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- Preliminary euro area core inflation surprises on the upside ([link](#))
- Euro area growth in line with expectations but France and Spain disappoint ([link](#))
- Liquidations and repositioning led to a sharp rise in investor cash allocations ([link](#))
- China's politburo pledges additional support to achieve economic goals ([link](#))
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## A mixed end to a volatile month

Asian equities gained after China's Politburo's pledge for additional support to achieve economic goals supported risk sentiment, but U.S. stock futures are lower after earnings of Apple and Amazon disappointed. The ECB chief economist said that the question is not when to hike rates but how fast as euro area core inflation surprised on the upside but growth disappointed in France and Spain. Analysts also expect a technical recession in Italy. The central bank of Russia cut its key policy rate more than expected and sees room for further cuts. **The U.S. dollar is softer after recording substantial gains against several currencies in April.**

Key Global Financial Indicators

Last updated: 4/29/22 1:07 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4288	2.5	-2	-7	2	-10
Eurostoxx 50		3798	0.6	-1	-5	-5	-12
Nikkei 225		26848	1.7	-3	-5	-8	-7
MSCI EM		42	1.4	-1	-8	-23	-14
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.85	3.0	-5	46	122	134
Germany 10y Yield		0.90	0.4	-7	27	110	108
EMBIG Sovereign Spread		437	6	27	-11	95	70
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		52.2	0.7	-1	-2	-9	-1
Dollar index, (+) = \$ appreciation		103.1	-0.5	2	5	14	8
Brent Crude Oil (\$/barrel)		109.4	1.7	3	-1	60	41
VIX Index (% change in pp)		29.9	-0.1	2	11	12	13

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

## Mature Markets

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### United States

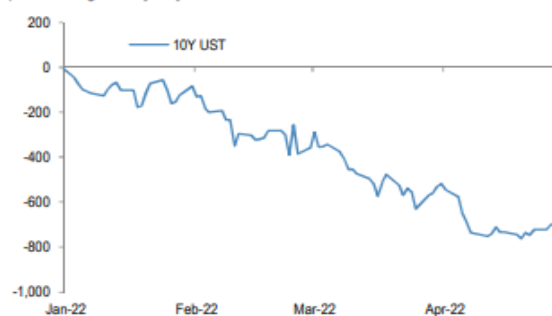
**U.S. 2-yr yields rose 4 bps after the quarterly Employment Cost Index (ECI) rose more than expected at 1.4% qoq (1.1% expected) in 2022Q1.** The PCE deflator rose 0.9% mom (as expected) or 6.6% yoy in March. The core PCE deflator was 0.3% mom (as expected) or 5.2% yoy.

**U.S. stocks rallied the most in seven weeks on the back of strong earnings, continuing a stretch of volatility that's gripped markets virtually all year.** The S&P 500 surged almost 2.5% yesterday, while the tech-heavy Nasdaq was up 3.5%. Meta (Facebook) surged 18% in the biggest rally since 2013 after the firm added more users than anticipated. PayPal rose 11% on a sales beat and Qualcomm led US chips higher. Small-cap stocks were up 1.8% benefitting from the market rally, but underperformed given the weaker than expected GDP print in the morning. **Yesterday gains left the S&P 500 higher for the week, though it remains down more than 5% in April, on track for the worst month since the pandemic bear market.** Treasury curve flattened a bit yesterday as a rise in near term yields (3 bps) weighed on the stable long-end yields. Dollar continued to spike up and appreciated by 0.6% as Japanese Yen depreciated by almost 2% today—reaching a 20-year low

**JPM analysts note that the market swings of the past weeks have been accompanied by liquidations and position changes in the futures space.** Left chart shows a sharp decline in the investor positioning for US treasuries—a trend seen across other asset classes like 10yr bund and equity futures. The analysis is consistent with the chart below which shows that a proxy for the cash allocation of investors globally has risen sharply year to date to above its post Lehman crisis average and its highest level since March 2020

Figure 7: Position proxy for 10Y UST futures

Number of contracts in thousands across all expiries. Cumulative daily absolute change in open interest multiplied by the sign of the futures price change every day.

