



- Global bond markets confront rate faster hikes ([link](#))
- Russian eurobonds fall on new restrictions by US Treasury ([link](#))
- Credit spreads in US narrow as volatility improves ([link](#))
- US inflation could be easing ([link](#))
- Reserve Bank of Australia turns hawkish ([link](#))
- **Special Feature: Emerging Market Issuance Monitor** (attached)

[Mature Markets](#)




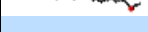
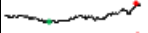
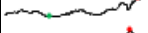
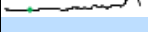


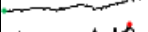
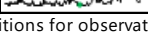
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Markets retreat as Ukraine crisis escalates

The prospect of further US and EU sanctions on Russia sent US equity index futures lower and reversed most earlier gains in European stocks. The US Treasury announced new restrictions on Russian bond payments and the EU is actively considering a ban on coal exports from Russia. Meanwhile, Treasury yields pushed higher for a third day in a row ahead of tomorrow's FOMC minutes, and the US yield curve remains inverted although the two-year/10-year Treasury portion of the curve has steepened in early morning trading to less than a basis point of inversion. Euro area yields were also higher on news that the services PMI in France saw input costs at a record high. Continued Covid-related lockdowns in Shanghai and other parts of China further clouded the outlook. The yen gained as BOJ Governor Kuroda characterized recent moves in the yen as "somewhat rapid." The currency is down over 6% already this year, a very large move.

Key Global Financial Indicators

Last updated: 4/5/22 7:58 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4583	0.8	0	6	12	-4
Eurostoxx 50		3930	-0.5	-2	11	0	-9
Nikkei 225		27788	0.2	-2	7	-6	-3
MSCI EM		47	1.8	3	5	-14	-4
Yields and Spreads			bps				
US 10y Yield		2.47	7.0	7	73	77	96
Germany 10y Yield		0.57	6.1	-7	64	90	74
EMBIG Sovereign Spread		392	-7	-57	-119	39	25
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.6	0.0	1	6	-5	2
Dollar index, (+) = \$ appreciation		99.0	0.0	1	0	7	3
Brent Crude Oil (\$/barrel)		108.0	0.4	-2	-9	74	39
VIX Index (% change in pp)		19.1	0.6	0	-13	1	2

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

Mature Markets

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Advanced Economy Bond Markets

Interest rates at the short end of the yield curve continued to march higher to price in more aggressive central bank rate hikes. One-year forward 12-month overnight index swap (OIS) rates are now 175 bps, 125 bps and 100 bps higher than the start of the year for the US, euro area and the UK respectively. The US yield curve has inverted and the yield curves in the euro area and the UK are flattening rapidly. Analysts at JP Morgan forecast that the Fed will hike by 50 bps at both the May 4 and June 15 meetings, with 25 bps moves after that until March 2023, taking the policy rate to 2.75%–3%. For the UK, they expect four more 25 bps hikes this year and three more in 2023, taking the policy rate to 2.5%. In the euro area, the forecast is for a 25 bps hike in September and three more next year to hit 1% before pausing. The forward OIS curve predicts that rates will hit their peak in 12 months for the US, euro area and UK, although other countries will take longer.

Exhibit 1: 1Yx1Y OIS rates are now about 175bp, 125bp and 100bp higher than at the beginning of the year for the Fed, the ECB and the BoE, respectively

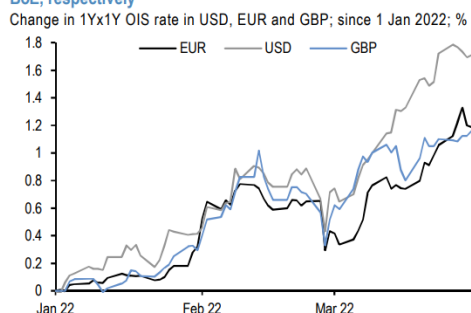


Exhibit 2: The peak in DM OIS rates is now priced in 1YxY or 2Yx1Y forwards with the exception of the JPY and EUR curve, with the latter having only a local peak in 2Yx1Y

