



- Sanctions on SWIFT access for some Russian banks roils local markets ([link](#))
- Central bank of Russia increases policy rate to 20% in emergency hike ([link](#))
- S&P downgrades Russian debt to below investment grade ([link](#))
- Sberbank Europe and two subsidiaries placed under moratorium ([link](#))
- Pricing of US policy rate path largely intact despite market volatility ([link](#))
- Japan joins Western nations in sanctions on Russian banks access to SWIFT ([link](#))

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Sanctions pressure rattles Russian markets

Global markets have continued to take the evolving Russia-Ukraine developments in stride with risk assets selling off to start the week on news of further sanctions from Western nations over the weekend. Global equity markets rebounded to close out last week after Russian authorities signaled they were open to negotiations with Ukrainian officials, which sparked some relief for risk assets globally. The S&P 500 and Nasdaq both closed roughly unchanged for the week, with broad participation in Friday's rally across all sectors. However, over the weekend, Western nations announced in a joint statement that some Russian banks would be cut off from the SWIFT system and the central bank of Russia would be blocked from accessing its international reserve assets. The market response to the new sanctions has been abrupt in local Russian assets with the ruble depreciating over 20% amidst very thin liquidity conditions, while the central bank canceled stock trading on Monday and raised its policy rate from 9.5 to 20% in an emergency move. Regional eastern European asset markets are seeing declines but have been more contained with currencies weaker by 1 to 2%. European stock markets are also declining around 2%, while US equity futures point to losses of 1%. Commodity prices have spiked higher with Brent crude oil prices back above \$100/bbl, while core sovereign yields have moved 5 to 7 bps lower across maturities, driven entirely by falling real interest rates. After staying intact to close out last week, FOMC policy rate expectations have shifted lower again this morning with the markets lowering the odds of a 50 bp hike in March to below 20% and now pricing under 6 rate increases by year-end.

Key Global Financial Indicators

Last updated: 2/28/22 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4385	2.2	0	-3	15	-8
Eurostoxx 50		3882	-2.2	-3	-7	7	-10
Nikkei 225		26527	0.2	-2	-2	-11	-8
MSCI EM		47	1.8	-4	-3	-12	-3
Yields and Spreads			bps				
US 10y Yield		1.91	-4.9	-2	14	51	40
Germany 10y Yield		0.19	-3.7	-1	24	45	37
EMBIG Sovereign Spread		430	-22	34	40	83	63
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.5	-2.9	-4	-3	-9	-2
Dollar index, (+) = \$ appreciation		97.0	0.4	1	0	7	1
Brent Crude Oil (\$/barrel)		100.1	2.3	5	10	51	29
VIX Index (% change in pp)		32.0	4.4	4	7	4	15

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

In the week ahead, market participants will be focused on the evolution of the Russia-Ukraine conflict any further sanctions on Russia. The headline US data release will be the February nonfarm payrolls report on Friday, with +400k jobs expected. Fed Chairman Powell will testify before the House and Senate on Wednesday and Thursday. The Bank of Canada is expected to hike rates 25 bps at its Wednesday meeting. Europe will release preliminary inflation data on Monday and Tuesday (Italy, Germany, Spain among others). Among emerging markets, Turkey, Peru, Indonesia, Pakistan, Philippines, and Thailand will release inflation data for February.

