



- Chinese stocks plunge for a second day ([link](#))
- Analysts expect a default on Russian sovereign bonds tomorrow ([link](#))
- German ZEW confidence survey falls to pandemic levels ([link](#))
- London Metal Exchange to restart nickel trading ([link](#))
- Markets confront growing liquidity challenges ([link](#))
- Extreme US TIPS curve inversion could signal recession worries ([link](#))

[Mature Markets](#)

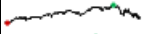
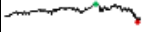

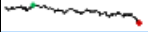




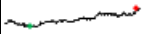


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Global markets cautious after major China selloff

Markets are mostly lower after a two day plunge in Chinese stocks which has seen a benchmark technology index erase nearly 20% of its value in the two sessions. The collapse in Germany's ZEW economic sentiment survey to early pandemic levels also surprised markets and pushed euro area stocks lower. Treasury and bund yields were slightly lower in response, but with rate hikes expected from the Fed tomorrow and the BOE on Thursday, most investors expect interest rates to keep on climbing. There is cautious optimism on the Ukraine front as talks are set to resume today. In addition, the Czech, Polish and Slovenian prime ministers are scheduled to visit Kyiv, the first delegation of leaders to visit Ukraine since the invasion began. Meanwhile, there is intense speculation about whether Russia will choose to default on two sovereign dollar bond payments which are due tomorrow.

Key Global Financial Indicators

Last updated: 3/15/22 8:13 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		4173	-0.7	-1	-7	5	-12
Eurostoxx 50		3699	-1.1	6	-11	-3	-14
Nikkei 225		25346	0.2	2	-8	-15	-12
MSCI EM		42	-2.4	-3	-16	-23	-15
Yields and Spreads							
US 10y Yield		2.12	-1.8	27	7	51	61
Germany 10y Yield		0.34	-2.7	23	3	68	52
EMBIG Sovereign Spread		488	-9	-36	99	133	121
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		51.0	0.9	2	-5	-10	-3
Dollar index, (+) = \$ appreciation		98.7	-0.3	0	3	8	3
Brent Crude Oil (\$/barrel)		99.4	-7.0	-22	7	44	28
VIX Index (% change in pp)		32.1	0.3	-3	6	12	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

The latest PPI data were at or slightly below forecasts, pushing US equity futures slightly higher immediately after the data came up. Treasury yields were little changed and the dollar was steady.

US PPI Report

Source: Bloomberg

Indicator	Consensus Forecast	Actual Print
Headline PPI monthly	+0.9%	+0.8%
Core PPI monthly	+0.6%	+0.2%
Headline PPI annualized	10%	10%
Core PPI annualized	8.7%	8.4%

Markets are facing significant liquidity challenges. A key liquidity proxy for equity markets is the market depth indicator for S&P 500 e-mini futures, which are among the most widely traded equity instruments in the world. JP Morgan finds that the measure, which calculates the average amount of futures contracts available at the narrowest bid-ask spread, is now back to the worst levels seen at the outset of the pandemic. High volatility implies that the equity market is vulnerable to large swings in either direction. Bond markets are facing the same problem, with market depth on 10-year Treasury and bund at very low levels, although not as low as in March 2020. However, Treasury liquidity had already begun to deteriorate before the Ukraine war began as the market began to position for a more hawkish Fed, while Bund liquidity worsened after the invasion began. JP Morgan also points out that the investors' dash for the exits during the current crisis has led to the highest portfolio allocations to cash since March 2020.

Figure 4: Market depth proxy of S&P500 E-mini futures (ES1)
Average number of contracts on the tightest Bid/Ask in ES1 (S&P 500 E-mini futures), 3-day moving averages using daily data of bid/ask under 1-second sampling.

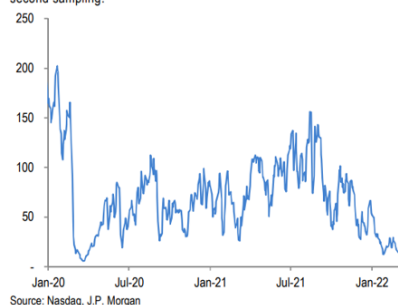
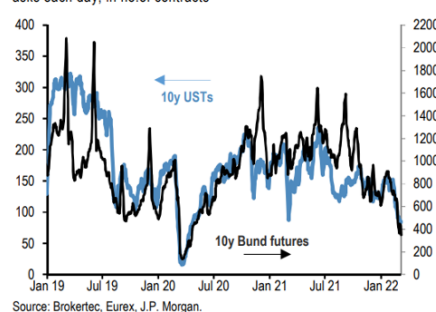
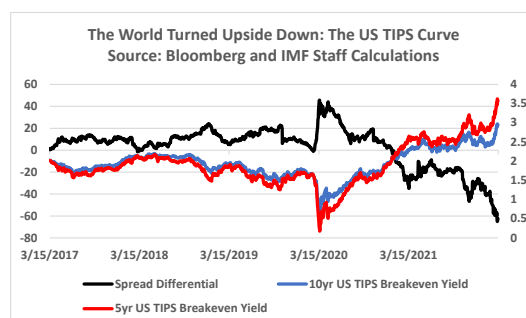


