GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JUNE 8, 2022

- **Higher borrowing costs and ample cash drive slowdown in high yield bond supply** (link)
- **Euro appreciates after final Q1 euro area GDP surprises to the upside** (link)
- **Reserve Bank of India lifts policy rate 50 bps and reinforces anchoring inflation** (link)
- **Bank of Thailand holds policy rate in split decision and raises inflation forecast** (link)
- **Central Bank of Chile hikes 75 bps and signals a slower pace of increases ahead** (link)
- **Brazilian real weakens as proposal to cut fuel taxes stokes fiscal concerns** (link)

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Markets remain volatile amid mixed data and cautious corporate guidance

Some mixed signals from recent data prints and cautious corporate guidance have seen core sovereign bond yields and equity markets move back and forth over the past day as investors try to decipher the path for growth and inflation. Yesterday, stocks in the US closed higher for a second day as US Treasury yields took a step back from the highest levels in nearly a month. The move lower in rates boosted tech sector equity prices alongside further gains in the energy sector, while investors were also attentive to further reports from some large retail sector firms that persistent inflation remains a threat to future profit margins. The disappointing guidance stoked growth concerns and was described as a key catalyst in the move lower in core sovereign bond yields as 10-year US Treasury yields initially fell back below 3%, but have rebounded this morning with US, German, and UK rates up 2 to 6 bps across maturities. Overnight, Hong Kong stocks outperformed in Asia on optimism around an improving tech sector outlook, while this morning European equities and US futures are both trading slightly lower. Emerging market central bank decisions were also in focus as Chile and India both hiked rates mostly in line with expectations, while the Bank of Thailand kept its policy rate on hold in a more hawkish than expected split decision.

Key Global Financial Indicators

Last updated: 6/8/22 8:09 AM	Level Last 12m	Level Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities				%			%	
S&P 500		4161	1.0	1	1	-2	-13	-2
Eurostoxx 50		3794	-0.3	1	5	-7	-12	-5
Nikkei 225		28234	1.0	3	7	-2	-2	7
MSCI EM		43	0.3	0	4	-23	-13	-10
Yields and Spreads				bps				
US 10y Yield		3.00	2.9	10	-12	147	149	101
Germany 10y Yield		1.35	5.2	16	21	157	152	112
EMBIG Sovereign Spread		451	8	4	7	120	84	38
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		52.7	-0.1	0	1	-10	0	-1
Dollar index, (+) = $ appreciation		102.4	0.0	0	-1	14	7	6
Brent Crude Oil ($/barrel)		121.7	1.0	5	8	69	57	26
VIX Index (%, change in pp)		24.4	0.4	-1	-6	7	7	-7

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

Mature Markets

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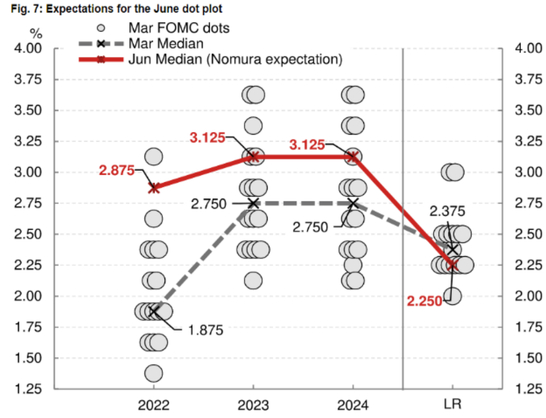
United States

US Treasuries rallied by 6.5 bps to back below 3% in a retracement of yesterday's supply-inspired selloff. The S&P 500 also closed the day decidedly higher (1%) in a volatile session as investors continued to assess the outlook for inflation and economic growth.

