



- US yield curve inverts further after strong jobs report ([link](#))
- Markets expect 50 bps hike at May Fed meeting ([link](#))
- Analysts bring forward ECB rate hike expectations ([link](#))
- EU ponders news sanctions on Russia ([link](#))
- US stocks boosted by negative real yields ([link](#))

[Mature Markets](#)



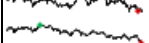
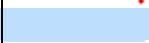


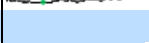



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## Markets are cautious on prospects of further Russia sanctions

**US equity index futures were mixed and European stocks little changed as markets confront possible new sanctions on Russia.** Overnight, stocks rallied in China on news that regulators made changes for companies with US listings to make it easier for them to be audited in the US. However, the spread of Covid and the continuing lockdown in Shanghai raise questions about the impact on the Chinese economy and global supply chains. The further inversion of the US yield curve is drawing more scrutiny, as the yield spread between the two-year note and the 30-year bond turned negative for the first time since 2007, and the two-year/10-year spread turned negative on Friday. The curve inversion has raised fears about a future recession as the Fed embarks on a new rate hike cycle. Markets in Latin America face challenges but rising commodity prices provide grounds for hope. Brazil stands out with its booming stock market and surging currency. The economic crisis in Sri Lanka is growing, causing multiple officials including the central bank governor to resign.

Key Global Financial Indicators

Last updated: 4/4/22 7:58 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4546	0.3	0	5	13	-5
Eurostoxx 50		3921	0.1	1	10	-1	-9
Nikkei 225		27736	0.3	-1	7	-8	-4
MSCI EM		46	1.7	2	3	-15	-6
Yields and Spreads			bps				
US 10y Yield		2.38	-0.2	-8	65	66	87
Germany 10y Yield		0.49	-6.9	-9	56	81	66
EMBIG Sovereign Spread		399	0	-52	-83	46	32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.5	0.1	2	6	-5	2
Dollar index, (+) = \$ appreciation		98.9	0.2	0	0	6	3
Brent Crude Oil (\$/barrel)		105.3	0.9	-6	-11	62	35
VIX Index (% change in pp)		20.3	0.7	1	-12	3	3

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

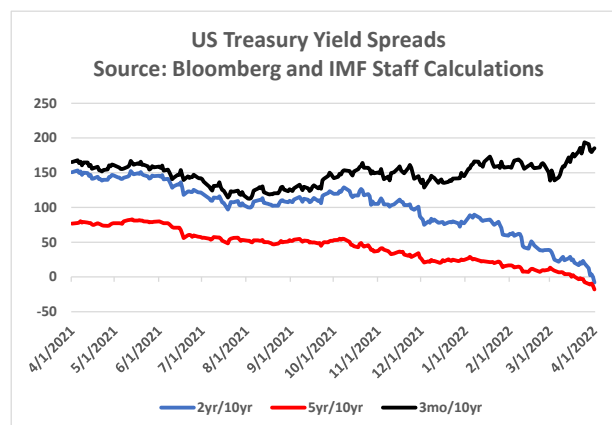
## Mature Markets

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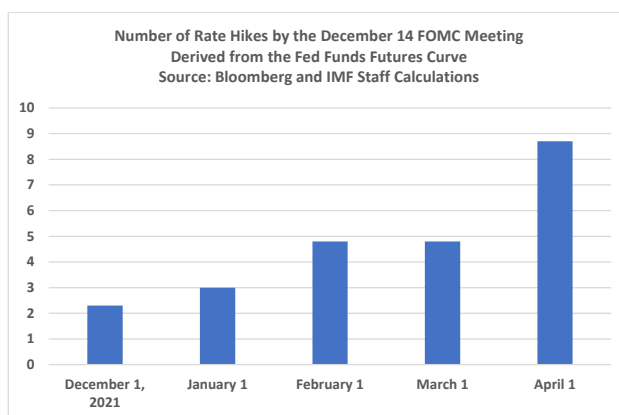
Following Friday's robust US jobs report, close attention will be paid to the FOMC minutes—due on Wednesday—where details about the mechanics of quantitative tightening may be revealed. The strong jobs data is viewed as giving the Fed the green light to go ahead with more aggressive rate hikes. Other important US releases this week include durable goods and PMIs. China is also due to publish PMI data on Wednesday. In the euro area, PPI, PMIs, and German industrial production will draw the most scrutiny. The Reserve Bank of Australia meets tomorrow, the central bank of Peru on Thursday and the Reserve Bank of India on Friday.

