



- Fed hikes rates and signals intention to fight inflation ([link](#))
- BoE hikes but signals modest further tightening may be appropriate ([link](#))
- Bund yield curve steepens while the US Treasury curve flattens ([link](#))
- Chinese equities extend their surge for a second day ([link](#))
- Brazil's central bank hikes rates by 100 bps to 11.75%, as expected ([link](#))
- Turkey leaves interest rates unchanged, as expected ([link](#))
- Russian bonds rally amid uncertainty over coupon payments ([link](#))

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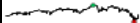









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## Market sentiment weakens on Russia's comments amid central bank monetary policy announcements

Despite the earlier strong gains in Asian equities, European bourses fell and US equity futures signaled a negative opening after Russian authorities said reports of major progress in Ukraine talks are “wrong”. The news followed a hawkish FOMC yesterday, with a widely anticipated 25 bps hike and an increase in its projections for rate hikes in 2022-23. Any specific balance-sheet reduction announcements were postponed to future meetings. US treasury yields dropped this morning and the yield curve continued to flatten. The spread between 2 and 10-year Treasury yields fell to 20 bps, a level not seen since March 2020. In contrast, the bund yield curve has steepened this month so far, with the ECB expected to end asset purchases in Q3 before hiking in the second half of 2022. This morning, UK gilt yields fell after the Bank of England raised its benchmark rate to 0.75%, as expected, but signaled that modest further tightening may be appropriate. In emerging markets, Chinese equities outperformed after authorities' vowed to stabilize financial markets and conclude a crackdown on big tech firms. On the monetary policy front, Brazil's central bank hiked its selic rate by 100 bps to 11.75% yesterday, and Turkey's central bank left rates unchanged at 14%, both as expected.

Key Global Financial Indicators

Last updated: 3/17/22 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
S&P 500		4358	2.2	2	-1	10	-9
Eurostoxx 50		3873	-0.4	6	-6	1	-10
Nikkei 225		26653	3.5	4	-2	-12	-7
MSCI EM		45	8.1	1	-9	-17	-8
<b>Yields and Spreads</b>							
US 10y Yield		2.13	-5.4	15	17	49	62
Germany 10y Yield		0.38	-1.6	10	15	67	55
EMBIG Sovereign Spread		468	-19	-36	87	119	101
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		51.6	-0.6	3	-4	-10	-2
Dollar index, (+) = \$ appreciation		98.3	-0.3	0	3	7	3
Brent Crude Oil (\$/barrel)		104.0	6.1	-5	12	53	34
VIX Index (% change in pp)		27.0	0.3	-3	-1	8	10

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

## Mature Markets

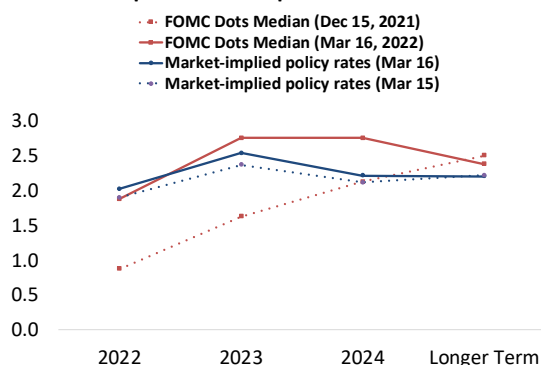
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### United States

**A hawkish Fed dot-plot sent a strong signal on fighting inflation in a sharp and short hike cycle.** In a widely anticipated move, the Fed lifted the Fed funds target range by 25 bps, its first rate hike since December 2018. However, the new Fed's dot plot surprised on the hawkish side. The dot-plot median for the 2022 Fed funds rate now points to 7 hikes, compared to only 3 in December, implying a 25 bps hike in every meeting in 2022. Moreover, a closer look at individual preferences revealed a hawkish bias. Seven participants showed preference for more than seven hikes in 2022, which would require at least one 50 bps hike at one of the six remaining meetings this year. Further out, the dot-plot median showed 4 hikes in 2023 (up to 2.75%) and none in 2024. With the long-term median falling to 2.375% (from 2.50%), monetary policy is expected to become restrictive next year, as policy rates would overshoot the natural rate. The message of the Fed in fighting inflation came clear to the markets. During the press conference, Chair Powell said that the balance sheet run-off will begin "as soon as May" but the details of the run-off have not been finalized and "will look familiar" to market participants. Also, Powell noted that the balance sheet contraction will be faster than last time.

