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- ECB officials signal hike in 2022 is likely ([link](#))
- BoJ keeps rates on hold; revises down its economic assessment ([link](#))
- Nickel prices fell by maximum allowed on London Metals Exchange for third day ([link](#))
- Russia's central bank leaves rates unchanged; Eurobond prices increase after coupon payment ([link](#))
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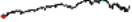
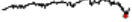









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Markets cautious amid mixed signals

European bourses fell and US equity futures pointed to a negative opening as market participants weighed mixed signals from the peace talks between Russia and Ukraine and reports that president Biden is to warn president Xi of US retaliation if China actively supports Russia. News of a Russian attack at an aircraft facility near Lviv and reports that the US Defense Intelligence Agency said that Russia may "rely on its nuclear deterrent" to signal strength also weighed on market sentiment. The VIX index rose (+0.8 ppts) and advanced economy sovereign bond yields fell this morning as a result of the greater risk aversion. In Japan, equities gained modestly after the Bank of Japan kept rates on hold, as expected, and revised down its economic assessment. In emerging markets, Russia's central bank kept rates unchanged, as expected, and Eurobond prices rose on reports that coupon payments have been made, avoiding a technical default for now. Elsewhere, Nigeria and Turkey issued new Eurobonds at a premium over existing benchmarks while Nickel fell by the maximum allowed for a third day in a row as the London Metals Exchange tries to resume trading.

Key Global Financial Indicators

Last updated: 3/18/22 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4412	1.2	4	1	13	-7
Eurostoxx 50		3838	-1.2	4	-6	-1	-11
Nikkei 225		26827	0.7	7	0	-10	-7
MSCI EM		45	-0.5	3	-8	-16	-8
Yields and Spreads			bps				
US 10y Yield		2.14	-2.8	15	21	43	63
Germany 10y Yield		0.36	-2.2	11	17	63	54
EMBIG Sovereign Spread		454	-14	-44	64	102	87
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.6	-0.1	3	-4	-9	-2
Dollar index, (+) = \$ appreciation		98.4	0.5	-1	2	7	3
Brent Crude Oil (\$/barrel)		107.2	0.5	-5	15	69	38
VIX Index (% change in pp)		26.5	0.8	-4	-1	5	9

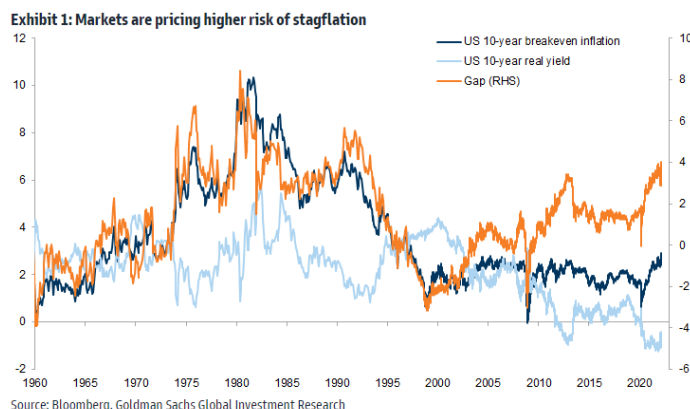
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

Markets are pricing higher risk of stagflation. The recent commodities rally fired up concerns about inflation, while the global economy is likely to take a considerable hit from ongoing military action against Ukraine. The latest Bank of America survey showed that 6 in 10 investors expect stagflation, but signs of stagflation risks rising are also evident in asset prices. US 10-year breakeven inflation has risen considerably, while real yields remain at historically low levels. The resulting gap is similar to that in the 1970s stagflation event. This points to little optimism on long term real growth and material concerns on inflation risk.



US money markets point to rising credit risks. The overall market volatility in recent weeks has been evident also in US money markets. US unsecured funding rates increased markedly on concerns about the impact of sanctions and potential exposures to energy and commodity markets related to activities from Russia and Ukraine. Unsecured rates did not all rise in lock-step, reminding investors that there is no ideal benchmark for money markets. At the same time, secured money market rates remained stable. The stark difference between secured and unsecured rates suggests rising risks in credit markets. Looking forward, the Federal Reserve's quantitative tightening plans could be a source of higher volatility in the market as the buffering role of reserves on volatility shrinks.

