GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, FEBRUARY 22, 2022

- **Germany halts pipeline approval after Russia recognizes Ukrainian separatists** (link)
- **Ukrainian, Russian assets extend losses** (link)
- **European PMI data surprises on the upside** (link)
- **UK sets out plans to overhaul Solvency II regulation** (link)
- **Fed officials send mixed messages on a size of a rate hike in the March meeting** (link)
- **Chinese tech stocks dropped further amid renewed regulatory tightening risks** (link)

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Investors react to Ukraine shock

Russian markets have slumped and global risk assets are wobbling as the EU announces sanctions. Investor sentiment fell sharply overnight as Russian authorities announced that they would recognize the independence of Ukrainian separatists, escalating the potential for armed conflict in the region. The market focus has subsequently shifted to the US and European sanction response, with Germany already announcing a halt to the approval of the Nord Stream 2 pipeline. Further EU sanctions have been proposed and a US response is expected soon as well. Russian assets have felt the brunt of investor reaction, with CDS up nearly 80 points from last week, the ruble testing its 2016 lows, and local stocks down over 15% since Friday's open. Stocks outside of the US have pared initial losses but are still down about 1.5% over the last two days, while the VIX gauge of equity volatility is relatively elevated at 29. Commodities markets are also feeling the impact, with crude and natural gas prices all jumping higher and a broad commodity index up nearly 1.5% since Friday. US 10-year yields are little changed amid haven flows.

Key Global Financial Indicators

Last updated: 2/22/22 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4349	-0.7	-2	-1	11	-9
Eurostoxx 50		3994	0.2	-4	-6	8	-7
Nikkei 225		26450	-1.7	-2	-4	-12	-8
MSCI EM		49	-1.0	0	-1	-13	0
Yields and Spreads				bps			
US 10y Yield		1.94	1.2	-10	18	58	43
Germany 10y Yield		0.25	4.5	-6	32	59	43
EMBIG Sovereign Spread		396	5	8	8	50	29
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		53.6	0.2	0	1	-8	2
Dollar index, (+) = $ appreciation		95.9	-0.1	0	0	7	0
Brent Crude Oil ($/barrel)		97.6	2.3	5	11	50	25
VIX Index (%, change in pp)		29.1	1.3	1	0	7	12

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

In the week ahead, markets will remain cautious as investors assess the path of Russia-Ukraine tensions and central bank monetary policy normalization. On the economic data front, the US will release PMIs, Q4 GDP (second estimate), durable goods orders, and PCE deflator. Outside of the US, CPI (Eurozone, France, Belgium, Austria, Iceland, Croatia, Singapore, and Malaysia) and GDP (Germany, France, Croatia, Belgium, Hong Kong SAR, Taiwan Province of China, and Mexico) will be closely watched to gauge economic developments and inflationary pressure. On the monetary policy front, central banks in New Zealand (25bps hike expected) and Korea(hold) will have meetings. The ECB announced last Friday that Governing Council members would hold an informal in-person meeting on Thursday (no policy action is expected). There will be speakers from the Fed and the BoE throughout the week. Elsewhere, Iranian nuclear negotiation is likely to remain in focus, providing potential downward pressure on oil prices.

Mature Markets

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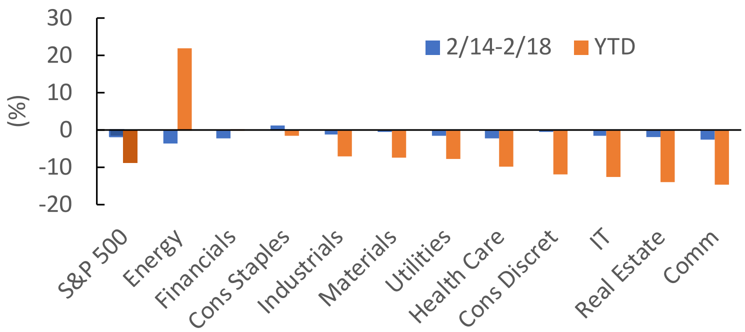
United States

US equities closed lower last Friday amid risk-off sentiment. The S&P 500 fell -0.7%, driven by technology sectors with the NY FANG index (represent mega-cap tech and tech-enabled companies such as Apple, Meta, and Tesla) dropping -2.2%. The S&P 500 has lost nearly 9% year-to-date as consumer discretionary, IT, real estate, and communication have dropped more than 10%, while energy and financial shares have risen supported by higher oil prices and yields. On Monday, US equities futures fell as Russian-Ukraine headlines weighed on markets.