Figure 5: Market depth on 10y USTs and 10y Bund futures
5-day moving average of the daily average size of tightest three bids and asks each day, in no. of contracts



The US Treasury Inflation Protected Securities breakeven curve has been inverted for over two years, with the five-year breakeven yield higher than the 10-year yield. However, the extreme extent of the inversion has drawn scrutiny, with the spread trading at -62 bps as of yesterday's close. This seems to imply that markets expect short term inflation to be higher than long term inflation, indicating that the present burst of inflation will be eventually overcome. Consumer survey data support this thesis, with the latest University of Michigan consumer survey finding that consumers expect inflation to hit 5% annualized over the next 12 months but expect it to fall to 3% over the next five to ten years. Some analysts argue that these trends and the curve inversion are negative signs, signaling worries about a potential recession. They point to the consumer sentiment component of the Michigan survey, which is at multi-decade lows and reflects a very negative outlook for the economy.



Corporate bond issuance for investment grade (IG issuers) has surged, with nearly \$200 bn of new bonds over the past two weeks as companies race to lock in funding costs at levels that are still at relatively low levels despite the highly volatile market environment. However, those costs are definitely on the way up and credit spreads have widened sharply. IG spreads in both the US and the euro area have been especially hard hit, partly due to the heavy supply. Contacts report that investor demand remains quite strong because IG companies have strong balance sheets and earnings forecasts remain optimistic, amidst expectations that the fallout from the Ukraine war will eventually be contained. JP Morgan's analysts predict that spreads will tighten significantly by the end of the year, although they are unlikely to return to 2021 levels.

Table 1: Global Credit Spreads – Year-to-Date Changes and Forecast Changes to Year-End

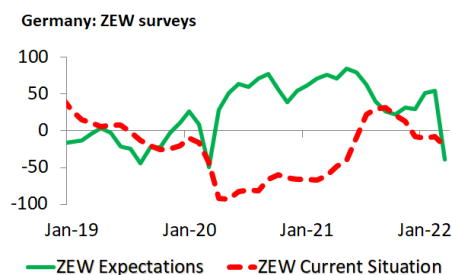
bp

	US IG	US HY	Euro IG	Euro HY	EM Corps
End 2021	118	375	111	350	272
Current	162	450	174	504	433
Year-to-Date Move	44	75	63	154	161
% Year-to-Date	37%	20%	57%	44%	59%
2022 YE Forecasts	125	350	150	400	240
Forecast Move to YE22	-37	-100	-24	-104	-193
% to YE22	-23%	-22%	-14%	-21%	-45%

Source: J.P. Morgan.

Euro area

European equities (-1.5%) fell as the German ZEW survey of economic growth turned sharply negative (to -39 compared to + 5 expected) in March. The ZEW survey measures overall expert opinion on the direction of the German economy over the next six months. ZEW President Wambach asserted that a recession was likely.



Source: Bloomberg and IMF staff

German 10-yr bund yields (-3 bps to 0.34%) ticked lower after shifting 22 bps higher in the past 5 days. Spreads on 10-yr Southern European bonds are little changed.

European bank stocks (-1%) are also lower even though Enria of the ECB's supervisory board ruled out a ban on dividends. The FT also reports that EU regulators have ruled out a blanket ban on bank

dividends and share buybacks in despite the war in Ukraine. Mr. Enria specified that an increase in the percentage of earnings being paid out by the 115 banks the ECB supervises (to 50% now from around 45% before the Covid-19 crisis) included a “slight catch up” after missed payments during the pandemic.

Commodities

Brent oil prices fell below \$100/barrel for the first time since February 25, the second day of the invasion. The Bloomberg broad commodity price index fell 2%.

The London Metals Exchange (LME) plans to resume nickel trading on 16 March after metals producer Tsingshan said that its banks, which include JP Morgan and Standard Chartered, agreed not to close out positions against Tsingshan or make further margin calls. The LME also outlined new curbs on trading to prevent wild price swings in the future, including daily price limits across metals. Last week, the LME canceled about \$3.9 bn of transactions that had taken place when nickel prices moved from \$50,000 to more than \$100,000 a ton.

