



- US asset prices unwind sharp moves after announcement of additional sanctions ([link](#))
- Fed officials reaffirm expectations for a March FOMC policy rate hike ([link](#))
- Commodity prices stabilize as energy exports from Russia remain unblocked ([link](#))
- Russian assets rebound as new sanctions viewed as moderate ([link](#))
- China's Politburo calls for stronger macro policies to stabilize the economy ([link](#))

[Mature Markets](#)

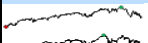



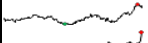

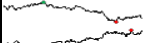
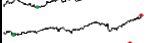
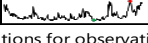
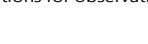

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Risk aversion eases amid evolving geopolitical tensions

Risk sentiment has tentatively stabilized this morning as investors continue to assess the fallout from the geopolitical escalation between Russia and Ukraine. Global equity markets have been whipsawed over the last day in reaction to Russia's invasion of Ukraine. Yesterday, sharp intraday moves saw US tech stocks dip over 3% at the open before rallying into positive territory, with similar action leaving the S&P 500 up at the session close. The reversal came on the back of western European nations and the U.S. moving to expand sanctions against Russia, including those potentially targeting technology exports and financial market access for the country's largest state-owned enterprises, but excluded more severe penalties such as removing Russia from the SWIFT payment system and blocking commodity exports. The rebound carried over to Asian markets which closed over 1% higher across the region, while European bourses are gaining over 2% this morning following news Russia is ready to send a delegation for talks with Ukraine. Commodity markets also responded, after crude oil spiked briefly above \$100/bbl, prices are now pulling back as US President Biden discussed deployment of strategic oil reserves as a way of offsetting the impact of escalating sanctions on Russia, though elevated natural gas prices in Europe remain a key source of strain. Core sovereign bond yields are increasing and are well off the lows from yesterday alongside higher breakeven inflation rates that saw particularly large intraday spikes in near-term inflation expectations. Eastern European markets are recovering with equities up across the region, led by 18% gains in Russia, while emerging market currencies are broadly strengthening.

Key Global Financial Indicators

Last updated: 2/25/22 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4289	1.5	-4	-2	12	-10
Eurostoxx 50		3930	2.6	-4	-4	7	-9
Nikkei 225		26477	1.9	-3	-2	-9	-8
MSCI EM		46	-2.1	-7	-4	-15	-5
Yields and Spreads			bps				
US 10y Yield		2.01	4.4	8	24	49	50
Germany 10y Yield		0.23	6.1	4	31	47	41
EMBIG Sovereign Spread		452	39	61	61	104	85
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.0	0.7	-1	0	-7	1
Dollar index, (+) = \$ appreciation		96.9	-0.3	1	1	7	1
Brent Crude Oil (\$/barrel)		99.2	0.1	6	12	48	27
VIX Index (% change in pp)		29.8	-0.5	2	-1	1	13