The S&P 500 has lost nearly 9% year-to-date.

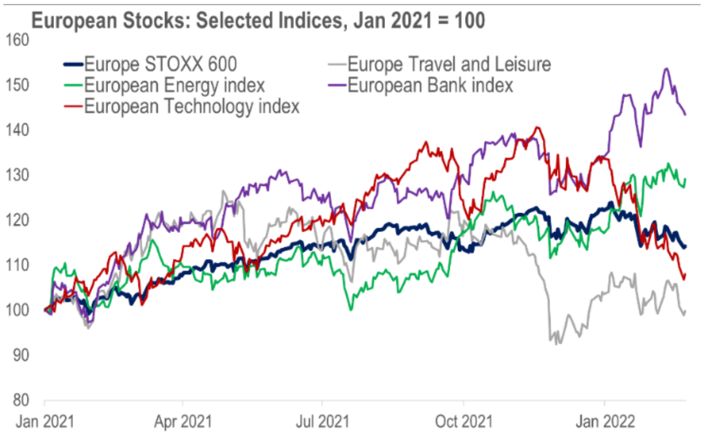


Source: Bloomberg

Fed officials affirmed market views that the Fed will raise its policy rate by a quarter-point at its March meeting but sent mixed messages on a more aggressive hike. Last Friday, NY Fed President Williams said that it is appropriate to raise the rate in March, but he doesn't see a compelling argument for taking "a big step at the beginning". His sentiments were reiterated by Chicago Fed President Evans, a nonvoter. On Monday, Fed Governor Bowman suggested that a 50 bps rate increase could be on the table in the March meeting, saying that the Fed will be watching the data closely to judge the appropriate size of an increase at the March meeting. Markets pared 50 bps hike expectations in the March meeting on Friday and were roughly unchanged on Monday.

Europe

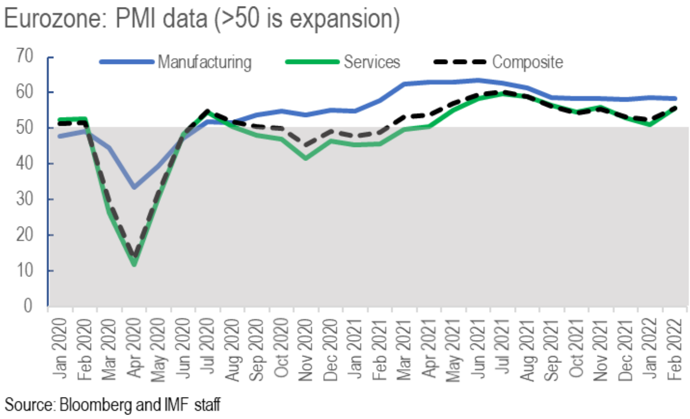
STOXX Europe 600 index (+0.2%) reversed opening losses in later morning trade as risk sentiment remained fragile amid geopolitical tension. The auto and parts (+1.7%) and energy sector (+1.5%) were outperforming, while the food and beverage sector (-1%) was underperforming. The STOXX Europe 600 index is now trading back at levels seen in October 2021. From a year-to-date perspective, the energy sector has outperformed (+10.3%), while the technology sector has underperformed (-19.3%).



