GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MARCH 16, 2022

- **Higher dot plot key to Fed credibility on inflation** (link)
- **Promises of official support propel Chinese markets higher** (link)
- **Euro area officials predict robust growth in 2022** (link)
- **Survey finds investor pessimism at worst level since the financial crisis** (link)
- **Flight to quality in US rates has been reversed as yields rise** (link)

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Surge of optimism boosts global markets

Markets were higher across the board as sentiment was boosted by promises of official support for the Chinese financial system and hopeful news from the Ukraine conflict. Stocks in China posted extraordinary gains after the authorities pledged multiple measures of support, while headlines from Moscow hinted at potential compromises that could help end the fighting. However, there were plenty of sceptics expressing reservations, calling for caution on both fronts. Russia is due to make payments on two sovereign bonds today, with an April 15 deadline for default if payment is not made in dollars. Meanwhile, all eyes are on the US Federal Reserve, which is expected to announce its first rate hike later today. US Treasury yields have moved steadily higher over the past few days on speculation of a hawkish Fed, and the benchmark 10-year yield is now at its highest level since June 2019. Electronic nickel trading at the London Metal Exchange was stopped again as the price fell through the 5% trigger to halt transactions. This comes after a week- long suspension of trading that was put in place after the short squeeze that disrupted trading last week. Oil prices remain below $100 for a second day, further bolstering market sentiment.

Key Global Financial Indicators

Last updated: 3/16/22 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4262	2.1	2	-5	8	-11
Eurostoxx 50		3881	3.8	3	-6	1	-10
Nikkei 225		25762	1.6	4	-5	-14	-11
MSCI EM		42	0.1	-3	-16	-23	-15
Yields and Spreads			bps				
US 10y Yield		2.16	1.6	21	12	54	65
Germany 10y Yield		0.39	5.7	17	11	73	57
EMBIG Sovereign Spread		487	-1	-39	106	132	120
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.6	1.1	3	-4	-9	-2
Dollar index, (+) = $ appreciation		98.5	-0.6	1	3	7	3
Brent Crude Oil ($/barrel)		99.6	-0.3	-10	5	46	28
VIX Index (%, change in pp)		28.6	-1.2	-4	4	9	11

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

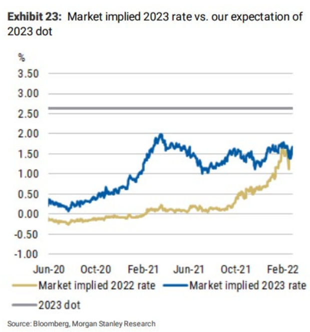
The latest retail sales data were weaker than expected. Treasury yields that were higher during the morning session dipped slightly on the news and US equity futures that were up strongly moderated their gains.

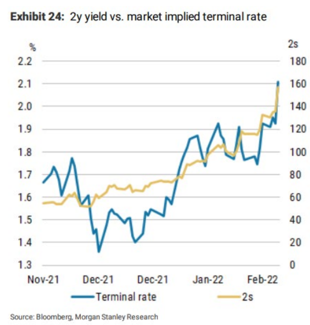
US Retail Sales Report

Source: Bloomberg

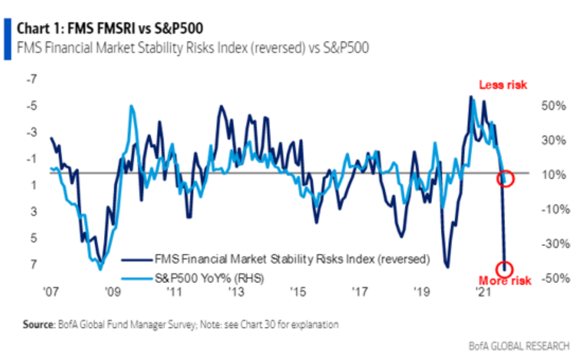
Indicator	Consensus Forecast	Actual Print
Retail Sales month-on-month	0.4%	0.3%
Retail Sales ex-Transportation mom	0.9%	0.2%

