



- Rising US mortgage rates exacerbate housing market strains ([link](#))
- Euro area bank shares rebound as core yields fall ([link](#))
- FX-hedged yields on euro area bonds have risen sharply ([link](#))
- Bank of Japan defended its yield curve control ([link](#))
- Chinese equities declined as loan prime rates were kept unchanged ([link](#))
- Further sanctions on Russia announced ([link](#))
- South African inflation edges higher, reinforcing further rate hike expectations ([link](#))

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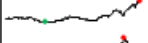




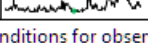
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## Finding silver linings

A feeling that central bank hikes may be fully priced and that the peak for inflation may be around the corner is helping to lift sentiment so far today. Equities are higher this morning as sovereign bond yields fall. After rising by 8 bp yesterday, the 10-year US treasury has given back nearly all of that increase this morning (-6 bp). Shorter dated yields are falling less with the US 2-year down only 3 bps. European equities are up over 1% this morning while US futures are little changed after rising yesterday. Asian equities rose overnight, following the lead of US markets. However, Chinese equities fell after the loan prime rate was kept unchanged, contrary to expectations. Meanwhile the Japanese yen ended its streak of 13 consecutive days of depreciating against the dollar.

Key Global Financial Indicators

Last updated: 4/20/22 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4462	1.6	1	0	8	-6
Eurostoxx 50		3891	1.6	1	0	-1	-9
Nikkei 225		27218	0.9	1	1	-5	-5
MSCI EM		44	-0.5	-1	-3	-18	-10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.86	-7.3	16	71	130	135
Germany 10y Yield		0.85	-6.4	8	47	111	102
EMBIG Sovereign Spread		405	2	-6	-53	72	38
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		52.9	-0.2	0	2	-7	1
Dollar index, (+) = \$ appreciation		100.4	-0.5	0	2	10	5
Brent Crude Oil (\$/barrel)		108.7	1.3	4	1	63	40
VIX Index (% change in pp)		20.6	-0.8	-4	-3	2	3

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

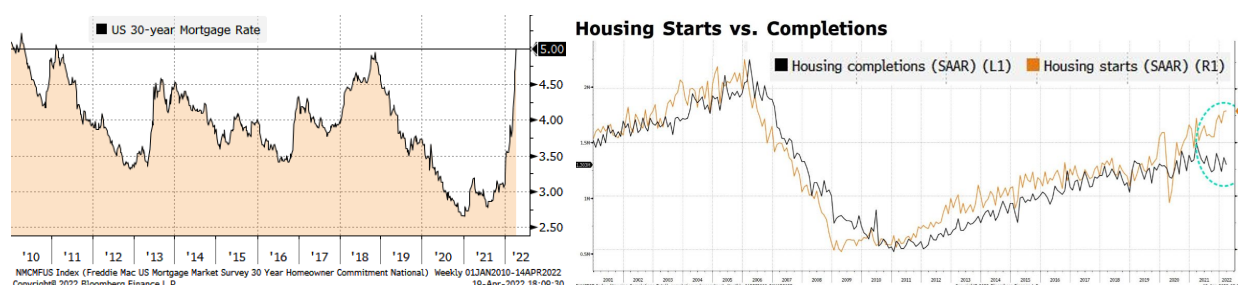
## Mature Markets

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## United States

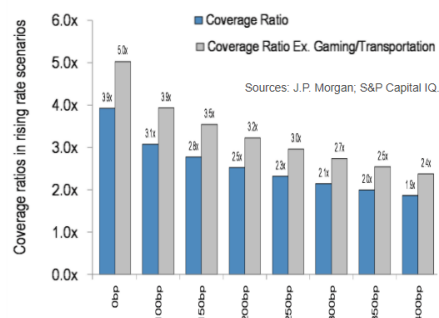
Yesterday, the **S&P 500 rose by 1.6%**, with all main industry groups advancing (except energy), backed by strong earnings releases. US Treasury yields rose across the curve, adding 14, 13, and 8 bps for 2Y, 5Y, and 10Y tenors respectively. The rise was attributed mostly to an increase in real yields. The benchmark 30-year yield reached 3% for the first time in three years.

