



- Updated Treasury purchase schedule reduces bets of an emergency rate hike ([link](#))
- US near-term inflation expectations repriced sharply, with longer-term steady ([link](#))
- Economists expect two BoE rate hikes in 2022 ([link](#))
- Traders assess implications of potential Iran deal for global oil supply ([link](#))
- Bank of Japan defends 10-yr yield target ([link](#))
- Ukrainian U.S. dollar bonds reverse recent gains ([link](#))
- China's central bank pledges continued ample liquidity, increased key support ([link](#))

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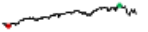
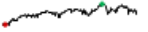




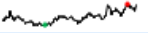

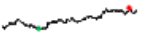

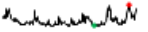
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Geopolitical fears weigh on markets

Equity markets extended their fall this morning after the US warned late last week that a Russian invasion of Ukraine may come soon. The Stoxx 600 in Europe fell as much as 3% on the day, before cutting those losses in half following comments from Russian foreign minister Lavrov that Russia could continue diplomatic measures. Similarly, US equity futures have moved from a 1.5% decline to essentially unchanged ahead of the market open. Treasury yields are higher this morning, with the 10-year up to 1.95 after falling to as low 1.90. Emerging market currencies are mixed so far, with the Russian ruble the strongest performer at +1.2% versus the dollar following Lavrov's comments, unwinding earlier declines. Ukraine dollar bonds have also trimmed some of their earlier losses. The price on the bond due September 2022 had fallen to as low as 90.5 in early trading, but has recovered to 92.5, still 3.5 points lower on the day. The bond had been trading at 98 as recently as last Thursday.

Key Global Financial Indicators

Last updated: 2/14/22 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4419	-1.9	-2	-5	12	-7
Eurostoxx 50		4062	-2.2	-1	-5	10	-5
Nikkei 225		27080	-2.2	-1	-4	-10	-6
MSCI EM		49	-1.5	0	-3	-16	0
Yields and Spreads			bps				
US 10y Yield		1.95	1.7	4	17	75	44
Germany 10y Yield		0.24	-5.9	1	28	67	42
EMBIG Sovereign Spread		388	18	12	12	47	21
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.4	0.3	0	1	-8	2
Dollar index, (+) = \$ appreciation		96.2	0.1	1	1	6	1
Brent Crude Oil (\$/barrel)		93.6	-0.9	1	9	50	20
VIX Index (% change in pp)		29.3	2.0	6	10	9	12

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

Global markets, particularly commodity markets, face a potentially tumultuous week. Tensions ratcheted higher over Ukraine after weekend high-level diplomacy failed to reduce concerns of an imminent move by Russia. A heavy schedule of CPI and GDP updates along with numerous speaking engagements by central bank officials will also come this week. Central bank events include the release of minutes by RBA (2/14) and FOMC (2/16), and policy decisions from Philippines (2/17) and Turkey (2/17), along with speeches from officials at the Fed, ECB, Riksbank, BoC, and Norges Bank. CPI reports will headline the economic calendar (2/14: *India*; 2/15: *Spain, Poland, Argentina*; 2/16: *China, UK, South Africa, and Canada*; 2/17: *Japan*; 2/18: *Sweden, France*). GDP readings (2/14: *Japan*; 2/15: *Romania, Hungary, Poland, Eurozone, Colombia, and Peru*; 2/16: *Norway, Israel*; 2/18: *Russia, Singapore*) and retail sales (2/16: *US*; 2/18: *UK, Canada*) will be closely watched to gauge any inflationary pressure on economic activities.

Mature Markets

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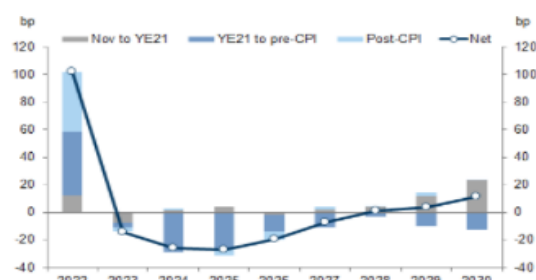
United States

The New York Fed released the updated Treasury purchase schedule, damping speculation of an unscheduled policy move to combat inflation. The schedule follows the Jan 26 decision to slow the monthly Treasury purchase from \$40bn to \$20bn and covers the period between Feb 14 to Mar 11. Following the release, investors slashed their bet of an inter-meeting rate hike, pushing the implied yield on the February Fed funds futures down 4 bps, amid a broader drop in Treasury yields on flight-to-safety flows. On Thursday, the contract was pricing in around 20% probability of a rate hike.