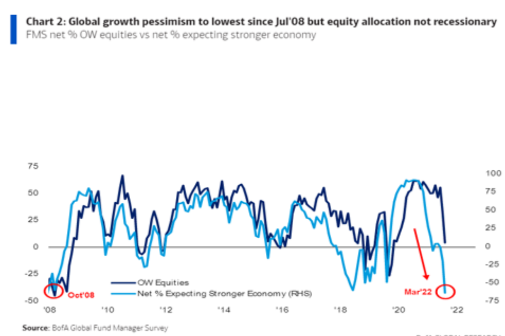
The Fed will have to push its median dot estimate of the terminal rate above the current level of 2.5% in order to win back credibility on inflation, according to analysts at Morgan Stanley. The market is currently pricing less than two rate hikes in 2023, which the analysts think is far too optimistic. They think that the market will eventually come round to this view and price more rate hikes in 2023, which they predict will push short rates higher and eventually invert the yield curve. Their prediction for the new 2023 dot is 2.625% at today's FOMC meeting, with the median expected to be raised again at the June FOMC meeting. Meanwhile, the US-Treasury yield hit its highest level since June 2019, as rates have risen steadily over the past few days on expectations of a hawkish Fed.



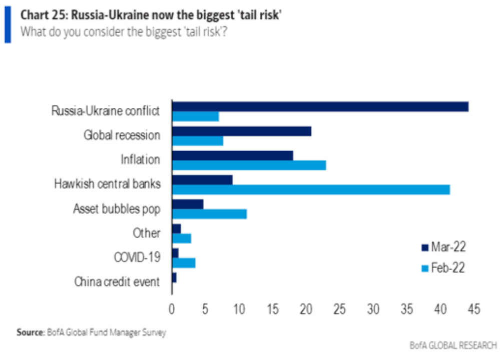


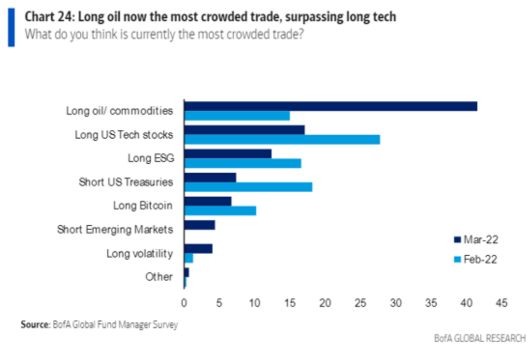
The latest fund manager survey from Bank of America finds that the Ukraine war has increased investor pessimism to the worst level since the global financial crisis, but they remain overweight and portfolio allocations well above the levels seen in recessionary periods. They are also pessimistic about growth and have increased their cash allocations to April 2020 in order to reduce risk. Six in ten investors also forecast stagflation.





A wider Ukraine-Russia conflict is obviously the highest risk, and global recession and inflation are the other largest tail risks. Another key finding is that, on average, investors expect 4.4 Fed hikes in 2022, which is much fewer than the seven rate hikes being priced in the Fed Funds and eurodollar futures markets. Meanwhile, investors are also very bearish on bonds and euro area equities, with the US being the most favored equity market.

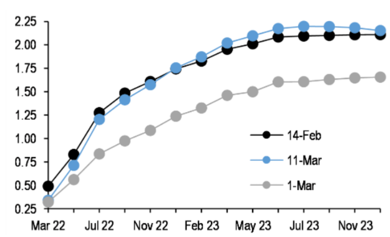




The flight to quality move in US interest rates has been fully reversed, meaning that markets have fully priced out or removed the risk premium built in when the invasion crisis began. The benchmark 10-year Treasury fell from 1.99% on February 23 to 1.73% on March 1, but ended yesterday at 2.15%, well above the pre-invasion level. The overnight index swap curve had shifted sharply lower by March 1st from its level on February 14, but as of yesterday the curve shifted up to a new high. Hopes of de-escalation and peace talks, high inflation and Fed rate hikes have brought back the trend towards higher rates.

