



- US investors reduce exposure to risky assets amid recession anticipation ([link](#))
- Russian gas flows to Europe reportedly to resume but at reduced levels ([link](#))
- Euro area bank lending standards tightened in Q2 ([link](#))
- UK headline inflation slightly above expectations as core edges lower ([link](#))
- EM bond issuance slumps while the spreads are on a rise ([link](#))
- China Premier Li signaled flexibility on economic growth target ([link](#))
- South African rand steady after modest upside inflation surprise ([link](#))
- Ukraine seeks to delay foreign debt payments ([link](#))
- Zambia's bilateral creditors reportedly agree to provide debt relief ([link](#))

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Too optimistic too quickly

Markets continue to grapple with economic outlook uncertainty against a backdrop of persistently high inflation and central bank tightening. European equities opened in the green this morning following broad gains in Asia, but saw modest losses in later trade as economic outlook uncertainty and energy-supply concerns in Europe overshadowed earnings-related optimism. European gas prices edged higher after Russia signaled that gas flows to Europe via Nord Stream 1 would resume but could be lower subject to conditions. In Italy PM Draghi also outlined conditions for staying in government. The dollar resumed its strengthening trend while sovereign yields fell. A 50bps August BoE hike is close to fully priced in after UK headline inflation surprised on the upside while core inflation eased slightly. The South African rand was steady against the dollar after a slightly higher than expected inflation print ahead of the rate decision tomorrow. Yields on Zambian Eurobonds rallied after bilateral creditors reportedly agreed to commit to the debt relief necessary for the IMF program approval. Ukraine announced that it wants to delay coupons and principal payments on foreign bonds by two years and change the terms on its 2040 GDP warrants.

Key Global Financial Indicators

Last updated: 7/20/22 12:09 PM	Level Last 12m Latest	Change from Market Close					YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days	12 M			
Equities		%					%	
S&P 500	3937	2.8	3	7	-9		-17	-7
Eurostoxx 50	3571	-0.5	3	3	-10		-17	-10
Nikkei 225	27680	2.7	5	7	1		-4	5
MSCI EM	40	1.6	2	0	-25		-19	-17
Yields and Spreads		bps						
US 10y Yield	2.97	-5.0	4	-25	175		146	98
Germany 10y Yield	1.21	-6.7	7	-54	162		139	98
EMBIG Sovereign Spread	572	-8	8	72	213		205	160
FX / Commodities / Volatility		%						
EM FX vs. USD, (+) = appreciation	50.4	0.1	2	-2	-11		-4	-5
Dollar index, (+) = \$ appreciation	106.9	0.2	-1	2	15		12	11
Brent Crude Oil (\$/barrel)	106.1	-1.2	7	-7	53		36	10
VIX Index (% change in pp)	24.6	0.1	-2	-7	5		7	-6

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

Yesterday, the S&P 500 closed +2.8% higher, with all sectors seeing gains as positive sentiment emerged from the promising earnings outlook by some of the largest companies. The US Dollar continued depreciating versus major (-0.6%) and emerging market (-0.4%) currencies. UST 10Y yield rose by 3.5bps, equally split between real yields and inflation breakeven.

Investors have reduced exposure to risky assets while the percentage of respondents anticipating a recession reached its highest level since May 2020, according to the Bank of America July Fund Manager Survey. The net percentage of fund managers taking *lower than normal* risk levels exceeded the figure recorded during the Global Financial Crisis in 2008 (left chart below). The same survey showed that exposure to cash is currently highest for the last two decades. While inflation remains the biggest *tail risk*, the base case scenario is a significant moderation of inflation during the next year. Other risks include global recession, hawkish central banks, and systemic credit events. Correspondingly, most fund managers said that a recession is likely in the near term (right chart).

Chart 13: Where's Lehman?

Net % Taking Higher than Normal Risk Levels



Chart 1: Recession now consensus

Net % Saying Recession Likely



Credit revision statistics continued to deteriorate in June for both High Yield and Investment Grade borrowers. In the last two months, the number of downgrades during credit rating revisions approached the number of upgrades for high yield bonds and exceeded that figure for leveraged loans (left chart below with the normalized difference between upgrades and downgrades). Since the beginning of 2022, sectors like energy/mining or previously distressed sectors like Gaming and Leisure were more prevalent among upgrades. A similar narrowing of the previously large difference between upgrades and downgrades is observed for Investment Grade bonds (right chart).