Source: Bloomberg and IMF

European bond yields were little changed in morning trade while the euro appreciated (+0.3%). Southern spreads generally narrowed, with Italy's spread narrowing (-3 bps) while Greek spreads widened (+2 bps). **Governing Council member Francois Villeroy de Galhau reiterated his views that net asset purchases could end around 3Q 2022, but cautioned that in order to avoid policy errors, interest rate hike decisions should not be rushed.** ECB President Lagarde announced last week that the Governing Council will hold an informal meeting on 24 February.

Eurozone preliminary composite PMIs increased more than expected in February. The gauge increased by 3.5 points to 55.8 (52.9 economist consensus), against a backdrop of easing restrictions. Gains in the composite indicator was mainly led by the services sector, where selling prices saw a record-increase with both output and input prices increasing as a result of rising wages and energy costs. There were upside surprises across all countries. **Germany's IFO Business climate index increased for the second consecutive month** with both the current assessment and expectations improving by a larger than expected margin.



Source: Bloomberg and IMF staff

United Kingdom

Flash PMI data for February surprised on the upside with composite PMI increasing by 6 points to 60.2 (consensus expectations 55.3). The IHS Markit/CIPS press release note the persistence of severe inflationary pressures in February against a backdrop of higher wages, energy bills and raw material costs. **Contacts note that the PMI data will favor the hawks' views on the MPC, with a 25-bps hike fully priced in for the March meeting, with some analysts still noting the possibility of a 50 bps hike.** This morning Deputy Governor Ramsden was seen to push back against market pricing, stating that he expects only modest tightening going forward. He also noted that his 50-bps vote in February was 'finely balanced'.

The UK government has set out plans to overhaul insurance sector regulation. The insurance sector has been subject to Solvency II rules since 2016. The economic secretary to the Treasury and City Minister John Glen outlined proposed Solvency II reforms on Monday, which are seen to include changes to the treatment of credit risk in the matching adjustment, increased flexibility allowing insurers to invest in long-term assets and a reduction in reporting requirements. A full consultation will be published by the Treasury in April, while the PRA's more detailed technical consultation will follow later in 2022.

Japan

Equities declined (NIKKEI: -1.7%) on the back of the escalating tensions in Ukraine. Long-end JGB yields dropped (10-year: -1.5 bps; 30-year: -2.9 bps), benefiting from safe-haven demand. The yen depreciated (-0.1%).

Emerging Markets

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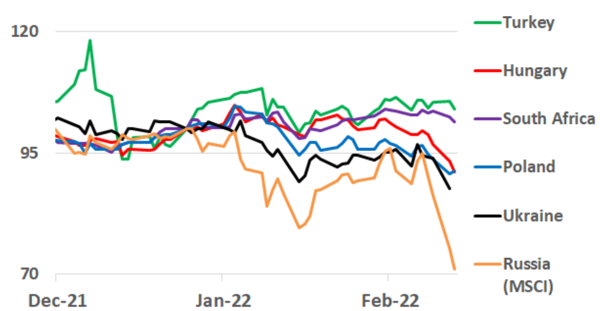
In Asia, equities and currencies fell on Ukraine tensions. Asian equities declined, -1.8% on net, led by Hong Kong (-2.7%), Taiwan (-1.4%), Korea (-1.3%) and Mainland China (CSI300: -1.3%). Asian currencies depreciated, led by Thai baht (-0.8%) and Indian rupee (-0.6%). Long-end government bond yields generally dropped, benefiting from risk-off portfolio rebalancing, with 10-year yields falling in Singapore (-4.0 bps) and Hong Kong SAR (-3.2 bps). In Hong Kong SAR, Mainland officials reportedly supported a lockdown to contain the COVID-19 outbreak. Hong Kong SAR officials insisted that a full-city lockdown would not be possible; though, district lockdowns were reportedly under consideration.