**Markets perceived the new dot plot as hawkish but tempered some of their reaction during the press conference.** The OIS curve repriced higher, with OIS rates still implying a significant likelihood of a 50bp hike in one of the next two meetings. At the same time, the Treasury yield-curve flattened further, as 2-year Treasuries increased more than the 10-year ones. US equities initially declined but during the press conference they reversed back to positive territory. The S&P 500 closed +2.2% higher on day largely driven by earlier headlines that China will actively support markets and increased optimism on the prospects of deal in Ukraine/Russia.

#### FOMC dots surprised to the upside



Source: Bloomberg and Staff calculations

#### US Treasury yields

Percent per annum; both scales

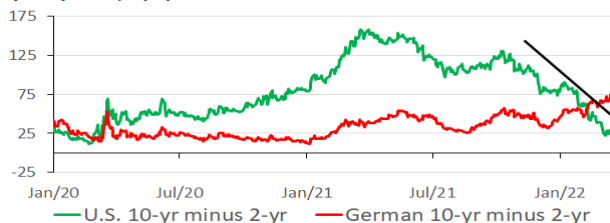


Source: Bloomberg Finance L.P., J.P. Morgan

### Euro area

**European equities (-0.4%) reversed earlier gains. German 10-year bund yields (-2 bps to 0.37%) fell with short-term rates little changed after the German yield curve steepened in March so far.** German 10-year bund yields have risen 25 bps in March compared to little changes in 1-year German rates as the ECB is expected to end asset purchases in Q3 before hiking in the second half of 2022. **In contrast, the US yield curve has flattened in 2022 as the Fed is expected to keep hiking and announce a balance-sheet reduction in the coming months.**

#### U.S. and Euro area: 10-yr rates minus 2-yr rates (steepness, bps)



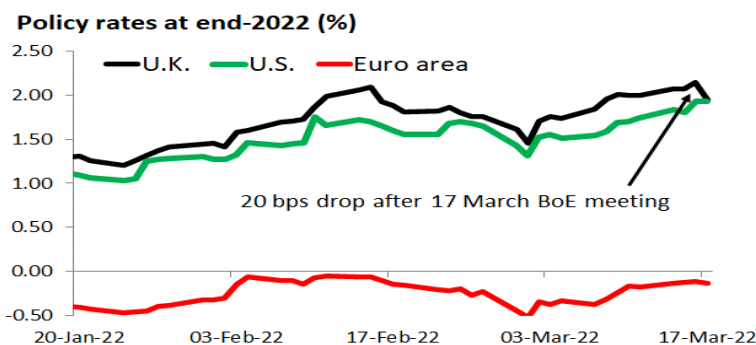
Source: Bloomberg and IMF staff

**10-year Southern European bonds were little changed after trading at tighter levels earlier today.** Spreads have tightened in the past week as risk sentiment improved.

**Virtually none of the 109 significant financial institutions supervised by the ECB disclose all the basic information on climate-related and environmental risk that would align with all the ECB's expectations.** The ECB's second snapshot of the level of disclosure of climate-related and environmental risks among significant institutions saw clear progress in various areas, but highlight those significant efforts are still required by most institutions to disclose transparently and to improve their disclosure practices. **Individual feedback was sent to banks under the ECB's supervision to set out key disclosure gaps.**

### United Kingdom

**10-year gilt yields fell 5 bps to 1.56% after the BoE hiked its policy rate 25 bps in what contacts perceived as a “dovish hike.”** The MPC voted 8-1 to increase bank rate by 25 bps to 0.75%. One member preferred to leave policy unchanged. The MPC believes that some further modest tightening in monetary policy may be appropriate in the coming months, but sees risks on both sides of that judgement depending on medium-term prospects for inflation. There was no quarterly monetary policy report today, but the MPC said that the effects of Russia's invasion of Ukraine are likely to accentuate both the peak in inflation and the adverse impact on activity by intensifying the squeeze on household incomes. The pound (-0.2% 1.31 per U.S. dollar) edged lower.



Source: Bloomberg and IMF staff

### Commodities

**Brent oil prices rose 6% to \$104/bbl this morning and, despite losses over the past week, further rises are possible.** There has been significant oil price volatility in recent weeks. Oil prices surged to their highest level since 2008, driven by the military conflict in Ukraine and the growing realization that imposed sanctions could reduce Russian exports. In the past week, however, oil prices lost most of their recent gains, largely attributed to technical reasons, amid concerns about Chinese demand given renewed lockdowns. Looking forward, the International Energy Agency expects Russian oil production to plunge from next month, inflicting a large supply shock. China, a sizeable buyer of Russian crude oil, will hold a crucial role in shaping how the oil market will rebalance. In the meantime, given the sluggish supply relief from OPEC, market contacts believe oil prices could surge higher.

