



- Real yields on US Treasuries fall sharply as investor uncertainty remains high ([link](#))
- Analysts see increased geopolitical uncertainty potentially delaying ECB tightening ([link](#))
- EU discusses exclusion of 7 Russian banks from SWIFT ([link](#))
- Western companies continue to sever ties with Russia ([link](#))
- Japan PM Kishida nominates two new members to the BOJ's board ([link](#))
- Reserve Bank of Australia holds policy stance; highlights Ukraine uncertainty ([link](#))

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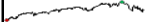







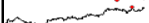


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Markets reassess central bank outlook amid geopolitical uncertainties

Global financial market uncertainty has persisted as investors continue to grapple with ongoing Russia-Ukraine tensions. Stocks have remained on the defensive to start the week as the military conflict in Ukraine continues to escalate. Investors are trading cautiously as they attempt to assess the more punitive sanctions from Western nations over the weekend, while the effects of the expanded restrictions continue to be felt throughout financial markets, including the ruble, which is still exhibiting liquidity strains with significant differences developing between onshore and offshore pricing, alongside widening bid-ask spreads. In addition, local Russian equity markets remain closed for a second day, though foreign listed shares in Russian companies are falling sharply. European equities are down close to 3% this morning, while US equities closed off lows yesterday with energy shares remaining a bright spot as the Russia-Ukraine conflict continues to underpin oil prices. Core sovereign bond yields tumbled over the last day and are declining further this morning, down between 20 to 30 bps across maturities, with the larger moves concentrated at the short-end of the yield curve as expectations for monetary policy tightening have faded so far this week. Markets are now pricing less than 5 FOMC rate increases and less than 20 bps of ECB rate hikes by year-end, while 10-year German bund yields are back trading close to zero. The divergence underneath the movement in nominal bond yields has maintained its recent trend with US and German 10-year real rates falling 20 to 30 bps, while 10-year breakeven inflation rates jumped 10 to 25 bps, with moves even more pronounced at near-dated maturities.

Key Global Financial Indicators

Last updated: 3/1/22 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4374	-0.2	1	-4	12	-8
Eurostoxx 50		3813	-2.8	-4	-10	3	-11
Nikkei 225		26845	1.2	0	-3	-9	-7
MSCI EM		47	-1.3	-4	-5	-15	-4
Yields and Spreads			bps				
US 10y Yield		1.75	-7.7	-19	-4	33	24
Germany 10y Yield		0.01	-12.7	-24	-3	34	19
EMBIG Sovereign Spread		469	40	74	82	112	102
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.7	-0.3	-4	-3	-9	-2
Dollar index, (+) = \$ appreciation		97.1	0.4	1	1	7	1
Brent Crude Oil (\$/barrel)		104.0	6.2	7	17	63	34
VIX Index (% change in pp)		32.1	1.9	3	10	9	15

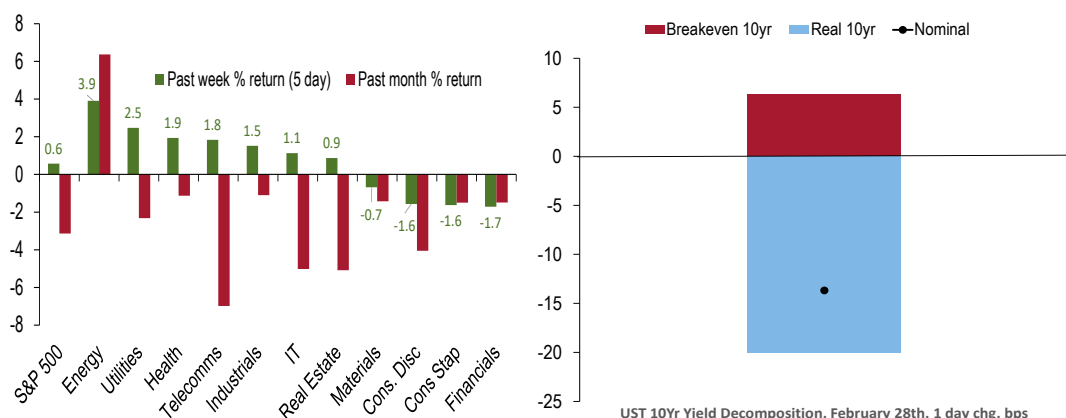
Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