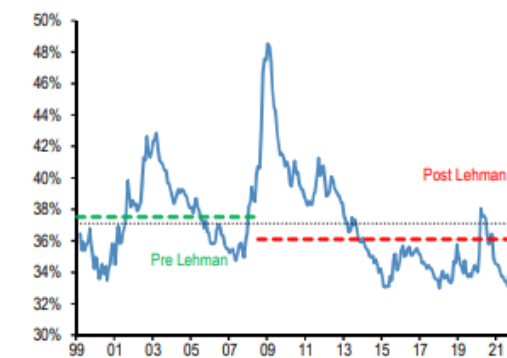


Source: Bloomberg Finance LLP, J.P. Morgan

Figure 8: Position proxy for 10Y Bunds futures

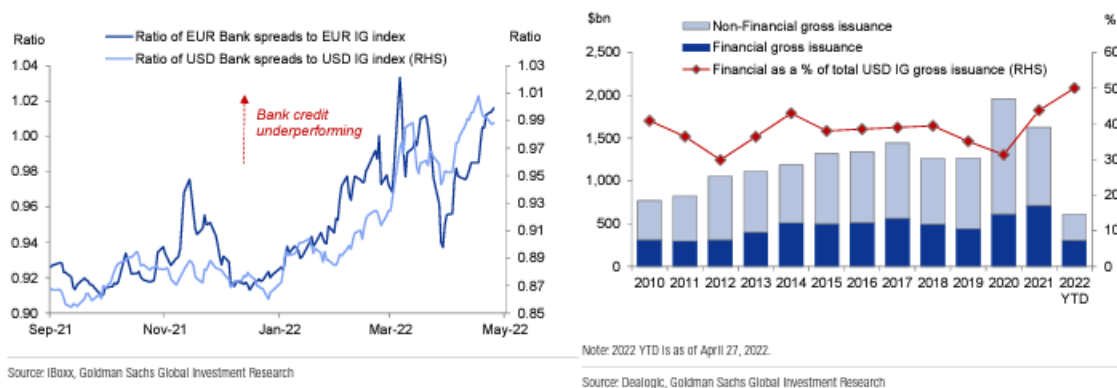
Figure 15: Implied cash allocation by non-bank investors globally

Global cash held by non-bank investors as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages..



Source: J.P. Morgan

**The performance of the banking sector in the USD and EUR IG credit markets has remained volatile over the past few weeks and directionally consistent with the pattern of underperformance relative to the broader indices in place for most of this year, per JPM analysts.** The trend is evident in the equity market as well, where banks have remained under pressure since the late February invasion of Ukraine. Apart from the macro and geopolitical headwinds, this also reflects the exceptionally high issuance by financials. JPM data shows that there has been more than \$305 billion of Financial supply so far this year in the USD IG market—a figure on track to surpass the full-year levels of 2020 and 2021. This represents a record 50% of total USD IG gross issuance so far this year.