Level of 1Yx1Y, 5Yx1Y OIS rate across various DM OIS curves, with peak level and timing of the peak among 1Y forwards in the first 15Y of the curve;

	1Yx1Y rate	5Yx1Y rate	Peak in 1Y fwd OIS	
			Rate	1Y fwd point
EUR	1.01%	1.08%	1.53%	12Yx1Y
USD	2.86%	1.94%	2.86%	1Yx1Y
GBP	2.43%	1.47%	2.43%	1Yx1Y
JPY	0.05%	0.29%	0.88%	15Yx1Y
SEK	1.84%	1.87%	2.12%	2Yx1Y
NOK*	3.01%	2.72%	3.11%	2Yx1Y
AUD	3.06%	3.09%	3.28%	2Yx1Y
NZD	3.69%	3.18%	3.69%	1Yx1Y

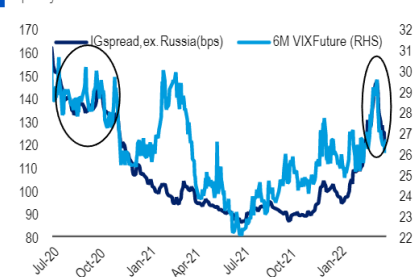
* For Norway we use 3s swap rates

United States

Investment grade (IG) credit spreads have improved recently as market interest rate volatility pulls back from the height of the post-invasion selloff. However, relative to equities, current spreads are still near levels seen during the liquidity crisis of 2020. The IG bond market faces several challenges as well as some more supportive trends. Uncertainty about Fed policy on rate hikes and the Fed's balance sheet is a problem for markets generally. The impact of high energy prices on the US economy is another unknown. Some analysts worry that demand for IG bonds may be weaker going forward as foreign investors and retail reduce purchases. Bank of America points out that foreign and retail investors bought 70% of all new issuance in 2020 and 2021. The fallout from the Ukraine war is another risk. On the positive side, issuance is expected to decline as many companies have hit their funding targets and have less need to borrow. In addition, the spread widening that occurred now offers more attractive entry points for investors.

Figure 5: IG spreads are near 2020 levels vs. equity volatility

Relative to 6M VIX futures IG spreads are trading near the levels from the liquidity crisis in 2020.

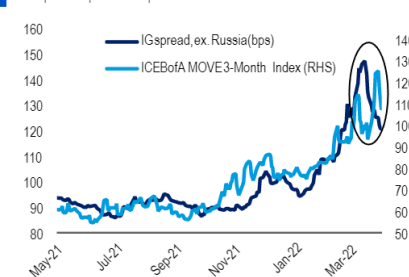


Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg.

BofA GLOBAL RESEARCH

Figure 6: Tighter IG spreads, lower rates vol in March

IG corporate spreads outperformed interest rate uncertainties in March.



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg.

BofA GLOBAL RESEARCH

Inflationary pressures may be abating in the US as the economy recovers and reopens, although there is a high risk that it could accelerate again if conditions change. Analysis by Bank of America finds that despite the high level of core PCE inflation at 5.4%, prices are well above trend in just 22% of the components of core PCE, while inflation in 72% of the components are back down to trend levels. Inflation in the 22% component is running at 9.6% year-over-year (yoy) and contributed 2% to the core PCE. For the 72% component, inflation is running at 4.7% yoy and it contributed 3.4% to the core PCE. A third category is undershooting and contributed 0% to inflation. The table below breaks out the contributions to inflation of the three components by durables goods, non-durable goods, and services. However, survey data show that inflation expectations remain very high and there is a risk that they may become entrenched, in which case the Fed may feel the need to be more aggressive.

