GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JULY 12, 2022

- **Market estimates of US inflation are falling** (link)
- **Chinese markets lower on renewed fears about Covid lockdowns** (link)
- **Euro area recession fears intensify after weak German ZEW data** (link)
- **US bank earnings in focus** (link)
- **Commodity prices fall sharply from annual highs** (link)
- **Ukraine euro bond prices edge lower** (link)
- **Special Feature: Emerging Market Issuance Monitor (Attached)**

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Global markets extend decline

Markets extended Monday's declines, with US equity futures losing ground, European stocks on the back foot and emerging markets also under pressure. Treasury and bund yields headed lower for second day on safe haven buying. Investors are nervous ahead of the crucial US CPI and PPI reports due this week. Although the market expects another aggressive 75 bps Fed rate hike at the upcoming July 27 FOMC meeting, worries remain that sustained inflationary pressure could push the Fed into even more hawkish territory later in the year. Current market pricing expects the Fed Funds rate to be close to 3.5% by December. Reports of renewed Covid lockdowns in China also weighed on sentiment, with Chinese technology stocks once again in the spotlight in the midst of a renewed decline. The euro continued its depreciation against the dollar and is now trading very close to parity, a level it has not seen for two decades. The German ZEW business sentiment survey fell to its worst level since 2011, highlighting Europe's challenges as the war in Ukraine drags on.

Key Global Financial Indicators

Last updated: 7/12/22 8:00 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities				%			%	
S&P 500		3854	-1.2	1	-1	-12	-19	-9
Eurostoxx 50		3454	-0.5	3	-4	-16	-20	-13
Nikkei 225		26337	-1.8	0	-2	-8	-9	0
MSCI EM		39	-2.7	-2	-5	-27	-20	-18
Yields and Spreads				bps				
US 10y Yield		2.92	-6.8	12	-23	156	141	93
Germany 10y Yield		1.15	-9.7	-3	-37	144	133	92
EMBIG Sovereign Spread		553	15	13	86	206	186	140
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		49.4	-0.3	-1	-5	-13	-6	-7
Dollar index, (+) = $ appreciation		108.2	0.1	2	4	17	13	12
Brent Crude Oil ($/barrel)		102.3	-4.5	0	-16	36	32	6
VIX Index (%, change in pp)		26.9	0.7	-1	-1	11	10	-4

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

Mature Markets

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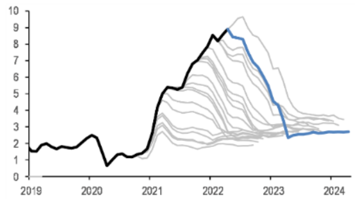
United States

Exhibit 5: Markets now imply that headline inflation peaked in June and will soften sharply over the next year

Realized headline CPI inflation versus inflation implied by current inflation swap curve and historical swap curves*; %



* We show monthly forward curves, on each CPI release date

Source: J.P. Morgan, BLS

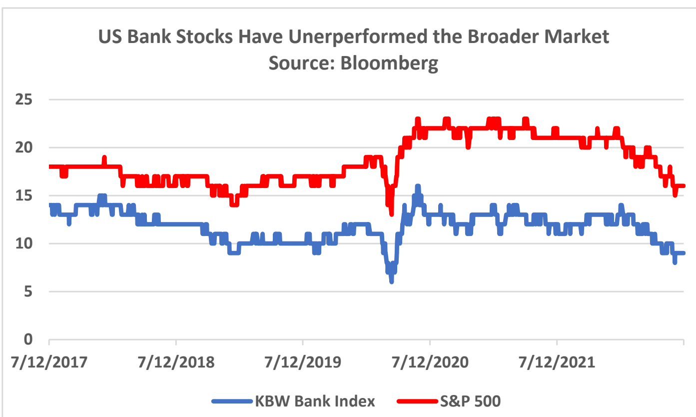
Exhibit 6: 1Y1Y inflation swaps have fallen roughly 70bp over the past month

