



- Options markets signal rising risk in US corporate bond market ([link](#))
- US Treasury forward curve holds steady despite recent spike in yields ([link](#))
- Surging commodity prices add to global headwinds ([link](#))
- China to expand fiscal spending ([link](#))
- Japan's pension fund to reconsider securities lending ([link](#))

[Mature Markets](#)

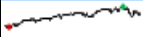










[Emerging Markets](#)

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## Markets cautiously optimistic on hopes of easing diplomatic tensions

**The prospect of new diplomatic negotiations between the US and Russia gave stocks a minor boost after yesterday's big US selloff.** The Secretary of State and the Russian foreign minister are due to meet for further talks next week. US equity index futures are up and the major European composite indexes were making modest gains, although most of Asia was down overnight. Government bond yields held steady and volatility was low, while oil prices took a step back after a period of strong gains. However, financial markets remain passive observers of the geopolitical crisis, with little insight into future developments and a limited understanding of the implications of any escalation. Caught between the threats of inflation, central bank rate hikes and military conflict, the overall mood remains extremely cautious, especially with the weekend looming. Meanwhile, expectations for tightening by the ECB and BOE moderated somewhat, although the Fed is still expected to hike six times this year.

Key Global Financial Indicators

Last updated: 2/18/22 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4380	-2.1	-3	-4	12	-8
Eurostoxx 50		4120	0.2	-1	-3	12	-4
Nikkei 225		27122	-0.4	-2	-1	-10	-6
MSCI EM		49	-1.2	-1	0	-14	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.97	0.7	3	10	67	46
Germany 10y Yield		0.22	-0.5	-7	24	57	40
EMBIG Sovereign Spread		390	9	20	8	44	23
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		53.9	0.1	1	2	-7	2
Dollar index, (+) = \$ appreciation		95.8	0.0	0	0	6	0
Brent Crude Oil (\$/barrel)		91.0	-2.1	-4	4	42	17
VIX Index (% change in pp)		26.6	-1.4	-1	4	4	10

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

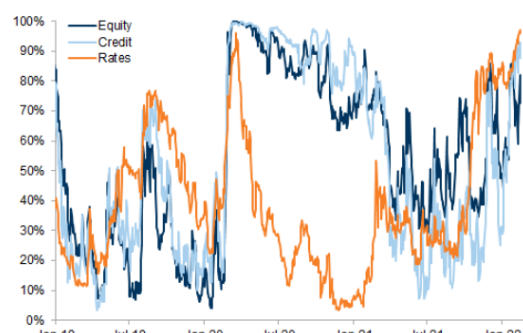
## Mature Markets

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### United States

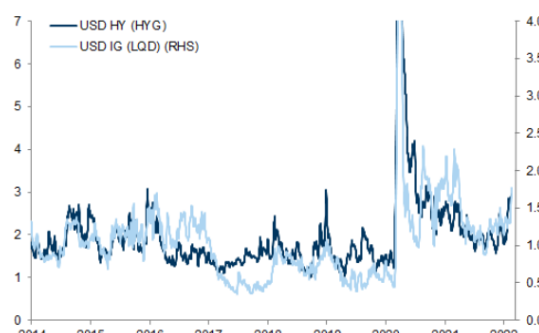
**Options markets are signaling growing worries about the US bond market.** Volatility in both interest rates and credit markets are up sharply so far this year. In contrast, equity volatility has moderated over recent trading sessions. Credit spreads have widened sharply even as the VIX held steady. Options skews for LQD, the largest investment grade exchange traded fund (ETF) and HYG, the largest high yield ETF, are significantly higher. This implies that investors favor put options on these ETFs, which go up in value when the ETF price falls, over call options which appreciate when the ETF price goes up. Some analysts warn that markets could be in for the kind of selloffs in credit seen in 2015 and 2018, but others disagree, pointing out that companies are in much better shape with much stronger balance sheets than they were on those previous occasions.

