GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, APRIL 28, 2022

- **Japanese yen at 20-year low after Bank of Japan left policy unchanged** (link)
- **U.S. advance GDP data for Q1 significantly weaker than expectations** (link)
- **Market liquidity remains stretched across global markets** (link)
- **German CPI inflation higher but Spanish CPI below expectations** (link)
- **EU expected to pass sixth round of sanctions against Russia next week** (link)
- **Swedish central bank upgrades inflation outlook and hikes policy rate** (link)
- **China's State Council to promote platform economy and support jobless** (link)
- **Russia expected to cut policy rate after better-than-expected economic data** (link)

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Focus on currency markets amid policy and data divergence

The yen fell to a 20-year low after the Bank of Japan left its policy unchanged and did not make any changes to its forward guidance. The yen reversed some losses after the Ministry of Finance said that the slide warranted *extreme concerns*. The euro also trades at 5-yr lows as uncertainty about energy supply remains high. The Swedish krona gained after the Riksbank sharply upgraded its inflation outlook and lifted its policy rate from zero. The central bank of Russia is expected to cut its policy rate tomorrow as a range of economic data were better than expected in March.

Key Global Financial Indicators

Last updated: 4/28/22 1:29 PM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4184	0.2	-6	-9	0	-12
Eurostoxx 50		3782	1.3	-4	-3	-6	-12
Nikkei 225		26848	1.7	-3	-5	-8	-7
MSCI EM		42	1.2	-5	-8	-24	-15
Yields and Spreads				bps			
US 10y Yield		2.86	3.3	-4	41	126	135
Germany 10y Yield		0.89	8.9	-6	31	112	107
EMBIG Sovereign Spread		432	-2	20	-19	93	65
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		51.8	-0.1	-2	-1	-10	-1
Dollar index, (+) = $ appreciation		103.9	0.9	3	5	15	9
Brent Crude Oil ($/barrel)		104.7	-0.6	-3	-7	56	35
VIX Index (%, change in pp)		29.8	-1.8	7	10	13	13

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

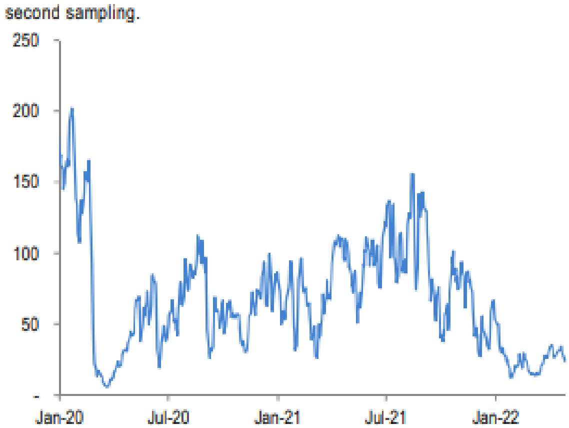
In key data releases this morning, GDP print for Q1 was reported at -1.4% on a qoq basis, underperforming significantly vs consensus expectations of +1.0% qoq growth. Personal consumption grew by 2.7% vs consensus expectations of 3.5% growth. Initial jobless claims were in line with expectations at 180k and marginally less than the last week.

U.S. equities edged higher in a volatile day of trading yesterday, with the S&P500 gaining 0.2% after slumping lower in the morning. 10-year Treasury yields rose 11 bps to break a 3-day streak where both 2- and 10-year yields had fallen about 20 bps. The 10-year ended today at 2.83%, down from an intraday peak of 2.98% a week ago. Corporate earnings have been mixed, with Alphabet (Google) down 3.7% following a downside miss yesterday evening, while Microsoft gained 4.8% after better than expected numbers. Strong earnings from Visa amid growth in spending on services also reassured investors concerned about consumer demand. The dollar index (DXY) gained 0.7% to extend a 5% gain over the last month, though it pared gains in the afternoon in line with the EURUSD rate

Liquidity conditions have improved somewhat but remain well below levels seen at the beginning of the year for both equities and bonds. Analysts note that weak market liquidity conditions continue to amplify volatility across asset classes. Since the beginning of March, while market depth has improved slightly for 10y Bund futures, there has been little improvement in the market depth for 10y UST futures—potentially reflecting market uncertainty about the rate hike path ahead.

