



- Long-term US real rates at highest levels since the pandemic ([link](#))
- Strong RRP likely to put downward pressure on money market rates ([link](#))
- Uncertainty increases ahead of French Presidential election ([link](#))
- EU approves sanctions on coal exports ([link](#))
- ECB March meeting minutes seen as hawkish ([link](#))
- Asian markets have underperformed YTD ([link](#))
- Peru and Uruguay central banks hike rates amid elevated inflation ([link](#))
- Russia's central bank announces key rate cut by 300 bps to 17% ([link](#))

[Mature Markets](#)





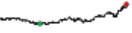

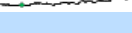



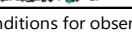
[Emerging Markets](#)

[Market Tables](#)

Markets end the week on a cautious note

European bourses rose this morning but drifted off opening highs, while US equity futures were steady and posted modest increases. The US Treasury yield curve flattened and the dollar strengthened for the 7th consecutive day signaling continued investor cautiousness. Heading into the weekend, the Sunday's first ballot of the French presidential elections is a key focus, with market contacts noting that the widening spread between Bund and French sovereign yields may be reflecting the increasing uncertainty about the final outcome. In emerging markets, the central bank of Russia announced that the key interest rate will be cut to 17% effective April 11. In contrast, central banks in Peru and Uruguay hiked rates yesterday amid concerns about elevated inflation. In primary markets, Angola became the second African nation to issue Eurobonds since the start of the war.

Key Global Financial Indicators

Last updated: 4/8/22 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4500	0.4	-1	8	10	-6
Eurostoxx 50		3863	1.6	-1	10	-3	-10
Nikkei 225		26986	0.4	-2	7	-9	-6
MSCI EM		45	-0.8	-1	4	-17	-8
Yields and Spreads			bps				
US 10y Yield		2.68	1.8	29	83	106	117
Germany 10y Yield		0.69	0.9	14	58	103	87
EMBIG Sovereign Spread		395	-1	-4	-128	47	28
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.3	0.3	0	6	-6	1
Dollar index, (+) = \$ appreciation		99.9	0.2	1	1	9	4
Brent Crude Oil (\$/barrel)		100.6	0.0	-4	-21	59	29
VIX Index (% change in pp)		21.2	-0.3	2	-14	4	4

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

Mature Markets

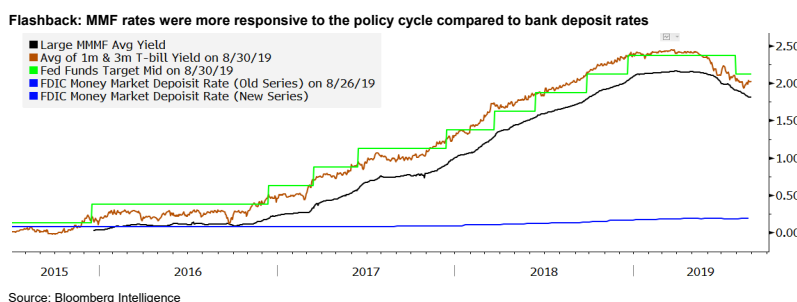
[back to top](#)

United States

Real rates reached pre-pandemic levels. Rates have bounced back dramatically in the last month in a series of strong daily increases, underpinned by rising real rates. Following a dive on war news, the benchmark U.S. inflation-adjusted yield has since jumped more than 70 basis points in a month and now sits just over 20 basis points away from returning to positive territory, at a two year high. Risks of further rises loom. Analysts at Bank of America expect the 10-year nominal yield to reach 3%, even though they see fair value in the 2.05% to 2.7% range.



Following the Federal Reserve's minutes, the focus turns on RRP dynamics. The FOMC minutes acknowledged uncertainty around the Reverse Repo (RRP) facility usage in the near term, as money market rates increase. This is because money market funds (MMFs), by far the largest RRP participants, have been faster to pass-through the rate rises to their investors, compared to banks. This may lead to further inflows into MMFs as interest rates rise. While MMFs could invest the additional funds to T-bills, this appears less likely. According to the minutes, the Fed will only gradually trim its \$326 bn of T-bills, running them down to make up for shortfalls in coupon reinvestments. TD securities expects only \$37 bn of Bill redemptions in the second half of this year. With Treasury issuance of T-Bills modest, and private repo investment options less likely, the additional inflows to MMFs could potentially increase demand for reverse repos with the Fed. This will add to the record high uptake the RRP facility during the last year, putting downward pressure to money market rates likely to hover around the RRP rate.