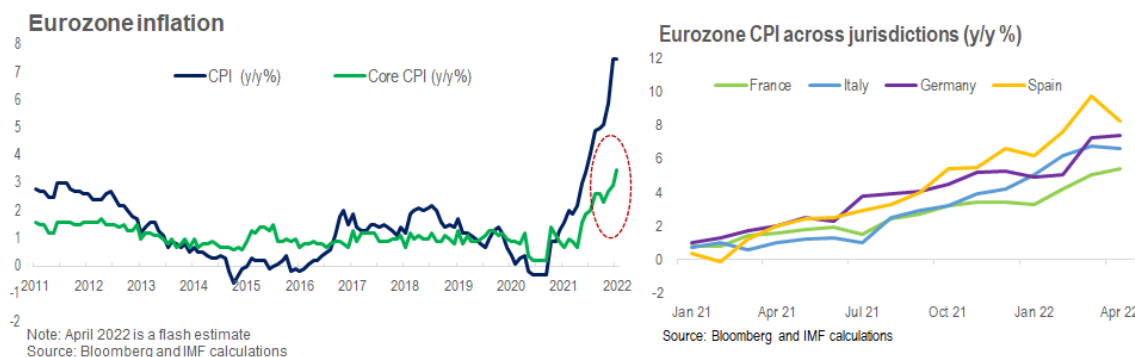


## Euro area

European equities were trading higher, with the benchmark Stoxx 600 Europe index up 0.5%. Gains were broad-based across sectors with the mining (+1.9%) and financial services (+1.3%) sectors outperforming. German 10-yr bund yields edged higher (+1bps) and Southern spreads increased after higher-than-expected flash April eurozone core inflation data, while 1Q eurozone growth data matched expectations. The euro was trading higher (+0.6% to 1.057 against the dollar) for the first time this week.

In general, analysts expect that continued eurozone economic growth and higher-than expected core inflation is likely to see the ECB tightening monetary policy early in the third quarter. Markets are now pricing in roughly +84bps of tightening by the end of 2022 (compared to +82 bps yesterday), with +24 bps priced in for the July ECB meeting.

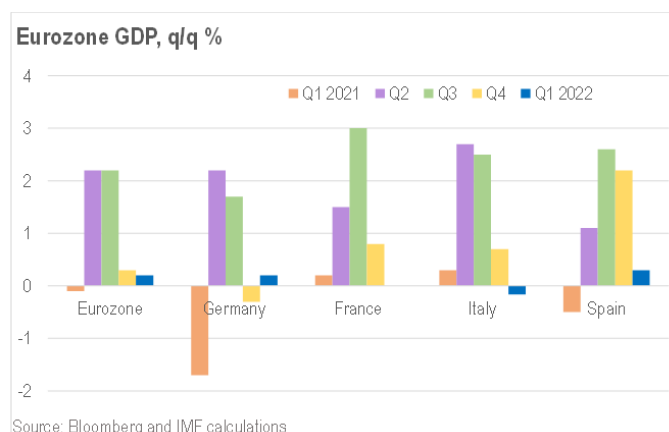
Preliminary eurozone core inflation surprised on the upside, accelerating to +3.5% (vs expected +3.2% from 2.9%), as services prices, core industrial goods and food inflation increased. ING analysts note that second-round effects are feeding through to prices faster than anticipated, with broader price pressures seen to entice the ECB to act sooner. Preliminary headline eurozone inflation edged higher to +7.5%yoy in April, in line with expectations (from revised +7.4%), while easing on a monthly basis (+0.6%mom vs expected +0.5% from +2.4%). HSBC analysts attribute the slower increase prices to the effectiveness of government interventions limiting energy price increases.



Looking across jurisdictions preliminary April headline inflation surprised on the upside in France (national measure +4.8%yoy vs expected +4.6% from 4.5%), with upside surprise a result of higher services and food inflation. ING analysts expect inflation to increase further in the coming months before decreasing in 2H 2022, with French inflation seen to remain well below that of the euro area as a result of government measures to weigh on gas and electricity prices. Italian inflation eased in April but

**still surprised on the upside** (EU harmonized preliminary measure +6.6%yoy vs expected +6.5% from 6.8%). This follows data released yesterday that showed an upside surprise to inflation in Germany (+7.4%yoy vs expected +7.2% from 7.3%) while Spanish inflation came in lower than expected (+8.4%yoy vs expected +9.1% from +9.8%).

**Preliminary estimates show that Eurozone Q1 GDP expanded at +0.2% qoq**, in line with expectations (from +0.3%), with annual growth at +5% yoy in line with expectations (up from +4.6%). **Preliminary growth numbers disappointed in France** (0%q/q vs expected +0.3%) **and Spain** (+0.3%qoq vs expected +0.6%), with growth in Germany (+0.2%qoq from -0.3%) and Italy (-0.2%qoq from +0.6%) matching expectations. **Analysts highlight that the German economy remains below pre-pandemic levels and contacts see a high probability of a technical recession in Italy.**



**European natural gas prices edged higher this morning (1-month ahead +2% to €99.6/MWh) with EU members investigating payment options for Russian gas that do not violate sanctions.** EU officials have said that companies opening accounts in rubles will be in breach of sanctions, but guidance from last week also suggested that a compromise was possible. EU members have requested clearer guidance.

