



- US TIPS ETFs experience robust inflows ([link](#))
- Growing risks of US inflation expectations becoming unanchored ([link](#))
- ECB sees growth even in downside scenario ([link](#))
- Nickel prices fell by maximum allowed on London Metals Exchange for 4th day ([link](#))
- Australia bans alumina and aluminum ore exports to Russia ([link](#))
- Egypt unexpectedly hikes policy rates and devalues pound ([link](#))

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Risk sentiment stable as commodity prices rise

Global equity markets are little changed so far today after last week's rally. Last week, the S&P 500 increased over 6%, with US and European markets largely recouping their losses from the Russia/Ukraine war. The last few days have seen a resumption in the run-up of energy prices with crude oil prices rising a further 4% this morning, pushing Brent over 112. Aluminum prices are also higher, rising 5%, after Australia announced a ban on exporting the metal to Russia. Australia supplies nearly 20% of Russia's aluminum. Meanwhile the price of nickel fell by the maximum allowed (-15%) on the London Metals Exchange. After making a payment on two of its dollar bonds last week, markets expect Russia to make another such payment today, despite the bond containing a clause that allows payment in rubles if Russia is unable to make the payment in hard currency due to circumstances beyond its control.

Key Global Financial Indicators

Last updated: 3/21/22 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4463	1.2	6	3	14	-6
Eurostoxx 50		3902	0.0	4	-2	2	-9
Nikkei 225		26827	0.7	7	0	-10	-7
MSCI EM		45	1.4	7	-7	-16	-7
Yields and Spreads			bps				
US 10y Yield		2.20	5.0	7	27	48	69
Germany 10y Yield		0.41	3.6	4	20	70	59
EMBIG Sovereign Spread		458	4	-38	63	111	91
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.5	-0.2	2	-4	-10	-2
Dollar index, (+) = \$ appreciation		98.3	0.1	-1	2	7	3
Brent Crude Oil (\$/barrel)		112.6	4.3	5	18	75	45
VIX Index (% change in pp)		24.4	0.5	-7	-3	3	7

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

This week, several central banks will release their policy rate decisions, mostly tightening (expected changes are given in brackets): Ghana (+1 p.p.) on Monday; Hungary (+1 p.p.) on Tuesday; Nigeria (unchanged) on Wednesday; Philippines (unchanged), Switzerland (unchanged), Norway (+0.25 p.p.), Mexico (+0.5 p.p.), South Africa (+0.25 p.p.), and Egypt (+1 p.p.) on Thursday.

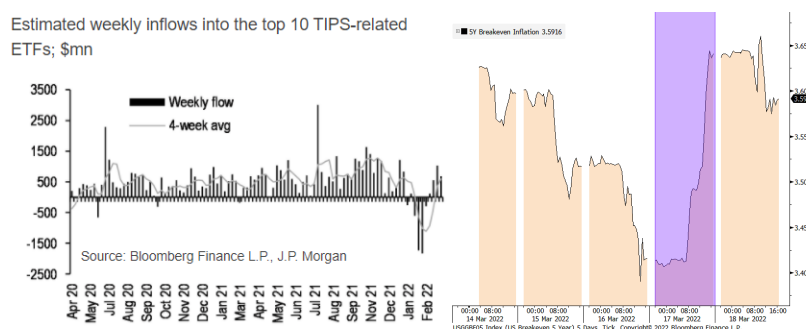
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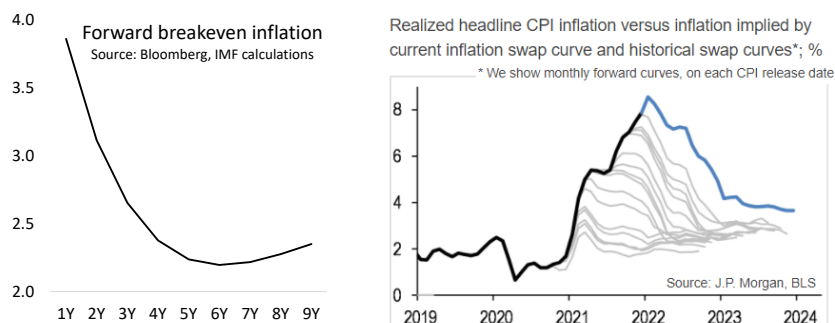
United States

On Friday, US equities performed well (S&P500 +1.2%), led by technology and consumer goods stocks. For UST bonds, a significant increase in real yields for 2Y and 5Y benchmarks was partially offset by reduced breakeven inflation levels. 10Y UST yield fell by 2 bps (+1.5 bps real yield VS -3.5 breakeven).