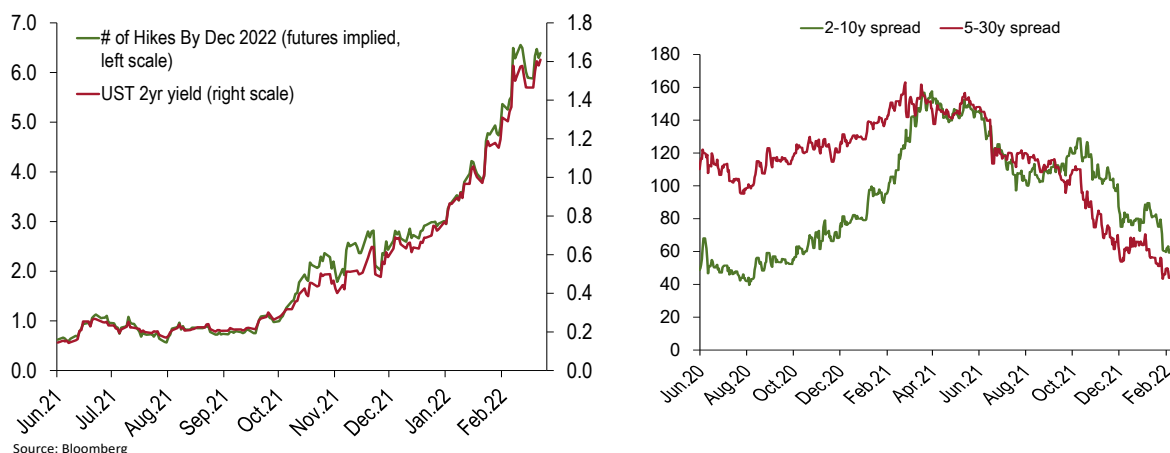
Mature Markets

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United States

US markets joined the rebound in global risk sentiment on Friday. The S&P 500 gained 2.2%, bringing its YTD loss to 8%. The VIX fell back down to 27, while rates volatility remains elevated with the MOVE index still around 94 (down from 101 on Thursday, up from 85 at end-January). Otherwise, market expectations for monetary policy have largely remained intact (so far) after a volatile week of geopolitics. Investors are pricing in about 6 rate hikes in 2022 again—after briefly dropping below 6 on Thursday—while 2-year Treasuries were close to their recent highs on Friday at 1.59%. The futures-implied probability of a 50 bp hike in March has fallen significantly over the last 2 weeks, though some contacts have cautioned that the implications of sanctions and higher energy prices are uncertain given that the inflation outlook is arguably worse, even as the growth outlook in the US is little changed. **This morning, S&P 500 futures point to declines of 1% at the open and 10-year US Treasury yields are 5 bps lower** following the announcement of additional sanctions on Russia over the weekend.

The Treasury curve continued to flatten last week, with the 2-year, 10-year spread falling another 7 bps to under 40 bps by Friday. 10-year yields ended the week little changed (+2 bps) at 1.96% despite large intraday moves, with real 10-year yields down about 8 bps on net since the previous Friday's close.

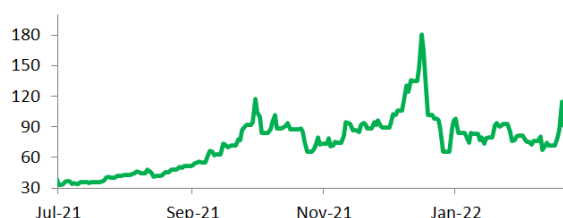


Commodity prices

The Bloomberg broad commodity price index rose 2%. Brent oil prices are 5% higher at \$103/bbl. European natural gas prices (+16% to €104/MWh) rose as investors wonder if Russia could respond to recent sanctions by withholding the delivery of at least some of its commodity exports. **The German government clarified that purchases of Russian gas are still possible using the SWIFT messaging system after sanctions.**

Europe: Price of natural gas

(1-m forward Eur/MWh)

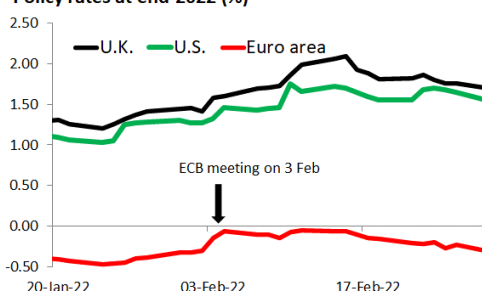


Source: Bloomberg and IMF staff

Euro area

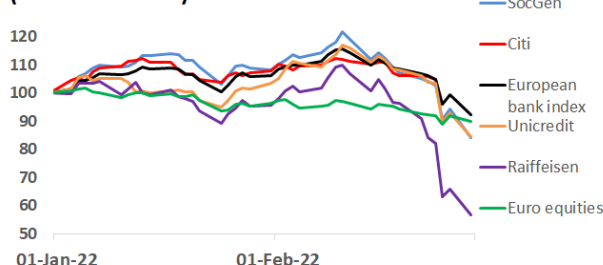
German 10-yr bund yields (-3 bps to 0.20%) fell. Spreads on 10-yr Southern European bonds rose 2 bps. **The euro fell 0.7% against the U.S. dollar.**

