



- Eastern European asset prices plunge as Russia-Ukraine crisis worsens ([link](#))
- Oil and natural gas prices spike as supply worries mount ([link](#))
- Russian central bank announces FX intervention following ruble weakness ([link](#))
- US breakeven inflation rates rise sharply as commodity prices surge ([link](#))
- Market pricing points to increasing of odds a 50 bp Bank of Canada rate hike ([link](#))
- Bank of Korea keeps policy rate unchanged as expected at 1.25% ([link](#))

[Mature Markets](#)

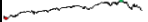
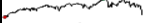

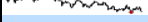




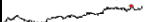

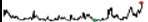
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Russian invasion into Ukraine roils markets

Global equity markets are declining sharply, and commodity prices are surging as the Russia-Ukraine conflict has intensified to military action and driven worries of regional destabilization. News reports of Russia attacking targets across Ukraine has led to a highly volatile environment in global markets this morning. Asian equities closed down 2-3%, major European stock indices are declining close to 5%, US equity futures are falling 2-3%, and Brent crude oil prices have jumped over 8% to \$105 a barrel. A flight-to-quality shift has occurred in core sovereign bond markets with yields dropping 8-12 bps across maturities in the US, UK, and Germany, and driven entirely by falling real rates as breakeven inflation rates have steadily increased in response to firmer commodity prices. These moves have also resulted in some repricing of near-term policy rate expectations as markets have slashed the implied odds of a 50 bp FOMC rate hike in March to under 15% and the number of 25 bp hikes in 2022 is down to just under 6. In EM, local Russian assets continue to take the brunt of the market volatility with equities down over 30%, which initially triggered a halt in trading after circuit breakers were hit. The ruble has depreciated another 3% to new lows against the US dollar and Russian local currency sovereign debt yields and CDS spreads have now surpassed peaks not seen since the GFC. While broader EM spillovers are showing up this morning, the escalating Ukraine crisis has brought more notable pressure on eastern European asset prices given the geographical proximity and exposure to energy price increases. The EU has so far announced new sanctions on Russia this morning, with expectations a further response from the US will come later today.

Key Global Financial Indicators

Last updated: 2/24/22 8:24 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4226	-1.8	-5	-4	8	-11
Eurostoxx 50		3778	-4.9	-8	-7	2	-12
Nikkei 225		25971	-1.8	-5	-4	-14	-10
MSCI EM		47	-1.2	-4	-2	-15	-3
Yields and Spreads			bps				
US 10y Yield		1.88	-11.6	-9	10	50	36
Germany 10y Yield		0.15	-7.7	-8	26	46	33
EMBIG Sovereign Spread		413	10	31	27	62	46
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.5	-1.2	-2	-1	-10	0
Dollar index, (+) = \$ appreciation		97.2	1.1	2	1	8	2
Brent Crude Oil (\$/barrel)		105.0	8.4	13	22	57	35
VIX Index (% change in pp)		37.1	6.1	13	7	16	20

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

Mature Markets

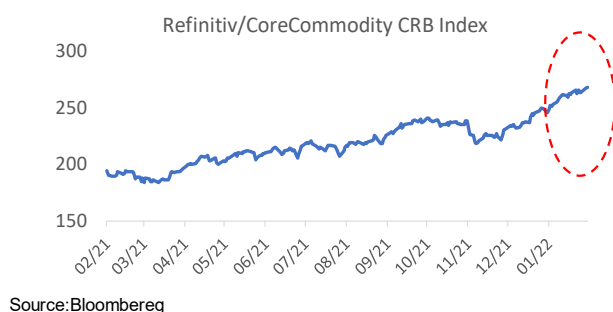
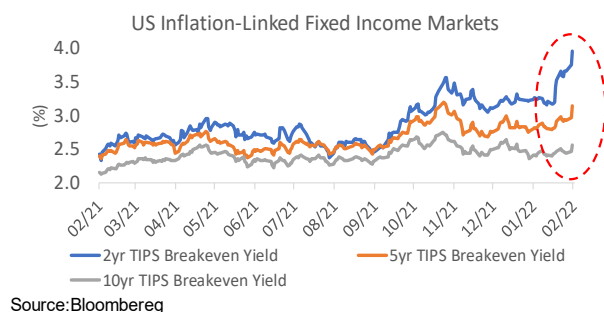
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United States

US equities fell for the fourth consecutive day on Wednesday as escalating Russia-Ukraine tensions, as well as increasing inflationary pressures, dampened risk sentiment. The S&P 500 declined 1.8% yesterday, with the consumer discretionary (-3.17%) sector leading the losses as investors worry companies may face increasing costs due to broader commodity prices soaring to multi-year highs. **This morning, US equity futures and US Treasury yields are sharply lower in response to the worsening Russia-Ukraine situation,** with S&P 500 futures pointing to a 2.5% decline at the open and 10-year US Treasury yields down 13 bps.