Exhibit 1: OIS forwards have risen 50bp from their local lows, and are pricing in a peak funds rate of 2.20%, 6m earlier than a month ago…

OIS forward rates by FOMC meeting date; %



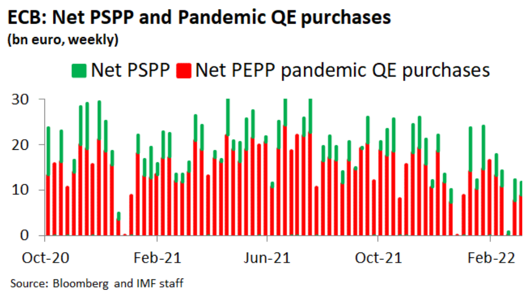
Source: J.P. Morgan

Euro area

European equities (+3.3%) rose sharply with bank stock (+5.5%) outperforming. The euro (+0.5%) also gained and 10-yr Southern European bonds fell 3-4 bps.

German 10-yr bund yields (+6 bps to 0.39%) traded higher as Bundesbank President Nagel said that the ECB does not expect stagflation and other euro area officials reiterated that they expect the euro area to grow robustly in 2022. ECB vice-president De Guindos does not expect Europe to go into recession because of the war in Ukraine even in the most severe scenarios. ECB President Christine Lagarde said that the Ukraine crisis would lower growth and raise inflation through higher energy and commodity prices, the disruption of international trade and weaker confidence. **The ECB president expects the euro area to still grow robustly in 2022 thanks to the declining impact of the pandemic and the prospect of solid domestic demand and strong labor markets.**

Weekly ECB data show a net increase in Pandemic Emergency Purchase Program holdings of €8.9bn for the reporting period ending on March 11th (with redemptions of just €3.1 bn) or €11.9 bn including APP purchase. The 4-week moving average of net purchases slowed to € 7bn/week.



Emerging Markets

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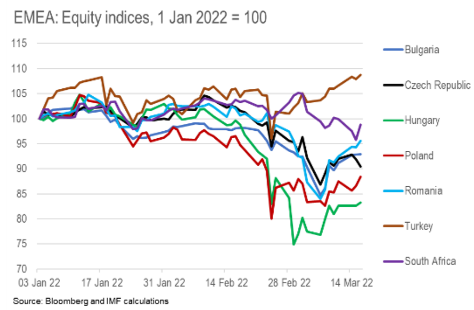
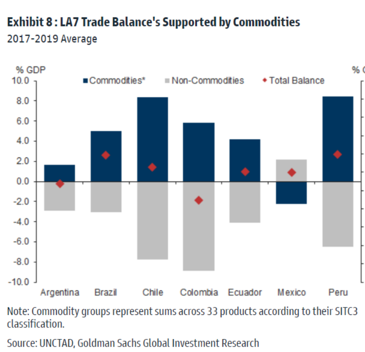
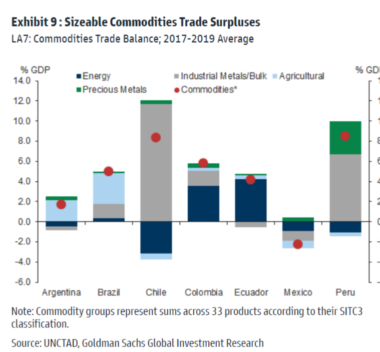
EMEA equities were generally trading stronger, and currencies appreciated as sentiment was lifted following PBOC support and signs of compromise in Ukraine/Russia negotiations. Trading conditions for Russian ruble remains illiquid, with the offshore ruble continued strengthening (+6% to 99). Bloomberg reports that no bond, stock, or futures are trading on Russia's domestic market. **In Asia,** equity markets posted solid gains following the rally in US markets. **In Latin America,** markets were mixed. In Argentina, inflation was higher than expected.



