



- US Treasury yields fall sharply as rising commodity prices fuel stagflation fears ([link](#))
- FOMC policy rate expectations shift lower as worries mount over growth outlook ([link](#))
- Energy prices surge amid shortage concerns ([link](#))
- Eurozone flash inflation reaches record high in February ([link](#))
- Foreign-listed Russian stocks trade sharply lower as local exchange remains shut ([link](#))
- Selloff in Chinese property developer bonds expands to larger firms ([link](#))

[Mature Markets](#)

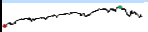
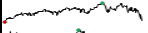



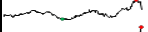

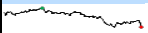

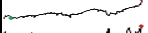
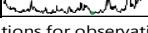
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Markets remain on edge amid rising commodity prices

Global equity markets and core sovereign bond yields are stabilizing this morning as news flow around the Russia-Ukraine hostilities and imposition of sanctions has remained the key market driver. Global equity markets have traded mixed overnight and this morning as the ongoing conflict in Ukraine has now begun to aggravate existing inflation concerns. Bloomberg's broad commodity index has seen a significant jump (+8%) over the last day, while crude oil prices have reached \$112/bbl despite the US and other members of the IEA coordinating a release of strategic oil reserves in a bid to offset rising fuel costs. The S&P 500 closed down 1.5% yesterday, with the energy sector (+1%) once again the notable exception, and Asian stocks declined about 1% across the region while European bourses and US equity futures are posting modest gains. Volatile flight-to-safety moves in core sovereign bond markets saw yields declining on the scale of 20-30 bp across maturities in the Euro area yesterday, attributed entirely to falling real rates, though bond markets look to be steadying this morning. Investors have continued to unwind expectations for central bank policy tightening with about 5 FOMC rate hikes now priced for 2022, down from over 6 last week, and still about 20 bps of ECB hikes through year-end. In emerging markets, the local Russian stock market remained closed for the third consecutive day, though foreign-listed stocks of some Russian entities have lost significant value. Markets in close proximity to Russia continue to bare the brunt of the weakness with broad underperformance persisting in eastern European currencies.

Key Global Financial Indicators

Last updated: 3/2/22 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4306	-1.5	0	-6	11	-10
Eurostoxx 50		3796	0.8	-4	-10	2	-12
Nikkei 225		26393	-1.7	0	-3	-11	-8
MSCI EM		46	-1.3	-4	-6	-16	-6
Yields and Spreads			bps				
US 10y Yield		1.76	3.6	-23	-1	37	25
Germany 10y Yield		-0.02	5.5	-25	-6	34	16
EMBIG Sovereign Spread		482	13	79	101	131	115
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.1	-0.4	-4	-4	-10	-3
Dollar index, (+) = \$ appreciation		97.5	0.1	1	2	7	2
Brent Crude Oil (\$/barrel)		112.1	6.8	16	25	79	44
VIX Index (% change in pp)		33.0	-0.3	2	11	9	16

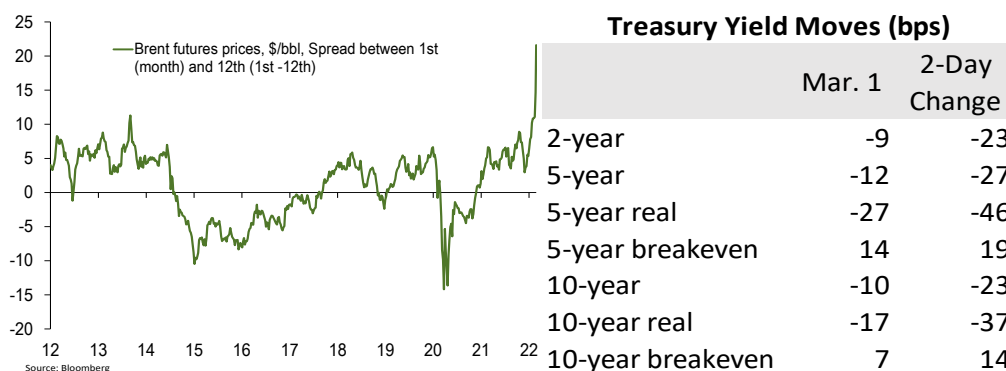
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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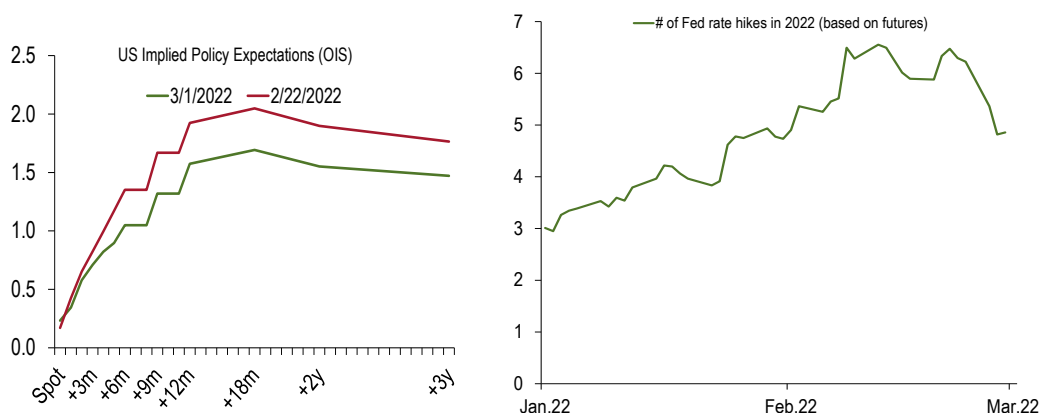
United States