US TIPS ETFs again experienced robust inflows, after a temporary reversal in the beginning of this year (left chart below). While Fed Chair Powell reinforced policymakers' commitment to keep inflation anchored and combat its outbreak, the markets still see considerable upside risk remaining to near-term inflation forecasts. Despite Powell's remarks, the 5Y breakeven inflation rates rose by 22 bps on the day after his press conference (right chart)—a nearly record-size daily increase that was exceeded only twice in the last 20 years—both cases recorded during the Global Financial Crisis.



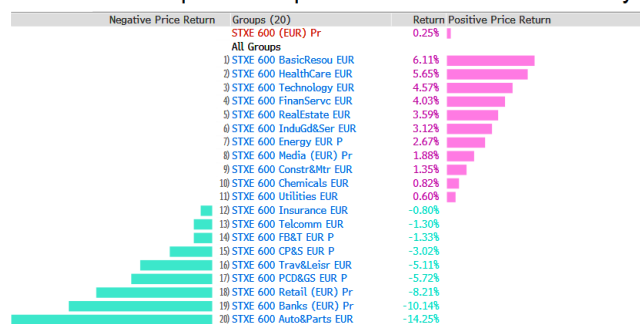
Various analysts have expressed their concern that long-term US inflation expectations may become unanchored. As of now, the markets price an ultimate convergence of the forward-looking breakeven inflation closer to the inflation target (left chart below). However, even this priced-in convergence takes about 3–4 years, implying that inflation will remain elevated, thus raising the risks of emerging inflationary inertia before the convergence. Besides, as JPMorgan analysts point out, while the (backward-looking realized) y/y inflation is expected to peak within the next two months, such expectations have been in place over the entire past year (right chart), proving them wrong every time and making the turn in inflation increasingly elusive. Economists express concerns that the main inflationary risks arise from the areas beyond the control of the Fed, most importantly supply chain disruptions—reinforced by China's zero-tolerance COVID policy—and the Russia-Ukraine's war impact on commodities.



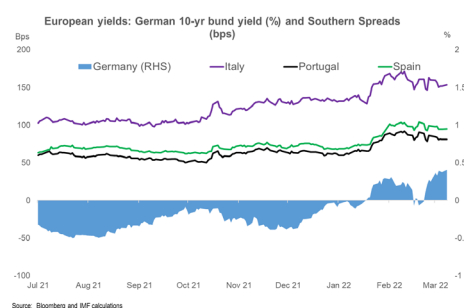
Europe

European equities were mixed across jurisdictions with the Stoxx 600 Europe index (+0.1%) trading marginally higher. The resource (+2.3%) and energy (+2.1%) sectors were outperforming while the travel and leisure sector (-1.7%) was trading lower. That said, the Stoxx 600 Europe index has recouped its losses since Russia invaded Ukraine with the strongest gains seen in the resources sector. The banking sector remains 10.1% lower than pre-invasion levels.

Stoxx 600 Europe Index - performance since 23 February



ECB President Christine Lagarde in a conference this morning reportedly noted that while Russia's invasion of Ukraine will impact growth and inflation, she does not see stagflation elements currently given that economic growth is foreseen at 2.3%, even in the bleakest scenario. The euro was slightly weaker (-0.2%) this morning while European sovereign yields increased (10-yr bunds +3 bps). Italian 10-yr yields (+4bps) underperformed this morning after Lagarde's comments on the limitations of monetary policy. German 10-yr yields are roughly 14 bps higher than before the ECB's March meeting.

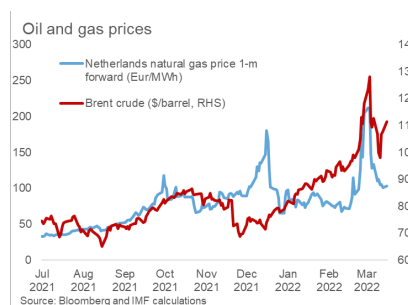


On the data front, Germany's February PPI increased to 25.9% y/y, slightly below consensus expectations (+26.2% from 25.0%).