1Y1Y vs 5Y5Y inflation swaps; %

Source: J.P. Morgan

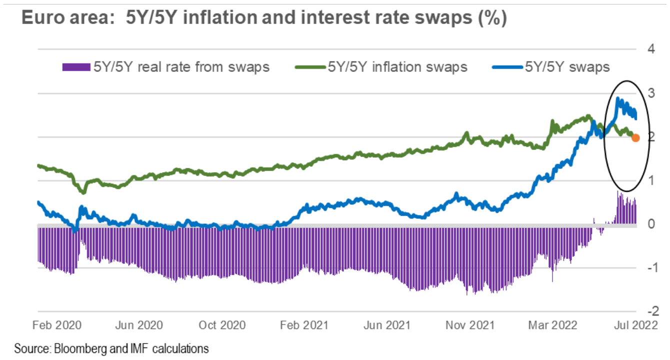
Market estimates of US inflation have been falling in recent weeks. Investors appear to be coming round to the view that Fed rate hikes will succeed in pulling inflation back from its recent highs. Inflation swap rates are down significantly, as are US Treasury Inflation Security (TIPS) breakeven yields, which have fallen over 120 bps for five-year TIPS and over 80 bps for ten-year TIPS from their 2022 highs. The inflation swap market was predicting a CPI peak of nearly 10% for the September print as recently as last month, but current pricing is forecasting that inflation peaked in June compared to a year earlier. Lower oil prices have been a key driver of the decline in inflation expectation, as Brent crude prices dropped 13% for the month and gasoline futures (RBOB) have come down by 18%. Tomorrow's CPI report will be a key test of this more optimistic market view of inflation, with annualized headline CPI expected to hit 8.8%. The consensus forecast for the monthly headline number is 1.1%, while core monthly CPI is expected to come in at 0.5%.

US bank earnings will be a key focus for markets this week, with JP Morgan due to report its Q2 results on Thursday. CEO Jamie Dimon issued a warning about the US economy last month, and bank stock prices have done much worse than the S&P 500 for several years running. The KBW bank equity index is more than 400 bps lower than the S&P 500 this year. Bank stocks tend to underperform the broader market when worries about recession come to the forefront. Some investors are hopeful that the Fed rate hikes will bolster banks' net interest margins. However, others worry about the slowdown in the housing market and the potential for lower revenues in the trading business, especially due to the recent problems with market liquidity. Corporate loans and business confidence will also attract close attention.



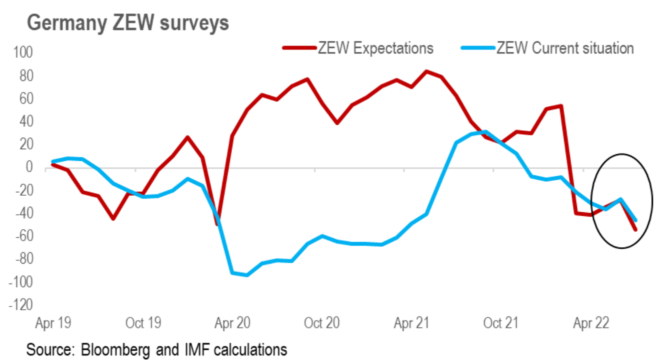
Euro Area

European equities were trading lower (Stoxx 600 Europe index -0.3%) with the banking sector underperforming (-1.2%). Sovereign yields fell (10y bund -12 bps to 1.1%) as Germany's ZEW survey of economic expectations slumped by more than expected to the worst level since 2011. Southern spreads widened (Italy 10y spread +3 bps to 199 bps). In the latest commentary from ECB officials on the anti-fragmentation tool, ECB Governing council member Nagel argued that the design of the ECB's anti-fragmentation tool should be modelled on the Outright Monetary Transactions (OMT) program.



The euro continued to weaken (-0.3% to 1.0043 against the dollar) as concerns over energy supply and recession fears persist. Analysts generally expect further weakening, and ING analysts argue that a break below parity could be followed by a technical drop of one standard deviation to around 0.98 per dollar. **Despite euro weakness, market-based measures of euro area inflation expectations have eased, a move that analysts attribute to recessionary fears rather than an improvement in supply constraints.** The 5y/5y inflation swap rate fell to below 2% yesterday for the first time since early March and eased a further 2 bps to 1.97% this morning. Markets have pared back ECB rate hike expectations slightly and are pricing in roughly 7 bps less of tightening this year, compared to yesterday.

Investors have become significantly more pessimistic over Germany's economic outlook, with the July German ZEW institute's index of expectations and the gauge of current conditions deteriorating by more than expected. The expectations index fell to -53.8 (vs expected -40.5 from -28 in June) and the current conditions index fell to -45.8 (vs expected -34.5 from -27.6), with both measures falling to levels slightly lower than those seen at the start of the Covid-19 crisis. The deterioration in the economic outlook reflects energy supply concerns, the ECB's announced monetary policy tightening as well as concerns over China's Covid-related restrictions, according to ZEW commentary.