US Treasury yields fell sharply for the second consecutive day and equities declined 1.6%. Treasuries rallied on Tuesday, with 10-year yields falling another 10 bps for a 2-day decline of 23 bps. The recent action has been driven by real yields, with 10- and 5-year real yields down by 37 and 46 bps respectively, while breakeven rates have moved higher. Commodity prices shaped Tuesday's price action, as **the Bloomberg Commodity Index saw its largest one-day gain (4.1%) since 2009** on the back of an 8-9% rally in oil prices and gains in metals and agriculture products. Speculation over further energy sanctions against Russia has increased concern over near-term oil supplies, and **the spread between the 1- and 12-month forward Brent crude futures contracts have reached the highest in decades**, at over \$20 per barrel.



In data releases this morning, US ADP employment data showed a gain of 475k jobs, compared to forecasts for a 375k gain. Consensus expects 403k jobs were added in February for Friday's payroll report.

Renewed analyst commentary about stagflation fears and downside risks to growth from an oil supply shock have prompted a repricing of the FOMC policy path this week. While market-based policy rate expectations continue to be volatile, investors have reduced their expectations for Fed rates hikes in 2022 and beyond. Futures markets have moved from pricing nearly 6.5 hikes as recently as Friday, to 4.8 on Tuesday afternoon, while implied expectations of the terminal rate 3-4 years out have also fallen 25-30 bps since last week.



This morning, the prepared remarks for Fed Chairman Powell's appearance before the House Financial Services Committee indicated a policy rate hike is still expected at the upcoming March FOMC meeting, though implications of the war in Ukraine remains highly uncertain. The statement also

added that after starting the process of raising rates, the Fed will also commence the process of reducing its balance sheet by capping reinvestment of maturing assets in a predictable manner.

Euro area

European equities opened the session lower but reversed losses in later trade, with the Stoxx 600 index up +0.4%. The energy sector outperformed (+3.7%) on the back of higher oil prices, while basic resources were up by +2.2%. **The euro was trading weaker (-0.2%) and while the EURUSD basis swap remains wider than levels seen earlier in February, it narrowed slightly this morning. Sovereign bond yields increased this morning, retracing a part of the significant decline seen yesterday.** The 10-yr bund yield (+4 bps) remained in negative territory at -0.04%. Southern spreads widened with Italy's spread increasing by 9 bps.

Preliminary eurozone headline CPI reached another record high +5.8% y/y in February, slightly ahead of the expected 5.6% from 5.1%. Energy inflation is expected to be the main driver – increasing to +31.7% y/y from 28.6% y/y in January. Core price growth increased to 2.7% y/y (+2.6% consensus from +2.3%), mainly due to higher goods prices with supply chain frictions resulting in high input prices. Yesterday, data showed German inflation increasing to 5.5% y/y (consensus 5.4% from 5.1%).