### United States

The US yield curve inverted further after the strong US jobs report. The spread between the two-year and 10-year Treasury yields went negative, and the spread between the five-year and ten-year went more negative than before. Conventional wisdom holds that yield curve inversions are harbingers of recessions, although this has not always been the case with the 2019 inversion being an example (the brief recession that did occur in 2020 was obviously caused by the external shock of pandemic and not fundamental economic causes). However, the robust job market is seen as giving the Fed the green light to hike more aggressively to fight inflation, as the economy is doing well enough to withstand the rate hikes. The three-month/10-year spread, which the Fed uses as an input for its recession model, has actually steepened in contrast with the rest of the curve, leading some analysts to conclude that the Fed will see its way clear to moving aggressively.

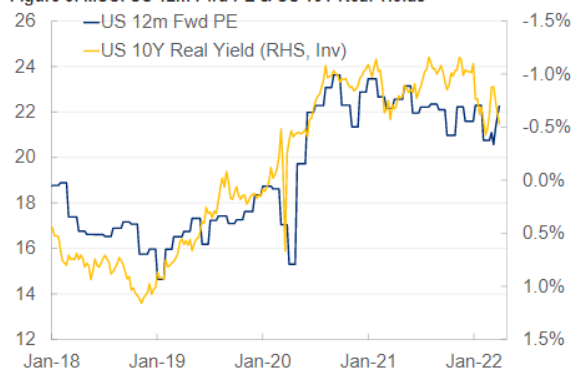


Markets seem to agree with this view, with the Fed Funds futures curve projecting nearly 9 rate hikes by the end of the year, in stark contrast to previous months. Both Fed Funds futures and eurodollar futures have priced nearly a full 50 bps for the May 4<sup>th</sup> FOMC meeting.



US equities are being boosted by negative real rates, according to research by analysts from Citi. They point out that the US stock market's 12-month forward price-earnings ratio (PE) has closely tracked the movement in 10-year Treasury Inflation Protected Securities (TIPS) yield. According to their analysis, since 2018, 83% of the movement of the forward PE can be explained by the move in the 10-year TIPS real yield.

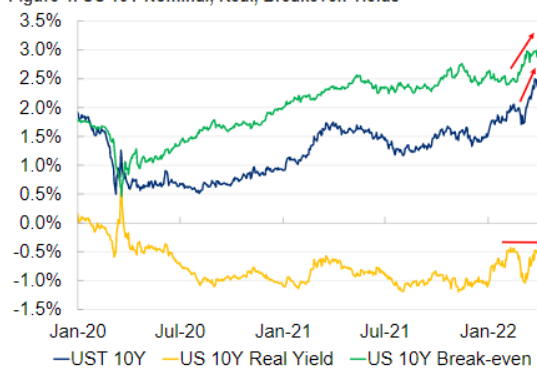
Figure 3. MSCI US 12m Fwd PE &amp; US 10Y Real Yields



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Source: Citi Research, DataStream

Figure 4. US 10Y Nominal, Real, Breakeven Yields

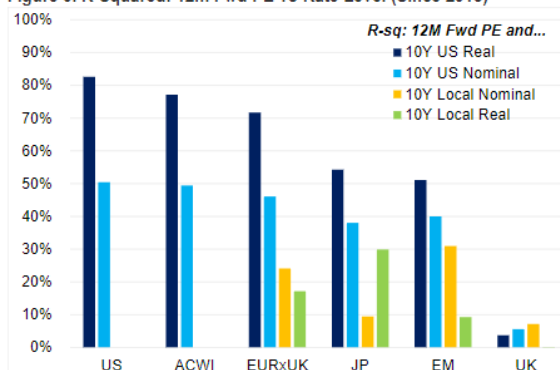


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Source: Citi Research, DataStream

**PEs for stocks in other parts of the world are also closely tracking the 10-year US real yield, more than they do their domestic real yields (the UK is the main exception).** Nominal two-year rates in the US shot up this year in anticipation of faster Fed rate hikes, but the two-year TIPS yield has remained mired in deeply negative territory. In an environment of negative real rates, equities remain an attractive asset as other markets offer few opportunities. In addition, corporate balance sheets remain strong, and credit markets are holding steady, all positives for the equity market.