## Emerging Markets

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**Asian equities rallied +2.0% on net. Hong Kong SAR outperformed (+3.4%) with Chinese technology stocks up 11% on hopes of eased internet company crackdowns after authorities pledged to boost economic support. Asian currencies mostly appreciated.** South Korean won appreciated +1.3%, while the Sri Lankan rupee weakened further -1.1%. 10-year yields were mixed. Yields in Hong Kong SAR (+7 bps) and South Korea (+6.3 bps) firmed. **In Sri Lanka, Governor Weerasinghe stated a staff-level agreement with the IMF could be signed within two months**, and that external debt restructuring remains a top priority, but the domestic debt in the form of government securities and Sri Lanka Development Bonds will not be restructured. This followed a pledge of \$600 mn financial aid from the World Bank. **Equities and currencies rose in Hungary, Poland, and South Africa. Polish CPI inflation was higher than expected at 12.3% (11.4% expected).** **LATAM equity markets traded 0.4-0.6% higher yesterday.** Currencies however continued to slide with the Chilean peso (-1.1%) depreciated the most against the USD. Brazil's real was the only currency to appreciate (+0.5%).

## China

**The Politburo urged greater efforts be made to ensure economic growth in reasonable range.** The politburo pledged to strengthen infrastructure construction in an all-around way and to support the housing market. Separately, **China's securities regulator, main exchanges have discussed private sector funding aid.** Steps include the promotion of credit protection tools and eased thresholds for funding via

repurchase pledges, among others, according to Bloomberg. **China exchanges have cut their equity transaction clearing fees.** Related A-share fees in Shanghai and Shenzhen exchanges and two-way fees in Beijing exchange will be reduced to 0.01%, Bloomberg reports. Meanwhile, **Chinese authorities have shut more businesses and residential areas in Beijing.** No plans to back away from Covid zero policy were announced, according to Bloomberg. **Equities rallied (Shanghai: +2.4%, Shenzhen: +3.9%)** led by technology and property developers on news of additional support. **Renminbi appreciated +0.5%, 10-year yields slipped -1.2 bps.**

### Central African Republic

**The Central African Republic declared Bitcoin legal tender, the second nation after El Salvador.** The government said yesterday that it hopes to attract more investors and make money transfers easier by legalizing the use of Bitcoin. About 11% of the landlocked nation's 5 mn population have internet access, according to an online data portal.

### Russia

**The ruble and equities held on to gains of around 2% after the central bank (CBR) cut its key policy rate 300 bps to 14% (compared to 200 bps expected) and sees room for further cuts with baseline inflation forecasts reaching 18-23% in 2022, 5-7% in 2023 and 4% in 2024.** The cuts follow better-than-expected economic data released yesterday. Retail sales rose 2.2% yoy (-1.2% expected) and cargo shipments are up 3.5% yoy (-3.3% expected) in March, with unemployment at 4.1%. Construction rose 6% yoy and industrial production was up 3% yoy last month, helped by an increase in mining. **Reuters also reports that the Russian government is discussing the idea of pegging ruble to gold prices.**

### Turkey

**Equities (-0.5%) and the lira (-0.3%) edged lower following reports that Turkey is working on a plan to attract foreign currency by offering lira funding for at least 2 years free of interest. Investors would reportedly also be guaranteed a return of 4% in U.S. dollars when the loan matures.** The lira has been little changed in April amid reports that state-bank have continued to intervene in support of the lira as deposits in so-called FX-protected accounts rose to 728 bn liras (\$52 bn).