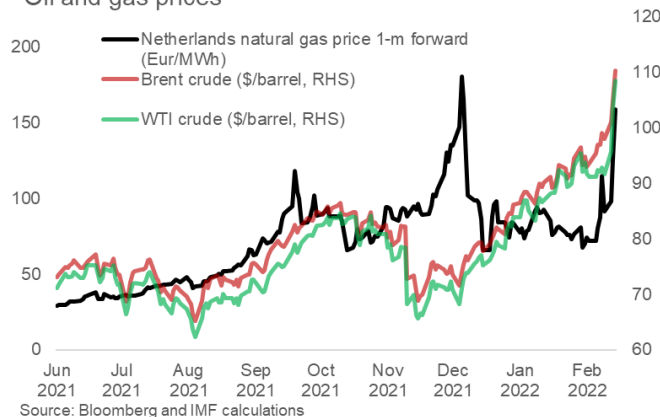
Eurozone inflation



Markets are now pricing in roughly +20 bps of hikes by year-end, in comparison to +13 bps at the start of the week and close to +50 bps that was priced in mid-February. Against a backdrop of increased uncertainty around the economic impact of Russian/Ukraine developments, analysts no longer expect significant policy commitments from the ECB at its March meeting, with some expecting the announcement of new targeted longer-term refinancing operations (TLTROs).

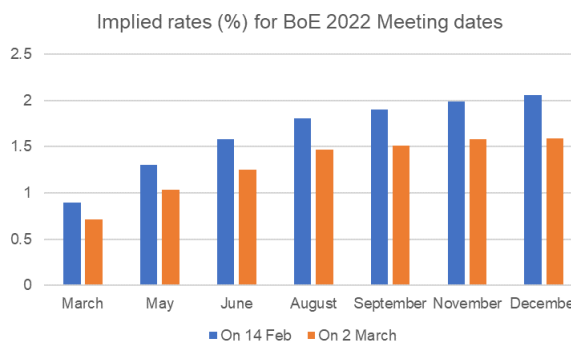
European natural gas prices jumped (+26% to €159/MWh) as investors have become increasingly concerned that Russia could respond to recent sanctions by withholding the delivery of at least some of its commodity exports. **Brent oil prices are 7% higher at \$112/bbl.**

Oil and gas prices



United Kingdom

Comments from BoE policymakers yesterday were seen to have affirmed rate hike expectations for March. Michael Saunders noted that inflation pressures could be stronger and more persistent than implied by February forecasts and argued that tightening now could limit the total tightening required to return inflation to the 2% target. Catherine Mann cautioned that wage expectations reflect that inflation is 'embedded'. **Markets are pricing in roughly +110 bps of tightening this year, with a 25 bp hike in March close to fully priced in.**



Japan

Equities declined close to 2%. PM Kishida stated private-sector companies involved in the Sakhalin-II oil and gas project with Russia must decide for themselves how to react, while the government is prepared to offer advice and cooperation, based on the effect of sanctions. Separately, **Japan 10-year government bond futures surged as much as +58 points.** The rally came after stop-loss buying of eurodollar futures and Treasuries spurred a surge in U.S. government securities, according to Bloomberg. The move could reflect closing of short positions on Japanese bonds by foreign hedge funds and commodity trading advisors, according to some analysts. **Yields slipped across the curve, 10-year yields declined -1.5 bps, falling as much as -3.5 bps during the day. Japanese yen was broadly unchanged.**