Commodity prices

Energy prices remained volatile with Brent crude oil rising by 4% to \$113/bbl amid continued supply concerns. European energy prices increased in early trade but fell again (-2.5% to €98.5/MWh) following reports of steady gas supplies from Russia.

Germany's economy minister Robert Habeck said on Sunday that a long-term LNG supply agreement had been reached with Qatar. Limited details are available on the agreement. Bloomberg notes that Qatar officials had previously flagged that only 10-15% of Qatari LNG could be diverted at short notice, given long-term supply contracts to Asia.



Nickel fell by the maximum allowed for a fourth day in a row of electronic trading on the London Metals Exchange (LME). On Friday the LME again increased Nickel price up/down limits to 15% effective today, from 12% on Friday, 8% on Thursday and 5% on Wednesday. This morning, Nickel futures dropped

15% to \$31,380 a ton. The decrease brings LME Nickel prices closer to those on the Shanghai Futures exchange, where prices excluding tax were trading at around or \$28,500 a ton on a comparable basis to the LME.

Japan

Japanese stocks climbed 0.5%. Japan calls on United Arab Emirates (UAE) to stabilize crude oil market. Japan foreign minister Hayashi said in a statement that Japan asked UAE to increase crude oil supply and production capacity. Separately, **Japan announced ¥5 tn (\$42 bn) investment in India over five years.** The announcement was made during Japan PM Kishida's meeting with India PM Modi in New Delhi, with a ¥300 bn (\$2.5 bn) loan also agreed upon, Reuters reports. In 2014, Japan's then-PM Abe unveiled a 5-year ¥3.5 tn investment and financing plan to India. Separately, **Governor Kuroda reiterated on Friday that the weak yen is overall positive for the economy.** Some analysts saw that a clear contrast in policies between the bank of Japan and other major central banks is likely to keep the yen weak in G10 space. **10-year yields and Japanese yen were little changed.**

Is Weaker Yen Good or Bad for Economy?

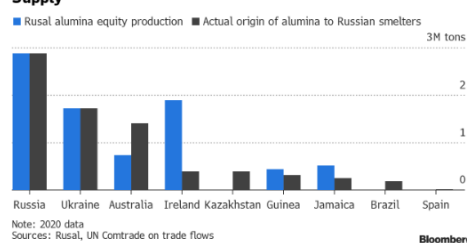


Source: Bloomberg Economics, BIS

Australia

Australia's government announced a ban on alumina and aluminum ores exports to Russia. The country's alumina exports make up 20% of Russia's alumina supply, Bloomberg reports.

Ukraine and Australia Account for 40% of Russia's Alumina Supply



Emerging Markets

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Asian equities slipped -0.7% on net. Vietnam outperformed (+1.8%). Hong Kong SAR lost 0.9%, with Chinese stocks sub-index down 1.7%. Chinese mainland markets were mixed (Shanghai +0.1%, Shenzhen +0.7%, CSI 300 financial index -1.7%) following unchanged loan prime rate by Chinese lenders. Hong Kong SAR announced a road map for lifting foreign travel ban and easing of social distancing measures starting from April. Asian currencies mostly depreciated. The South Korean won weakened the most (-0.7%), the Singapore dollar and Indonesian rupiah were broadly unchanged. 10-year yields were mixed. Sri Lanka yields dived 7 bps, while yields in Thailand firmed +5 bps. In Sri Lanka, its government has asked for a \$1.5 bn credit facility from China in addition to existing swap lines, according to Bloomberg. **In EMEA,** equities opened the week higher in Hungary (+0.8%) and Poland (+0.3%) with the forint and zloty gaining ahead of meetings between U.S. President Biden and EU leaders. Hungarian and Polish 2-yr swap rates are around 4 bps higher in line with the rise in euro area rates. African high-yield U.S. dollar bonds have held on to recent gains but yields remain elevated in several countries. **The National Bank of Hungary is expected to hike its policy rate 100 bps to 4.4%.** **In Latin America,** currency performance was mixed. The Peruvian sol underperformed, depreciating by 1.2%. S&P cut Peru's rating by one notch to BBB (stable) citing prolonged political instability that's undermining investor confidence and the country's growth outlook. The Brazilian real appreciated by 0.3% on Friday and by 2.8% in total since Wednesday as the central bank last

week signaled that it could end its tightening cycle in May. Swap rates declined after the central bank meeting. The terminal Selic rate is now expected at 13.4% compared to over 14% prior to the meeting.