Money markets are still pricing in about 20 bps of hikes by the ECB by end 2022 as Bank of Portugal governor Centeno warned that the euro area could be vulnerable to stagflation in the wake of Russia's invasion. On Friday, ECB President Lagarde warned that the ECB will take whatever action necessary to ensure price stability and financial stability. **Spanish flash headline inflation unexpectedly rose to 7.4% y/y (7.1% expected) or 0.7% m/m (0.4% m/m expected).** Flash releases for euro area inflation will be closely watched this week.

Policy rates at end-2022 (%)

Source: Bloomberg and IMF staff

Bank stocks (-6%) underperformed following the news of further sanctions on Russia, compared to a loss of 2% for the broader equity market.

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

Source: Bloomberg and IMF

The ECB warned that the European subsidiary of Sberbank Russia as well as its Croatian and Slovenian subsidiaries are likely to fail given “significant deposit outflows as a result of the reputational impact of geopolitical tensions.”

Japan

Japanese stocks climbed +0.6%. On Sunday, Japan joined the US and EU in SWIFT payments exclusion of some Russian banks. Also, PM Kishida revealed that sanctions on Russia will be broadened to include semiconductor exports, with assets of some government officials to be frozen, Bloomberg reported. Separately, **Japan cabinet approves economic and supply chain protection bill.** The bill will identify critical goods such as rare minerals, chips, and pharmaceuticals for close monitoring and sectoral support

and will introduce up to two-year jail terms for certain false reporting or data leaks, according to Bloomberg. The bill will now be sent to Japan's parliament, where analysts expect it to be passed. **Japanese yen was broadly unchanged, 10-year yields slipped -2.2 bps.**

Emerging Markets

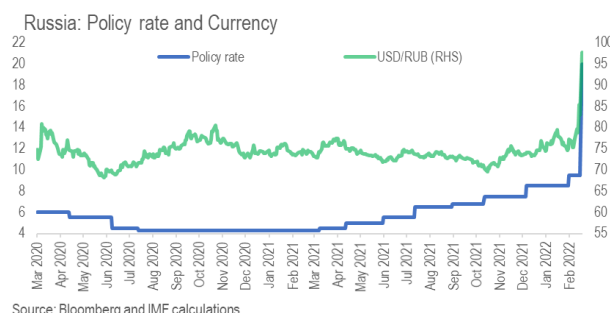
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Latin American stocks and currencies rallied on Friday as global risk assets recovered. Latin American stocks gained, up to 2.8% in Peru, and 0.8% declined in Argentina. Currencies appreciated in Chile (2.1%), Peru (1.7%), and Mexico (1%), and depreciated in Brazil (-0.7%). Regional hard currency yields fell 5 to 8 bps at the 10-year maturity. **Asian stocks were up marginally +0.1% on net.** Early session losses of as much as -0.8% eventually reversed on news about Russia and Ukraine talks. Most of the markets reported gains. Sri Lanka (+3.9%) and the Philippines (+1.4%) outperformed following Friday holidays. Singapore (-1.7%) recorded the largest losses with domestic bank equities slipping by over 3%. **Singapore** announced it will impose export controls on items that can be used directly as weapons in Ukraine and will block certain Russian banks and financial transactions connected to Russia, local media reported. **Hong Kong** stocks were down -0.2%, the city-state stepped away from strict COVID restrictions and allowed mild cases to stay at home as a surge in new cases overwhelms the health-care system. **EMEA equities and currencies were generally trading lower as geopolitical tensions escalated.** Equity indices in Hungary (-5.9%) and Romania (-1.4%) underperformed, while equities in South Africa (+2%) outperformed. **Ukraine's equity market remains closed, and the central bank of Russia announced this morning that the Moscow stock exchange would be closed today. The Russian ruble declined to a record low against the dollar this morning but retraced some losses in later trading.** The South African rand underperformed (-1.9%) while currencies of Hungary, Poland and the Czech Republic were respectively trading roughly 1.7% weaker. **The Turkish lira (+0.2%) outperformed following data showing 4Q2021 GDP expanded by +9.1% y/y** (consensus 9.0% from 7.4%).