Emerging Markets

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EMEA equities were generally lower as peace talks ended without progress. Talks are scheduled to resume today. **In Asia**, the plunge in Chinese equities dragged the rest of the region down with it for a 3% loss. The Sri Lankan rupee depreciated by 5% as press reports indicated the country may apply for assistance from the IMF due to major economic problems. **Latin American markets** followed the US lower yesterday, with Argentina standing out with a loss of nearly 5%. Local interest also followed US rates higher, with 10-year bond rates up 24 bs in Brazil and 10 bps in Mexico. In Colombia, the leftist party made gains in Sunday's elections.

EM Bond Issuance

EM corporate issuance last week decreased to \$0.4 bn, from \$0.3 bn the week before, and there was no EM sovereign issuance last week (versus \$2.0 bn the week before). Year-to-date total issuance of \$115.8 bn was nearly one-half of the 2021 issuance over the same period (\$206.7 bn). Corporate issuance came from China (\$300 mn) and the Philippines (\$55 mn). Financial issuance spiked, accounting for 63% (\$3.9 bn) of total issuance placed last week.

China

The collapse in technology stocks begun on Monday continued today, with the Hang Seng Technology index down 8.1% after losing 11.03% yesterday. The benchmark Shanghai CSI index fell 5% after losing 3.1% yesterday. Equity markets in the country are in disarray, with multiple analysts making comparisons to the global financial crisis. Investor sentiment has been rattled by multiple challenges, ranging from potential sanctions due to China-Russia ties to the new virus

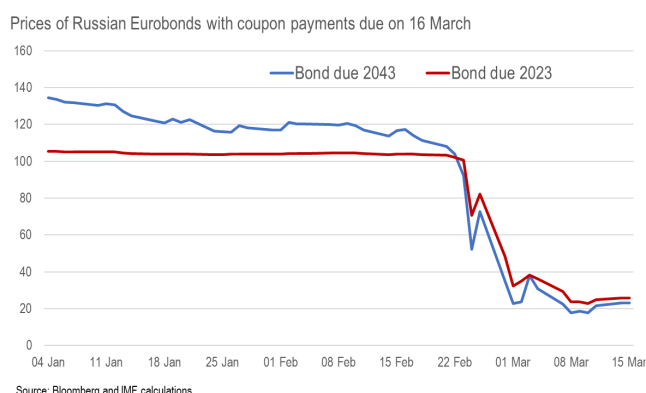
lockdowns in Shenzhen and other cities. In addition, there was disappointment that the central bank chose to confine itself to injecting more liquidity rather than delivering an expected rate cut of 10 bps, staying on hold at 2.85%. Analysts continue to look for two or three rate cuts later this year. Stronger than expected industrial production and retail sales data did little to improve the mood. Meanwhile, Chinese leaders insisted on the country's neutrality with regard to the Ukraine war.

MSCI China Index trades at the cheapest valuation versus its global peers



Russia

The Russian Finance Ministry yesterday issued an order to pay Eurobond holders \$117 mn on 16 March. The two coupon payments are on a \$3 bn and \$1.5 bn issue of sovereign bonds maturing in 2023 and 2043 respectively. These are the first sovereign payments due on Eurobonds since Russia invaded Ukraine. The Finance Minister said yesterday that the payments would be made in rubles if the freeze on Russia's FX reserves were not lifted, which would trigger a default because these bonds do not allow payment in rubles. The consensus is that Russia will choose to pay in rubles in order to make a point and deliberately trigger a default, but others disagree, arguing that the sums involved are so small that the government will choose to avoid default. The bonds have a 30-day grace period, so the Russian authorities have until April 15 to make a decision. The bonds in question have indicative prices of around 20 cents on the dollar. Meanwhile, the stock market closure was extended to March 18.



JP Morgan analysts see no prospects for restructuring debt currently, as Russian debt is being removed from major bond indices, against a backdrop of large divestment from Russian assets and capital controls that do not allow foreign investors to take out capital from Russia. **Analysts estimate that Russia has roughly \$700 mn payments due in March, the majority of which has a grace period of 30 days.**

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Global Financial Indicators

Last updated: 3/15/22 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4176	-0.7	0	-7	5	-12
Europe		3699	-1.1	6	-11	-3	-14
Japan		25346	0.2	2	-8	-15	-12
China		3984	-4.6	-7	-14	-22	-19
Asia Ex Japan		69	-2.4	-4	-16	-26	-16
Emerging Markets		42	-2.4	-3	-16	-23	-15
Interest Rates							
			basis points				
US 10y Yield		2.12	-1.8	27	7	51	61
Germany 10y Yield		0.34	-2.7	23	3	68	52
Japan 10y Yield		0.21	0.8	5	-1	10	14
UK 10y Yield		1.58	-1.0	14	0	79	61
Credit Spreads							
			basis points				
US Investment Grade		168	0.9	1	37	66	56
US High Yield		449	4.1	9	47	92	112
Europe IG		81	0.6	-5	14	33	33
Europe HY		385	4.2	-25	60	141	143
Exchange Rates							
			%				
USD/Majors		98.75	-0.3	0	3	8	3
EUR/USD		1.10	0.5	1	-3	-8	-3
USD/JPY		117.9	-0.3	2	2	8	2
EM/USD		51.0	0.9	2	-5	-10	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		99	-7.0	-22	9	59	29
Industrials Metals (index)		224	-0.8	-5	21	54	30
Agriculture (index)		74	-1.0	-4	11	41	21
Implied Volatility							
			%				
VIX Index (% change in pp)		32.1	0.3	-3.0	6.4	12.1	14.9
US 10y Swaption Volatility		103.0	2.1	-26.6	6.0	14.8	23.9
Global FX Volatility		9.8	0.0	-0.1	2.1	1.8	2.3
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		233	-0.6	11	-6	117	82
Italy		159	-0.5	11	-6	66	24
Portugal		85	0.1	4	-3	33	20
Spain		99	0.7	4	-1	35	24