EM hard currency sovereign issuance

Turkey and Nigeria both issued last week, \$ 2 bn and \$ 1.25 bn, respectively. On the positive side, this development highlights that market access is feasible even for single B issuers amid difficult market conditions for EM HY issuers in general. On the negative side, both bonds had relatively short maturities (2027 and 2029) and coupons well above 8%. Turkey's coupon of 8.625% is the highest in more than a decade. Morgan Stanley expects that other single B issuers looking to issue depending on market conditions include Ivory Coast, Angola, Kenya, and Egypt (sukuk).

EM debt fund flows

EM debt fund outflows eased marginally to \$1.5 bn for hard currency funds (vs. \$2.2 bn the week before) and to \$ 1 bn for local currency funds (same as the week before). YTD hard currency flows are -\$10.5 bn while local currency -\$1.6 bn. Among local currency, China-focused bond funds experienced their fifth week of outflows at \$ 0.5 bn.

USD million	This wk	Last wk	Chg	4w avg	12w avg
EM Bonds	-2,738	-3,322	▲	-2,246	-1,093
Hard currency	-1,485	-2,160	▲	-1,512	-883
Local currency	-1,031	-910	▼	-520	-20
o.w. EM ex-China	-546	-719	▲	-324	-56
o.w. China	-485	-192	▼	-197	36
Blend	-222	-251	-	-214	-190
ETF	-672	-324	▼	-257	28
Non-ETF	-2,066	-2,997	▲	-1,989	-1,121

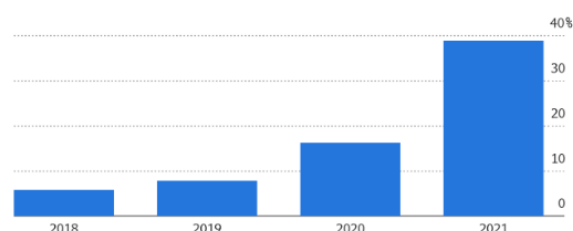
Source: JP Morgan, EPFR

China

Chinese banks left the loan prime rates (LPRs) unchanged as expected. Both 1-year (3.7%) and 5-

year (4.6%) LPRs remained unchanged following the central bank's decision to stay pat with 1-year medium-term lending facility at 2.85%. Meanwhile, analysts continue to expect additional easing steps by the central bank including lowering of the medium-term loan facility rate and/or the reserve requirement ratio in the coming months. Separately, **shares of Evergrande Group and its units suspended trading in Hong Kong.** Also, trading of onshore bonds was halted for Evergrande's real estate unit, which on Sunday said it had received approval to delay coupon payments on its yuan-denominated bond. The unit said it can pay the coupon on its 4 bn yuan (\$629 mn) 5.8% note. The delay won't trigger a default on the bond, according to the approved proposal, Bloomberg reports. **Chinese mainland stock markets were mixed.** Financial firms and property stocks underperformed. The **renminbi depreciated (onshore: -0.1%, offshore: -0.1%), 10-year yields firmed +1.9 bps.**

Real estate sector made up nearly 40% of bond defaults in 2021



Source: Data compiled by Bloomberg
Note: Comparisons include offshore and onshore bonds.

Bloomberg

Also, trading of onshore bonds was halted for Evergrande's real estate unit, which on Sunday said it had received approval to delay coupon payments on its yuan-denominated bond. The unit said it can pay the coupon on its 4 bn yuan (\$629 mn) 5.8% note. The delay won't trigger a default on the bond, according to the approved proposal, Bloomberg reports. **Chinese mainland stock markets were mixed.** Financial firms and property stocks underperformed. The **renminbi depreciated (onshore: -0.1%, offshore: -0.1%), 10-year yields firmed +1.9 bps.**

Egypt

The pound weakened over 10% against the U.S. dollar as the central bank (CBE) unexpectedly hiked its policy rates by 100 bps to reign in inflationary pressures in a special meeting today. The central bank raised the deposit and lending rates by 100 bps each to 9.25% and 10.25% respectively. **The CBE's statement stressed the importance of the exchange rate flexibility to act as a shock absorber to preserve Egypt's competitiveness.** Headline inflation rose to 8.8% yoy in February.