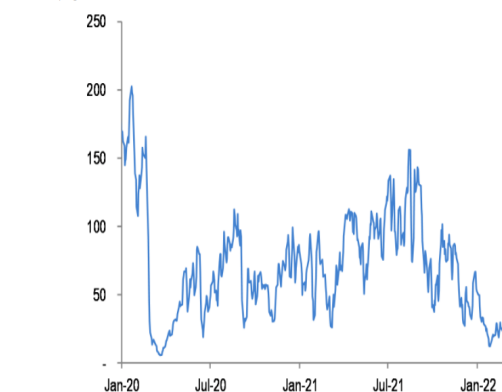
US equities pared large intraday losses to close -0.2% on Monday. US stocks have been relatively resilient over the last week despite escalating geopolitical tensions, with the S&P 500 up 0.6% over the last 5 trading sessions. **Energy, utilities, and healthcare sectors have led the way over the last week,** though industrials and tech also have posted gains. **10- and 2-year Treasury yields fell 14 bps on Monday, as real 10-year yields experienced the largest one day drop (-20 bps) since March 2020** amid some end of the month rebalancing and ongoing volatility in rates markets.



Strong fund inflows over the last week alongside poor liquidity may have exacerbated intraday volatility. The last week has seen significant intraday volatility at times, with swings of at least 1-2% in several sessions. Equity analysts have noted that strong fund inflows last week came in the context of weak liquidity, which likely is driving some of the volatility. Market liquidity—as measured by market depth in S&P 500 mini futures—has remained poor in February despite some recent improvement, and remains the weakest since March 2020 according to JPMorgan. Goldman Sachs also noted that market depth in equity futures has fallen to a level only seen during the GFC, in December 2018, and March 2020. The SPDR S&P 500 ETF—one of the largest equity funds—saw inflows of \$11 bn last week, the highest since December and the second highest in the last year as investors either believe geopolitical tensions are oversold or believe rate hikes may be pushed back. Some analysts also noted that rising oil prices should further support equities through sovereign wealth funds and share buybacks by oil companies.

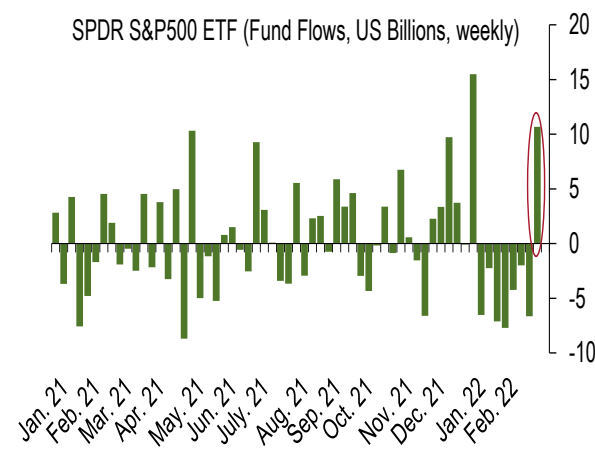
Figure 2: Market depth proxy of S&P500 E-mini futures (ES1)

Average number of contracts on the Bid/Ask in ES1 (S&P 500 E-mini futures), 3-day moving averages using daily data of bid/ask under 1-second sampling.



Source: Nasdaq, J.P. Morgan

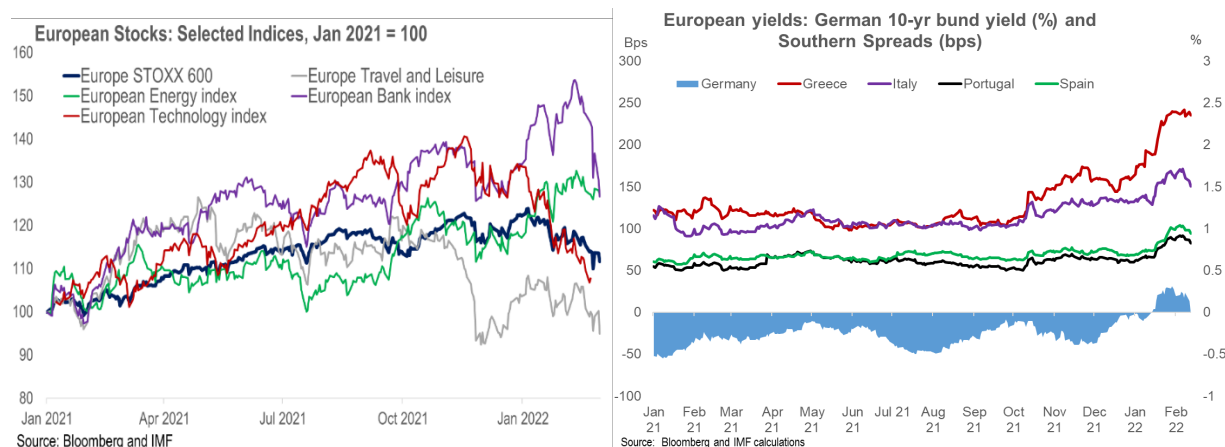
SPDR S&P500 ETF (Fund Flows, US Billions, weekly)



