



- Euro area PMI data fall into contractionary territory ([link](#))
- Credit downgrades gain momentum in US corporate bond market ([link](#))
- ECB survey predicts higher long term inflation ([link](#))
- S&P 500 breaks above key technical level ([link](#))
- Surging natural gas prices push oil and other commodities lower ([link](#))
- Argentina announces measures to slow currency depreciation ([link](#))

[Mature Markets](#)




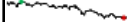



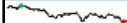

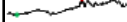
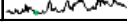
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## Markets confront continued uncertainty

Most global markets made modest gains this morning, although US equity futures were mixed after three days of gains. Meanwhile, US and German government bond yields fell on news that the euro area and Germany specifically are showing major signs of weakness, with a measure of German private sector activity falling to the lowest level in 25 months. The data highlighted the continued uncertainty confronting global markets, with central banks ramping up to fight inflation and pushing policy rates higher, rising risks of recession in many countries, the war in Ukraine continuing to upend global markets and supply chains, new policy measures from the ECB, political uncertainty in Italy, and a long list of corporate earnings reports that present a mixed picture for business prospects. On a more positive note, wheat prices are down on hopes of a deal between Ukraine and Russia that would allow the former to resume grain exports.

Key Global Financial Indicators

Last updated: 7/22/22 8:04 AM	Level		Change from Market Close					YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			
<b>Equities</b>				%				%	
S&P 500		3999	1.0	6	6	-8		-16	-5
Eurostoxx 50		3609	0.4	4	4	-11		-16	-9
Nikkei 225		27915	0.4	5	5	1		-3	6
MSCI EM		40	1.1	4	1	-25		-18	-16
<b>Yields and Spreads</b>				bps					
US 10y Yield		2.81	-7.0	-11	-35	153		129	81
Germany 10y Yield		1.04	-18.2	-9	-60	147		122	81
EMBIG Sovereign Spread		562	5	-32	66	210		195	149
<b>FX / Commodities / Volatility</b>				%					
EM FX vs. USD, (+) = appreciation		50.0	0.1	0	-4	-11		-5	-6
Dollar index, (+) = \$ appreciation		106.9	0.0	-1	3	15		12	11
Brent Crude Oil (\$/barrel)		103.0	-0.8	2	-8	40		32	6
VIX Index (% change in pp)		23.1	0.0	-1	-6	5		6	-8

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

## Mature Markets

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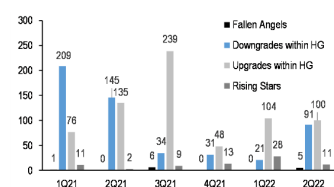
### United States

Upgrades continued to lead downgrades in the US investment grade corporate bond market, but downgrades are catching up fast. In the second quarter of 2022, there were \$111 bn of upgrades as

opposed to \$99 bn of downgrades. There were \$100 bn of upgrades in the investment grade (IG) sector, in addition to \$11 bn of *rising stars* or high yield (HY) bond upgraded to IG status. Among the downgrades, \$91 bn occurred within the IG sector and there were \$8 bn of *fallen angels* or IG bonds downgraded to HY status. This is a marked deterioration from Q1 2022, which saw \$132 bn of upgrades and just \$21 bn of downgrades, with no fallen angels during the period. The technology sector saw the bulk of the downgrades, while the sectors with the most upgrades were the insurance and health sectors. Some contacts are worried about the health of US corporate balance sheets, fearing higher default rates as the economy slows and potentially tips into a recession. Others are more confident, pointing out that the technology sector which experienced the most downgrades has companies that retain plentiful amounts of cash on their balance sheets, and that the downgrades arise from uncertainty about earnings rather than imminent credit risk. Most of the downgraded companies still have strong credit ratings of BBB+ or higher.