Egypt: Exchange rate



Source: Bloomberg and IMF

Russia

The off-shore ruble (-1% to \$105) is little changed as Russia's next Eurobond coupon payment is due today (from Russia's USD bond due 2029). Contacts do not expect Russia to use the RUB alternative payment clause available for this bond, even though payment is seen as somewhat more complicated as it must pass through the domestic National Settlement Depository. **Bondholder in the US, Germany, and the UK, confirmed that they have received the U.S. dollar coupon payments on Russian Eurobonds due on 16 March.**

On April 4 there is a larger \$2 bn maturity on Russia's USD bond due 2022. Contacts expect Russia to pay even though the amount is larger. Ownership data is not available, but Morgan Stanley believes that domestic ownership is higher for this specific bond than the aggregate 50%, given that domestic banks in general tend to favor shorter-dated bonds and given that Bloomberg holdings for this bond are lower than other longer-dated bonds. **According to General License 9A (GL9A), the U.S. will allow certain payments from the Russian Ministry of Finance only up until May 25. Analysts believe that GL9A will only be extended in case of a significant move towards de-escalation by Russia.**

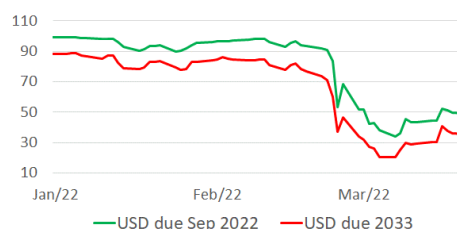
The stock section of the Moscow Exchange will restart trading in federal government bonds today. The central bank said that it will purchase federal government bonds to prevent excessive volatility and ensure a balanced liquidity position in this segment at the stage of the reopening.

President Putin has reportedly backed Governor Nabiullina for a third term, to be considered by the lower house of parliament today.

Ukraine

European Council President Charles Michel signaled the possibility of a Ukraine Solidarity Fund. Such a mechanism would provide short-term liquidity for the country's defense efforts and basic services, as well as to pay for longer term investments to reconstruct the economy. Michel said partners could contribute through an international donors' conference. **Prices on Ukraine's Eurobonds were little changed in morning trading.**

Ukraine: Prices of U.S. dollar bonds



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Global Financial Indicators

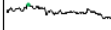











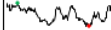













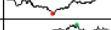
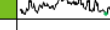
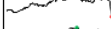
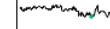

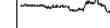
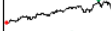

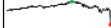





Last updated: 3/21/22 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4464	1.2	7	3	14	-6
Europe		3902	0.0	4	-2	2	-9
Japan		26827	0.7	7	0	-10	-7
China		4259	-0.2	2	-7	-16	-14
Asia Ex Japan		77	1.8	8	-6	-19	-7
Emerging Markets		45	1.4	7	-7	-16	-7
Interest Rates							
			basis points				
US 10y Yield		2.20	5.0	7	27	48	69
Germany 10y Yield		0.41	3.6	4	20	70	59
Japan 10y Yield		0.21	0.0	1	0	10	14
UK 10y Yield		1.56	6.5	-3	15	72	59
Credit Spreads							
			basis points				
US Investment Grade		145	-0.8	-22	5	48	34
US High Yield		398	-6.9	-47	-15	35	60
Europe IG		76	5.4	-4	4	21	28
Europe HY		357	17.3	-25	4	85	115
Exchange Rates							
			%				
USD/Majors		98.34	0.1	-1	2	7	3
EUR/USD		1.10	-0.1	1	-2	-8	-3
USD/JPY		119.2	0.0	1	4	9	4
EM/USD		51.5	-0.2	2	-4	-10	-2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		113	4.3	5	21	87	46
Industrials Metals (index)		216	0.8	-5	15	48	25
Agriculture (index)		75	1.8	1	11	45	23
Implied Volatility							
			%				
VIX Index (% change in pp)		24.4	0.5	-7.4	-3.4	3.4	7.2
US 10y Swaption Volatility		95.5	3.3	-8.2	2.4	11.2	16.5
Global FX Volatility		9.1	0.1	-0.7	1.3	1.3	1.6
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		225	-1.7	-8	-11	104	74
Italy		154	1.7	-6	-17	58	19
Portugal		81	-0.5	-4	-11	28	16
Spain		94	-0.2	-4	-9	30	20