Market participants are bracing for a higher dot plot as the FOMC enters the blackout period. Following the release of the last dot plot on March 16, Chair Powell clarified less than a week later that while the median March "dot" reflected an implied policy path of seven 25 bp hikes in 2022, support for 50 bp hikes was widespread. This paved the way for the first 50 bp hike since 2000 at the May meeting and ensuing Fed communication that has provided firm forward guidance for at least two more 50 bp rate hikes. In terms of Fed Funds median expectations, Nomura analysts expect two main changes for the June dot plot: First, the 2022 median dot is expected to increase by 100 bps to 2.875%, reflecting median participant forecasts of two more 50 bp hikes in July and September followed by 25 bp hikes in November and December. Second, 2023–2024 median dots are expected to increase to 3.125% from 2.75%, in reflection of the resilient labor market and enduring inflationary pressures, which would require the Fed to maintain tighter financial conditions also later in the forecast horizon.

Fig. 7: Expectations for the June dot plot



Source: Federal Reserve, Nomura

The collapse in USD high yield (HY) bond issuance is only partially related to higher borrowing costs. Year-to-date, HY companies have issued \$63bn in bonds and, assuming issuance follows post-crisis averages, may reach \$128bn. This reflects a 48% y/y reduction from the issuance volume during the same period in 2021, which totaled \$247bn. Some market participants see the lack in supply to portend liquidity stress for leveraged borrowers. Other market participants take a more sanguine view given that HY issuers on aggregate enter the economic slowdown with strong debt servicing capacity and ample cash liquidity. According to these market contacts, the collapse in issuance does not reflect the inability but the unwillingness of HY borrowers to issue at materially higher rates. Accordingly, the decline in HY issuance reflects both higher funding costs and lower funding needs, as many HY issuers have frontloaded their borrowing needs over the last two years and took advantage of the then more favorable funding conditions.

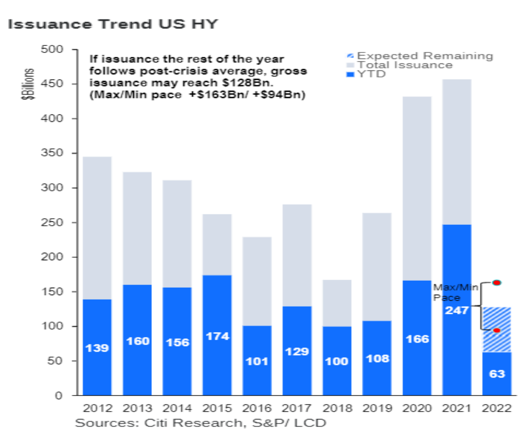
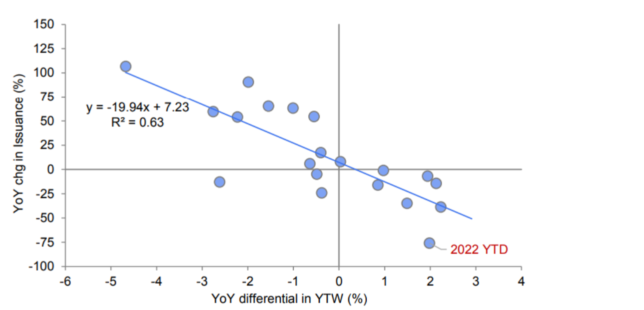


Exhibit 10: Rising yields explain a large portion, but not all, of the drop in year-to-date HY supply

YoY change in average yield to worst (X-axis) versus YoY % change in HY issuance (Y-axis)



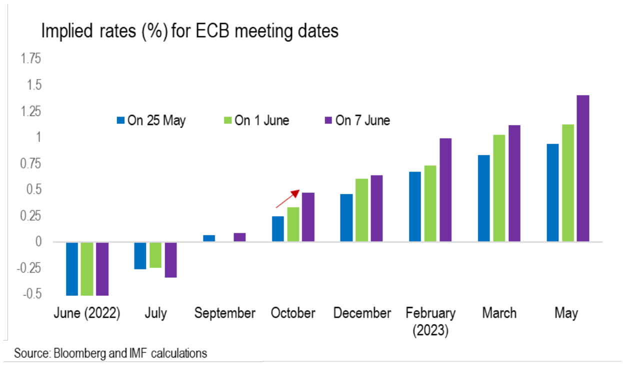
Source: Dealogic, Bloomberg, Goldman Sachs Global Investment Research