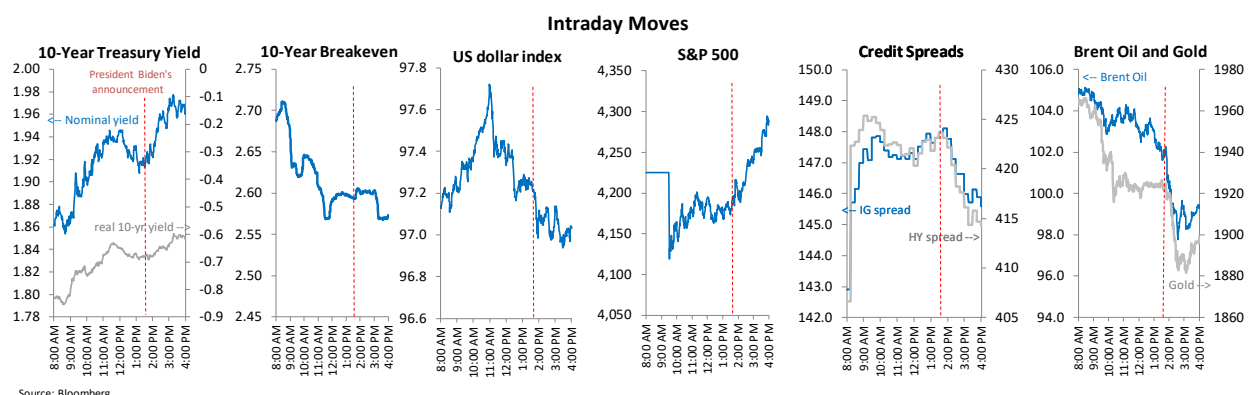
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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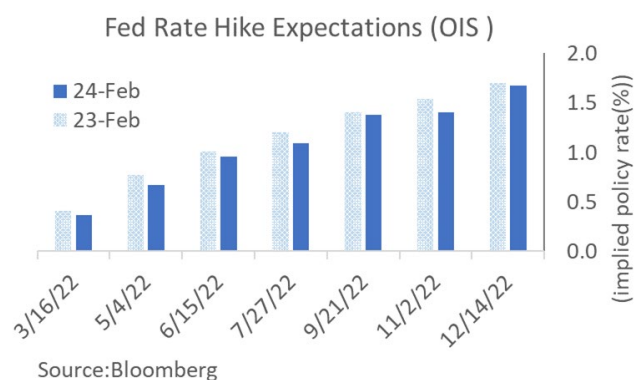
United States

US markets unwound most of their earlier moves during yesterday's trading session, rebounding after President Biden announced additional sanctions against Russia, including the additional release of strategic petroleum reserves as conditions warrant. The S&P 500 closed up 1.5%, paring opening losses of as much as -2.6%. Tech stocks led the gains as the Nasdaq rebounded 3.4% following a sharp drop of -3.4% in the morning. Brent oil prices pulled back from \$105/bbl to \$99/bbl, while US Treasury yields recovered most of their initial declines. Contacts also warned that liquidity conditions deteriorated throughout the day amid the market volatility. Elsewhere, US IG and HY credit spread tightened in the day.



US inflation data were mostly in line with expectations this morning, with the PCE deflator rising from 5.8% to 6.1% y/y (vs. 6.0% expected) and the core deflator up from 4.9% to 5.2% y/y (vs. 5.2% expected). Durable goods orders (1.6% m/m vs. 1.0% expected) and durable goods ex-transportation (0.7% m/m vs. 0.4% expected) came in much stronger than expected, with upward revisions to the previous month. Markets were little changed on these releases.

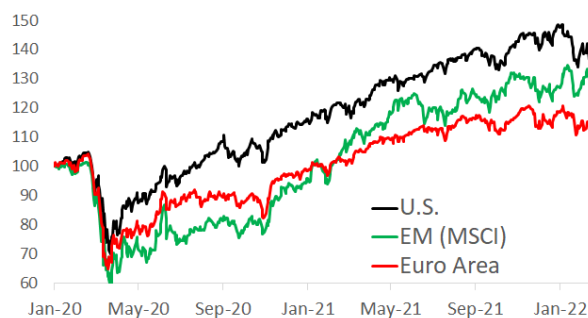
Fed officials reaffirmed expectations that the FOMC would raise its policy rate in March despite the geopolitical tensions. Philadelphia, Atlanta, and San Francisco Fed presidents all echoed this view. Cleveland Fed President Mester (voter) also suggested the policy rate should rise in March, followed by hikes at subsequent meetings, but did not think raising 50 bps in March had a very compelling argument. She also said that the implication of the Ukraine crisis for the medium-term US economic outlook would be considered to determine the appropriate pace of tightening. Markets reduced bets slightly and now price a 25 bp hike in March and 6 hikes total by year-end.