US Funding indicators: No ideal one

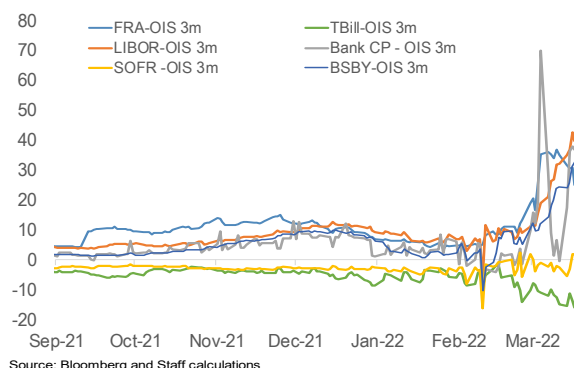
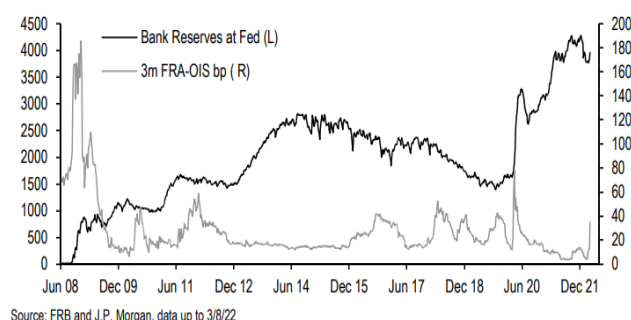


Exhibit 5: Funding markets show stress even though reserves are near all-time highs
FRA-OIS spread (bp; rhs) vs bank reserves at Fed (\$bn; lhs)



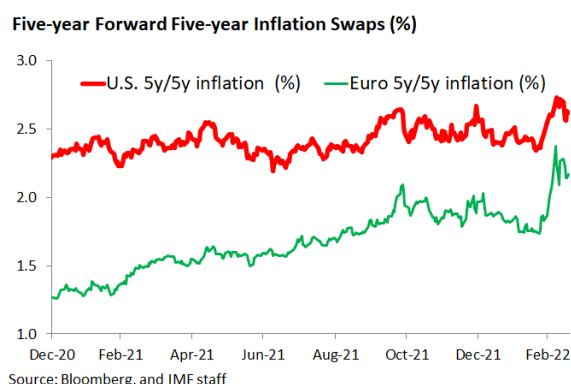
Market participants are debating the risk of a recession reflected in the yield-curve flattening. Despite market pricing leading the upward shift in the latest Fed dot-plot for 2022, there is some lingering disbelief amongst market contacts that the Fed can follow through with an aggressive hiking cycle without hurting the recovery prospects of the US economy. The indication of a restrictive monetary policy next year supports this, according to some analysts. Those analysts point to a part of the yield-curve (the gap between

the five and 10-year yields) inverting after the Fed decision, as an example of market pricing recession risks. Yet, others suggest that the yield curve dynamics, even if they lead to inversions, have little bearing on recession dynamics. This is because high demand for Treasuries (due to QE, pension funds and more recently, safe-heaven flows), pushes the yield curve flat. Against this background, the more recent flattening likely reflects market's willingness to price restrictive policy, according to Morgan Stanley analysts. Moreover, they consider the portion of the flattening stemming from geopolitical tensions relating more to "flight-to-quality" rather than true concerns of recession risks.