Euro area

European equity markets were mixed, with the Stoxx 600 Europe index -0.6% lower. The financial services sector (-1.9%) saw the largest declines while the retail sector (+1.3%) outperformed. **In Switzerland equity prices of Credit Suisse fell sharply (-7%) after the lender issued a profit warning.** Credit Suisse said it will likely report a group-wide loss in Q2 as a result of market volatility following Russia's invasion of Ukraine, monetary tightening by major central banks and the unwinding of stimulus measures related to COVID. Q2 results are due to be published on July 27.

The euro (+0.3%) retraced opening losses after euro area final Q1 GDP data showed that seasonally adjusted GDP increased by +0.6% q/q, compared to earlier estimates of +0.3%. Across member states Ireland saw the highest growth (+10.8% q/q) while from a component perspective the contributions from the external balance and inventories were positive. Household consumption expenditure fell, however. Bloomberg analysts caution that higher growth is likely driven by Irish numbers and expect a significant weakening in Q2. Nevertheless, analysts argue that today's GDP data release will support hawkish voices at the ECB meeting tomorrow.

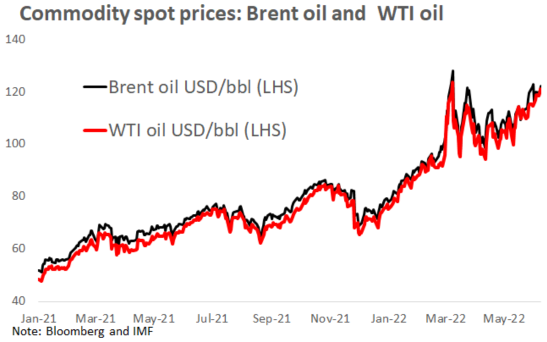
Ten-year bund yields increased (+5 bps to 1.34%) ahead of tomorrow's ECB meeting, while peripheral spreads widened marginally. The ECB is expected to announce the end of its net asset purchases and signal that a first hike of +25 bps is likely in July. Markets are also looking for insight on potential plans to avoid fragmentation. Contacts continue to see incremental hikes of 25 bps as most likely going forward and expect the policy rate to reach zero by September, while some analysts have noted the possibility of larger hikes in Q4. **A 25 bp hike in July is fully priced in by markets, with roughly +120 bps of tightening priced in by end-2022.**



Source: Bloomberg and IMF calculations

Commodities

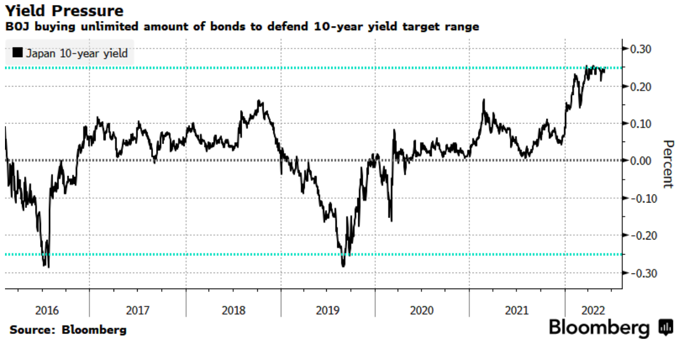
Brent oil prices rose 1.2% to $122/bbl, as traders continue to study the implications of the EU ban on most of its Russian oil imports by the end of 2022. Yesterday's comments by US Secretary Yellen that it is a desirable strategy to implement a cap on prices for Russian oil but that it is "virtually impossible" for the US to insulate itself from global oil shocks suggests to some contacts that a sharp drop in total Russian oil exports (of over 2mn bbl/day) is unlikely and that the US and EU will focus on reducing oil revenues rather than total export volumes. **Secondary sanctions by the U.S. or EU on countries or companies which want to insure the oil trade after the EU ban on insurers comes into force, are considered unlikely for now.**