Exhibit 3: Shares of the core PCE in the three buckets, broken out into durables, nondurables and services

Since end-2020, about half of durables have moved into the Overshoot bucket while many services prices have returned to trend

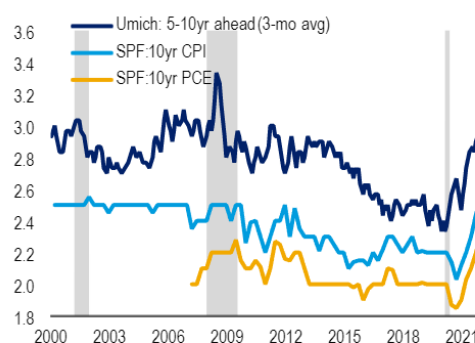
	Durables	Nondurables	Services
As of Feb 2022			
Overshoot	8.1%	2.1%	11.5%
Undershoot	0.0%	3.5%	2.7%
On-trend	6.5%	7.6%	58.0%
As of Dec 2020			
Overshoot	0.7%	1.3%	8.1%
Undershoot	0.0%	4.0%	22.2%
On-trend	12.7%	7.9%	43.1%

Source: BofA Global Research, Bureau of Economic Analysis

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Exhibit 4: Inflation expectations (%)

Long-term inflation expectations have risen to the top end of the range in which the Fed is likely comfortable



Source: University of Michigan, FRB Philadelphia

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Euro Area

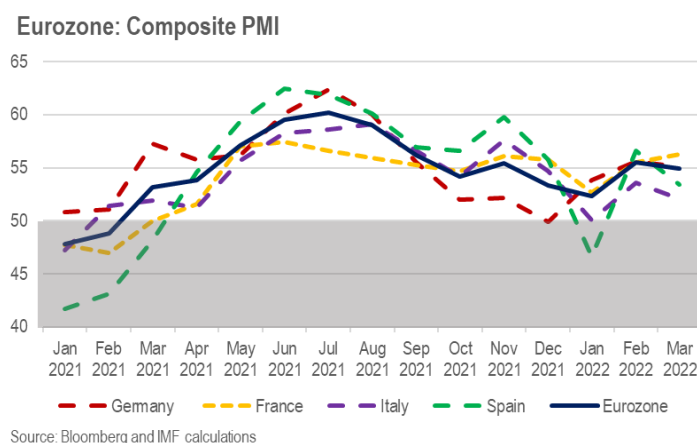
Most equity markets were lower. The euro appreciated in early trade but retraced gains as the morning session continued. Some analysts warn that the performance of the currency is closely tied to potential energy market sanctions—with larger energy sanctions expected to weigh more heavily on the euro.

The EU is expected to propose further sanctions on Russia today, with a ban on coal reportedly being considered. Amid calls to ban Russian energy imports, France is prepared to include oil and coal industries, according to French finance minister Bruno Le Maire. Countries such as Germany, Austria and Hungary are said to oppose sanctions on Russian gas. Other measures are expected to include further export restrictions as well as additional sanctions on individuals and banks. **Coal futures shot up 8% on the news of the proposed coal ban.**

Sovereign yields increased (10-yr bund + 5bps) and southern spreads generally widened (Italian 10-yr spread +6bps). Yesterday Governing Council member Bostjan Vasle noted the importance of monetary tightening not staring too late in the year, and echoed comments made by Klaas Knott last week that net asset purchases could end in July. In separate comments yesterday, Knott emphasized that the ECB should be clear that it would act without hesitation to prevent a de-anchoring of inflation expectations.

Spanish and Italian services PMI declined in March but remains in expansionary territory. Spain's March composite PMI data (53.1) came in lower than expected (consensus 53.9 from 56.5), with the services component (53.4) also disappointing (consensus 54.3, from 56.6). Italy's PMI (52.1) was in line with expectations, with the services component (52.1) surprising on the upside (consensus 51.5, from 52.8). **Final March composite PMI data for France, Germany and the Eurozone came in higher than**

