GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JANUARY 28, 2022

- **US equities extend losses amid deteriorated liquidity conditions** (link)
- **US Treasury yield curve flattens as markets digest hawkish Fed rhetoric** (link)
- **US money market funds shorten their weighted average maturity** (link)
- **ECB expected to end asset purchases in March 2023** (link)
- **Chinese equities underperform** (link)
- **Ukraine's currency appreciates following central bank comments** (link)

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Risk sentiment remains fragile amid volatile markets

European bourses sank and US equity futures signaled a negative opening this morning as risk sentiment remains fragile. A flurry of corporate earnings results over the past 24 hours were mixed, with better than expected earnings from Apple and Caterpillar offset by the weaker results of Chevron, Tesla, and Intel. Global markets have been whiplashed this week by volatility as the FOMC was seen as hawkish and geopolitical tensions and uneven earnings added to investor concerns. The VIX rose over 2 ppts this morning, the 8th day of gains in the last 9 days, remaining well above the 30 ppt mark, and measures of fixed income implied volatility also rose. The fragile risk sentiment was also reflected in credit spreads, with the European iTraxx crossover CDS index 13 bps wider this morning. Elsewhere, the dollar strengthened for the 5th consecutive day and global bond sovereign yields rose in the US and Europe. In emerging markets, Chinese equities underperformed amid ongoing outflows from foreign investors and speculation that investors are also seeking to close positions ahead of a week-long Lunar New Year break. The Ukrainian hryvnia and the Russian ruble outperformed after Russia's foreign minister Lavrov said that the proposal by the US to defuse tensions contained rational elements.

Key Global Financial Indicators

Last updated: 1/28/22 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4327	-0.5	-3	-10	14	-9
Eurostoxx 50		4075	-2.6	-4	-6	15	-5
Nikkei 225		26717	2.1	-3	-7	-3	-7
MSCI EM		47	-1.2	-5	-4	-14	-4
Yields and Spreads					bps		
US 10y Yield		1.84	4.2	8	36	80	33
Germany 10y Yield		-0.02	4.4	5	22	52	16
EMBIG Sovereign Spread		383	1	1	11	22	16
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.8	-0.2	-1	0	-7	0
Dollar index, (+) = $ appreciation		97.4	0.1	2	1	8	2
Brent Crude Oil ($/barrel)		90.1	0.9	3	14	62	16
VIX Index (%, change in pp)		32.7	2.2	4	15	2	15

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

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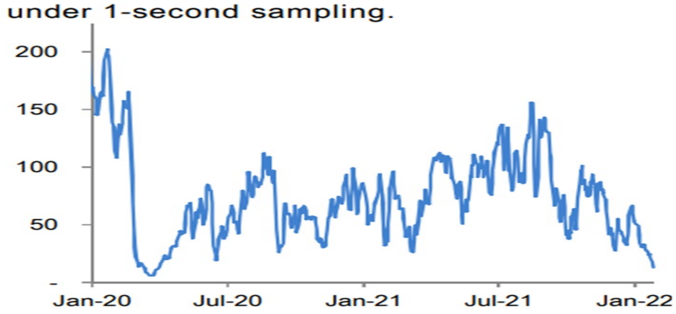
United States

US equities extended the losses on Thursday despite the better than expected Q4 GDP data as investors continued to grapple with implications from tighter monetary policy and mixed corporate earnings. The S&P closed down by 0.5% after erasing an earlier 2% gain. Tesla drove the losses, dropping by 12% after they announced that the introduction of new models would be delayed due to supply-chain constraints. The VIX index was slightly lower. **Stock market liquidity conditions deteriorated according to market liquidity metrics.** The market depth for the S&P 500 future (average number of contracts at the tightest bid/ask) has deteriorated since last September and hit its lowest level since March 2020. The other metric based on the Hui-Heubel liquidity ratio (price impact of trading volumes) is less severe than what the market depth shows but has also seen a sharp deterioration in recent weeks. JP Morgan analysts noted that poor liquidity conditions have likely been exacerbated the volatility in stock markets.