**Exhibit 7 : Sharp increase in credit and rates vol**  
10-year percentile of 3-month implied ATM's vol



Source: Goldman Sachs Global Investment Research

**Exhibit 8 : Credit is now pricing higher risk and limited upside probability**  
3-month risk-off skew (25 delta put - 50 delta call), 5-day avg



Source: Goldman Sachs Global Investment Research

**Despite US Treasury yields breaching pre-pandemic levels and the yield curve close to the flattest point for this cycle, the Treasury forward curve still predicts that long term interest rates will remain contained.** The 10-year yield one year forward at 2.14% is not far from the current 10-year yield, while the 10-year yield two years forward stands at just 2.22%.

**Figure 1 - Yields Return to Pre Pandemic Levels**



Source: BMOCM, BBG

**Figure 2 - Curves Already Approaching Cycle Flats**



Source: BMOCM, BBG

**Treasury Inflation Protected Security (TIPS) breakeven rates have remained stable and real yields remain very low and are still stuck in negative territory.** These trends suggest that markets think the Fed will be successful in controlling inflation in the medium term. Analysts at Bank of Montreal take the view that 10-year real yields will have to rise by another 100 bps to the 0.50% level in order for interest rates to break significantly higher. On the other hand, such a move in real yields could hit risk assets very hard, tightening financial conditions enough to make the Fed reconsider further rate hikes, thereby putting a cap

on longer maturity yields. The strongest case for higher yields is if the economy continues its strong recovery and keeps risk assets higher, making it easier for the Fed to continue its rate hikes. The worst case scenario is that inflation keeps going up and the Fed is forced to keep hiking despite the impact on the economy.

Figure 3 - Breakevens Still Anchored

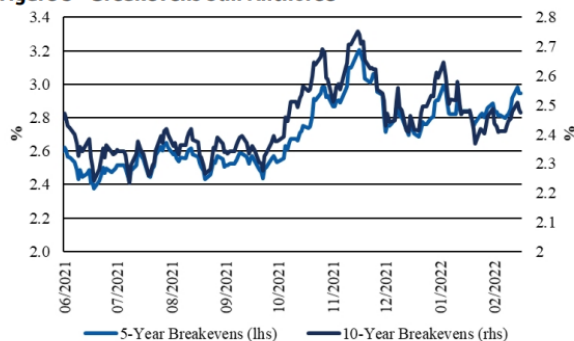
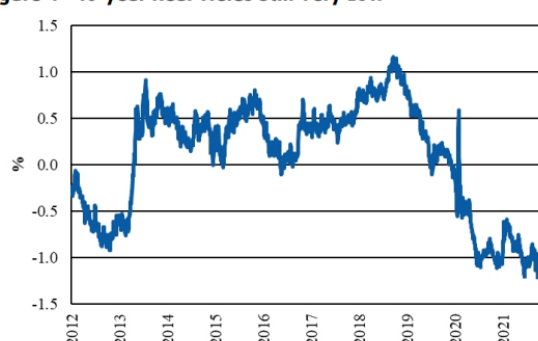


Figure 4 - 10-year Real Yields Still Very Low

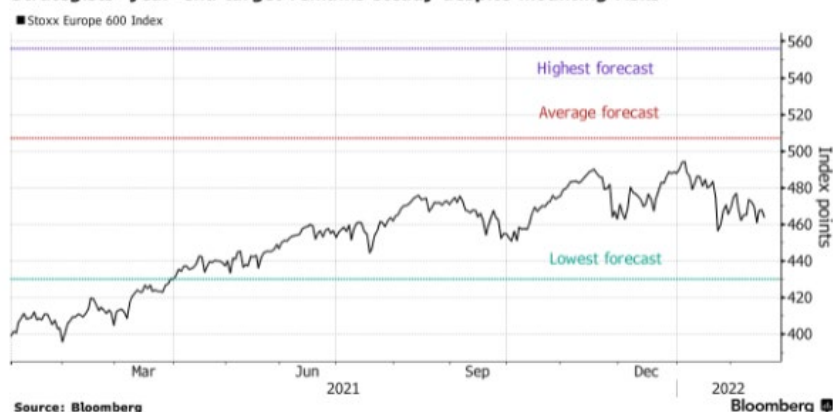


## Euro Area

Although the Stoxx Europe 600 Index is trading roughly -4.6% lower year to date, strategists generally remain optimistic about European equity performance, according to a Bloomberg monthly survey of 17 strategists. On average, strategists see the Stoxx Europe 600 Index increasing by more than 8% by the end of 2022.