Euro area

European equities (-0.5%) and the euro (-0.5%) were lower in cautious trading. German 10-year bund yields (-3 bps to 0.36%) were also lower as ECB officials signaled that a hike in the second half of 2022 is likely. ECB President Lagarde said yesterday that she is increasingly confident that inflation dynamics over the near term will not return to the pattern seen before the pandemic. Governor Knot of the Dutch central bank said that expectations for a rate increase this year are realistic and did not rule out two ECB interest rate hikes in 2022. Markets are pricing in an ECB depo rate around -15 bps in December 2022 (from -50 bps currently). Separately, **ECB GC Member Schnabel said she also sees upward price pressures prevailing in the near term but only signs of a de-anchoring of medium to long-term inflation expectations from the ECB's target would justify a more forceful policy response.** Ms. Schnabel stressed ECB normalization will be gradual and conditional on the effects of the war in Ukraine, and that there are no signs of inflation expectations de-anchoring yet. The ECB is carefully monitoring the recent rise in long-term market-based measures of inflation compensation to levels above 2%. She stressed the key role of fiscal policy in buffering current supply-side shocks.



Ms. Schnabel also said that monetary policy cannot ignore the green transition and discussed two proposals to respond to relevant price pressures. First, raise the inflation target to automatically reduce the need for policy adjustments but a higher inflation target would increase the likely non-linear costs of

inflation, and there is a chance to put central banks' credibility and public trust at risk. Second, exclude energy prices from central banks' measures of inflation, but exclusion-based measures usually remove the most volatile items when changes in energy prices will become less symmetric during the transition, and would not reflect households' expenses.

10-year Southern European bonds were little changed as Italian PM Draghi sees an economic slowdown but no recession and plans further measures to cushion energy price hikes.

Japan

The Bank of Japan maintained its easing stance and kept rates on hold as expected—contrasting with the rate hikes by Fed and BOE this week. The central bank revised down its economic assessment just two months after it was upgraded, citing the impact of Covid. It also flagged the need to monitor developments in markets and commodity prices in the wake of Russia's invasion of Ukraine. Japan's headline CPI was reported in line with expectations at 0.9% yoy. Core CPI was reported at 0.6% yoy and was marginally ahead of consensus expectations of a 0.5% yoy rise.

Commodity prices

Nickel fell by the maximum allowed for a third day in a row of electronic trading on the London Metals Exchange (LME). Yesterday, the LME widened up/down limits to 12%, from 8% on Thursday and 5% on Wednesday. Today, Nickel dropped 12% to the daily limit of \$36,915 a ton with at least three trades below the lower bound canceled. In Shanghai, the most liquid April contract traded at about \$34,500 a ton, or \$30,500 a ton on a comparable basis to the LME (excluding tax). **Contacts believe that there will be a few more days where nickel on the LME trades below limits with trading then shut until prices trade closer to fair value.**

Emerging Markets

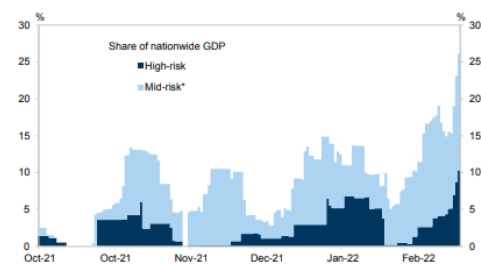
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Asian markets were broadly unchanged today—taking a breather from the sharp rally over the last two days. Vietnam (+0.7%) was the most notable outperformer. **EMEA equity markets were mostly higher while currencies depreciated.** Equity markets in Saudi Arabia (+0.9%) and South Africa (+0.7%) outperformed, while the equity market in Hungary (-1.8%) underperformed. The Hungarian forint (-1.9%) and Polish zloty (-1.5%) underperformed. The Russian ruble was little changed. **On the data front Poland's February PPI (+15.9%yoy) surprised on the upside** (consensus expectations 15.2% from 14.8%). **Latin American equity markets** gained on Thursday, with Argentina outperforming (+2.5%). Local currencies were mostly stronger. The Brazilian real strengthened 0.8%, and the Mexican peso appreciated 0.6% against the dollar. 10-year government bond yields dropped 10 bps in Mexico.