ESG fixed income funds saw strong inflows in 2022, unlike their non-ESG counterparts. Despite large swings in the risk appetite so far in 2022, ESG portfolios have shown strong resilience, according to Goldman Sachs. The ESG versus respective non-ESG bond spreads continued to co-move strongly during both risk-on and risk-off periods in 2022. But, ESG funds continued to see strong demand and steady inflows, despite weak flows across the fixed income universe. As a result, ESG fund flows have de-coupled from their non-ESG peers, outperforming them by 2% as a percent of their original Assets Under Management (AUM) at the beginning of this year.

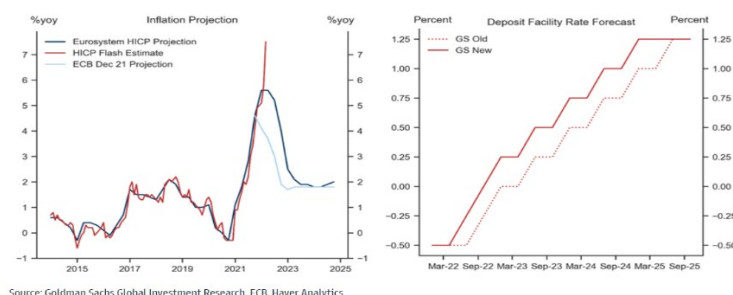
Euro-area

Equity markets in Europe traded higher with the Stoxx 600 European index gaining 1.1%. Gains were broad-based across sectors with the energy (+2.6%) and banking (+2.5%) sectors outperforming. **Sovereign bond yields were little changed this morning while Southern spreads edged higher. The euro reversed early morning losses and was little changed in later trade, with analysts flagging downside risks.** ING analysts predicted further downside risk for the euro as debate continues over Russian energy sanctions, while noting that the French presidential elections is increasing currency volatility. **The spread between 10-year bund and French 10-year sovereign yields increased to 56 bps (+9 bps this week) ahead of the first ballot of the French presidential elections on Sunday.** The latest poll data shows a narrowing gap between current President Macron and far-right candidate Le Pen, with some results showing the gap in the second round narrowing to within the margin of error. Consensus still see a Macron victory, but many analysts have noted increased uncertainty over the outcome. Nomura analysts cautioned that a win by Le Pen could result in a step towards nationalist policies and away from EU reforms.

EU diplomats signed off on the bloc's fifth sanction package yesterday, which includes a Russian coal embargo. The phase-in period for the coal ban was extended to four months. The sanction package also targeted entities in the defense sector, further sanctions on banks and a strengthening of export control measures, and closes off EU ports from Russian vessels. **Coal prices gained 6.2% this week.**

European gas prices increased (+4% to €108/MWh) after reported warnings from the gas and transmission operator of Ukraine that Russian forces is endangering the stability of gas flows to Europe. Operations are reportedly being disrupted in eastern Ukraine, and a disconnection from the grid would stop transit through one of the two facilities on the border that transit gas to Europe.

The ECB March meeting minutes were seen as hawkish, with rate hike expectations in 2022 remaining. The minutes noted that 'a large number' of members thought that persistently high inflation levels warranted 'immediate further steps towards monetary policy normalization', with some GC members keen to set a date for the end of asset purchases. The minutes also hinted that GC members had 'doubt' or 'concerns' about ECB forecasts. HSBC analysts noted that fiscal support in recent week enables the ECB to increase focus on inflation and not recession fears. **Analysts remain divided on the timing of the first hike**—with a Bloomberg survey of economists pointing to December, while Goldman Sachs analysts now expect +25bps of hikes in September and December respectively with three more hikes in 2023 and another two hikes in 2024 to bring the terminal rate to 1.25%. **Markets are now pricing in +62 bps of hiking by the end of the year, with the first +25 bps hike fully priced in for September. Net asset purchases are expected to end in July, but analysts generally see it as unlikely that the ECB will pre-empt decisions on the pace of third quarter quantitative easing in its upcoming meeting next week.**



EU's plan to reduce its reliance on Russian gas could result in higher emissions. The EU announced plans to reduce the 155 bn cubic meters (bcn) of Russian gas imports by 66% this year and completely

cease dependency on Russian gas imports by 2025. The US already increased its liquified natural gas (LNG) supply to Europe, and analysts caution that LNG shipments are usually accompanied by large emissions and methane leakages. Moreover, Bloomberg analysts note that coal might be an economical alternative to Russian gas, given coal's price increase has been less substantive than gas price increases.