**US 30-year mortgage rates rose to 5%**, the highest level in more than a decade (left chart below). It is expected to further exacerbate the problem of affordability amid rising prices: New York Fed housing survey shows a sizable drop this year of expectations of buying/being able to buy a home, especially among those who are renting now. Housing inventories remain low. Despite the number of housing starts unexpectedly reaching the highest level since 2006, it is not met by a corresponding number of housing completions—the starts vs. completions gap has been growing (right chart).

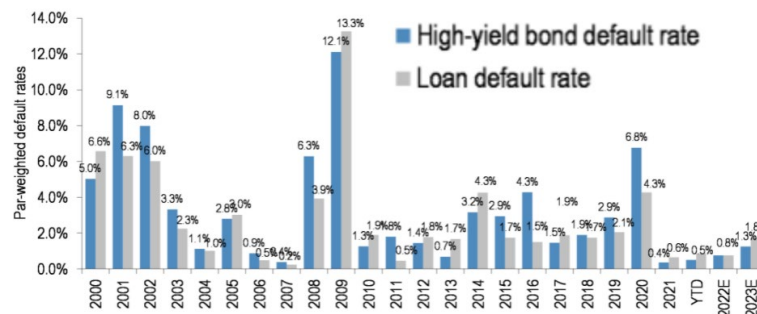


**JPMorgan analysts expect only a moderate increase in default rates in response to the Fed's policy normalization.** The largest immediate impact will be experienced by leveraged loans as they tend to have floating-rate coupons: any increase in policy rates will quickly pass through into a lowered interest-coverage ratio. The left chart below shows projections of the coverage ratio for different scenarios of the cumulative rate hike (ranging up to 400 bps). While the expected decline in the coverage ratios is substantial, the overall creditworthiness doesn't seem to be affected much: the expected default rates for high-yield bonds and leveraged loans are projected to stay at 0.8% in 2022 and 1.25%/1.75% in 2023—well below the historical averages of 3.4%/3.0% (right chart).

Fed hike scenarios and the impact on loan issuers' coverage ratios assuming no EBITDA growth or offsetting hedges



We forecast high-yield bond and leveraged loan default rates of 1.25% and 1.75% in 2023 versus a 3.4% and 3.0% long-term average Source: J.P. Morgan.



## Euro area

**Equities (+1.6%) gained as German 10-yr yields fell 6 bps (in line with U.S. 10-yr yields).** Contacts believed that a near-term stabilization in core yields, together with a stabilization in expectations of central

bank tightening, could stabilize risk sentiment. Euro area bank equities (+3%) gained after trading little changed in April as 10-yr bund yields rose 30 bps.

**German bund yields and euro bank equities**  
(Jan 2020: 100)

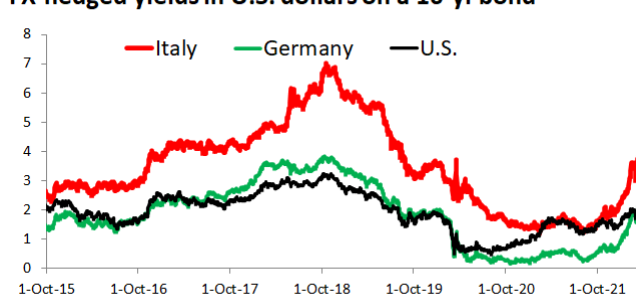


**The euro (+0.7%) gained as President Macron continues to lead Le Pen in polls** (around 55.5% to 44.5%) ahead of tonight's presidential debate. According to DTCC data, euro options have been rather balanced this week with 56% in favor of a weaker euro. Contacts believe that a win by Macron on Sunday could lead to a small boost in the euro.

**Euro area industrial production rose 0.7% m/m in February**, but analysts fear that industrial production could come under pressure in Q2 given higher commodity prices and re-emerging supply chain challenges.