Note: Bloomberg and IMF

Japan

Japanese yen depreciated (-0.9%), reaching 133.8 yen per dollar, the weakest level in 20 years. Bank of Japan (BOJ) Governor Kuroda said that a stable but weaker yen is positive for the overall economy. He also noted that a rapid depreciation is not desirable as it increases uncertainty. **Ten-year JGB yields were little changed** at around 2.44%, while longer-end JGB yields rose (30-year: +0.7 bp). Market functioning is increasingly a concern among market participants. There was no market trading in 10-year JGBs yesterday as all transactions were with the BOJ, the first time this year.



Emerging Markets

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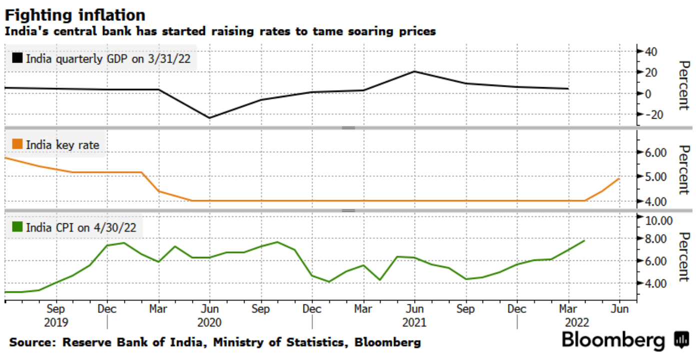
In **Latin America,** local rates continued to rise on inflationary pressure, again led by Colombia (+30 bps on 5-year). Brazil underperformed with the real 1.6% weaker after large tax cuts to reduce energy prices stoked fiscal concerns. The rest of the region closed mixed. **Asian equities generally gained,** +2.0% on net, led by Hong Kong (+2.2%), Chinese (CSI 300: +1.0%), and Taiwan (+1.0%) equities. **Most Asian currencies depreciated**, led by Chinese yuan (-0.4%). Meanwhile, Korean won appreciated (+0.3%), reversing some of a sharp depreciation yesterday. Long-end government bond yields were mixed, with 10-year yields rising in Indonesia (+11.2 bps) while falling in Thailand (-5.5 bps) and Korea (-5.4 bps). In Korea, real GDP grew 0.6% q/q in 2022Q1, weaker than expected (consensus: +0.7%). Equities in **EMEA** traded without much direction as focus is turning to tomorrow's ECB decision. Currencies were mixed with the Russian ruble (+3% to 61/$) gaining and the Turkish lira (-2% to 17/$) remaining under pressure. The Polish zloty was little changed as the National Bank of Poland is expected to hike its policy rate 75 bps to 6% later today.

