



- US inflation to start hurting corporate earnings growth ([link](#))
- Analysts see increased likelihood of US recession in 2023–2024 ([link](#))
- Markets expect euro area inflation to peak in September 2022 ([link](#))
- Japanese yen falls for 13th straight day as verbal defense fails to halt losses ([link](#))
- President Macron maintains lead in polls ahead of debate ([link](#))
- People's Bank of China announced measures to support the economy ([link](#))
- Russia reportedly planning legal action over sanctions on reserves ([link](#))

[Mature Markets](#)




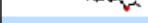




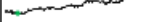


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Inflation worries drag down markets

Global equities are lower this morning, and sovereign bond yields are higher, as inflation concerns increase expectations for central bank actions. In a speech Monday, St. Louis Fed president Bullard said that, while not his base case, a 75 bp hike cannot be ruled out, and the Fed should act quickly to raise rates to around 3.5%. Markets currently price nearly two full hikes (49 bp) for the upcoming May FOMC meeting. In the euro area, headline inflation is expected to peak in September of this year, while the 5y5y forward inflation swap has risen to 2.39%, its highest level since 2012 and a rise of 87 bp over the past year. While European equities and US futures are lower this morning, Japanese equities rose as the yen depreciated for the 13th straight day, the longest streak in more than half a century. Russia has indicated it plans to take legal action over the sanctions on its international reserves and is considering additional actions in response to sanctions.

Key Global Financial Indicators

Last updated: 4/19/22 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4392	0.0	-2	-2	5	-8
Eurostoxx 50		3811	-1.0	-1	2	-5	-11
Nikkei 225		26985	0.7	2	1	-7	-6
MSCI EM		44	-0.3	-2	-3	-19	-10
Yields and Spreads			bps				
US 10y Yield		2.88	2.3	15	73	127	137
Germany 10y Yield		0.93	8.7	14	56	116	111
EMBIG Sovereign Spread		403	0	-1	-56	66	36
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.2	0.0	0	3	-7	1
Dollar index, (+) = \$ appreciation		100.9	0.1	1	3	11	5
Brent Crude Oil (\$/barrel)		111.6	-1.4	13	3	66	44
VIX Index (% change in pp)		22.4	0.3	-2	-1	5	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

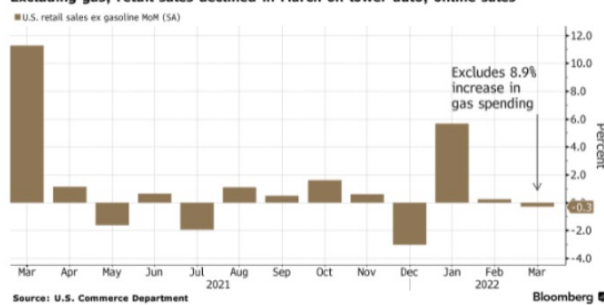
Yesterday, price action across equities and bonds was limited: the S&P500 closed unchanged, UST 10Y yields rose by 1 bps. The US Dollar appreciated against major currencies (+0.3%).

Morgan Stanley reports that the positive effects from inflation on earnings growth for U.S. firms have peaked as rising costs trim their margins, while price pressures hit consumers and dampen growth prospects. Retailers expect slowing sales and a decrease in consumer confidence, with lower-income customers spending less as food prices surge. Energy remains one of the key components of the price pressure: yesterday, U.S. natural gas prices surged to a 13-year high on the global supply crunch (left chart below). Previously, the Commerce Department showed that U.S. retail sales ex-gasoline fell by 0.3% in March (even before adjusting for inflation) as vehicle and e-commerce purchases declined (right chart).