Latin America and the Commodity Price Spike

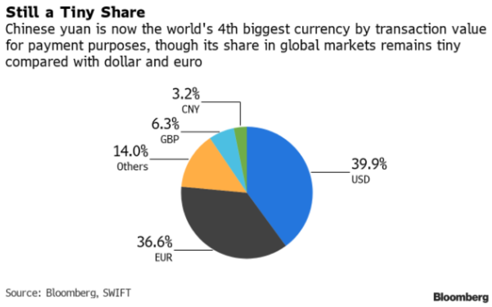
Latin American countries are prominent commodity exporters and are expected to benefit from the current surge in commodity prices. With the exception of Mexico, which has major manufacturing capacity, most Latam economies are reliant on extractive industries. These countries rely on commodity trade surpluses as their primary source of foreign exchange and one of the main drivers of their fiscal policy. The unfortunate war in Ukraine and the attendant surge in commodity prices is likely to create a situation where Latam countries improve their fiscal positions.





China

Promises of official support pushed equity markets higher in China higher after two days of heavy losses. The benchmark CSI 300 index lost over 8% over Monday and Tuesday, while the Hang Seng Technology index lost nearly 20% over the same period, with markets in total disarray after the Shenzhen lockdown and worries about US sanctions. Today, markets went into reverse to post extraordinary gains following statements from the governor of the PBOC and the Vice Premier in charge of the economy that the government would institute a variety of measures to support markets, from addressing the risk posed by property developers to support overseas listings of Chinese stocks. The CSI 300 surged by over 4% and the Hang Seng index was up over 9%. Some analysts warned that these gains were extreme and may be unjustified, pointing out that the government statements lacked specifics, the authorities have little or no control over foreign listings, and property companies continue to pose a major threat to the economy. Separately, China and Saudi Arabia are in discussions to use renminbi to settle oil purchases. This is potentially very significant as China attempts to broaden the use of its currency.



Russia

Fitch Ratings warns that Russia could be in default on 1 April as non-resident investors have not yet received coupon payments on local currency sovereign bonds that were due on 2 March. The rating agency noted that Russia's Ministry of Finance made the coupon payments to the National Settlement Depository, but restrictions on the Central Bank of Russia prevented the transfer of these payment to foreign investors. Fitch also noted that it is applying a 30-day grace period despite the lack of documentation that confirms the existence of a grace period. **Markets are focused on the foreign-currency coupon payment due today.** Fitch confirmed that Russia would be in default if the coupon payments on Eurodollar bonds that are due today are not made, in US dollars, within a 30-day grace period, setting an April 15 deadline for default.

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.

Global Financial Indicators

Last updated: 3/16/22 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4286	2.1	0	-4	8	-10
Europe		3881	3.8	3	-6	1	-10
Japan		25762	1.6	4	-5	-14	-11
China		4156	4.3	-2	-10	-19	-16
Asia Ex Japan		70	0.2	-4	-16	-27	-16
Emerging Markets		42	0.1	-3	-16	-23	-15
Interest Rates			basis points				
US 10y Yield		2.16	1.6	21	12	54	65
Germany 10y Yield		0.39	5.7	17	11	73	57
Japan 10y Yield		0.21	0.5	4	-1	11	14
UK 10y Yield		1.62	4.0	9	9	83	65
Credit Spreads			basis points				
US Investment Grade		164	-2.7	-2	33	63	53
US High Yield		445	-4.0	17	40	83	103
Europe IG		75	-4.7	-3	8	28	27
Europe HY		354	-23.5	-18	32	112	112
Exchange Rates			%				
USD/Majors		98.52	-0.6	1	3	7	3
EUR/USD		1.10	0.5	-1	-3	-8	-3
USD/JPY		118.3	0.0	2	2	8	3
EM/USD		51.6	1.1	3	-4	-9	-2
Commodities			%				
Brent Crude Oil ($/barrel)		100	-0.3	-10	8	60	29
Industrials Metals (index)		222	-1.5	-3	19	55	28
Agriculture (index)		75	-0.1	0	12	42	23
Implied Volatility			%				
VIX Index (%, change in pp)		28.6	-1.2	-3.8	4.3	8.8	11.4
US 10y Swaption Volatility		101.7	-1.3	-8.4	7.5	16.7	22.6
Global FX Volatility		9.8	0.0	0.5	2.2	1.8	2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		228	-4.2	11	-11	108	77
Italy		153	-4.0	6	-11	56	18
Portugal		82	-2.2	3	-5	28	17
Spain		95	-3.3	2	-5	30	21