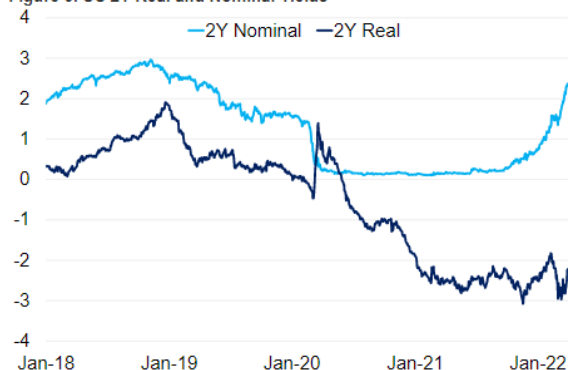
Figure 5. R-Squared: 12m Fwd PE To Rate Level (Since 2018)



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Source: Citi Research, DataStream, Bloomberg

Figure 6. US 2Y Real and Nominal Yields



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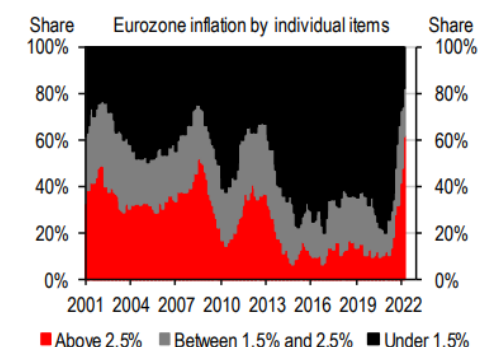
Source: Citi Research, Bloomberg

## Euro area

**Stocks are oscillating between gains and losses in the early morning session, with the benchmark Stoxx 600 European index trading (+0.4%) higher in later trade.** The euro depreciated (-0.3%) after the eurozone Sentix investor confidence index decreased significantly in April. **European sovereign yields fell (10-yr bund yield -5bps) and southern spreads widened (Italy's 10-yr spread + 2bps).**

**Analysts note that while energy has been the main driver of higher inflation, drivers have been broadening** with roughly 60% of the eurozone inflation basket showing inflation of above 2.5%. HSBC analysts expect 2022 average inflation of 6.5% and core inflation of 2.7%, with eurozone labor market pressure relatively less pronounced than in the US and the UK. Analysts caution that an escalation or continuation in of the war in Ukraine could push energy prices upwards and result in eurozone inflation peaking at over 8%.

## 13. But inflation is broadening out...



## 14. ... although at least in the eurozone, labour costs remain contained

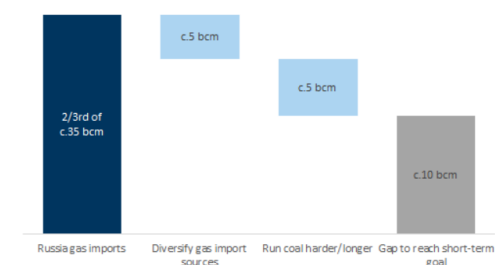


**JPMorgan analysts brought forward ECB hike expectations and now see the first hike in September followed by another in December**, followed with a further four hikes in 2023 to take the rate to 1% by the end of next year. Following higher-than-expected inflation data, analysts also lowered 2Q22 economic growth expectations to +2.3% from +3% previously. **HSBC analysts maintain their expectations of the first 25bps hike in October**, with the end of asset purchases seen to be announced in June and the final €10 bn of purchases to occur in July. Analysts expect eurozone economic growth to reach 2.6% in 2022, compared to a previous forecast of 3.8%. Markets are pricing 50 bps of hikes by the end of 2022.

**Analysts caution that the goal of reducing Russian gas imports by 2/3<sup>rd</sup> by end 2022 would be challenging—especially for Germany and Italy but reducing Russian gas to zero before 2030 is seen as more feasible.** The EU has proposed a plan to make the EU independent from Russian fossil fuels by 2030, starting with gas. Diversification of gas supplies, speeding up the roll-out of renewable gases and also replacing gas in heating and power generation, could decrease EU demand for Russian gas by two thirds by the end of the year.

Exhibit 16 : The short-term goal appears nearly impossible to meet for both Italy...

