



- Yield curve in US inverts on fear of recession ([link](#))
- US credit spreads rise to critical threshold ([link](#))
- Stocks in China decline as Covid fears revive ([link](#))
- EU natural gas prices fluctuate as Nordstream 1 pipeline closes for repairs ([link](#))
- Yen depreciates further as ruling bloc in Japan wins elections ([link](#))
- Chilean peso at record low ([link](#))

[Mature Markets](#)




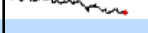
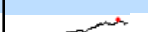


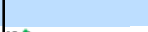



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Global markets decline as sentiment weakens

Stocks in Europe are down and US equity index futures are lower on worries about the global economy. The dollar is stronger and government bond yields are lower. The prospects of new Covid-related shutdowns in China weighed on sentiment, while euro area markets are down as the Nordstream 1 gas pipeline shut down for scheduled maintenance. There are worries that Russia will not reopen the pipeline after the repairs to pressure the euro area over its support for Ukraine in the ongoing war. Meanwhile, markets are bracing for yet another bad US inflation report, with headline annualized CPI expected to hit 8.8%. Earnings season begins this week in the US, with major US banks among the first to report. Profit forecasts remain high despite the large market selloff so far this year.

Key Global Financial Indicators

Last updated: 7/11/22 8:14 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
Equities			%					
S&P 500		3899	-0.1	3	0	-11	-18	-8
Eurostoxx 50		3480	-0.8	1	-3	-14	-19	-12
Nikkei 225		26812	1.1	3	-4	-6	-7	1
MSCI EM		40	0.0	0	-3	-25	-18	-16
Yields and Spreads			bps					
US 10y Yield		3.05	-3.4	17	-11	169	154	106
Germany 10y Yield		1.29	-5.7	-5	-23	158	147	106
EMBIG Sovereign Spread		538	-3	-2	84	185	171	125
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.6	-0.3	-3	-5	-13	-6	-7
Dollar index, (+) = \$ appreciation		107.8	0.8	3	4	17	13	12
Brent Crude Oil (\$/barrel)		104.6	-2.2	-8	-14	38	35	8
VIX Index (% change in pp)		26.4	1.8	0	-1	10	9	-5

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

Inflation is likely to remain front and center for global markets, with the US due to release the latest CPI (Wednesday) and PPI (Thursday) data. The US retail sales report on Friday will also draw scrutiny for clues about the strength of the US economy. In the euro area, Germany's widely followed ZEW business sentiment survey comes out tomorrow, along with CPI data from several member countries. China reports key trade data later this week. The Bank of Canada is expected to hike by 75 bps on Wednesday to 2.25%,

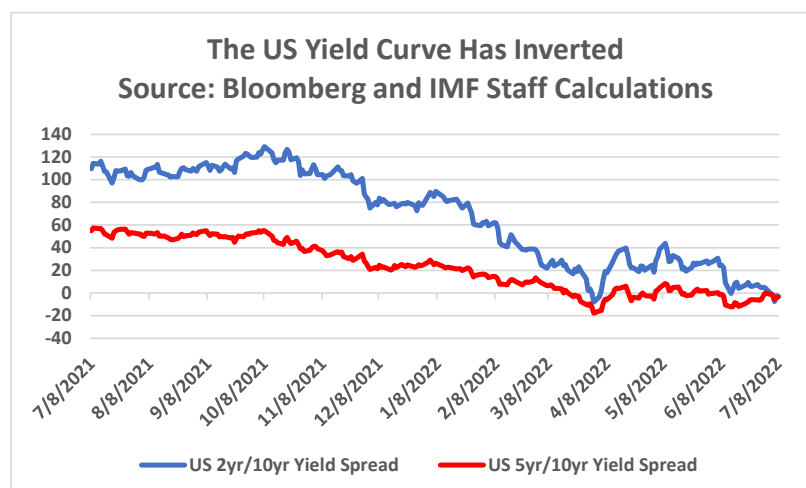
while Chile is also expected to hike by 75 bps to 9.75%. The Q2 earnings season begins with US banks reporting results this week on hopes that the recent Fed rate hikes will boost profits.

Mature Markets

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United States

The US yield curve has inverted amidst higher fears of recession. The curve remained inverted even after Friday's stronger than expected US jobs report. Interest rate futures markets have cut their estimates of central bank rate hikes by 70–110 bps in the US, euro area and the UK compared to the much higher expectations that were being priced in the market in June. Although markets expect a 75 bps hike at the July 7 FOMC meeting, the size of subsequent hikes is expected to be lower than previous expectations, with current forecasts calling for the Fed to level off early in 2023. The three-month LIBOR rate, the benchmark for the floating rate bond market in the US has crossed 2.40% and the market is predicting a further 100 bps rise over the next two years. On the other hand, the eurodollar futures and Fed Fund futures markets are predicting rate cuts towards the end of next year.



