidays, and according to reports the end of some outages in Norway also boosted deliveries. While these factors seemingly overshadowed comments from Putin that the EU does not have an immediate alternative to Russian gas, focus remains on supplies from Russia and its demand for gas payments in rubles. Putin reportedly warned today that some natural gas customers were falling behind on payments.



Emerging Markets

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In Asia, equities were generally lower and currencies were mixed after the PBOC surprised markets by declining to cut policy interest rates. Local currency bond yields rose slightly in China and Malaysia, among the few bond markets open.

In EMEA, major equity indices and exchange rates were mostly little changed. The Russian ruble gained 1.4% versus the US dollar amid an oversupply of foreign currency due to severe capital controls, depressed imports, and high commodity prices. Bloomberg also reports that Russia's Energy Ministry and Industry Ministry are working on introducing restrictions on exports of coking coal as a measure to decrease coal prices on the domestic market.

In Latin America, some local markets bucked the downward US trend and posted small gains despite the selloff in the US Treasury market. However, currencies were weaker across the board and government bond yields were higher. Stock markets were mixed, with Argentina (+0.8%) and Mexico (+0.5%) gaining, while Peru (-1%), Colombia (-0.7%) and Brazil (-0.5%) slightly slid.

China

The PBOC cut its Reserve Requirement Ratio (RRR) by 25 bps but disappointed market expectations for a policy rate cut. Smaller banks were granted an RRR cut of 50 bps. An RRR cut had been widely signaled by the State Council in recent days and was widely expected. The 25 bps cut was smaller than anticipated by market participants. The PBOC also declined to cut its policy rate at its regularly scheduled Medium Term Lending facility earlier in the trading day. Yields on 10-year government bonds rose 1 bp after the announcement and closed over 2 bps higher on the day. **The PBC also was reported to urge banks to cut their deposit rate by 10 bps.** While not mandatory, compliance would be reflected in banks' scores on their quarterly macroprudential assessment.

Local government special bond (LGSB) issuance has surged in 2022, well ahead of previous years.

Analysts at Bank of America contend that the authorities will try to compensate for the slump in the property sector by ramping up spending on fixed asset investment (FAI) in infrastructure. They hope to increase investment demand and add to GDP growth. Headline FAI was up noticeably in the early part of the year. The analysts expect infrastructure spending to grow by 10% this year, pushing up aggregate FAI by 5%. However, there are regulatory limits to the amount of funding that can be raised by local governments.

Exhibit 6: FAI breakdown by key sector
FAI growth rebounded during Jan-Feb

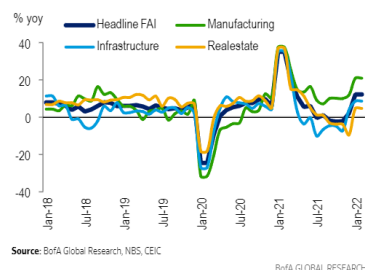
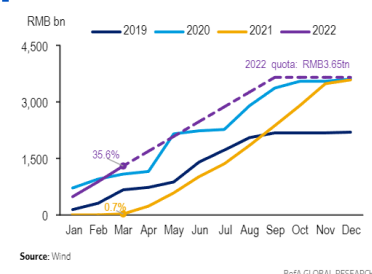


Exhibit 7: LGSB new issuance volume and pace

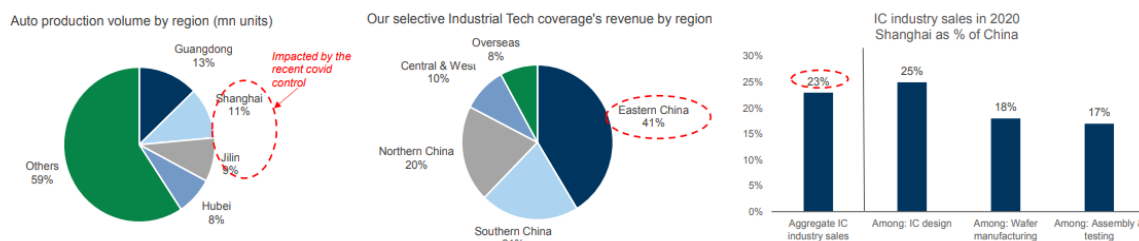
Local government special-purpose bond (LGSB) issuance ytd has significantly outpaced that of the previous years



In addition, the lockdowns in Shanghai and other parts of eastern China will slow down the recovery, as this region is a major source of high end manufacturing, especially for automobiles and semiconductors. Jilin province and Shanghai account for 20% of China's automobile manufacturing, while Shanghai accounted for 23% of semiconductor sales in 2020. Goldman analysts find that eastern China (including Anhui, Jiangsu, and Fujian provinces) accounts for 41% of the revenue of the Chinese companies they cover.