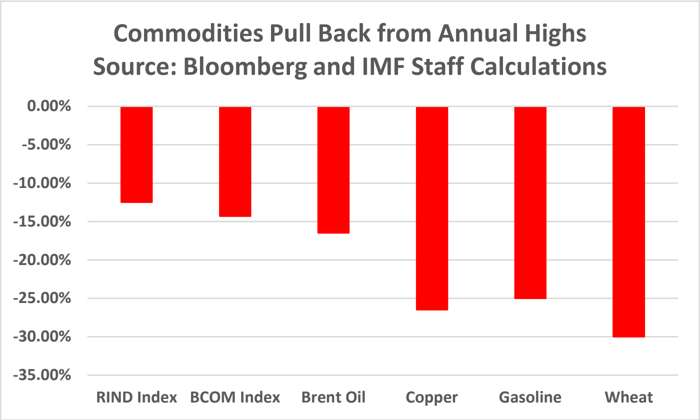


Japan

Japanese equities declined (NIKKEI: -1.8%), underperforming regional peers. Today's retreat undid yesterday's outperformance. **PPI increased 9.2% m/m in June,** larger than expected (the consensus was 8.9%). The 10-year JGB yield edged down slightly (-0.1 bp) similar to the regional trend, while longer-end JGB yields increased further (30-year: +1.8 bps). The yen appreciated (+0.2%). Analysts viewed that a fresh wave of yen depreciation could be driven by higher oil prices, a larger-than-expected trade deficit, and an improvement in risk sentiment that would reduce safe-haven demand.

Commodities

Commodities have declined sharply from their highest levels in 2022. Some analysts think the highs are in for the year and that the global economic slowdown will push prices even lower in the months ahead. They think inflation has peaked and that higher central bank policy rates are finally having an impact. Revived worries about Covid lockdowns in China and the impact on the world economy of China's slowing growth are believed to be an important factor behind the selloff in the prices of industrial metals such as copper. China worries are also playing a role in the pullback in oil and gasoline. However, others point to the relatively smaller decline in the RIND index of non-exchange traded commodities as a sign that part of the decline in global commodity prices could be due to the mass unwinding of speculative long positions in the commodity futures markets. However, prices overall remain extremely high. To put things in perspective, the widely followed Bloomberg Commodity Index (BCOM) saw a record 125% rally over the past two years, and the current downturn in the index represents just a 15% decline.



Emerging Markets

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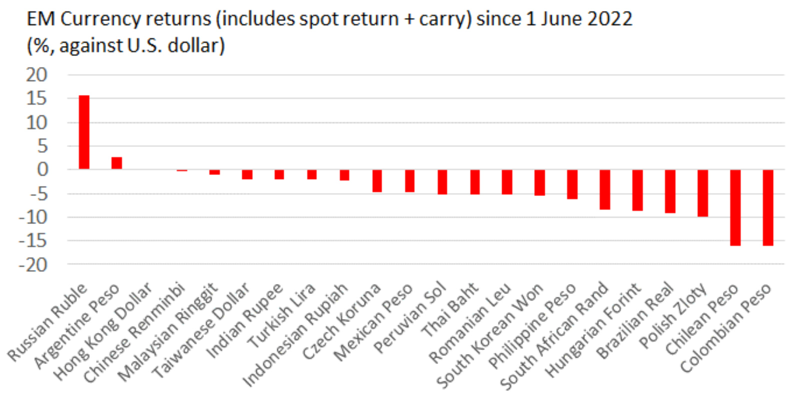
EMEA equities and currencies continue to trade poorly in line with global risk sentiment. The ruble (+4%) is firmer but the Hungarian forint (-1.2%) and the Polish zloty (-0.6%) poster further losses against the euro. **Asian equities declined, falling 2.0% on net, led by Taiwan POC (-2.7%) Hong Kong SAR (-1.3%) and Korean (-1.0%) equities.** The selloff concentrated on tech stocks amid concerns about a global economic slowdown. In Indonesia, lawmakers resumed the discussion on the financial sector reform bill that risks eroding the central bank's autonomy. **LATAM markets were down amid falling commodity prices.** Regional currencies were especially hard hit, with the Colombian peso (-3.5%), and the Chilean peso and the Brazilian real (-2.3%) depreciating the most. **Several EM currencies have continued to depreciate in July, with substantial losses against the U.S. dollar since early June, even when carry returns are included.**



EM Fund Flows

Fund outflows from EM intensify. Last week, EMs saw an outflow of $3 bn, of which $2.3 bn were in bonds (versus an outflow of $2.2 bn in the week before) and $755 mn in equities (versus an outflow of $30 mn in the week before). With this, the YTD fund flow into EMs stands at -$22.4 bn, while the bond fund flows have reached -$50 bn, which is roughly 8% of 2021 year-end AUM.