**A comparison of FX-hedged yields shows that euro area bonds have become rather attractive for a U.S. dollar-based investor**, with yields on Italy 10-yr bonds rising to 4.85% with a 12-m hedge in place (compared to 2.86% on U.S. 10-yr bonds). Contacts point out that Italian yields are also higher than several EM local currency bonds on a FX-hedged basis. Such higher yields could support demand for euro area bonds, especially if further ECB tightening has been largely priced in and euro area inflation peaks later in 2022. Swaps are currently pricing in that the ECB's depo rate will peak around 1.5% in 2023–24.

**FX-hedged yields in U.S. dollars on a 10-yr bond**



## Japan

**The Bank of Japan (BOJ) defended its yield curve control.** The BOJ conducted fixed-rate purchase operations as the 10-year JGB yield (+0.6 bp) advanced to the upper end of the BOJ's yield control at 0.25%. Initially, the BOJ announced it would conduct such bond purchase operations in an unlimited amount only for today; however, the BOJ in the afternoon announced that the operations will continue through April 26. The last time that the BOJ conducted fixed-rate purchase operations were in late March. Longer-end JGB yields rose (30-year: +1.8 bps), while the yen appreciated (+0.5%), ending the depreciation streak at 13 consecutive days. Equities gained (NIKKEI: +0.9%), similar to the regional trend. **The trade deficit narrowed to 412 bn yen (\$3.2 bn) in March**; though, the deficit was larger than expected as a weaker yen enlarged the imports bill.

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**Most Asian equities gained**, +0.3% on net, led by Philippine (+1.5%), Singaporean (+1.0%) and Taiwan (+0.9%) equities following a rebound in U.S. markets. Meanwhile, share prices dropped in China (CSI 300: -1.6%) and Hong Kong SAR (-0.4%). Asian currencies were mixed. The Malaysian ringgit (-0.6%) and Chinese yuan (-0.3%) depreciated, as a decline in oil prices yesterday put downward pressures on the ringgit. Meanwhile, the Indian rupee (+0.2%) and Singaporean dollar (+0.2%) appreciated. Long-end government bond yields generally increased, with 10-year yields rising in Hong Kong SAR (+14 bps) and Malaysia (+5 bps). In India, state-owned refineries reportedly continue to purchase Russian oil via privately negotiated deals. **EMEA equities were trading mixed** with equities in Serbia (-2.3%) and Egypt (-1.3%) underperforming, while equities in Hungary (+1.1%) and Czech Republic (+1%) gained. EMEA currencies were mostly stronger against the dollar. Czech 10-yr yields increased by roughly 10bps after Czech Republic PPI surprised on the upside in March, increasing to +24.7% y/y (vs expected 23.3%) from 21.3%. Poland's core CPI increased to 6.9%y/y in March (vs 7% expected), from 6.7%. **Latin American equity markets** were mixed on Tuesday. Mexico, Chile, and Argentina led the gains (all +0.9%), while Brazil saw losses (-0.5%). Currencies were weaker but mainly traded in narrow ranges, except for the Mexican peso (-1.0%). 10-year government bond yields rose 16 bps in Colombia.

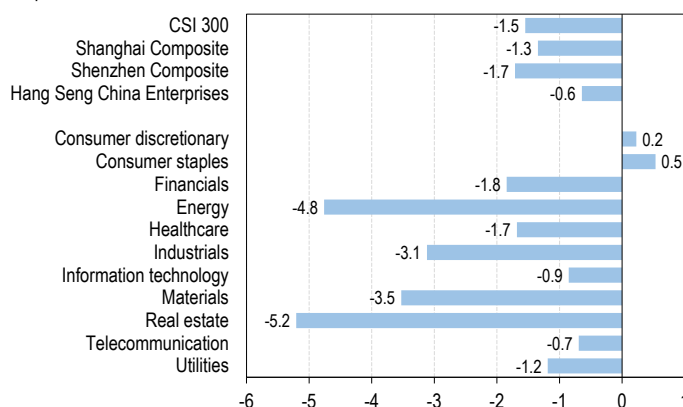
### China

**Chinese equities declined (CSI 300: -1.6%) as loan prime rates (LPRs) were kept unchanged.** Banks decided to keep LPRs unchanged; analysts had expected both 1-year and 5-year LPRs to be lowered by 5 bps. Real estate firms led the decline in share prices. Shanghai slowly restarted as the lockdown still keeps more than 16 mn people in their homes. Many factories have resumed operations using a closed-loop system. However, some firms said that they are facing raw material shortages and other logistics problems. Reportedly, Beijing has established a “white list” of companies in key sectors such as auto-making, semiconductor, food, and medicine to ensure that they can remain open amid lockdowns. Interbank repo rates (DR007: +5 bps) and government bond yields (10-year: +1.5 bps) rose.