Euro area

Equities (+1.4%) rose as sanctions on Russia would - for now - allow delivery of energy resources to the West to continue. Alongside restrictions on several Russian banks, the EU is planning to bar state-owned companies from listing new shares, limit access of Russians to some EU financial services, prohibit the sale of certain equipment to refiners, bar sales of aircraft to Russian carriers, and suspend visa-free travel for Russian diplomats.

Global Equity Markets (1 Jan 2020: 100)



Source: Bloomberg and IMF

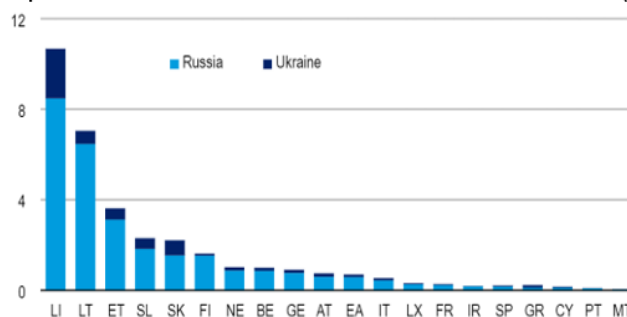
Bank stocks are little changed as investors await further news on potential restrictions on Russian financial institutions and Russia's use of the SWIFT payment system. President Biden commented yesterday that Europeans do not want to cut Russia off SWIFT right now. News reports are that several European leaders want to ban Russia's use of Swift, but no consensus has been reached.

German 10-yr bund yields are little changed ahead of a press conference by ECB President Lagarde. Austria's central bank governor Holzmann said that the speed of monetary policy normalization might be "somewhat delayed." **Money markets are still pricing in about 25 bps of hikes by the ECB by year-end as incoming inflation data (such as French inflation today) surprises to the upside.**

French flash headline inflation unexpectedly rose to 4.1% y/y (3.7% expected) or 0.8% m/m (0.5% mom expected) in February. French inflation runs at a lower level compared to other euro area countries given governmental policies to limit the increase of energy prices for households. Banks are in the process of adjusting their outlook in response to the invasion of Ukraine, but Goldman Sachs already upgraded its inflation outlook and now expects HICP inflation to peak at 6.5% y/y in May, before slowing to 5.4% y/y by end 2022.

Even though sentiment and energy are key transmission channels from the war in Ukraine, analysts at Bank of America warn that potential export bans could hit some countries relatively hard. Portugal, Malta, or among big four members, France and Spain, are less exposed than the average (0-0.2% of GDP). Germany or the Netherlands are slightly above Euro area average exposure (0.8-0.9% of GDP), while Baltic states are considerably more exposed.

Exports to Russia and Ukraine in % of GDP across euro area members (2019 data)



Source: Eurostat Comext, 2019 data, BofA Global Research

Commodity Prices

The Bloomberg broad commodity price index fell 1%. Brent oil prices are little changed at \$99/bbl. European natural gas prices (~10% to €103/MWh) fell with reports that European utilities are importing more gas from Gazprom in line with long-term contracts (making Russian imports now cheaper than spot gas traded at European hubs). **Gazprom has reiterated that gas transit via Ukraine is running as normal, and transit is increasing in line with client requests.**

Japan

Equities rebounded and JGB yields rose on the back of easing risk aversion. Share prices rose (NIKKEI: +1.9%), while 10-year and 30-year JGBs yields increased 1.3 and 3.6 bps, respectively. However, equities of major financial groups dropped (MUFG: -2.1%; SMFG: -1.9%; MFG: -1.6%). The decline in bank equities was similar to the regional trends. Analysts noted that bank equities were sold off as investors are concerned about banks' exposure to Russia and a potential pullback in yields due to weaker global economic growth. The three largest Japanese financial groups reported that their exposures to Russia are relatively small, with combined exposures amounting to less than \$10 bn. **Prime Minister Kishida said that the government will introduce measures to alleviate the effect of rising energy prices on consumers.** The Ministry of Trade indicated that subsidies for oil refiners will be increased.