Number of credit rating upgrades minus number of downgrades

Normalized difference. Source: JPMorgan.

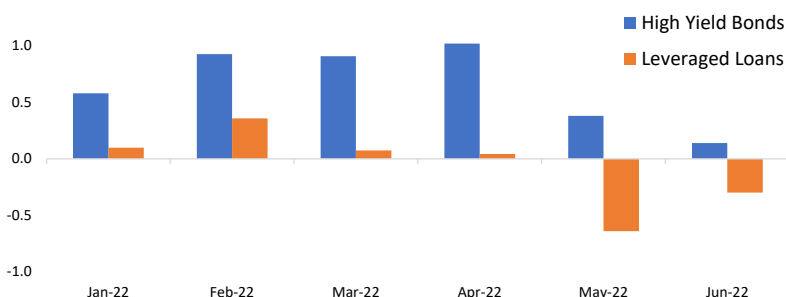
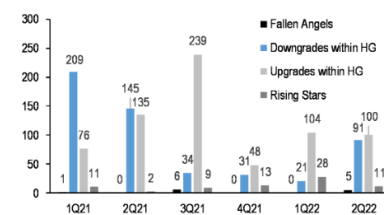


Exhibit 8: \$100bn of HG bonds were upgraded this quarter, but downgrades picked up significantly at \$91bn

HG bond upgrades and downgrades, fallen angels, and rising stars by quarter; \$bn



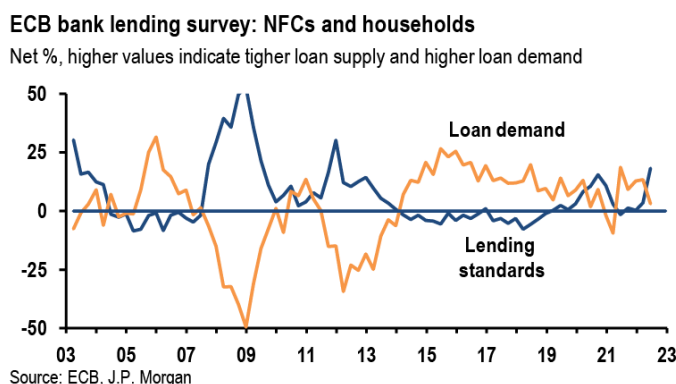
Euro Area

Equities (+0.4) edged higher and Italian 10-yr spreads fell 5 bps to 200 bps as media reports alleviated immediate concerns about worst-case-scenarios. First, ECB sources signaled to Reuters yesterday that the ECB is considering a hike of 50 bps (rather than the previously telegraphed 25 bps) at tomorrow's meeting but ECB sources speaking to Bloomberg also added that ECB President Lagarde has been redoubling efforts to reach an agreement on the anti-fragmentation tool. Second, Russian gas flows via the Nord Stream 1 pipeline are reportedly expected to resume tomorrow, albeit at a reduced level. Third, contacts expect that Italian PM Draghi could continue as head of government with speculation that some 5-star parliamentarians would support his government. The euro (-0.3%) and 10-yr bund yields (-9 bps to 1.19%) fell.

According to media reports, ECB President Lagarde is redoubling efforts to reach an agreement on the anti-fragmentation tool. Some of the outstanding issues reportedly include the conditionality imposed on countries, with some officials insisting on involving the European Commission, the ESM or both. **Money markets are pricing 36 bps of hikes for the ECB tomorrow, with contacts believing that the ECB will only hike 50 bps in case of a material announcement on the anti-fragmentation tool.**

Russian gas flows via the Nord Stream 1 pipeline are expected to resume tomorrow, albeit at a reduced level. President Putin reportedly also said that Gazprom may resume Nord Stream 1 deliveries at reduced capacity but warned that volumes could drop if the return of a turbine from Canada or related paperwork is delayed. He claims Gazprom is ready to fulfill gas export obligations.