	Feb14 – Mar 11			Jan 14 – Feb 11			
Security	Operations	Max size	% of total	Operations	Max size	Total	% of total
0-2.25y coupons	1	6.225bn	31%	1	12.425bn	12.425bn	31%
2.25-4.5y coupons	1	4.025bn	20%	1	5.425bn	8.425bn	21%
4.5-7y coupons	1	3.225bn	16%	1	6.025bn	6.025bn	15%
7-10y coupons	1	1.625bn	8%	1	3.225bn	3.225bn	8%
10-22.5y coupons	1	1.625bn	8%	1	1.625bn	3.25bn	8%
22.5-30y coupons	1	1.825bn	9%	1	1.825bn	3.65bn	9%
1-7.5y TIPS	1	1.025bn	5%	1	2.025bn	2.025bn	5%
7.5-30y TIPS	1	625mn	3%	1	1.225bn	1.225bn	3%

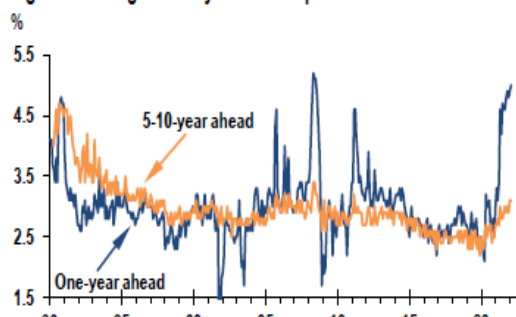
Near-term inflation expectations repriced sharply after the CPI report, contrasting the muted reaction in the rest of the curve. In the swap market, end-2022 inflation expectation jumped 45 bps following the CPI report, but inflation expectations at longer maturities saw little to no change. This has been a continuation of the pattern observed since the Fed's hawkish pivot— upside surprises now translate to more hikes and a trimming of the right tail of high inflation outcomes in future years. **Survey-based inflation expectations largely corroborate this view.** The median 1-year ahead inflation expectation from the University of Michigan survey ticked up from 4.9% to 5% in the flash February report, while the median 5-year ahead inflation expectation held steady at 3.1% since January. Some analysts argued a corollary of this observation is that, outside of the very front end, the expected rise in Treasury yields will come from higher real yields.

Change in market-implied %y/y Dec-CPI, since November 2021



Source: Goldman Sachs Global Investment Research

Figure 6: Michigan survey inflation expectations



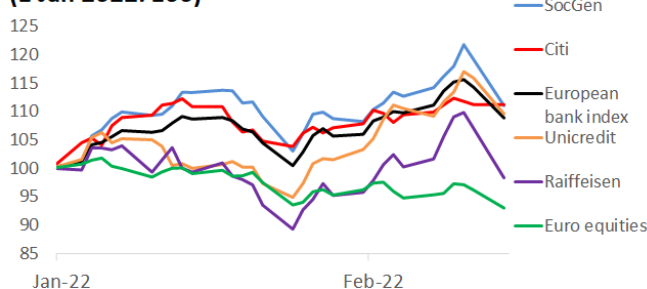
Source: University of Michigan, J.P. Morgan

Euro Area

European equities started the week sharply lower with the Stoxx Europe 600 Index falling by 2.7%. All sectors were trading lower, with the largest declines seen in Travel and leisure (-4.1%) and Banks (-4%).

European bank stock (-4%) sold off sharply as banks active in Russia underperform. Shares in Raiffeisen fell 7.5% compared to a loss of 7% in SocGen and 5% for Unicredit. **Despite today's sell off, European bank shares are up 9% in what had been a strong start to the year.** While bank stocks remain one of the best-performing subgroups in the Stoxx Europe 600 Index, analysts warn that widening credit spreads could add pressure. The Markit iTraxx Europe Senior Financial index, a gauge of senior financial credit default swaps, increased to 78.5, its highest level since December 2021, from roughly 55 at the start of 2022.