Sky-High
U.S. natural gas surges to highest since 2008 on strong exports, low stockpiles

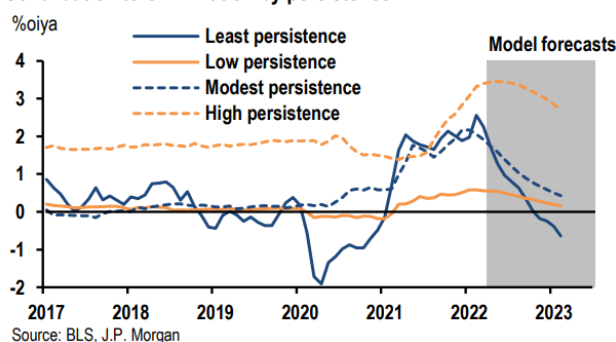


Inflation Impact
Excluding gas, retail sales declined in March on lower auto, online sales



Goldman Sachs analysts estimate the probability of a recession in the US at about 35% over the next two years, as the chances of the Fed's soft landing get reduced amid high and persistent inflation. Similarly, a Bloomberg survey conducted in the first week of April showed increasing odds of a U.S. recession in the next 12 months: 27.5% surveyed economists expecting a contraction versus 20% in a survey conducted a month earlier. While there were historical instances of a soft landing, the persistency of inflation is what makes it especially challenging. Previously, JPMorgan analysts broke down the components of US inflation (chart below): the components with the highest persistence (e.g., tenants' and owners' equivalent rent) are the largest contributors and are expected to outweigh the fading of the least persistent components (e.g., gasoline) in coming years.

Contribution to CPI inflation by persistence



Euro area

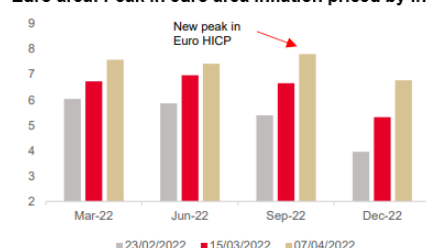
German 10-yr bund yields rose 9 bps and equities (-0.8%) fell as trading resumes after the Easter break. Sovereign spreads are 2–3 bps tighter. Bank equities (-0.2%) traded with a cautious tone.

According to polls, president Macron is maintaining his lead over Le Pen ahead of tomorrow's debate. All polls carried out since the first-round vote have shown president Macron leading between seven and twelve points (and president Macron leads Le Pen 54.5% to 45.5% in the latest Ifop poll). Nevertheless, analysts at Citi attribute only a 65% subjective probability to a win by President Macron with contacts pointing out that turn-out remains hard to predict and believing that tomorrow's debate could change perceptions again.

Money markets are pricing in a hike of 10 bps by the ECB on 21 July (and 57 bps of hikes for 2022) as analysts continue to adjust their inflation outlook for euro area inflation higher. The ECB's quarterly Survey of Professional Forecasters (released on Friday) shows that analysts revised inflation expectations by 3 pp to 6% for 2022, and by 0.6pp to 2.4% for 2023. Inflation expectations for 2024 are unchanged at 1.9%. Expectations for "longer-term inflation expectations" averaged 2.1%, a revision from 2.0%. GDP growth expectations were revised down for 2022 and 2023 and slightly up for 2024, to stand at 2.9%, 2.3% and 1.8%, respectively.

Inflation swaps are pricing euro area headline inflation to peak at just under 8% y/y in September, according to SocGen. Analysts warn that upside risks for power and energy prices remain. April's final release for euro area inflation (on Thursday) is expected to show a high of 7.5% y/y from 5.9% in February.

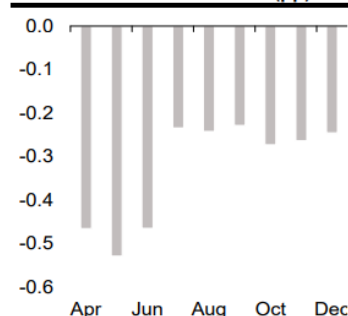
Euro area: Peak in euro area inflation priced by inflation swaps



Source: SocGen

The peak in euro area inflation will also depend on the extent to which governments will limit the pass-through of energy prices into headline inflation. So far, several governments have used monetary transfers and VAT cuts to limit the transmission of higher energy prices to households. Germany has cut fuel taxes on petrol by €0.30 per liter and on diesel by €0.14 per liter in April. France has capped the increase in electricity prices at 4% y/y in February and implemented a €0.15 rebate per liter of petrol or diesel between April to July. Italy has also reduced its excise duty on petrol and diesel by €0.25 for April, cutting fuel prices by 14%. Spain and Portugal are negotiating with the EU commission to cap natural gas prices at €30/MWh, possibly from May till December.

