GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 6, 2022

- **US yield curve steepens as 10-year Treasury yield surges** (link)
- **China's PMI plunges as Covid cases rise** (link)
- **Western banks refuse to process Russian bond payments** (link)
- **Survey finds that investors are increasingly bearish** (link)
- **War in Ukraine disrupts global food markets** (link)
- **French election risk premium increases** (link)

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Markets fall back as interest rates surge

US interest rate futures lost ground and European markets were sharply lower as global interest rates surged. The benchmark 10-year US Treasury yield is up 24 bps over the past two days, an enormous move by recent standards, triggered by comments from the normally dovish Fed governor Brainard yesterday that the Fed would move rapidly to run down it balance sheet starting in May. The FOMC minutes to be released later today take on even more significance than usual as they are expected to reveal details about the Fed's plans for balance sheet reduction. Market sentiment was further eroded by the growing Covid crisis in China, and Russia's uncertain situation as western banks refused to process its Eurobond payments and new sanctions were announced by the EU.

Key Global Financial Indicators

Last updated: 4/6/22 7:49 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4525	-1.3	-2	5	11	-5
Eurostoxx 50		3835	-2.1	-3	8	-3	-11
Nikkei 225		27350	-1.6	-2	8	-8	-5
MSCI EM		46	-1.8	0	3	-16	-6
Yields and Spreads			bps				
US 10y Yield		2.63	8.4	28	90	98	112
Germany 10y Yield		0.66	4.4	1	73	97	84
EMBIG Sovereign Spread		386	-6	-53	-125	37	19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.2	0.0	0	5	-6	1
Dollar index, (+) = $ appreciation		99.5	0.0	2	1	8	4
Brent Crude Oil ($/barrel)		107.8	1.0	-5	-9	72	39
VIX Index (%, change in pp)		23.2	2.1	4	-9	5	6

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

Mature Markets

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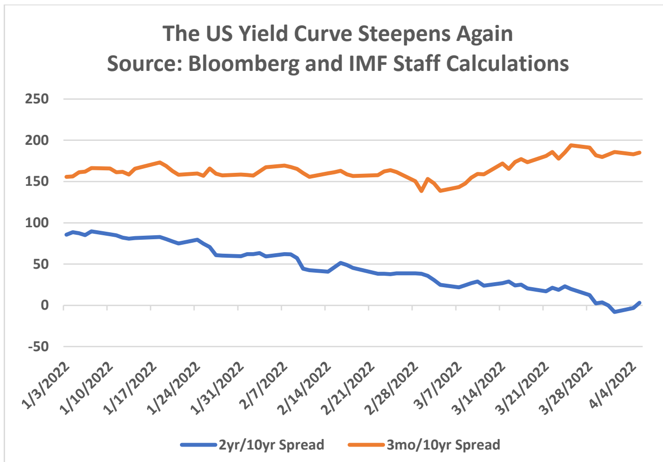
United States

A major selloff in the US 10-year Treasury yield caused parts of the yield curve to steepen again after months of steady flattening. The 10-year yield was up by 17 bps to at one point to 2.56%, an enormous one-day move by recent standards. Most of the move came after Fed Governor Brainard, viewed as dove, said that the Fed would be "…starting to reduce the balance sheet at a rapid pace" beginning in May. The two-year/10-year spread ended back in positive territory at 4bps as of yesterday's close after falling as low as -12 bps earlier this week. **Today,** the 2/10 curve has steepened further to more than 8 bps as the 10-year yield surged again to 2.64%. Tuesday's move in the three-month/10year spread was even more spectacular, steepening by 15 bps from the day before to 185 bps, and a further 9 bps to 194 bps this morning. All eyes are on today's FOMC minutes, in which details about the Fed's plans for quantitative tightening are expected to be revealed.

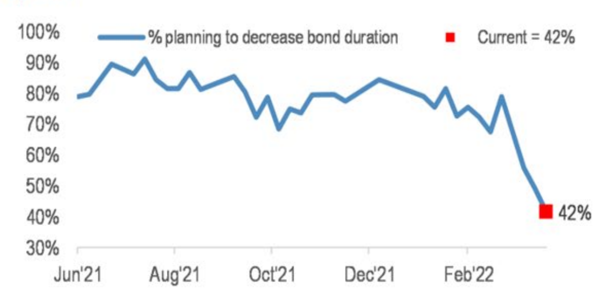


The latest survey from JP Morgan shows that investors are in a pessimistic mood. The proportion looking to increase exposure to stocks and bonds is at its lowest in many months. Investors cited factors such as the war in Ukraine, uncertainty about Fed policy, high inflation and worries about supply chain disruptions and their impact on corporate profits as reasons for their negative views. On a more positive note, 60% think credit spreads will tighten in this quarter, and as many as 77% think the market is pricing in too many Fed rate hikes. Based on options on Fed Funds futures, markets are expecting nearly nine more rate hikes in 2022, taking the policy rate to 2% by year end. Looking forward, investors expect energy and technology stocks to do well along defensive sectors such as utilities and consumer staples.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

Source: J.P. Morgan.

Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



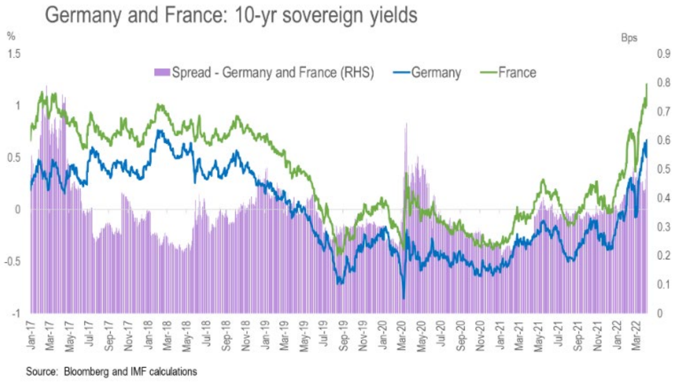
Source: J.P. Morgan.

Euro Area

European equity markets opened in the red and losses deepened in later trade, with the benchmark Stoxx 600 European index down nearly 1.5%. Banks were down 2.1%. **Sentiment was dampened by disappointing German factory orders data** for February.

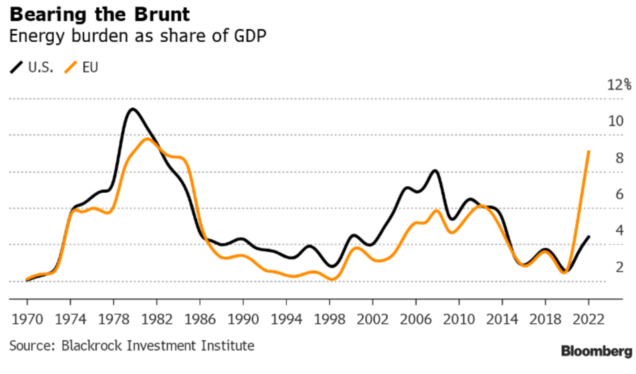
Sovereign bond yields increased (10-yr bund +6bps) as markets digested the hawkish rhetoric from the Fed, while peripheral spreads widened despite reassurance that the ECB stands ready and equipped with a range of tools to act against fragmentation, according to ECB Executive Board Member Philip Lane.

The spreads between 10-yr bunds and 10-yr French sovereign bond yields increased (+7bps this week) as the market digested the latest poll results showing a narrowing gap between French President Macron and far-right leader Le Pen ahead of the first round of the French elections on Sunday. JPMorgan analysts note growing concerns over inflation could be playing a role. The consensus remains that President Macron will be re-elected.



Euro area February PPI surprised on the upside, increasing to a record-high +31.4%yoy (consensus expectations +31.6%). Produced prices in the energy sector increased by +87.2%yoy, according to Eurostat. **Markets are now pricing in +59 bps of ECB tightening this year, compared to +53 bps at the start of the week.** Governing Council member Pierre Wunch expects the ECB policy rate to reach zero by the end of this year.

Europe is now spending the equivalent of over 9% of European GDP on energy, the highest share since 1981, according to Blackrock analysts. In contrast, the U.S.'s energy burden is less than half of Europe's as the U.S. has become more energy efficient and is also a net exporter of energy. **Analysts do not expect the net-zero transition in Europe to be derailed,** noting that high energy prices are expected to render renewables more competitive whilst enhancing energy efficiency and innovation.