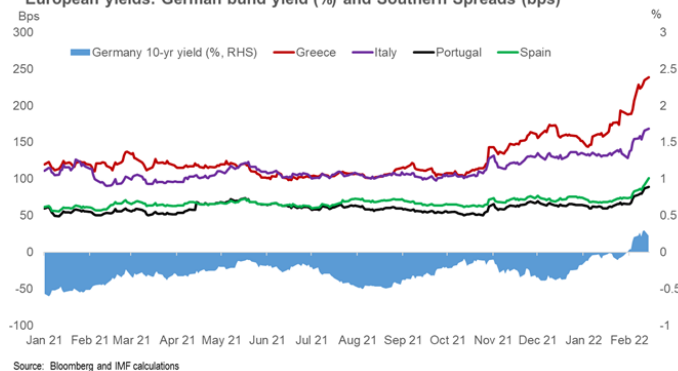
Equity performance of banks with exposure to Russia (1 Jan 2022: 100)



Source: Bloomberg and IMF

ECB officials continue to push back against interest rate hike speculation. ECB Governing Council Members Olli Rehn warned that a strong reaction by the ECB to short-term inflation would choke off economic growth, noting that euro area wage development remains subdued and that price growth in the coming years could be close to the 2% target. ECB governing council member Ignazio Visco reiterated that the ECB will keep a flexible approach as it unwinds monetary policy, while monitoring inflation and also the risks of uneven financing conditions across euro zone countries. Central bank of Ireland governor Gabriel Makhoul noted that while he expects net asset purchases to end this year, market expectations of an ECB rate hike in June is unrealistic. **Markets continue to price in aggressive tightening this year, with roughly 50 bps of hikes priced by the end of the year.** **European bond yields fell this morning**, with German 10-yr bund yields 9 bps lower amid risk-off sentiment surrounding geopolitical tensions in Russia and Ukraine. Southern European spreads widened, with Spain yields +9 bps over Germany.

European yields: German bund yield (%) and Southern Spreads (bps)



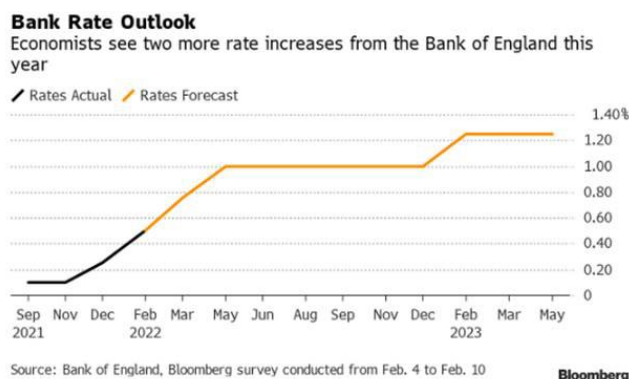
Source: Bloomberg and IMF calculations

The Euro depreciated (-0.4%) this morning, while implied one-year euro volatility has increased to its highest level since October 2020. Contacts note that the recent depreciation of the euro is likely driven by ECB members' communication aimed at reversing excessive hawkish speculation. Nevertheless, some analysts remain bullish on the currency against a backdrop of a more hawkish ECB but warn that geopolitical tensions in Ukraine pose near-term risks.



UK

Economists expect two more rate increases from the Bank of England this year, while markets are pricing more aggressive tightening. According to a survey conducted by Bloomberg news, economists see the BoE raising its benchmark rate by 25 bps at both the March and May meetings, bringing the rate to 1% where it is seen to remain until end-2022. Inflation forecasts for 2022 were also revised upwards to +5.3% y/y on average in 2022, from 4.7% previously. **Markets continue to price in more aggressive tightening**, with roughly 45 bps of tightening in the March meeting and the benchmark rate seen at close to 2% at the end of 2022. Analysts expect that data releases this week, including labor market data due tomorrow and inflation on Wednesday, would continue to support tightening expectations.

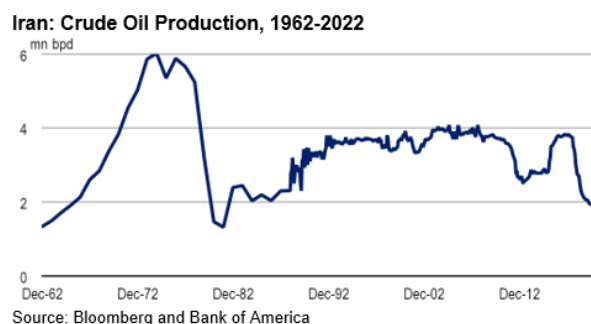


Japan

Bank of Japan (BOJ) defends 10-year yield target, offers to buy unlimited government bonds. The BOJ's unlimited 0.25% fixed-rate 10-year bond purchase operation, which was announced last Thursday, ended with no bids received today. The BOJ's intervention follows recent persistent climbs in Japan 10-year yields. Under its curve control policy, the BOJ has a desired trading range for the 10-year bonds of 0.25% either side of zero. Some analysts thought the BOJ's intervention may spur corporate borrowing via stabilized rates. **10-year yields fell 1 bp to 0.22%. Equities dived 1.6%, the yen strengthened +0.2%.**