China

Chinese markets were broadly stable today consolidating after a roller coaster trend this week. The Shanghai Composite was down almost 7.5% in the first two days of this week but has risen by 5% in the last two days. The volatile trends reflect an interplay between the regulatory tightening, the stress in the property sector and more recently the sharp escalation in the number of COVID cases. Goldman analysts note that the GDP share of cities with high/mid-risk districts has climbed to 25%. Bloomberg reported that Chinese President Xi has pledged to reduce the economic impact of his Covid-fighting measures, potentially signaling a shift in a longstanding strategy that has minimized fatalities but weighed heavily on the economy. The stress in the property sector remains elevated as evidenced through the sharp rise in the spreads of China high-yield dollar bond index. The market cap of the overall index has declined from \$120 bn last year to around \$40 bn now.

Exhibit 7: GDP share of cities with high/mid-risk districts has climbed to 25%



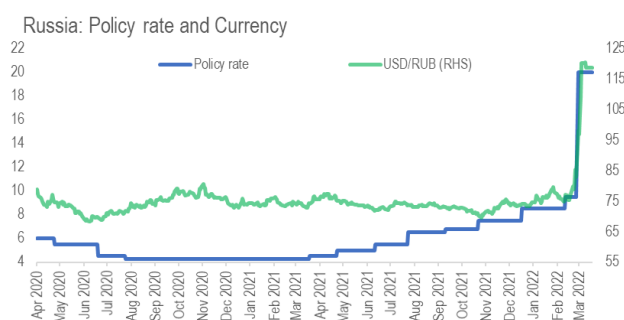
*For cities with both high-risk and mid-risk districts, we count them as "high-risk" only to avoid double counting.

Source: NHC, CEIC, Goldman Sachs Global Investment Research



Russia

Russia left interest rates unchanged at 20%, as expected. The Central Bank of Russia's online press statement notes that Russia's economy is entering a phase of structural transformation that will be accompanied by a period of higher inflation—with annual inflation seen at 4% in 2024. **Governor Nabiullina will make a statement later today.** This morning it was reported that President Vladimir Putin backed Governor Nabiullina for a third term, the proposal will be considered by the lower house of parliament's council on 21 March.



Source: Bloomberg and IMF calculations

Russian Eurobond prices increased amid reports that coupon payments had been made, thus avoiding technical default for now. Media outlets reported that JP Morgan had credited the \$117 mn coupon payment it received from Russia to the paying agent Citi, with US authorities signing off on the payment. Later reports also said some bondholders have received the payment, though this remains unconfirmed. The coupon payment was due earlier this week on 2023 and 2043 bonds. Russia's 2023 USD bond gained another 9 pts to 52 cents on the dollar yesterday, while 5 year CDS spreads narrowed. This morning the 2023 bond price was little changed.

S&P Global ratings downgraded Russia's foreign and local currency rating to 'CC' yesterday, citing a high vulnerability to non-payment of debt with the rating agency flagging that debt service payments due over the next few weeks could face technical difficulties. Russia's rating remains on CreditWatch negative.

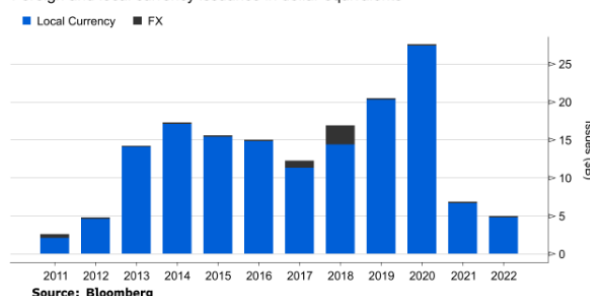
Sovereign Bond Issuance

Nigeria issued a 7-year Eurobond at a premium. Nigeria, which is rated B- by S&P Global Ratings, yesterday raised \$1.25 bn in notes due 2029, priced to yield 8.375% amid reported strong investor demand. The yield of a 2028 Eurobond that was placed roughly 6 months ago at 6.125% is currently trading at around 7.6%. Bloomberg estimates that Nigeria has sold \$4.87 bn worth of bond in 2022 as of March 17, 28% lower than in the same period in 2021. On the monetary policy front, **analysts expect the central bank of Nigeria to leave interest rates unchanged at 11.5% at its meeting on March 22,** with a Bloomberg survey of economists showing expectations of rate hikes from the second quarter.