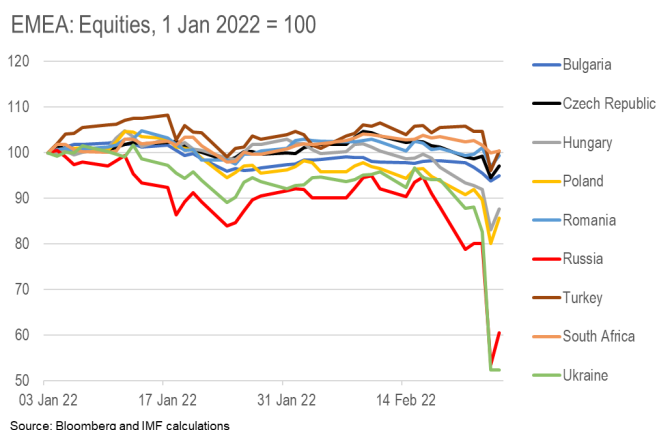
Emerging Markets

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Latin American equity markets were mixed on Thursday, with Argentina (-2.9%) and Peru (-1.3%) sliding, while Chile (+0.6%) slightly gained. **Latin American currencies depreciated yesterday** as risk assets around the globe sold off. The Chilean peso fell 2.2%, its biggest one-day depreciation since September 2011, and the Colombian peso weakened 0.8% despite the surge in commodity prices. **Asian markets rebounded overnight as risk sentiment improved given lighter than expected sanctions being imposed on Russia so far. Asian equities gained, +0.5% on net**, led by Indian (+2.6%). However, financial stocks fell as investors are concerned about banks' exposure to Russia and a potential pullback in yields due to weaker global economic growth. **Asian currencies appreciated**, led by Indian rupee (+0.4%). Indian markets outperformed today after declining the most in the region yesterday. Implied volatility of Taiwan dollar spiked while falling in other regional currencies, as investors assessed the implication of Ukraine conflict on Taiwan POC.

EMEA Regional Asset Prices

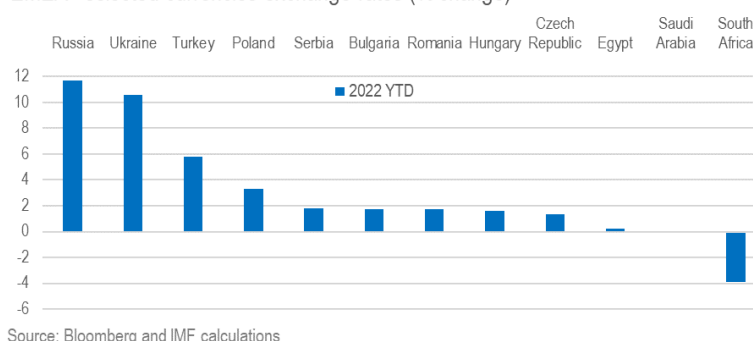
EMEA equities retraced some of yesterday's losses after Western sanctions were generally seen by analysts as moderate. The Ukraine stock market remain closed. Contacts note that the situation remains tense, with an attack on Ukraine's capital, Kyiv, likely later today. While some analysts see the invasion as mostly priced in, traders are now focused on the developments of the invasion as well as a potential escalation with NATO with some analysts expressing concerns that Russia's President Putin will extend his operations. President Putin's intentions are seen as unclear. Ukraine continues to resist the assault, according to Ukraine's President Zelenskyy.