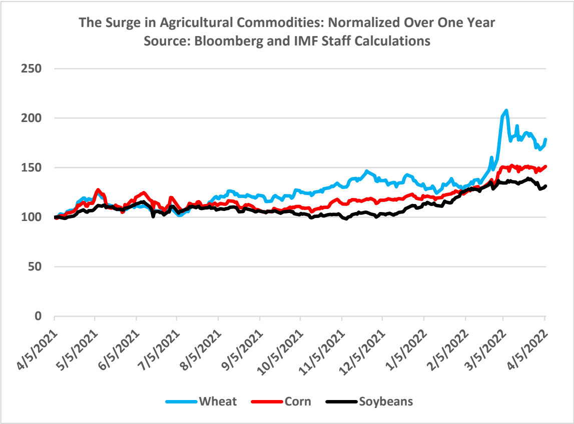


Japan

Equities slumped -1.3%, with 32 out of 33 sectors of the Topix index posting losses. Japanese lawmakers have called for nuclear reactors to be restarted earlier than planned to address rising energy and utility costs, according to Bloomberg. Public support is also growing, as a recent survey showed a narrow majority in Japan now support turning idled plants back online. Analysists are skeptical, however, that political pressure can speed up the process. Ever since Japan turned its fleet of 54 reactors offline after the 2011 Fukushima disaster, only 10 have restarted under the new rules that ensure the units are safe, Bloomberg reports. The yen has depreciated by over 7% already this year versus the dollar, a very large move for this currency.

Commodities

The surge in agricultural commodity prices that began during the pandemic has become worse after outbreak of the war in Ukraine. Russia and Ukraine account for 28% of global wheat exports and many countries are heavily reliant on wheat from the region. There is estimated to be 15 million tons of wheat being stored in silos in Ukraine, representing 50% of the amount Ukraine would normally export in a year, which would normally be sent abroad from ports on the Black Sea. With access to the ports cut off by the fighting, small quantities are being shipped west by train to Poland and Romania, but it is a difficult logistical process due to the differing rail lines and nowhere close to meeting demand. Grains exports are down to 500K tons per month, down from the usual 5 mn tons. The rise in prices and disruption of supplies has created a major crisis for countries such as Egypt, the world's largest importer of wheat, Nigeria, Lebanon, and many others. In the short run, countries like India, which does not normally export its grain, are stepping in to fill the gap in order to take advantage of the high prices. Egypt is said to be in talks with Romania and Argentina to buy grain. However, this is not a long term solution and these other exporters cannot make up for the loss of supply from Ukraine and Russia. The UN has predicted that grain prices could go up another 22% and warns of a global food crisis in the making.



Emerging Markets

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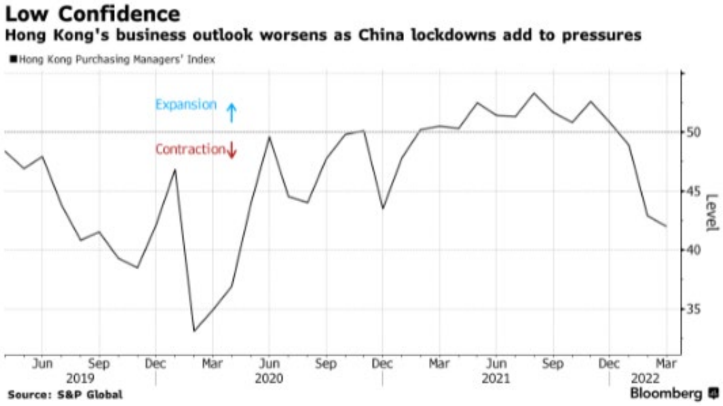
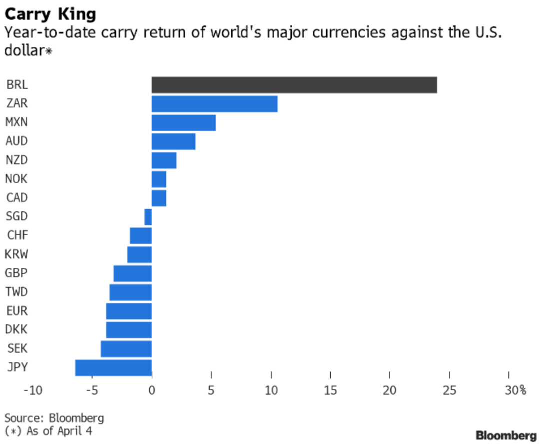
EMEA markets traded with a cautious tone, with the US and the EU set to announce new sanctions on Russia. Markets in Hungary fell as the EU invoked its Rule of Law procedure against the country, which could deprive Hungary of significant funding from the union. **Asian stocks fell 1.2%, led by the technology sector in step with the falling US market.** Local economic data releases were mixed but trending weaker. Business confidence in Hong Kong SAR deteriorated. The crisis in Sri Lanka worsened, with the rupee depreciating by another 4.5% to exceed 300 per dollar for the first time in history. **Latin American stocks also fell.** The 10-year government bond yield shot up by 21 bps as US Treasuries sold off yesterday.