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

Last updated: 3/16/2022 8:11 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		6.35	0.3	-0.5	0	2	0		2.8	-5.5	-7	2	-50	-1
Indonesia		14312	0.1	0.2	0	1	0		6.8	1.1	-2	25	-1	38
India		76	0.4	0.4	-2	-5	-3		6.3	0.0	0	9	75	0
Philippines		52	0.2	-0.2	-2	-7	-3		5.1	2.5	3	8	38	58
Thailand		33	0.5	-1.1	-3	-8	0		2.3	2.0	6	10	51	47
Malaysia		4.20	0.2	-0.3	0	-2	-1		3.7	-0.1	2	1	22	9
Argentina		109	-0.1	-0.7	-3	-17	-6		48.0	7.9	-59	-82	296	-252
Brazil		5.13	0.6	-2.4	0	10	9		12.5	-22.5	0	85	376	179
Chile		804	0.8	0.0	-1	-9	6		5.9	0.0	8	3	263	50
Colombia		3832	-0.9	-1.5	3	-7	6		8.0	0.0	-16	20	313	158
Mexico		20.75	0.4	0.8	-2	-1	-1		8.6	0.0	30	74	218	103
Peru		3.7	-0.1	0.0	2	-1	7		6.7	0.7	1	64	199	79
Uruguay		43	-0.1	0.0	1	4	4		8.4	0.0	0	21	115	-33
Hungary		338	0.4	1.0	-8	-9	-4		5.8	-1.0	22	97	334	127
Poland		4.27	0.8	1.0	-7	-10	-5		4.5	-6.0	14	48	279	95
Romania		4.5	0.5	-0.6	-3	-9	-3		5.9	-6.2	-22	76	329	111
Russia		101.0	4.9	35.0	-26	-28	-26		36.8	197.6	814	2689	2971	2798
South Africa		15.0	0.6	-0.1	0	-1	6		8.0	-1.0	-5	48	54	58
Turkey		14.71	-0.1	-0.3	-8	-49	-10		25.9	10.0	21	396	1173	162
US (DXY; 5y UST)		99	-0.6	0.6	3	7	3		2.12	1.9	25	21	129	86

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4156	4.3	-2	-10	-19	-16		231	6	26	20	28
Indonesia		6992	1.1	2	2	11	6		206	-14	27	15	41
India		56817	1.9	4	-2	14	-2		204	-4	49	40	72
Philippines		7026	0.1	1	-6	7	-1		155	-15	29	38	54
Thailand		1668	1.4	1	-3	6	1		0	0	0	0	0
Malaysia		1571	0.9	1	-2	-3	0		144	-10	16	7	27
Argentina		84055	-1.1	-5	-7	69	1		1815	-164	55	266	135
Brazil		108959	-0.9	-2	-5	-4	4		325	-18	9	42	14
Chile		4623	0.0	-1	-1	-6	7		173	-15	18	29	33
Colombia		1522	0.3	-1	1	13	8		361	-45	3	135	13
Mexico		53010	0.4	-1	-1	10	0		372	-17	21	21	40
Peru		24301	-0.5	-1	1	9	15		186	-15	12	29	36
Hungary		43634	1.7	9	-15	0	-14		159	-26	14	22	35
Poland		61949	2.1	3	-8	5	-11		53	-20	47	19	21
Romania		12490	1.4	4	-6	15	-4		243	-42	36	50	50
Russia		2470	0.0	0	-32	-31	-35		5351	-1095	5106	5178	5174
South Africa		73072	3.5	1	-4	9	-1		373	-38	-4	5	18
Turkey		2094	0.7	3	3	33	13		592	-94	59	161	14
Ukraine		519	0.0	0	0	0	-1		3882	-992	2977	3374	3123
EM total		42	4.9	-3	-16	-23	-15		583	-48	171	218	197

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

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