EMEA currencies traded mostly weaker against the US dollar, with the Polish zloty (-0.5%) and Czech koruna (-0.2%) underperforming. Contacts generally now expect additional interest rate increases in Poland, as a weaker Polish zloty boosted inflation expectations. The national bank of Poland offered a

4 bn zloty (\$950 mn) currency swap line to the national bank of Ukraine yesterday. **The Ukraine hryvnia (+1.3%), Russian ruble (0.8%), and Turkish lira (+0.9%) were strengthening this morning.**

EMEA - selected currencies exchange rates (% change)



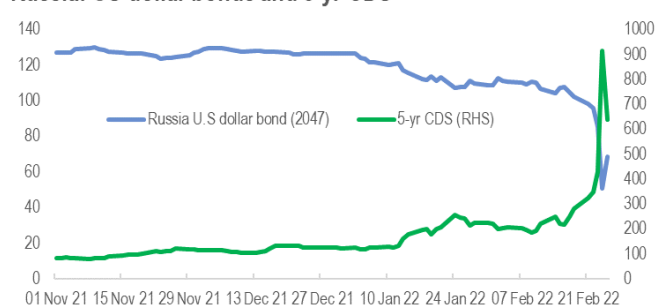
Russia

Russian equities (+12.5%) and the Russian ruble (+0.8%) retraced some of yesterday's losses as the markets digested Western sanctions. The US sanctions now target five of the largest Russian banks and restrict Russia's technology imports, though **the sanctions package allow energy payments to continue, and did not ban Russia from the SWIFT payment system.** Yesterday the UK also announced that assets of major Russian banks will be frozen and will be excluded from the UK financial system, while major Russian companies and the state will no longer be able to raise funding or borrow money from UK markets. Additional oligarchs' assets were frozen, and the UK will stop exports of high-tech items and oil refinery equipment. Russia's national airline will also be banned from landing in the UK. In response, Russia reportedly banned British airlines from landing at Russia's airports or crossing Russian airspace. The EU approved a second package of sanctions last night.

The central bank of Russia noted in an online statement that the banking sector's liquidity level currently remains adequate. Yesterday, the central bank increased the daily limit on USD/RUB currency swaps to \$5 bn from \$3bn, according to an online press statement. Bloomberg reports that most bonds issued by the Russian banks that are targeted in international sanctions are illiquid, with available data showing that their value has dropped further.

Prices on Russia's longer-dated U.S. dollar debt due 2047 increased by roughly 13 points to 64 cents on the dollar this morning, though still down from roughly 126 cents at the start of the year, **while Russian 5-yr CDS spreads narrowed by 278 bps.**