**The start of the second day of electronic trading of nickel on the London Metal Exchange (LME) after a week-long suspension was delayed after brokers found that orders to sell at the lower-limit of 8% below Wednesday's closing price were being rejected.** Prices in London, the global benchmark, are still far above those in Shanghai even after falling on the first two days since re-opening on Wednesday. LME prices are up 72% this month, while nickel in Shanghai is up 23%.

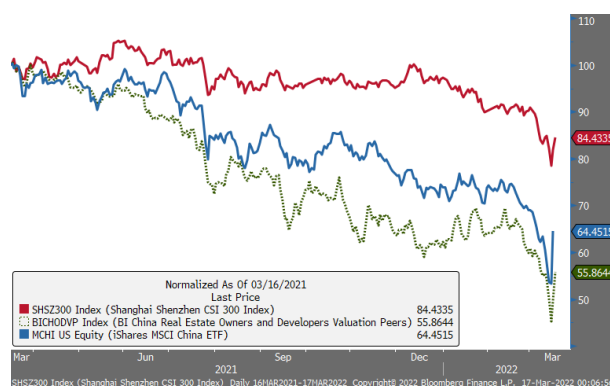
## Emerging Markets

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**Across Asia, assets generally strengthened over night as Chinese markets extended yesterday's gains.** Share prices broadly rose, led by Hong Kong and China. Currencies strengthened as the dollar weakened following the FOMC, with the Indian rupee leading peers. Long-dated dollar yields fell notably in Indonesia (30-year: -20 bps) and the Philippines (10-year: -21 bps). **EMEA equity markets** were mostly higher despite reports this morning that the Kremlin disputes claims of major progress in talks with Ukraine. Equity markets in Turkey (+1.5%) and Hungary (+1.2%) outperformed. **EMEA currencies were mostly trading lower** with the Hungarian forint underperforming after the National Bank of Hungary kept the 1-week deposit rate unchanged at 5.85% in line with expectations. The offshore Russian ruble depreciated (-8% to 106). **Latin American equity markets** gained on Wednesday. Argentina led the gains (+4.0%), followed by Brazil (+2.0%). Local currencies broadly strengthened. The Brazilian real (+1.7%) and the Chilean peso (+1.5%) outperformed. 10-year government bond yields were mostly lower.

### China

**Chinese assets continued to surge for a second day amid talk of a new “policy put.”** Chinese shares listed internationally and domestically rose again after authorities' vowed to stabilize financial markets and conclude a crackdown on big tech firms. US-listed shares surged strongly, with the iShares MSCI China ETF up 21% yesterday, in part reflecting a report that **Chinese authorities were preparing to make concessions over audit disclosure practices that might help some Chinese firms avoid delisting of their US shares.** Property developer shares were up 25% over two-days, supported by promises to “promptly study and propose new response plans to address risks” of real estate enterprises, but gains for developer bonds were muted. In a notable reversal, **authorities also indicated they would delay the recently proposed widening of a property tax pilot**, which analysts say had been one factor contributing to housing demand weakness. The share price gains only partially unwound recent steep losses, with internationally and Mainland-listed Chinese shares down 7 and 9% lower month-to-date, respectively, and by considerably more from a year ago. The RMB was little changed and 10-year yields were slightly lower.



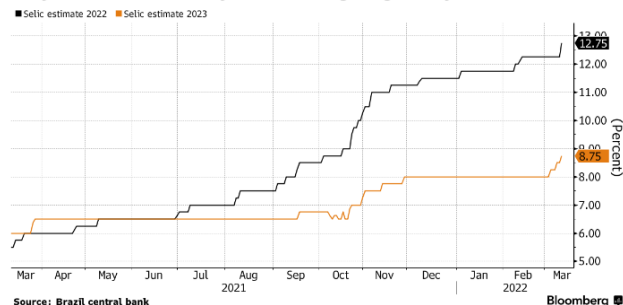
### Brazil

**The central bank hiked its Selic rate by 100 bps to 11.75% on Wednesday, as widely expected.**

The central bank pledged to deliver a rate-hike of the same magnitude in the next meeting. In a statement, policymakers said the committee would carefully assess the size and duration of the current shocks and adjust the size of the monetary tightening cycle accordingly. Annual inflation stood at 10.54% y/y in February, and it's expected to increase further due to surging oil prices and deteriorating weather conditions (negative impact on foods). According to a central bank survey published earlier this week, economists expected the central bank to raise the benchmark rate to 12.50% in May and 12.75% in June. Brazilian risk assets saw gains yesterday, as the domestic equities rose 2.0% and the real strengthened 1.7% against the dollar.