Figure 1: Market depth proxy of S&P500 E-mini futures (ES1)

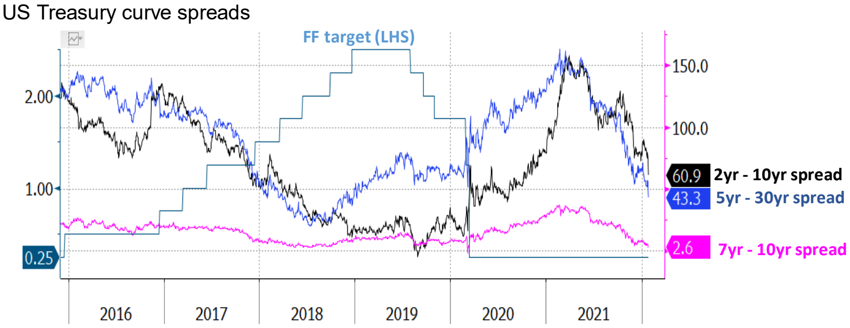
Average number of contracts on the Bid/Ask in ES1 (S&P 500 E-mini futures). 3-day moving averages using daily data of bid/ask under 1-second sampling.



Source: Nasdaq, J.P. Morgan

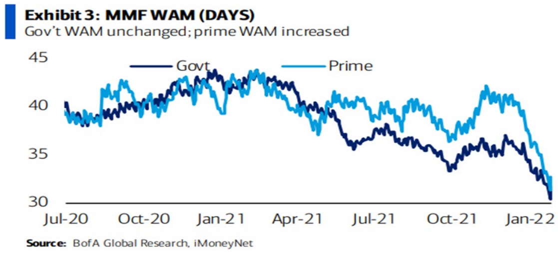
The US treasury yield curve flattened as the 2-year yields rose by 4 bps while the 10-year yields went down by 6bps on Thursday as markets were pricing a faster pace of rate hikes. The yield spread between 5-year and 30-year yields declined to 43 bps, the lowest since January 2019, and the spread between 2-year and 10-year yields was down to 61 bps, the lowest since October 2020. Meanwhile, the yield spread between 7-year and 10-year yields tightened to just 3 bps. Contacts noted that demand for longer maturities also supported the longer-end of the curve.

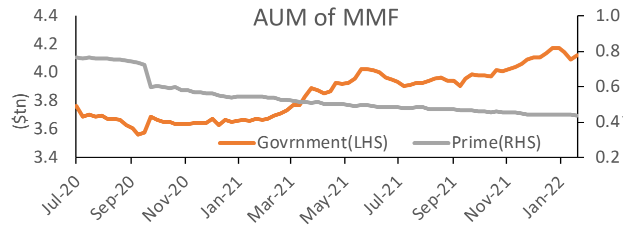
US Treasury curve spreads



Source:Bloomberg

Money Market Funds (MMF) have shortened their weighted average maturity (WAM) materially as the faster Fed tightening has been anticipated. WAMs of prime funds have been shortened by 9 days since mid-November, and the government fund WAMs are 4 days shorter over the same period. The decline of the WAM is likely driven by an increase in allocation to Treasury repos. Total assets have decreased by $60 bn (government MMFs: - $55 bn, prime MMFs: - $4 bn) since the end of last year.



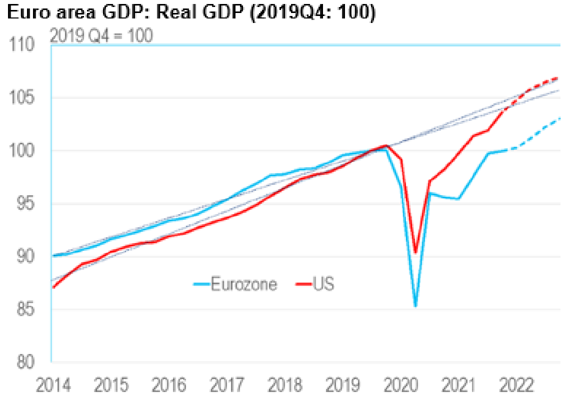


Source:Bloomberg

Euro area

European equities (-1.8%) fell, with German GDP contracting a more-than-expected 0.7% qoq in Q4 (-0.3% qoq expected) and European economic sentiment indicators disappointing. Spanish GDP growth was better-than-expected at 2% qoq as was growth in France at 0.7% qoq, likely leaving euro area growth around 0.2% qoq higher in Q4. **The euro was little changed after depreciating almost 2% against the U.S. dollar this week.**