Brazil

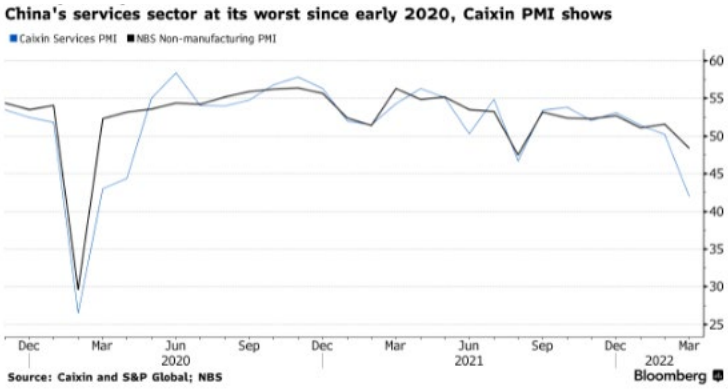
Brazil's high interest rates and strong currency fueled a lucrative carry trade for investors. Bloomberg reported that the carry trade provided investors a 24% return since the end of December 2021. The yield on Brazil's 10-year local currency bonds printed at 11.4%, the second highest among major EMs (highest: Russia). The real has strengthened about 20% this year to a two-year high. The strong performances were mainly driven by the central bank's aggressive monetary tightening and soaring prices of the nation's commodity exports. Some analysts saw challenges for the currency due to the political uncertainty and the fiscal concerns tied to this year's election, but others think the momentum will remain and that political/fiscal risks will be contained in the near term.



China

The Caixin services PMI plunged to 42 in March amid increasing Covid cases. Business confidence dropped to a 19-month low. Services activity was negatively affected by the tightening of Covid restrictions and the Russia-Ukraine war. Spending over the Qingming festival break point to weak data for April as well.

Domestic tourism revenue over the long weekend plunged 31% from a year ago. Separately, **China repo rates surged following a 440 bn yuan ($69 bn) liquidity drain.** The overnight rate spiked as much as +71 bps to 2% and the 7-day rate climbed as much as +30 bps to 2.01%, according to Bloomberg.



Russia

The Finance Ministry announced that foreign banks refused to process payments on Eurobonds. Russian authorities said they sent $649 mn of payments for bonds maturing this month and in 2042, but the payments were not accepted. Earlier this week, the U.S. Treasury said that it would not allow U.S. dollar debt payments from Russian government accounts at U.S. banks. The payments were moved to the National Settlement Depository in rubles, and the Finance Ministry stated that it "considers if fulfilled its obligations in full." Russia could be close to default as the rating agencies have stated that payment in rubles for dollar debt amounts to a default event. Meanwhile, the EU imposed more sanctions, including a ban on imports of coal worth around €4 bn/year and a full transaction ban on more Russian banks, including VTB, the second largest bank in Russia.

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: 4/6/22 7:51 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4525	-1.3	-2	5	11	-5
Europe		3835	-2.1	-3	8	-3	-11
Japan		27350	-1.6	-2	8	-8	-5
China		4264	-0.3	3	-2	-16	-14
Asia Ex Japan		76	-1.8	0	2	-19	-8
Emerging Markets		46	-1.8	0	3	-16	-6
Interest Rates					basis points		
US 10y Yield		2.63	8.4	28	90	98	112
Germany 10y Yield		0.66	4.4	1	73	97	84
Japan 10y Yield		0.25	2.6	2	8	13	17
UK 10y Yield		1.72	6.9	6	52	93	75
Credit Spreads					basis points		
US Investment Grade		134	-1.0	-2	-22	46	22
US High Yield		359	-6.7	-16	-66	31	21
Europe IG		76	3.1	3	-10	26	28
Europe HY		362	17.0	25	-53	117	120
Exchange Rates					%		
USD/Majors		99.48	0.0	2	1	8	4
EUR/USD		1.09	0.1	-2	1	-8	-4
USD/JPY		123.9	0.2	2	7	13	8
EM/USD		53.2	0.0	0	5	-6	1
Commodities					%		
Brent Crude Oil ($/barrel)		108	1.1	-3	-6	81	41
Industrials Metals (index)		214	-0.4	0	0	47	24
Agriculture (index)		74	-0.7	0	-2	45	21
Implied Volatility					%		
VIX Index (%, change in pp)		23.2	2.1	3.8	-8.8	5.0	5.9
US 10y Swaption Volatility		111.7	0.0	-1.0	-16.0	38.5	32.6
Global FX Volatility		8.9	0.0	-0.2	-0.9	1.1	1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		209	3.5	-4	-35	92	57
Italy		167	2.5	19	7	66	32
Portugal		91	1.4	12	1	36	27
Spain		99	0.5	10	-5	33	25

Colors denote tightening/easing financial conditions for observations greater than ±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	12 M	YTD
								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

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