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

Last updated: 3/15/2022 8:15 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.38	-0.2	-0.9	-1	2	0		2.9	8.5	1	6	-47	5
Indonesia		14327	0.0	0.5	0	1	0		6.8	3.3	-7	24	0	37
India		77	-0.1	0.4	-2	-5	-3		6.3	0.0	0	9	75	0
Philippines		52	0.1	-0.2	-2	-7	-3		5.0	0.0	5	5	34	55
Thailand		34	-0.2	-0.9	-3	-8	-1		2.3	-1.0	5	8	59	45
Malaysia		4.21	0.0	-0.6	0	-2	-1		3.7	1.0	3	0	20	10
Argentina		109	-0.3	-0.7	-3	-17	-6		48.0	-4.7	-58	-210	328	-260
Brazil		5.10	0.3	-0.8	1	10	9		12.7	24.1	37	93	393	196
Chile		812	0.1	-0.2	-1	-11	5		6.0	-5.0	4	-4	269	55
Colombia		3798	0.6	0.3	4	-6	7		8.2	0.0	-2	27	338	180
Mexico		20.86	0.3	2.5	-2	-1	-2		8.6	0.0	23	68	232	105
Peru		3.7	-0.8	-0.3	2	-1	7		6.7	-0.1	7	65	204	83
Uruguay		43	-0.1	0.2	1	4	4		8.4	0.0	1	20	117	-33
Hungary		338	1.2	5.3	-8	-9	-4		5.8	0.0	17	102	329	128
Poland		4.31	0.6	4.1	-8	-11	-6		4.6	0.5	30	59	291	108
Romania		4.5	0.5	0.9	-3	-9	-3		6.0	1.6	-12	82	336	117
Russia		111.2	8.7	14.6	-32	-35	-32		35.3	398.2	519	2532	2815	2648
South Africa		15.1	0.0	1.1	0	-2	5		8.0	-7.0	-20	47	51	58
Turkey		14.58	1.6	-0.6	-7	-48	-9		25.5	-42.0	-112	363	1121	122
US (DXY; 5y UST)		99	-0.3	-0.3	3	8	3		2.06	-2.7	29	12	124	80

	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		3984	-4.6	-7	-14	-22	-19		228	3	23	18	25	
Indonesia		6918	-0.5	2	1	10	5		202	-13	19	18	37	
India		55777	-1.3	4	-4	11	-4		197	-7	42	37	65	
Philippines		7020	3.0	1	-6	7	-1		153	-11	22	44	52	
Thailand		1644	-1.0	2	-3	5	-1		0	0	0	0	0	
Malaysia		1557	-0.6	1	-3	-4	-1		145	-4	18	9	28	
Argentina		84956	-4.5	-3	-4	68	2		1808	-163	9	236	128	
Brazil		109928	-1.6	-1	-4	-4	5		325	-20	1	42	14	
Chile		4588	0.0	0	-1	-7	7		172	-15	10	29	32	
Colombia		1518	-2.0	-1	2	12	8		373	-39	9	146	25	
Mexico		52808	-0.9	1	-1	11	-1		369	-21	8	20	37	
Peru		24429	-1.4	1	1	8	16		185	-15	4	27	35	
Hungary		42906	0.0	7	-16	-2	-15		156	-29	7	19	32	
Poland		59908	-0.2	3	-11	1	-14		52	-19	44	18	20	
Romania		12251	-0.6	9	-8	14	-6		242	-49	31	53	50	
Russia		2470	0.0	0	-31	-31	-35		5968	1728	5694	5795	5791	
South Africa		69930	-2.7	-3	-8	3	-5		368	-55	-15	-1	13	
Turkey		2089	0.0	4	3	34	12		619	-79	83	184	41	
Ukraine		519	0.0	0	0	0	-1		3914	-1509	2932	3400	3155	
EM total		42	-2.2	-3	-16	-23	-15		589	-31	165	223	203	

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

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