Cumulative impact of government measures on euro area HICP (pp)

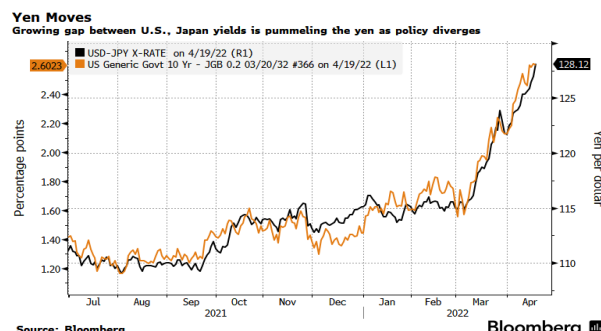


Source: SG Cross Asset Research/Economics

Italian PM Draghi has called for a ceiling on the price for Russian natural gas to both strengthen sanctions and minimize the economic cost for European countries. Italy also signed a new deal with Algeria that could turn Algeria into the largest provider of natural gas to Italy.

Japan

The Japanese yen continued depreciating (-0.8%), as stepped-up verbal defense of the currency failed to avert the depreciation. The Japanese yen has been depreciating for 13 straight days, the longest streak in at least half a century. Today's sharp depreciation put the yen at 128 yen per dollar, the weakest level since 2002. Finance Minister Suzuki said that authorities are monitoring the FX market with a strong sense of vigilance while indicating that the impact of the rapid depreciation of Japanese yen could be harmful for the economy. Market participants see low risk of FX interventions and view the growing monetary policy divergence as a key driver for the weakening yen. Equities gained (NIKKEI: +0.7%). Long-end JGB yields were mixed (10-year: +0.2 bp; 30-year: -0.6 bp).



Emerging Markets

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Asian equities were mixed, falling 1.1% on net. Korean equities (+1.0%) gained, while share prices dropped in Hong Kong SAR (-2.3%), China (CSI 300: -0.8%), and Indonesia (-0.8%). Most Asian currencies depreciated, led by the Philippine peso (-0.4%) which faced depreciation pressures prompted by weaker-than-expected overseas cash remittances. In Korea, Bank of Korea (BOK) governor nominee Rhee said that the BOK should adjust its monetary policy accommodation at an appropriate speed to promote price stability while not hurting economic growth. The Korean won depreciated (-0.2%); 10-year government bond yield dropped (-2 bps). **EMEA equities were mostly trading** lower with equities in Russia (-2.9%) and Serbia (-2.3%) underperforming, while equities in the U.A.E (+1.7%) and Turkey (+0.7%) outperformed. EMEA currencies were mostly stronger against the dollar, while the South African rand (-1.3%) underperformed amid higher scheduled local power cuts. **Latin American equity markets** were mixed on Monday and traded in narrow ranges, except for Chile (-1.0%) and Colombia (-0.7%). Local currencies were mixed. The Brazilian real (+1.0%) and the Mexican peso (+0.7%) led the gains, while the Argentine peso depreciated 0.7% against the dollar. 10-year government bond yields were little changed.