**The RMB depreciated (-0.3%) after the People's Bank of China (PBC) set a weaker-than-expected RMB fixing** by 101 pips today, the largest since mid-March. Against the backdrop that the PBC appears unwilling to lower interest rates amid concerns about capital outflows, analysts had split opinions on whether such a weaker-than-expected RMB fixing represented a signal that the PBC seeks to guide the RMB weaker in an orderly manner. China will boost strategic ties with Russia. In its statement, the foreign ministry said that China will continue to strengthen strategic coordination with Russia and promote the building of a new type of international relations.

### Equity Total Return: Daily Change

In percent



Source: Bloomberg.

## Russia

**CBR Governor Elvira Nabiullina was sanctioned by Canada**, together with 13 other close associates of the Russian regime. **Separately the UK said it plans to revoke the Moscow Stock Exchange's (MOEX) status as a recognized stock exchange**, which would take away tax benefits of new trades and New Zealand announced new sanctions targeting 18 Russian financial institutions.

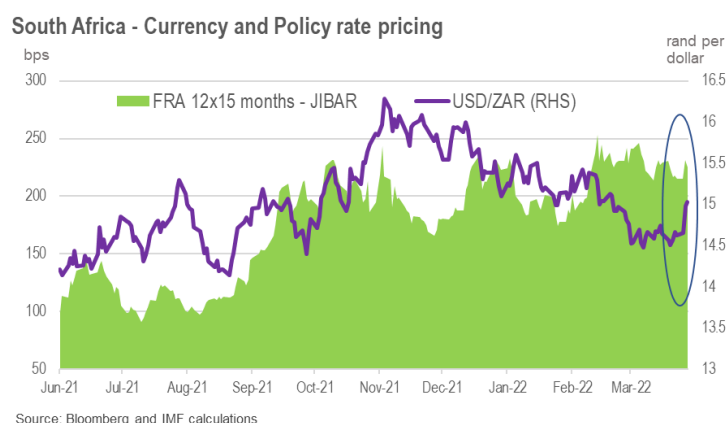
**The Central Bank of Russia (CBR) announced forex currency controls easing for Russia export-focused companies outside the commodity and energy sectors.** While the forced sales of foreign currency earned by these companies remain in place, foreign currency received after April 19 can now be sold within 60 days instead of the previous three days. **The Russian ruble was trading slightly weaker (-0.4% at 81.1 against the dollar) while equities in Moscow (+1.7%) gained.**

**The CBR will no longer publish the list of companies connected to Russia's alternative to the SWIFT financial-messaging service.** Russia's System for Transfer of Financial Messages (SPFS) was launched in 2014 and has been marketed as a direct alternative to SWIFT for financial messaging. The CBR Governor said that 52 institutions from 12 countries were participating, and while the users can still see the list of companies connected to the system, the list will no longer be disclosed on the CBR website. **The CBR also said that quarterly data on the schedule of repayments of foreign debt will no longer be published.**

## South Africa

**The rand depreciated (-0.2%) after headline inflation increased to 5.9%/y/y in March, slightly lower than the expected 6.0%.** Core inflation was higher than expected, increasing to 3.8%/y/y (vs expected 3.7%). Price increases were mainly driven by higher fuel and alcohol/tobacco prices, while food inflation showed a slight moderation relative to February. Taking a lower oil price assumption together with a fuel excise tax relief into consideration, Goldman Sachs analysts revised their 2022 headline inflation forecasts lower to 5.8% (from 6.2% previously), expecting inflation to peak at around +6% y/y in June/July. The South African Reserve Bank has increased interest rates by 25bps at each of the three monetary policy committee (MPC) meetings since November, taking the repo rate to 4.25%. Markets are fully pricing in +25bps for the upcoming MPC meeting in May, and analysts forecast the repo rate at 5% at the end of 2022.