Russia

The Russian Central bank raised its policy rate to 20% from 9.5% this morning after the ruble depreciated to a record low following additional Western sanctions. According to the central bank of Russia's statement, the increase in the policy rate will raise deposit rates to levels necessary to compensate for higher depreciation and inflation risks, noting that 'external conditions for the Russian economy have drastically changed'. Separately, the central bank also announced that it would start purchasing gold from the domestic market, and that domestic brokers are banned from selling securities by non-residents, reportedly starting today.

Over the weekend Western nations agreed that some Russian banks would be excluded from the SWIFT banking communication system, and that restrictions would be imposed on the central bank of Russia to prevent it from using international reserves to counter the impact of sanctions. Market contacts had not expected that the overseas assets of the Russian central bank would be frozen. In addition, Russian aircraft is to be banned from EU airspace. Further details of the sanctions are to follow. This morning, the central bank of Russia reportedly postponed the start of ruble trading, and contacts note an unprecedented spread between onshore and offshore ruble trading. **The ruble fell as much as -30% against the dollar to 119 when trading opened, with some losses retracing this morning** as the ruble was trading -18% weaker at 102. The central bank announced that the equity market would remain closed today.



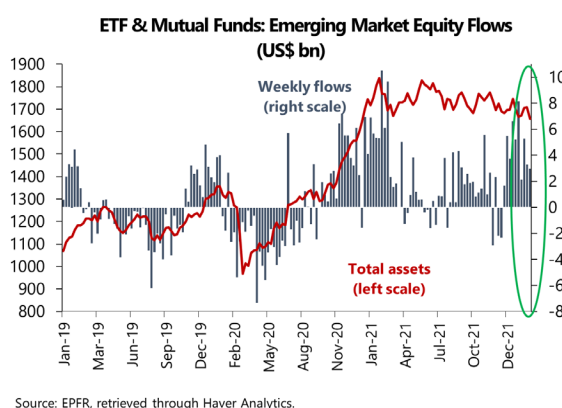
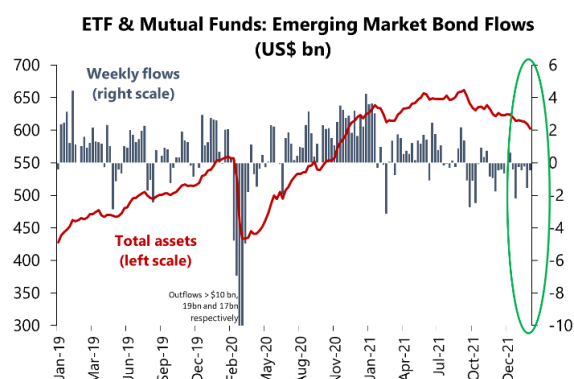
On Friday S&P Global ratings cut Russia's foreign credit rating to BB+ and its local currency ratings to BBB-, and placed Russia's rating on CreditWatch with negative implications. S&P notes that sanctions could have severe negative implications for the ability of the Russian banking sector to intermediate international trade, and flags that second-round effects of the sanctions could be substantial. Moody's has placed Russia on review for a downgrade.

In light of the latest announced sanctions, Goldman Sachs analysts sees it as plausible that Russia could be removed from the GBI-EM Global Diversified index, despite media articles noting the index provider has suggested that this is unlikely. Russia's weight in the index amounts to roughly 7%.

The Single Resolution Board (SRB) suspended payments, enforcements, and termination rights to Sberbank Europe AG (Austria), Sberbank d.d. (Croatia) and Sberbank banka d.d. (Slovenia). This follows after the ECB warned that European units of Russia's Sberbank are likely to become unable to repay its debts or other liabilities. In an online assessment, the ECB notes that as a result of liquidity deterioration following deposit outflows, Sberbank Europe AG, headquartered in Austria, and two of its subsidiaries in the banking union are failing or are likely to fail. The moratorium applied by the SRB is set to last until 1 March.

