GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 27, 2022

- **Gazprom cuts gas supplies to Bulgaria and Poland** (link)
- **U.S. credit spreads widen as equity prices remain under pressure** (link)
- **U.S. new home sales fall as house price appreciation continues** (link)
- **Analysts argue supply chain pressures have worsened again** (link)
- **President Xi calls for stepping up infrastructure investment** (link)
- **EM bond issuance slows substantially in 2022** (link)

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Euro at multi-year low as Russia cuts gas to Bulgaria and Poland

Chinese equities outperformed after President Xi called for an infrastructure push but global risk sentiment remains cautious. The euro fell to a 5-year low and natural gas prices increased after Gazprom suspended gas supplies to Bulgaria and Poland. Analysts also warn that supply chain pressures have worsened again after having shown signs of easing in late 2021. Despite the recent reprieve, this year is on track to become the worst year for returns on U.S. bonds since 1990. EM bond issuance has picked up slightly in April after issuance slowed substantially last quarter.

Key Global Financial Indicators

Last updated: 4/27/22 1:12 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4175	-2.8	-6	-8	0	-12
Eurostoxx 50		3733	0.3	-4	-3	-7	-13
Nikkei 225		26387	-1.2	-3	-6	-9	-8
MSCI EM		41	-2.2	-6	-9	-25	-16
Yields and Spreads			bps				
US 10y Yield		2.75	3.3	-8	28	113	124
Germany 10y Yield		0.82	0.1	-4	23	107	99
EMBIG Sovereign Spread		434	5	29	-17	93	67
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.9	-0.1	-2	-1	-9	-1
Dollar index, (+) = $ appreciation		102.8	0.5	2	4	13	7
Brent Crude Oil ($/barrel)		104.8	-0.2	-2	-13	58	35
VIX Index (%, change in pp)		31.4	-2.1	11	11	14	14

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

Mature Markets

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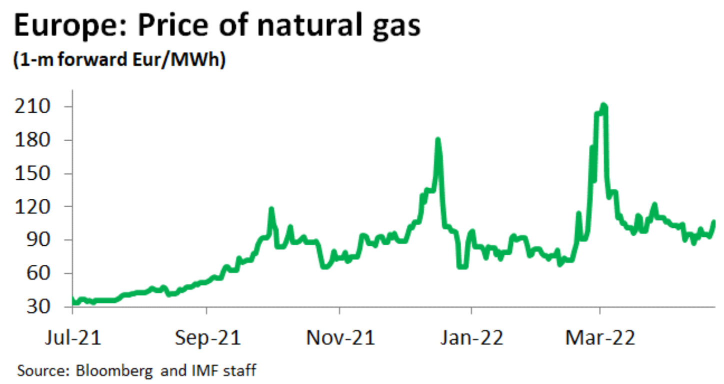
Commodities

European gas prices increased (1-month ahead +6% to €98.2/MWh) after Gazprom completely suspended gas supplies to Bulgaria and Poland pointing to non-payment in rubles and the EU's gas coordination group is meeting to discuss a joint response. Russia has asked buyers to open accounts at Gazprombank and make payments for Russian gas imports in euros or dollars that would be converted into rubles**. Gazprom added that Bulgaria and Poland are transit states and supplies for transit will be reduced by a commensurate volume in case of unauthorized withdrawal of Russian gas.**