Figure 4: Market depth proxy of S&P500 E-mini futures (ES1)

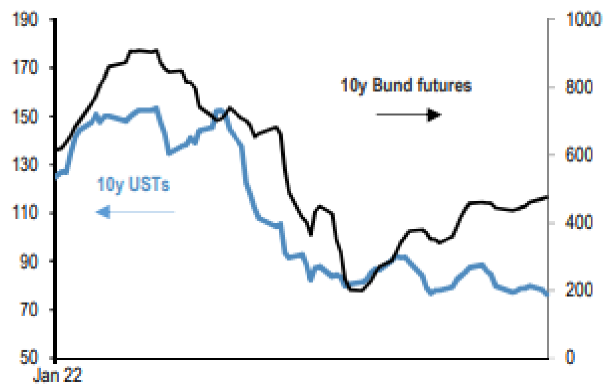
Average number of contracts on the tightest Bid/Ask in ES1 (S&P 500 E-mini futures). 3-day moving averages using daily data of bid/ask under 1-second sampling.



Source: J.P. Morgan

Figure 6: Market depth on 10y USTs and 10y Bund fu

5-day moving average of the daily average size of tightest three bids and asks each day, in no.of contracts



Source: J.P. Morgan

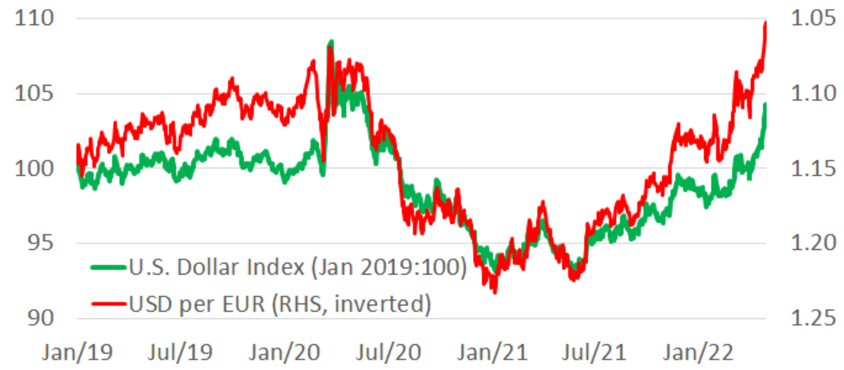
Europe

Shares (+1.1%) rose as earnings surprised to the upside. Bank stocks (+0.6%) underperformed.

German 10-yr bund yield (+7 bps to 0.87%) rose after CPI inflation was higher than expected at 7.8% yoy (7.6% yoy expected). Preliminary regional inflation data had suggested some upside risks earlier. **In contrast, 10-yr Spanish spreads tightened after Spanish HICP inflation was lower than expected at 8.3% yoy (9.1% expected).** Spanish core inflation rose to 4.4% from 3.4%. ECB Vice President de Guindos said that euro area inflation should start to decline in the second half of the year. **Contacts believe that recent ECB communication continues to suggest an end to asset purchases in July, likely followed by a hike later that month.**

The euro (-0.5%) remains under pressure but natural gas prices reversed some gains (1-month ahead -5% to €103/MWh) as the EU is working on reducing energy supply uncertainty after Russia cut gas supplies to Bulgaria and Poland. According to a source reportedly close to Gazprom, other cutoffs will not come immediately as next payments are due in the second half of May.

Broad U.S. Dollar Index and U.S. dollar per euro



Note: The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading currencies versus the U.S. dollar (in terms of share of international trade and FX liquidity).