In EMEA, sentiment remains fragile after President Putin announced that he is recognizing the two self-proclaimed separatist republics of Donetsk and Luhansk in eastern Ukraine and signed an order to send "peacekeeping forces." Russian equities (-3%) extended sharp losses from Monday for a total loss of 23% ytd. In contrast, the ruble (+1.2%) was higher as Brent oil prices rose 2.5% to $97.8/bbl and OPEC+ sees no need to pump more oil. Investors now await further news on Western sanctions against Russia. **Currencies and equities are mixed. Regional yields have traded higher on fears of another spike in commodity prices**. Russian 2-yr swap yields stand out, with an increase of 140 bps this week. **Yesterday, the Bank of Israel left rates unchanged at 0.10%, as expected.**

EMEA: Equities (1 Jan 2022: 100)



Source: Bloomberg and IMF

Latin American equity markets were mixed on Monday, with Argentina (+0.7%), Peru (+0.1%), and Colombia (+0.1%) slightly gaining, while Brazil (-1.0%) saw losses as the Ukraine standoff outweighs the energy rally. In the 10-year government bond market, the Brazil 10-year yield rose by 19 bps after falling by 29 bps on Monday this week. According to Bloomberg, bonds due 2029 from Unifin Financiera SAB, Mexico's biggest non-bank lender, reached a new low of 55 cents on the dollar, extending this year's loss to 36% -- the second biggest among all Latin American dollar notes. The economic recovery in Peru decelerated in 4Q2021, while real GDP expanded a high 13.3% in 2021.

EM fund flows

EM bond funds outflows increased sharply as hard currency bond funds had their sixth consecutive weekly outflow (-$833mn), with local currency bond funds breaking a three-week inflow streak (-$567mn), in which China-focused bond funds suffered their largest weekly outflow (-$837mn) since 2013. Outflows were observed almost equally across ETFs (-$739mn) and non-ETFs (-$661mn). YTD flows to EM bonds totaled -$4.2bn. **Overall inflows to EM equity funds remained elevated (+$3.2bn),** primarily through ETFs (+$2.4bn). Within regional equity funds, inflows were observed in Asia ex-Japan (+$1.0bn), EMEA (+$52mn) and LATAM (+$358mn). YTD flows to EM equities totaled $22 bn.

Exhibit 1: Weekly Cross-Asset Flows (USD billion)

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		1.8	17.8
	EM Bonds		-1.4	-4.2
	Hard Ccy		-0.8	-5.4
	Local Ccy^		-0.6	1.2
	o.w. EM ex-China		0.3	0.1
	o.w. China		-0.8	1.0
	EM Equities		3.2	22.0
	US HG		-3.2	-10.7
	US HY		-2.2	-17.1
	Global Equities		-0.2	56.5
	EM Bond and Equity ETFs		1.6	16.8
	EM Bond ETFs		-0.7	1.0
	EM Equity ETFs		2.4	15.8
	Non-resident EM flows*		2.4	-2.0

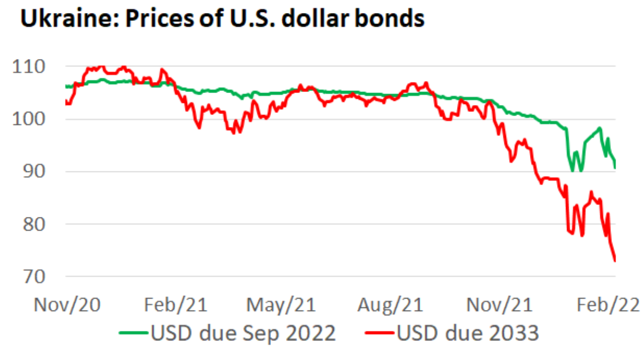
Source: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

China and Hong Kong SAR

Chinese tech stocks dropped further amid concerns about renewed regulatory tightening. The Hang Seng Tech index fell (today: -1.9%; past week: -5.0%), led by Alibaba (today: -3.1%; past week: -6.2%). Reportedly, Chinese authorities asked state-owned firms and banks to check their financial linkages with Ant Group. The initiative to thoroughly look at deals between state-owned entities and Ant is led by the National Audit Office. Tencent explicitly denied that the company is facing new scrutiny. Overall Chinese equities declined (CSI 300: -1.3%; Hang Seng China Enterprises: -2.2%). **The government expects to provide larger tax and fee cuts in 2022.** Finance Minister Liu Kun said that the amount would be larger this year than in 2021. The Ministry of Finance also indicated that local governments would benefit more from transfers from the central government. Most of China's 31 provinces expect to see slowing tax revenue growth and falling land sale revenues on the back of the slowdown in the economy and the property sector. Regions with lower economic development will likely face bigger fiscal pressures. The RMB was little changed.