Meanwhile, numerous Fed speakers on Friday reiterated their calls for a 75 bps rate hike at the next FOMC meeting, citing the continued strength of the US economy as shown in the employment data. They also pointed to the strength in the ISM services data from earlier in the week. There is a lively debate among market participants about whether recession fears are justified, with the more optimistic camp believing that a soft landing for the economy is still possible. However, several US bank analysts have increased their estimates of the probability of a US recession, with Citi (50% probability of a recession in one year) and Goldman (48%) among the most pessimistic.

US credit spreads have hit a critical threshold, according to research from Barclays. Investment grade (IG) credit spreads hit 160 bps on July 5th before backing down closer to 150 bps in Friday's trading. Historical data shows that 160 bps is a key threshold for IG credit spreads, as a rise above that level is usually associated with a much bigger selloff and a move to significantly higher spreads. Since 1990, a move above 160 bps has triggered a median peak spread widening to 215 bps, with the market taking an average of 85 days to hit the maximum spread for each episode. With worries about a recession gaining ground and interest rate volatility up sharply in recent weeks, the IG bond market could be on the brink of a major selloff. Barclays points out that the profile of the IG bond market is much riskier than it was during previous selloffs, with the share of BBB rated bonds growing from 32% in 2008 to nearly 50% today, and with the proportion of bonds with a maturity of 10 years or more up from 27% in 2005 to 45% today. As a result, the market may be even more vulnerable than it was on previous occasions.

FIGURE 3. Historically, Spreads Peak at 215bp and Reach That Level within Three Months of Crossing 160bp for the First Time

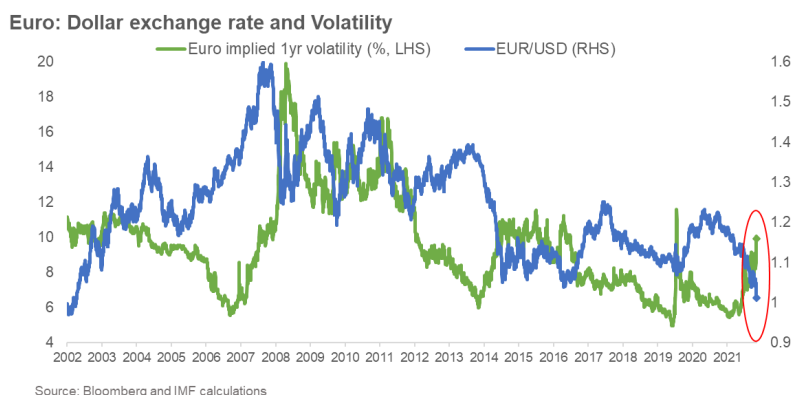
Crossed 160bp	Index OAS Right After Passing 160bp	Adj. OAS*	Max Spread in 6m After 160bp	Days to Max Spread	Index YTW (%)
3/9/2020	171	155	373	10	2.33
8/12/2015	161	151	215	125	3.39
8/5/2011	163	162	252	42	3.49
5/6/2010	161	160	198	25	4.23
11/9/2007	163	165	298	85	5.68
6/19/2001	161	156	202	86	6.65
5/31/2000	165	162	199	98	8.27
Median	163	160	215	85	4.23
Current	157	139			4.66

Note: Adjusted OAS adjusts for rating, duration, and price differences over time.

Source: Bloomberg, Barclays Research

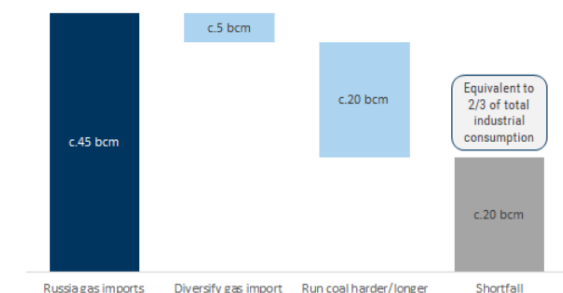
Euro Area

Local stocks were down and government bond yields were lower on weaker sentiment. On the data front Italy's retail sales surprised on the upside (+1.9% mom vs expected 0.4% mom from 0.0%). The euro continued to weaken as recession worries and concerns about rising natural gas prices gripped markets. The euro has weakened by more than 11% against the dollar since the start of the year and some contacts expect the euro to reach parity against the dollar this week. **Analysts at Standard Chartered now expect the euro area to enter a mild technical recession in Q4 2022 and Q1 2023 amid gas-flow disruptions and tighter monetary policy. Goldman Sachs analysts see the euro area close to recession in the second half of this year** and flag the risk of a more severe economic downturn if gas flows from Russia are significantly interrupted. **Markets are pricing in roughly 140 bps of tightening in 2022** after comments from ECB Governing Council (GC) member Holzmann over the weekend indicated support for as much as +125 bps of tightening by September if the outlook for inflation does not improve.