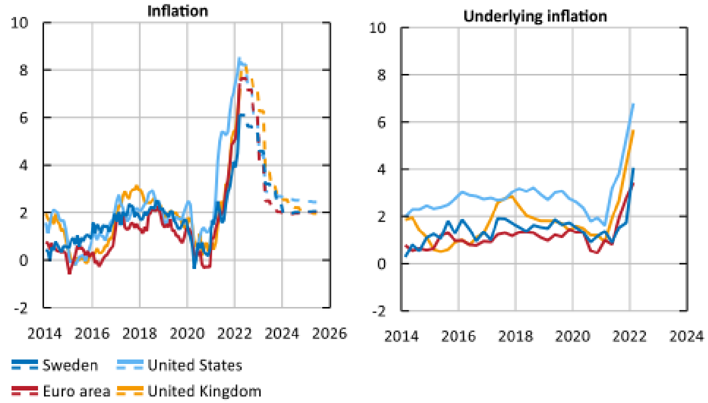
EC President von der Leyen warned companies not to bend to Russia's demands to pay for gas in rubles, adding that payment in ruble would breach sanctions. Nevertheless, ten European gas companies have reportedly opened ruble accounts at Gazprombank needed to meet Russia's demand. **Yesterday, Bloomberg reported that four European buyers have already paid in rubles.** Italian energy company Eni is reportedly preparing steps that would allow it to comply with Russian demand. German power company Uniper said publicly that it could keep buying Russian gas by making payments in euros to Gazprombank. **In a March 31 decree, President Putin ordered that gas exports to Europe should be paid for in rubles instead of euros or dollars, requiring that European gas importers should open both ruble and foreign currency accounts with Gazprombank and transfer dollars or euros to it.** The proceeds would then be exchanged into rubles to pay for gas.

The EU is expected to approve a sixth package of sanctions as early as next week. Germany is reportedly prepared to gradually reduce purchases of Russian oil, preferring it to other options such as a price cap or payment mechanisms withholding parts of Moscow's revenue. **Poland backs tougher measures and plans to propose a carbon market-like mechanism to guarantee that EU countries will phase out use of Russian fossil fuels.** There is also some speculation that any mechanism for a phase-out could apply to both oil and gas. **EU sanctions require unanimity.**

Sweden

The krona (+0.5%) is firmer against the euro after the Riksbank unexpectedly lifted its policy rate 25 bps from zero and upgraded its 2022 outlook for underlying CPIF inflation to 5.5% (from 2.9%). Some analysts had warned that the Riksbank could hike as inflation excluding energy had been significantly higher than central bank forecasts in February. **Earlier in 2022, the Riksbank signaled that it did not expect to raise its policy rate until the second half of 2024, but the Riksbank now expects an additional 2–3 rate hikes this year, and the policy rate to be "somewhat below 2% at the end of the three-year forecast period."** Consumer confidence in Sweden was also better than expected in April—at 75 compared to 70 expected.

Inflation and underlying inflation measures in Sweden, Euro area, UK, and US
Annual percentage change



Note. Consumer prices refer to the CPIF for Sweden, the CPI for the United States and the United Kingdom and the HICP for the euro area. Solid line refers to monthly outcomes, broken line refers to the Riksbank's quarterly forecast. Underlying inflation shows quarterly data and refers to the CPIF excluding energy for Sweden, the HICP excluding energy for the euro area and the CPI excluding energy and food for the United States and United Kingdom.

Sources: Eurostat, Statistics Sweden, UK Office for National Statistics, U.S. Bureau of Labor Statistics and the Riksbank.