Euro area GDP: Real GDP (2019Q4: 100)

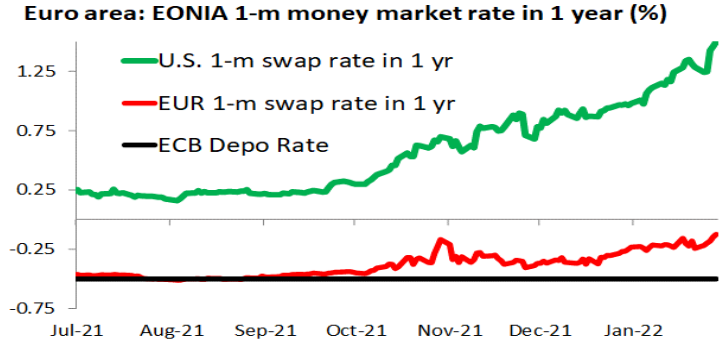


Source: Citi

Investors will closely study inflation releases next week. The consensus forecast of analysts is that euro area inflation will slow to 4.3% yoy (from 5% yoy in December) and core inflation to 1.9% yoy (from 2.6% yoy in December). Euro area 5-year/5-year inflation swaps fell 16 bps to 1.80% so far in 2022.

A Bloomberg survey ahead of next week's ECB meeting, shows that most economists expect the ECB to end asset purchases in March 2023, followed by a first hike in September 2023. Most survey participants expect inflation to settle below the ECB's 2% target in 2023. Deutsche Bank is among the small minority predicting a first hike in December 2022. Consensus expectation are in sharp contrast to market pricing of hikes of +20 bps in the year ahead.

Euro area: EONIA 1-m money market rate in 1 year (%)



Source: Bloomberg and IMF staff

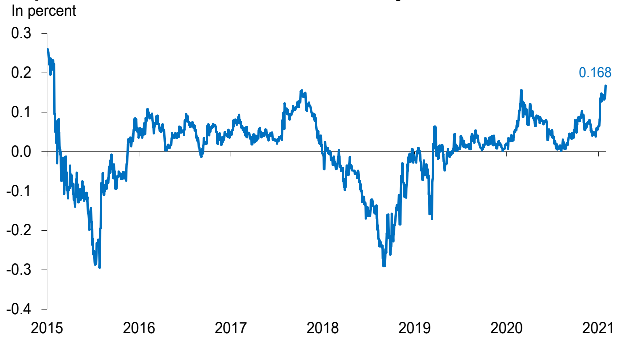
Italian 10-year spreads (+2 bps to 136 bps) edged higher as the Italian parliament meets to continue the elections of a new Italian president. Since yesterday, a simple majority will be sufficient for the election of a president, but voting is expected to continue next week.

The European Investment Bank (EIB) warned about potential greenwashing related to proposed changes to the EU taxonomy to allow some gas and nuclear-related projects. EIB chief Horner warned that the EIB plans to be compliant with the new EU taxonomy but has no plans to invest in nuclear projects.

Japan

Long-end JGB yields rose (10-year: +1.2 bps; 30-year: +2.3 bps). The benchmark 10-year yield rose to 0.168%, the highest level since early 2015, as markets were concerned about the faster pace of U.S. interest rate hikes. Markets were also speculating that the Bank of Japan (BOJ) may adjust the duration of its yield curve control from 10 years to 5 years even though Governor Kuroda rejected any change in the way the BOJ conducts monetary policy. In responding to an inquiry in the parliament, **Governor Kuroda said that there is no need for the BOJ to change its yield curve control or try to steepen the yield curve at the moment.** These issues could be discussed sometime in the future. He also indicated that the BOJ will continue with its monetary easing. **Tokyo's CPI increased 0.5% y/y as expected in January,** easing from 0.8% in December. Japanese yen depreciated (-0.2%); equities gained (NIKKEI: +2.1%).

Japanese Government Bond Yields, 10-year
In percent



Source: Bloomberg.