Commodity prices

European natural gas prices (+7%) jumped but oil prices (+0.2%) are little changed as traders balance the implications of possible sanctions on Russia with a potential rise in supply from Iran. Today Iran said that talks to restore a nuclear deal with the G5+1 are "complicated and difficult" but have not hit an impasse with some contacts expecting that a deal will be reached in coming weeks. **Analysts expect that a deal with Iran could tip global oil market into a material surplus in 2022.** Iran's current oil production is estimated around 2.5mn bpd, with crude oil exports estimated around 0.5mn bpd. Bank of America expects that Iran could add up to 1.3mn bpd in production. Iran also has large amounts of oil in floating storage that could be released immediately. **Spot oil prices have risen 20% ytd, compared to an increase of 11% in broad commodity prices.**



Emerging Markets

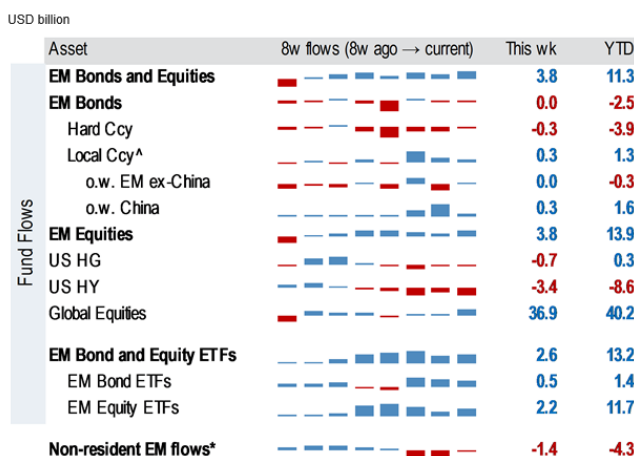
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Asian equities slipped 1.5% on net. India (-2.8%) and Hong Kong SAR (-1.4%) clocked the greatest losses while equities in the Philippines rallied +1.3%. **Asian currencies were mixed.** The Thai baht (+0.44%), South Korean won (+0.4%) and Indonesia Rupiah (+0.2%) appreciated. The Indian rupee weakened (-0.3%). **10-year yields declined**, with the largest slides seen in Hong Kong SAR (-6 bps) and Vietnam (-4 bps). **EMEA Equities sold off 2-3% in many** countries on concerns of a further escalation of tensions between Russia and the West. German Chancellor Scholz will visit Ukraine today before meeting with Russian President Putin tomorrow. Russian equities (-3.5%) fell and Russian 2-yr swap rates rose 60 bps to 12% but the ruble (+0.1%) was little changed. The Turkish lira (-0.5%) depreciated but the South African rand, Polish zloty and Hungarian forint were little changed in line with emerging market currencies trading more resiliently in 2022. The central bank of Turkey is expected to leave rates unchanged at 14% on Thursday. **Regional inflation prints continue to surprise to the upside in January.** Czech 2-yr rates rose 7 bps to 4.72% after inflation unexpectedly rose to 9.9% y/y or 4.4% m/m. Romanian inflation was also higher than expected at 8.35% y/y or 1.48% m/m. **Latin American** equity markets were mostly higher last Friday. Mexico and Colombia led the gains (both +1.2%), followed by Argentina (+0.7%). Local currencies were mixed but mainly traded in narrow ranges. 10-year government bond yields were little changed.

EM Fund Flows

EM bond funds saw marginal redemptions (-\$46 mn) last week, and EM equity funds saw the largest inflows since late May 2021 (+\$3.8 bn). Of EM bond funds, hard currency bond funds posted outflows for the 5th consecutive week (-\$308 mn), partially offset by inflows to local currency bond funds (+\$262 mn). From a regional perspective, Asia ex-Japan and Latin America equity funds observed inflows, with numbers printing at \$1.3 bn and \$128 mn, respectively, while equity funds in EMEA saw outflows (-\$231 mn). Year-to-date flows to EM bonds and equities were -\$2.5 bn and +\$13.9 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows

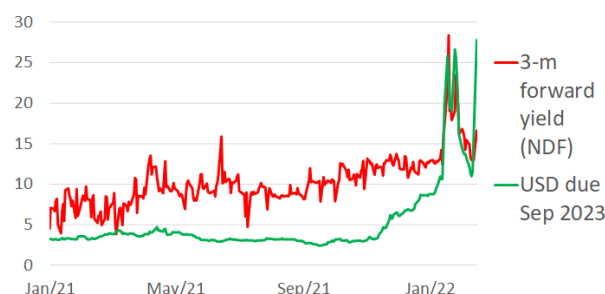


*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Ukraine

U.S. dollar bond yields spiked, and the hryvnia fell 1.6% against the U.S. dollar. The price on the Eurobond bond due Sep 2022 dropped 5 points to 91, close to the low of January. The Ukrainian government reportedly warned that Russian naval drills could hamper international shipping. European carriers took further steps to avoid Ukraine, with KLM halting flights to Ukraine. **Bloomberg reports that the U.S. is exploring how to provide additional economic aid to Ukraine even if there was no reference to such aid on a call between President Biden and President Zelensky yesterday.**

Ukraine: Yields on forwards and U.S. dollar bonds (%)



Source: Bloomberg and IMF

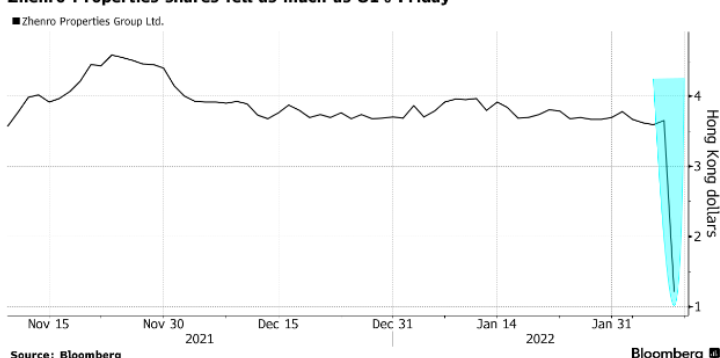
China

China's central bank promises continued ample liquidity, increased key sectoral support.

The People's Bank of China (PBOC) pledged in its Q4 monetary policy implementation report that it will “meet the reasonable financing demands of the real economy”, according to state-owned CTGN. Also, the bank promised to keep money supply growth and social financing “in line with nominal economic growth” and “not use real estate as a short-term method of stimulating the economy”.

Zhenro Properties equities and dollar bonds dived on a possibly cancelled note redemption. Moody's downgraded Zhenro to b/Caa1 with negative outlook citing deteriorating operations and a material fall in sales. The developer, who is China's 30th largest by 2021 contracted sales, previously announced that \$200 mn of 10.25% perpetual notes will be redeemed on March 5. Zhenro Properties' shares fell as much as 17% Monday after slumping 66% on Friday. **China's repo rates firmed further after six consecutive days of net liquidity drain.** The overnight repo rate rose to 1.86% while the 7-day rate firmed to 1.99%. The PBOC has effectively drained RMB 800 bn (\$126 bn) of liquidity since February 7, Bloomberg estimates. **Equities slipped (Shanghai -1%, Shenzhen -0.4%). Renminbi 10-year yields were little changed.**

Zhenro Properties shares fell as much as 81% Friday



Source: Bloomberg

Bloomberg

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Global Financial Indicators

Last updated: 2/14/22 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4415	-1.9	-2	-5	12	-7
Europe		4062	-2.2	-1	-5	10	-5
Japan		27080	-2.2	-1	-4	-10	-6
China		4552	-1.1	-2	-4	-22	-8
Asia Ex Japan		81	-1.6	0	-4	-20	-2
Emerging Markets		49	-1.5	0	-3	-16	0
Interest Rates			basis points				
US 10y Yield		1.95	1.7	4	17	75	44
Germany 10y Yield		0.24	-5.9	1	28	67	42
Japan 10y Yield		0.22	-1.3	2	8	15	15
UK 10y Yield		1.51	-3.4	10	36	99	54
Credit Spreads			basis points				
US Investment Grade		129	-0.8	2	14	41	18
US High Yield		402	-0.5	14	63	55	64
Europe IG		68	1.1	1	16	22	20
Europe HY		333	7.0	11	75	96	91
Exchange Rates			%				
USD/Majors		96.18	0.1	1	1	6	1
EUR/USD		1.13	-0.3	-1	-1	-7	0
USD/JPY		115.4	0.0	0	1	10	0
EM/USD		53.4	0.3	0	1	-8	2
Commodities			%				
Brent Crude Oil (\$/barrel)		94	-0.9	1	9	50	20
Industrials Metals (index)		184	0.4	0	4	30	7
Agriculture (index)		67	-0.8	1	9	32	10
Implied Volatility			%				
VIX Index (% change in pp)		29.3	2.0	6.5	10.2	9.4	12.1
US 10y Swaption Volatility		90.6	0.0	11.3	9.6	29.6	11.6
Global FX Volatility		7.7	0.1	0.2	0.5	0.5	0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		237	2.9	9	79	119	86
Italy		166	0.3	11	34	75	31
Portugal		88	1.3	10	29	35	24
Spain		100	8.5	15	32	42	26