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

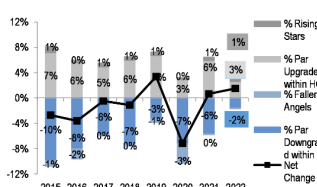
HG bond upgrades and downgrades, fallen angels, and rising stars by quarter; \$bn



Source: J.P. Morgan

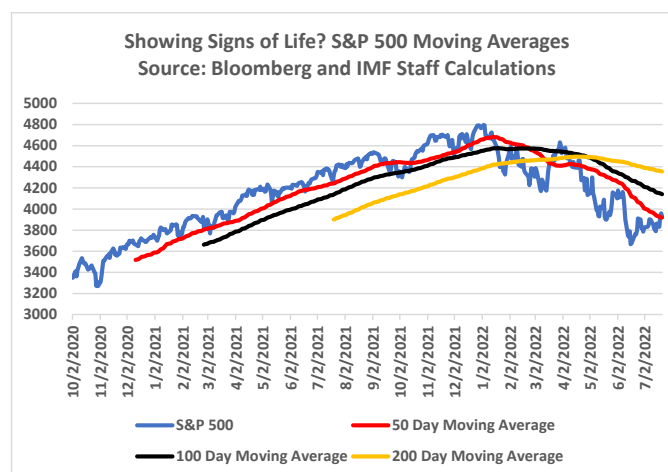
**Exhibit 9: 1.5% of HG bonds were upgraded in 1H22 as downgrades in 2Q weighed on the ratio**

HG bond upgrades and downgrades, fallen angels, rising stars, and net change by year; %



Source: J.P. Morgan

**The S&P 500 index has broken above its 50-day moving average for the first time in 60 days.** Technical analysts who follow market chart patterns think this is a significant development, because 60 days is the longest period the index has spent below its 50-day moving average since the global financial crisis. They believe that the index may be poised to gain back some of the ground it has lost during the year. However, getting back to the 100-day moving average would take a 5% move and crossing the 200 day average would take a move of over 10%, so the market still has a long way to go.



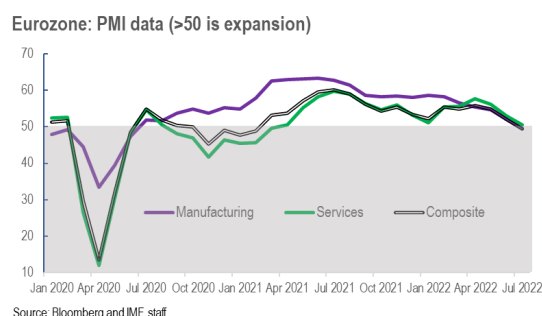
## Euro Area

**Sovereign yields saw steep declines, with the 10y bund yield down roughly 17 bps after disappointing flash PMI data for Germany, France and the eurozone as a whole.** Markets scaled back on hiking expectations, pricing out roughly 15bps of tightening compared to yesterday. The euro depreciated (-0.6%) despite the larger-than-expected 50 bps hike by the ECB. ING analysts argue that the murky euro area economy outlook together with an unstable risk sentiment are more prominent drivers of

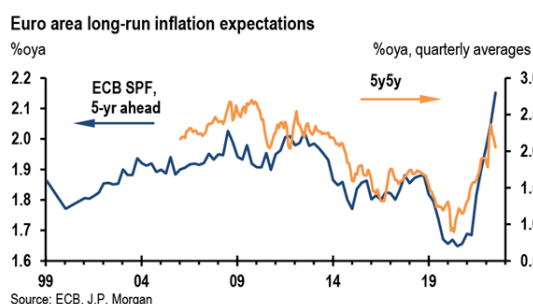
market moves. Analysts also argue that euro volatility is likely to remain as the elimination of ECB forward guidance could see the currency more sensitive to data releases and ECB speakers.

**Italy's President dissolved parliament yesterday and the officially called early elections, following PM Draghi's resignation.** A caretaker government will be put in place until the elections take place on September 25. JPMorgan analysts note that political uncertainty is increasing downside risk for Italian growth.