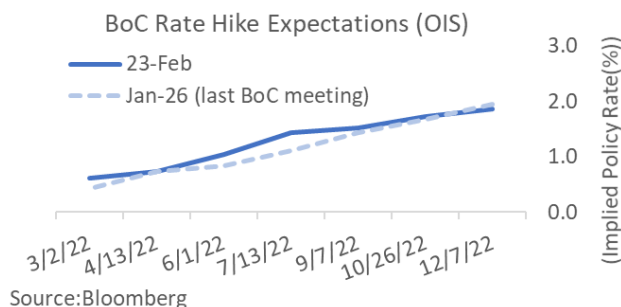
In data releases this morning, the second estimate for Q4 US GDP was revised up from 6.9% to 7.0% (q/q, saar) as expected. Weekly initial jobless claims dropped to 232k from 249k (revised up from 248k) and were slightly better than expected (consensus 235k); continuing claims recorded 1476k versus expected 1580k. There was limited market reaction to these releases.

Nominal US Treasury yields were little changed amidst a tug-of-war between higher inflation expectations and lower real yields. TIPS breakevens continued to increase, especially in short-tenors, with 2-year breakevens up 21 bps to 3.96% and 5-year breakevens up 16 bps to 3.1%, while the ten-year remained around 2.5%. Surging commodity prices, including energy, metals, and agriculture products, likely pushed the breakevens higher, and the low liquidity of the TIPS market seemed to exacerbate the moves.



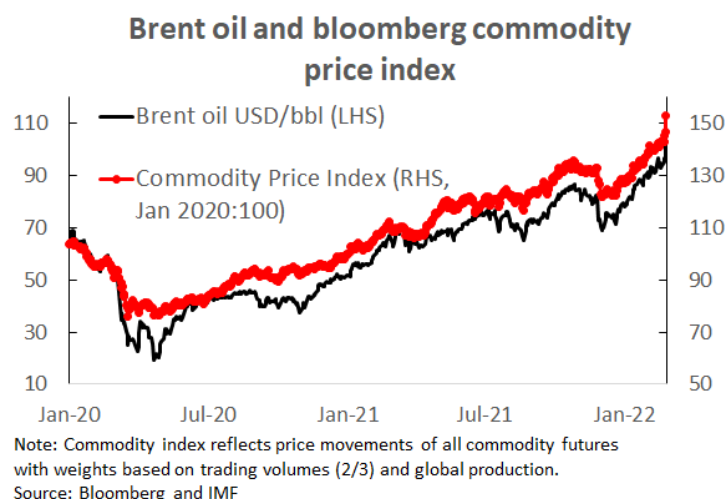
Canada

Markets are pricing a more than 50% probability of a 50 bp hike at the Bank of Canada's (BoC) March meeting next week, despite the continued geopolitical uncertainty. A stronger than expected CPI print last week and recent commodity price increases have encouraged investors to increase bets for more aggressive tightening. January CPI rose to 5.1% y/y (vs. 4.8% expected), well above the central bank's 2% target. Aside from market pricing, **according to a Bloomberg survey, all 21 analysts who responded expect a 25 bp hike at the March meeting.**