Italy: Measures to reduce reliance on Russian gas imports by 2/3<sup>rd</sup> (bcm, near-term)



Source: Arera, Goldman Sachs Global Investment Research

Exhibit 17 : ...and Germany and a significant gap remains

Germany: Measures to reduce reliance on Russian gas imports by 2/3<sup>rd</sup> (bcm, near-term)



Source: Eurostat, Goldman Sachs Global Investment Research

## Emerging Markets

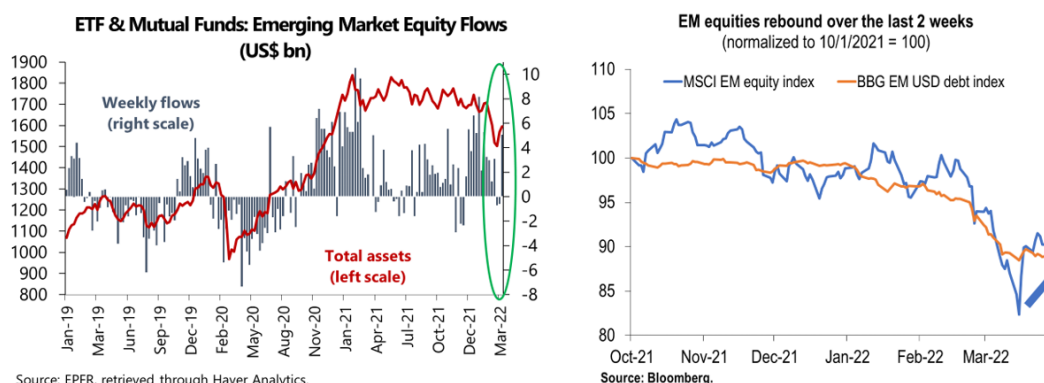
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The EU confirmed that it is working on additional sanctions against Moscow. **Negotiators from Russia and Ukraine may reportedly still resume virtual talks today.** The central bank of **Romania** is expected to hike its policy rate 50 bps to 3% (Tuesday) whereas the central bank of **Poland** is expected to hike its policy rate 50 bps to 4% (Wednesday). Contacts see a relatively high likelihood of a hike of 75 bps in Poland. Stocks in **Asia** were slightly higher and currencies were mixed. Markets were in disarray in Sri Lanka as several cabinet ministers and the central bank governor resigned amidst a worsening foreign

exchange and financial crisis. The Bank of Korea is to buy 2 tn won of government bonds to stabilize the market. **Latin American** equities followed US stocks higher, with exceptional rallies in Argentina (+1.6%) and Brazil (+1.3%). In Peru, March inflation surged past the central bank's target, prompting speculation of a 50-75 bps rate hike from the current level of 4% at the upcoming meeting.

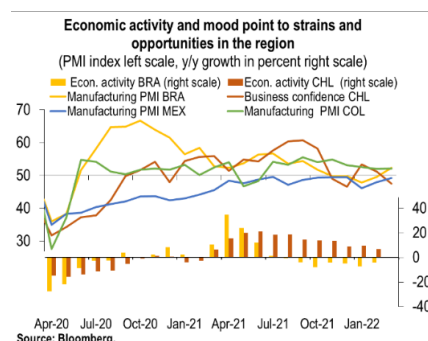
## EM funds

**Emerging market (EM) equity funds profited last week from a recovery in equity markets.** Investors piled \$5 bn into EM equity funds and slowed down bond fund withdrawals to \$0.1 bn. Inflows to the equity segment were directed to ETFs, while mutual funds saw minor outflows. A \$0.3 bn outflow from mutual bond funds was partially offset by ETFs that still attracted investors. Outflows from local (\$0.7 bn) and blended currency funds (\$0.3 bn) were nearly balanced by flows to hard currency funds. Withdrawals from China focused debt funds constituted more than half of the outflows from the local currency segment.



## Latin American Regional Growth Dynamics

**Economic data for Latin America displayed strained economic conditions but also reason for optimism.** Last Friday's prints in various purchasing manager indices (PMI), business confidence and growth rates in economic activity pointed to strains and opportunities emanating from current global conditions. Declining growth and waning economic optimism provided some background color for the more dovish attitude in Chile's monetary policy. Growth above expectations and a positive manufacturing purchasing manager index indicated recovery potential for Brazil. The country has a record March trade surplus, booming stock markets (+16% YTD) and a surging real (+20% YTD) highlight the opportunities emanating from currently strong commodity markets. In Colombia a majority of manufacturing purchasing managers continued to display confidence, while in Mexico purchasing managers' optimism rose, as remittances grew more than 20% y/y and continued to provide support for aggregate demand.