Emerging Markets

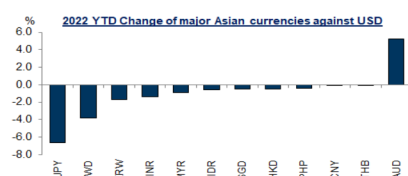
[back to top](#)

Asian equities were mixed with markets in Indonesia (+1.2%) and the Philippines (+1.3%) outperforming, while shares in Singapore (-0.6%) fell. **Currencies were mostly trading weaker against the dollar. The Indian rupee (+0.1%) outperformed** while 10-year Indian sovereign bond yields increased after **the central bank raised inflation forecasts** and introduced a standing deposit facility at a rate of 3.75% - a move seen as a step towards tighter monetary policy. Equity markets in **EMEA traded mostly higher**, with markets in Czech Republic (+1.5%) and Romania (+1.1%) outperforming. Currencies mostly weakened against the dollar. **Angola issued \$1.75 bn worth of 10-year Eurobonds, priced to yield 8.75%. Angola became the second African nation to issue Eurobonds since Russia invaded Ukraine**, with Nigeria having raised \$1.25 bn in late February, with notes due 2029 that were priced to yield 8.375%. Fitch solutions estimates that Angola's economic growth will increase from +0.6% to +3.8% in 2022, mainly driven by higher oil prices. The 2023 growth rate is seen to fall back to +1.8% as oil production declines amid underinvestment. **Latin American equity markets were mixed on Thursday** but mostly traded in narrow ranges. Local currencies were mostly weaker. The Brazilian real underperformed (-0.8%), followed by the Chilean peso (-0.7%) and the Colombian peso (-0.5%). 10-year government bond yields were generally higher across countries.

Asian Markets

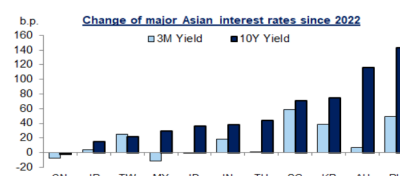
Local markets have mostly underperformed versus the US so far in 2022. Currencies are weaker and most equity markets have done worse than in the US, especially in dollar terms. Japan is the standout, matching the S&P 500 and only slightly lower in dollar terms. Higher interest rates in Asia have posed a challenge to equity investors, and the impact of Covid is still being felt in countries such as Indonesia and Malaysia as well as Hong Kong SAR, with spillovers to supply chains and inflation. Most Asian countries are energy importers and have suffered negative terms of trade shocks amidst the surge in commodity prices. China's stock market stands out as the worst performer, made worse by the zero-tolerance policy for Covid and with continued concerns about the real estate sector. Survey data show that investors are most bullish on Taiwan POC and Australia, and most bearish on China.

Exhibit 4: Asian currencies have broadly depreciated against USD, especially JPY and TWD in 2022



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 5: Interest rates have risen in most Asian markets YTD, led by Philippines and Australia markets

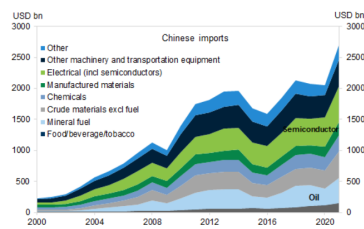


Source: Bloomberg, Goldman Sachs Global Investment Research

China

The oil price shock will erode China's trade surplus. China imported \$253 bn of oil in 2021, second only to semiconductors at \$513 bn. Its import bill is likely to be much higher this year. Analysis by Goldman forecasts that high oil prices will reduce the trade surplus by the equivalent of 1% of GDP. The second chart shows that every \$10 increase in the price of oil increases the cost of imports by the equivalent of 0.2% of GDP. They forecast that the average oil price for 2022 will be \$118/barrel for Brent Crude, amounting to an increase of \$50/barrel compared to the average price in 2021.