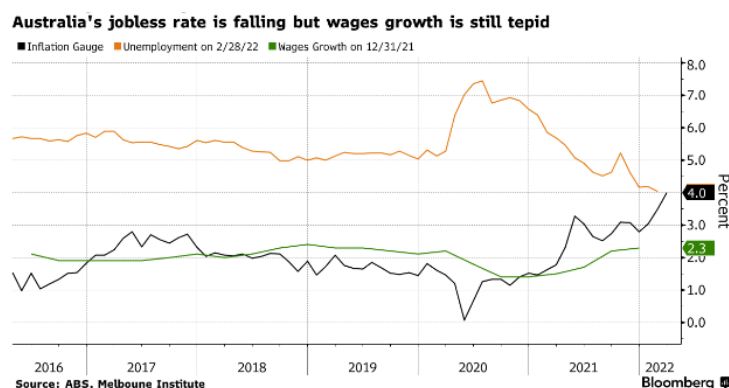
preliminary estimates, with final services PMI data also beating previous estimates in Germany and the Eurozone while remaining unchanged for France. According to the surveys, the services sector was supported by the lifting of pandemic restrictions.



Analysts warn of a negative French GDP growth in the second quarter, following decreases in February industrial production and manufacturing output data. France's February industrial production data disappointed, declining to -0.9% mom (consensus expectation -0.3% from +1.8%), while manufacturing output fell -0.5% mom from +2.2%. On an annual basis industrial production expanded by 2.4% yoy (consensus expectation 2.5% from -1.1%). ING analysts expect a further decrease in industrial production in March, given that industrial production declined ahead of the start of the war in Ukraine, and a sharp decline in confidence indicators since the onset of the war. Moreover, analysts expect a contraction in second quarter GDP, amid rising energy costs, supply-chain issues, and lower household demand.

Australia

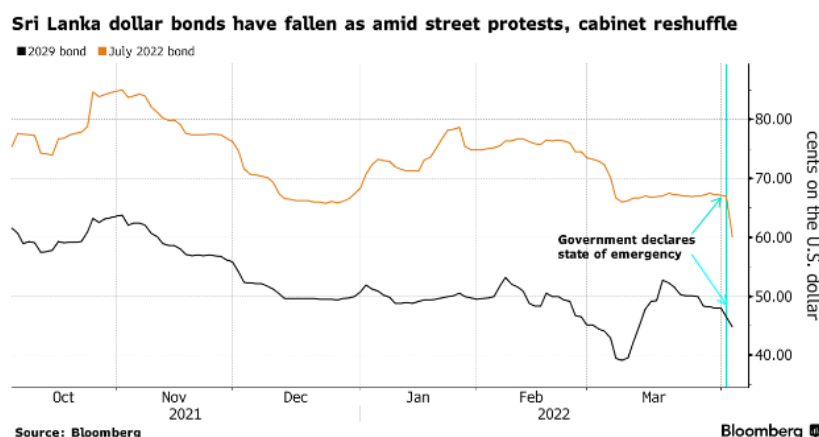
The Reserve Bank of Australia came out with hawkish rhetoric while keeping its policy rate unchanged at 0.1%. The statement removed a reference to "patience" despite wage growth coming in below expectations. The Australian dollar rallied on the RBA news, posting its largest one day gain in three weeks. Short term bond yields climbed as traders positioned for higher rates. Separately, Australia's March PMI readings were revised down. Services PMI was revised to 55.6 (preliminary: 57.9) and composite PMI to 55.1 (preliminary: 57.1).



Emerging Markets

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EMEA markets traded with a cautious tone, as both the US and the EU are expected to impose further sanctions on Russia. Ukraine warned that its grains exports are currently limited to 500k tons a month, down from as much as 5 mn tons before the war. Ukraine is one of the world's biggest exporters of corn, wheat, and sunflower oil. Meanwhile, the central bank of Romania is expected to hike its policy rate by 50 bps to 3% later today. **Markets in Asia were slightly higher on an aggregate basis, and currencies were stronger.** In China, lockdowns in Jilin province, accounting for 12% of China's corn output, are reportedly disrupting local corn production. The crisis in Sri Lanka continued, with the new finance minister resigning after just one day in office. **Latin American equity markets** were mixed on Monday.