#### Brazil Hikes Ahead

Analysts see more hikes this year and cuts beginning in early 2023

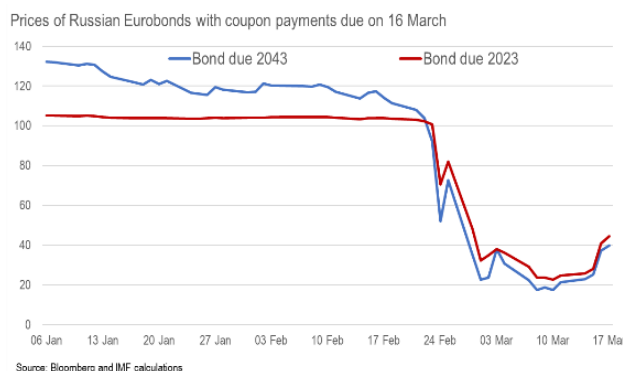


## Turkey

The central bank of Turkey kept its interest rates unchanged at 14% in line with expectations. Inflation increased to +54%yoy in February and the Russia/Ukraine conflict is expected to keep Turkish inflation higher for a longer period of time amid higher energy and food costs. The lira has weakened by roughly 6.5% since Russia invaded Ukraine, and analysts caution that the lira could further be weighed down by a reduction in tourism revenue. **This lira weakened (-1%) following the central bank decision.**

## Russia

Despite the latest reports this morning that the Kremlin disputes claims of major progress in talks with Ukraine, Russian bonds continued to rally, with the 2023 USD bond increasing by 16 pts since Tuesday to 44. **Russia's Finance ministry confirmed in an emailed statement this morning that the coupon payments on two Eurobonds due yesterday was fulfilled.** The Ministry said the payment was made to its correspondent bank, noting that it would update the market separately on whether the \$117 mn payment had been accepted by Russia's eurobond agent - Citibank in London. **It remains unclear, however, if the payment would reach investors with media reports noting that bondholders have not yet received any payment.** Bloomberg reports that a US Treasury spokesperson said that restrictions on transactions with the Central Bank of Russia would not impede Russia from making payments on its dollar debt. If Russia fails to make the payment in US dollars within the 30-day grace period (i.e., by 15 April) it would be in default, according to Fitch.






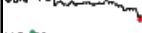

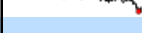




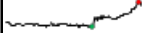

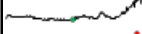


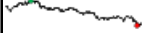









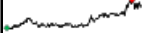


**Analysts expect the Central Bank of Russia to leave policy rates unchanged at 20% at the monetary policy meeting on Friday.** Markets are focused on the Governor's statement following the decision. **Weekly inflation in Russia eased slightly to +2.09% week-on-week in the week through March 11 (from 2.22%)** with reports of shortages of staple goods.

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## Global Financial Indicators

Last updated: 3/17/22 8:11 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4354	2.2	2	-1	10	-9
Europe		3873	-0.4	6	-6	1	-10
Japan		26653	3.5	4	-2	-12	-7
China		4238	2.0	-1	-9	-18	-14
Asia Ex Japan		76	9.1	2	-7	-20	-8
Emerging Markets		45	8.1	1	-9	-17	-8
Interest Rates			basis points				
US 10y Yield		2.13	-5.4	15	17	49	62
Germany 10y Yield		0.38	-1.6	10	15	67	55
Japan 10y Yield		0.21	-0.5	1	-2	11	14
UK 10y Yield		1.52	-10.9	0	6	69	55
Credit Spreads			basis points				
US Investment Grade		156	0.6	-9	18	56	44
US High Yield		423	2.5	-9	14	63	86
Europe IG		71	-2.1	-9	4	24	24
Europe HY		339	-8.0	-48	8	95	97
Exchange Rates			%				
USD/Majors		98.28	-0.3	0	3	7	3
EUR/USD		1.10	0.1	1	-3	-8	-3
USD/JPY		118.7	0.0	2	3	9	3
EM/USD		51.6	-0.6	3	-4	-10	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		104	6.1	-5	15	67	35
Industrials Metals (index)		219	-1.7	-5	17	51	27
Agriculture (index)		73	0.2	-2	9	40	20
Implied Volatility			%				
VIX Index (% change in pp)		27.0	0.3	-3.2	-1.1	7.8	9.8
US 10y Swaption Volatility		93.2	-5.7	-9.6	-1.5	10.0	14.2
Global FX Volatility		9.2	0.0	-0.1	1.5	1.5	1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		228	0.6	-1	-11	101	76
Italy		153	3.0	-10	-7	54	18
Portugal		82	1.7	-4	-4	27	18
Spain		96	2.0	-3	-2	30	22