**The euro area's July flash PMI data fell in contraction territory for the first time since Q1 2021.** Preliminary data show composite PMI dropping to 49.4 (versus 51 expected), with manufacturing PMI at 49.6 (versus 51 and services PMI at 50.6 (versus 52 expected). The Eurozone manufacturing output index fell to 46.1 (from 49.3). S&P economist see data as indicative that the rate of decline is gathering momentum. The survey also notes a moderation of inflationary pressures seen in both input cost and selling prices, although these remain higher than pre-pandemic levels. On the country level, both preliminary PMI data in both Germany and France disappointed, with the steepest decline seen in Germany (composite PMI fell to a 25-month low of 48 vs expected 50.2 from 51.3). Manufacturing PMI in both France (49.6) and Germany (49.2) are now into contractionary territory.



**The ECB Q3 Survey of Professional Forecasters (SPF) shows euro area inflation expectations increasing for all horizons while growth expectations were revised downward.** Amid higher energy and food prices, respondents see inflation at 7.3% this year, 3.6% in 2023, and 2.1% in 2024. Longer-term inflation expectations increased by 0.1 ppt to a record high average of 2.2%. Real GDP growth is now seen at 2.8% in 2022 (previously 2.9%) and at 1.5% in 2023 (previously 2.3%).



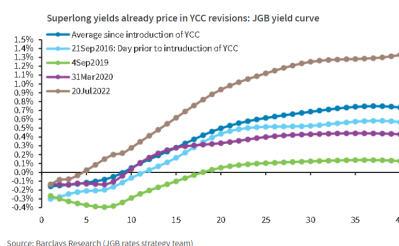
## United Kingdom

**The pound pared some losses against the dollar (-0.4%) and appreciated against the euro (+0.3%) after a modest upside surprise in flash July PMI data.** Composite PMI fell to a 17-month low of 52.8 (versus an expected decline to 52.4 from 53.7). Both the services component and the manufacturing component showed modest declines. The manufacturing index fell into contraction territory (to 49.7 from 50.3). The survey also notes that inflationary pressures have eased as supply pressures moderated and

demand weakened. S&P commented that forward-looking indicators suggest a worsening in coming months, with higher interest rates expected to further curb demand. Separate data releases showed retail sales data surprising on the upside on a monthly basis in June, but GfK consumer confidence remained unchanged at -41 in July, the lowest level since the survey started in 1974. Yields fell (2-yr gilt -12bps) this morning as markets scaled back on hiking expectations, with roughly 43 bps of tightening priced for the August BoE meeting (vs 49 bps yesterday).

## Japan

**Equities firmed +0.3%.** In data releases, **Japan's inflation excluding fresh food accelerated to 2.2% y/y in June** (previous: 2.1%), driven by higher processed food prices and increased energy costs from a weaker yen. Headline inflation cooled to 2.4% y/y (previous: 2.5%). **Preliminary Jibun Bank PMIs moderated in July but remained expansionary.** Both manufacturing (52.2, previous: 52.7) and services (51.2, previous: 54) gauges fell. Surveyed companies noted that shortages of raw materials and rising energy and wage costs had increasingly dampened output and new order inflows. Super-long yields have already priced in a BOJ yield curve control revision resulting in higher yields, which may occur in Q4, Barclays noted.



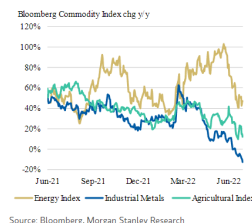
## Commodities Markets

**Surging natural gas prices are pushing oil and other commodity prices lower.** At the time of the invasion of Ukraine, all commodity prices shot up together in expectations of future shortages. However, now higher natural gas prices are causing oil and other commodity prices to fall. In the euro area especially, the high price of natural gas is seen as the biggest threat to the economy, so as natural gas prices keep moving higher, expectations that the economy will weaken and reduce demand have caused other commodity prices to fall. A worse euro area recession will hit growth prospects for the rest of the global economy, so the gas/commodity divide is occurring spreading more widely. Oil is well off its 2022 highs, and industrial metals or down 13% from their levels a year ago.

