GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JULY 29, 2022

- **US rate hike expectations shrink after GDP disappoints** (link)
- **US corporates embrace commercial paper over bond issuance** (link)
- **Headline euro area inflation surprises to upside in July** (link)
- **Euro area GDP growth higher than expected but Germany disappoints** (link)
- **Chinese equities underperform on downbeat economic growth assessment and lack of explicit stimulus measures** (link)
- **Argentine assets gain on cabinet reshuffle and central bank hike** (link)

Mature Markets | Emerging Markets | Market Tables

The Global Markets Monitor is going on summer break and will return August 29

Markets close month on a positive note

Global equities advanced, with US and European stocks set for the biggest monthly gain since November 2020, on the back of resilient corporate earnings and lesser expectations of further aggressive Fed tightening. Shares in Amazon and Apple rose in premarket trading after both corporations beat earnings expectations while European bank stocks outperformed after better-than-expected results from BBVA, Intesa Sanpaolo and BNP Paribas. In the energy sector, ExxonMobil and Chevron also beat expectations, profiting from surging energy prices. In sovereign bond markets, US Treasury yields rose, partly reversing yesterday's sharp drop following a weaker-than-expected US GDP release. In the euro-area, sovereign bond yields also rose following higher-than-expected headline inflation and GDP growth data. Overall, markets contacts remain divided on the likelihood of a *dovish pivot* by central banks, given the persistent inflationary pressures, but generally expect major central banks to take a more cautious approach in the sizing of hikes going forward. In emerging markets, Chinese equities underperformed following a downbeat economic growth assessment from China's Politburo and lack of explicit stimulus measures.

Key Global Financial Indicators

Last updated: 7/29/22 8:04 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		4072	1.2	2	7	-8	-15	-4
Eurostoxx 50		3698	1.2	3	5	-10	-14	-7
Nikkei 225		27802	0.0	0	7	2	-3	5
MSCI EM		40	0.4	1	0	-23	-18	-15
Yields and Spreads					bps			
US 10y Yield		2.70	2.9	-5	-38	144	119	71
Germany 10y Yield		0.90	7.1	-13	-62	135	107	67
EMBIG Sovereign Spread		544	-10	-18	22	186	177	131
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.4	-0.3	1	-2	-11	-4	-5
Dollar index, (+) = $ appreciation		106.0	-0.3	-1	1	15	11	10
Brent Crude Oil ($/barrel)		109.4	2.1	6	-6	44	41	13
VIX Index (%, change in pp)		21.9	-0.5	-1	-6	4	5	-9

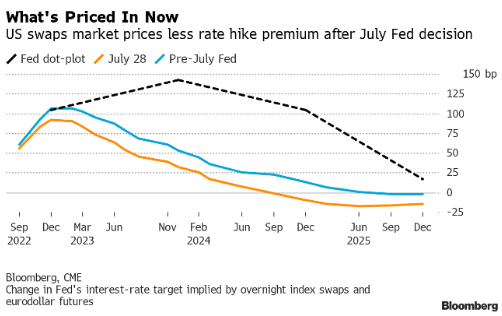
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

back to top

United States

Hike expectations shrink for this year's FOMC meetings after GDP disappointed. The release yesterday of a disappointing initial GDP estimate in the second quarter led to growing market skepticism about further aggressive Fed tightening in view of a possible recession. Markets are now pricing less than 100 basis points of further hikes by year end, somewhat lower (around 10 bps) compared to the pre-FOMC levels and far lower compared to the Federal Reserve's dot plot. The move follows a strong rate hike and subsequent comments by Chair Powel that elated stock markets. Although market analysts questioned a dovish pivot following the FOMC, the new GDP data and the ensuing discussion about a technical recession fueled the slide in yields. Shortly after the release, the yield curve became less inverted. Meanwhile, **market inflation expectations ticked up again**, in line with commodity prices rising from their lows, highlighting limited space for a dovish Fed pivot.