Emerging Markets

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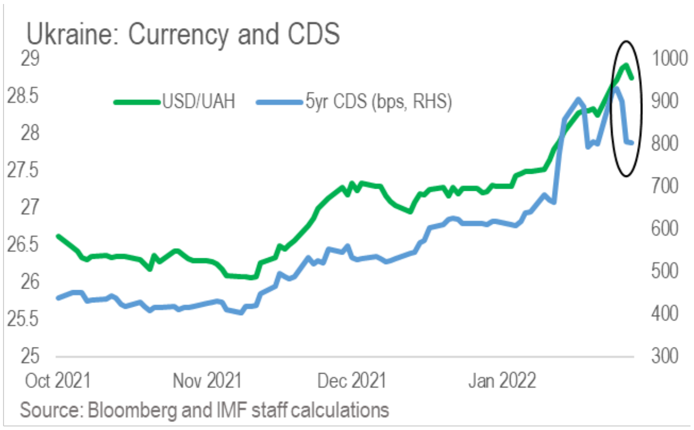
Asian equities were mixed, falling 0.4% on net. Korean equities gained (+1.9%), while share prices dropped in China (CSI 300: -1.2%) and Hong Kong SAR (-1.1%). **Asian currencies were also mixed**. The Thai baht (-0.5%) and Korean won (-0.3%) depreciated, while Philippine peso, Malaysian ringgit and Indian rupee appreciated (all: +0.2%). **Long-end government bond yields declined,** with 10-year yields falling in Philippines (-11.9 bps). **In Korea,** industrial production grew 4.3% m/m in December, stronger than expected (consensus: -0.3%). **In Hong Kong SAR,** the economy expanded 4.8% y/y in 2021Q4, weaker than expected (consensus: 5.0%). **EMEA equity markets were mixed,** with Russia (+1.3%) and Romania (+0.8%) outperforming, while equity indices in Poland (-2.1%) and Hungary (-1%) underperformed. **EMEA currencies were mostly weaker against the dollar** with the South African rand (-0.9%) underperforming. The Ukrainian hryvnia (+0.9%) and the Russian rouble (+0.2%) outperformed. This morning Russia's foreign minister Sergei Lavrov said that the proposal by the US to defuse tensions contained rational elements, while noting that central demands were rejected. **Stock markets were mixed on Thursday in Latin America,** with Brazil gaining 1.2% and Mexico down by 1.1%. The Chilean peso appreciated 0.6% after the rate hike, outperforming most peers and extending its YTD advance to about 7%. Yields for 10-year government bonds in Latin America generally rose, with Colombia 10-year yield up by 10 bps, followed by Brazil (+6 bps) and Mexico (+4 bps). Honduras bonds fell more than 3 cents on the dollar after the new president talks about debt restructuring. According to Blockstream CSO Samson Mow in a written response to a question, El Salvador's planned blockchain bond on Blockstream's Liquid Network has at least $500 mn in verbal commitments.

China

Equities continued its decline today (CSI 300: -1.2%) after a 2.0% loss yesterday as investors sought to close positions ahead of a week-long Lunar New Year break. In recent days, state media has intensified efforts to support the stock market, touting the attractiveness of Chinese stock on valuation and policy support. Reportedly, several mutual funds, in a seemingly coordinated move, have committed to buying their own equity-focused products. Foreign investors continued to offload China's onshore shares for a second day, selling some 12.5 bn yuan ($2 bn), a contrast to a growing number of strategists who have recently turned overweight on China's equities this year on the back of policy easing and fewer regulatory concerns. A **growing number of property developers saw their auditors quitting**. A spate of auditor resignations deepened concerns about property developers' financial health in the run-up to earnings season. Today, PricewaterhouseCoopers resigned as the auditor of Hopson (a relatively strong firm), citing that it could not obtain certain relevant information. RMB appreciated (+0.1%).