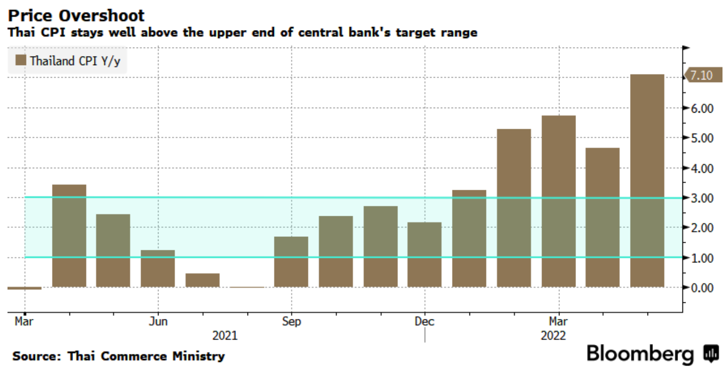
India

The Reserve Bank of India (RBI) raised its policy rate by 50 bps to 4.9%. Market participants expected a hike in the repurchase rate between 25 and 75 bps, with most leaning toward a 50 bp hike. Meanwhile, the cash reserve ratio was kept at 4.5% as expected. The RBI raised its CPI forecast for this fiscal year (starting from April) to 6.7% (from 5.7%), which would be above the 2–6% target band. Meanwhile, the growth forecast remained unchanged at 6.7%. The RBI indicated that further monetary tightening would be necessary to anchor inflation expectations. In addition, Governor Das suggested that the government should do more to mitigate the impact of rising prices. Government bond yields dropped (1-year: -14.6 bps; 10-year: -1.2 bps), partly benefiting from Governor Das's assurance that the RBI will support an orderly completion of the government borrowing program. Some analysts also noted that the RBI refrained from signaling any further incremental hawkishness. Indian rupee depreciated (-0.1%); equities declined (-0.4%).



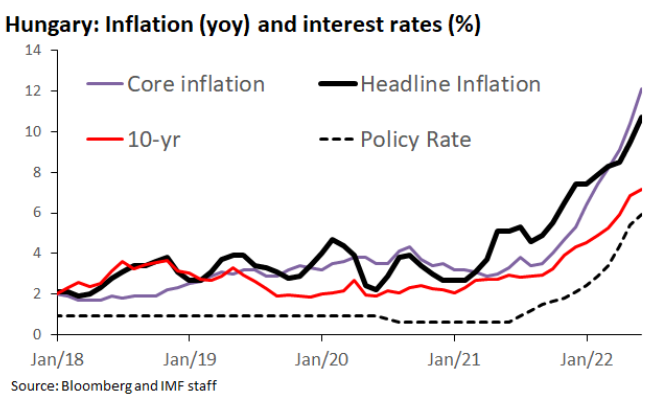
Thailand

The Bank of Thailand (BOT) held its policy rate at 0.5% as expected. The monetary policy committee voted 4–3 to keep the policy rate unchanged. As headline inflation will remain elevated for longer than previously estimated, the committee indicated that it would assess the appropriate timing for a gradual policy normalization. The BOT's inflation forecast for 2022 was revised up to 6.2% from 4.9%. Analysts noted that a split decision may signal that a rate hike may come as soon as the next meeting. Thai baht depreciated (-0.1%). Long-end government bond yields dropped (10-year: -5.5 bps). Equities gained (+0.2%).



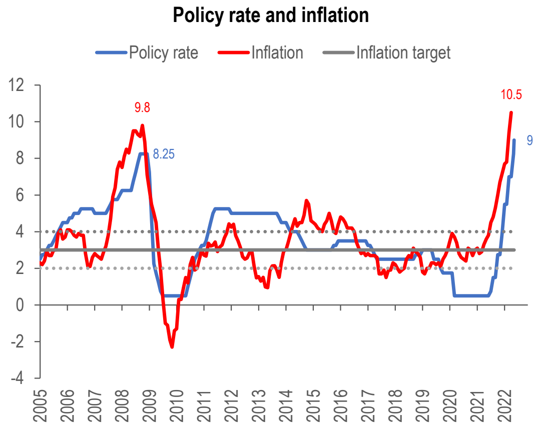
Hungary

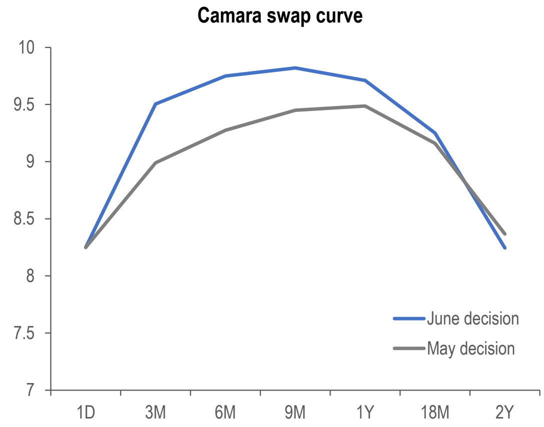
Bond yields are 3–4 bps higher after headline inflation unexpectedly rose to 10.7% y/y (10.4% y/y expected) in May (from 9.7% in April), with core inflation at 12.2% y/y. In separate data, industrial production in April disappointed with a contraction of 1.6% m/m. **Markets expect the central bank to continue hiking rates to around 7.3% a year from now (from 5.9% currently), with cuts priced afterwards.** The forint (-0.3%) edged lower.