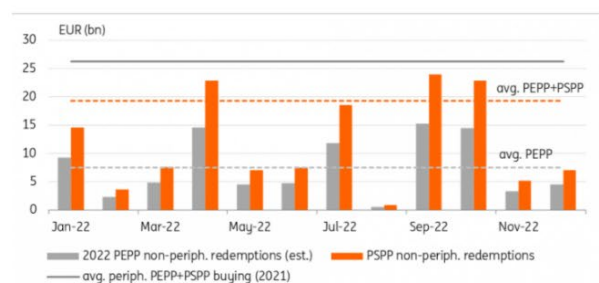
### Hold the Line

Strategists' year-end target remains steady despite mounting risks

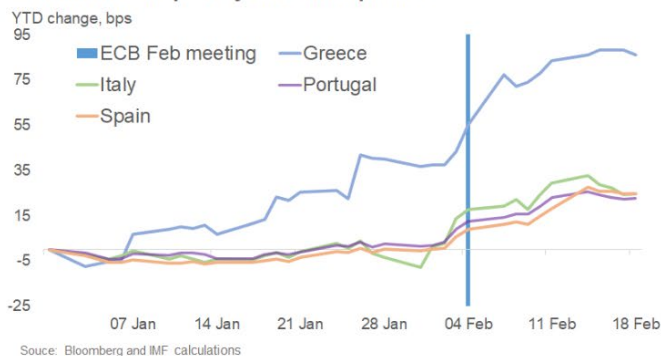


Analysts caution that PEPP reinvestments alone may be insufficient to contain sovereign spreads. The ECB is set to end net asset purchases under the PEPP program in March and continue reinvestments until end-2024. ING analysts estimate that PEPP reinvestments alone amount to less than a third of the net volume of periphery purchases in 2021 and caution that spreads are likely to increase further. The spreads between 10-yr bonds and Greek bonds have widened by almost 85 bps in the year to date, while Italian spreads has widened by roughly 26 bps.

Lacking oomph - shifting non-periphery PEPP redemptions into the periphery



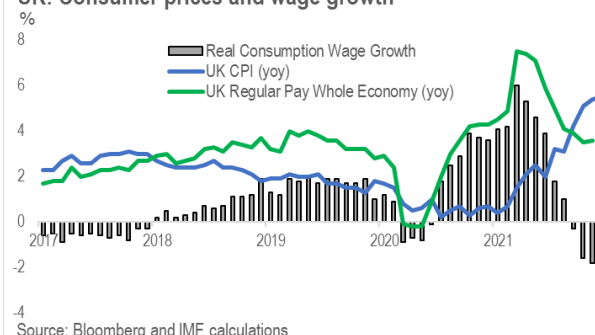
Southern Europe 10-year bond spreads



## United Kingdom

**Retail sales surprised to the upside in January, increasing to +1.9% mom (consensus 1.2%) as covid-related restrictions eased.** Bloomberg analysts warn that going forward, the recovery in consumer spending may be offset by a cost of living squeeze, as real wage growth fell into negative territory and energy prices and taxes are set to increase in April. **Despite stronger-than-expected inflation data earlier this week and upbeat retail sales data today, markets have scaled back their rate-hike expectations slightly** with roughly +139 bps of hikes priced in by the end of the year, in comparison to +154 bps seen one week ago. A 25-bps hike in March remains fully priced in.