Yesterday's ECB bank lending survey showed a noteworthy tightening of lending standards and sharp drop in loan demand. The net percentage of banks that tightened their lending standards in Q2 rose from +3% to +18%, with tightening more pronounced for household mortgages. For Q3 of 2022, banks expect a net tightening of credit standards for loans to firms of a similar magnitude to that in the second quarter (so 18% again). In addition, euro area banks expect credit standards to continue to tighten for both housing loans (24%) and consumer credit (13%). **Banks also reported a slower increase in loan demand, also mainly due to household mortgages.**



Analysts expect the issuance of a European green bond that funds nuclear projects over the next 12 months, as well as a green bond where nuclear is one of multiple energy sources being financed. Electricite de France, for example, has updated its green financing framework to include nuclear after European Union lawmakers voted to give certain nuclear energy projects a sustainable label.

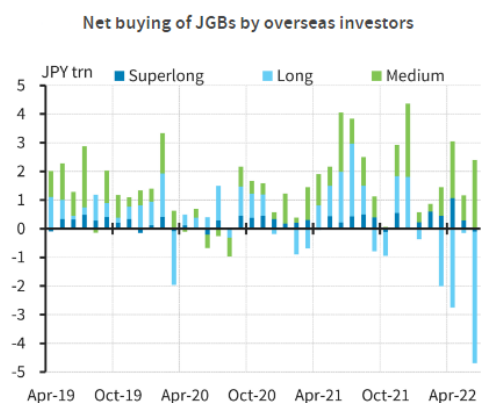
United Kingdom

Gilt yields traded 8-12 bps lower as core inflation remain elevated but fell to 5.8% yoy in June, from 5.9% yoy in May, as expected. In contrast, headline inflation was slightly above expectations at 8.2% yoy

in June (8.1% yoy expected) from 7.9% in May. **A hike of almost 50 bps is priced for the BoE meeting on 4 August.** The pound (-0.2%) is little changed.

Japan

Overseas investors on net sold a record ¥4.6 tn (\$33.3 bn) of long-term JGBs in June, Barclays noted. However, weekly data showed the investors became net buyers late in the month, implying efforts to undo prior selloffs spurred by speculations about changes in yield curve targeting framework. **Equities surged +2.3%. Japanese yen strengthened +0.1%, 10-year yields increased +0.3 bps.**



Source: JSDA, Barclays Research

Australia

Australia's government announced its first central bank review since the 1990s. The review will consider the bank's objectives and mandate, among others, and will assess the appropriateness of an inflation targeting framework, Treasurer Chalmers said. A final review report will be produced by March 2023. **The Reserve Bank of Australia estimates its nominal neutral rate to be at least 2.5%.** Governor Lowe reiterated on Wednesday the need for further interest rate hikes and stressed that a credible path is needed to return inflation to 2–3%. Earlier this year, however, he pushed back on the prospect of a 75bp rate hike, making it clear the discussion to date has centered on 25bp or 50bp increments. **Equities rallied (+1.6%),** led by technology and mining shares, **the Australian dollar was little changed while 10y yields firmed (+3.5 bps).**

Emerging Markets

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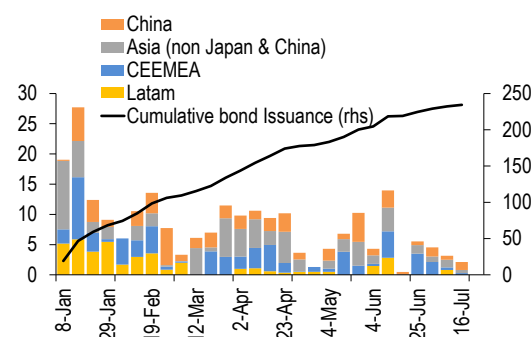
EMEA assets were buoyed by the risk on mood and dollar dip, amid heavy news flow. Equity markets were up across the board in EMEA, and currencies were gaining, except in Poland (-0.6% to 4.8/euro) after data showed higher than expected producer prices (25.6% yoy vs. 25.1% expected) and lower industrial output (+10.4% yoy) than expected (11.5% yoy). **LATAM markets closed mostly higher,** as equities gained in the range of 0.7-1.7%. While most regional currencies appreciated, the Mexican peso and the Colombian peso registered small losses against the US dollar. The Chilean peso rose further (+2.3%) and has now recovered all its July losses in three straight sessions. In Brazil, Petrobras announces a 5% cut in gasoline prices, prompting analysts to revise inflation forecasts downward (from 7.6% to 7.4% for year-end 2022, per Bloomberg report). Brazil's 1 year inflation breakeven rate was down 8 bps, yesterday. **Asian equities firmed +1% on net** with Indonesia (+2.1%) and Singapore (+1.4%) outperforming. Asian currencies were little changed, with the Thai baht (-0.2%) touching the weakest level since 2006. The Indian rupee was little changed after declining as low as 80 rupees per dollar on Tuesday amid continued equity outflows. The Reserve Bank of India is reportedly prepared to sell a sixth of its foreign exchange reserves (\$100 bn) in addition to earlier interventions to defend the rupee against rapid depreciation, according to