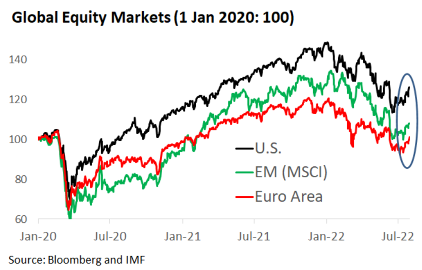


This morning, the PCE deflator, the Fed's favored price gauge, picked up further to 6.8% in June from 6.3% in May, in line with expectations. Excluding food and energy, the core edged up to 4.8% from 4.7% (consensus was for 4.7%). Personal spending edged higher 1.1% on the month (consensus for 1%). Market impact was muted immediately after the release.

US corporates embrace commercial paper over bond issuance. Corporates in the US are increasingly relying on commercial paper, a short-term type of corporate borrowing, in an attempt to cheaply ride-out a volatile bond market. Outstanding commercial paper has increased by 15% since the Fed started to hike interest rates in March, while sales of high-grade corporate bonds dropped about 7% in 2022, according to Bloomberg analysis. Commercial Paper is cheaper for companies compared to short-term bonds, with the gap between the two rates being wide compared to the past five-year averages. At the same time, longer-term corporate bond spreads are widening, as investors become more weary of holding longer-term bonds from corporates given recession concerns. However, the commercial paper market has a recent history of seizing up during systemic liquidity crisis, that still reverberates for corporate cash managers. Nevertheless, demand for commercial paper appears robust as large amounts of cash for investment appear to dominate past misgivings.

Euro Area

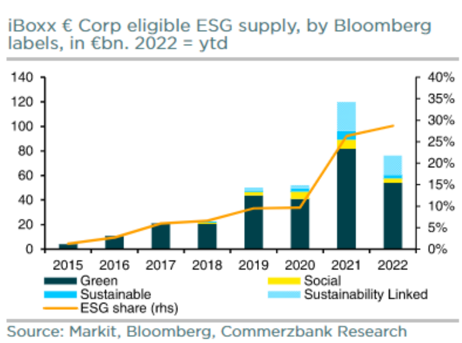
Bank equities (+1.8%) rose sharply as European bank earnings were better than expected. Shares in BNP rose after stronger revenues helped to drive profits in Q2 18% ahead of consensus with several divisions beating expectations. BBVA and Intesa Sanpaolo also beat earnings expectations. **The overall equity index traded 1.2% higher. The euro (+0.3%) and 10-year bund yields (+7 bps) also traded higher. Italian sovereign bond spreads tightened (-12 bps to bunds)** following news reports that rightwing leader Meloni, who is riding high in opinion polls ahead of Italy's September elections, plans to stick to EU budget rules if she leads the next government.



Euro area 5-year/5-year inflation swaps were little changed after preliminary data show that euro area headline HICP inflation was around 20 bps higher than expected at 8.9% y/y in July (from 8.6% y/y in June). Core inflation was also higher than expected at 4.0% y/y (vs. 3.9% y/y). Analysts pointed out that upside surprises in France and Spain were driven by a mix of stronger core and non-core. **Flash inflation in Italy was substantially lower than expected at 8.4% y/y (8.8% y/y expected) driven by lower energy and recreational services inflation.**

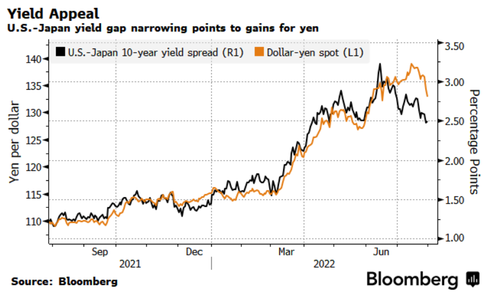
Unlike the US, the euro area economy grew a much-better-than-expected 0.7% q/q in Q2, realizing annual growth of 4% y/y (3.4% y/y expected). Analysts attribute the better growth data to a strong rebound in service sector activity, especially related in hospitality (restaurants, bars, and hotels). The tourism rebound contributed to strong growth seen in Italy and Spain, with growth rates of 1% q/q and 1.1% q/q respectively. **In contrast, German GDP was flat in Q2, with growth of 1.4% wda y/y (compared to 1.7% y/y expected).**

Commerzbank points out that ESG-related fund inflows remain high at €76 bn ytd, and they believe that inflows could still beat the €120 bn record from last year. The increased share of ESG-issuance in total € investment-grade benchmark issuance also stands out, growing from 26% last year to almost 29% so far in 2022.