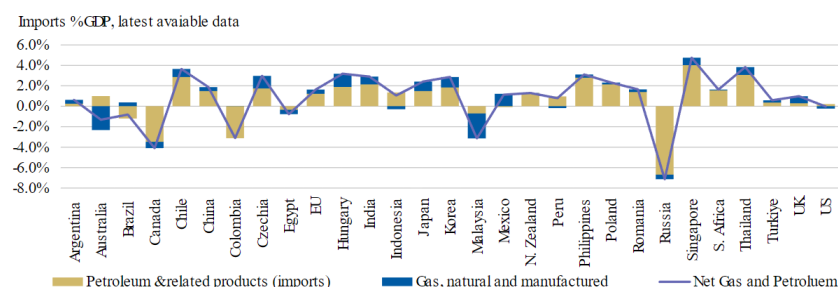
**Exhibit 7:** Gas and oil prices have diverged as global growth slows



**Exhibit 8:** Commodity prices looking soggy



**Euro area demand for natural gas could increase competition for supplies with other regions, making gas prices a potential source of inflationary and terms of trade impacts, according to analysis by Morgan Stanley.** Other large gas importers are the most vulnerable to these potential trends.

**Exhibit 9: Energy imports by product type**

Source: World Bank WIT database, Morgan Stanley Research

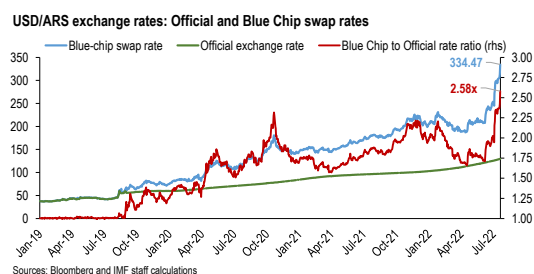
## Emerging Markets

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**EMEA equities and currencies were mixed.** The Turkish lira (-0.3%) continued to weaken after the central bank left policy rates unchanged at 14% yesterday. The Russian ruble weakened (-2.9%) after the central bank of Russia cut the key rate by 150 bps to 8%, versus a consensus forecast of a 50 bps cut. **Asian equities were broadly unchanged.** The Reserve Bank of India said it would intervene in the currency market to reduce FX volatility. Inflation in Malaysia accelerated to 3.4% y/y in June (previous: 2.8%), as food and non-alcoholic beverages prices posted a record surge (+6.1% y/y). **LATAM markets were mixed.** Currencies across the region depreciated, while equities gained in most markets.

### Argentina

**Measures were announced to arrest currency depreciation.** As per a Bloomberg report, Argentina has announced that it will make more USD available to importers of strategic sectors of the economy. It will allow tourists to exchange up to \$5000 at a rate higher than the official exchange rate, and the Central Bank would limit access to the official foreign exchange rate market to companies that trade instruments of US based companies in local markets. Over the last one month, the country's unofficial exchange rate has depreciated by 40% and is now trading at 2.6x the official rate. Currency depreciation is a risky proposition for Argentina, as ~70% of its public debt is denominated in foreign currency. Separately, the country also reported 2Q2022 fiscal balance of -1.6% of which the primary deficit came in at 0.9% of GDP (cash basis), which is within the revised targets of the IMF.

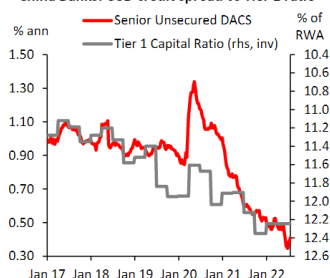


### China

**Equities slipped (Shanghai: -0.1%, Shenzhen: -0.4%).** China firms have reported their worst quarterly provisional earnings since the early-2020 shocks to profitability, Morgan Stanley noted. Separately, **China approved 20 coal mining projects in 1H 2022 aiming to safeguard power supplies after outages last year.** The approvals will add 125 mn tons of annual coal capacity, which is nearly half of the 2022 target of 300 mn set by Beijing, Bloomberg reported. Separately, Chinese banks could see ratings deteriorate if mortgage non-paying loan (NPL) ratios rise above 2% from 0.3% currently, Fitch warned. DBS, however,

noted Chinese banks' USD senior bonds appear robust against mortgage default risks, with the aggregate Z-spread (or DACS index) for senior unsecured credit widening by only +6 bps since early July.