Japan

Equities gained (NIKKEI: +1.7%) and the yen depreciated (-1.6%) after the Bank of Japan (BOJ) kept monetary policy unchanged and did not make any changes to its forward guidance. The policy balance rate will remain at -0.1%, the 10-year JGB yield target at zero (with a +/- 25 bps band), and no changes in the scale of asset purchases. **To defend the yield curve control, the BOJ promises to conduct unlimited bond purchases of 5- to 10-year JGBs at 0.25%) every day. The BOJ also revised up its CPI inflation for FY2022 to 1.9% from 1.1% while downgrading economic growth to 2.9% from 3.8%.** Governor Kuroda said that a weak yen was positive for the economy overall. **Long-end JGB yields dropped** (10-year: -2.1 bps; 30-year: -1.6 bps), with 10-year yield falling to 0.22%.

Industrial production increased 0.3% m/m in March, decelerating from 2.0% in February, weaker than expected (consensus: +0.5%). Meanwhile, **retail sales increased 2.0% m/m in March,** beating expectations (consensus: +1.0%).

Emerging Markets

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Asian equities gained, +0.8% on net, led by Hong Kong (+1.7%), Indian (+1.7%) and Chinese (CSI 300: +0.7%) equities. Asian currencies depreciated, led by Chinese yuan (-0.8%) and Korean won (-0.6%), as the U.S. dollar gained a broader strength. Long-end government bond yields were mixed, with 10-year yields rising in Malaysia (+12.8 bps) and India (+6.9 bps) while falling in Thailand (-3.7 bps). In India, markets started positioning for an aggressive rate hike cycle, expecting the policy rate to increase by 275 bps by end-2023; 1-year government bond yield also rose (+12.3 bps). In Indonesia, a ban on palm oil exports became effective today to bring down domestic cooking oil prices. The scope of the ban is larger than expected, estimated to cover about 90% of all palm oil exports. Indonesian rupiah depreciated (-0.5%). **Equities gained in Poland and Hungary with currencies also 0.2-0.4% firmer. Markets in LATAM were mixed.** Equity markets took a breather and closed 0.7%-1.6% higher, except in Mexico (-0.3%). The Brazilian real (+0.6%) and the Mexican peso (+0.2%) strengthened against the USD, while other regional currencies closed marginally lower. In Peru, President Pedro Castillo declared state of emergency in the areas surrounding one of the major copper mines of the country—Las Bambas—which is shut due to ongoing protest. The state of emergency suspends some of the constitutional rights like that of assembly for 30 days, as per a Bloomberg report.

China

The State Council pledged to promote the platform economy and support the unemployed. On Wednesday, the State Council's statement said that the healthy development of the platform economy should be facilitated to support the creation of more jobs. In addition, temporary cash handouts will be provided to jobless migrant workers who are not yet eligible for unemployment insurance benefits. Meanwhile, more cities are rolling out swift measures to keep COVID-19 flareups at bay, from mass testing drives to lockdowns after detecting a small number of infection cases; Hangzhou was a large city that will conduct a COVID-19 mass testing exercise. China will cut import tariffs for coal to zero, from May 1 this year through March 2023, to help ensure energy supply. Equities gained (CSI 300: +0.7%) as Beijing's mass testing did not detect widespread COVID-19 transmission; the COVID-19 situation in Shanghai also improved. RMB depreciated (-0.8%). Today, the RMB fixing was 36 pips weaker than expected. Analysts noted that the fixing suggested authorities' desire to moderate, but not stop, RMB depreciation.

Russia

The central bank is expected to cut its key policy rate 200 bps to 15% tomorrow after a range of economic data for March were better than expected, even as weekly inflation rose 0.25% in week ending 22 April. Retail sales rose to 2.2% yoy (-1.2% expected) and cargo shipments are up 3.5% yoy (-3.3% expected) in March, with unemployment at 4.1% expected (4.5% expected). Construction rose 6% yoy and industrial production was up 3% yoy in March (drop of -1.7% expected), helped by an increase in mining. **The ruble (+1.5% to 73 per $) rose and equities (-1.2%) fell in Moscow.**