Exhibit 3: Oil is the second largest import for China



Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 4: Oil price and travel import recovery scenarios

Oil price scenario (\$/bbl)	Additional oil imports vs. 2021 (USD bn)	% of GDP	Travel imports vs. 2019	Additional travel imports vs. 2021 (USD bn)	% of GDP
2021 average = \$66.6/bbl					
80	52	0.29	50%	16	0.09
90	90	0.51	60%	41	0.23
100	128	0.72	70%	66	0.37
110	167	0.94	80%	91	0.52
120	205	1.15	90%	117	0.66
130	243	1.37	100%	142	0.80
140	281	1.59	110%	167	0.94
150	319	1.80	120%	192	1.08

Note: We assume oil import volume remains the same across different oil price scenarios. Red boxes indicate the range where our baselines for 2022 fall.

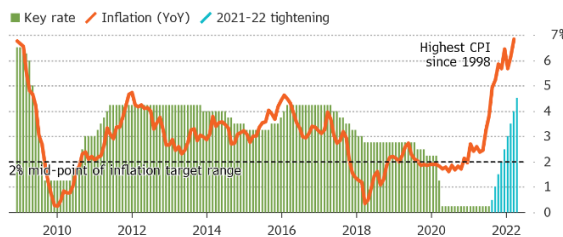
Source: Goldman Sachs Global Investment Research

Monetary Policy Decisions: Peru and Uruguay

Peru's central bank raised its key rate to 4.5% on Thursday, in line with market expectations. The key rate now stands at a 13-year high amid accelerating inflation, which printed at 6.8% last month, the fastest pace since 1998. High inflation triggered social unrest recently, and the government raised the minimum wage this month to tackle inflationary pressures. Analysts expect further rate hikes in coming months. Peru's risk assets saw gains yesterday. The Peruvian Sol strengthened 0.5% yesterday (having recorded appreciated 8% YTD). The equity index was slightly higher. Separately, **Uruguay's central bank hiked the policy rate by 125 bps to 8.50%**, higher than the forward guidance provided in the previous meeting when it signaled another 75 bps. It was the most aggressive move since the central bank reintroduced its benchmark rate in September 2020. The central bank said a new hike is anticipated in the following meetings (next on May 17) but did not elaborate on the magnitude of the hike. Analysts commented that the pace of the next hike would depend on the development of inflation expectations. Uruguay's consumer prices accelerated for the 4th consecutive month, reaching a 15-month high of 9.38% in March.

Steady Hand

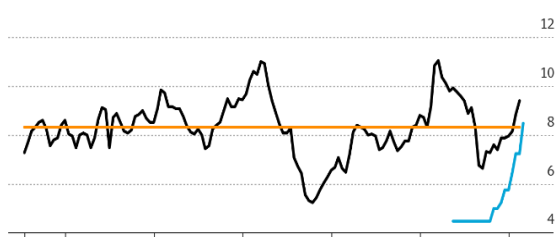
Peru maintains pace of tightening and raises key rate to 4.50%



Sources: Banco Central de Reserva del Peru; Instituto Nacional de Estadística e Informática De Peru.

Above Average

Uruguay's inflation is running hot, but still close to decade average



Source: Bloomberg

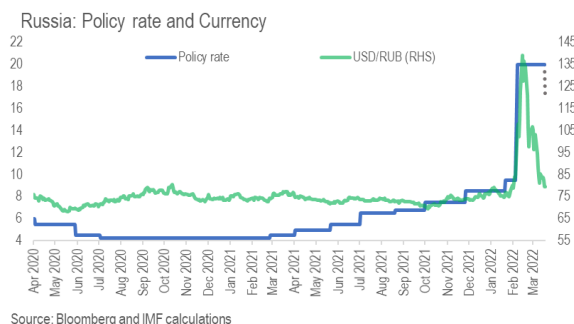
Bloomberg

Russia

The Central Bank of Russia (CBR) reduced the key interest rate by 300 bps to 17%, effective April 11. In an online statement, the CBR highlights that the unscheduled decision reflects the change in risks of price growth, lower economic activity, and financial stability. It also highlights that the latest weekly inflation data show a 'noticeable slowdown' (partly due to the ruble's exchange rate dynamics) and note that while financial stability risks remain, they have ceased to increase for now. **The Russian ruble (+0.3% to 79.4 per \$) strengthened while equities in Moscow (-1%) fell.** Consumer price inflation data for March will be released later today and Bloomberg Economics estimates that Russia's economic output has decreased by over 3% since Russia invaded Ukraine. While uncertainty around the estimate is high, analysts noted that it indicates that the cost of the war on Russia will be significant.