Japan

The Japanese yen appreciated further (+1.1%). Analysts noted that the recent yen strength mainly reflected a narrower gap between JGB and US Treasury yields as well as post-FOMC position adjustments as technical level breaches spurred exits from long dollar/short yen trades. Long-end JGB yields edged down (10-year: -2.1 bps; 30-year: -1.1 bps), while equities were little changed (based on NIKKEI). **June data showed some signs of moderating economic activity.** Retail sales contacted 1.4% m/m (consensus: 0.2%), from a 0.6% growth in May. The unemployment rate stayed at 2.6% (consensus: 2.5%). Industrial production increased 8.9% m/m (consensus: 4.2%), reversing a 7.5% contraction in May due to supply-chain disruptions in China. Housing starts also declined 2.2% y/y (consensus: -1.4%).



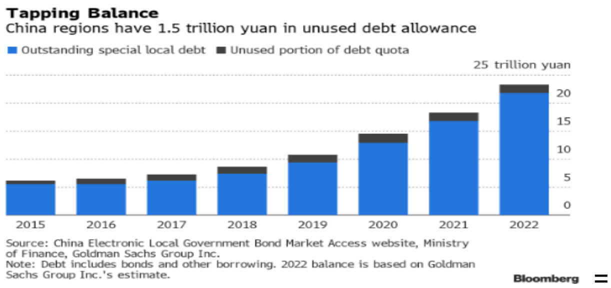
Emerging Markets

back to top

Asian markets continued to rally as growing US recession concerns scaled back aggressive Fed's monetary tightening expectations. Asian currencies appreciated, led by Philippine peso (+1.2%), Indonesian rupiah (+0.7%), and Indian rupee (+0.7%). Asian equities were mixed as Chinese equities underperformed (CSI 300: -1.3%). Share prices gained in India (+0.9%), Korea (+0.7%), and Taiwan Province of China (+0.7%). Long-end government bond yields declined, with 10-year yields falling in Philippines (-15 bps), Indonesia (-10 bps), and Malaysia (-5 bps), following the decline in US Treasury yields yesterday. **EMEA equities generally followed European equities higher.** Equities and currencies gained in Poland and Hungary, but the Russian ruble and South African rand weakened. Polish CPI inflation was slightly lower than expected at 15.5% y/y (15.6% expected), with some analysts pointing to a temporary summer cut in gasoline prices. In Hungary, PPI inflation rose to 3.1% m/m or 35% y/y in June. **Latin American markets followed the global risk-on mood yesterday.** Equities soared across the region, with Mexican stocks outperforming, supported by soaring silver prices (+4.8%), with the stock of the country's leading precious metal miner gaining almost 10%. Currencies appreciated in Brazil (+1.2%), Colombia (+1.1%), and Mexico (+0.6%). A BRL 14.4 bn fiscal surplus for June may have added to optimistic sentiment in Brazil's assets markets, while the country's inflation data continued to indicate a deceleration of inflation, which in yesterday's print also included producer prices. Regional treasury yield curves continued to slide down, following their US peer.