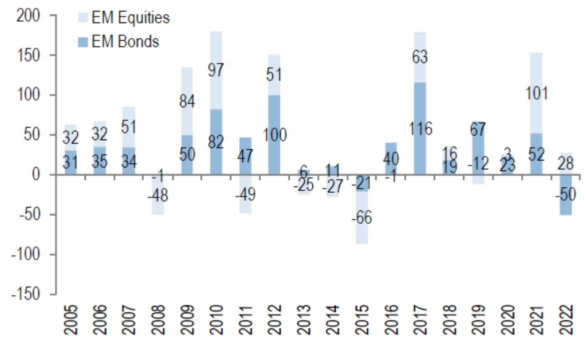
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	This wk	YTD
Fund Flows	**EM Bonds and Equities**	-3.0	-22.4
	EM Bonds	-2.3	-50.4
	Hard Ccy	-1.2	-27.1
	Local Ccy^	-1.1	-23.3
	o.w. EM ex-China	-0.9	-9.2
	o.w. China	-0.2	-12.7
	EM Equities	-0.8	28.0
	US HG	-2.1	-65.1
	US HY	1.6	-40.1
	Global Equities	0.7	114.3
	EM Bond and Equity ETFs	0.3	39.4
	EM Bond ETFs	-0.3	-7.4
	EM Equity ETFs	0.6	46.8
	Non-resident EM flows*	-2.2	-78.2

Exhibit 2: Annual EM bond and equity fund flows

USD billion



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

On the issuance front, the primary market activity in 2022 has been suppressed for both EM sovereigns and corporates bonds. As per a JP Morgan report, YTD sovereign and corporate issuance was $61.5 bn ($182.5 bn in 2021) and $159 bn ($537 bn in 2021), respectively. Owing to depressed issuance, the report estimates the EM net financing need for sovereigns and corporates to be -$10.1 bn and -$77bn, respectively.

	US$bn	2019	2020	2021	2022YTD	2022F
a	Gross issuance (b + c)	177.3	232.6	182.5	61.5	123.7
b	New issuance	161.3	215.9	162.5	61.5	103.6
c	Taps	15.9	16.7	20.1	0.0	0.0*
d	Estimated cash flows (e + f)	100.4	101.3	111.9	73.6	123.8
e	Amortizations	46.6	49.6	57.0	43.5	65.4
f	Coupons	53.8	51.7	54.9	30.1	58.3
g	Buybacks	8.7	9.2	2.9	5.9	10.0
h	Net issuance (a - e - g)	122.0	173.7	122.7	12.1	48.3
i	Net financing (h - f)	68.2	122.0	67.8	-18.0	-10.1

(US$ bn)	2018	2019	2020	2021	YTD	2022F
Gross issuance (a)	**379**	**494**	**505**	**537**	**159**	***400***
Estimated cash flows (b = c+d)	267	303	351	356	215	*391*
Amortizations (c)	171	199	239	244	161	*293*
Coupons (d)	96	104	112	112	53	*98*
Net issuance before tender/buyback/calls (e = a-c)	208	295	266	292	(2)	*107*
Net financing before tender/buyback/calls (f = a-b = e-d)	112	191	154	181	(55)	*9*
Tender/buyback/calls (g)	**88**	**98**	**93**	**130**	**43**	***86***
Net issuance (j = e-g)	120	197	173	163	(44)	*21*
Net financing (k = f-g)	**24**	**93**	**61**	**51**	**(98)**	***(77)***

