



- Markets in Europe and the US rally on hopes of peace talks in Ukraine ([link](#))
- Chinese tech stocks plunge 11% in biggest selloff since 2008 ([link](#))
- Russia threatens default on eurobonds by paying in rubles ([link](#))
- EU discusses up to €2tn in new spending on defense and energy ([link](#))
- Surge in volatility threatens US bond markets ([link](#))
- Global economy confronts spike in prices of agricultural commodities ([link](#))

[Mature Markets](#)



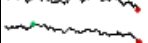
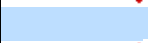


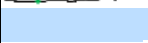
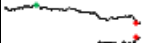
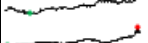

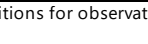
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Hopes for peace talks boost markets

Markets are higher in Europe and US equity index futures are posting gains due to new negotiations between Russia and Ukraine. Sentiment was also bolstered by the news that China and the US will hold talks in Rome, the first official contact since Russia's attack on Ukraine began. This followed press reports over the weekend that Russia had asked China for military aid, which China has denied. Meanwhile, interest rates were sharply higher as the German 10-year bund yield hit its highest level since 2018 and the US 10-year Treasury yield broke decisively above 2%. These moves highlight the next key market development, the first rate hikes expected from the Fed this week and the ECB later this year, with other central banks such as the BOE and Bank of Canada already in hiking mode.

Key Global Financial Indicators

Last updated: 3/14/22 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		4204	-1.3	-3	-4	7	-12
Eurostoxx 50		3731	1.2	6	-8	-3	-13
Nikkei 225		25308	0.6	0	-6	-15	-12
MSCI EM		43	-2.1	-5	-12	-21	-13
Yields and Spreads							
			bps				
US 10y Yield		2.07	7.9	30	8	45	56
Germany 10y Yield		0.33	8.5	35	5	64	51
EMBIG Sovereign Spread		496	-2	-15	108	140	129
FX / Commodities / Volatility							
			%				
EM FX vs. USD, (+) = appreciation		50.7	1.2	2	-5	-11	-3
Dollar index, (+) = \$ appreciation		99.0	-0.1	0	3	8	4
Brent Crude Oil (\$/barrel)		108.1	-4.0	-12	12	56	39
VIX Index (% change in pp)		31.3	0.6	-5	3	11	14

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

Mature Markets

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The coming week is an extremely busy one for global markets. Although the war in Ukraine retains center stage, there are crucial meetings being held by the Fed, the BOE and the BOJ that will have a big impact on events going forward even as markets grapple with the fallout from the conflict. The FOMC meeting on Wednesday is expected to deliver the first 25 bps hike of the new cycle, as well as updated predictions about interest rates and information about the Fed's balance sheet runoff. The BOE is expected to deliver another 25 bps hike at its meeting on Thursday. There is speculation that the PBOC could announce new stimulus measures after an ambitious growth target of 5.5% was set during China's National People's Congress. Taiwan POC, Brazil, and Indonesia also have central bank meetings. After last week's 7.9% US CPI print, all eyes will be on the euro area CPI report due on Thursday. Meanwhile, there will be an emergency meeting of NATO defense ministers on Wednesday.

United States

Interest rate volatility has surged to pandemic-era highs as the fallout from the war spills over across all global markets. The US is no exception, with the volatility for benchmark 10-year swaptions (options on interest rate swaps) spiking higher. In addition, the term structure of volatility has inverted, reflecting the high degree of risk aversion amidst fear that volatility in the short term could go even relative to long-term volatility. Even the safe haven US Treasury market has not escaped the contagion, with liquidity in a poor state and contacts stating that dealers are reluctant to handle large Treasury trades. Bid-offer spreads have widened and off-the-run Treasuries are trading at deeper discounts than on the run Treasuries. Conditions are so severe that some analysts have called for action by the authorities to stabilize markets, arguing for measures ranging from the delay of quantitative tightening by the Fed to smaller auctions by the Treasury.