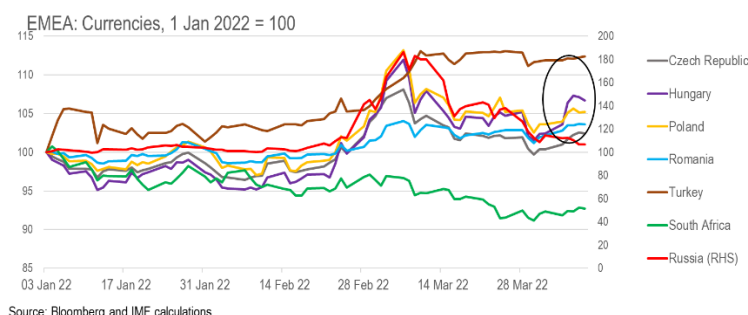
The US Congress voted (420–3) to strip Russia and Belarus from their most-favored trade status. The Senate approved the legislation unanimously earlier yesterday. The bill allows for higher tariffs on and is seen as a formal step to end normal economic ties with Russia and Belarus. **Congress also voted in favor of a ban on Russian energy imports into the U.S.** The UN voted in favor of suspending Russia

from the Human Rights Council, following high-profile allegations of Russia of committing ‘major war crimes’ in Ukraine. The voting result was 93 in favor, 24 against and 58 abstentions



Hungary




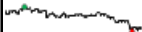

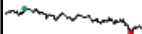
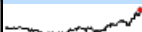



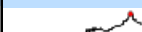





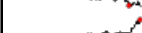

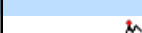

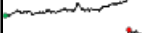
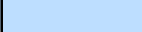


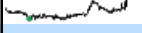
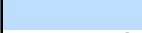


Analysts continue to expect that Hungary will receive EU funds, but flag higher uncertainty. JP Morgan analysts do not expect Hungary to lose funds in a baseline scenario, but caution that uncertainty may be extended. **Fitch Ratings sees Hungary’s economy slowing to +2.3% in 2022 (from +7.1% in 2021).** These forecasts continue to factor in Hungary receiving Next Generation EU (NGEU) funds and analysts have cautioned that medium term growth prospects could weaken, potentially by as much as 1.5pps in 2023, if the funds are not secured. **The Hungarian forint is one of the worst performing EM currencies this week, and have depreciated by over 4%,** with contacts noting that markets are pricing in renewed political tensions with the EU in the near to medium term. **This morning the forint appreciated (+0.3%) after data showed that Hungary CPI increased to +8.5% y/y in March (from +8.3%), lower than the expected (8.8%).**



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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 4/8/22 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4505	0.4	-1	8	10	-5
Europe		3863	1.6	-1	10	-3	-10
Japan		26986	0.4	-2	7	-9	-6
China		4231	0.5	-1	-2	-16	-14
Asia Ex Japan		75	-0.9	0	3	-20	-10
Emerging Markets		45	-0.8	-1	4	-17	-8
Interest Rates			basis points				
US 10y Yield		2.68	1.8	29	83	106	117
Germany 10y Yield		0.69	0.9	14	58	103	87
Japan 10y Yield		0.23	-0.3	1	7	13	16
UK 10y Yield		1.74	1.1	13	30	99	77
Credit Spreads			basis points				
US Investment Grade		137	-0.3	1	-30	48	25
US High Yield		375	-2.9	7	-66	49	37
Europe IG		76	-0.2	4	-9	26	29
Europe HY		364	-1.7	26	-44	120	122
Exchange Rates			%				
USD/Majors		99.94	0.2	1	1	9	4
EUR/USD		1.09	-0.2	-2	0	-9	-4
USD/JPY		124.2	0.2	1	7	14	8
EM/USD		53.3	0.3	0	6	-6	1
Commodities			%				
Brent Crude Oil (\$/barrel)		101	0.0	-4	-19	70	32
Industrials Metals (index)		214	0.9	0	-9	46	24
Agriculture (index)		74	0.5	3	-4	44	22
Implied Volatility			%				
VIX Index (% change in pp)		21.2	-0.3	1.6	-13.9	4.3	4.0
US 10y Swaption Volatility		121.9	1.0	16.6	-6.6	46.9	42.9
Global FX Volatility		9.0	0.0	0.0	-0.9	1.4	1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		218	3.9	5	-5	101	66
Italy		169	3.4	15	20	69	34
Portugal		93	2.1	11	12	36	29
Spain		100	1.6	8	6	33	26