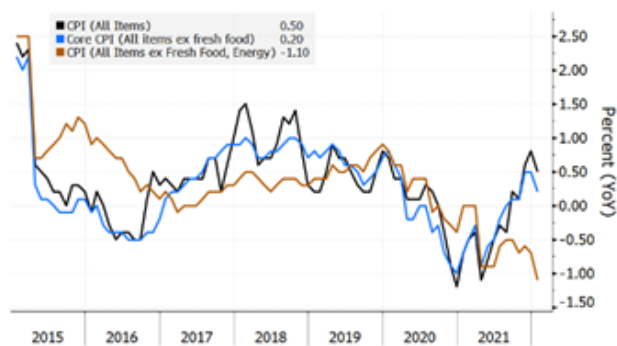
UK: Consumer prices and wage growth



## Japan

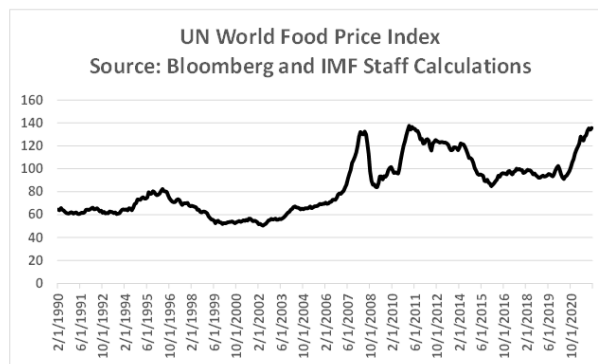
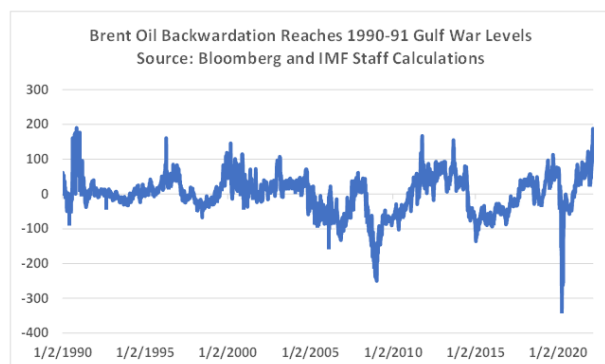
**The Government Pension Investment Fund (GPIF), the world's largest pension fund with \$1.7 tn in assets, is to reconsider an earlier decision to stop securities lending.** The GPIF surprised markets in December 2019 when it announced the suspension, sparking widespread debate at the time. Securities lending involves allowing other counterparties to borrow shareholdings in order to facilitate short selling, in exchange for a fee. Some view short selling as an activity with negative social consequences, though most others dispute this view, and the GPIF's decision caused widespread controversy when it was announced. Meanwhile, both CPI and PPI were weaker than expected and the government downgraded its forecasts for the economy.

Headline and Core Consumer Price Indexes



## Commodities

**Surging commodity prices are adding to the pressures facing the global economy.** There is widespread agreement that oil prices will cross \$100/barrel in the not too distant future, and contacts report that some parties are willing to pay \$100 or more for oil in tankers that have just arrived in port. Inventory levels in the oil storage tanks in Cushing, Oklahoma have fallen to levels not seen since 2018. The oil futures market is at a level of backwardation not seen since the 1990-1991 Gulf War. High backwardation implies that there is much higher demand for current demand than there is for future supply, and the current levels show how urgent the current demand is for oil. However, the surge is not confined to the energy sector, with food prices at their highest level in 10 years, which poses significant challenges for emerging and frontier nations which are still struggling with the pandemic.



## Emerging Markets

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**The major selloff in the US yesterday pushed most emerging markets lower.** EMEA was mixed, while Russian credit default swap spreads fell 8 bps to 241 bps after hitting 256 bps shortly before. In **Asia**, stocks were down 0.7% although China bucked the trend. In the **Philippines**, Fitch affirmed the country's BBB rating while keeping its negative outlook. In **Latin America**, stocks were dragged down by the US selloff and interest rates were higher. In Argentina, the central bank increased the policy rate by 2.5% to 42.5%. The rate is still negative in real terms as inflation exceeds 51%.