Natural gas prices in Europe were volatile as Russia's Nordstream 1 pipeline was shut down for a scheduled 10-day maintenance. The government of Canada allowed key equipment to be exported for the purpose, despite sanctions against Russia, allaying fears of a delay. However, there are growing fears that Russia will not reopen the pipeline on July 21 in an effort to pressure the euro area in the midst of the war in Ukraine. French Economy and Finance Minister Le Maire yesterday cautioned that a total shutdown of Russia's gas flows is the most likely outcome. He encouraged Europe to prepare for this scenario, adding that France is preparing plans for load-shedding. A full shutdown in gas flows from Russia translates to a 35% supply shock to the gas market in Europe.

Exhibit 2 : In a zero-flows scenario, we estimate Germany would have a shortfall equivalent to two-thirds of the country's industrial gas consumption
Impact of measures to reduce reliance on Russian gas (bcm), based on 2019 usage



Source: Eurostat, Goldman Sachs Global Investment Research

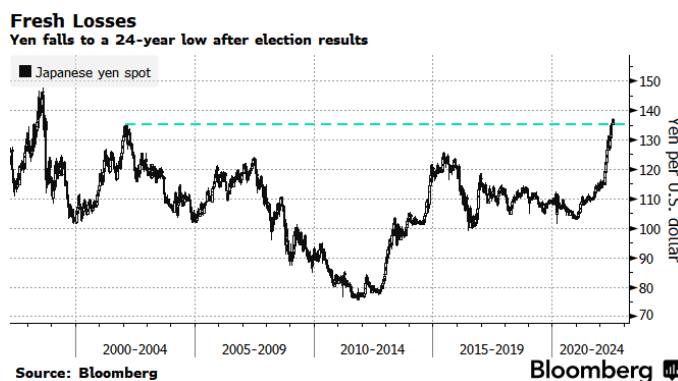
Exhibit 3 : Assuming full curtailment, Italy's gas shortfall would be c.80% of industrial gas consumption, we estimate
Impact of measures to reduce reliance on Russian gas (bcm), based on 2019 usage



Source: Aera, Goldman Sachs Global Investment Research

Japan

Japan' ruling coalition extended its majority in the upper house after the election on Sunday, following the murder of ex-PM Abe. Analysts noted that the election outcome reflected public support for PM Kishida; many also perceived the election as a quasi-referendum on the Bank of Japan (BOJ)'s ultra-easing monetary policy. In the near term, analysts viewed that the election victory would enable Kishida to maintain monetary policy easing and extend the fuel subsidy program to minimize the impact of rising energy prices on households. Over the longer term, analysts think Prime Minister Kishida will gradually move away from Abenomics, strengthening his stance on fiscal prudence over time and ensuring that the appointment of a new BOJ governor signals a shift in monetary policy regime especially in a case of further depreciation of Japanese yen and/or turmoil in the bond market.



Emerging Markets

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EMEA markets were cautious in early trading. Asian markets declined, falling 2.4% on net, led by China and Hong Kong SAR equities. The ruble (+2.5%) is firmer as Canada confirmed that it would allow some technology and machinery exports to Russia, but the Hungarian forint (-1%) and the Polish zloty (-0.5%) fell against the euro as analysts expect current accounts in both countries to record sizable deficits in 2022–23. Fears of a new Covid flareup in China weakened sentiment. In Sri Lanka, both President and Prime Minister announced their resignations over the weekend after intensified protests. Analysts think the resignations could be marginally positive for markets as they might remove a focal point of social unrest.