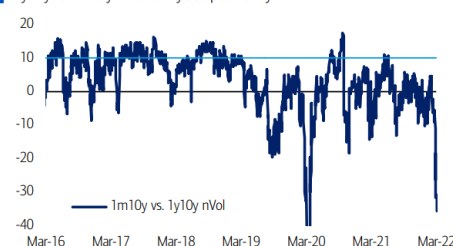
Exhibit 1: 1y10y vol spikes to levels that exceed the 1Q20 spike
95bp for 1y10y implied vol beyond the 75-85bp expected range for '22



Source: BofA Global Research, Bloomberg

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Exhibit 2: Deep inversion of the term structure of volatility
1y10y vs 1m10y inverted by 35bp currently



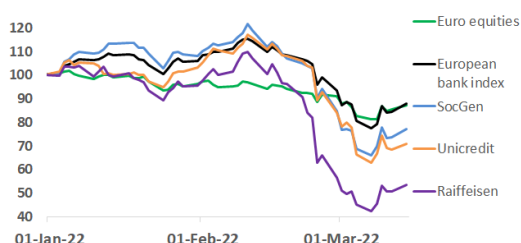
Source: BofA Global Research, Bloomberg

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Euro area

European equities (+1.3%) and the euro (+0.3%) traded higher on hopes of productive peace talks between Russia and Ukraine. Talks began via video link starting 10:30 am Kyiv time. Bank stocks gained almost 5%.

Europe: Bank equity performance (1 Jan 2022: 100)



Source: Bloomberg and IMF

Reports that EU leaders have discussed up to €1.5-2 tn in new spending on defense and energy in response to the war in Ukraine have also supported risk sentiment. EU leaders are said to have also discussed the possible use of joint debt issuance. The European Commission (EC) confirmed that it is working on plans to deal with the energy shock and potential supply cutoffs stemming from Russia's invasion. The EC is also working on plans to optimize the design of the EU's electricity markets. **EU leaders will meet again on 24-25 March.**

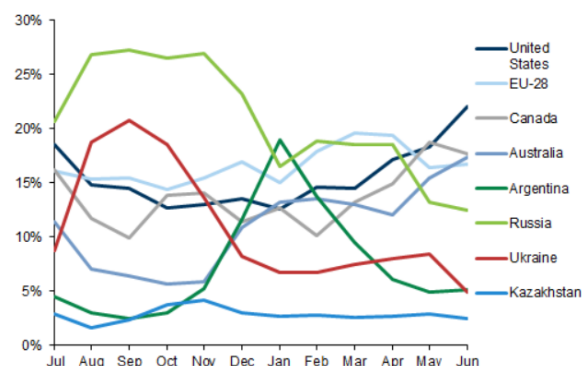
German 10-yr bund yields (+10 bps to 0.34%) are sharply higher. Spreads on 10-yr Southern European bonds are little changed.

Agricultural Commodities

The agricultural commodity market has suffered a major disruption due to the war in Ukraine, causing a sharp spike in prices that is likely to have major negative spillovers, especially for emerging markets. Wheat prices are up 35% this year, while corn is up 30%. Ukraine and Russia account for 28% of global wheat exports, and exports from Ukraine have been effectively cut off due to the fighting in the south and Russian control of the Black Sea. Even exports from Russia have fallen as many companies are reluctant to deal with Russian counterparties due to the sanctions. Ukraine is an extremely important source of wheat for countries such as Egypt, Lebanon, and Nigeria among many others, which have limited fiscal resources and whose populations are likely to suffer greatly due to the surge in prices. Restrictions in the supply of other crops such as corn as well as chemical fertilizer are also likely to have a large negative impact. Advanced economies are also likely to suffer from higher food prices.