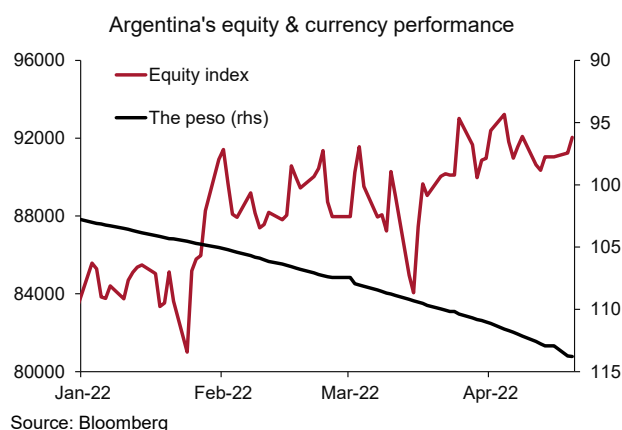
**While the South African rand has been a relative outperformer among EM currencies since the war, with the country benefitting from its role as a commodity exporter, the currency underperformed yesterday, depreciating sharply (-2.2%) against the dollar.** Contacts note that the currency is weighed down by concerns over the economic outlook amid power outages and flood damage in the Kwazulu-Natal province.





## Argentina




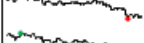
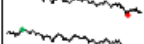



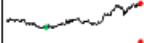







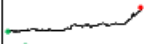




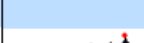

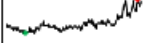

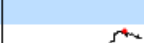

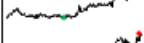
**Argentina announced payments for informal workers and low-income retirees.** According to Bloomberg, the government will pay informal workers 18,000 pesos over two installments and provide a one-time payment of 12,000 pesos to low-income retirees. Economy Minister Guzman said the measures aimed to protect the most vulnerable people from elevated inflation, which reached a 20-year high in March. To help finance the payments, he anticipated a new tax for some high-income companies as they unexpectedly gained from the impact of the Russia-Ukraine war. Argentine assets saw gains yesterday, as the domestic equity rose 0.9% and the peso was little changed.



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## Global Financial Indicators

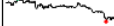
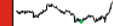

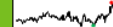


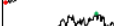






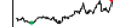

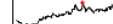







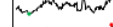
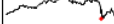


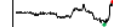
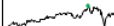

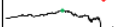









Last updated: 4/20/22 8:01 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4465	1.6	2	0	8	-6
Europe		3891	1.6	1	0	-1	-9
Japan		27218	0.9	1	1	-5	-5
China		4071	-1.6	-2	-4	-20	-18
Asia Ex Japan		73	-0.2	-1	-5	-22	-12
Emerging Markets		44	-0.5	-1	-3	-18	-10
Interest Rates			basis points				
US 10y Yield		2.86	-7.3	16	71	130	135
Germany 10y Yield		0.85	-6.4	8	47	111	102
Japan 10y Yield		0.25	0.5	1	4	16	18
UK 10y Yield		1.90	-7.2	10	40	116	92
Credit Spreads			basis points				
US Investment Grade		147	0.1	3	1	51	35
US High Yield		383	0.2	-15	-22	41	45
Europe IG		78	-1.8	-1	-1	27	30
Europe HY		370	-10.0	-8	-4	117	129
Exchange Rates			%				
USD/Majors		100.42	-0.5	0	2	10	5
EUR/USD		1.08	0.4	-1	-2	-10	-5
USD/JPY		127.9	-0.8	2	7	18	11
EM/USD		52.9	-0.2	0	2	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		109	1.3	4	3	77	42
Industrials Metals (index)		212	-0.6	1	-1	44	23
Agriculture (index)		78	0.4	2	5	43	28
Implied Volatility			%				
VIX Index (% change in pp)		20.6	-0.8	-3.7	-3.3	1.9	3.4
US 10y Swaption Volatility		123.6	3.1	7.3	21.1	42.6	44.6
Global FX Volatility		9.2	0.0	0.2	0.2	1.9	1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		204	-1.9	-3	-23	86	52
Italy		163	-1.1	2	11	58	28
Portugal		97	-0.2	-3	16	30	32
Spain		93	-0.6	-1	-2	26	19