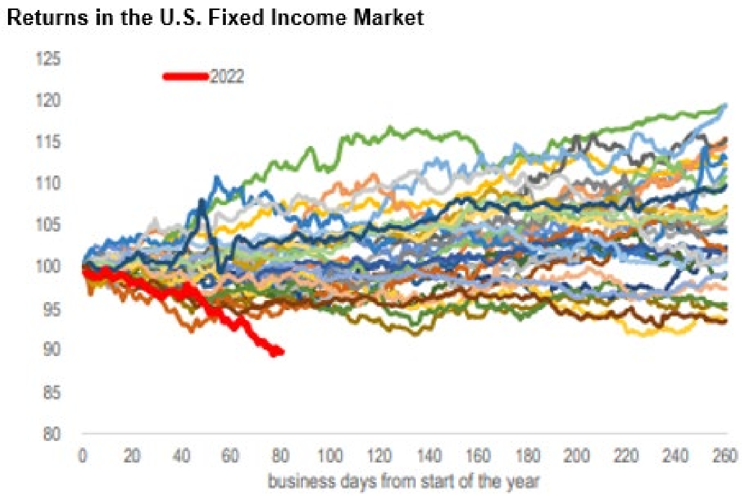
According to a source reportedly close to Gazprom, other cutoffs of gas to European countries will not come immediately as the next payments are due in the second half of May. Ten European gas companies have reportedly opened the accounts at Gazprombank needed to meet Russia's demand to pay in rubles and 4 have reportedly already made payments.

Brent oil prices (+0.4%) edged higher. Yesterday, Germany's economy minister said that a full embargo on Russian oil is *manageable* now. He also noted that the share of Russian oil in German oil imports has already been reduced to 12% from 35% prior to the invasion, and that substituting the remainder might be possible within days. **The EU is expected to approve a sixth package of sanctions, which some expect will include a price ceiling for Russian oil.**

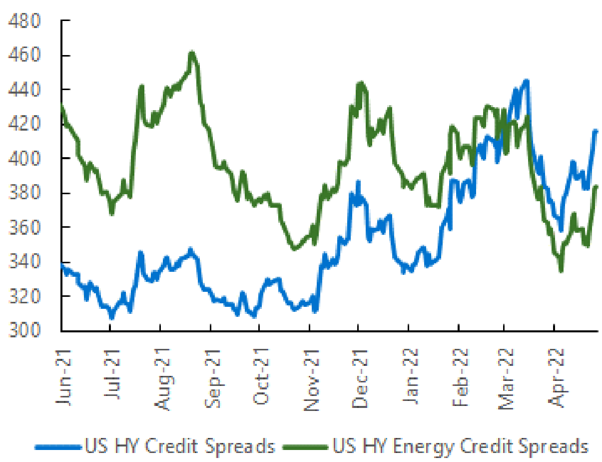
United States

U.S. equities fell 2.8% along with a sharp rise in equity volatility on poor earnings, continued concerns in the Russia-Ukraine war and risk-off mode. Tesla shares fell by 12%, wiping off more than $100 billion of market value, as investors worry that Elon Musk will sell some of his shares in the company to complete his $44 billion buyout of Twitter. **The broad U.S. dollar rose +2% in the past 5 days.**

US treasury yields have declined sharply in the last few trading sessions—down 20 bps in the last week—reflecting an investor over-positioning, safe-haven flows and global growth concerns on the spiking cases in China. **Despite the recent reprieve, 2022 is on track to become the worst year for bonds since 1990.**



While equity markets remain volatile, the stress has started to impact the U.S. credit markets in a significant way. U.S. HY credit spreads have widened by more than 30 bps in the last week—and are approaching the highest levels in the last 1.5 years. While spreads for the energy sector have also picked up recently (reflecting the commodity price decline), energy spreads remain much lower than the peak levels last year. Goldman analysts also note that, dispersion across sectors and issuers has dramatically picked up, driven by rising event risk, mixed success at managing both inflationary cost pressures and supply chain disruptions.



