



- ECB officials emphasize QE decisions do not predetermine timing of first hike ([link](#))
- Measure of market liquidity in U.S. bonds deteriorates ([link](#))
- Japanese yen depreciates as household spending falls in January ([link](#))
- Weekly bond outflows from EM continue ([link](#))
- Chinese onshore equities rose, but offshore tech stocks fell ([link](#))
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## Markets remain volatile as headline boosts sentiment

**Risk assets gained after Russian President Putin cited “positive developments” in talks with Ukraine.** Yesterday’s ECB meeting was seen by many participants as hawkish, but ECB officials argued this morning that ECB decisions on its asset purchases do not predetermine the timing of the first hike. Nevertheless, traders have priced in further rate tightening by the ECB this year following yesterday’s meeting. China said that meeting its 5.5% growth target for this year will require additional support measures, including tax relief. Weekly bond outflows from EM have continued even as commodity exporters have seen inflows.

Key Global Financial Indicators

Last updated: 3/11/22 1:08 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4260	-0.4	-2	-4	8	-11
Eurostoxx 50		3736	2.3	5	-10	-3	-13
Nikkei 225		25163	-2.1	-3	-7	-15	-13
MSCI EM		43	-1.9	-5	-11	-21	-11
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.01	2.1	28	7	47	50
Germany 10y Yield		0.30	2.9	37	1	64	48
EMBIG Sovereign Spread		498	-6	19	128	131	131
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		50.4	0.3	0	-5	-12	-4
Dollar index, (+) = \$ appreciation		98.6	0.1	0	3	8	3
Brent Crude Oil (\$/barrel)		110.1	0.7	-7	17	58	42
VIX Index (% change in pp)		29.3	-0.9	-3	2	7	12

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

## Mature Markets

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### Energy markets

**Brent crude oil is little changed at \$109/bbl as European natural gas futures had another volatile morning.** That said, natural gas prices are trading roughly 37% lower than at the end of last week.

**EC President von der Leyen proposed measures to EU leaders that would phase out Russian fossil fuel imports by 2027.**

### United States

**S&P 500 closed down 0.4%, though recovered strongly from the intra-day lows of a 1.6% decline.** Within equities, the financials and the tech stocks were the notable laggards, while energy stock outperformed. US treasury yields rose by ~4 bps across the curve after inflation accelerated for a sixth successive month. **The 10-yr Treasury yield touched the 2% level intra-day, while the 30-year rate reached the highest since May 2021.**

**Bloomberg indicators suggest that market liquidity in the US treasuries has reached declined to the lowest level since the pandemic sell-off in 2020.** Market analysts continue to highlight that this could be a source of significant market stress, especially given the elevated rate uncertainty and volatility.



**Drivers of the credit market sell-off has changed over time.** The high yield market has broadly sold off this year, with spreads roughly 100bp wider and total returns down almost 5%. However, contrary to the start of 2021, beta has not been the story defining market returns in early 2022. Instead, they have been almost exclusively driven by macro moves and duration. **Barclays analysts note that CCC-rated issuers have returned -3.9% this year, roughly in line with single-Bs and ahead of the BB total return of -5.3%. Typically, when the index return is negative, lower-quality credits tend to underperform.** However, single-Bs and CCCs have outperformed their implied beta this year. The outperformance has been driven primarily by the shorter duration of the lower-rated cohorts.

### Japan

**Household spending dropped 1.2% m/m in January.** However, recent household spending was still higher than that during the full state of emergency last year, rising 6.9% y/y (consensus: +3.4%). Analysts noted that the Omicron-driven outbreak and higher energy costs have weighed on household confidence and their spending. **Japanese equities declined (NIKKEI: -2.1%)** along with other stock markets in the regions as investors are increasingly concerned about inflation.



**Japanese yen depreciated** (-0.7%) to the weakest level in five years given the prospect of growing divergence in monetary policy between the U.S. and Japan. Long-end JGB yields declined (10-year: -0.8 bp; 30-year: -0.6 bp), supported by safe-haven demand.

### Euro area

**Equities opened in the green with the Stoxx 600 Europe index trading +2.2% higher, roughly 3.2% higher from last week.** Gains this morning were broad based across sectors with the travel and leisure (+4.8%) sector outperforming. The banking sector was trading 3.3% higher.