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 3/21/2022 8:16 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		6.36	0.1	0.2	0	2	0		2.9	2.5	6	-5	-45	2
Indonesia		14337	0.0	0.0	0	0	-1		6.7	-1.8	-2	21	-9	32
India		76	-0.4	0.6	-2	-5	-2		6.3	0.0	0	9	75	0
Philippines		52	0.0	0.2	-2	-7	-3		5.1	0.0	3	8	38	58
Thailand		34	-0.5	-0.2	-4	-8	-1		2.4	3.5	4	11	50	50
Malaysia		4.20	-0.2	0.1	-1	-2	-1		3.7	0.4	1	3	25	10
Argentina		110	-0.2	-0.7	-3	-17	-6		49.0	38.8	103	106	342	-153
Brazil		5.01	0.2	2.1	2	10	11		12.2	-24.0	-19	57	375	153
Chile		805	-0.1	1.0	-1	-11	6		5.9	1.0	-13	-2	262	48
Colombia		3819	0.1	0.0	3	-7	6		7.8	-5.5	-50	12	263	136
Mexico		20.38	-0.1	2.6	0	1	1		8.2	-11.0	-18	45	170	71
Peru		3.8	-0.8	-2.0	-1	-2	6		6.5	-3.3	-21	50	193	62
Uruguay		43	-0.1	0.1	1	4	5		8.4	0.0	0	31	105	-33
Hungary		339	0.1	0.8	-7	-10	-4		5.8	5.0	0	111	331	128
Poland		4.26	0.2	1.9	-6	-10	-5		4.6	7.4	-2	79	290	105
Romania		4.5	-0.1	0.9	-2	-9	-3		5.7	-11.0	-29	55	301	86
Russia		104.8	-0.6	15.3	-24	-29	-28		21.4	-383.8	-992	1072	1398	1258
South Africa		14.9	0.2	1.2	1	-2	7		8.1	0.3	-3	53	45	63
Turkey		14.83	-0.2	-0.2	-8	-47	-10		26.6	15.0	61	472	1251	225
US (DXY, 5y UST)		98	0.1	-0.7	2	7	3		2.21	6.6	12	39	133	95

	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		4259	-0.2	2	-7	-16	-14		225	-2	18	18	22	
Indonesia		6955	0.0	0	1	10	6		192	-18	2	16	27	
India		57292	-1.0	3	0	15	-2		169	-26	14	12	37	
Philippines		6957	-0.7	2	-7	9	-2		137	-18	-4	36	36	
Thailand		1674	-0.3	1	-1	7	1		0	0	0	0	0	
Malaysia		1587	-0.3	1	1	-2	1		135	-13	5	9	18	
Argentina		89058	-0.7	0	-1	82	7		1791	-26	84	277	111	
Brazil		115311	0.0	3	3	-1	10		308	-19	-23	39	-3	
Chile		4854	0.0	6	7	0	13		160	-17	-6	26	20	
Colombia		1540	-0.2	-1	3	16	9		338	-40	-40	121	-10	
Mexico		55467	2.0	4	7	18	4		351	-22	-13	15	19	
Peru		25080	0.6	1	6	13	19		173	-16	-10	25	23	
Hungary		44304	0.8	5	-9	1	-13		152	-15	-5	15	28	
Poland		63982	0.5	7	1	11	-8		50	-23	35	16	18	
Romania		12772	0.7	4	-2	17	-2		216	-33	0	24	23	
Russia		2470	#VALUE!	0	-19	-29	-35		3196	-3406	2906	3020	3019	
South Africa		74848	0.0	4	-1	14	2		369	-9	-21	9	14	
Turkey		2173	1.4	4	7	42	17		578	-55	27	160	0	
Ukraine		519	0.0	0	0	0	-1		3248	-796	2251	2748	2489	
EM total		45	-1.4	7	-7	-16	-7		540	-57	111	184	153	

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

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