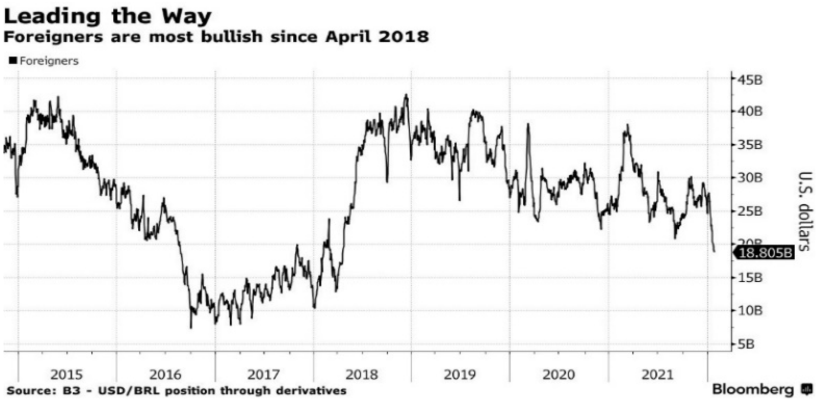
Ukraine

Ukraine's hryvnia appreciated (+0.9%) following reassuring comments from the central bank on the local currency markets. The hryvnia has depreciated by 5% this year to reach a 7-year low against the dollar, with FX markets pressured by geopolitical tensions. According to media reports Central bank Governor Kyrylo Shevchenko said that the bank has sufficient reserves to support the currency and has sold almost $1.5 bn in the FX market since the beginning of 2022. He also noted that the bank is not considering capital controls and has not seen deposit withdrawals from domestic banks. In a separate report **the central bank revised its inflation forecast to 7.7% from 5%, noting that pro-inflationary risks have materialized and that further monetary tightening is expected. Credit 5-year CDS spreads fell by 118 bps this week to 804 bps.**



Brazil

Foreign investors are showing optimism for Brazilian assets. Offshore investors have poured $9.2 bn into derivatives betting on the real in the last three weeks, becoming the most bullish in nearly fours years. This month, there has been an inflow of $4.3 bn into the local stock market from non-residents as investors see room for a rebound. Preference for commodity-linked assets is helping LATAM markets, especially when geopolitical tensions in Turkey and Russia push traders away from EMEA. The Brazilian real has appreciated 3% year-to-date and stocks are up 7% this year. Local banks which have been absorbing the foreign inflows have seen their dollar position rise to a record $69.8 bn. YTD, four out of the five best performing major currencies in emerging markets are from South America, with Chilean peso and Peruvian sol leading, both of which also have commodity-linked economies and hawkish central banks.



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Global Financial Indicators

Last updated: 1/28/22 8:03 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		4320	-0.5	-2	-10	14	-9
Europe		4075	-2.6	-4	-6	15	-5
Japan		26717	2.1	-3	-7	-3	-7
China		4564	-1.2	-5	-8	-15	-8
Asia Ex Japan		79	-1.7	-6	-5	-18	-5
Emerging Markets		47	-1.2	-5	-4	-14	-4
Interest Rates					basis points		
US 10y Yield		1.84	4.2	8	36	80	33
Germany 10y Yield		-0.02	4.4	5	22	52	16
Japan 10y Yield		0.17	1.2	3	11	13	10
UK 10y Yield		1.28	5.1	11	35	99	31
Credit Spreads					basis points		
US Investment Grade		124	3.6	5	11	27	12
US High Yield		376	-0.8	16	38	0	39
Europe IG		61	3.0	5	13	9	13
Europe HY		292	12.8	23	51	25	51
Exchange Rates					%		
USD/Majors		97.38	0.1	2	1	8	2
EUR/USD		1.11	-0.1	-2	-2	-8	-2
USD/JPY		115.6	0.2	2	1	11	0
EM/USD		52.8	-0.2	-1	0	-7	0
Commodities					%		
Brent Crude Oil ($/barrel)		90	0.9	3	14	62	16
Industrials Metals (index)		180	-0.7	-2	4	35	4
Agriculture (index)		64	0.3	1	4	28	5
Implied Volatility					%		
VIX Index (%, change in pp)		32.7	2.2	3.8	15.1	2.5	15.4
US 10y Swaption Volatility		77.8	0.0	-6.5	-2.1	19.2	-1.2
Global FX Volatility		7.4	0.0	0.1	-0.1	-0.2	0.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		190	-1.4	14	34	68	39
Italy		137	2.9	2	4	20	2
Portugal		66	0.5	3	2	10	1
Spain		73	0.5	3	-1	12	-1