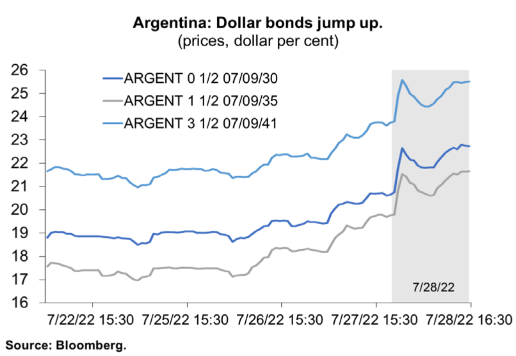
China

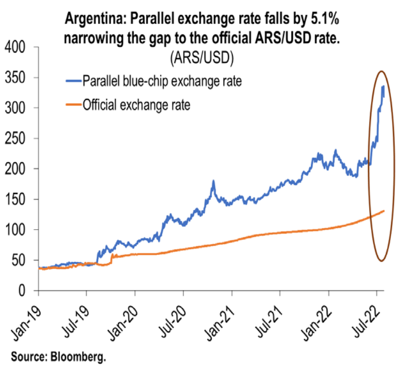
Chinese equities underperformed (CSI 300: -1.3%; HKSAR-listed: -2.8%) **as the Politburo meeting did not explicitly offer fresh stimulus measures**, with tech firms (-4.9%) and property developers (-3.6%) leading the decline of HKSAR-listed stocks. **The Politburo meeting also gave a downbeat assessment of economic growth.** The meeting downplayed the 5.5% growth target while urging provinces with strong economic fundamentals to bolster growth. The meeting, while reiterating the zero COVID policy, emphasized the need to strike a balance between zero COVID and economic development. While stating that macro policy should be more proactive to boost domestic demand, the meeting did not offer additional stimulus measures. Nevertheless, some analysts noted that the meeting statement signaled a possibility of additional issuance of special local government bonds up to 1.5 tn RMB ($223 bn); this measure was mentioned in news earlier but has not been confirmed yet. The meeting emphasized the need to stabilize the housing market but instructed local governments to handle unfinished pre-sold housing without offering help from the central government.



Argentina

Argentine assets gained as the cabinet was reshuffled and the central bank hiked the policy rate. The country's dollar bond prices rose, with the bond due 2035 gaining 1.9 cents to 21.6 cents on the dollar, as rumors that economy minister Batakis would be replaced with lower house speaker Massa circulated during the day and proved true in late afternoon. Meanwhile, the central bank raised its benchmark policy rate by 800 bps to 60%. Argentina's blue-chip based parallel exchange rate depreciated by 5.1% over the day, while stocks followed the region's upward trend. Street protests against the government's economic policy continued, possibly also fueled by a further deterioration in consumer confidence during July.





This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant), Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

Global Financial Indicators

7/29/22 8:03 AM	Level		Change				YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		23-Feb-22
Equities				%			%	%
United States		4095	1.2	3	7	-7	-14	-3
Europe		3698	1.2	3	5	-10	-14	-7
Japan		27802	0.0	0	7	2	-3	5
China		4170	-1.3	-2	-7	-13	-16	-10
Asia Ex Japan		69	0.0	0	-1	-22	-17	-13
Emerging Markets		40	0.4	1	0	-23	-18	-15
Interest Rates				basis points				
US 10y Yield		2.70	2.9	-5	-38	144	119	71
Germany 10y Yield		0.90	7.1	-13	-62	135	107	67
Japan 10y Yield		0.19	-2.0	-3	-5	16	11	-1
UK 10y Yield		1.94	7.6	1	-44	137	97	47
Credit Spreads				basis points				
US Investment Grade		169	0.1	-1	-4	79	57	26
US High Yield		517	-3.7	-12	-45	187	179	110
Europe IG		102	-2.5	-3	-15	56	55	31
Europe HY		521	-4.9	-12	-61	288	279	169
Exchange Rates				%				
USD/Majors		105.98	-0.3	-1	1	15	11	10
EUR/USD		1.02	0.1	0	-2	-14	-10	-10
USD/JPY		133.6	-0.5	-2	-2	22	16	16
EM/USD		50.4	-0.3	1	-2	-11	-4	-5
Commodities				%				
Brent Crude Oil ($/barrel)		109	2.1	6	-3	58	46	23
Industrials Metals (index)		154	1.0	3	-4	-6	-11	-18
Agriculture (index)		68	1.5	9	-4	15	11	-4
Implied Volatility				%				
VIX Index (%, change in pp)		21.9	-0.5	-1.2	-6.3	4.2	4.7	-9.1
US 10y Swaption Volatility		115.6	0.3	-2.6	-8.2	39.1	36.6	21.3
Global FX Volatility		10.9	0.0	-0.2	0.0	4.1	3.5	3.4
EA Sovereign Spreads				10-Year spread vs. Germany (bps)				
Greece		211	0.8	-11	-4	105	60	-29
Italy		222	-12.4	-6	34	115	87	51
Portugal		105	-4.0	-11	-1	42	41	13
Spain		112	-4.7	-11	5	39	37	8