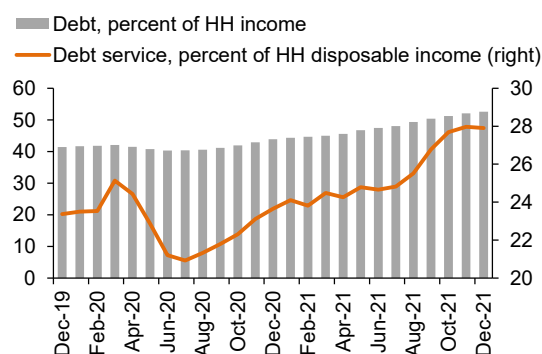
### Ukraine

**Eurobond prices were little changed after U.S. President Biden asked U.S. Congress to provide package of \$33 bn for military, economic and humanitarian aid to Ukraine.** The package, which administration officials estimated would last five months, is more than twice the size of the initial \$14 bn aid package that U.S. Congress enacted early last month, which reportedly has been almost exhausted. The new package has about \$20 bn in defense spending for Ukraine and U.S. allies in the region, \$8.5 bn support for government services and salaries, and \$3 bn in global food and humanitarian programs. **President Biden also asked Congress for new powers to seize the assets of Russian oligarchs and proposed to let the government use the proceeds from selling those assets to fund support to Ukraine.**

### Brazil

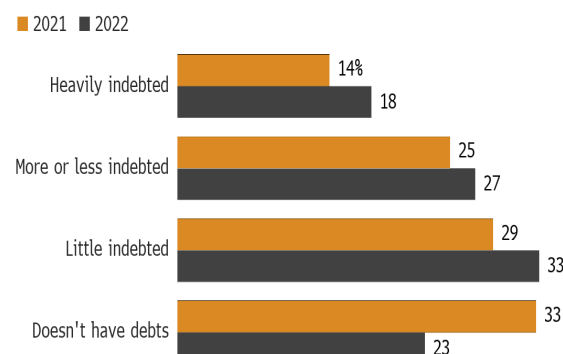
**Household (HH) debt has risen to record level.** As per the latest "Monetary and Credit Statistics" published by the Brazil Central Bank (BCB), HH debt balance as a percent of it's income rose to 52.6% in Dec 2021, from 43.9% and 41.4% at the end of 2020 and 2019, respectively. These are the highest levels seen since 2005, or the start of this publication. Debt service burden too has risen to 33% of HH disposable income in Dec 2021 (26.9% in Dec 2020). According to a Bloomberg report, double digit inflation and high interest rates have contributed to the sector's debt woes. The BCB has raised its policy rates by 975 bps in the last one year, and is expected to hike atleast another 100 bps in the coming meeting in March.

Figure 1. Brazil's HH sector debt burden



Sources: BCB; Brazil National Confederation of commerce; and Bloomberg

Figure 2. Brazilians feels more indebted



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.

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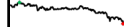
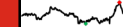



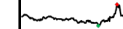


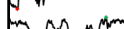


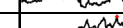








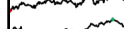


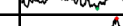














## Global Financial Indicators

Last updated: 4/29/22 1:08 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4263	2.5	0	-8	1	-11
Europe		3798	0.6	-1	-5	-5	-12
Japan		26848	1.7	-3	-5	-8	-7
China		3047	2.4	-1	-7	-12	-16
Asia Ex Japan		70	1.5	-1	-8	-26	-15
Emerging Markets		42	1.4	-1	-8	-23	-14
<b>Interest Rates</b>			basis points				
US 10y Yield		2.85	3.0	-5	46	122	134
Germany 10y Yield		0.90	0.4	-7	27	110	108
Japan 10y Yield		0.23	0.0	-2	-2	13	16
UK 10y Yield		1.87	-1.1	-10	22	102	90
<b>Credit Spreads</b>			basis points				
US Investment Grade		153	-0.9	-1	17	62	41
US High Yield		407	-2.9	14	32	79	69
Europe IG		90	1.1	8	18	40	43
Europe HY		427	8.6	39	95	177	185
<b>Exchange Rates</b>			%				
USD/Majors		103.12	-0.5	2	5	14	8
EUR/USD		1.05	0.4	-2	-5	-13	-7
USD/JPY		130.0	-0.6	1	6	19	13
EM/USD		52.2	0.7	-1	-2	-9	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		109	1.7	3	-1	60	41
Industrials Metals (index)		201	0.0	-4	-4	29	16
Agriculture (index)		78	0.2	1	7	35	28
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		29.9	-0.1	1.7	11.0	12.3	12.7
US 10y Swaption Volatility		126.3	0.8	2.5	10.4	53.2	47.3
Global FX Volatility		10.9	0.0	1.4	1.7	3.8	3.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		243	12.9	41	20	125	91
Italy		185	4.0	15	37	75	50
Portugal		108	3.3	6	32	41	43
Spain		103	2.6	6	16	36	28