Exhibit 5 : Russia and Ukraine account for 28% of world wheat exports in March

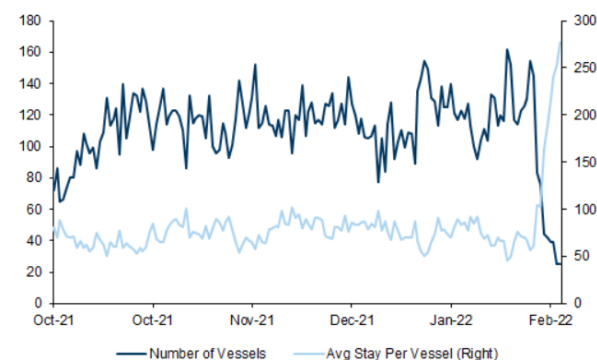
% share of global wheat trade, by month



Source: IHS Markit, Goldman Sachs Global Investment Research

Exhibit 6 : Ukrainian dry bulk shipping activity has dropped precipitously since the start of the conflict

Black Sea Dry Bulker Ports, Vessel numbers and wait times



Source: Goldman Sachs Global Investment Research, Reuters

Emerging Markets

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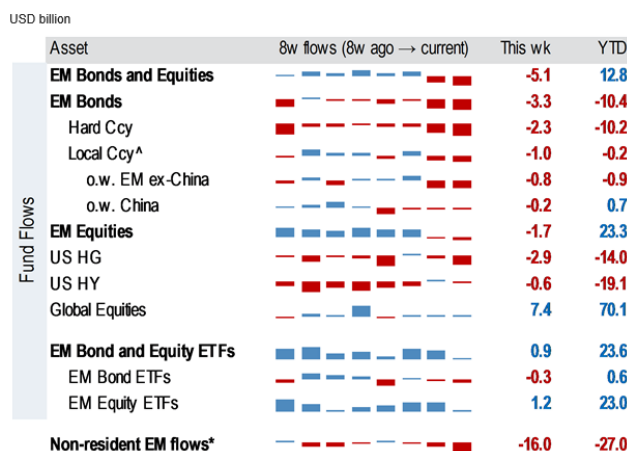
EMEA markets rallied on hopes of new talks between Russia and Ukraine. The Central Bank of Russia extended the equity trading shutdown to March 18. In Asia, stocks lost 1.9% today on aggregate, and currencies were weaker, with the focus on a major selloff of Chinese technology shares. **Latin American** equity markets were mixed last Friday. In Brazil, the benchmark 10-year bond yield was up sharply by 15 bps.

EM Fund Flows

Both EM bond funds and EM equity funds saw redemptions last week, with numbers printing at - \$3.3 bn and -\$1.7 bn, respectively. Of EM bond funds, hard currency bond funds posted the largest outflows in a year (-\$2.3 bn), and outflows from local currency bond funds were -\$1.0 bn. From a regional

perspective, Asia ex-Japan observed outflows (-\$140 mn), while equity funds in Latin America (+\$309 mn) and EMEA (+\$9 mn) saw inflows. Year-to-date flows to EM bonds and equities were -\$10.4 bn and +\$23.3 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows



*High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

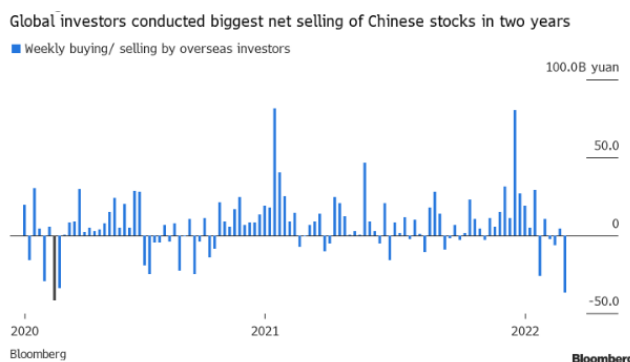
Brazil

Consumer prices rose 1.01% m/m in February, above the median of market expectations at 0.95%. In annual terms, inflation climbed to 10.54% y/y from 10.38% in January. The upside surprises were mainly driven by education, food, beverages, and transportation. **The central bank will announce its monetary policy decision on Wednesday**. Analysts expected the central bank to hike its Selic rate by 100 bps to 11.75%. Brazil's risk assets saw losses last Friday, as the equity index fell 1.7% and the real depreciated 1.1% against the dollar.