BNP current account projections (%GDP)



Sources: BNP Paribas

China

Chinese equities declined on COVID flareups (CSI 300: -1.7%; Hang Seng -2.8%), particularly in Shanghai. While Shanghai intensified mass testing, a continued rise in infections raised concerns about renewed mobility restrictions. **Chinese tech stocks declined** (HangSeng Tech: -3.9%) after the State Administration for Market Regulation fined Alibaba and Tencent for not properly reporting past transactions. **Evergrande suffers its first rejection from local creditors to extend a bond payment deadline.** More than 90% of bondholders of its onshore puttable bond (maturing in 2023) with the payment due last Friday voted to reject an extension by six months. If Evergrande fails to make a payment, this would mark its first official default on an onshore bond. Evergrande has so far avoided missing payments on onshore bonds by securing delays on payment deadlines. Analysts noted that Evergrande's default could have much wider implications for local markets.

Selling Pressure

China stock rally falters on brink of bull market



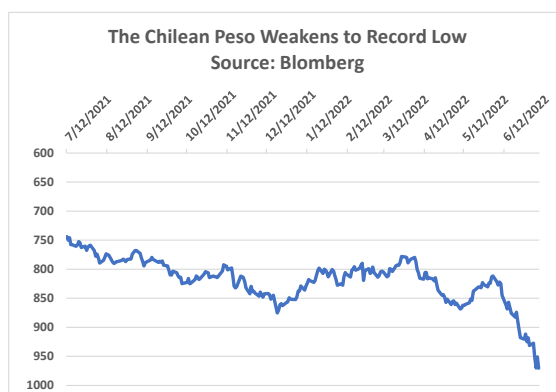
Source: Bloomberg

Bloomberg

Chile

The Chilean peso weakened to a new record low against the dollar. The currency is down 15% already this month, the worst performing of major emerging market currencies. Falling copper prices are a key driver of worsening sentiment in Chile as fears of a global recession increase. Rising inflation expectations

are also weighing on the currency, while poor market liquidity is amplifying market volatility. Analysts expect that the central bank will intervene in the currency market to prop up the peso.



Russia

The ruble (+2.5%) is firmer as contacts are divided on the near-term outlook of Russian gas supply to Europe. Some contacts believe that the risks of a gas supply interruption may be less severe after the Canadian government allowed the return of equipment to Gazprom, but others argue that Russia will not let Europeans materially build up inventories ahead of next winter. BNP calculates that a complete freeze of Russian oil and gas exports to the EU from July would cost Russia \$115 bn (or close to 8% of Russian GDP by end-2022). The cost to Russia of total interruption of gas supply from July would be above \$50 bn in 2022, according to BNP. The bank believes that even under 2021 prices, a cut of gas supply would still cost Russia over €40 bn.

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Global Financial Indicators

Last updated: 7/11/22 8:16 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3891	-0.1	2	0	-11	-18	-8
Europe		3480	-0.8	1	-3	-14	-19	-12
Japan		26812	1.1	3	-4	-6	-7	1
China		4355	-1.7	-3	3	-15	-12	-6
Asia Ex Japan		69	-0.1	0	-1	-24	-16	-13
Emerging Markets		40	0.0	0	-3	-25	-18	-16
Interest Rates			basis points					
US 10y Yield		3.05	-3.4	17	-11	169	154	106
Germany 10y Yield		1.29	-5.7	-5	-23	158	147	106
Japan 10y Yield		0.25	0.1	2	-1	21	17	5
UK 10y Yield		2.20	-3.8	0	-25	154	122	72
Credit Spreads			basis points					
US Investment Grade		172	1.8	-9	16	83	60	29
US High Yield		555	2.4	-48	101	239	217	148
Europe IG		118	1.8	-1	14	72	70	47
Europe HY		584	7.2	-4	65	351	342	232
Exchange Rates			%					
USD/Majors		107.84	0.8	3	4	17	13	12
EUR/USD		1.01	-0.9	-3	-3	-15	-11	-11
USD/JPY		137.4	1.0	1	2	25	19	20
EM/USD		49.6	-0.3	-3	-5	-13	-6	-7
Commodities			%					
Brent Crude Oil (\$/barrel)		105	-2.2	-8	-12	53	40	17
Industrials Metals (index)		149	-0.9	-2	-17	-5	-14	-20
Agriculture (index)		68	0.8	2	-11	25	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		26.4	1.8	-0.3	-1.3	10.3	9.2	-4.6
US 10y Swaption Volatility		140.2	-0.8	2.7	5.8	68.7	61.1	45.9
Global FX Volatility		11.2	0.1	0.0	0.5	4.5	3.8	3.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		237	2.9	20	-51	132	86	-3
Italy		196	1.6	5	-29	90	61	25
Portugal		108	0.7	1	-20	46	44	16
Spain		108	1.1	1	-18	44	34	5