New single-family home sales fell 8.6% mom to 763k in March, sharply underperforming market expectations of a 0.6% decline. JPM analysts note that it is likely that higher rates have weighed on the housing market lately, although limits in available inventory and high prices also could be weighing on activity. **The new home sales report also showed a strong rate of house price appreciation continuing into March, with the median sale price up 21.4% yoy.**

Australia

CPI inflation accelerated to 5.1% y/y in 2022Q1, from 3.5% in 2021Q4, higher than expectations (consensus: +4.6%). CPI trimmed mean measure also rose higher than expected. Government bond yields were mixed, with 3-year yield rising (+3.0 bps) while 10-year yield falling (-4.9 bps). **Markets now expect the Reserve Bank of Australia to start raising the policy rate in May, from 0.1% to 0.5%. Australian dollar appreciated (+0.5%).**

Japan

Japanese equities declined (NIKKEI: -1.2%), similar to regional trends, following the decline in U.S. equities yesterday. **Long-end JGB bonds edged up slightly** (10-year: +0.2 bp; 30-year: +0.1 bp), with 10-year yield rising to 0.241%. The Bank of Japan's offer to buy unlimited bonds at 0.25% had no take-up today. **Japanese yen resumed its depreciation trend,** reaching around 128 yen per dollar.

Euro area

The euro weakened (-0.3%) to a 5-yr low of 1.0567 against the dollar while 1-yr currency volatility increased. Analysts caution that the currency could weaken further if the war in Ukraine escalates, and also note that the dollar is benefitting from risk aversion.

European equities reversed opening losses and were higher later in the session with the benchmark Stoxx 600 Europe index up 0.7%. Auto and parts (+2.5%) and the Basic resources (+2.3%) sectors saw the largest gains. The energy sector was trading +0.9% higher and remains the best performing sector this year (+13.8% YTD). Bloomberg notes that based on forward P/E ratios, the Stoxx 600 Europe Energy Index is trading at a 53% discount to the market.

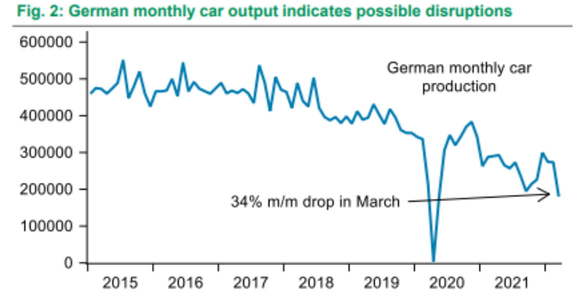
On the data front, consumer confidence in France disappointed, falling to 88 (vs expected 92, from 91). German sovereign yields edged marginally higher, while Southern spreads widened (Italy's 10-yr yield spread +3bps).

Supply chain pressures have increased after having shown signs of easing in late 2021, according to BNP Paribas analysts. Analysts note that lockdowns in China have started to impact logistics data, while the war in Ukraine is filtering through to European corporates. **Analysts argue that recent production data confirm anecdotal evidence, and note that the over 30% drop in German car production in March could have been as a result of a shortage of inputs that are usually imported.**

Fig. 1: Euro area supplier delivery times and index of supply chain pressures

Note: Index of supply chain pressures is calculated by aggregating different manufacturing PMI sub-components via PCA after regressing them on "manufacturing new orders" in order to strip away the demand contribution.
Sources: IHS Markit, Macrobond, BNP Paribas