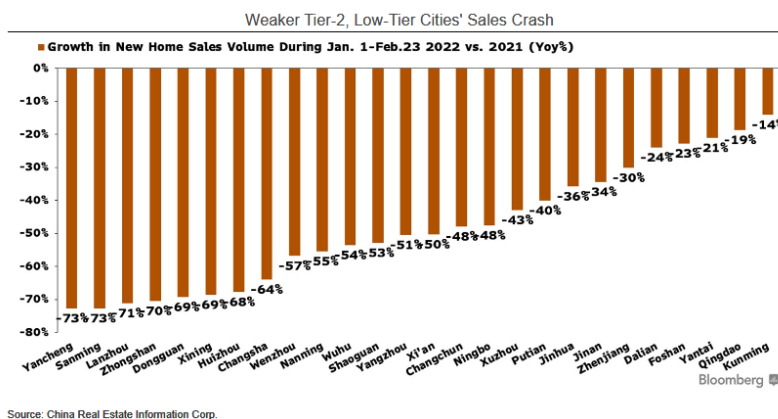
Emerging Market Fund Flows

Emerging market funds posted inflows of \$2.5 bn last week. EM bond funds continued to face outflows (\$0.5 bn or 0.1% of their assets), but less than in the week before. Investors withdrew \$1.1 bn from hard currency funds, while local currency funds attracted \$0.7 bn. Equity funds saw slightly reduced inflows of \$3 bn (0.2% of assets), overwhelmingly to ETFs (\$2.7 bn). Funds focused on European EMs, and Russia and Ukraine in particular, have so far not displayed any major deviation from general sector trends, despite market reports that some Russian-focused equity ETFs received larger-than-usual inflows, potentially due to the issuance of shares subsequently lent to traders engaged in short-selling, as short interest in respective shares soared.



China




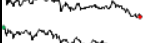
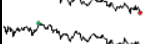







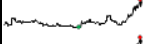








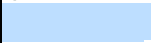



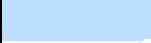
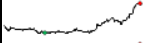

China's construction and developer sectors continued to face weak sales in February. Property sales in major cities such as Guangzhou were down by 33% percent on average this year through February, with lower tier cities seeing relatively more outsized declines (above 70%). Meanwhile, **more banks cut minimum down payment ratio for first-time home buyers.** The decision by banks in Nantong city to cut the ratio to 20% (from 30%) follows similar moved by banks in other small cities in mid-February. Separately, **China's central bank injected net RMB290 bn (\$46 bn) of liquidity via reverse repos.** Analysts note the central bank's recent injections of liquidity have helped stabilize markets, with liquidity conditions expected to remain "sufficient" through March. **Equities firmed (Shanghai: +0.3%, Shenzhen: +0.4%), Renminbi gained +0.1%, and 10-year yields was broadly unchanged.**



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 Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 2/28/22 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4385	2.2	0	-3	15	-8
Europe		3882	-2.2	-3	-7	7	-10
Japan		26527	0.2	-2	-2	-11	-8
China		4582	0.2	-1	0	-15	-7
Asia Ex Japan		79	1.6	-3	-3	-16	-4
Emerging Markets		47	1.8	-4	-3	-12	-3
Interest Rates			basis points				
US 10y Yield		1.91	-4.9	-2	14	51	40
Germany 10y Yield		0.19	-3.7	-1	24	45	37
Japan 10y Yield		0.19	-1.9	-2	2	3	12
UK 10y Yield		1.46	0.4	5	22	64	49
Credit Spreads			basis points				
US Investment Grade		144	1.3	4	18	52	32
US High Yield		407	8.7	-6	19	50	69
Europe IG		73	5.1	1	14	24	25
Europe HY		354	21.9	2	68	107	112
Exchange Rates			%				
USD/Majors		96.97	0.4	1	0	7	1
EUR/USD		1.12	-0.6	-1	0	-7	-2
USD/JPY		115.5	-0.1	1	0	8	0
EM/USD		51.5	-2.9	-4	-3	-9	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		100	2.3	5	10	51	29
Industrials Metals (index)		192	1.4	2	8	31	11
Agriculture (index)		69	2.6	3	8	33	14
Implied Volatility			%				
VIX Index (% change in pp)		32.0	4.4	4.2	7.1	4.0	14.8
US 10y Swaption Volatility		93.5	0.7	0.4	12.9	15.5	14.5
Global FX Volatility		7.9	0.1	0.1	0.3	-0.5	0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		236	1.5	-1	48	99	84
Italy		160	-0.1	-10	32	58	25
Portugal		87	-0.1	-5	21	29	23
Spain		99	0.7	-5	25	31	25