China

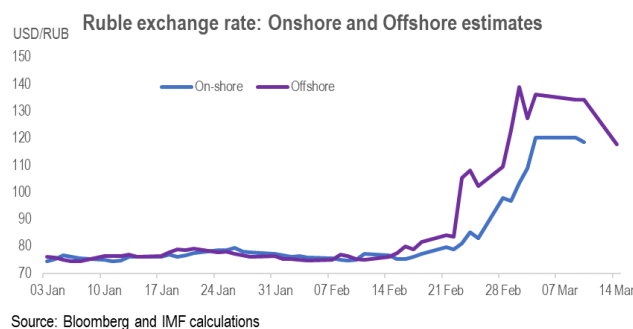
Chinese tech stocks plunged -11% amid regulatory worries and a new one-week lockdown in Shenzhen, a city of 17.5 mn people and a key hub in the country's technology industry. The Hang Seng China Enterprise Index was down 7.2%, the most since 2008, while the newly minted Hang Seng Technology index fell 11%. The selloff was sparked by press reports that Russia had asked China for military assistance, raising the fear that Chinese companies could face sanctions similar to those placed on Russian companies. Sanction worries, combined with the new lockdown in Shenzhen and regulatory concerns about Tencent's confronting heavy fines for anti-money laundering violations all combined to hit investor sentiment.



Russia

This morning the Russian Finance Ministry said that a temporary foreign currency debt repayment procedure has been approved, but warned that the ability to proceed with the payments will depend on sanctions. The ministry added that in cases where foreign currency payments cannot be made, payments will be made in rubles. Concerns for a default are increasing as the \$117 mn coupon payments on two sovereign dollar-denominated bonds due on 16 March do not allow for payment in rubles. Russia has a 30-day grace period to make the coupon payments.

The off-shore ruble (+10.8% to \$121) gained this morning with some market participants reporting a measured improvement in liquidity. Traders noted the importance of the official ruble rate for outstanding foreign-currency contracts, and have attributed the divergence between on and off-shore ruble rates to capital controls and a lack of liquidity. **Markets are focused on the next central bank meeting on Friday, after the emergency interest rate hike to 20% at the end of February.**



This monitor is prepared under the guidance of 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: 3/14/22 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4199	-1.3	0	-5	6	-12
Europe		3726	1.1	6	-8	-3	-13
Japan		25308	0.6	0	-6	-15	-12
China		4175	-3.1	-4	-9	-17	-15
Asia Ex Japan		71	-2.3	-5	-12	-24	-14
Emerging Markets		43	-2.1	-5	-12	-21	-13
Interest Rates			basis points				
US 10y Yield		2.07	7.6	29	8	44	56
Germany 10y Yield		0.33	8.5	35	5	64	51
Japan 10y Yield		0.20	1.3	5	-2	8	13
UK 10y Yield		1.58	8.6	27	-1	76	61
Credit Spreads			basis points				
US Investment Grade		166	0.7	11	36	66	55
US High Yield		432	-7.0	-4	25	78	95
Europe IG		79	-1.1	-7	12	32	31
Europe HY		378	-7.7	-37	47	134	136
Exchange Rates			%				
USD/Majors		99.05	-0.1	0	3	8	4
EUR/USD		1.10	0.4	1	-3	-8	-4
USD/JPY		117.9	0.5	2	2	8	2
EM/USD		50.7	1.2	2	-5	-11	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		108	-3.9	-12	15	73	41
Industrials Metals (index)		227	-1.6	-5	23	58	31
Agriculture (index)		74	-0.9	-3	11	43	22
Implied Volatility			%				
VIX Index (% change in pp)		31.4	0.6	-5.1	3.0	10.7	14.1
US 10y Swaption Volatility		101.2	0.0	-26.4	3.2	13.0	22.1
Global FX Volatility		9.6	0.1	-0.5	1.5	1.6	2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		236	2.0	-5	-2	123	84
Italy		161	0.7	0	-8	68	26
Portugal		85	-1.0	-4	-5	34	20
Spain		98	-1.4	-4	-4	34	23