Fig. 2: German monthly car output indicates possible disruptions



Sources: German Association of the Automotive Industry, Macrobond, BNP Paribas

Emerging Markets

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Asian equities fell 1.2% on net, led by Taiwanese (-2.1%), Philippine (-1.7%), and Korean (-1.1%) equities. In contrast, Chinese equities gained (CSI 300: +2.9%) as President Xi called for an infrastructure push to boost the economy. Share prices also rose in Sri Lanka (+5.4%) after the World Bank decided to provide $600mn of financial assistance. Asian currencies were mixed, with Korean won depreciating (-1.2%) while Philippine peso appreciating (+0.3%). Long-end government bond yields were mixed, with 10-year yields rising in India (+2.2 bps) while falling in Hong Kong SAR (-3.1 bps) and Indonesia (-3.0 bps). **Equities in Poland (-1%) and Hungary (-0.5%) traded lower as Russia cut gas supplies to Bulgaria and Poland.** The Polish zloty (-0.2%) is little changed after closing 2% lower yesterday, while the forint (-0.6%) fell as Hungarian swap yields are around 14 bps higher. Poland said that it has filled natural gas storage to around 80% of capacity while analysts note that the restriction could be much more worrisome for Bulgaria, which reportedly receives more than 75% of its gas from Russia. **Yesterday, Brazilian markets saw the worst declines in both equities (-2.2%) and the currency (-2.5%).** With this, Brazilian equities and the real have shed 6.6% and 7.3%, respectively in the last 5 trading sessions. Markets in Mexico and Peru too traded lower, however the Chilean peso edged higher.

EM bond issuance

EM bond issuance volumes have slowed substantially in 2022. The total issuance for Jan-Apr 2022 stand at $188 bn, down from $293 bn for the corresponding period of 2021. **Corporate issuance practically halved from $131 bn in 2021 to $65 bn in 2022, while sovereign bond issuance declined by a third to $60 bn.** Across regions, however, the deceleration in bond issuance activity was more or less similar. CEEMEA, which is the largest issuer group, saw the issuances down from $92 bn in 2021 to $50.6 bn in 2022, while Asia ex-Japan and China fared slightly better than it's peers. **EM bond issuances have picked up slightly as April issuance has been around $54 bn, up 93% m/m.**

Figure 1. EM bond issuance, by sector (bn. USD)

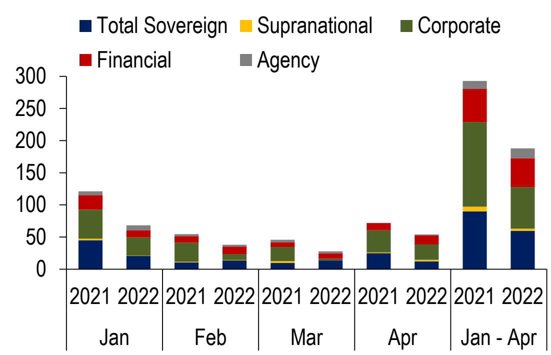
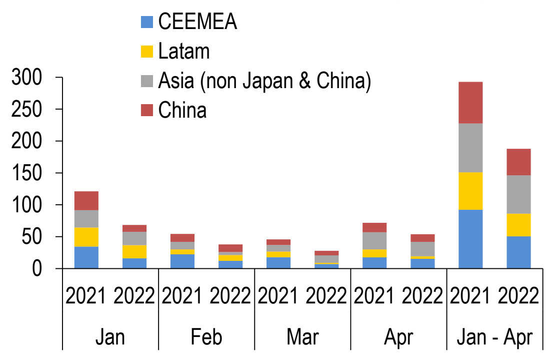


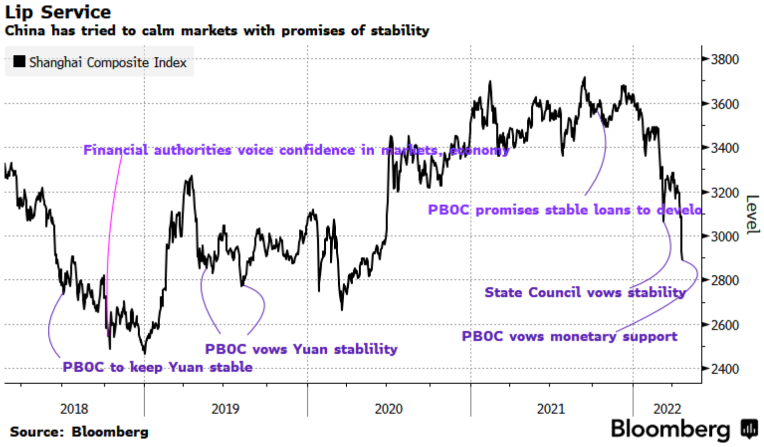
Figure 2. EM bond issuance, by region (bn. USD)



Note: April 2022 data are available until 23rd April and are prorated to estimate values for the full month.
Sources: Bond Radar, and IMF staff calculations.