JGB futures show close correlation with trading by overseas investors



Emerging Markets

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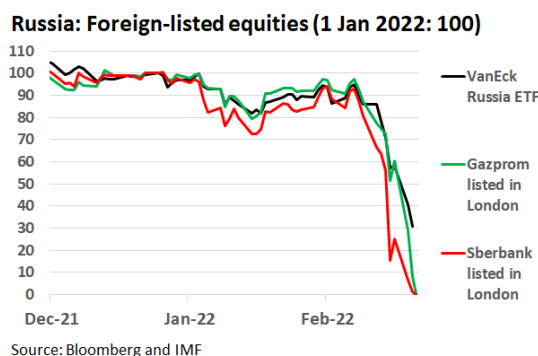
Latin American stocks closed mixed, while currencies depreciated yesterday. Stocks gained in Peru (+1.7%) and Colombia (+0.7%) and retreated in Chile (-2.2%). Currencies depreciated (CLP -1.1%, MXN -0.9%), except for the Colombian peso (+1.4%), which profited from higher energy commodity prices (oil +8%, NYM natural gas +3.8%). Mexico's purchasing manager indexes came in for February above their January values, hinting at strengthening economic optimism, which may have provided some support to Mexican stocks (-0.4%). **Asian equities declined -1.1% on net** amid escalating geopolitical concerns. Hong Kong SAR fell -1.9% followed by India (-1.6%), Australian stocks (+0.3%), Malaysia (+0.1%) and South Korea (+0.2%) gained. In **Hong Kong SAR**, the number of covid cases breached 50,000, the government announced mandatory testing and is expected to tighten movement restrictions. In **Australia**, the economy's GDP rebounded +3.4% q/q in Q4 from -1.9% q/q, aided largely by strong growth in household consumption (+6.3% q/q) over the period. **Most of Asian currencies depreciated.** In **Sri Lanka**, transport shutdown and electricity blackouts were reported due to shortage of foreign exchange to import fuel, according to Bloomberg. In **EMEA**, sentiment remains fragile as **Russia's defense ministry announced that Russia has captured Kherson, a Ukrainian port.** The Czech Koruna, Hungarian forint, and Polish zloty fell 1% against the euro. The Turkish lira fell 1% against the U.S. dollar. Equities were mixed, with Polish stocks 1% higher with stocks 1% lower in Hungary. Swap rates widened in Eastern Europe after trading sharply lower yesterday in line with euro area rates. **Expectations are that the central bank of Hungary could hike its depo rate by 50 bps tomorrow.**

Russia

The ruble (-3%) weakened to 112 per U.S. dollar as Brent oil prices rose 7% to \$112/bbl. Yesterday, a significant spread developed between onshore and offshore markets. In the offshore market the ruble (-9%) fell to 114, while the onshore prices were around 97. Bloomberg quotes suggests that the spread remains wide but fell to 5 points with the onshore ruble trading around 107 today.

Euroclear stopped accepting payments in ruble, following a similar measure announced by Clearstream. Euroclear said it would also disable its account at its Russian correspondent bank, Dutch group ING, effective immediately. **Credit card operators Visa and Mastercard, restricted the use of cards by Russian banks.** This is expected to significantly add to inflationary pressures in Russia as purchases abroad or from foreign websites will face large disruptions.

The Moscow stock exchange is closed for a third consecutive day, but the VanEck Russia ETF closed 23% lower yesterday. Foreign-listed stocks of Gazprom and Sberbank trade close to zero in London. **The FT reports that Stoxx will remove 61 Russian companies from indexes.** The list includes most major Russian companies, such as Gazprom, Lukoil, Sberbank, Rusal and Aeroflot.



The Russian central bank announced that it would ban coupon payments on foreign owners of local currency ruble bonds (OFZs). Foreign investors held an estimated \$37 bn (a 19% share) in outstanding stock in January. Allianz SE, BlackRock and Vanguard Group are among the biggest overseas holders of the debt, according to partial data compiled by Bloomberg. **Contacts expect that a technical default on Russia's Eurobonds is likely to happen in the near-term; Russia has \$2 bn maturing in early April.**

Sberbank, Russia's largest lender, has announced that it is leaving the European market. Yesterday, the European Commission approved the resolution schemes for Sberbank in Croatia and Slovenia, based on proposals of the European Single Resolution Board. All shares in Sberbank's Croatian and Slovenian subsidiaries will be transferred to other banks with no disruption expected for depositors or clients.

Crypto Assets

Major crypto exchanges, including Coinbase and Binance, decided against blanket restrictions towards Russian users, saying this would harm ordinary people, but plan to comply with any official sanctions and will take a "targeted approach." Bitcoin was little changed at \$44k.

Ukraine

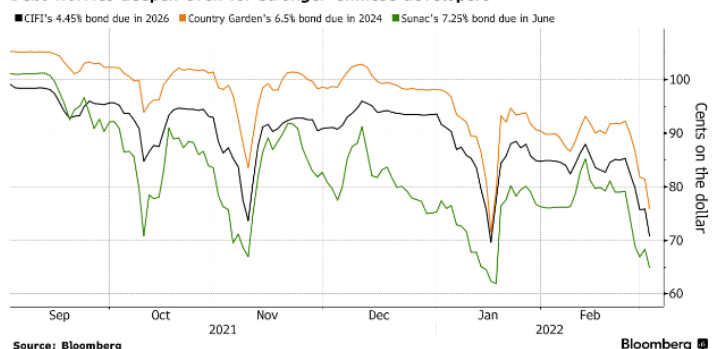
Ukraine raised 8.1 bn hryvnia (\$277 mn) in a sale of war bonds at a yield of 11% yesterday. Ukraine's finance ministry cut off access to its website from abroad to avoid cyber-attacks with international participation reported as limited on concerns over settlement and lack of information. **U.S. dollar bonds remain distressed, with limited liquidity.**

China

China will not support financial sanctions on Russia. Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, said in a briefing that the sanctions have no obvious impact on China's finance and economy so far and are not expected to have too big of an impact in the future given the resilience of the Chinese economy, Bloomberg reports. China will continue normal economic and trade ties with related parties. Separately, **property developer bond selloff expanded to affect bigger firms.** Offshore bonds issued by China's Country Garden and CIFI Holding Group fell 4 to 8 cents on the dollar.