Russia: US dollar bonds and 5-yr CDS

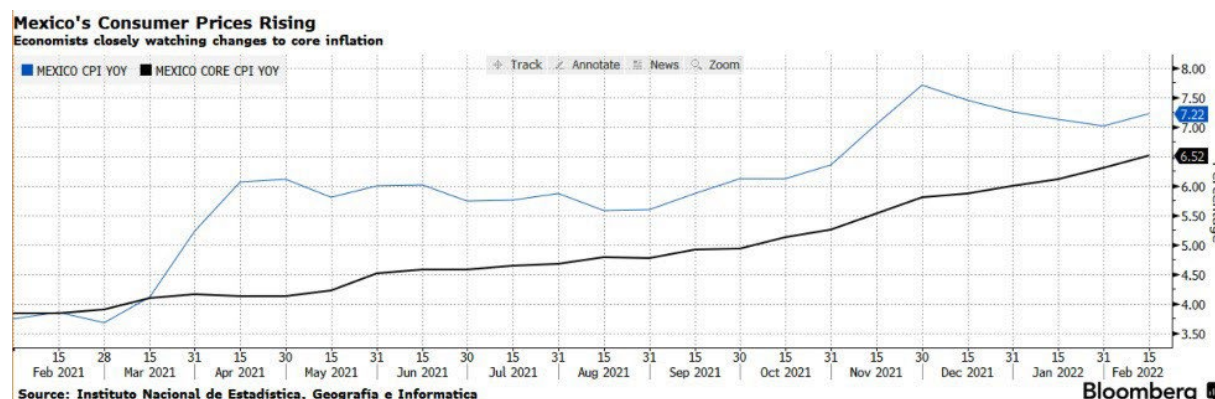


China

The Politburo called for stronger implementation of macro policies to stabilize the economy. The Politburo also stressed other important tasks, including expanding domestic demand, further opening up, promoting green development, and mitigating financial risks. The top disciplinary watchdog criticized financial regulators and state-owned financial institutions, noting that the central bank falls short to guiding financial institutions to support SMEs, that the bank and insurance regulator needs to further strengthen its supervision, and that state-owned banks have lax governance and are at risk of corruption. It ordered the agencies to rectify the problems, including by conducting comprehensive reviews for hidden risks and undertaking financial reforms. The People's Bank of China (PBC) injected liquidity in an amount of 290 bn RMB (\$46 bn) via reverse repos, the largest amount since September 2020. The PBC noted that the operation aimed at maintaining stable liquidity conditions at month-end. Equities gained (CSI 300: +1.0%); RMB appreciated (+0.2%); CGB yields dropped (1-year: -2.7 bps; 10-year: -1.6 bps).

Mexico

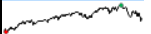
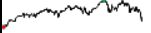


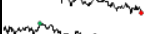












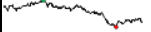
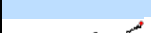






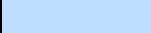


Mexico's inflation accelerated more than expected, adding pressure for bigger rate hikes. CPI rose 7.22% y/y in the first two weeks of February versus the forecast value of 7.17% by Bloomberg and 7.01% inflation in the last two weeks of January. This puts additional pressure on the central bank to continue increasing its policy rate despite signs of a stalled economic recovery. On Thursday, the Mexican peso posted its biggest loss (-1.9%) in three months, wiping out this year's gains as global risk assets sold off after Russia attacked Ukraine. The yield on the Mexican 10-year government bond rose 17 bps over the past week as foreign buying of Mexico's bonds accelerated.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (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), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammata (Staff Assistant) are responsible for word processing and production of this monitor.

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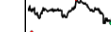








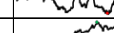
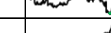




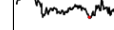


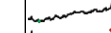





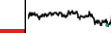

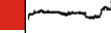


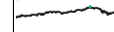







Global Financial Indicators

Last updated: 2/25/22 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4289	1.5	-4	-2	12	-10
Europe		3930	2.6	-4	-4	7	-9
Japan		26477	1.9	-3	-2	-9	-8
China		4573	1.0	-2	0	-14	-7
Asia Ex Japan		78	-1.3	-6	-4	-19	-6
Emerging Markets		46	-2.1	-7	-4	-15	-5
Interest Rates			basis points				
US 10y Yield		2.01	4.4	8	24	49	50
Germany 10y Yield		0.23	6.1	4	31	47	41
Japan 10y Yield		0.21	1.0	-1	7	6	14
UK 10y Yield		1.47	2.0	9	30	68	50
Credit Spreads			basis points				
US Investment Grade		144	-1.0	4	21	52	32
US High Yield		408	-5.0	-5	37	64	70
Europe IG		68	-6.6	-3	11	17	20
Europe HY		334	-36.1	-12	56	70	92
Exchange Rates			%				
USD/Majors		96.86	-0.3	1	1	7	1
EUR/USD		1.12	0.2	-1	-1	-8	-1
USD/JPY		115.6	0.0	0	1	9	0
EM/USD		53.0	0.7	-1	0	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		99	0.1	6	12	48	27
Industrials Metals (index)		188	-1.1	0	4	24	9
Agriculture (index)		69	-2.0	3	9	31	14
Implied Volatility			%				
VIX Index (% change in pp)		29.8	-0.5	1.7	-1.4	0.9	12.6
US 10y Swaption Volatility		96.8	-1.9	3.7	14.3	8.1	17.8
Global FX Volatility		8.3	0.0	0.6	0.8	0.4	0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		233	-8.6	-6	59	97	82
Italy		160	-4.2	-4	23	57	25
Portugal		87	-3.0	-3	21	27	22
Spain		98	-3.1	-4	25	27	23