EM Bond Issuance

EM corporate issuance last week increased to \$2.5 bn, from \$5.1 bn the week before, while EM sovereign issuance edged up to \$4.9 bn last week, from \$1.8 bn the week before. Year-to-date total issuance of \$165.0 bn was about 63% of the 2021 issuance over the same period (\$261.5 bn). From a regional perspective, Korea was the largest EM corporate debt issuer last week, accounting for 29% (\$0.72 bn) of the total, followed by China (27%, \$0.68 bn), and Brazil (24%, \$0.6 bn). Last week's sovereign issuance was placed by South Africa (\$3.0 bn), Croatia (\$1.4 bn), and Philippines (\$0.6 bn)

Sector	Last week	The week before	YTD
Corporate	2.5	5.1	53.8
Sovereign	4.9	1.8	47.5
Financial	1.4	2.5	38.2
Muni/Local Gov't	0.1	1.0	9.6
Agency	0.5	0.2	14.8
Supra	-	-	1.0
Total	9.5	10.6	165.0

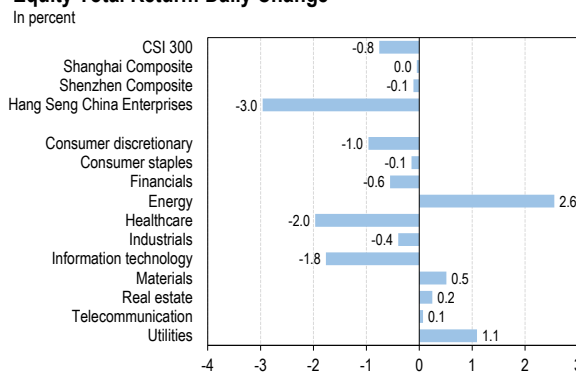
Source: Bond Radar, Bloomberg, and IMF staff

China

The People's Bank of China (PBC) announced measures to support the economy. Based on its comprehensive guidelines issued yesterday, the PBC urged financial institutions to accelerate credit extension especially to support sectors hard hit by the recent COVID-19 outbreak. The PBC also signaled some relaxation on lending to the property sector and local government financing vehicles, and announced a new re-lending program for the transportation industry. Some analysts noted that the PBC's guideline suggested that it will increasingly rely on structural policy tools to support the economy rather than use interest rates. Chinese officials pledged to address supply-chain concerns in a meeting with foreign chambers while reaffirming the country's zero COVID strategy. Key interbank repo rates dropped (DR007: -5.7 bps). The RMB depreciated (-0.1%).

Chinese equities declined (CSI 300: -1.0%; Hang Seng China Enterprises: -3.0%), led by tech stocks. Didi's announcement to delist its U.S.-traded shares before finding a new listing venue dampened market sentiment especially on Chinese tech stocks. The ride-hailing giant has to suspend preparation for a listing in Hong Kong SAR after being informed by Chinese regulators that its proposal to address data security fell short of regulators' expectations. Didi's share price dropped (-18.7%) yesterday. Tech shares also struggled after Beijing launched a 2-month inspection of the live-streaming sector to crack down on illegal behaviors. China Merchants Bank (CMB)'s share price dropped (-11.2%) on the news that its CEO was removed without a specified reason. CMB is China's largest joint-stock bank and the 7th largest bank in terms of assets.

Equity Total Return: Daily Change



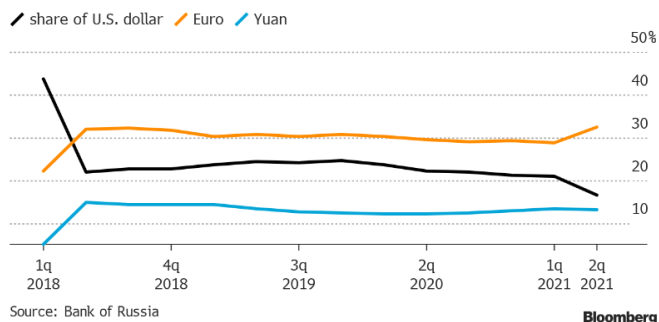
Source: Bloomberg.