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 2/14/2022 8:15 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	0.0	0.1	0	2	0		2.8	1.4	10	-1	-49	0
Indonesia		14326	0.1	0.5	0	-3	0		6.5	-1.1	2	12	29	13
India		76	-0.3	-1.2	-2	-4	-2		6.3	0.0	0	9	75	0
Philippines		51	-0.1	0.1	0	-7	-1		4.9	0.0	30	38	165	40
Thailand		33	0.7	1.4	2	-8	2		2.2	-1.0	3	13	96	36
Malaysia		4.19	0.0	-0.1	0	-4	-1		3.7	-0.6	0	6	90	11
Argentina		106	-0.3	-0.7	-2	-17	-3		50.4	-0.4	63	146	382	-14
Brazil		5.21	0.7	0.9	6	3	7		11.7	-2.3	16	40	351	98
Chile		813	-0.5	1.5	1	-11	5		5.9	-1.5	24	7	310	52
Colombia		3931	-0.1	0.8	2	-11	3		7.9	0.0	53	62	356	146
Mexico		20.45	0.4	0.7	-1	-2	0		7.8	3.5	26	9	231	29
Peru		3.8	-0.9	1.9	3	-4	6		6.1	1.3	-2	-2	231	18
Uruguay		43	0.3	1.6	4	-1	4		8.3	-3.9	-26	-33	126	-39
Hungary		316	-0.5	-2.1	-1	-7	3		4.8	5.0	10	18	269	30
Poland		4.01	0.4	-1.2	-1	-8	1		4.1	11.0	21	31	262	58
Romania		4.4	-0.3	-1.1	-1	-8	0		5.1	4.2	8	9	286	32
Russia		76.3	1.2	-1.1	0	-4	-1		10.1	36.8	76	28	351	135
South Africa		15.1	0.6	2.5	2	-4	5		7.5	-5.0	-17	-13	79	11
Turkey		13.57	-0.6	0.2	0	-49	-2		22.1	16.0	-51	-190	909	-225
US (DXY, 5y UST)		96	0.1	0.8	1	6	1		1.87	1.9	11	32	138	61

	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		4552	-1.1	-2	-4	-22	-8		206	4	10	-18	3	
Indonesia		6734	-1.2	-1	1	7	2		184	8	18	7	19	
India		56406	-3.0	-2	-8	8	-3		157	16	33	3	25	
Philippines		7361	1.2	0	1	6	3		128	15	27	31	27	
Malaysia		1584	0.3	3	2	-2	1		128	5	13	-8	11	
Argentina		88185	0.7	0	3	71	6		1812	37	1	366	132	
Brazil		113639	0.1	1	6	-5	8		328	15	9	67	17	
Chile		4598	-1.2	3	2	0	7		165	12	20	25	25	
Colombia		1493	1.2	-3	4	9	6		363	3	16	147	15	
Mexico		53229	1.2	4	-1	20	0		360	21	22	16	28	
Peru		23724	0.7	6	1	6	12		185	17	23	56	35	
Hungary		51286	-1.6	-1	-3	18	1		150	20	29	8	26	
Poland		66274	-2.0	-1	-9	15	-4		16	6	-6	-13	-16	
Romania		13079	-2.2	-2	-4	25	0		214	8	21	25	21	
Russia		3509	-1.1	1	-2	2	-7		257	16	74	82	80	
South Africa		76028	-0.5	0	1	15	3		382	14	30	18	27	
Turkey		2022	-1.4	1	-2	31	9		535	-19	-53	108	-43	
Ukraine		519	0.0	-1	-1	0	-1		908	63	122	424	149	
EM total		49	-1.6	0	-3	-16	0		421	12	19	81	35	

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

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