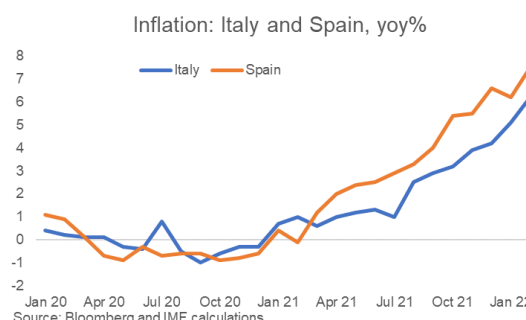
Source: Bloomberg

Euro area

European equities started March in the red with the STOXX 600 Index -1.9% lower. All sectors, apart from resources (+0.1%) were trading lower. From a year-to-date perspective, the resources (+11.6%) and energy (+8.5%) sectors are the best performing sub-sectors, while the technology sector (-19.2%) has underperformed. The banking sector (-4.3%) has given up its year-to-date gains. **European sovereign bond yields are trading lower with the 10-year bund yields (-12 bps) close to zero. Southern European spreads narrowed with spreads between 10-year Italian and German yields falling by 3 bps. The euro depreciated (-0.4%).**



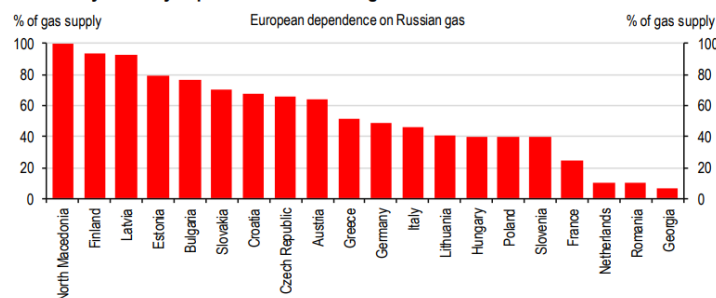
This morning Italy's flash headline inflation surprised on the upside, increasing to +6.2% y/y (consensus 5.5% from 5.1%), driven mainly by higher energy prices. This follows the upside inflation surprise from Spain yesterday, where flash headline inflation increased to 7.4% y/y (consensus 7.1% from 6.1%). Spanish core inflation rose to +3% y/y (from 2.4% in January). **Germany's flash February's CPI data are due later today, while euro area data will be released tomorrow.** Euro area inflation is expected to increase to +5.6% y/y (from 5.1% in January) with core inflation at 2.6% y/y (from 2.3% in January).



Analysts still expect the ECB to cease asset purchases in 2022 but note that increased uncertainty could delay the exit schedule. HSBC analysts note that while higher uncertainty could result in the ECB waiting before announcing asset purchase tapering, they still see a tapering announcement at the upcoming ECB meeting. Analysts expect an asset purchase pace of €40 bn per month in 2Q, with a reduction to €20 bn in 3Q and zero in 4Q. Goldman Sachs analysts still see the Governing Council ending QE in June, but against a backdrop of increased uncertainty, no longer expect the Governing Council to share a firm calendar commitment at the March meeting. **Markets are pricing the first full 10 bp interest rate hike by October, in comparison to last week when a full 10 bp hike was priced in for September.**

The largest risk that geopolitical tensions in Russia and Ukraine poses to Western Europe is additional increases in energy prices, according to HSBC analysts. Analysts argue that further escalation makes the trade-off for policy makers between growth and inflation more difficult, as escalation could lead to higher near-term inflation. A scenario where all Russian gas flows to Europe are interrupted is seen as unlikely.

1. Germany and Italy import almost half their gas from Russia



Source: EU Agency for the Cooperation of Energy Regulators. Note: Latest available data, 2019 or 2020.