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

merging Market Financial Indicators

Last updated: 7/11/2022 8:19 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+)= EM appreciation						% p.a.								
China		6.71	-0.3	-0.2	1	-4	-5	-6		2.9	-5.3	-5	4	-10	7	6	
Indonesia		14975	0.0	0.0	-2	-3	-5	-4		7.3	2.6	2	10	74	92	80	
India		79	-0.2	-0.6	-2	-6	-6	-6		6.3	0.0	0	9	75	0		
Philippines		56	-0.1	-1.6	-5	-10	-9	-9		5.7	0.0	0	20	173	118	68	
Thailand		36	-1.0	-1.4	-4	-10	-8	-11		2.6	0.5	-13	-40	92	77	40	
Malaysia		4.42	0.0	-0.3	0	-5	-6	-5		4.2	2.0	-5	-6	99	58	51	
Argentina		127	-0.2	-1.1	-4	-24	-19	-15		70.4	53.1	568	1382	2513	1985	2246	
Brazil		5.32	-1.3	0.1	-4	-3	5	-6		12.9	-17.7	2	0	347	225	141	
Chile		970	-2.0	-4.0	-15	-22	-12	-19		6.5	4.3	28	19	230	111	62	
Colombia		4401	-0.4	-4.6	-14	-13	-8	-11		9.3	12.5	40	39	347	284	138	
Mexico		20.59	-0.7	-1.5	-1	-4	0	-2		8.8	1.5	6	-13	178	129	97	
Peru		3.9	-0.4	-1.7	-4	1	2	-4		8.0	1.6	25	19	215	209	199	
Uruguay		40	-0.1	-0.9	-2	9	11	5		11.0	0.0	34	39	318	232	289	
Hungary		404	-1.5	-4.5	-5	-26	-20	-21		8.4	3.0	39	9	568	385	355	
Poland		4.75	-1.3	-4.8	-6	-19	-15	-15		6.0	-22.5	-26	-135	429	247	210	
Romania		4.9	-0.8	-3.1	-3	-15	-11	-11		8.9	4.2	31	85	612	411	378	
Russia		62.4	2.2	-9.8	-8	19	20	31		8.2	-2.4	2	-10	83	-58	-299	
South Africa		17.0	-0.8	-3.9	-5	-15	-6	-11		9.2	9.0	21	10	189	174	158	
Turkey		17.37	-0.7	-3.2	-1	-50	-23	-20		19.0	-32.0	-32	-634	135	-535	-345	
US (DXY; 5y UST)		108	0.8	2.6	4	17	13	12		3.09	-3.6	21	-17	230	182	118	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
								basis points								
China		4355	-1.7	-3	3	-15	-12	-6		206	-1	8	-2	3	-2	
Indonesia		6722	-0.3	1	-5	11	2	-3		210	-19	32	27	45	25	
India		54395	-0.2	2	0	4	-7	-5		210	13	44	55	78	56	
Philippines		6389	0.4	3	-2	-8	-10	-13		152	-25	29	43	51	15	
Thailand		1557	0.0	0	-5	0	-6	-8		0	0	0	0	0	0	
Malaysia		1426	0.0	-2	-5	-6	-9	-10		135	-2	13	4	18	2	
Argentina		105850	3.5	18	19	70	27	16		2654	308	684	1059	974	917	
Brazil		100289	-0.4	1	-5	-20	-4	-10		356	-12	45	78	45	25	
Chile		5113	0.2	2	-2	20	19	17		169	-12	21	18	29	-5	
Colombia		1355	0.4	0	-11	5	-4	-10		423	-16	76	158	75	31	
Mexico		47582	0.4	0	-2	-4	-11	-7		438	-7	60	89	106	68	
Peru		18653	0.0	1	-8	-1	-12	-20		194	-12	22	30	44	4	
Hungary		39390	-1.1	-1	1	-18	-22	-18		224	-14	-8	76	100	71	
Poland		53953	-1.2	1	-1	-20	-22	-14		68	-27	-7	29	36	52	
Romania		12205	-0.4	-1	-1	3	-7	-8		323	-23	73	131	131	91	
Russia		2175	-2.1	-1	-5	-44	-43	-29		3411	-577	938	3228	3234	2897	
South Africa		67453	-1.3	1	-1	2	-8	-10		513	-3	126	177	158	124	
Turkey		2434	0.0	0	-4	77	31	21		731	13	97	244	153	168	
Ukraine		519	0.0	0	0	-2	-1	0		5667	739	2246	5151	4908	4194	
EM total		40	-2.2	0	-3	-25	-18	-16		457	-2	70	88	70	-1	

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

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