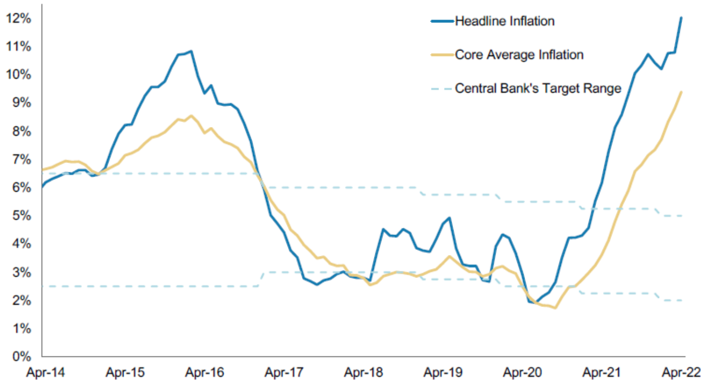
Ukraine

The White House plans to send a proposal for emergency funds for Ukraine to Congress covering needs till 30 September. Earlier this week, PM Shmyhal said that Ukraine requires $5 bn a month from international partners to meet social and humanitarian needs.

Brazil

Lower than expected inflation reported. April IPCA-15 came in at 12.03% y/y vis-a-vis 10.79% in the previous month, while the core inflation too increased to 9.3% y/y vis-à-vis 8.7% in March. IPCA-15 is one of the three consumer price indices estimated by the Brazilian authorities, and it computes the price change between middle of the previous month and middle of the current month. **While inflation remains on an upward trajectory, it was lower than the consensus estimate of 12.15% y/y. Analysts believe that April inflation could well be the peak but high core inflation is indicative of its persistence going forward.** Hence, the Brazil Central Bank (BCB) is still widely expected to hike the policy rate by 100 bps in the next meeting. Both equities and currency markets closed a tad higher yesterday, while the swap rates were mostly down.

Exhibit 2: Brazil: Headline and Core Inflation vs. Target Range (% change y-o-y)



Source: IBGE, Morgan Stanley Latam Economics

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Global Financial Indicators

Last updated: 4/28/22 1:30 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4212	0.2	-4	-8	1	-12
Europe		3782	1.3	-4	-3	-6	-12
Japan		26848	1.7	-3	-5	-8	-7
China		2975	0.6	-3	-7	-14	-18
Asia Ex Japan		69	1.3	-4	-8	-27	-16
Emerging Markets		42	1.2	-5	-8	-24	-15
Interest Rates					basis points		
US 10y Yield		2.86	3.3	-4	41	126	135
Germany 10y Yield		0.89	8.9	-6	31	112	107
Japan 10y Yield		0.23	-1.6	-2	-2	13	16
UK 10y Yield		1.87	5.3	-15	25	107	89
Credit Spreads					basis points		
US Investment Grade		153	-1.1	2	13	61	41
US High Yield		406	-4.9	23	23	75	68
Europe IG		87	-0.9	8	8	36	39
Europe HY		409	-5.3	33	48	157	167
Exchange Rates					%		
USD/Majors		103.88	0.9	3	5	15	9
EUR/USD		1.05	-0.7	-3	-5	-14	-8
USD/JPY		130.9	1.9	2	6	20	14
EM/USD		51.8	-0.1	-2	-1	-10	-1
Commodities					%		
Brent Crude Oil ($/barrel)		105	-0.6	-3	-7	56	35
Industrials Metals (index)		202	-0.8	-5	-5	30	17
Agriculture (index)		78	0.2	0	5	34	28
Implied Volatility					%		
VIX Index (%, change in pp)		29.8	-1.8	7.1	10.2	12.5	12.6
US 10y Swaption Volatility		122.3	-5.1	-3.6	-4.9	47.7	43.3
Global FX Volatility		10.2	0.0	1.1	0.6	3.1	2.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		227	3.3	25	1	108	75
Italy		177	-0.7	11	24	66	42
Portugal		103	-1.5	3	27	36	39
Spain		98	-1.4	3	10	31	24