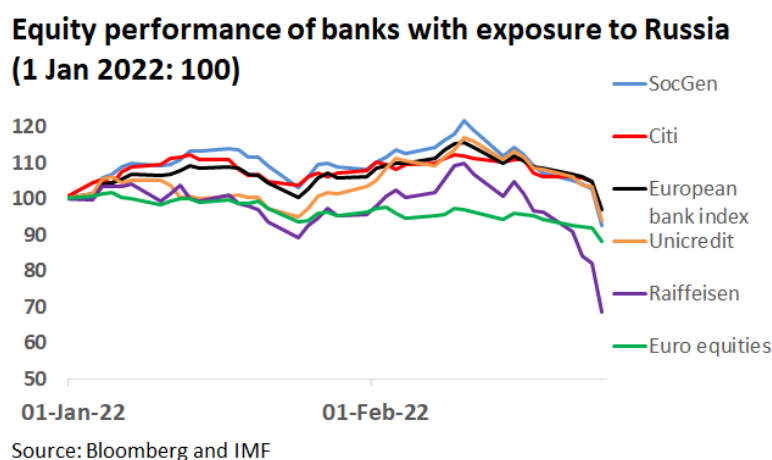
Commodity prices

The broad commodity price index rose 4%. European natural gas prices (+30% to €114/MWh) spiked as EU gas inventories are expected to remain low at the end of this winter alongside weaker-than-expected Russian supplies. Analysts doubt that the EU can increase LNG imports sufficiently to replace 150-190bcm/yr of Russian gas imports. **Brent oil prices (+8.5% to \$105/bbl) crossed the \$100/bbl mark for the first time since 2014.**

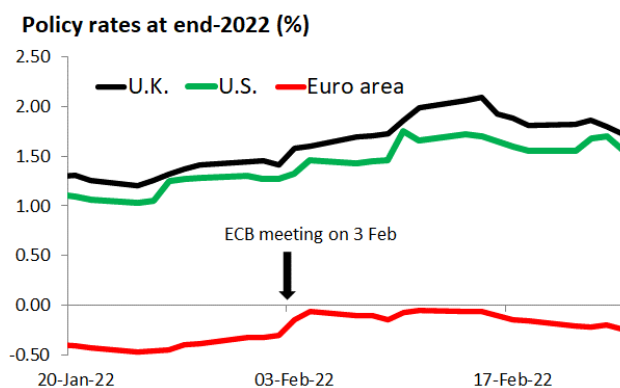


Euro area

Equities (-4.7%) sold off sharply, with bank stocks (-8%) underperforming. Banks with larger exposure to Russia were under severe pressure. Shares of Raiffeisen bank (RBI) fell 18%. Estimates are that its Russian operations contributes almost half to RBI's earnings, compared to 5% for SocGen and Unicredit. The ECB has reportedly been working closely with banks to assess risks to their liquidity, loan books, trading, and currency positions.



10-yr bund yields (-9 bps to 0.14%) and the euro (-1.2%) fell as traders contemplate if geopolitical developments may postpone tightening by central banks. For now, the ECB is still expected to tighten in 2022 but **Bank of Greece governor Stournaras said that the ECB should keep its asset purchase program active until at least the end of 2022 to respond to the fall-out from the conflict in Ukraine.** Governor Stournaras sees short-term inflationary effects from the Ukraine crisis but expects that its consequences will be deflationary in the medium-term through adverse trade effects. **Today, 10-yr Italian spreads widened 5 bps.**



Source: Bloomberg and IMF staff

Japan

Equities declined, while Japanese yen benefited from safe-haven flows. With a further escalation of the Ukraine geopolitical crisis, equities were sold off (NIKKEI: -1.8%), while long-end JGB yields edged up slightly (10-year: +0.2 bp; 30-year: +1.4 bps). Japanese yen appreciated (+0.3%), outperforming other regional peers that faced depreciation pressures. Nationwide department store sales increased 15.6% y/y in January, up from 8.8% in December.