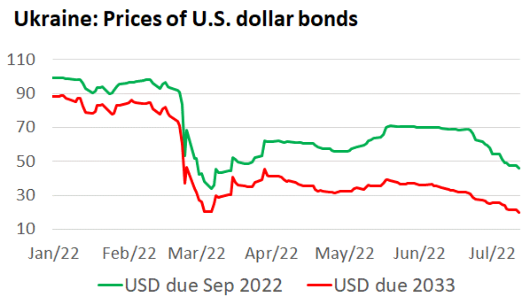
China

Market sentiment continued to deteriorate amid concerns about rising COVID infections. Chinese equities declined (CSI 300 -0.9; Hong Kong SAR -1.8%). The global selloff of tech stocks added more downward pressure on Chinese tech stocks after market sentiment was weakened by the news of antitrust-related regulatory fines over the weekend. Concerns about renewed COVID lockdowns also hit property developers, driving down their USD bond prices. Investment-grade names also felt market pressure. RMB depreciated (-0.3%). **Credit growth accelerated in June.** Total social financing grew 10.8% yoy, stronger than expectations, picking up the pace from 10.5% in May. The increase in total social financing was underpinned by continued strong government bond issuance and a pickup in bank lending to corporates. The latter suggested some recovery in credit demand.

Ukraine

The state-run railway operator Ukrainian Railways announced that it paid coupons on its 2024 and 2026 Eurobonds yesterday as Ukraine's Eurobond prices are trading lower and analysts continue to call for a major restructuring. Last week, Naftogaz released a statement saying it is *currently evaluating its liquidity and operating requirements in line with supporting Ukraine's strategic priorities, including with a view to preserving available cash.* Naftogaz has a $335 mn bond due on 19 July. **Analysts**

at Bank of America have reiterated the need for at least a five-year grace period on all sovereign debt service and repayments to facilitate reconstruction. Prices of Ukraine's Eurobonds due 2024 fell 2.5 points to 27.5 cents this morning.



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Global Financial Indicators

Last updated: 7/12/22 8:01 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3854	-1.2	1	-1	-12	-19	-9
Europe		3451	-0.6	3	-4	-16	-20	-13
Japan		26337	-1.8	0	-2	-8	-9	0
China		4314	-0.9	-4	3	-16	-13	-7
Asia Ex Japan		67	-2.8	-2	-4	-27	-19	-15
Emerging Markets		39	-2.7	-2	-5	-27	-20	-18
Interest Rates					basis points			
US 10y Yield		2.92	-6.8	12	-23	156	141	93
Germany 10y Yield		1.15	-9.8	-3	-37	144	133	92
Japan 10y Yield		0.24	-0.3	2	-1	21	17	5
UK 10y Yield		2.06	-11.8	1	-39	141	109	58
Credit Spreads					basis points			
US Investment Grade		174	3.4	-7	18	85	62	31
US High Yield		559	6.5	-44	105	243	221	152
Europe IG		120	2.7	-4	16	74	72	49
Europe HY		597	15.5	-16	78	364	355	246
Exchange Rates					%			
USD/Majors		108.19	0.2	2	4	17	13	12
EUR/USD		1.00	0.0	-2	-4	-15	-12	-11
USD/JPY		136.8	-0.5	1	2	24	19	19
EM/USD		49.4	-0.3	-1	-5	-13	-6	-7
Commodities					%			
Brent Crude Oil ($/barrel)		102	-4.4	0	-14	50	37	15
Industrials Metals (index)		147	-1.1	-2	-18	-6	-15	-22
Agriculture (index)		66	-1.4	4	-14	19	8	-6
Implied Volatility					%			
VIX Index (%, change in pp)		26.9	0.7	-0.6	-0.8	10.7	9.7	-4.1
US 10y Swaption Volatility		138.4	-2.3	-8.4	4.0	66.9	59.3	45.7
Global FX Volatility		11.5	0.0	-0.2	0.8	4.8	4.0	4.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		238	1.5	15	-50	133	86	-2
Italy		200	3.7	3	-24	97	65	29
Portugal		111	2.0	0	-17	50	47	19
Spain		110	1.5	0	-16	47	36	7