Chile

The Chilean central bank slowed the pace of rate hikes to 75 bps, as expected, and forward guidance signaled smaller increases ahead. In a unanimous vote, the policy rate was raised by 75 bps to 9%, compared to 125 bps in May and 150 bps at the prior two meetings, bringing the total increase in rates to 850 bps since last July. Forward guidance indicated smaller rate hikes ahead, likely underscoring the Board's concerns on growth, following a sequential GDP contraction in Q1. A more detailed outlook will be released in the quarterly monetary policy report. The market-implied terminal rate is currently above 9.5%, indicating a continuation of the tightening cycle but the peak likely approaching.





Brazil

The real weakened and swap rates rose after the government announced large tax cuts to reduce energy prices. The government will scrap all federal taxes on gasoline and ethanol until the end of the year and expect a total tax exemption between BRL25–50bn. In addition, President Bolsonaro intends to deliver a Constitutional Amendment that would open room for an extra spending cap to compensate states that reduce the ICMS tax on diesel and natural gas further. However, Senate approval is still pending on the earlier proposal to limit the ICMS tax to 17%. Overall, the package is viewed to reduce near-term inflationary pressures, but adds to fiscal risks, especially considering the possibility of easing the spending cap anchor again. The real weakened 1.9% to 4.88 per dollar. The longer-end of the DI swap curve rose 10–20 bps from the 18-month tenor.

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 (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Johannes S Kramer (New York Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Research Officer), 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

Last updated: 6/8/22 8:10 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		4159	1.0	1	1	-2	-13	-2
Europe		3794	-0.3	1	5	-7	-12	-5
Japan		28234	1.0	3	7	-2	-2	7
China		4220	1.0	3	9	-19	-15	-9
Asia Ex Japan		72	0.5	1	5	-24	-13	-9
Emerging Markets		43	0.3	0	4	-23	-13	-10
Interest Rates					basis points			
US 10y Yield		3.00	2.9	10	-12	147	149	101
Germany 10y Yield		1.35	5.2	16	21	157	152	112
Japan 10y Yield		0.25	0.3	1	1	17	18	5
UK 10y Yield		2.24	2.9	9	25	147	127	76
Credit Spreads					basis points			
US Investment Grade		150	0.3	-1	-5	58	39	8
US High Yield		439	-1.0	10	11	106	101	32
Europe IG		89	0.4	0	-8	41	42	18
Europe HY		450	3.6	4	-19	207	208	98
Exchange Rates					%			
USD/Majors		102.36	0.0	0	-1	14	7	6
EUR/USD		1.07	0.3	1	2	-12	-6	-5
USD/JPY		134.0	1.0	3	3	22	16	16
EM/USD		52.7	-0.1	0	1	-10	0	-1
Commodities					%			
Brent Crude Oil ($/barrel)		122	1.0	5	10	81	62	34
Industrials Metals (index)		188	-0.1	2	0	18	8	0
Agriculture (index)		77	1.1	3	2	29	26	9
Implied Volatility					%			
VIX Index (%, change in pp)		24.4	0.4	-1.3	-5.8	7.3	7.2	-6.7
US 10y Swaption Volatility		104.5	1.5	-4.1	-22.4	43.0	25.5	10.2
Global FX Volatility		10.1	0.0	0.4	-1.0	3.4	2.7	2.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		260	7.4	13	15	151	108	20
Italy		203	2.9	1	3	95	68	32
Portugal		116	0.0	0	2	50	51	24
Spain		113	1.2	1	2	47	39	9