China Banks: USD credit spread vs Tier 1 ratio

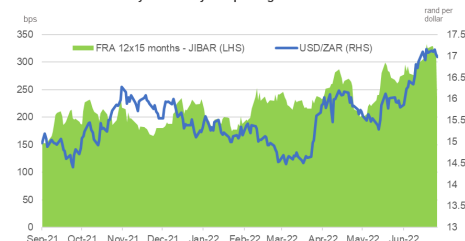


Source: Bloomberg, DBS

## South Africa

**The rand strengthened after the South African Reserve Bank (SARB) surprised markets with a larger-than-expected 75bps hike yesterday.** The increase was the largest hike in almost two decades and took the repo rate to 5.5%. The central bank revised inflation expectations upwards (headline CPI now seen at 6.5% in 2022 from 5.9% previously 2023 inflation at 5.7% from 5% previously), although economic growth forecasts for 2022 were revised upwards (average 2022 GDP growth now seen at 2% from 1.7% previously). JPMorgan predicts another 75bps hike at the September policy meeting and expects the policy rate to peak in Q1 2023 at 7.25%. Analysts highlight that exchange rate volatility adds upside risk to inflation and could result in a 100 bps hike. **The rand added to yesterday's gains this morning (+0.4%) but remains roughly 6.5% weaker than at the start of the year.**

South Africa - Currency and Policy rate pricing







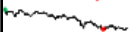





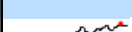



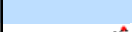
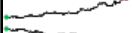
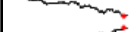
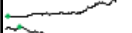
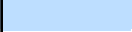







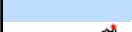

Source: Bloomberg and IMF calculations

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## Global Financial Indicators

7/22/22 8:09 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3991	1.0	3	6	-9	-16	-6
Europe		3609	0.4	4	4	-11	-16	-9
Japan		27915	0.4	5	5	1	-3	6
China		4238	0.1	0	-4	-17	-14	-8
Asia Ex Japan		68	1.0	3	1	-25	-17	-14
Emerging Markets		40	1.1	4	1	-25	-18	-16
Interest Rates			basis points					
US 10y Yield		2.81	-7.0	-11	-35	153	129	81
Germany 10y Yield		1.04	-18.2	-9	-60	147	122	81
Japan 10y Yield		0.22	-2.1	-2	-3	20	14	2
UK 10y Yield		1.95	-9.6	-14	-55	139	98	47
Credit Spreads			basis points					
US Investment Grade		171	0.4	-3	0	79	59	28
US High Yield		534	7.8	-27	-5	202	196	127
Europe IG		104	-4.1	-18	-6	57	56	33
Europe HY		523	-16.2	-83	-24	288	281	171
Exchange Rates			%					
USD/Majors		106.91	0.0	-1	3	15	12	11
EUR/USD		1.02	-0.6	1	-4	-14	-11	-10
USD/JPY		137.0	-0.3	-1	1	24	19	19
EM/USD		50.0	0.1	0	-4	-11	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		103	-0.8	2	-5	53	38	16
Industrials Metals (index)		148	1.4	5	-11	-5	-14	-21
Agriculture (index)		62	-1.1	-2	-14	7	2	-11
Implied Volatility			%					
VIX Index (% change in pp)		23.1	0.0	-1.1	-5.9	5.4	5.9	-7.9
US 10y Swaption Volatility		121.9	5.2	1.9	-6.8	44.5	42.8	27.6
Global FX Volatility		11.1	0.0	-0.7	-0.2	4.4	3.7	3.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		226	-7.7	-12	3	116	74	-14
Italy		227	-4.9	13	37	121	92	56
Portugal		117	-0.9	-1	13	54	53	25
Spain		123	-3.3	7	15	52	49	20