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 3/17/2022 8:08 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	0.0	-0.5	0	2	0		2.8	-0.5	-11	2	-50	-1
Indonesia		14302	0.1	-0.2	0	1	0		6.7	-4.4	-3	21	-3	34
India		76	0.6	0.7	-1	-4	-2		6.3	0.0	0	9	75	0
Philippines		52	0.3	0.0	-2	-7	-2		5.1	0.0	3	8	28	58
Thailand		33	0.4	-0.5	-4	-8	0		2.3	-5.0	3	4	42	42
Malaysia		4.20	0.0	-0.2	0	-2	-1		3.7	0.8	3	4	26	10
Argentina		109	-0.1	-0.7	-3	-17	-6		48.3	26.9	-15	-22	289	-225
Brazil		5.08	1.7	-1.3	1	11	10		12.5	4.0	25	99	391	185
Chile		799	1.5	0.7	0	-9	7		6.0	0.0	7	10	262	56
Colombia		3838	-0.1	-2.5	3	-7	6		8.0	0.5	-21	29	303	161
Mexico		20.60	0.2	1.6	-1	-1	0		8.4	0.0	7	61	207	89
Peru		3.7	0.4	0.1	1	-1	7		6.6	-4.6	-4	61	195	74
Uruguay		43	0.1	-0.3	1	4	4		8.4	0.0	0	28	110	-33
Hungary		337	-0.4	3.0	-7	-9	-4		5.7	-7.0	-1	98	322	117
Poland		4.25	-0.6	2.6	-6	-10	-5		4.4	-4.4	-7	47	269	88
Romania		4.5	0.0	0.6	-3	-9	-3		5.9	-2.0	-19	75	326	109
Russia		106.1	-8.0	26.5	-28	-31	-29		26.8	-585.5	-356	1676	1972	1804
South Africa		14.9	0.0	0.8	0	-2	7		8.0	-6.0	-15	46	36	53
Turkey		14.69	-0.5	1.0	-8	-49	-9		26.2	13.0	22	422	1190	188
US (DXY, 5y UST)		98	-0.3	-0.2	3	8	3		2.12	-6.1	20	28	132	86

	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		4238	2.0	-1	-8	-17	-14		231	5	26	20	28	
Indonesia		6964	-0.4	1	2	11	6		203	-12	22	17	38	
India		57864	1.8	4	0	16	-1		198	-7	45	36	66	
Philippines		7122	1.4	0	-4	8	0		148	-16	19	37	47	
Thailand		1682	0.8	2	-2	7	1		0	0	0	0	0	
Malaysia		1591	1.2	1	-1	-2	1		145	-6	16	13	28	
Argentina		87451	4.0	0	-3	75	5		1781	-93	47	251	101	
Brazil		111112	2.0	-2	-2	-5	6		318	-10	0	41	7	
Chile		4695	0.0	2	3	-4	9		172	-8	15	32	32	
Colombia		1528	0.4	-1	2	14	8		352	-33	-12	132	4	
Mexico		53412	0.8	-1	1	12	0		367	-10	15	26	35	
Peru		24582	1.2	-1	3	10	16		187	-7	12	36	37	
Hungary		44636	1.2	8	-13	3	-12		155	-19	7	18	31	
Poland		63247	1.2	6	-5	9	-9		50	-21	42	15	18	
Romania		12536	1.1	5	-5	16	-4		234	-22	26	45	41	
Russia		2470	0.0	0	-30	-30	-35		3715	-3211	3475	3545	3538	
South Africa		74144	0.9	0	-3	12	1		363	-26	-15	0	8	
Turkey		2120	1.5	4	5	36	14		556	-91	21	134	-22	
Ukraine		519	0.0	0	0	0	-1		2906	-947	2037	2411	2147	
EM total		45	-0.2	1	-9	-17	-8		551	-55	138	193	165	

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

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