Japan

Japan PM Kishida nominates two new members to the central bank's nine-seat board. Hajime Takata, economist from Okasan Securities Group, and Naoki Tamura from Sumitomo Mitsui Financial Group if elected will replace Goushi Kataoka and Hitoshi Suzuki when they finish their five-year terms on July 23. The choice was seen by some analysts as an attempt to balance the board. Kataoka has consistently been the most dovish member supporting additional monetary policy easing, and his replacement received high market attention, Bloomberg reports. Separately, **Japan joined G7 peers to freeze Russia's central bank foreign exchange assets.** Assets of two Russian banks and exports to 49 Russian entities will also be banned. On **data releases**, Japan's final manufacturing PMI was revised downward to 52.7 (preliminary: 52.9) for February but remains within expansion territory of above 50. **Equities climbed +0.5%, Japanese yen strengthened +0.2%, 10-year yields slipped -1 bps.**

Australia

Australia's central bank stays on hold as expected, and highlights Ukraine war risks. The bank repeated its commitment to "highly supportive monetary policy" with inflation still not deemed to be sustainably within the 2-3% target range. Additionally, the bank stated that the war in Ukraine is a major new source of uncertainty and that prices of many commodities have increased further as a result. **Australian equities gained +0.7%, Australian dollar appreciated +0.1%, 10-year yields climbed +5 bps.**

The RBA will be patient on interest rates despite rising inflation



Source: Australian Bureau of Statistics, Bloomberg

Bloomberg

Emerging Markets

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Latin American equities gained, and currencies depreciated. Mexican (+1.6%), Chilean (+1.5%), and Colombian (+0.8%) stocks and the Chilean peso (+0.5%) soared, while other currencies in the region depreciated (PEN -1.1%, COP -0.6%, MXN -0.5%). Hard currency treasury yield curves followed a downward move of their US peer, while local currency treasury yield curves moved up, in particular at the longer end. **Asian equities rebounded and climbed +0.6% on net**, led by technology and communication stocks. **Asian currencies appreciated** led by Thai baht (+0.2%), Indonesian rupiah (+0.2%), and Malaysia ringgit (+0.2%). In **Korea**, its government banned exports to Russia of strategic products, which include computers, semiconductors, sensors, and lasers, among others. The government also joined western countries to ban Russia banks from the SWIFT payments system. In **EMEA**, sentiment remains fragile with focus on a large Russian convoy moving to Kyiv. Eastern European assets sold off, with equities

4.8% lower in Hungary and 0.5% in Poland. The Hungarian forint and Polish zloty fell 1% against the euro. **The presidents of Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, and Slovenia sent an open letter calling for the EU to immediately grant an accession path to Ukraine.** South African equities (+0.8%) gained and the rand was little changed after the Absa manufacturing PMI index was firmer than expected at 58.6.

Emerging Market Hard Currency Bond Issuance

Borrowers issued \$7.7 bn in EM hard currency debt in the last week of February, just about half of the previous week's volume. Chinese financials and other corporates accounted for the majority with \$4.7 bn issued, while Chinese local governments and municipalities issued \$1.5 bn. Bolivia issued \$0.9 bn in sovereign debt. The remainder was issued by companies from Korea and the United Arab Emirates.

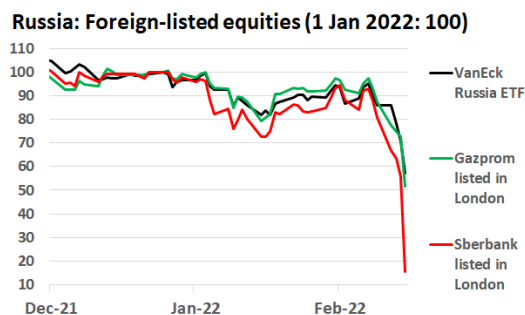
Sector	Last week	The week before	YTD
Corporate	1.4	1.7	37.3
Sovereign	0.9	7.4	30.2
Financial	4.0	2.9	23.6
Agency	-	1.5	10.4
Muni/Local Gov't	1.5	-	4.0
Supra	-	-	1.0
Total	7.7	13.5	106.5

Source: Bond Radar, Bloomberg

Russia

The ruble is little changed at \$104 as sanction news is digested and Russia announced a range of policy measures. Yesterday, the Russian government mandated exporters to sell at least 80% of foreign exchange earnings, announced capital controls on foreign investment, restricted residents from transferring foreign currency overseas, and eased liquidity and regulatory provisions for domestic banks. Contacts believe that index providers are likely to remove Russia from stock and bond indexes as they assess accessibility. The Russian central bank confirmed that a ban on Russian residents from servicing their foreign debt does not mean that the sovereign will default. **The Moscow stock exchange is closed for a second day while foreign-listed Russian equities remain under severe pressure.** The VanEck Russia ETF, the largest U.S. listed ETF tracking Russian equities, fell 12% in pre-market trading in NY after closing 30% lower yesterday.