**The euro was trading marginally weaker when markets opened but appreciated (+0.3%) following reports of positive developments in the Ukraine/Russian negotiations.**

**Yesterday the ECB's Governing Council meeting was seen by many participants as hawkish.**

The ECB adjusted the pace of asset purchases under its asset purchase programme (APP) and changed wording in the guidance, saying adjustments in the interest rates will take place "some time after" the end

of asset purchases (previously "shortly after"). Monthly net APP purchases will now amount to €40bn in April, €30bn in May and €20bn in June (from previous guidance of €40 bn in Q2, €30 bn in Q3, and €20bn thereafter) and could end in the third quarter, but the decision would be data-dependent. **The ECB also shared its updated economic outlook, together with two downside scenarios, which saw a downward revision in growth and an upward revision in inflation.**

### Growth and inflation projections for the euro area

(annual percentage changes)

	March 2022 projections				Adverse scenario				Severe scenario			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP	5.4	3.7	2.8	1.6	5.4	2.5	2.7	2.1	5.4	2.3	2.3	1.9
HICP inflation	2.6	5.1	2.1	1.9	2.6	5.9	2.0	1.6	2.6	7.1	2.7	1.9

Notes: Real GDP figures refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications due to data releases after the cut-off date for the projections.

**Traders are pricing in roughly +40 bps of hikes by the ECB this year**, up from roughly +34 bps expected the day before the ECB meeting.

**ECB Governing Council member Francois Villeroy de Galhau this morning argued that markets did not adequately recognize that the change in language to "some time after" shows that the ECB can take as long as deemed necessary to increase rates**, as markets instead focused on plans to speed up the net asset purchase conclusion. **Olli Rehn also emphasized that the new guidance does not signal earlier or later rate hikes.** Mario Centeno noted that the ECB's decision yesterday did not change the medium-term monetary policy outlook.

### United Kingdom

**January's GDP data surprised on the upside as covid restrictions in the UK were loosened, increasing to +0.8% mom (0.1% expected from -0.2%).**

**Money markets are fully pricing in a 25 bps hike for the BoE meeting next week Thursday**, with another hike seen in May to take the Bank rate to 1%. Equities were trading higher (+1.7%) and 10-yr gilts increased (+3bps). The pound (+0.2% to \$1.31) edged higher.

### Emerging Markets

**Asian equities declined, -2.3% on net, led by Hong Kong (-1.6%) and Taiwan (-1.0%).** Chinese equities gained (CSI 300: +0.3%). Asian currencies depreciated, led by Indian rupee (-0.4%) and Thai baht (-0.4%). **Long-end government bond yields were mixed, with 10-year yields rising in Philippines (+15.8 bps)**

**while falling in China (-6.1 bps).** In India, the government is working out a mechanism to facilitate trade with Russia using local currencies; reportedly, **Indian exporters are awaiting payments of about \$500 mn that have been stuck after the sanctions.**

**Risk assets gained after Russian President Putin cited positive developments in talks with Ukraine at the start of a meeting with Belarus President Lukashenko.** Putin also mentioned that talks are happening on an almost daily basis but provided no further details. Equities outperformed in Hungary (+2.4%) and Poland (+2.3%). The Polish zloty edged higher, but the forint was little changed. The Turkish lira and South African rand rose +0.3%.

**Yesterday, equities slumped in Mexico (-1.0%) and Chile (-1.0%) but outperformed in Argentina (3.5%). Currencies were little changed in Argentina, Brazil, and Mexico but appreciated in Chile (0.3%) and depreciated in Colombia (-1.6%).** Shares of Petrobras (3.5%) rallied after the Brazilian state oil company was able to lift diesel and gasoline prices by 25% and 19%, respectively, following discussions with the government.