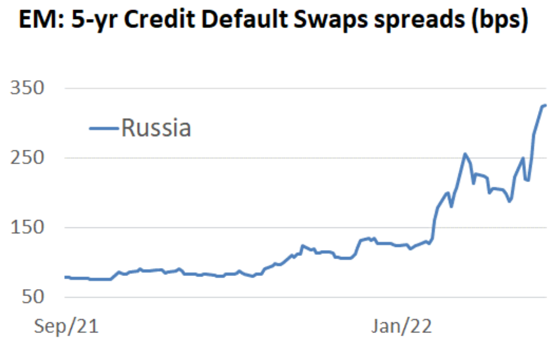
Ukraine

Prices on longer-dated U.S. dollar debt due 2033 have traded 11 points lower to 73 so far in February as investors digest the implications of escalating tensions with Russia for debt sustainability. The U.S. dollar bond due September 2022 fell 5 points to 91 points in February, but contacts generally assume that Ukraine has sufficient means to pay its short-term bonds. Ukraine's 5-year credit spreads quotes over 1000 bps. The hryvnia is 1% lower against the U.S. dollar today.



Russia

CDS credit spreads traded 42 bps higher this week as investors await news on further sanctions on Russia. U.S. president Biden has unveiled penalties to target "new investment, trade, and financing by US persons to, from, or in the so-called DNR and LNR regions of Ukraine" with additional sanctions expected to follow. **German chancellor Scholz has already said that his government will suspend the certification of the Nord Stream 2 gas pipeline.** EU officials are meeting today to discuss who to target after EU leaders said that the EU will react with sanctions against those involved in yesterday's decision on Ukraine. Nevertheless, **some contact argue that sanctions may remain relatively limited (and e.g., not include a ban on SWIFT) to leave room to respond to a further escalation of tensions.**



Source: Bloomberg and IMF

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Global Financial Indicators

Last updated: 2/22/22 8:00 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4339	-0.7	-1	-1	11	-9
Europe		3994	0.2	-4	-6	8	-7
Japan		26450	-1.7	-2	-4	-12	-8
China		4574	-1.3	-1	-4	-18	-7
Asia Ex Japan		81	-0.8	0	-2	-17	-2
Emerging Markets		49	-1.0	0	-1	-13	0
Interest Rates					basis points		
US 10y Yield		1.94	1.2	-10	18	58	43
Germany 10y Yield		0.25	4.5	-6	32	59	43
Japan 10y Yield		0.20	-1.6	-2	6	7	13
UK 10y Yield		1.45	4.2	-13	28	77	48
Credit Spreads					basis points		
US Investment Grade		140	2.7	10	24	55	29
US High Yield		413	3.5	11	72	66	76
Europe IG		71	-1.5	5	13	22	23
Europe HY		345	-7.1	22	64	95	104
Exchange Rates					%		
USD/Majors		95.94	-0.1	0	0	7	0
EUR/USD		1.14	0.4	0	0	-7	0
USD/JPY		115.1	0.3	0	1	10	0
EM/USD		53.6	0.2	0	1	-8	2
Commodities					%		
Brent Crude Oil ($/barrel)		98	2.3	5	11	50	25
Industrials Metals (index)		190	1.7	3	4	29	10
Agriculture (index)		68	0.8	1	7	32	11
Implied Volatility					%		
VIX Index (%, change in pp)		29.1	1.3	0.8	0.2	7.0	11.9
US 10y Swaption Volatility		93.1	0.0	0.9	8.0	14.4	14.1
Global FX Volatility		7.8	0.0	0.1	0.5	0.2	0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		233	-3.2	-6	57	111	82
Italy		167	-3.9	2	31	73	32
Portugal		90	-1.9	2	27	34	25
Spain		102	-2.1	2	31	35	27