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

Last updated: 3/14/2022 8:14 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		6.37	-0.4	-0.7	0	2	0		2.8	-4.0	-8	-3	-55	-4		
Indonesia		14333	-0.2	0.6	0	0	0		6.7	0.0	-4	21	-1	34		
India		77	0.0	0.5	-1	-5	-3		6.3	0.0	0	9	75	0		
Philippines		52	-0.4	-0.6	-2	-8	-3		5.0	0.0	10	15	34	55		
Thailand		33	-0.4	-1.2	-3	-8	-1		2.3	2.0	12	10	60	46		
Malaysia		4.21	-0.2	-0.7	0	-2	-1		3.7	1.1	3	-1	31	9		
Argentina		109	-0.1	-0.7	-3	-17	-6		48.0	-13.7	-32	-242	395	-255		
Brazil		5.06	0.2	0.7	3	11	10		12.4	4.1	51	72	371	172		
Chile		806	-0.1	1.0	1	-10	6		5.9	0.0	4	-3	265	51		
Colombia		3820	0.0	0.1	3	-7	6		8.3	0.0	14	32	344	186		
Mexico		20.90	0.1	2.0	-2	-1	-2		8.4	6.5	44	60	224	89		
Peru		3.7	0.2	1.4	2	0	8		6.7	-1.7	1	58	196	75		
Uruguay		43	-0.1	0.2	1	4	5		8.4	0.0	20	6	114	-33		
Hungary		342	2.3	6.1	-8	-10	-5		5.8	-1.0	19	101	329	128		
Poland		4.32	1.5	6.2	-7	-11	-7		4.7	10.0	64	59	299	115		
Romania		4.5	0.4	0.9	-3	-9	-4		6.0	-6.3	25	83	338	116		
Russia		117.3	14.4	18.5	-35	-38	-36		30.9	-78.0	63	2070	2383	2216		
South Africa		15.1	-0.3	1.8	0	-1	6		8.1	9.0	9	53	59	66		
Turkey		14.78	-0.1	-2.7	-8	-49	-10		25.9	20.0	-9	392	1176	159		
US (DXY; 5y UST)		99	-0.1	-0.3	3	8	3		2.03	8.5	33	12	119	77		

	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		4175	-3.1	-4	-9	-17	-15		227	3	21	15	24	
Indonesia		6952	0.4	1	2	10	6		210	-2	26	21	45	
India		56486	1.7	7	-3	12	-3		195	8	38	35	63	
Philippines		6817	-4.2	-6	-7	4	-4		155	-2	27	42	54	
Thailand		1660	0.1	2	-2	6	0		0	0	0	0	0	
Malaysia		1567	0.0	0	-2	-3	0		148	1	20	11	31	
Argentina		88999	-1.4	-1	1	81	7		1817	-109	5	208	137	
Brazil		111713	-1.7	-2	-2	-2	7		327	-13	-1	36	16	
Chile		4633	0.0	0	1	-5	8		177	-12	12	28	37	
Colombia		1548	0.3	1	5	14	10		378	-31	15	146	30	
Mexico		53301	-0.2	0	2	12	0		373	-12	13	23	41	
Peru		24775	-0.1	0	5	9	17		189	-11	4	25	39	
Hungary		42906	0.0	7	-16	-2	-15		167	-16	17	27	43	
Poland		60355	-1.6	3	-9	2	-13		73	13	57	40	41	
Romania		12374	2.5	13	-6	15	-5		249	-21	35	58	57	
Russia		2470	0.0	0	-29	-30	-35		6602	2653	6345	6427	6425	
South Africa		71811	-2.5	-2	-5	5	-3		378	-34	-4	7	23	
Turkey		2088	1.6	5	4	34	12		633	-30	98	199	55	
Ukraine		519	0.0	0	0	0	-1		4044	-1162	3136	3533	3285	
EM total		43	-1.4	-5	-12	-21	-13		596	-10	175	226	210	

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

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