EM Bond Issuance

EM corporate issuance last week increased to \$5.0 bn, from \$2.0 bn the week before, while EM sovereign issuance declined to \$750 mn last week, from \$4.5 bn the week before. Year-to-date total issuance of \$144.9 bn was about 60% of the 2021 issuance over the same period (\$242.0 bn). From a regional perspective, China was the largest EM corporate debt issuer last week, accounting for 27% (\$1.4 bn) of the total, followed by Mexico (20%, \$1.0 bn), and Malaysia (20%, \$1.0 bn). Last week's sovereign issuance was placed entirely by Sharjah (UAE).

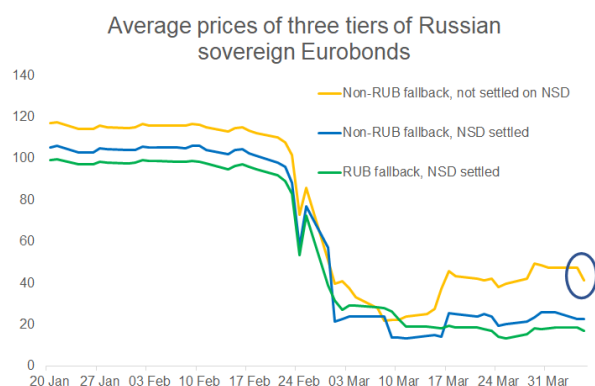
Sector	Last week	The week before	YTD
Corporate	5.0	2.0	46.2
Sovereign	0.75	4.5	40.9
Financial	3.0	1.6	34.3
Agency	0.5	1.5	14.1
Muni/Local Gov't	0.6	2.1	8.5
Supra	-	-	1.0
Total	9.8	11.7	144.9

Source: Bond Radar, Bloomberg, and IMF staff

Russia

Average prices of Russian Eurobonds without a ruble fallback fell around 6 points on news that the US Treasury will not allow U.S. dollar debt payments from Russian government accounts at U.S. banks. The decision would force Russia to use FX reserves, new revenue, or default. **Contacts believe that further sanctions are possible.** Expectations are that international holders of Russia's Eurobond due yesterday will be paid. Nevertheless, Reuters reports that the payment, plus a coupon on a 2042 bond also

due yesterday, haven't yet received authorization by the U.S. Treasury to be processed. **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.** Russian stocks were in meltdown mode, down nearly 7.5%.



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Global Financial Indicators

Last updated: 4/5/22 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4583	0.8	0	6	12	-4
Europe		3930	-0.5	-2	11	0	-9
Japan		27788	0.2	-2	7	-6	-3
China		4276	1.3	2	-5	-17	-13
Asia Ex Japan		78	2.1	3	4	-17	-6
Emerging Markets		47	1.8	3	5	-14	-4
Interest Rates			basis points				
US 10y Yield		2.47	7.0	7	73	77	96
Germany 10y Yield		0.57	6.1	-7	64	90	74
Japan 10y Yield		0.22	0.5	-3	6	10	15
UK 10y Yield		1.63	8.3	-1	42	84	66
Credit Spreads			basis points				
US Investment Grade		135	-0.8	-5	-21	47	23
US High Yield		365	-2.1	-18	-60	29	28
Europe IG		72	1.0	-1	-14	21	24
Europe HY		338	3.5	2	-77	92	95
Exchange Rates			%				
USD/Majors		98.96	0.0	1	0	7	3
EUR/USD		1.10	-0.1	-1	1	-7	-4
USD/JPY		122.9	0.1	0	7	12	7
EM/USD		53.6	0.0	1	6	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		108	0.4	0	-6	83	41
Industrials Metals (index)		215	-0.2	3	0	49	24
Agriculture (index)		74	1.4	2	-2	47	22
Implied Volatility			%				
VIX Index (% change in pp)		19.1	0.6	0.2	-12.8	1.2	1.9
US 10y Swaption Volatility		104.6	0.0	-0.4	-23.1	24.5	25.5
Global FX Volatility		8.9	0.0	-0.4	-0.9	1.2	1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		206	-4.6	-17	-37	91	55
Italy		162	5.2	13	1	66	27
Portugal		88	3.3	12	-2	35	24
Spain		98	3.3	12	-6	34	24