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

Emerging Market Financial Indicators

Last updated: 2/22/2022 8:03 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		6.33	0.1	0.2	0	2	0		2.9	-1.4	7	21	-46	6
Indonesia		14366	-0.3	-0.5	0	-2	-1		6.5	0.4	-1	8	-15	12
India		75	-0.5	0.6	0	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	-0.1	-0.1	0	-5	-1		5.0	0.0	0	43	130	50
Thailand		32	-0.4	-0.1	2	-7	3		2.2	-3.0	-1	6	71	36
Malaysia		4.19	-0.1	0.0	0	-3	0		3.7	-0.1	-3	-1	69	7
Argentina		107	-0.1	-0.6	-2	-17	-4		48.0	2.7	-205	-76	550	-256
Brazil		5.09	0.4	1.6	8	7	10		11.6	-1.1	-7	7	307	87
Chile		798	0.1	0.5	1	-11	7		5.9	2.0	-7	46	290	52
Colombia		3940	0.1	0.3	1	-9	3		7.7	0.0	-29	26	287	125
Mexico		20.31	0.0	0.4	1	2	1		7.8	-2.0	-3	9	191	26
Peru		3.8	-0.4	1.0	2	-3	6		6.0	-0.3	-6	#######	183	12
Uruguay		43	0.2	0.4	4	0	4		8.1	0.0	-11	-62	108	-64
Hungary		314	0.6	-0.6	2	-6	3		4.8	15.0	7	14	257	33
Poland		4.01	0.1	-1.1	1	-8	1		3.9	5.5	-18	3	236	32
Romania		4.4	0.3	-0.3	0	-8	0		5.1	-0.1	-3	17	253	32
Russia		79.1	1.2	-4.7	0	-6	-5		10.6	0.6	71	70	384	186
South Africa		15.1	0.1	-0.2	1	-3	5		7.6	5.5	5	-8	24	16
Turkey		13.83	-1.0	-1.6	-3	-49	-4		22.1	22.0	16	-53	902	-225
US (DXY; 5y UST)		96	-0.1	-0.4	0	7	0		1.85	2.9	-9	29	125	59

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4574	-1.3	-1	-4	-18	-7		207	1	10	-12	4
Indonesia		6862	-0.6	1	2	9	4		190	6	13	14	25
India		57301	-0.7	-1	-3	15	-2		155	-2	17	3	23
Philippines		7441	0.9	2	2	9	4		141	13	34	44	40
Malaysia		1577	-0.4	-1	3	1	1		130	2	12	-4	13
Argentina		90029	0.7	3	8	83	8		1707	-105	-175	243	27
Brazil		111725	-1.0	-3	3	-1	7		331	3	12	70	20
Chile		4509	-0.4	-3	-3	-1	5		166	1	18	27	26
Colombia		1495	0.1	1	-2	11	6		378	15	31	162	30
Mexico		52025	-0.5	-1	1	16	-2		364	4	21	26	32
Peru		23748	0.1	0	4	2	12		183	-2	26	52	33
Hungary		47177	-2.7	-8	-10	9	-7		157	7	37	16	33
Poland		63748	0.2	-6	-8	10	-8		15	-1	0	-14	-17
Romania		13030	0.4	-3	1	27	0		216	2	21	21	23
Russia		2982	-1.8	-17	-13	-13	-21		290	33	58	116	113
South Africa		75218	-0.4	-1	1	12	2		390	8	24	17	35
Turkey		2018	-1.0	-1	0	30	9		551	16	-12	131	-27
Ukraine		519	0.1	0	-1	0	-1		997	89	-3	497	238
EM total		49	-0.5	0	-1	-13	0		428	7	13	84	42

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

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