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
28/04/2022	Level		Change (in %)					Level		Change (in basis points)				
1:31 PM	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		6.62	-0.9	-2.5	-4	-2	-4		2.9	0.6	3	4	-32	7
Indonesia		14494	-0.6	-1.0	-1	0	-2		7.0	2.0	3	26	47	60
India		76	0.1	-0.4	0	-3	-3		6.3	0.0	0	9	75	0
Philippines		52	-0.3	0.2	0	-7	-2		5.3	0.0	3	8	90	83
Thailand		34	-0.3	-1.7	-2	-9	-4		2.8	2.0	15	22	74	91
Malaysia		4.36	-0.1	-1.7	-3	-6	-5		4.4	11.7	25	43	123	82
Argentina		115	-0.2	-0.9	-4	-19	-11		52.7	-7.4	217	295	589	215
Brazil		5.01	-0.9	-7.8	-5	7	11		11.6	-56.2	-43	-1	251	93
Chile		848	-0.5	-3.9	-8	-17	0		6.4	0.0	-10	12	274	93
Colombia		3959	-0.5	-5.1	-4	-6	3		8.4	0.0	24	16	278	197
Mexico		20.47	-0.4	-1.5	-2	-3	0		8.9	0.0	20	46	214	139
Peru		3.8	0.0	-3.0	-3	0	4		7.9	0.0	23	109	243	197
Uruguay		41	-0.2	-1.4	0	7	8		9.9	0.0	44	124	248	113
Hungary		359	-0.4	-4.9	-5	-17	-10		6.7	-9.0	5	33	418	215
Poland		4.47	-0.3	-4.3	-4	-16	-10		5.7	1.3	7	67	383	215
Romania		4.7	-0.6	-3.4	-5	-14	-8		6.6	11.3	16	61	401	180
Russia		72.6	1.6	11.5	30	2	4		12.0	-66.8	-19	-669	464	319
South Africa		16.0	-0.6	-3.8	-8	-11	0		8.3	8.2	10	24	86	90
Turkey		14.82	-0.1	-0.8	0	-45	-10		20.9	-28.0	-103	-574	226	-347
US (DXY; 5y UST)		104	0.9	3.3	5	15	9		2.86	3.0	-11	30	201	160

	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		3921	0.7	-2	-5	-24	-21		211	6	-1	2	8
Indonesia		7229	0.4	-1	3	20	10		187	13	13	18	22
India		57521	1.2	-1	-1	16	-1		175	3	15	8	43
Philippines		6909	0.7	-2	-3	7	-3		143	13	22	49	42
Malaysia		1597	0.7	0	1	-1	2		123	8	0	-7	6
Argentina		90033	0.5	-3	-2	80	8		1769	67	-19	251	89
Brazil		109349	0.0	-5	-8	-10	4		288	16	-3	24	-23
Chile		4775	0.0	-3	-3	4	11		165	11	15	30	25
Colombia		1586	0.7	-2	-1	23	12		356	13	19	116	8
Mexico		52351	-0.3	-3	-6	8	-2		370	13	33	26	38
Peru		22463	1.3	-5	-11	18	6		188	11	21	13	38
Hungary		43303	2.8	0	-2	-1	-15		170	20	38	38	46
Poland		58333	0.3	-6	-10	-4	-16		30	22	-15	-8	-2
Romania		12818	0.8	-1	3	12	-2		236	30	28	55	43
Russia		2397	-1.1	6	-1	-33	-37		3411	-577	938	3228	3234
South Africa		71464	1.7	-3	-4	6	-3		371	34	13	35	16
Turkey		2449	-0.1	-4	13	77	32		514	10	-35	24	-64
Ukraine		519	0.0	0	0	-2	-1		3703	192	501	3179	2944
EM total		42	1.1	-5	-8	-24	-15		405	18	-131	42	19

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

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