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

Emerging Market Financial Indicators

Last updated: 7/12/2022 8:03 AM

	Exchange Rates							
	Level		Change (in %)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation					
China		6.72	-0.1	0.0	0	-4	-5	-6
Indonesia		14995	-0.1	0.0	-2	-3	-5	-4
India		80	-0.2	-0.3	-2	-6	-7	-6
Philippines		56	-0.7	-2.0	-5	-11	-10	-9
Thailand		36	0.1	-0.7	-4	-10	-8	-11
Malaysia		4.44	-0.3	-0.5	0	-6	-6	-6
Argentina		127	-0.4	-1.1	-4	-25	-19	-16
Brazil		5.38	-0.1	0.1	-5	-4	3	-7
Chile		992	-2.2	-6.5	-13	-25	-14	-20
Colombia		4561	-3.5	-8.1	-13	-16	-11	-14
Mexico		20.84	-0.5	-1.5	-2	-5	-1	-3
Peru		4.0	-1.3	-3.4	-5	0	1	-6
Uruguay		41	-0.6	-1.5	-1	8	10	4
Hungary		408	-0.7	-2.7	-6	-27	-21	-22
Poland		4.80	-0.4	-3.7	-7	-20	-16	-16
Romania		4.9	0.0	-2.2	-4	-16	-12	-11
Russia		59.1	5.8	8.0	-3	26	27	38
South Africa		17.1	0.2	-3.2	-6	-16	-7	-11
Turkey		17.37	0.0	-2.1	-1	-50	-23	-20
US (DXY; 5y UST)		108	0.2	1.6	4	17	13	12

	Local Currency Bond Yields (GBI EM)							
	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		% p.a.						
China		2.9	-1.3	-9	3	-11	6	5
Indonesia		7.3	-3.1	-5	6	74	89	77
India		6.3	0.0	0	9	75	0	
Philippines		5.7	0.0	0	20	165	118	68
Thailand		2.5	-10.5	-27	-50	81	67	29
Malaysia		4.0	-10.8	-16	-19	79	45	37
Argentina		69.4	-105.3	458	989	2408	1880	2140
Brazil		12.6	-64.2	-39	-29	318	195	111
Chile		6.7	20.2	43	16	270	132	83
Colombia		9.6	0.0	86	34	390	323	176
Mexico		8.9	0.0	19	-35	195	137	105
Peru		8.1	3.2	38	29	220	220	210
Uruguay		11.1	5.1	39	44	322	237	294
Hungary		8.5	9.0	27	19	578	395	365
Poland		6.1	13.5	-27	-122	442	260	223
Romania		9.0	4.6	32	67	612	416	383
Russia		7.9	-18.3	-30	-43	50	-91	-332
South Africa		9.3	7.5	23	23	201	187	171
Turkey		19.0	-32.0	-32	-634	135	-535	-345
US (DXY; 5y UST)		2.99	-6.5	17	-27	220	173	109

	Equity Markets							
	Level		Change (in %)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
China		4314	-0.9	-4	3	-16	-13	-7
Indonesia		6718	-0.1	0	-4	12	2	-3
India		53887	-0.9	1	2	2	-7	-6
Philippines		6350	-0.6	1	-2	-7	-11	-14
Thailand		1547	-0.7	0	-3	-2	-7	-9
Malaysia		1426	0.0	-1	-3	-6	-9	-10
Argentina		104432	-1.3	17	17	63	25	14
Brazil		98212	-2.1	0	-7	-23	-6	-12
Chile		5058	-1.1	1	-3	19	17	16
Colombia		1345	-0.8	1	-12	4	-5	-11
Mexico		47370	-0.4	-1	-2	-5	-11	-8
Peru		18504	-0.8	0	-9	-1	-12	-21
Hungary		38605	-1.4	-2	-1	-19	-24	-19
Poland		53442	-1.2	3	-2	-20	-23	-15
Romania		12203	0.1	0	-1	2	-7	-8
Russia		2113	-2.3	-5	-8	-45	-44	-31
South Africa		66849	-0.6	3	-1	-1	-9	-11
Turkey		2434	0.0	0	-4	77	31	21
Ukraine		519	0.0	0	0	-2	-1	0
EM total		39	-1.0	-2	-5	-27	-20	-18

	Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in basis points)				Since
	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
	basis points						
China		207	0	15	-1	4	-1
Indonesia		222	-7	37	44	57	37
India		208	11	47	52	76	54
Philippines		166	-11	27	59	65	29
Thailand		0	0	0	0	0	0
Malaysia		139	2	19	8	22	6
Argentina		2674	328	628	1091	994	937
Brazil		367	-1	45	94	56	36
Chile		181	0	22	34	41	7
Colombia		437	-2	57	173	89	45
Mexico		452	7	58	107	120	82
Peru		205	-1	24	46	55	15
Hungary		235	-3	14	91	111	82
Poland		76	-19	16	39	44	60
Romania		335	-11	69	149	142	103
Russia		3411	-577	938	3228	3234	2897
South Africa		532	16	120	202	177	143
Turkey		759	41	76	281	181	196
Ukraine		6035	1107	2538	5533	5276	4562
EM total		471	12	68	108	85	13

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

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