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

Emerging Market Financial Indicators

Last updated: 1/28/2022 8:07 AM	Exchange Rates: Level, Last 12m	Exchange Rates: Level, Latest	Change (in %): 1 Day	Change (in %): 7 Days	Change (in %): 30 Days	Change (in %): 12 M	YTD	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points): 1 Day	Change (in basis points): 7 Days	Change (in basis points): 30 Days	Change (in basis points): 12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.36	0.1	-0.4	0	1	0		2.7	-3.5	-2	-17	-57	-14
Indonesia		14375	0.1	-0.3	-1	-2	-1		6.5	0.4	4	11	23	8
India		75	0.0	-0.8	-1	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	0.2	0.3	-2	-6	0		4.6	0.0	3	3	140	10
Thailand		33	-0.3	-1.3	0	-10	-1		2.1	-5.5	-6	22	71	26
Malaysia		4.19	0.1	-0.1	0	-3	-1		3.7	-1.9	0	10	97	9
Argentina		105	-0.1	-0.5	-2	-17	-2		49.2	24.8	18	57	-119	-134
Brazil		5.40	0.1	0.9	4	1	3		11.5	-2.4	-7	88	336	81
Chile		811	-0.6	-1.5	6	-9	5		5.8	2.0	27	40	319	33
Colombia		3965	-0.1	-0.2	1	-10	3		7.4	0.0	3	98	327	97
Mexico		20.83	-0.4	-1.7	-1	-3	-1		7.6	0.0	2	14	215	8
Peru		3.8	0.0	-0.1	3	-5	4		6.1	-0.2	0	22	236	20
Uruguay		44	0.6	1.2	1	-4	1		8.8	0.0	4	1	153	6
Hungary		322	-0.6	-1.8	1	-8	1		4.8	6.0	6	37	303	28
Poland		4.11	-0.5	-2.8	-1	-9	-2		4.0	5.0	25	58	283	47
Romania		4.4	-0.1	-1.9	-2	-9	-2		5.0	2.0	-3	15	265	14
Russia		77.5	0.6	0.3	-5	-2	-3		9.4	-1.8	-29	67	297	68
South Africa		15.6	-0.9	-3.2	1	-3	2		7.7	3.5	10	35	102	31
Turkey		13.61	0.0	-1.1	-13	-46	-2		23.5	-4.0	93	-102	1061	-79
US (DXY; 5y UST)		97	0.2	1.9	1	8	2		1.70	3.8	14	45	127	43

	Equity Markets: Level, Last 12m	Equity Markets: Level, Latest	Change (in %): 1 Day	Change (in %): 7 Days	Change (in %): 30 Days	Change (in %): 12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points): 7 Days	Change (in basis points): 30 Days	Change (in basis points): 12 M	YTD
								basis points					
China		4564	-1.2	-5	-8	-15	-8		200	2	-4	-25	-3
Indonesia		6646	0.5	-1	1	13	1		184	7	17	-9	19
India		57200	-0.1	-4	-2	24	-2		137	-3	6	-17	5
Philippines		7252	-0.3	-1	2	10	2		115	10	14	9	14
Malaysia		1520	0.3	0	-3	-3	-3		119	1	1	-18	2
Argentina		85969	0.2	1	4	73	3		1898	-1	162	468	218
Brazil		112612	1.2	3	7	-5	7		319	8	-1	31	8
Chile		4576	0.3	-1	7	4	6		157	8	16	0	17
Colombia		1521	-0.1	0	8	11	8		369	26	17	135	21
Mexico		50466	-1.1	-4	-5	14	-5		342	5	6	-42	10
Peru		22549	0.0	-3	8	6	7		163	8	11	34	13
Hungary		52333	-1.0	0	5	20	3		125	1	-1	-22	1
Poland		66447	-2.5	-4	-3	15	-4		6	-10	-33	-25	-26
Romania		13125	0.8	0	1	27	0		203	8	10	-1	10
Russia		3496	1.2	2	-7	5	-8		259	19	79	74	82
South Africa		72925	-0.8	-3	1	15	-1		362	-1	0	-37	7
Turkey		1979	-0.9	-2	7	32	7		545	-1	-46	81	-33
Ukraine		522	0.0	0	0	2	0		908	-4	153	400	149
EM total		47	-1.9	-5	-4	-14	-4		417	6	22	61	30

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

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