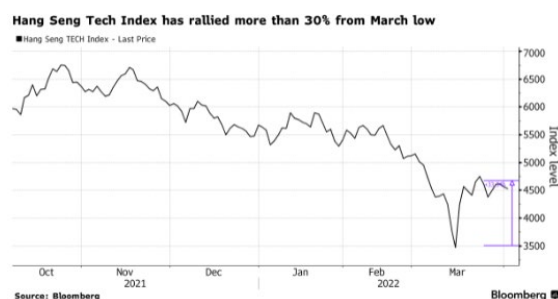


## China

**China securities regulator eased confidentiality rules for listed offshore companies.** The regulator's new draft rules removed a requirement for on-site company inspections to be undertaken primarily by Chinese regulators, Reuters reports. The move helps US-listed Chinese companies (about 270) facing forced delisting in 2024 as they currently are unable to meet US inspection requirements. Separately, **China included 11 more cities in digital yuan trials.** Tianjin, Chongqing, and Guangzhou are among the newly included cities, Bloomberg reports. China's central bank said it will focus on crime prevention, privacy protection, and studies of the digital yuan's financial system impacts. Meanwhile, **China reported a new**



**iteration of COVID-19 virus near Shanghai as cases continue to climb.** The entire city with 25 mn inhabitants was placed under lockdown.



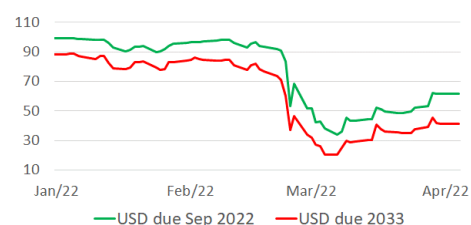
## Russia

**The off-shore ruble is little changed (+1% at \$84) as the EU is expected to impose further sanctions on Russia.** Several EU member states are expected to put renewed pressure on Germany and Italy to consider a gas import ban. **Lithuania is the first EU member state to fully stop importing Russian gas, with other Baltic countries expected to follow soon.** Stocks in Moscow (+0.8%) were little changed. **Expectations are that international holders of Russia's Eurobond due today will be paid.** Last week, Russia bought back almost three-quarters of the \$2 bn bond using local currency. Current exemptions by the U.S. Office of Foreign Assets Control allow U.S.-based entities and investors to receive Russian debt payments, but the exemption is set to expire on May 25 unless extended.

## Ukraine

**Bank of America believes that a price of around \$42 for 10-yr Ukraine's Eurobonds is fair value.** Ukraine has demonstrated a high willingness to avoid default, but Bank of America expects Ukraine to end the year with a debt-to-GDP ratio of around 130%, a level that would require restructuring. It sees three relevant scenarios to help cover post-crisis reconstructions costs: 1/ frozen Russian assets are seized and used to pay damages to Ukraine, 2/ the West and Russia share the cost of rebuilding Ukraine, and 3/ the West and Ukraine share the cost without Russian help. **The Ukrainian government expects \$1 tn of losses associated to the war, with the direct losses so far over \$565 bn.** The estimate in losses so far can be broken down into \$119 bn loss of infrastructure, \$122 bn decline in 2022 GDP, \$91 bn in civilian property losses, \$80 bn in loss of enterprises and organizations, \$54 bn loss in direct investment and \$48 bn in losses to the state budget.

Ukraine: Prices of U.S. dollar bonds



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## Global Financial Indicators

Last updated: 3/4/22 5:42 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4328	-0.8	-1	-4	15	-9
Europe		3556	-5.0	-10	-13	-4	-17
Japan		25985	-2.2	-2	-5	-10	-10
China		4496	-1.2	-2	-3	-15	-9
Asia Ex Japan		75	-2.2	-5	-8	-19	-9
Emerging Markets		45	-2.0	-6	-8	-16	-9
<b>Interest Rates</b>			basis points				
US 10y Yield		1.75	-11.0	-21	-16	19	24
Germany 10y Yield		-0.07	-8.9	-30	-27	24	11
Japan 10y Yield		0.16	-1.4	-5	-4	3	9
UK 10y Yield		1.21	-9.1	-25	-20	48	24
<b>Credit Spreads</b>			basis points				
US Investment Grade		155	6.4	12	28	63	43
US High Yield		427	17.5	28	41	80	89
Europe IG		83	5.5	15	18	34	35
Europe HY		399	25.7	67	84	148	157
<b>Exchange Rates</b>			%				
USD/Majors		98.52	0.8	2	3	8	3
EUR/USD		1.09	-1.2	-3	-5	-9	-4
USD/JPY		114.9	-0.5	-1	0	6	0
EM/USD		50.6	-1.6	-5	-5	-10	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		118	6.7	25	29	94	53
Industrials Metals (index)		215	4.2	14	18	52	24
Agriculture (index)		75	1.2	11	15	46	24
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		32.0	1.5	4.4	8.8	3.4	14.8
US 10y Swaption Volatility		126.7	15.0	33.9	46.0	43.3	47.7
Global FX Volatility		9.7	0.9	1.9	2.2	1.9	2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		243	7.5	9	37	116	92
Italy		161	5.7	0	7	56	26
Portugal		91	6.2	4	14	32	26
Spain		104	5.6	6	21	35	30