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

Emerging Market Financial Indicators

Last updated: 2/25/2022 8:23 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	2	12	-50	1		
Indonesia		14367	0.1	-0.3	0	-2	-1		6.5	-0.3	2	11	-4	13		
India		75	0.5	-0.8	-1	-4	-1		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	0.1	-1.0	2	-7	3		2.2	4.5	3	10	74	39		
Malaysia		4.20	0.1	-0.4	0	-4	-1		3.7	0.7	2	-2	67	8		
Argentina		107	-0.1	-0.6	-3	-16	-4		48.5	52.9	12	-39	681	-208		
Brazil		5.13	-0.2	0.2	6	8	9		11.6	9.7	-4	13	300	93		
Chile		810	1.1	-1.1	-1	-12	5		6.0	3.5	2	46	285	55		
Colombia		3918	0.2	0.3	1	-8	4		7.9	0.0	27	58	299	151		
Mexico		20.43	0.6	-0.7	1	2	0		7.9	0.0	14	40	160	39		
Peru		3.8	-1.7	-1.9	1	-4	5		6.0	0.3	2	-4	177	13		
Uruguay		43	0.4	0.1	4	1	4		8.2	0.0	7	-55	116	-57		
Hungary		326	0.8	-3.3	-3	-9	0		5.0	5.0	36	34	260	52		
Poland		4.13	0.1	-3.2	-2	-10	-2		3.9	2.0	7	7	224	40		
Romania		4.4	0.2	-1.0	-1	-9	-1		5.4	26.7	27	45	277	60		
Russia		82.8	3.1	-6.6	-5	-10	-10		11.7	-251.0	150	187	472	292		
South Africa		15.2	1.2	-0.2	0	-1	5		7.6	-12.5	10	-11	7	17		
Turkey		13.77	1.9	-0.8	-2	-47	-3		23.5	-98.0	166	101	1026	-79		
US (DXY; 5y UST)		97	-0.2	1.2	1	8	1		1.90	4.1	8	35	108	64		

	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		4573	1.0	-2	0	-14	-7		211	4	9	-7	8	
Indonesia		6888	1.0	0	4	10	5		192	7	11	12	27	
India		55859	2.4	-3	-4	14	-4		156	2	12	4	24	
Philippines		7212	0.0	-3	-1	7	1		144	9	34	44	43	
Malaysia		1592	1.1	-1	5	1	2		138	8	18	1	21	
Argentina		88721	-2.9	-1	4	81	6		1764	8	-189	278	84	
Brazil		111122	-0.4	-2	1	-1	6		330	5	9	62	19	
Chile		4420	0.5	-3	-2	-3	3		177	15	24	35	37	
Colombia		1510	0.0	1	-1	13	7		390	18	31	167	42	
Mexico		51454	0.2	-2	1	16	-3		368	10	21	24	36	
Peru		23105	-1.2	-3	1	1	9		189	10	31	52	39	
Hungary		46415	7.8	-8	-9	5	-8		175	24	47	33	51	
Poland		60307	7.5	-8	-10	5	-13		34	18	14	7	2	
Romania		13002	2.7	-1	2	26	0		266	54	65	63	73	
Russia		2448	19.0	-28	-25	-28	-35		1388	1115	1107	1215	1211	
South Africa		73970	0.4	-3	2	10	0		408	23	28	35	53	
Turkey		1963	6.0	-3	1	32	6		612	65	58	182	34	
Ukraine		519	0.0	0	-1	0	-1		2834	1875	1831	2327	2075	
EM total		46	1.8	-7	-4	-15	-5		530	106	106	179	144	

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

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