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

## Emerging Market Financial Indicators

Last updated: 7/22/2022 8:11 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		6.76	0.1	0.0	-1	-4	-6	-7		2.9	2.9	-1	-2	-16	2	1	
Indonesia		15014	0.2	-0.1	-1	-4	-5	-5		7.5	-0.8	10	0	118	110	99	
India		80	0.1	0.0	-2	-7	-7	-7		6.3	0.0	0	9	#VALUE!	0		
Philippines		56	0.1	0.2	-3	-11	-9	-9		5.7	0.0	0	0	168	118	68	
Thailand		37	0.2	-0.2	-4	-10	-9	-12		2.6	-6.0	9	-13	101	77	39	
Malaysia		4.45	0.1	-0.1	-1	-5	-6	-6		4.0	-4.6	-4	-26	89	42	34	
Argentina		130	-0.2	-1.2	-5	-26	-21	-17		69.1	42.6	158	736	2466	1852	2113	
Brazil		5.48	0.3	-1.4	-5	-5	2	-9		13.8	26.3	66	128	455	316	232	
Chile		927	-0.1	13.1	-6	-19	-8	-15		7.0	-1.3	31	76	296	155	106	
Colombia		4423	-1.8	1.9	-9	-13	-8	-12		9.8	0.0	-11	76	423	343	196	
Mexico		20.56	0.3	-0.1	-2	-2	0	-2		8.8	0.0	-8	-17	191	127	94	
Peru		3.9	-0.7	-0.3	-5	1	2	-5		8.5	-3.6	4	72	308	258	248	
Uruguay		42	0.1	0.2	-5	5	7	1		11.6	0.0	18	80	373	288	345	
Hungary		391	-0.5	1.7	-4	-22	-17	-18		8.5	-12.0	-31	47	599	402	372	
Poland		4.67	-0.3	1.6	-5	-17	-14	-13		5.7	-17.5	-45	-129	418	219	182	
Romania		4.8	-0.4	1.2	-3	-14	-10	-10		8.9	-12.3	-20	-29	588	406	373	
Russia		58.4	-2.4	-2.4	-7	26	29	40		8.3	-40.0	-3	0	107	-51	-292	
South Africa		16.9	1.0	1.2	-6	-13	-6	-10		8.9	-12.5	-38	30	170	149	133	
Turkey		17.76	-0.3	-2.2	-2	-52	-25	-22		17.4	0.0	-148	-222	-6	-689	-499	
US (DXY; 5y UST)		107	0.0	-1.1	3	15	12	11		2.88	-9.9	-15	-35	217	162	98	

	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		4238	0.1	0	-4	-17	-14	-8		212	3	20	0	9	4	
Indonesia		6887	0.3	4	-2	13	5	0		226	-5	35	43	61	41	
India		56072	0.7	4	6	6	-4	-2		211	-4	38	57	79	57	
Philippines		6263	0.1	1	1	-4	-12	-15		158	-16	23	46	57	21	
Thailand		1553	0.4	1	-1	0	-6	-8		0	0	0	0	0	0	
Malaysia		1466	1.1	3	2	-4	-6	-8		147	1	20	8	30	14	
Argentina		112017	4.7	11	31	71	34	23		2921	158	718	1341	1241	1184	
Brazil		99033	0.8	3	0	-21	-6	-12		349	-40	9	69	38	18	
Chile		5204	1.1	2	3	21	21	19		191	-9	24	39	51	17	
Colombia		1292	-0.9	1	-6	3	-8	-14		437	-33	42	165	89	45	
Mexico		47416	0.6	1	1	-6	-11	-8		444	-37	23	91	112	74	
Peru		19041	2.1	7	0	1	-10	-19		216	-9	20	50	66	26	
Hungary		42111	0.2	6	5	-12	-17	-12		251	-5	18	110	127	98	
Poland		53915	0.9	4	2	-19	-22	-14		35	55	-60	0	3	19	
Romania		12236	0.7	2	-1	3	-6	-7		350	-10	39	160	157	118	
Russia		2095	2.0	-1	-12	-44	-45	-32		3411	-577	938	3228	3234	2897	
South Africa		68234	0.5	5	4	1	-7	-9		502	-83	57	158	147	113	
Turkey		2538	1.1	7	-1	88	37	26		722	-80	77	247	144	159	
Ukraine		519	0.0	0	0	-1	-1	0		6957	-131	3027	6446	6198	5484	
EM total		40	0.0	4	1	-25	-18	-16		472	-27	49	106	86	14	

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

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