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

Last updated: 3/21/2022 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		6.36	0.1	0.2	0	2	0		2.9	2.5	6	-5	-45	2		
Indonesia		14337	0.0	0.0	0	0	-1		6.7	-1.8	-2	21	-9	32		
India		76	-0.4	0.6	-2	-5	-2		6.3	0.0	0	9	75	0		
Philippines		52	0.0	0.2	-2	-7	-3		5.1	0.0	3	8	38	58		
Thailand		34	-0.5	-0.2	-4	-8	-1		2.4	3.5	4	11	50	50		
Malaysia		4.20	-0.2	0.1	-1	-2	-1		3.7	0.4	1	3	25	10		
Argentina		110	-0.2	-0.7	-3	-17	-6		49.0	38.8	103	106	342	-153		
Brazil		5.01	0.2	2.1	2	10	11		12.2	-24.0	-19	57	375	153		
Chile		805	-0.1	1.0	-1	-11	6		5.9	1.0	-13	-2	262	48		
Colombia		3819	0.1	0.0	3	-7	6		7.8	-5.5	-50	12	263	136		
Mexico		20.38	-0.1	2.6	0	1	1		8.2	-11.0	-18	45	170	71		
Peru		3.8	-0.8	-2.0	-1	-2	6		6.5	-3.3	-21	50	193	62		
Uruguay		43	-0.1	0.1	1	4	5		8.4	0.0	0	31	105	-33		
Hungary		339	0.1	0.8	-7	-10	-4		5.8	5.0	0	111	331	128		
Poland		4.26	0.2	1.9	-6	-10	-5		4.6	7.4	-2	79	290	105		
Romania		4.5	-0.1	0.9	-2	-9	-3		5.7	-11.0	-29	55	301	86		
Russia		104.8	-0.6	15.3	-24	-29	-28		21.4	-383.8	-992	1072	1398	1258		
South Africa		14.9	0.2	1.2	1	-2	7		8.1	0.3	-3	53	45	63		
Turkey		14.83	-0.2	-0.2	-8	-47	-10		26.6	15.0	61	472	1251	225		
US (DXY; 5y UST)		98	0.1	-0.7	2	7	3		2.21	6.6	12	39	133	95		

	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	
								basis points					
China		4259	-0.2	2	-7	-16	-14		225	-2	18	18	22
Indonesia		6955	0.0	0	1	10	6		192	-18	2	16	27
India		57292	-1.0	3	0	15	-2		169	-26	14	12	37
Philippines		6957	-0.7	2	-7	9	-2		137	-18	-4	36	36
Thailand		1674	-0.3	1	-1	7	1		0	0	0	0	0
Malaysia		1587	-0.3	1	1	-2	1		135	-13	5	9	18
Argentina		89058	-0.7	0	-1	82	7		1791	-26	84	277	111
Brazil		115311	0.0	3	3	-1	10		308	-19	-23	39	-3
Chile		4854	0.0	6	7	0	13		160	-17	-6	26	20
Colombia		1540	-0.2	-1	3	16	9		338	-40	-40	121	-10
Mexico		55467	2.0	4	7	18	4		351	-22	-13	15	19
Peru		25080	0.6	1	6	13	19		173	-16	-10	25	23
Hungary		44304	0.8	5	-9	1	-13		152	-15	-5	15	28
Poland		63982	0.5	7	1	11	-8		50	-23	35	16	18
Romania		12772	0.7	4	-2	17	-2		216	-33	0	24	23
Russia		2470	#VALUE!	0	-19	-29	-35		3196	-3406	2906	3020	3019
South Africa		74848	0.0	4	-1	14	2		369	-9	-21	9	14
Turkey		2173	1.4	4	7	42	17		578	-55	27	160	0
Ukraine		519	0.0	0	0	0	-1		3248	-796	2251	2748	2489
EM total		45	-1.4	7	-7	-16	-7		540	-57	111	184	153

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

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