China

President Xi called for stepping up infrastructure investment, boosting market sentiment. In an effort to build a modern infrastructure system, **President Xi looked for strengthening traditional infrastructure (e.g., transportation, energy and water), accelerating new infrastructure (e.g., super-computing), building low-carbon energy bases, and upgrading IT and logistics industries**. On funding, he pledged to better meet the financing demand by expanding channels to raise long-term funding, enhancing fiscal support, and guiding social capital to participate in infrastructure projects. Chinese equities rose (CSI 300: +2.9%) but have not fully recovered from the sharp decline on Monday. Analysts noted that markets become less responsive to authorities' pledge for policy support, as recent policy pledges failed to sustain market sentiment amid lockdowns that resulted in supply-chain disruptions and hurt confidence. Data on oil inventories and satellite images on activities also pointed to weakening demand and slowing economic activities. RMB was little changed.



Russia

The ruble (+2% to 74 per $) and equities (+2%) rose in Moscow. Russia's Rosneft now seeks pre-payment in rubles for oil products. Rosneft offered oil products from its refineries for loading during May-June in a tender requiring pre-payment in rubles, according to media reports.

Ukraine

Prices of Ukraine's Eurobonds are little changed after PM Shmyhal said that Ukraine requires $5 bin a month from international partners to meet social and humanitarian needs. Meanwhile, the central bank has taken several steps to ensure the continued operation of its financial system. The hryvnia remains fixed at the 24 February level (29.2549), with access to foreign currency restricted to *essential* needs only (the list covers 89% of all imported goods). That said, the FX market is slowly recovering with certain FX transactions now being executed, valued, and settled in the local market. The domestic fixed income market remains closed, with only recently issued war bonds trading.

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

Global Financial Indicators

Last updated: 4/27/22 1:12 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		4180	-2.8	-6	-8	0	-12
Europe		3733	0.3	-4	-3	-7	-13
Japan		26387	-1.2	-3	-6	-9	-8
China		2958	2.5	-6	-8	-14	-19
Asia Ex Japan		69	-2.1	-6	-9	-28	-17
Emerging Markets		41	-2.2	-6	-9	-25	-16
Interest Rates			basis points				
US 10y Yield		2.75	3.3	-8	28	113	124
Germany 10y Yield		0.82	0.1	-4	23	107	99
Japan 10y Yield		0.25	0.1	-1	1	16	18
UK 10y Yield		1.81	1.5	-10	12	104	84
Credit Spreads			basis points				
US Investment Grade		154	-1.1	6	13	62	42
US High Yield		413	-2.6	28	30	83	76
Europe IG		88	0.8	10	9	38	41
Europe HY		416	5.4	44	55	165	174
Exchange Rates			%				
USD/Majors		102.79	0.5	2	4	13	7
EUR/USD		1.06	-0.5	-2	-4	-12	-7
USD/JPY		128.1	0.7	0	3	18	11
EM/USD		51.9	-0.1	-2	-1	-9	-1
Commodities			%				
Brent Crude Oil ($/barrel)		105	-0.2	-2	-13	58	35
Industrials Metals (index)		204	1.0	-3	-6	32	18
Agriculture (index)		77	0.6	-1	2	32	27
Implied Volatility			%				
VIX Index (%, change in pp)		31.4	-2.1	11.1	10.6	13.9	14.2
US 10y Swaption Volatility		124.3	0.1	2.4	-2.9	48.2	45.3
Global FX Volatility		9.8	0.0	0.6	0.8	2.7	2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		225	7.4	22	2	109	74
Italy		177	2.7	12	27	70	42
Portugal		104	-0.2	6	30	37	40
Spain		99	0.3	4	13	32	24