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

Emerging Market Financial Indicators

Last updated: 2/28/2022 8:18 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		6.31	0.1	0.4	1	2	1		2.9	0.5	-6	16	-47	2	
Indonesia		14367	0.1	-0.3	0	-2	-1		6.5	-0.3	2	11	-4	13	
India		75	-0.1	-1.1	-1	-2	-1		6.3	0.0	0	9	75	0	
Philippines		51	0.1	0.2	-1	-5	-1		5.1	10.0	13	53	116	63	
Thailand		33	-0.5	-1.6	2	-7	2		2.2	-2.0	-3	11	60	37	
Malaysia		4.20	0.1	-0.5	0	-3	-1		3.7	-0.4	0	-1	58	7	
Argentina		107	-0.1	-0.6	-3	-16	-4		48.4	-9.4	41	-58	684	-217	
Brazil		5.15	-0.7	-0.3	6	7	8		11.7	2.0	1	17	292	98	
Chile		802	0.0	-0.4	0	-10	6		5.9	-1.0	-6	32	282	44	
Colombia		3922	-0.2	0.4	1	-8	4		7.9	0.0	27	75	311	151	
Mexico		20.46	-0.5	-0.7	1	1	0		7.9	-5.5	8	34	154	34	
Peru		3.7	1.7	0.2	3	-2	7		6.1	0.5	3	-7	183	16	
Uruguay		43	1.4	1.1	5	2	5		8.1	-0.8	6	-56	112	-58	
Hungary		330	-1.8	-4.5	-4	-9	-2		5.1	9.0	39	17	268	56	
Poland		4.18	-1.6	-4.1	-2	-10	-4		3.9	-1.0	14	-10	225	40	
Romania		4.4	-0.6	-1.1	0	-8	-2		5.4	1.0	29	46	264	61	
Russia		98.1	-15.4	-18.7	-21	-24	-24		11.9	115.5	127	250	485	313	
South Africa		15.4	-1.8	-1.8	0	-3	3		7.7	10.7	17	-1	22	27	
Turkey		13.79	0.2	-0.7	-4	-47	-4		24.4	67.0	255	91	1101	8	
US (DXY; 5y UST)		97	0.4	1.0	0	7	1		1.79	-7.4	-3	18	106	53	

	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		4582	0.2	-1	0	-15	-7		211	4	10	-1	8	
Indonesia		6888	0.0	0	4	10	5		194	4	14	17	29	
India		56247	0.7	-2	-4	13	-3		161	6	21	13	29	
Philippines		7311	1.4	-1	-1	6	3		147	6	36	49	46	
Malaysia		1608	1.0	2	6	3	3		138	8	17	7	21	
Argentina		87970	-0.8	-2	-3	82	5		1793	86	-127	312	113	
Brazil		113142	1.4	0	1	3	8		321	-10	2	50	10	
Chile		4471	0.1	-1	-2	-2	4		174	8	23	32	34	
Colombia		1516	0.4	1	-1	12	7		377	-1	15	148	29	
Mexico		52556	2.1	1	2	18	-1		358	-6	15	7	26	
Peru		23782	2.9	0	4	6	13		185	2	29	46	35	
Hungary		42930	-6.5	-11	-20	-2	-15		168	11	41	41	44	
Poland		61158	1.2	-4	-9	7	-12		42	27	30	23	10	
Romania		12723	-1.3	-2	-4	25	-3		236	20	33	39	43	
Russia		2470	0.0	-19	-30	-26	-35		809	519	528	641	632	
South Africa		75716	2.0	0	2	14	3		393	3	18	24	38	
Turkey		1948	-0.2	-4	-3	32	5		580	29	24	160	2	
Ukraine		519	0.0	0	-1	0	-1		2375	1378	1347	1875	1616	
EM total		47	-1.0	-4	-3	-12	-3		486	58	63	134	100	

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

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