Separately, **Turkey also issued a Eurobond yesterday, raising \$2 bn in bonds due in 2027, priced to yield 8.625%.**

Nigeria Sovereign Bond Issues Year-to-Date

Foreign and local currency issuance in dollar equivalents



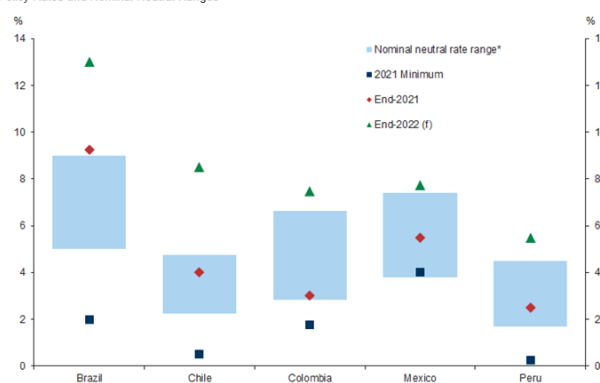
Source: Bloomberg

Latin America policy rate expectations

Analysts expect Latin American central bank policy rates to move deeper into restrictive territory.

Though Latin American countries were expected to benefit from the surging commodity prices as they are prominent commodity exporters, tighter global financial conditions, higher food & fuel inflation forecasts, and ongoing supply chain disruptions would wipe out gains from the commodities terms of trade. Analysts have lowered economic growth forecasts across Latin American countries while raising inflation expectations. Given the deteriorating inflation outlook, analysts at Goldman Sachs also revised up their policy rate expectations. Major investment banks also lifted their selic rate (Brazil) estimates above 13% after the central bank hiked its policy rate by 100 bps to 11.75% on Wednesday.

Policy Rates Moving Deeper into Restrictive Territory
Policy Rates and Nominal Neutral Ranges













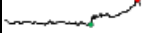
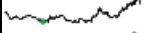


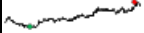













*Nominal neutral rate ranges from IMF 2021 REO for the Western Hemisphere.

Source: IMF, Goldman Sachs Global Investment Research

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), 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





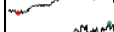







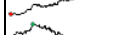





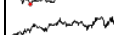






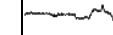



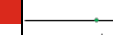



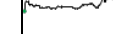

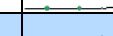




Last updated: 3/18/22 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4403	1.2	5	1	12	-8
Europe		3838	-1.2	4	-6	-1	-11
Japan		26827	0.7	7	0	-10	-7
China		4266	0.7	-1	-8	-15	-14
Asia Ex Japan		75	-0.8	3	-7	-19	-9
Emerging Markets		45	-0.5	3	-8	-16	-8
Interest Rates			basis points				
US 10y Yield		2.14	-2.8	15	21	43	63
Germany 10y Yield		0.36	-2.2	11	17	63	54
Japan 10y Yield		0.21	0.3	2	-1	10	14
UK 10y Yield		1.51	-5.7	2	13	63	54
Credit Spreads			basis points				
US Investment Grade		148	-0.1	-18	8	48	37
US High Yield		410	0.3	-29	-3	45	72
Europe IG		72	1.6	-9	1	25	24
Europe HY		347	12.2	-40	1	104	105
Exchange Rates			%				
USD/Majors		98.44	0.5	-1	2	7	3
EUR/USD		1.10	-0.6	1	-3	-7	-3
USD/JPY		119.1	0.4	2	4	9	3
EM/USD		51.6	-0.1	3	-4	-9	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		107	0.5	-5	17	81	39
Industrials Metals (index)		222	0.4	-4	18	54	28
Agriculture (index)		74	-0.3	-1	10	44	22
Implied Volatility			%				
VIX Index (% change in pp)		26.5	0.8	-4.2	-1.2	4.9	9.3
US 10y Swaption Volatility		93.0	1.5	-4.8	-0.1	3.9	14.0
Global FX Volatility		8.8	0.0	-0.7	1.1	1.1	1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		228	1.3	-6	-11	105	76
Italy		153	0.8	-8	-12	57	18
Portugal		81	-0.1	-4	-8	29	17
Spain		95	0.4	-4	-6	31	20