Exhibit 4: Shanghai and Eastern China are key hubs for China's high-end manufacturing

Shanghai/Eastern China's significance in auto, semiconductor, and industrial tech industries, data as of 2020

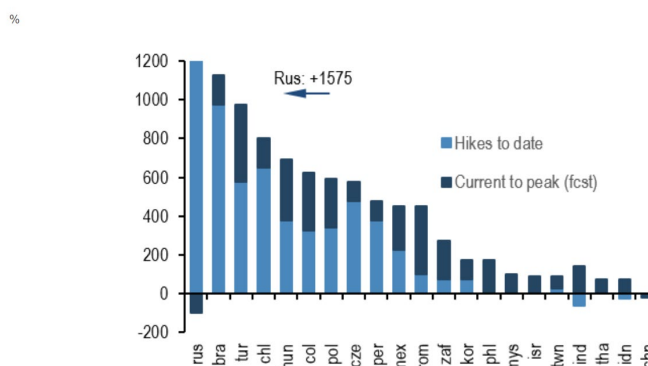


Source: CPCA, CSIA, Company data, Gao Hua Securities Research, Goldman Sachs Global Investment Research

Latam Central Banks

Latin American central banks have become more dovish relative to market expectations. Rate hikes in a number of countries came in lower than market and analysts' forecasts. Recent examples include Chile (a 150 bps hike) and Peru (a 100 bps hike), while the central bank of Brazil came out earlier with dovish rhetoric signaling that they might end their current rate hike cycle in May. A number of these central banks had been hiking aggressively over the past 18 months to get ahead of the anticipated surge in inflation, which gives them more breathing space to be flexible about policy now that the global rebound is slowing. They have also benefited from the massive rally in commodity prices, as many of them are commodity exporters. Most regional currencies have seen significant appreciation, with the real the best performing currency in the world this year (up 18% versus the dollar). Peru (+7%) and Colombia (+8%) are other prominent examples.

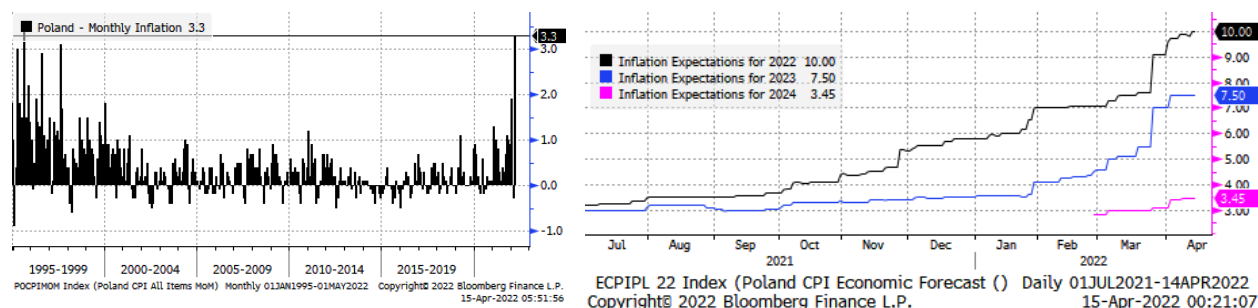
Exhibit 7: EM policy rate forecasts



Source: J.P. Morgan

Poland




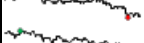
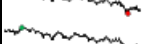











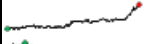




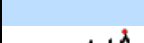

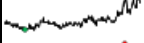
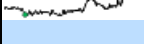


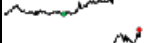
March inflation was 3.3% mom and 11.0% yoy, the highest monthly and annual figures in at least two decades (left chart below). The preliminary monthly figure for March stood at 3.2% and substantially exceeded the surveyed expectations (2.5%), which were already elevated, reflecting the ongoing upward trend in inflation expectations. The concerns about de-anchoring inflation are exacerbated by the medium-term expectations (right chart) being considerably above the inflation targeting tolerance band, despite market analysts' consensus that further monetary policy tightening is inevitable. The central bank governor attributed the spike in inflation to the war in Ukraine.