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 4/20/2022 8:02 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		6.41	-0.3	-0.7	-1	1	-1		2.9	1.5	6	2	-29	4
Indonesia		14357	-0.1	0.0	0	1	-1		7.0	0.6	5	26	55	60
India		76	0.4	0.0	0	-2	-2		6.3	0.0	0	9	75	0
Philippines		52	0.0	-0.8	0	-8	-3		5.3	2.5	3	23	75	80
Thailand		34	0.1	-0.7	-1	-7	-2		2.6	1.0	2	26	66	76
Malaysia		4.28	-0.6	-1.2	-2	-4	-3		4.2	6.2	16	52	111	61
Argentina		114	0.0	-0.9	-3	-18	-10		50.5	20.1	40	144	399	-9
Brazil		4.65	0.3	0.8	6	20	20		12.1	4.4	20	-15	286	138
Chile		820	-0.4	-1.7	-3	-14	4		6.4	0.0	4	37	299	97
Colombia		3752	-0.5	0.0	1	-4	8		8.2	0.0	28	41	292	176
Mexico		19.97	0.3	-0.9	2	0	3		8.8	5.5	6	54	222	125
Peru		3.7	0.7	0.6	2	-1	8		7.5	1.0	19	93	244	159
Uruguay		41	0.5	0.7	4	8	9		9.4	12.2	12	102	204	69
Hungary		343	0.6	1.1	-1	-12	-5		6.5	-4.0	24	69	414	198
Poland		4.28	0.7	-0.4	0	-12	-6		5.4	-8.4	19	77	361	187
Romania		4.6	0.3	-0.5	-2	-10	-5		6.4	0.4	-1	75	381	161
Russia		82.7	-2.8	-0.6	29	-7	-9		12.4	0.9	-46	-775	489	358
South Africa		15.0	-0.4	-3.2	-1	-5	6		8.2	-7.5	16	14	85	77
Turkey		14.67	-0.1	-0.5	1	-45	-9		21.7	-67.0	-220	-470	349	-260
US (DXY, 5y UST)		100	-0.5	0.1	2	10	5		2.85	-6.5	20	71	206	159

	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		4071	-1.6	-2	-4	-20	-18		206	-1	-19	-4	3	
Indonesia		7227	0.4	0	4	21	10		162	-12	-30	-3	-3	
India		57038	1.0	-3	0	20	-2		169	4	0	5	37	
Philippines		7142	1.5	2	3	11	0		116	-5	-21	23	15	
Thailand		1680	0.3	0	0	6	1		0	0	0	0	0	
Malaysia		1594	0.8	0	0	0	2		114	-1	-21	-10	-3	
Argentina		92038	0.9	0	3	96	10		1688	-46	-103	119	8	
Brazil		115057	0.0	-2	0	-4	10		268	-21	-40	4	-43	
Chile		4912	0.0	0	1	-1	14		145	-3	-15	14	5	
Colombia		1604	0.0	-2	4	22	14		344	2	6	124	-4	
Mexico		54634	0.9	0	-2	13	3		352	5	1	23	20	
Peru		23361	-0.8	-2	-7	20	11		166	-10	-7	8	16	
Hungary		43237	0.5	3	-2	2	-15		140	-20	-12	6	16	
Poland		63193	0.0	-2	-1	6	-9		1	-11	-49	-38	-31	
Romania		13007	0.1	2	3	17	0		195	-11	-21	11	2	
Russia		2353	1.5	-7	#N/A	N/A	-34	-38		3411	-577	938	3228	3234
South Africa		73972	0.2	-1	-1	11	0		331	-9	-38	2	-24	
Turkey		2523	0.2	3	18	85	36		512	-28	-66	42	-66	
Ukraine		519	0.0	0	0	-2	-1		3413	325	165	2881	2654	
EM total		44	0.4	-1	-3	-18	-10		380	-6	-160	22	-6	

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

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