### Flows

**Weekly outflows from EM bond funds increased** as hard currency bond funds outflows were the largest in a year (-\$2.3 bn), and local currency bond funds outflows were similar to last week (-\$1 bn). **JPM analysts note that the bond outflows are reaching March 2020 levels.**

### China and Hong Kong SAR

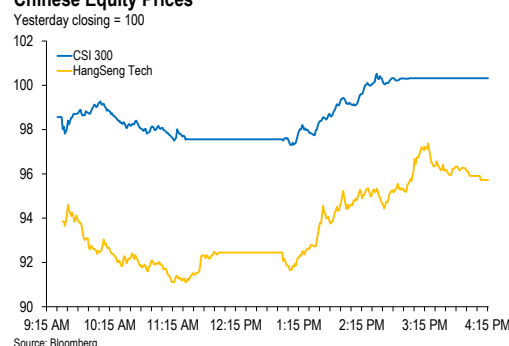
**Premier Li Keqiang said that the government will meet this year's 5.5% growth target but that the target will require additional support measures, including tax relief.** He added that achieving maximum growth of employment is a top priority. The government must also provide timely support to the services sectors, which have been hard hit by the pandemic. Regarding the Russia-Ukraine conflict, he reiterated China's support for cease-fire talks while avoiding criticizing Russia.

**Attempts to boost yuan-ruble trading showed little sign of boosting market activity. The bid-ask price widened to a new record of 287 pips, up from 106 pip yesterday. Analysts noted that despite the dearth of liquidity, the yuan-ruble currency pair may still be viewed as a proxy for gauging fair ruble value.** Sanctions have eliminated liquidity in dollar-ruble currency trading.

**Aggregate financing increased 1.19 tn yuan (\$118 bn) in February, weaker than expected (consensus: 2.2 tn yuan).** In addition, longer-term bank lending to households declined, pointing to weakness in mortgage lending. Long-end CGB yields dropped (10-year: -6.1 bps) as markets speculated for further monetary policy easing given weaker-than-expected credit growth.

**Chinese onshore equities rose, but offshore tech stocks fell.** Onshore stock prices closed with some gains (CSI 300: +0.3%) after erasing the morning's losses. Meanwhile, tech stocks listed in Hong Kong SAR faced downward pressures (HangSeng Tech: -4.2%) following a sharp decline in U.S.-listed Chinese stocks yesterday (-10.0%). **The U.S. Securities and Exchange Commission identified five Chinese firms that could be subject to delisting if they failed to comply with certain auditing requirements; analysts noted that there was nothing new in terms of the ADR delisting process.** Didi also suspended its plan to get listed in Hong Kong SAR after failing to fulfill China's data security requirements. RMB depreciated (-0.1%).

Chinese Equity Prices



## Belarus

**Moody's downgraded Belarus's long-term foreign debt rating to Ca from B3.** Moody's argues that a default by Belarus has become increasingly likely given concerns around the government's willingness to repay its debt obligations and expectations that any potential financial support coming from Russia will unlikely be used for that purpose. **Belarus has \$9 bn of Eurobonds in U.S. dollar outstanding (according to Bloomberg), with prices of bonds quoted around 6 cents.**

## Russia

**The off-shore ruble (+5% to \$128) gained but is still set to close the week 7% weaker in illiquid trading.**

**EC President von der Leyen is proposing measures to EU leaders that would phase out Russian fossil fuel imports by 2027.**

**Russia said it would pay its foreign creditors on condition that a freeze on its \$643 bn of central bank reserves is lifted.** Bondholders would be able to get their payments in hard currency only if a block on the central bank's reserves held overseas is removed.

**Contacts report that markets for Russia CDS credit protection have remained liquid as traders position ahead of next Wednesday's coupon payment and a Eurobond payment due on 4 April.** Contacts have been divided on whether CDS swaps would be paid out in case of a default of Russia's hard currency debt given issues with deliverability and settlement. **Analysts at JP Morgan argue that the CDS process could function even though there is currently an unusual dislocation between the cost of insuring Russian credit risk and the yield pickup on the bonds.**



**Some Russian USD and EUR bonds have alternative currency payment fallback mechanisms and allow the issuer to pay in other hard currencies, and in some cases, ruble.** This ruble optionality may render these bonds out of scope for CDS as 'obligations' and 'deliverable obligations'.

**Russia's economy ministry has outlined new policies to take temporary control of departing companies where foreign ownership exceeds 25%.**

**The Bank for International Settlements has suspended Russia from using its services following Western sanctions.** The access of the central bank of Russia to all BIS services, meetings, and other BIS activities, has been suspended.