Reuters. **10y yields mostly rose, with yields in Thailand +11bps higher after the Bank of Thailand Governor Sethaput said that monetary policy will now focus more on inflation given an imminent economic recovery and a strong financial system. 10y yields in Sri Lanka yields dived -64 bps. Sri Lanka's lawmakers have elected Prime Minister Wickremesinghe as the new President.**

Bond Issuance

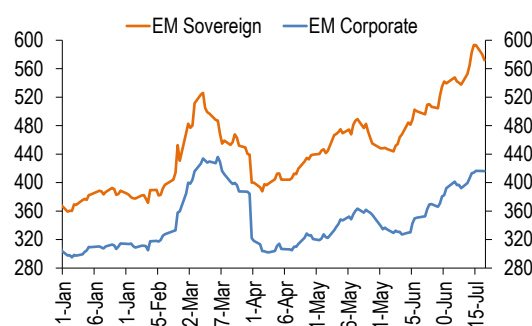
EM bond issuance continued to decline in the first half of July. For the first half of July total bond issuance in EM amounted to \$5.3 bn, vis-à-vis \$24.5 bn in the month of June. While issuances moderated across regions, CEEMEA saw the largest slowdown where volumes dropped from \$10bn in June to \$0.7 bn in the first half of July. With this, the YTD 2022 issuance in EM stands at \$234 bn, which is 52% lower than that in the corresponding period of 2021. **On the pricing front, the spreads of EM bonds, both corporate and sovereign, have risen by 30-33bps so far this month.**

Figure 1. 2022 EM bond issuance, by region (bn. USD)



Sources: Bond Radar, Bloomberg, and staff calculations

Figure 2. 2022 EM spreads: Sovereign and Corporate (bps)

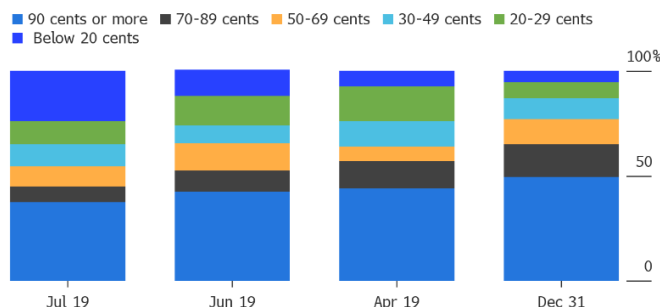


China

Premier Li signaled flexibility on economic growth target and further COVID easing. Li stressed focus on employment, improved household income, and stable prices. He also added that outbound commerce and trade, and cross-border travel for labor services would be advanced in an orderly fashion. Also, international passenger flights will further resume, with visa and COVID-testing policies to be steadily improved. **On the property front, mortgage and loan boycotts are widening.** Homebuyers have now stopped payments on

301 projects across 91 cities, according to Bloomberg. Estimated affected mortgages have surged to 2 tn yuan (\$297 bn). In addition, some property developers' suppliers have stopped bank loan repayments. Hundreds of suppliers reportedly complained of payment difficulties due to bills still owed by developers such as Evergrande. **China junk dollar bonds hovered near record March lows amid a deepening property crisis,** Bloomberg reports. **Separately, Chinese banks held 1-year (3.7%) and 5-year (4.45%) loan prime rates (LPR) steady, as expected,** mirroring the central bank's decision to keep policy rates unchanged last week. However, the 5-year LPR could be cut later this year to support the property sector, Mizuho noted. **Equities gained (Shanghai: +0.8%, Shenzhen: +0.7%). Renminbi weakened (onshore: -0.1%, offshore: -0.2%). 10-year yields were little changed.**

China junk dollar bonds trading below 20 cents has surged the past month

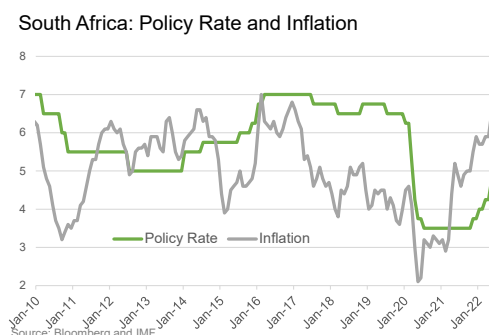


Source: Bloomberg
Note: Prices included are notes in a Bloomberg index of China high-yield dollar bonds as of the respective dates.