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Global Financial Indicators

Last updated: 4/15/22 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4393	-1.2	-2	3	5	-8
Europe		3849	0.5	1	3	-4	-10
Japan		27093	-0.3	0	1	-9	-6
China		4189	-0.1	-1	-2	-16	-15
Asia Ex Japan		73	-1.3	-2	5	-22	-11
Emerging Markets		44	-1.3	-1	6	-18	-9
Interest Rates			basis points				
US 10y Yield		2.83	0.0	13	68	125	132
Germany 10y Yield		0.84	7.6	16	47	110	102
Japan 10y Yield		0.24	1.0	1	4	15	17
UK 10y Yield		1.89	9.0	16	30	109	92
Credit Spreads			basis points				
US Investment Grade		144	0.1	6	-20	52	32
US High Yield		388	0.1	8	-57	54	51
Europe IG		79	0.0	2	-1	29	31
Europe HY		375	0.0	3	-3	131	133
Exchange Rates			%				
USD/Majors		100.46	0.1	1	1	10	5
EUR/USD		1.08	-0.1	-1	-1	-10	-5
USD/JPY		126.5	0.5	2	7	16	10
EM/USD		53.1	0.1	0	4	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		112	2.7	11	8	79	46
Industrials Metals (index)		212	0.4	0	-6	43	23
Agriculture (index)		77	-0.1	4	2	45	26
Implied Volatility			%				
VIX Index (% change in pp)		22.7	0.9	1.2	-7.1	6.1	5.5
US 10y Swaption Volatility		118.1	0.0	-6.9	18.2	43.9	39.1
Global FX Volatility		8.9	0.0	-0.1	-0.9	1.7	1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		208	0.7	-12	-25	88	56
Italy		164	3.3	-5	7	62	29
Portugal		99	-0.5	6	16	32	35
Spain		94	0.2	-6	-4	27	20

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 4/15/2022 8:16 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		6.37	0.1	-0.1	0	2	0		2.8	-0.5	-1	-7	-37	-2
Indonesia		14381	-0.3	-0.1	0	2	-1		6.9	-0.2	15	21	35	55
India		76	-0.1	-0.6	1	-1	-2		6.3	0.0	0	9	75	0
Philippines		52	-0.3	-1.5	1	-7	-2		5.3	0.0	0	23	60	78
Thailand		34	0.2	-0.1	0	-7	-1		2.6	-0.5	20	28	64	74
Malaysia		4.24	-0.1	-0.3	-1	-3	-2		4.1	5.1	9	40	100	49
Argentina		113	-0.2	-1.0	-3	-18	-9		50.1	0.0	-1	218	415	-42
Brazil		4.70	-0.2	1.1	9	20	19		12.1	19.0	56	-62	241	140
Chile		817	-1.3	-1.3	0	-13	4		6.5	0.0	-9	54	314	104
Colombia		3741	-0.5	0.7	2	-2	9		7.9	0.0	-6	-10	273	149
Mexico		19.97	0.0	0.4	4	0	3		8.7	-3.3	26	11	197	116
Peru		3.7	0.0	-0.8	0	-3	7		7.3	7.8	36	61	244	139
Uruguay		41	0.1	1.9	3	7	8		9.3	0.0	26	90	192	57
Hungary		347	0.1	0.0	-2	-14	-7		6.2	-4.0	-56	40	381	168
Poland		4.29	0.0	-0.6	0	-11	-6		5.3	-0.3	-3	75	358	176
Romania		4.6	-0.2	-0.6	-1	-10	-5		6.4	-1.1	19	43	375	160
Russia		81.9	0.3	-1.8	29	-7	-8		12.3	0.0	124	-2250	483	351
South Africa		14.7	0.0	-0.1	3	-3	9		8.1	2.0	11	-2	64	63
Turkey		14.64	-0.2	0.8	0	-45	-9		23.7	-36.0	-170	-212	568	-60
US (DXY; 5y UST)		100	0.1	0.7	1	10	5		2.79	0.0	3	68	197	152

	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		4189	-0.1	-1	-2	-16	-15		206	2	-22	-4	3	
Indonesia		7236	0.0	2	5	19	10		161	6	-41	-6	-4	
India		58339	0.0	-2	3	20	0		171	16	-26	1	39	
Philippines		6985	0.0	-2	2	7	-2		116	10	-37	18	15	
Thailand		1674	0.0	-2	1	9	1		0	0	0	0	0	
Malaysia		1589	-0.4	-1	0	-1	1		114	2	-31	-12	-3	
Argentina		91041	0.8	0	7	92	9		1688	-17	-120	132	8	
Brazil		116182	0.0	-2	7	-4	11		274	-7	-51	2	-37	
Chile		4917	-0.1	-1	6	-1	14		141	2	-31	8	1	
Colombia		1615	-0.7	-1	6	22	14		342	22	-31	123	-6	
Mexico		54173	0.5	-2	3	12	2		341	2	-28	7	9	
Peru		23712	-1.0	-4	-2	11	12		163	-2	-22	8	13	
Hungary		42999	0.0	3	0	1	-15		145	-2	-11	8	21	
Poland		63760	0.0	0	5	6	-8		8	5	-44	-30	-24	
Romania		12972	1.0	2	5	17	-1		197	-7	-46	6	4	
Russia		2404	0.0	-7	#N/A	N/A	-33		3411	-577	938	3228	3234	
South Africa		73383	0.0	-1	4	8	0		332	4	-36	-7	-23	
Turkey		2482	0.3	4	19	76	34		513	-21	-106	23	-65	
Ukraine		519	0.0	0	0	-2	-1		3188	234	-726	2641	2429	
EM total		44	-0.1	-1	6	-18	-9		375	8	-214	11	-11	

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

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