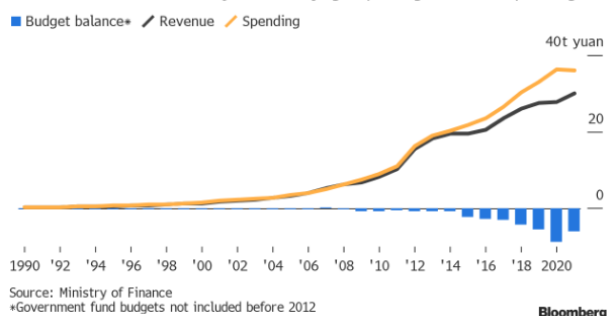
### China

**China pledged to expand fiscal spending in 2022 while keeping the deficit in check.** Finance Minister Liu wrote in an article that fiscal spending will be expanded to support investment in science and technology, environmental protection, modern agriculture, and other major projects in China's five-year plan, Bloomberg reported. Liu also urged local governments to continue their efforts to deal with the problem of off-balance-sheet debt. Separately, **banks in some Chinese cities have started to lower mortgage down payment requirements.**

The new 20% down payment ratio (previous: 30%) implemented in the cities of Heze, Chongqing, and Ganzhou will apply to first-time home buyers, according to Bloomberg. Some analysts see the move as aimed at cushioning China's ongoing property market slump and expect more banks in other smaller cities to soon follow suit. **Yango Group misses \$27.3 mn interest payment.** The payments relate to two dollar bonds, with a 30-day exemption period having ended on Tuesday (February 15, 2022), according to exchange filings. The property developer cited its stressed liquidity state caused by macroeconomic, industrial, and financial conditions as reason for non-payments.

#### Deficit Finance

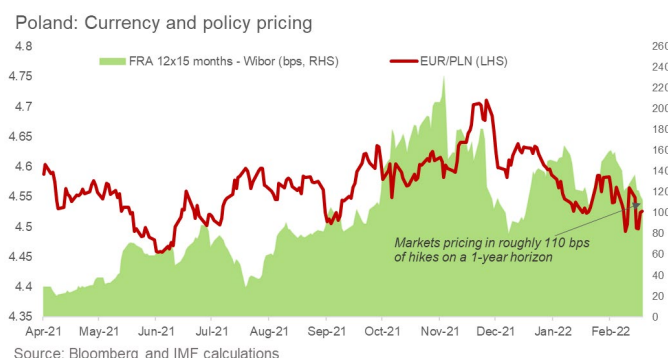
China's deficit shrank last year as Beijing kept a tight rein on spending





## Poland

**Producer prices surprised on the upside in January**, increasing to +14.8% yoy (consensus 14.4% from 14.2% the month before). Data releases earlier this week showed January headline inflation increasing to +9.2% yoy (consensus 9.4%). Governor Adam Glapinski reportedly sees inflation remaining above the target range throughout this year but slowing by July. **The central bank increased interest rates by 50 bps to 2.75% earlier this month and ING analysts see the policy rate reaching 4.5% this year, while markets continue to price roughly 110 bps of tightening in the next 12 months.**



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## Global Financial Indicators

Last updated: 2/18/22 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4388	-2.1	-1	-4	12	-8
Europe		4120	0.2	-1	-3	12	-4
Japan		27122	-0.4	-2	-1	-10	-6
China		4651	0.5	1	-3	-20	-6
Asia Ex Japan		82	-0.9	-1	-1	-18	-1
Emerging Markets		49	-1.2	-1	0	-14	1
Interest Rates							
			basis points				
US 10y Yield		1.97	0.7	3	10	67	46
Germany 10y Yield		0.22	-0.5	-7	24	57	40
Japan 10y Yield		0.22	-1.0	-2	7	12	15
UK 10y Yield		1.44	-2.7	-11	22	81	47
Credit Spreads							
			basis points				
US Investment Grade		138	3.7	12	23	51	26
US High Yield		410	9.5	30	71	63	72
Europe IG		68	0.4	2	14	20	20
Europe HY		331	1.0	7	67	81	88
Exchange Rates							
			%				
USD/Majors		95.80	0.0	0	0	6	0
EUR/USD		1.14	0.0	0	0	-6	0
USD/JPY		115.1	0.2	0	0	9	0
EM/USD		53.9	0.1	1	2	-7	2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		91	-2.1	-4	4	42	17
Industrials Metals (index)		188	0.4	2	6	30	9
Agriculture (index)		67	-0.1	0	9	30	10
Implied Volatility							
			%				
VIX Index (% change in pp)		26.6	-1.4	-0.6	3.9	4.2	9.5
US 10y Swaption Volatility		94.3	0.0	4.2	15.3	23.5	15.2
Global FX Volatility		7.7	0.0	0.1	0.5	0.4	0.3
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		236	-3.7	1	71	113	84
Italy		162	1.4	-4	28	62	27
Portugal		87	0.7	0	25	28	23
Spain		99	0.4	7	30	30	25