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 4/8/2022 8:07 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	0.0	-1	3	0		2.8	2.9	-1	-5	-43	-1
Indonesia		14362	0.0	0.1	0	1	-1		6.8	1.7	6	-2	35	42
India		76	0.1	-0.2	1	-2	-2		6.3	0.0	0	9	75	0
Philippines		52	-0.3	0.2	1	-6	-1		5.3	0.0	0	28	60	78
Thailand		34	-0.3	-0.4	-1	-7	-1		2.5	9.5	16	28	53	68
Malaysia		4.22	0.0	-0.2	-1	-2	-1		4.0	3.0	12	34	93	41
Argentina		112	-0.1	-0.9	-3	-18	-8		50.2	64.9	60	161	388	-41
Brazil		4.75	0.0	-1.9	7	17	17		11.3	-11.5	-25	-95	164	65
Chile		806	-0.7	-2.5	1	-11	6		6.3	0.0	20	40	297	91
Colombia		3767	-0.5	-0.1	1	-3	8		7.7	0.0	-9	-52	256	130
Mexico		20.14	0.0	-1.4	6	0	2		8.5	0.0	28	16	201	98
Peru		3.7	0.5	-0.7	0	-3	8		6.9	0.0	19	27	219	104
Uruguay		42	-0.5	-2.1	2	5	6		9.0	0.1	17	65	164	31
Hungary		346	0.5	-3.9	3	-13	-6		6.8	3.0	81	119	424	230
Poland		4.28	-0.4	-1.8	5	-11	-6		5.3	16.9	44	100	356	178
Romania		4.6	-0.2	-1.7	0	-9	-4		6.2	6.9	39	12	364	141
Russia		77.4	2.9	10.3	65	-1	-3		10.9	-268.3	-326	-1915	322	214
South Africa		14.7	0.1	-0.4	4	-1	8		8.0	5.5	6	-20	59	58
Turkey		14.75	-0.1	-0.4	-2	-45	-10		25.2	-52.0	-2	-143	695	91
US (DXY; 5y UST)		100	0.2	1.3	1	9	4		2.74	3.4	18	97	191	148

	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		4231	0.5	-1	-2	-16	-14		204	-9	-21	0	1		
Indonesia		7211	1.2	2	4	19	10		155	-14	-60	-16	-10		
India		59447	0.7	0	7	20	2		155	8	-49	3	23		
Philippines		7018	1.3	-2	-1	7	-1		106	-8	-58	6	5		
Thailand		1686	0.2	-1	2	8	2		0	0	0	0	0		
Malaysia		1607	0.4	0	2	0	3		112	-4	-37	-11	-5		
Argentina		91558	0.6	1	4	84	10		1705	-19	-266	122	25		
Brazil		118862	0.0	-1	7	0	13		281	-9	-64	14	-30		
Chile		4965	0.0	0	8	1	15		139	-10	-48	9	-1		
Colombia		1629	0.2	0	6	23	15		320	-18	-92	104	-28		
Mexico		55281	-0.3	-2	4	15	4		339	-2	-51	1	7		
Peru		24648	0.2	-1	0	13	17		165	9	-35	21	15		
Hungary		42327	1.2	-6	2	-4	-17		147	7	-38	15	23		
Poland		63917	0.6	-3	10	8	-8		3	-5	-68	-39	-29		
Romania		12762	1.1	0	14	14	-2		203	-3	-88	20	11		
Russia		2570	-2.5	-7	4	-27	-32		3411	-577	938	3228	3234		
South Africa		74609	0.8	-2	3	11	1		328	-36	-95	-25	-27		
Turkey		2379	1.5	6	18	68	28		534	5	-164	34	-44		
Ukraine		519	0.0	0	0	-2	-1		2954	154	-2469	2403	2195		
EM total		45	-1.4	-1	4	-17	-8		367	-1	-252	-1	-19		

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

[back to top](#)