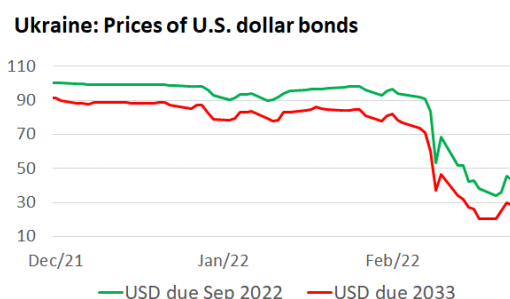
**Goldman Sachs is the first major Wall Street bank to leave in response to the nation's invasion of Ukraine.** At the end of 2021, GS's total credit exposure to Russia was \$650 mn, most of which was tied to non-sovereign counterparties. **JPMorgan announced that it would also actively unwind its Russia business.**

**Citigroup is assessing its operations in Russia.** It previously announced efforts to exit its consumer business there and is now operating it "on a more limited basis given current circumstances and obligations." Potential buyers for Citigroup's retail operation in Russia are now subject to sanctions. Citigroup's roughly 3,000 workers there give it by far the largest presence of any major U.S. bank in Russia. Citi had about \$9.8 bn of loans, assets and other exposure tied to Russia, local companies, and counterparties, as well as to the Bank of Russia, at the end of 2021.

## Ukraine

**Russia's invasion has resulted in about \$100 bn worth of Ukrainian assets and infrastructure being lost or destroyed,** according to Zelenskyy's chief economic adviser.

**Prices of Ukraine's U.S. dollar bonds edged lower after gaining 10 points on strong interest from high-yield and distressed funds earlier this week.**



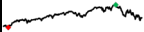
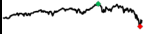


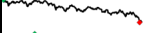





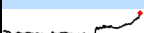




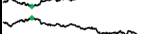

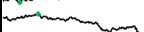
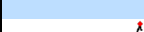



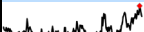

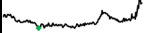
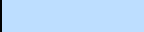


## Peru

**Peru central bank lifts key rate by 50bps to 4%.** The central bank raised the key rate for the eighth consecutive meeting after inflation reached 6.2% y-o-y last month, well above the 2% mid-point target. With food and energy representing more than 44% of its consumption basket, the Andean state is particularly vulnerable to the economic fallout of the Russian invasion of Ukraine. As a result, the central bank now foresees inflation back on target in the first half of 2023 instead of end-2022.

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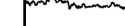

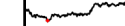







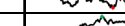
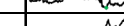




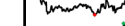


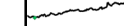







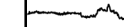


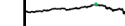



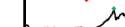



## Global Financial Indicators

Last updated: 3/11/22 1:09 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4275	-0.4	-1	-3	9	-10
Europe		3736	2.3	5	-10	-3	-13
Japan		25163	-2.1	-3	-7	-15	-13
China		3310	0.4	-4	-3	-4	-9
Asia Ex Japan		73	-2.1	-5	-11	-24	-12
Emerging Markets		43	-1.9	-5	-11	-21	-11
<b>Interest Rates</b>			basis points				
US 10y Yield		2.00	1.8	27	7	47	49
Germany 10y Yield		0.30	2.8	37	1	64	48
Japan 10y Yield		0.19	-0.9	2	-5	8	11
UK 10y Yield		1.53	0.7	32	-2	80	56
<b>Credit Spreads</b>			basis points				
US Investment Grade		165	-1.2	9	34	64	53
US High Yield		429	-3.3	4	27	74	92
Europe IG		78	-2.1	-4	12	32	31
Europe HY		375	-12.4	-24	49	138	133
<b>Exchange Rates</b>			%				
USD/Majors		98.63	0.1	0	3	8	3
EUR/USD		1.10	0.1	1	-3	-8	-3
USD/JPY		116.9	0.6	2	1	8	2
EM/USD		50.4	0.3	0	-5	-12	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		110	0.6	-7	16	58	41
Industrials Metals (index)		231	0.3	8	26	60	34
Agriculture (index)		74	-1.1	-2	10	42	21
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		29.3	-1.0	-2.7	1.9	7.4	12.1
US 10y Swaption Volatility		101.8	0.4	-24.0	11.2	21.7	22.8
Global FX Volatility		9.3	0.0	-0.4	1.7	1.6	1.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		230	1.2	-14	-5	118	78
Italy		159	-3.6	-1	-6	66	24
Portugal		85	-1.0	-5	-2	33	21
Spain		98	-0.9	-5	6	35	24