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

## Emerging Market Financial Indicators

Last updated: 29/04/2022 1:09 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.							
China		6.59	0.6	-1.3	-3	-2	-4		2.9	-1.0	-1	3	-32	6	
Indonesia		14482	0.1	-0.8	-1	0	-2		7.0	2.0	3	26	47	60	
India		76	0.1	0.1	-1	-3	-3		6.3	0.0	0	9	75	0	
Philippines		52	0.1	0.2	0	-7	-2		5.3	0.0	3	3	99	83	
Thailand		34	0.8	-0.7	-2	-9	-3		2.9	9.5	9	38	85	101	
Malaysia		4.35	0.2	-0.7	-3	-6	-4		4.3	-9.5	13	38	115	73	
Argentina		115	-0.1	-1.0	-4	-19	-11		52.7	-6.6	59	316	577	209	
Brazil		4.89	1.1	-1.9	-3	9	14		12.0	-15.3	-23	40	291	131	
Chile		857	-1.1	-3.7	-9	-19	-1		6.3	0.0	-18	9	267	91	
Colombia		3979	-0.5	-5.3	-5	-7	2		8.5	0.0	24	49	290	210	
Mexico		20.31	0.7	-0.4	-2	-1	1		9.0	5.0	25	51	219	144	
Peru		3.8	-0.4	-2.8	-3	-2	4		7.7	0.0	0	100	235	184	
Uruguay		41	0.1	-2.7	1	7	8		10.1	20.4	51	123	266	134	
Hungary		359	0.2	-4.2	-8	-17	-10		6.7	5.5	9	54	420	224	
Poland		4.44	0.7	-2.8	-5	-15	-9		6.0	15.5	19	123	402	244	
Romania		4.7	0.5	-2.4	-5	-13	-7		6.7	6.2	23	64	407	186	
Russia		71.0	2.3	8.1	23	5	6		12.5	53.6	4	-244	521	372	
South Africa		15.8	1.3	-1.4	-8	-10	1		8.5	11.0	26	48	98	105	
Turkey		14.84	-0.3	-0.6	-2	-45	-10		21.1	21.0	-68	-471	254	-323	
US (DXY; 5y UST)		103	-0.5	1.9	5	14	8		2.89	4.6	-5	39	202	162	

	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		4016	2.4	0	-6	-22	-19		211	6	-2	1	8
Indonesia		7229	0.0	-1	3	20	10		191	25	11	17	26
India		57061	-0.8	0	-4	17	-2		175	11	16	15	43
Philippines		6731	-2.6	-4	-6	6	-5		146	26	21	46	45
Malaysia		1600	0.2	0	0	0	2		124	7	0	-8	7
Argentina		90354	0.4	-1	0	80	8		1790	58	42	265	110
Brazil		109919	0.0	-4	-8	-8	5		292	16	1	29	-19
Chile		4793	0.0	-2	-2	6	11		170	11	20	34	30
Colombia		1593	0.4	-1	0	25	13		363	21	30	124	15
Mexico		52614	0.5	-1	-6	8	-1		374	6	39	29	42
Peru		22608	0.0	-3	-10	17	7		197	16	29	27	47
Hungary		43840	0.7	2	-6	0	-14		184	39	48	47	60
Poland		58274	0.0	-4	-11	-5	-16		36	30	25	-4	4
Romania		12768	0.0	-2	0	13	-2		242	37	33	56	49
Russia		2435	2.2	9	1	-32	-36		3411	-577	938	3228	3234
South Africa		72699	1.6	-1	-3	8	-1		381	46	19	37	26
Turkey		2410	-0.8	-3	9	72	30		513	16	-34	18	-65
Ukraine		519	0.0	0	0	-2	-1		3746	233	737	3212	2987
EM total		42	2.8	-1	-8	-23	-14		411	23	-117	45	25

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

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