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

Last updated: 4/5/2022 8:02 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	-0.4	0.1	-1	3	0		2.8	-0.1	-3	-5	-42	-1		
Indonesia		14348	0.0	0.2	0	1	-1		6.8	0.5	-1	8	12	37		
India		75	0.3	0.9	2	-3	-1		6.3	0.0	0	9	75	0		
Philippines		51	0.3	1.7	2	-5	0		5.3	0.0	-3	33	65	78		
Thailand		33	0.0	0.1	-1	-6	-1		2.4	0.0	-9	20	44	54		
Malaysia		4.21	0.2	0.1	-1	-2	-1		3.9	0.1	-2	27	77	33		
Argentina		112	-0.4	-0.8	-3	-17	-8		49.3	1.3	-23	93	299	-130		
Brazil		4.59	0.1	3.7	11	23	21		11.2	-17.4	-47	-76	171	46		
Chile		780	0.4	-0.1	3	-8	9		6.1	0.0	-11	24	281	71		
Colombia		3707	1.3	2.1	3	-1	10		7.6	0.0	-43	-54	212	119		
Mexico		19.83	-0.1	0.8	8	3	4		8.2	0.0	-5	4	141	72		
Peru		3.6	-0.3	2.3	3	1	10		6.8	0.6	5	34	199	88		
Uruguay		41	-0.4	0.1	3	7	8		9.0	0.0	20	83	165	30		
Hungary		338	-0.5	-2.0	7	-10	-4		6.2	16.5	0	61	354	170		
Poland		4.22	-0.1	-0.4	9	-8	-4		4.9	2.8	13	83	298	134		
Romania		4.5	-0.1	-1.0	1	-8	-3		6.0	5.5	-4	27	337	117		
Russia		83.3	0.2	4.9	67	-8	-10		13.5	-49.8	-143	-1680	605	473		
South Africa		14.5	0.3	0.0	6	0	10		7.9	1.0	-14	-15	16	43		
Turkey		14.72	-0.2	-0.9	-2	-45	-10		25.5	4.0	-33	48	711	115		
US (DXY; 5y UST)		99	0.0	0.6	0	7	3		2.61	5.6	11	97	168	134		

	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		4276	0.0	2	-5	-17	-13		210	-3	-14	9	7
Indonesia		7148	0.5	2	3	19	9		168	-12	-44	-8	3
India		60177	-0.7	4	11	22	3		149	-10	-38	0	17
Philippines		7156	-0.1	1	-3	9	0		118	-7	-39	14	17
Thailand		1701	-0.1	1	2	8	3		0	0	0	0	0
Malaysia		1597	-0.1	1	0	1	2		116	-8	-31	-8	-1
Argentina		93219	0.9	2	4	92	12		1698	-50	-228	131	18
Brazil		121280	0.0	2	6	3	16		283	-8	-57	13	-28
Chile		4992	0.0	2	8	2	16		142	-8	-47	11	2
Colombia		1618	-0.5	1	5	22	15		323	-10	-86	108	-25
Mexico		56313	-0.5	1	6	17	6		336	1	-49	-3	4
Peru		24943	0.0	-2	0	16	18		152	-16	-48	5	2
Hungary		44832	-1.2	-4	11	1	-12		129	-7	-54	-3	5
Poland		65459	-0.3	0	12	12	-6		11	0	-49	-30	-21
Romania		12874	0.2	1	13	14	-1		197	-12	-74	5	4
Russia		2667	-4.3	11	8	-24	-30		3411	-577	938	3228	3234
South Africa		75239	-0.8	1	1	12	2		352	-10	-60	-11	-3
Turkey		2337	1.1	6	17	62	26		528	-19	-135	19	-50
Ukraine		519	0.0	0	0	0	-1		2791	-218	-2415	2252	2032
EM total		47	0.3	3	5	-14	-4		362	-166	-244	-7	-24

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

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