The EU is discussing the exclusion of seven Russian banks from the SWIFT messaging system, including VTB, Bank Rossiya, Bank Otkritie, Novikombank, Promsvyazbank, Sovcombank and VEB. According to news reports, the list does not include GazpromBank and Sberbank at this stage. **Italian PM Draghi said that he is open to further sanctions on Russia and added that the BIS should participate in sanctions against Russia's central bank.**



Source: Bloomberg and IMF

Western companies have continued to sever ties with Russia. Shell said that it is ending partnerships with state-controlled Gazprom. Equinor, Norway's biggest energy company, will start to withdraw from its joint ventures in Russia (worth about \$1.2 bn). Law firm Baker McKenzie announced that it will sever ties with several Russian clients to comply with sanctions. General Motors is halting shipments to Russia, citing "a number of external factors, including supply chain issues and other matters beyond the company's control."

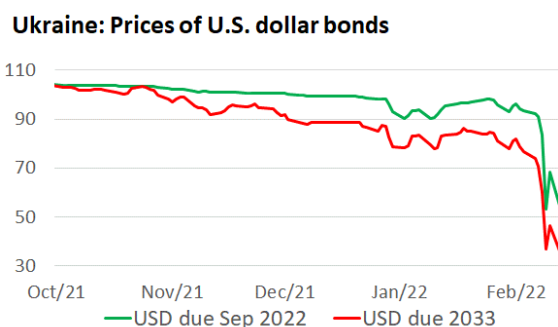
Russia has banned airlines from the EU, Canada, and a host of other countries from its airspace in retaliation to sanctions as contacts speculate on further responses from Russia. Contacts believe that Russia could decide to withhold certain commodity deliveries (such as a reduction in sales of key metals, fertilizer, and wheat) or intensify cyber-attacks against Western banks or companies.

Crypto Assets

Bitcoin (+5% to 43k) traded higher with reports of high volumes in crypto exchanges by both Russians and Ukrainians.

Ukraine

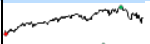
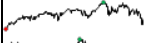



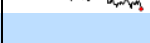






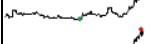


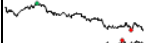

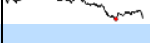









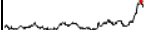
The Ministry of Finance said that Ukraine is seeking to raise war bonds today. U.S. dollar bonds remain distressed, with limited liquidity.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (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), Liumin Chen (Research Assistant), 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), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 3/1/22 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4374	-0.2	1	-4	12	-8
Europe		3813	-2.8	-4	-10	3	-11
Japan		26845	1.2	0	-3	-9	-7
China		4620	0.8	1	1	-14	-6
Asia Ex Japan		79	-1.0	-3	-4	-19	-5
Emerging Markets		47	-1.3	-4	-5	-15	-4
Interest Rates			basis points				
US 10y Yield		1.75	-7.7	-19	-4	33	24
Germany 10y Yield		0.01	-12.7	-24	-3	34	19
Japan 10y Yield		0.18	-1.6	-2	0	2	11
UK 10y Yield		1.26	-15.5	-22	-5	50	28
Credit Spreads			basis points				
US Investment Grade		146	2.7	5	19	54	34
US High Yield		420	8.3	10	42	71	82
Europe IG		74	3.3	3	17	26	26
Europe HY		361	16.2	11	80	114	119
Exchange Rates			%				
USD/Majors		97.06	0.4	1	1	7	1
EUR/USD		1.12	-0.5	-1	-1	-7	-2
USD/JPY		114.8	-0.2	0	0	8	0
EM/USD		51.7	-0.3	-4	-3	-9	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		104	6.2	7	17	63	34
Industrials Metals (index)		193	2.2	2	7	32	12
Agriculture (index)		72	3.3	5	11	40	19
Implied Volatility			%				
VIX Index (% change in pp)		32.1	1.9	3.3	10.1	8.7	14.9
US 10y Swaption Volatility		102.0	2.5	7.3	23.4	24.0	23.0
Global FX Volatility		8.2	0.0	0.6	0.9	0.4	0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		237	-2.2	-1	48	103	85
Italy		154	-2.7	-14	17	55	19
Portugal		83	-3.6	-7	17	27	18
Spain		95	-2.6	-7	21	30	21