Russia

The Central Bank of Russia (CBR) is planning legal action over sanctions on its reserves, according to Interfax citing CBR Governor Elvira Nabiullina. The Governor reportedly said that Russia intends to challenge in court the unprecedented decision of freezing its international reserves. Sanctions cut off access to half of Russia's reserves, leaving the central bank in possession of only yuan and gold, accounting for 17.1% and 21.5% respectively of the reserves as of end 2021. Russia's international reserves peaked at a record \$643.2 bn on Feb 18 and fell to \$609.4 bn on April 8 according to CBR data. On Monday Governor Nabiullina said that **the CBR has not yet identified clear alternatives to the world's major reserve currencies**, noting that lessons cannot yet be drawn on what Russia should do differently.

Away From Dollar

Russia boosted share of euro, yuan, while cutting dollar in its international reserves



Russia is considering a medium-term strategy to respond to global sanctions, according to media reports. The strategy could include increased budget spending, a lenient view on higher inflation and a focus on supporting credit growth. Certain elements of currency control are reportedly seen to be kept in place. **This morning the Russian ruble appreciated (+2% to 79.4), reportedly supported by exporters converting hard currency into rubles to meet tax obligations,** while equities in Moscow (-2.9%) fell.

Russian companies are to submit applications by May 5 to maintain their listing of depository receipts outside of Russia. According to Interfax, Russia published the resolution on Monday, in connection with a law that goes into effect on April 27 prohibiting trading in Russian companies' depository receipts on exchanges outside Russia. A subcommittee of the government commission for control over foreign investment will decide whether to approve or reject applications. Bloomberg reports that Russian foreign listings peaked in 2007 with \$17 bn for the year, with only \$6 bn raised since 2014.

Indonesia

Bank Indonesia kept its policy rate unchanged at 3.5% as expected. Bank Indonesia lowered its growth forecast this year to 4.5%–5.3% (previously, 4.7%–5.5%) while still seeing inflation within its 2%–4% target range. Governor Perry said that the policy decision is consistent with the need to maintain exchange rate stability and control inflation, coupled with efforts to revive growth, despite a buildup of external pressures. The rupiah appreciated (+0.1%); 10-year government bond yield fell (-0.5 bp); equities declined (-0.8%).

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Global Financial Indicators

Last updated: 4/19/22 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4393	0.0	0	-2	6	-8
Europe		3811	-1.0	-1	2	-5	-11
Japan		26985	0.7	2	1	-7	-6
China		4135	-0.8	-1	-3	-19	-16
Asia Ex Japan		73	-0.6	-2	-5	-22	-12
Emerging Markets		44	-0.3	-2	-3	-19	-10
Interest Rates							
			basis points				
US 10y Yield		2.88	2.3	15	73	127	137
Germany 10y Yield		0.93	8.7	14	56	116	111
Japan 10y Yield		0.25	0.3	0	4	16	18
UK 10y Yield		1.97	7.9	17	47	121	100
Credit Spreads							
			basis points				
US Investment Grade		148	0.3	3	2	52	36
US High Yield		390	-2.1	-8	-14	56	53
Europe IG		80	1.7	3	1	31	33
Europe HY		383	8.4	13	9	136	142
Exchange Rates							
			%				
USD/Majors		100.86	0.1	1	3	11	5
EUR/USD		1.08	0.2	0	-2	-10	-5
USD/JPY		128.2	0.9	2	7	19	11
EM/USD		53.2	0.0	0	3	-7	1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		112	-1.4	13	6	80	46
Industrials Metals (index)		214	0.4	3	0	44	24
Agriculture (index)		78	-0.4	3	6	46	28
Implied Volatility							
			%				
VIX Index (% change in pp)		22.4	0.3	-1.9	-1.4	5.1	5.2
US 10y Swaption Volatility		118.3	-2.8	-0.7	15.8	40.6	39.3
Global FX Volatility		9.0	0.0	0.0	0.0	1.7	1.6
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		203	-4.3	-3	-24	89	52
Italy		161	-2.8	-1	9	59	26
Portugal		96	-3.2	10	15	31	32
Spain		91	-2.4	-1	-3	26	17