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

Last updated: 2/18/2022 8:07 AM	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		6.33	0.2	0.4	0	3	0		2.8	2.0	1	8	-56	-1		
Indonesia		14327	0.0	0.1	0	-2	0		6.5	-1.1	-3	10	-4	12		
India		75	0.6	1.0	0	-3	0		6.3	0.0	0	9	75	0		
Philippines		51	-0.1	-0.1	0	-6	-1		5.0	0.0	10	48	170	50		
Thailand		32	0.0	1.9	3	-7	3		2.2	-2.0	-1	2	96	36		
Malaysia		4.19	0.0	0.1	0	-3	0		3.7	-0.2	-5	0	71	7		
Argentina		107	-0.1	-0.6	-2	-17	-4		48.4	-16.2	-206	5	453	-220		
Brazil		5.14	0.5	2.1	8	6	8		11.6	-1.9	-5	3	344	96		
Chile		792	0.5	2.1	3	-10	8		5.9	1.0	-6	-4	299	47		
Colombia		3935	0.1	-0.2	3	-10	3		7.7	0.0	-14	15	325	132		
Mexico		20.28	0.1	1.3	1	0	1		7.8	0.0	-1	11	193	28		
Peru		3.7	0.5	0.3	3	-2	7		6.0	-3.2	-8	-18	202	9		
Uruguay		43	0.0	0.0	4	0	4		8.1	-3.1	-29	-58	107	-64		
Hungary		314	-0.1	0.0	1	-6	3		4.7	-3.5	-9	-19	247	16		
Poland		3.98	0.2	1.3	1	-7	2		3.9	-7.9	-12	-3	236	35		
Romania		4.4	-0.1	0.1	0	-7	0		5.2	-1.5	5	14	266	33		
Russia		75.8	0.4	1.8	2	-3	-1		9.9	-10.5	19	18	320	117		
South Africa		15.0	-0.2	1.2	3	-3	6		7.5	-3.0	-12	-30	32	4		
Turkey		13.62	-0.3	-1.0	-1	-49	-2		21.8	-21.0	-14	-132	873	-255		
US (DXY; 5y UST)		96	0.0	-0.3	0	6	0		1.85	1.4	0	20	130	59		

	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		4651	0.5	1	-3	-20	-6		207	12	9	-11	4			
Indonesia		6893	0.8	1	2	11	5		185	19	13	8	20			
India		57833	-0.1	-1	-2	14	-1		154	15	18	-1	22			
Philippines		7419	-0.3	2	2	7	4		135	24	31	38	34			
Malaysia		1603	-0.1	2	5	1	2		130	9	13	-3	13			
Argentina		89978	-0.7	3	8	74	8		1756	-18	-118	300	76			
Brazil		113529	-1.4	0	6	-5	8		325	17	6	66	14			
Chile		4557	0.2	-2	1	1	6		162	8	16	24	22			
Colombia		1503	0.0	1	-5	11	7		372	24	28	156	24			
Mexico		52712	-1.8	0	-1	18	-1		358	13	16	15	26			
Peru		23871	-0.8	1	2	6	13		179	8	24	49	29			
Hungary		51069	-0.5	-2	-3	16	1		151	19	32	12	27			
Poland		66279	-0.2	-2	-7	13	-4		16	18	1	-13	-16			
Romania		13241	0.8	-1	0	27	1		211	15	19	15	19			
Russia		3484	-0.8	-2	5	2	-8		273	49	58	98	96			
South Africa		76362	0.3	0	2	15	4		385	21	26	11	30			
Turkey		2024	0.7	-1	2	31	9		547	26	-12	123	-31			
Ukraine		519	0.0	0	-1	0	-1		959	141	-7	456	200			
EM total		49	-0.7	-1	0	-14	1		424	24	15	80	38			

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

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