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 3/18/2022 8:06 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		6.36	-0.2	-0.4	-1	2	0		2.8	0.5	-1	0	-51	-1
Indonesia		14340	-0.3	-0.3	0	0	-1		6.7	0.3	0	23	-5	34
India		76	0.6	0.7	-1	-4	-2		6.3	0.0	0	9	75	0
Philippines		52	-0.4	-0.1	-2	-7	-3		5.1	0.0	3	8	35	58
Thailand		33	-0.4	-0.1	-4	-7	0		2.3	4.5	3	11	61	47
Malaysia		4.20	0.0	0.0	0	-2	-1		3.7	-0.9	2	3	22	10
Argentina		110	-0.1	-0.7	-3	-17	-6		48.7	33.7	50	28	316	-192
Brazil		5.04	-0.1	0.6	2	10	10		12.5	-8.0	9	80	385	177
Chile		799	0.1	0.7	0	-10	7		5.9	-0.2	-3	-5	246	48
Colombia		3822	0.4	-0.1	3	-7	6		7.8	0.0	-45	17	269	142
Mexico		20.51	0.1	2.0	-1	0	0		8.3	0.0	-7	56	181	82
Peru		3.8	-0.8	-1.1	-1	-1	7		6.6	-5.3	-11	56	190	67
Uruguay		43	0.3	0.1	1	5	5		8.4	0.0	0	31	101	-33
Hungary		341	-1.9	2.8	-8	-9	-5		5.7	-3.5	-6	107	323	123
Poland		4.28	-1.5	2.3	-7	-9	-6		4.5	-3.1	-12	59	268	93
Romania		4.5	-0.6	1.1	-3	-9	-3		5.8	-11.6	-24	65	315	97
Russia		103.5	-1.0	29.7	-25	-28	-27		28.3	-148.3	-345	1808	2110	1950
South Africa		15.0	-0.4	0.4	1	-2	6		8.1	5.0	8	58	37	65
Turkey		14.80	-0.7	-0.2	-8	-51	-10		26.4	7.0	71	455	1240	210
US (DXY; 5y UST)		98	0.5	-0.7	2	7	3		2.11	-3.2	17	29	125	85

	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		4266	0.7	-1	-8	-15	-14		226	0	19	13	23	
Indonesia		6955	-0.1	0	1	9	6		185	-19	0	1	20	
India		57864	0.0	4	0	18	-1		177	-20	23	12	45	
Philippines		7008	-1.6	-1	-5	9	-2		127	-21	-8	20	26	
Thailand		1679	-0.2	1	-1	7	1		0	0	0	0	0	
Malaysia		1591	0.0	1	1	-2	2		139	-9	9	6	22	
Argentina		89646	2.5	-1	0	84	7		1771	-54	15	261	91	
Brazil		113076	0.0	-1	0	-2	8		305	-23	-20	29	-6	
Chile		4790	0.0	3	5	-2	11		159	-19	-3	20	19	
Colombia		1543	1.0	0	3	16	9		335	-45	-37	116	-13	
Mexico		54365	1.8	2	4	14	2		353	-20	-5	12	21	
Peru		24933	1.4	1	5	12	18		173	-18	-6	23	23	
Hungary		43771	-1.8	2	-13	-2	-14		147	-25	-4	5	23	
Poland		64068	-0.1	4	-2	10	-8		48	-26	32	6	16	
Romania		12533	0.4	4	-5	16	-4		214	-37	3	22	21	
Russia		2470	0.0	0	-27	-30	-35		2801	-3846	2528	2622	2624	
South Africa		74635	0.7	1	-2	12	1		362	-21	-23	-6	7	
Turkey		2143	0.4	4	5	38	15		568	-78	21	133	-10	
Ukraine		519	0.0	0	0	0	-1		3126	-934	2167	2620	2367	
EM total		45	-0.1	3	-8	-16	-8		527	-70	103	167	141	

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

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