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

Emerging Market Financial Indicators

Last updated: 6/8/2022 8:12 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.68	-0.2	0.0	1	-4	-5	-6		2.9	-0.3	0	-2	-37	1	0
Indonesia		14493	-0.2	0.6	0	-2	-2	-1		7.2	13.8	13	18	76	79	67
India		78	0.0	-0.3	0	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	0.1	-0.8	-1	-10	-4	-3		5.5	0.0	0	10	114	98	48
Thailand		35	-0.1	-0.5	0	-10	-3	-7		2.9	-7.5	-12	-43	94	101	63
Malaysia		4.39	0.0	-0.3	0	-6	-5	-5		4.2	-2.5	-2	-25	88	62	54
Argentina		121	-0.1	-0.9	-4	-22	-15	-12		56.4	28.7	7	377	1110	584	845
Brazil		4.89	-0.3	-1.4	6	3	14	2		11.5	-121.3	-94	-98	247	86	2
Chile		827	-0.7	-0.4	5	-14	3	-4		6.3	0.0	18	-25	230	87	38
Colombia		3785	0.3	-0.3	8	-5	8	3		8.8	0.0	41	-22	322	237	91
Mexico		19.61	-0.1	0.4	4	1	5	3		8.9	-2.5	38	-23	214	133	101
Peru		3.8	-0.4	-1.0	2	5	7	0		7.7	-2.7	14	-63	264	177	167
Uruguay		40	0.0	0.8	5	10	13	7		10.5	0.0	25	44	258	178	235
Hungary		364	-0.2	2.2	-1	-21	-11	-12		7.2	7.5	20	2	460	272	242
Poland		4.25	0.5	1.3	4	-14	-5	-5		6.7	5.3	32	13	480	315	278
Romania		4.6	0.3	0.7	2	-12	-5	-5		8.1	-4.3	27	68	533	324	291
Russia		60.3	3.7	4.9	15	20	25	36		8.1	-1.0	-10	-397	62	-72	-313
South Africa		15.3	0.3	1.6	6	-11	4	-1		8.6	2.0	17	-17	146	121	105
Turkey		17.18	-2.4	-4.6	-12	-50	-23	-20		25.0	122.0	249	208	621	67	257
US (DXY; 5y UST)		102	0.0	-0.1	-1	14	7	6		3.01	2.6	10	-7	224	175	111

	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		4220	1.0	3	9	-19	-15	-9		199	-6	-2	-10	-4	-9
Indonesia		7193	0.7	1	4	19	9	4		185	0	3	10	20	0
India		54892	-0.4	-1	1	6	-6	-4		165	-2	-8	16	33	11
Philippines		6770	0.2	1	0	-2	-5	-8		127	-3	-12	33	26	-10
Thailand		1637	0.3	-2	2	1	-1	-4							
Malaysia		1524	-0.1	-3	-2	-4	-3	-4		123	-1	-1	1	6	-10
Argentina		90938	0.6	-1	5	37	9	0		1931	14	124	445	251	194
Brazil		110070	-0.1	-1	5	-15	5	-2		310	8	18	65	-1	-21
Chile		5359	0.5	1	11	28	24	22		151	0	-10	5	11	-23
Colombia		1587	-1.3	-1	2	26	12	5		344	9	-32	101	-4	-48
Mexico		50139	0.1	-3	1	-1	-6	-2		384	19	15	59	52	14
Peru		20621	0.3	0	-1	1	-2	-12		174	6	-14	0	24	-16
Hungary		40472	0.3	3	-4	-17	-20	-15		221	9	37	81	97	68
Poland		56504	-1.0	-1	2	-15	-18	-10		69	60	67	33	37	53
Romania		12469	0.2	0	2	10	-5	-6		250	1	22	71	58	18
Russia		2323	1.4	-1	-3	-39	-39	-25		3411	-577	938	3228	3234	2897
South Africa		70199	-0.2	-1	3	4	-5	-6		388	5	-5	79	33	-1
Turkey		2645	-0.1	3	8	83	42	31		594	8	59	122	16	31
Ukraine		519	0.0	0	0	-2	-1	0		3376	96	-140	2902	2617	1903
EM total		43	1.0	0	4	-23	-13	-10		384	7	-9	32	-2	-74

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

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