Bloomberg

South Africa

The South African rand was flat to the dollar (17.1/\$) and bond yields were down 14 bps to 11.3% as inflation June inflation came in broadly as expected, ahead of the central bank's rate decision tomorrow. Inflation increased to 7.4% yoy in June, very slightly above expectations (7.3%), and up from 6.5% in May, mostly due to fuel and transport prices, as core inflation was 4.4% yoy (up from 4.1% in May). As the central bank's inflation target band is 3–6%, markets have fully priced in a 50 bps hike tomorrow to 5.25%, and even an 80% change of a larger 75 bps move, which would be the SARB's biggest hike since 2002.



Ukraine

Ukraine announced in a decree published on a government's website that it is seeking to delay coupon and principal payments on foreign bonds by two years, as well as to change the terms on its 2040 GDP warrants. The government intends to reach an agreement with bondholders by August 15 but said that it will service and redeem its bonds and GDP warrants if bondholders do not agree to the proposed changes. Bloomberg reports that the cabinet plans to address bondholders today.

Zambia

Yields on Zambian Eurobonds rallied 125 bps as Reuters reported earlier today that after their meeting on Monday, Zambia's bilateral creditors agreed to release a statement saying that they will commit to the debt relief necessary for the IMF program approval in the next couple of days. Zambia defaulted on its Eurobonds in November 2020 and asked for a debt restructuring under the Common Framework. Zambia reached a staff-level agreement with the IMF on a \$1.4 billion extended credit facility in December 2021.

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Global Financial Indicators

7/20/22 12:10 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3937	2.8	3	7	-9	-17	-7
Europe		3572	-0.4	3	3	-10	-17	-10
Japan		27680	2.7	5	7	1	-4	5
China		4284	0.3	-1	-1	-16	-13	-7
Asia Ex Japan		68	1.6	2	0	-25	-17	-14
Emerging Markets		40	1.6	2	0	-25	-19	-17
Interest Rates			basis points					
US 10y Yield		2.97	-5.0	4	-25	175	146	98
Germany 10y Yield		1.21	-6.8	6	-54	162	139	98
Japan 10y Yield		0.25	0.7	1	1	24	18	5
UK 10y Yield		2.08	-10.1	2	-53	152	111	60
Credit Spreads			basis points					
US Investment Grade		171	-2.9	-5	6	74	59	28
US High Yield		532	-15.6	-29	10	186	194	125
Europe IG		109	-2.2	-12	1	60	62	38
Europe HY		545	-6.0	-59	2	300	303	193
Exchange Rates			%					
USD/Majors		106.93	0.2	-1	2	15	12	11
EUR/USD		1.02	-0.2	1	-3	-13	-10	-10
USD/JPY		138.2	0.0	1	2	26	20	20
EM/USD		50.4	0.1	2	-2	-11	-4	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		106	-1.2	7	-5	65	42	19
Industrials Metals (index)		147	2.3	2	-13	-5	-15	-21
Agriculture (index)		65	0.3	1	-13	13	7	-8
Implied Volatility			%					
VIX Index (% change in pp)		24.5	0.0	-2.3	-6.6	4.8	7.3	-6.5
US 10y Swaption Volatility		119.8	0.0	-8.6	-13.0	39.1	40.8	25.5
Global FX Volatility		11.6	0.0	0.2	0.3	4.7	4.2	4.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		219	0.1	-11	-8	110	68	-21
Italy		201	-4.3	1	5	91	66	29
Portugal		110	-2.0	-2	4	45	45	18
Spain		118	-2.6	7	8	51	44	14