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

Data source: Bloomberg.

merging Market Financial Indicators

Last updated: 4/19/2022 8:10 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		6.39	-0.3	-0.3	-1	2	0		2.9	-1.0	4	1	-31	3
Indonesia		14340	0.1	0.2	0	1	-1		7.0	0.0	9	26	54	60
India		77	-0.3	-0.5	0	-2	-3		6.3	0.0	0	9	75	0
Philippines		52	-0.4	-0.7	0	-8	-3		5.3	0.0	0	20	68	78
Thailand		34	-0.2	-0.6	-1	-8	-2		2.6	-4.0	1	25	65	75
Malaysia		4.25	-0.1	-0.5	-1	-3	-2		4.1	5.0	10	45	107	55
Argentina		114	-0.7	-1.0	-4	-18	-10		50.3	12.6	-26	124	400	-29
Brazil		4.66	0.0	0.4	6	19	20		12.0	-6.0	27	-20	281	134
Chile		817	-0.3	0.0	-2	-14	4		6.4	0.0	-4	40	307	100
Colombia		3733	0.3	0.2	2	-3	9		8.1	0.0	15	31	285	167
Mexico		19.88	-0.2	-0.4	2	0	3		8.7	0.0	0	49	217	119
Peru		3.7	-0.1	-0.6	1	-2	7		7.4	-0.2	14	80	236	146
Uruguay		41	0.0	0.7	3	7	8		9.3	0.0	0	90	192	57
Hungary		346	0.2	0.9	-2	-13	-6		6.5	28.5	4	68	410	197
Poland		4.31	-0.5	-0.5	-1	-12	-6		5.5	17.3	13	83	371	193
Romania		4.6	0.1	-0.3	-2	-11	-5		6.4	0.6	-2	74	375	161
Russia		79.3	2.3	7.1	34	-4	-5		12.4	0.0	-51	-775	496	358
South Africa		14.9	-1.3	-2.3	0	-4	7		8.2	11.5	17	12	87	75
Turkey		14.66	-0.2	-0.4	1	-45	-9		22.4	-8.0	-200	-403	444	-193
US (DXY, 5y UST)		101	0.1	0.9	3	11	5		2.81	2.3	12	67	198	155

	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		4135	-0.8	-1	-3	-19	-16		207	3	-18	-5	4
Indonesia		7199	-1.0	0	4	19	9		162	2	-30	-8	-3
India		56463	-1.2	-5	-2	18	-3		171	8	2	8	39
Philippines		7038	0.6	0	0	8	-1		114	0	-23	14	13
Thailand		1676	0.5	0	0	6	1		0	0	0	0	0
Malaysia		1581	0.0	-1	-1	-1	1		115	2	-20	-12	-2
Argentina		91239	0.2	0	2	90	9		1677	-47	-114	97	-3
Brazil		115687	0.0	-2	0	-4	10		272	-15	-36	5	-39
Chile		4868	0.0	-1	0	-2	13		142	-5	-18	9	2
Colombia		1604	-0.7	-1	4	22	14		343	7	5	127	-5
Mexico		54140	-0.1	-2	-2	13	2		348	0	-3	17	16
Peru		23552	-0.7	-3	-6	15	12		164	-15	-9	12	14
Hungary		43071	0.2	2	0	1	-15		138	-10	-14	2	14
Poland		62871	-1.4	-1	4	4	-9		13	10	-37	-23	-19
Romania		13019	-0.4	3	3	17	0		193	-4	-23	-1	0
Russia		2236	-4.5	-12	#N/A	N/A	-37		3411	-577	938	3228	3234
South Africa		73959	0.8	-1	5	9	0		328	-7	-41	-6	-27
Turkey		2533	0.9	3	18	84	36		508	-24	-70	29	-70
Ukraine		519	0.0	0	0	-2	-1		3268	262	20	2734	2509
EM total		44	-1.1	-2	-3	-19	-10		376	-3	-164	15	-10

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

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