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

Emerging Market Financial Indicators

Last updated: 27/04/2022 1:13 PM	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		6.56	0.0	-2.1	-3	-1	-3		2.9	2.9	2	3	-33	6
Indonesia		14413	0.0	-0.4	0	0	-1		7.0	-3.4	-2	27	49	58
India		77	0.1	-0.4	0	-2	-3		6.3	0.0	0	9	75	0
Philippines		52	0.3	0.7	0	-7	-2		5.3	0.0	3	8	90	83
Thailand		34	-0.1	-1.6	-2	-9	-3		2.7	-1.0	13	20	75	89
Malaysia		4.36	-0.1	-1.8	-3	-6	-4		4.3	0.2	10	44	115	71
Argentina		115	-0.1	-0.9	-4	-19	-11		52.8	71.2	232	302	602	223
Brazil		5.02	-0.3	-7.8	-5	9	11		12.8	53.1	71	114	362	207
Chile		843	0.2	-2.8	-8	-16	1		6.4	0.0	-4	15	278	96
Colombia		3938	-0.1	-4.7	-4	-6	3		8.3	0.0	21	10	277	191
Mexico		20.44	0.0	-2.1	-2	-2	0		8.8	0.0	15	39	212	132
Peru		3.8	-0.5	-3.1	-3	0	5		8.1	0.8	56	121	251	220
Uruguay		41	-1.1	-0.3	1	7	8		9.9	8.9	44	124	249	113
Hungary		359	-1.1	-4.8	-5	-16	-10		6.8	5.5	23	43	430	225
Poland		4.45	-0.3	-3.8	-4	-15	-9		5.7	3.5	22	65	385	214
Romania		4.7	-0.5	-2.6	-4	-13	-7		6.5	5.1	7	50	390	168
Russia		74.1	1.9	10.5	27	1	1		12.6	24.3	30	-603	535	385
South Africa		15.9	-0.4	-5.5	-8	-10	0		8.3	2.0	-2	16	79	82
Turkey		14.82	-0.1	-1.0	0	-45	-10		21.1	-38.0	-86	-650	250	-322
US (DXY; 5y UST)		103	0.5	2.4	4	13	7		2.77	3.3	-10	22	188	150

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3896	2.9	-4	-6	-24	-21		213	7	1	2	10
Indonesia		7197	-0.5	0	2	20	9		192	30	18	21	27
India		56819	-0.9	0	-1	14	-2		171	2	11	-2	39
Philippines		6864	-1.7	-4	-4	6	-4		148	32	27	50	47
Malaysia		1586	-0.7	0	-1	-1	1		123	9	0	-7	6
Argentina		89575	-1.7	-3	-4	83	7		1784	96	-4	245	104
Brazil		108213	0.0	-6	-9	-9	3		290	22	-1	24	-21
Chile		4701	0.0	-5	-5	-1	9		170	25	20	33	30
Colombia		1575	0.0	-4	-2	22	12		358	14	21	122	10
Mexico		52513	-0.4	-4	-5	8	-1		373	21	36	30	41
Peru		22171	-0.7	-5	-13	16	5		190	24	23	12	40
Hungary		41737	-0.3	-3	-5	-4	-18		162	22	30	24	38
Poland		58169	-1.1	-7	-10	-2	-16		30	29	-15	-9	-2
Romania		12774	0.7	-2	3	13	-2		232	37	23	47	39
Russia		2395	3.3	3	-4	-33	-37		3411	-577	938	3228	3234
South Africa		70264	0.0	-5	-5	4	-5		368	37	10	30	13
Turkey		2420	0.1	-4	11	74	30		518	6	-31	16	-60
Ukraine		519	0.0	0	0	-2	-1		3688	275	486	3170	2929
EM total		41	0.8	-6	-9	-25	-16		408	28	-129	41	21

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

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