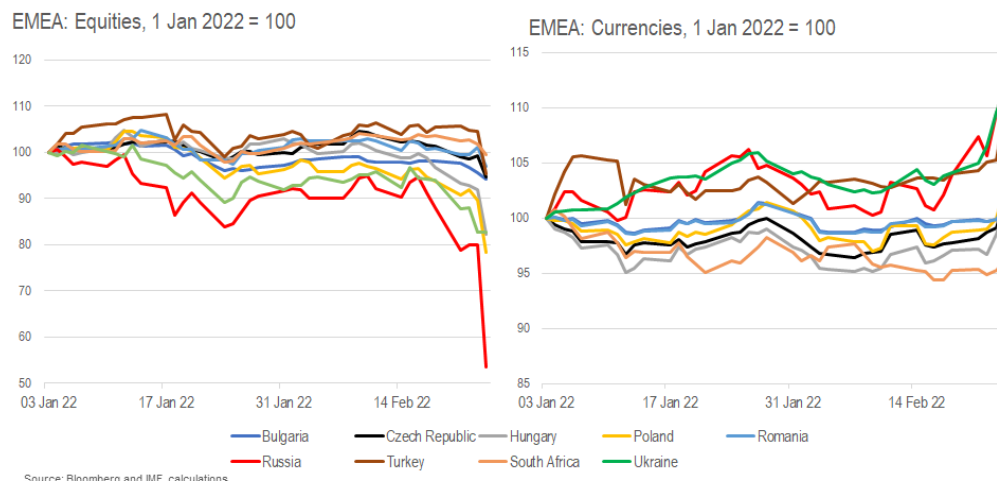
Emerging Markets

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Latin American equity markets were mixed on Wednesday, with Brazil and Chile opening lower this morning amid the geopolitical tensions. Colombia (+1.2%) and Argentina (+1%) gained, while Mexico (-2.4%), Chile (-2.2%) and Brazil (-0.8%) slid yesterday. Petrobras revenue hit record last year as oil prices surge, allowing it to reduce debt and increase dividends. **Asian equities tumbled as the Russia-Ukraine geopolitical crisis escalated further overnight. Share prices in the region dropped 3.9% on net,** led by Singaporean (-3.9%), Hong Kong (-3.2%) and Indian (-3.1%) equities. **Asian currencies also depreciated,** led by Indian rupee (-1.1%), Thai baht (-1.0%), and Korea won (-0.7%). Analysts noted that Indian rupee would be the most sensitive to higher energy prices among regional peers.

EMEA Regional Asset Prices

EMEA equities fell, and currencies weakened after Russia President Vladimir Putin announced that he would carry out a “special military” operation in eastern Ukraine. The extent of the operation is not yet clear. Trading on the Moscow exchange was suspended after the equity market fell by 45% but reopened again in later trade. Russian equities were trading -33% lower in late morning trade, with equities down in Poland (-12.6%), Hungary (-10.3%) and Turkey (-9.2%). **In Ukraine, prices on longer-dated U.S. dollar debt due 2033 fell by 20 points to 39 cents on the dollar this morning, from roughly 88 cents at the start of the year.**

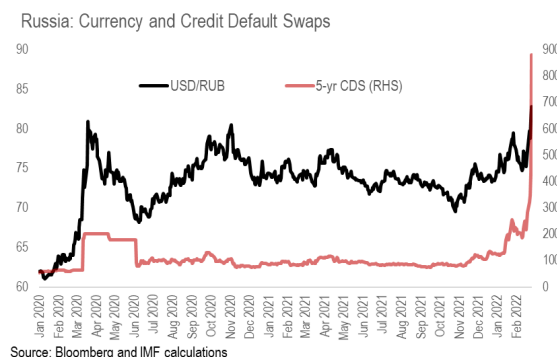


EMEA currencies weakened with the Turkish lira (-3.7%) seeing the largest decline despite state banks reportedly selling an estimated \$2 bn to support the lira this week. Analysts note that the currencies of Central and Eastern European countries are likely to remain under pressure given geographical proximity to the crisis and exposure to energy price increases. The Polish zloty Hungarian forint and Czech koruna were trading roughly 2.5% lower against the dollar this morning. Contacts expect that the Czech National bank might intervene if selloff extends. **Hungary increased its 1-week deposit rate by 30 bps to 4.6%, in line with expectations. Against a backdrop of potentially higher energy prices, analysts expect that additional monetary tightening might follow in Czech Republic and Hungary.**

Russia

The central Bank of Russia announced that it will conduct foreign exchange market intervention after the ruble fell to a record low. The central bank also announced an expansion of the list of securities accepted as collateral and measures to provide additional liquidity to banks. The ruble fell to a record-low of roughly 89.80 against the U.S dollar this morning but recovered to roughly 84 after the measures were announced.