Fears Spread

Debt worries deepen even for stronger Chinese developers



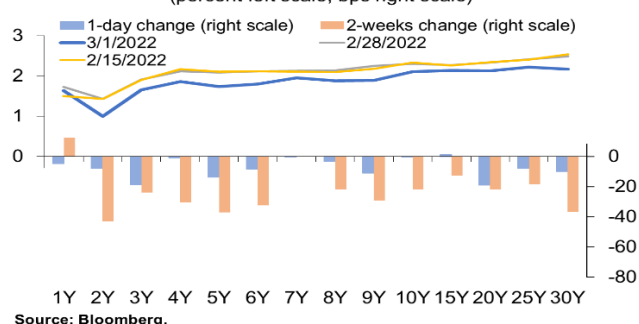
The selloff comes as \$3.7 bn of the sector bond payments come due this month, based on Bloomberg calculations. Meanwhile, Shimao onshore bonds due in July fell 4.5% after the announcement it had selected advisors for loan restructuring proposal. Builder shares dropped 2.8%, down -9% over the week. Shenzhen and Shanghai were part of previous pilots. **Equities slipped (Shanghai: -0.1%, Shenzhen: -0.6%), Renminbi was broadly unchanged, 10-year yields firmed +1.1 bps.** China bond futures declined further as the central bank continued to drain cash (a net of 190 bn yuan) with reverse repo, overnight repo rate was up +9bps to 1.9%.

Chile

Economic slowdown and inflationary pressures complicate Chile's policy outlook.

Growth in economic activity slowed down by 110 bps in January, to 9% y/y, undershooting the expected 10.7% y/y, while business confidence decreased in February. Other recent macroeconomic data corroborated a weakening business cycle: the unemployment rate rose in January by an unexpected 0.1 ppt to 7.3%; retail sales, manufacturing, and commercial activity all grew less than expected; and copper production fell by 7.5% y/y. Downward shifts in Chile's inflation-linked treasury yield curve highlights persistent inflationary pressures. Together the two effects suggest a difficult macroeconomic policy take ahead. Chilean stocks slumped yesterday, and the peso depreciated (-0.9%).





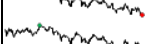



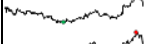

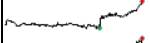




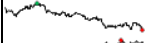
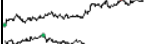
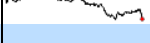





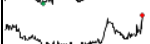




Chile: inflation-linked treasury rates declined



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Global Financial Indicators

Last updated: 3/2/22 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4306	-1.5	0	-6	11	-10
Europe		3796	0.8	-4	-10	2	-12
Japan		26393	-1.7	0	-3	-11	-8
China		4579	-0.9	-1	0	-16	-7
Asia Ex Japan		78	-0.9	-3	-5	-19	-6
Emerging Markets		46	-1.3	-4	-6	-16	-6
Interest Rates			basis points				
US 10y Yield		1.76	3.6	-23	-1	37	25
Germany 10y Yield		-0.02	5.5	-25	-6	34	16
Japan 10y Yield		0.14	-3.6	-6	-4	1	7
UK 10y Yield		1.21	7.8	-27	-5	52	24
Credit Spreads			basis points				
US Investment Grade		148	-1.6	6	24	57	37
US High Yield		417	-5.1	10	41	67	79
Europe IG		76	-1.2	5	19	28	28
Europe HY		370	-8.9	18	89	122	128
Exchange Rates			%				
USD/Majors		97.48	0.1	1	2	7	2
EUR/USD		1.11	-0.2	-2	-2	-8	-2
USD/JPY		115.3	0.3	0	1	8	0
EM/USD		51.1	-0.4	-4	-4	-10	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		112	6.8	16	25	79	44
Industrials Metals (index)		201	2.8	7	11	34	16
Agriculture (index)		74	1.2	5	13	41	21
Implied Volatility			%				
VIX Index (% change in pp)		33.0	-0.3	2.0	10.9	8.9	15.8
US 10y Swaption Volatility		113.9	-3.8	19.6	36.9	47.8	34.9
Global FX Volatility		8.7	0.0	1.2	1.3	0.9	1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		237	-1.8	-3	49	102	85
Italy		155	8.0	-16	16	53	20
Portugal		85	4.7	-7	18	28	21
Spain		98	5.2	-5	24	31	24