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

Emerging Market Financial Indicators

Last updated: 7/29/2022 8:06 AM	Exchange Rates: Level, Last 12m	Level, Latest	Change (in %), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.74	0.2	0.2	-1	-4	-6	-6		2.8	-2.5	-4	-14	-19	-2	-3
Indonesia		14834	0.6	1.2	0	-2	-4	-3		7.1	-13.1	-36	-15	82	74	62
India		79	0.6	0.7	0	-6	-6	-6		6.3	0.0	0	9	######	0	
Philippines		55	1.2	2.1	0	-9	-8	-7		5.4	-25.0	-25	-25	145	93	43
Thailand		36	0.5	1.0	-3	-9	-8	-11		2.4	-3.5	-22	-44	86	59	22
Malaysia		4.45	0.1	0.0	-1	-5	-6	-6		3.9	-7.5	-13	-35	72	30	22
Argentina		131	-0.2	-1.2	-5	-26	-22	-18		67.4	-54.1	-169	753	2267	1683	1944
Brazil		5.17	0.3	6.3	0	-2	8	-3		13.5	47.2	2	46	406	278	195
Chile		911	0.2	1.8	0	-16	-6	-13		6.5	0.0	-43	13	233	111	62
Colombia		4373	1.2	1.1	-6	-11	-7	-11		9.1	0.0	-71	9	340	272	125
Mexico		20.26	0.1	1.4	-1	-2	1	0		8.3	-10.5	-48	-67	144	79	47
Peru		3.9	-0.3	-0.4	-4	0	2	-5		8.2	5.5	-35	46	276	230	220
Uruguay		41	0.9	1.6	-5	6	8	3		11.0	-25.2	-63	37	306	225	282
Hungary		397	-0.1	-2.0	-5	-24	-18	-19		8.4	0.0	-12	26	575	386	356
Poland		4.64	0.6	0.0	-4	-17	-13	-13		5.4	-1.0	-32	-144	373	186	149
Romania		4.8	0.1	-0.1	-2	-14	-10	-10		8.1	-16.0	-84	-76	505	322	289
Russia		62.9	-2.0	-7.5	-17	16	20	30		8.2	-5.4	-1	4	119	-53	-294
South Africa		16.5	-0.2	1.8	-2	-12	-4	-8		8.8	2.0	-7	-13	163	137	121
Turkey		17.89	0.2	-0.9	-7	-53	-26	-23		17.8	0.0	39	-154	21	-650	-460
US (DXY; 5y UST)		106	-0.3	-0.7	1	15	11	10		2.73	3.0	-11	-41	199	147	82

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points), 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
										basis points					
China		4170	-1.3	-2	-7	-13	-16	-10		223	11	26	9	20	15
Indonesia		6951	-0.1	1	2	15	6	0		214	-12	15	22	49	29
India		57570	1.3	3	9	9	-1	1		193	-18	10	34	61	39
Philippines		6316	-1.0	1	2	1	-11	-14		145	-13	1	23	44	8
Thailand		1576	0.0	2	-1	3	-5	-7		0	0	0	0	0	0
Malaysia		1492	0.1	2	3	0	-5	-6		143	-4	12	0	26	10
Argentina		127400	0.8	14	45	89	53	39		2524	-397	88	940	844	787
Brazil		102597	1.1	4	3	-18	-2	-8		335	-14	-22	51	24	4
Chile		5259	0.2	1	5	24	22	20		180	-11	1	23	40	6
Colombia		1320	1.5	5	-2	6	-6	-13		415	-22	-30	128	67	23
Mexico		48112	2.7	1	0	-7	-10	-6		427	-17	-30	69	95	57
Peru		19294	-0.1	1	3	3	-9	-18		196	-20	-12	17	46	6
Hungary		42105	0.8	-1	6	-13	-17	-12		232	-19	14	92	108	79
Poland		54389	2.0	1	-1	-20	-22	-13		15	-20	-64	-19	-17	-1
Romania		12485	0.0	2	0	5	-4	-5		326	-24	4	131	133	94
Russia		2192	0.2	5	-8	-42	-42	-29		3411	-577	938	3228	3234	2897
South Africa		68774	0.2	1	2	-1	-7	-8		474	-28	12	123	119	85
Turkey		2573	1.2	2	7	85	39	28		773	51	138	295	195	210
Ukraine		519	0.0	0	0	-1	-1	0		6566	-391	1814	6040	5807	5093
EM total		40	-0.8	1	0	-23	-18	-15		454	-18	7	80	68	-4

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

back to top