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

Emerging Market Financial Indicators

Last updated: 7/20/2022 12:12 PM	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		6.76	-0.2	-0.5	-1	-4	-6	-7		2.9	-0.1	-4	-2	-15	3	2	
Indonesia		14988	-0.1	0.0	-1	-3	-5	-4		7.5	1.2	23	-3	115	109	97	
India		80	0.0	-0.4	-3	-7	-7	-7		6.3	0.0	0	9	75	0		
Philippines		56	-0.1	-0.1	-4	-11	-9	-9		5.7	0.0	0	0	165	118	68	
Thailand		37	-0.1	-1.0	-4	-11	-9	-12		2.6	0.5	11	-27	99	78	40	
Malaysia		4.45	-0.1	-0.3	-1	-5	-6	-6		4.1	1.8	2	-27	92	47	39	
Argentina		129	-0.2	-1.2	-5	-25	-20	-17		67.9	42.5	24	631	2363	1736	1996	
Brazil		5.41	0.4	0.4	-4	-3	3	-8		13.6	15.0	42	92	425	289	206	
Chile		926	2.3	9.8	-5	-18	-8	-15		6.8	0.0	-1	43	279	138	89	
Colombia		4322	-0.3	7.1	-10	-11	-6	-9		9.8	0.0	21	110	419	343	196	
Mexico		20.50	0.1	1.1	-1	-2	0	-1		8.9	0.3	3	-14	211	139	107	
Peru		3.9	0.5	2.4	-4	2	3	-4		8.6	7.5	28	87	294	266	256	
Uruguay		42	0.6	-2.2	-5	5	7	1		11.6	18.0	51	78	373	288	345	
Hungary		391	-0.5	4.4	-3	-22	-17	-18		8.7	-10.0	11	29	605	419	389	
Poland		4.68	-0.7	2.6	-5	-17	-14	-13		6.2	-0.9	-4	-138	477	267	230	
Romania		4.8	-0.2	1.4	-3	-14	-10	-10		9.0	0.0	7	-6	602	421	388	
Russia		55.3	1.5	9.2	0	35	36	48		8.2	-21.8	14	-9	101	-53	-294	
South Africa		17.1	0.1	-1.0	-6	-14	-7	-11		9.3	-2.2	12	54	210	191	175	
Turkey		17.59	-0.2	-1.0	-1	-51	-24	-21		17.5	-128.0	-144	-212	4	-679	-489	
US (DXY; 5y UST)		107	0.3	-0.9	2	15	12	11		3.10	-5.7	7	-24	241	183	119	

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		4284	0.3	-1	-1	-16	-13	-7		209	1	17	-3	6	1	
Indonesia		6875	2.1	4	-1	14	4	-1		228	3	28	35	63	43	
India		55398	1.2	4	7	6	-5	-3		215	5	42	65	83	61	
Philippines		6275	-0.2	0	-1	-5	-12	-15		167	1	22	44	66	30	
Thailand		1539	0.4	0	-1	0	-7	-9		0	0	0	0	0	0	
Malaysia		1437	0.6	2	0	-5	-8	-9		146	5	21	9	29	13	
Argentina		107185	1.7	4	23	69	28	17		2775	42	558	1169	1095	1038	
Brazil		98245	1.4	0	-2	-22	-6	-12		356	-18	12	68	45	25	
Chile		5160	1.5	2	1	20	20	18		186	0	13	29	46	12	
Colombia		1303	1.7	-3	-10	5	-8	-14		448	1	62	174	100	56	
Mexico		47259	0.7	-1	-1	-4	-11	-8		452	-9	24	91	120	82	
Peru		18468	1.3	0	-5	0	-13	-21		213	0	11	45	63	23	
Hungary		41080	0.8	6	3	-14	-19	-14		255	15	14	106	131	102	
Poland		53280	0.1	2	1	-19	-23	-15		-24	-94	-124	-60	-56	-40	
Romania		12120	0.4	1	-2	2	-7	-8		359	24	45	157	166	126	
Russia		2092	1.0	1	-13	-44	-45	-32		3411	-577	938	3228	3234	2897	
South Africa		67760	0.0	2	2	3	-8	-10		527	-24	69	174	172	138	
Turkey		2517	0.6	3	-1	86	36	25		749	-32	79	265	171	186	
Ukraine		519	0.0	0	0	-1	-1	0		7014	393	3137	6498	6255	5541	
EM total		40	0.1	2	0	-25	-19	-17		475	-5	46	101	89	17	

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

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