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

Emerging Market Financial Indicators

Last updated: 3/2/2022 8:12 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		6.32	-0.1	0.0	1	2	1		2.9	0.0	4	19	-43	5
Indonesia		14384	-0.3	-0.3	0	0	-1		6.6	5.1	6	14	-2	18
India		76	-0.5	-1.5	-1	-3	-2		6.3	0.0	0	9	75	0
Philippines		51	-0.4	-0.6	-1	-6	-1		5.0	-15.0	-3	38	86	48
Thailand		33	-0.3	-1.3	2	-7	2		2.2	-3.5	-7	8	54	31
Malaysia		4.20	-0.1	-0.3	0	-3	-1		3.7	-0.6	-1	-1	59	7
Argentina		108	-0.5	-0.6	-3	-17	-5		48.4	0.0	72	-119	659	-217
Brazil		5.15	-0.7	-0.3	6	7	8		11.7	2.0	1	17	292	98
Chile		806	0.2	-1.9	1	-9	6		5.8	8.0	-14	10	275	36
Colombia		3885	0.0	0.7	1	-6	5		7.9	0.0	6	74	308	152
Mexico		20.71	-0.2	-2.2	-1	0	-1		7.9	0.0	2	35	174	34
Peru		3.8	-0.2	-1.5	3	-3	6		6.2	0.1	21	15	181	31
Uruguay		43	1.4	1.1	5	2	5		8.1	0.0	-1	-52	112	-58
Hungary		344	-1.8	-7.1	-9	-12	-6		5.2	13.0	35	25	274	65
Poland		4.33	-1.3	-6.3	-7	-13	-7		3.7	2.8	-17	-26	203	20
Romania		4.5	-0.2	-1.8	-2	-10	-2		5.5	-1.9	35	47	276	68
Russia		108.5	-10.6	-25.2	-30	-32	-31		25.9	915.0	1472	1656	1887	1713
South Africa		15.5	-0.4	-2.2	-1	-3	3		7.8	13.0	22	22	29	38
Turkey		14.07	-1.1	-1.7	-4	-48	-5		24.5	13.0	204	126	1108	14
US (DXY; 5y UST)		98	0.1	1.4	2	7	2		1.65	5.4	-26	4	99	38

	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		4579	-0.9	-1	0	-16	-7		219	11	16	7	16	
Indonesia		6868	-0.8	0	3	8	4		210	21	25	26	45	
India		55469	-1.4	-3	-6	8	-5		170	12	29	20	38	
Philippines		7304	-1.4	-2	-1	5	3		163	23	48	58	62	
Malaysia		1598	0.1	1	5	1	2		146	11	24	10	29	
Argentina		87970	-0.8	-2	-3	82	5		1839	116	105	346	159	
Brazil		113142	1.4	1	1	3	8		334	3	14	58	23	
Chile		4490	1.2	3	-1	-5	4		181	8	27	34	41	
Colombia		1539	0.7	2	1	14	9		388	3	22	158	40	
Mexico		53169	-0.4	1	2	16	0		369	1	30	19	37	
Peru		24148	1.7	3	7	6	14		188	-1	17	36	38	
Hungary		39324	1.1	-18	-26	-11	-22		181	24	51	42	57	
Poland		61068	1.7	-3	-11	5	-12		70	58	56	39	38	
Romania		12276	-1.7	-7	-9	20	-6		251	28	49	48	58	
Russia		2470	0.0	-20	-30	-27	-35		4201	3843	3934	4031	4024	
South Africa		77666	0.7	4	3	13	5		411	19	47	38	56	
Turkey		1992	1.1	-1	0	30	7		602	47	46	175	24	
Ukraine		519	0.0	0	-1	-1	-1		3439	2282	2561	2925	2680	
EM total		46	-0.2	-4	-6	-16	-6		584	144	171	226	197	

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

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