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

## Emerging Market Financial Indicators

Last updated: 11/03/2022 1:10 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M	YTD		
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.34	-0.2	-0.3	0	2	0		2.9	-9.0	-6	2	-49	1		
Indonesia		14301	-0.2	0.6	0	1	0		6.7	-2.5	4	20	-3	34		
India		77	-0.4	-0.6	-2	-5	-3		6.3	0.0	0	9	75	0		
Philippines		52	-0.2	-1.0	-2	-7	-2		5.0	0.0	10	15	30	55		
Thailand		33	-0.4	-1.9	-2	-8	0		2.3	4.5	13	7	53	44		
Malaysia		4.20	-0.2	-0.4	0	-2	-1		3.7	0.9	2	-3	44	9		
Argentina		109	-0.1	-0.7	-3	-17	-6		48.1	-31.1	-47	-228	461	-242		
Brazil		5.00	0.3	1.2	5	11	11		12.4	5.9	57	71	352	166		
Chile		804	-0.1	0.3	1	-11	6		5.9	3.0	17	-2	274	52		
Colombia		3819	0.0	0.1	3	-7	6		8.2	0.0	28	37	345	182		
Mexico		20.87	0.3	0.4	-2	-1	-2		8.3	9.0	41	57	210	82		
Peru		3.7	0.4	0.5	1	0	8		6.7	0.5	26	64	207	81		
Uruguay		43	-0.1	0.1	1	5	5		8.4	0.0	25	3	118	-33		
Hungary		346	0.1	2.4	-9	-12	-6		5.8	6.0	55	99	336	124		
Poland		4.35	0.1	2.9	-7	-12	-7		4.7	15.5	77	66	303	117		
Romania		4.5	0.1	0.6	-3	-9	-3		6.0	-6.2	45	94	338	122		
Russia		131.2	2.3	-6.3	-41	-44	-43		31.3	88.6	481	2150	2419	2248		
South Africa		15.0	0.3	2.6	1	-1	6		8.0	-11.5	12	40	51	56		
Turkey		14.81	0.3	-4.1	-9	-49	-10		25.8	-21.0	78	386	1180	145		
US (DXY; 5y UST)		99	0.1	-0.1	3	8	3		1.94	1.3	30	8	115	67		

	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		4307	0.3	-4	-5	-16	-13		226	6	31	15	23	
Indonesia		6923	0.0	0	3	9	5		204	1	38	-1	39	
India		55550	0.2	2	-2	9	-5		197	17	58	32	65	
Philippines		7112	-0.2	-3	-3	6	0		148	-3	37	21	47	
Malaysia		1568	-0.8	-2	-1	-3	0		148	6	27	10	31	
Argentina		90283	3.5	-1	2	87	8		1825	-33	51	198	145	
Brazil		113663	-0.2	-1	0	-1	8		328	2	20	29	17	
Chile		4651	0.9	0	0	-5	8		178	0	24	25	38	
Colombia		1543	0.4	0	3	14	9		380	-9	32	142	32	
Mexico		53388	-1.0	0	0	12	0		373	5	28	15	41	
Peru		24791	0.1	1	4	9	17		191	3	20	20	41	
Hungary		42815	1.9	6	-18	-2	-16		172	3	40	29	48	
Poland		61306	2.5	5	-9	4	-12		74	12	76	42	42	
Romania		12180	2.2	7	-9	14	-7		251	2	55	47	58	
Russia		2470	0.0	0	-30	-30	-35		6647	4306	6423	6467	6470	
South Africa		73798	-0.1	-1	-3	7	0		383	-8	19	-3	28	
Turkey		2056	0.7	3	0	32	11		646	27	125	195	68	
Ukraine		519	0.0	0	0	0	-1		4060	-283	3242	3520	3301	
EM total		43	1.4	-5	-11	-21	-11		598	38	197	215	211	

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

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