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

Emerging Market Financial Indicators

Last updated: 3/1/2022 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	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		6.31	-0.1	0.2	1	2	1		2.9	3.0	-1	19	-44	5		
Indonesia		14337	0.2	0.2	0	-1	-1		6.5	-0.5	1	7	-5	13		
India		75	-0.1	-1.1	-1	-2	-1		6.3	0.0	0	9	75	0		
Philippines		51	0.1	0.4	-1	-5	0		5.1	0.0	13	53	116	63		
Thailand		33	0.2	-0.6	2	-7	2		2.2	-2.5	-2	11	58	35		
Malaysia		4.19	0.1	-0.2	0	-3	-1		3.7	-0.1	1	-1	58	8		
Argentina		107	-0.1	-0.6	-3	-16	-4		48.4	0.0	38	-61	686	-217		
Brazil		5.15	-0.7	-0.3	6	7	8		11.7	2.0	1	17	292	98		
Chile		803	-0.5	-1.2	0	-10	6		5.7	-9.5	-22	5	266	28		
Colombia		3943	-0.1	-0.3	0	-8	3		8.1	0.0	28	98	323	164		
Mexico		20.50	-0.1	-0.9	0	1	0		7.9	0.0	6	30	174	37		
Peru		3.8	-1.2	-0.6	2	-3	6		6.2	-0.2	15	3	189	25		
Uruguay		43	1.4	1.1	5	2	5		8.1	0.0	6	-64	112	-58		
Hungary		339	-2.5	-7.5	-7	-11	-4		5.1	-4.5	29	21	270	58		
Poland		4.29	-2.3	-6.4	-5	-12	-6		3.8	-12.5	-7	-26	210	25		
Romania		4.4	-0.5	-1.5	-1	-9	-2		5.5	8.9	38	53	262	70		
Russia		96.9	1.2	-18.6	-21	-23	-23		15.5	63.1	477	607	841	669		
South Africa		15.4	-0.2	-2.2	-1	-3	3		7.7	-1.0	16	1	19	24		
Turkey		13.94	-0.6	-1.0	-4	-48	-5		24.5	6.0	236	149	1122	14		
US (DXY; 5y UST)		97	0.4	1.1	1	7	1		1.60	-11.7	-26	-2	90	34		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		4620	0.8	1	1	-14	-6		214	7	11	4	11	
Indonesia		6921	0.5	0	3	9	5		210	20	22	18	45	
India		56247	0.0	-2	-4	13	-3		170	15	30	22	38	
Philippines		7405	1.3	0	-1	7	4		163	22	44	51	62	
Malaysia		1596	-0.7	1	6	2	2		146	16	24	10	29	
Argentina		87970	-0.8	-2	-3	82	5		1814	107	63	321	134	
Brazil		113142	1.4	0	1	3	8		331	0	7	53	20	
Chile		4518	-0.4	1	-2	-3	5		183	17	24	33	43	
Colombia		1528	0.8	2	-1	13	8		383	5	10	146	35	
Mexico		53401	1.6	3	3	19	0		367	3	19	7	35	
Peru		23749	-0.1	0	5	4	12		192	9	25	36	42	
Hungary		41158	-5.9	-15	-22	-8	-19		178	21	49	44	54	
Poland		60739	-0.7	-6	-11	5	-12		62	47	50	34	30	
Romania		12672	-0.3	-3	-6	24	-3		255	40	47	46	63	
Russia		2470	0.0	-19	-30	-27	-35		2473	2183	2199	2296	2296	
South Africa		76657	0.7	1	2	14	4		412	22	42	28	57	
Turkey		1964	0.9	-3	-3	29	6		597	46	40	157	19	
Ukraine		519	0.0	0	-1	-1	-1		3196	2199	2282	2674	2437	
EM total		47	-0.5	-4	-5	-15	-4		556	128	140	191	170	

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

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