Investors now await further news on Western sanctions against Russia. Yesterday the US expanded sanctions to include Gazprom, the company that built Nord Stream 2, while the EU announced this morning that it will freeze Russian assets and block Russian banks from accessing the financial market. The US is reportedly also preparing a ban on American technology exports, while the UK is expected to announce further sanctions today. Contacts note that expectations that of a ban on the global SWIFT network has increased. **Russian 5-yr CDS credit spreads jumped by 556 bps this morning to 880 – past levels last seen in 2008, while EMBI spreads increased to 508 bps from roughly 170 bps at the start of the year.**



China

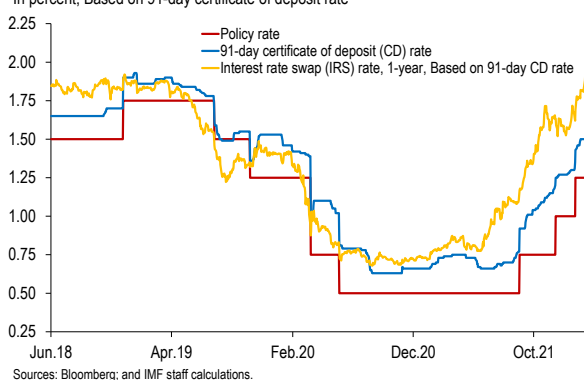
Beijing affirmed the “housing for living in, not for speculation” policy. The Ministry of Housing and Urban-Rural Development said that authorities will maintain the stability in the housing market and aim to employ more coordinated and targeted policy measures. China will not use the property sector as a short-term stimulus for the economy. Authorities will also firmly deal with overdue housing project delivery caused by defaulted property developers. **The National Development and Reform Commission (NDRC) pledged to intervene if coal prices breach a specified threshold.** The NDRC aims to guide the coal market within a reasonable price range of 570-770 yuan per ton; the new price range is higher than the previous one (500-570 yuan per ton). Equities declined (CSI 300: -2.0%); RMB depreciated (-0.1%). Analysts noted that renminbi has been traded like a safe-haven currency amid the escalating Ukraine crisis, with its low correlation with VIX.

Korea

The Bank of Korea (BOK) kept its policy rate at 1.25% as expected. The BOK maintained its growth forecasts at 3% for 2022 but raised its inflation projections significantly to 3.1% (from 2% as of November). In his last policy meeting briefing, Governor Lee indicated that the BOK is ready to raise the policy rate further, mentioning that market expectations of the policy rate reaching 1.75%-2% are largely in line with the BOK's view. He also acknowledged that the deepening crisis in Ukraine would put downward pressure on the economy and could have a significant impact on inflation. Equities declined (-2.6%), while Korean won depreciated (-0.7%), following the escalation of the Ukraine geopolitical crisis. Government bond yields increased (10-year: +0.7 bp).

Interest Rate Swap (IRS) Rates

In percent; Based on 91-day certificate of deposit rate




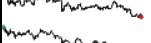

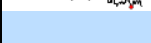

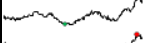


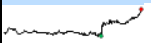
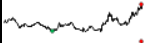









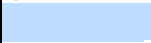



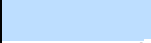




Sources: Bloomberg; and IMF staff calculations.

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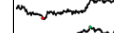






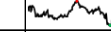




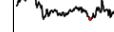


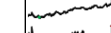
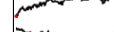


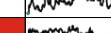




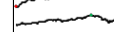







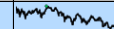
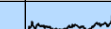

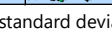
Global Financial Indicators

Last updated: 2/24/22 8:29 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4226	-1.8	-5	-4	8	-11
Europe		3778	-4.9	-8	-7	2	-12
Japan		25971	-1.8	-5	-4	-14	-10
China		4529	-2.0	-2	-3	-17	-8
Asia Ex Japan		79	-1.1	-4	-3	-19	-4
Emerging Markets		47	-1.2	-4	-2	-15	-3
Interest Rates			basis points				
US 10y Yield		1.88	-11.6	-9	10	50	36
Germany 10y Yield		0.15	-7.7	-8	26	46	33
Japan 10y Yield		0.20	0.4	-3	6	8	13
UK 10y Yield		1.39	-8.9	-7	26	66	42
Credit Spreads			basis points				
US Investment Grade		146	2.8	8	23	55	34
US High Yield		422	15.7	13	56	75	85
Europe IG		77	5.6	10	19	28	29
Europe HY		381	29.7	51	100	129	140
Exchange Rates			%				
USD/Majors		97.21	1.1	2	1	8	2
EUR/USD		1.12	-1.2	-2	-1	-8	-2
USD/JPY		114.9	-0.1	0	1	9	0
EM/USD		52.5	-1.2	-2	-1	-10	0
Commodities			%				
Brent Crude Oil (\$/barrel)		105	8.4	13	22	57	35
Industrials Metals (index)		194	3.1	4	8	28	12
Agriculture (index)		72	3.1	8	15	36	19
Implied Volatility			%				
VIX Index (% change in pp)		37.1	6.1	12.8	7.2	15.8	19.9
US 10y Swaption Volatility		100.3	6.0	5.6	15.2	23.6	21.3
Global FX Volatility		7.5	0.0	-0.2	-0.1	-0.2	0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		247	7.4	8	70	115	96
Italy		176	4.9	16	37	77	41
Portugal		97	4.9	11	31	38	32
Spain		107	4.1	9	34	38	33

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

Emerging Market Financial Indicators

Last updated: 2/24/2022 8:31 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		6.32	-0.2	0.2	0	2	1		2.9	2.0	6	18	-47	3
Indonesia		14383	-0.3	-0.5	0	-2	-1		6.5	2.0	1	10	7	14
India		76	-1.4	-0.7	-1	-4	-2		6.3	0.0	0	9	75	0
Philippines		51	-0.5	0.0	0	-5	-1		5.0	2.5	3	45	123	53
Thailand		33	-0.9	-1.2	1	-8	3		2.2	-3.5	-4	4	64	34
Malaysia		4.21	-0.5	-0.4	0	-4	-1		3.7	-0.4	1	-2	69	7
Argentina		107	-0.1	-0.7	-3	-17	-4		48.0	28.4	-57	-82	576	-261
Brazil		5.09	-1.6	1.6	8	6	10		11.6	0.5	4	11	316	91
Chile		808	-2.3	-1.6	0	-13	5		5.8	-8.0	-5	36	283	41
Colombia		3945	-0.8	-0.3	1	-9	3		7.9	0.0	15	48	311	147
Mexico		20.51	-1.3	-1.0	0	-1	0		7.8	0.0	5	30	178	32
Peru		3.7	-0.1	0.3	3	-2	7		6.0	-0.2	-2	-8	184	10
Uruguay		43	-1.6	0.4	4	0	4		8.2	0.0	4	-55	110	-57
Hungary		330	-3.1	-5.0	-3	-10	-2		4.9	13.0	24	24	262	43
Poland		4.19	-3.3	-5.0	-4	-12	-4		3.9	-3.0	-8	5	232	34
Romania		4.4	-1.3	-1.9	-2	-10	-2		5.2	0.1	-1	18	250	33
Russia		85.5	-5.1	-10.8	-8	-14	-13		13.3	207.0	321	332	643	448
South Africa		15.4	-1.6	-2.5	-1	-6	4		7.7	13.0	22	6	49	29
Turkey		14.27	-3.2	-4.8	-6	-50	-7		24.3	186.0	230	191	1111	-4
US (DXY; 5y UST)		97	1.0	1.6	1	8	2		1.78	-12.2	-6	23	118	52

	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		4529	-2.0	-2	-3	-17	-8		208	3	8	-11	5	
Indonesia		6818	-1.5	0	4	8	4		185	4	4	2	20	
India		54530	-4.7	-6	-6	7	-6		154	1	12	3	22	
Philippines		7212	-2.1	-3	-1	7	1		137	8	26	33	36	
Malaysia		1574	-0.8	-2	4	0	0		133	4	13	-4	16	
Argentina		91360	1.0	1	13	84	9		1737	3	-172	243	57	
Brazil		109645	-2.1	-3	2	-5	5		331	13	12	56	20	
Chile		4243	-3.0	-7	-6	-7	-2		174	17	21	31	34	
Colombia		1510	1.2	0	-1	10	7		392	28	37	167	44	
Mexico		51363	-2.4	-4	1	14	-4		370	18	27	24	38	
Peru		23391	0.0	-3	3	1	11		190	15	30	52	40	
Hungary		42898	-10.1	-16	-16	-1	-15		153	5	24	12	29	
Poland		56730	-9.8	-15	-14	-2	-18		16	8	-2	-14	-16	
Romania		12617	-4.4	-4	-2	24	-3		232	25	34	32	39	
Russia		2038	-33.9	-42	-37	-40	-46		514	274	271	341	337	
South Africa		73545	-2.0	-3	2	11	0		389	11	19	1	34	
Turkey		1841	-8.7	-8	-4	24	-1		563	28	17	137	-15	
Ukraine		519	0.0	0	-1	0	-1		1473	604	557	952	714	
EM total		47	-5.4	-4	-2	-15	-3		458	45	43	103	72	

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

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