



- US Treasury yields continue surging ([link](#))
- Illiquidity exacerbates the volatility of oil futures markets ([link](#))
- EU budget chief leans against joint-debt issuance proposal ([link](#))
- UK inflation surprises on the upside ([link](#))
- Japan enacted record ¥107.6 tn (\$900 bn) budget 2022 ([link](#))
- Central bank of Hungary hikes and signals tighter policy for longer ([link](#))
- China's 14th energy development plan targets greater energy security by 2025 ([link](#))

[Mature Markets](#)

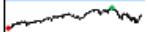
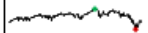





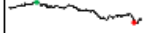
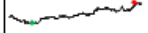
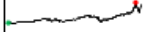

| [Emerging Markets](#)

| [Market Tables](#)

Without a catalyst, the surge in yields eases

Sovereign bond yields and equities are both moving lower this morning, giving up some of yesterday's gains. European equities and US stock futures are both slightly lower this morning, without any notable drivers. Energy is the only sector meaningfully in positive territory as crude prices are up 3% this morning. The 2-year US treasury is down 4 bps today, a minor retracement after the recent large gains. The significant run-up in long-term yields in recent days has been almost entirely driven by an increase in real yields. While Russia has made the payment on its bond maturing in 2029, that was due on Monday, it has not been reported that investors have received the funds. The government paid the funds to the local depository responsible for handling the payment, but it is not clear whether subsequent transfers have occurred. The Russian stock market remains closed, but the Moscow exchange banned short selling in a number of companies, a possible sign that the market may reopen soon.

Key Global Financial Indicators

Last updated: 3/23/22 8:06 AM	Level	Change from Market Close					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4512	1.1	6	7	15	-5
Eurostoxx 50		3882	-1.1	0	-2	1	-10
Nikkei 225		28040	3.0	11	8	-1	-3
MSCI EM		45	1.8	9	-4	-14	-7
Yields and Spreads			bps				
US 10y Yield		2.38	-0.4	19	39	76	87
Germany 10y Yield		0.50	-0.7	11	27	84	68
EMBIG Sovereign Spread		456	4	-31	53	106	89
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.9	0.2	0	-2	-8	-1
Dollar index, (+) = \$ appreciation		98.8	0.3	0	3	7	3
Brent Crude Oil (\$/barrel)		118.5	2.6	21	22	95	52
VIX Index (% change in pp)		23.9	1.0	-3	-7	4	7

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

Mature Markets

[back to top](#)

United States

On Tuesday, US equity and Treasury bond prices moved in opposite directions: S&P 500 added 1.1%, while UST 10Y yields rose by 9 bps (entirely attributable to an increase in real yields) as markets continued digesting the hawkish communication from Federal Reserve Chair Jerome Powell.

The quarterly change in UST 2-year yields is the highest in almost 40 years (left chart below). This is an outcome of a sequence of large inflation surprises and the perceived willingness of the Fed to combat inflation with any required number of rate hikes. Both components of nominal yields - breakeven inflation and real yields - still have a potential for further increases. The war in Ukraine may worsen inflation and leave it more entrenched in the U.S. economy, while the commitment of the Fed to curb it may raise real yields. This negative outlook on US Treasury bonds has been one of the factors underpinning the rotation from bonds to equities, which is observed in the rally in equity prices amid surging bond yields (right chart).

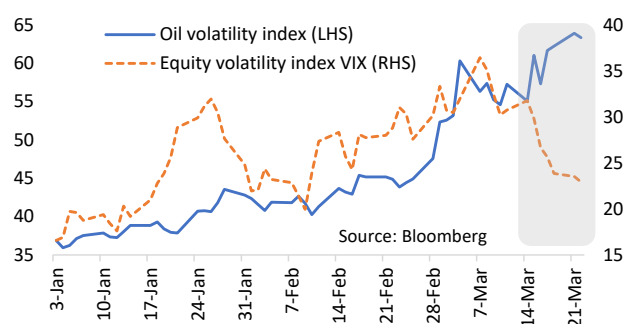
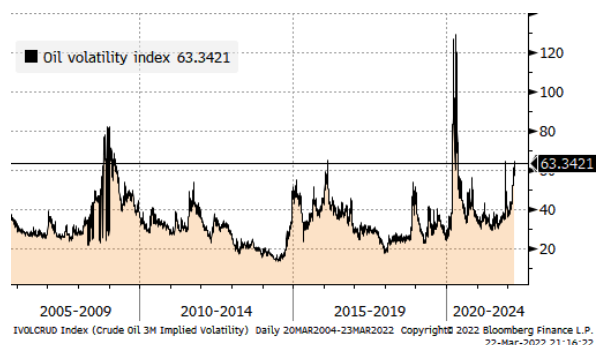
Decades Apart
U.S. two-year yield is set for its biggest quarterly surge since 1984



Spurred by the Fed
Stocks rise amid bond-market selloff



The illiquidity of oil futures contributes to the elevated volatility of oil prices. The current volatility levels were substantially exceeded only during the GFC and the onset of the Covid-19 crisis (left chart below) and still remain elevated amid declining volatility of other risky assets (right chart). The chaotic geopolitics triggered the initial spike in oil prices and volatility, which translated into much higher initial margin requirements for opening a new derivative position in energy markets, making the working capital requirements for energy traders unexpectedly large. This resulted in reduced participation and lower open interest in futures contracts; in turn, the declined liquidity led to larger price swings for every transaction.



European equity markets were generally trading lower with the benchmark Stoxx 600 Europe index down -0.3%. The energy sector (+1.9%) outperformed in line with higher oil prices. The banking sector (-1.3%) underperformed with losses led by SEB (-7.1%) as markets were disappointed by the bank's new share-buyback program. The lender announced yesterday that it had completed its first buyback

program that involved repurchasing 2.5 billion Swedish kronor (\$264 million) Class A shares, and it will now initiate a new program of similar magnitude. Separately, **ING Groep NV announced that it will no longer finance new oil and gas projects.**

Europe

Sovereign bond yields fell, with the 10-yr bund yield -2bps, while the euro (-0.2%) traded weaker. Bloomberg reports that EU Commissioner for Budget and Administration **Johannes Hahn leaned against proposals for new joint debt issuance in an interview**, saying that the discussion on new tools is a distraction. He suggested that member states could instead make use of EU funds available to cope with the current crisis.

The European Commission raised €10 bn in NextGenerationEU (NGEU) funds yesterday bringing the total financing raised under the program to €91 bn. The commission noted that the transaction was executed on favorable terms, despite challenging market conditions.

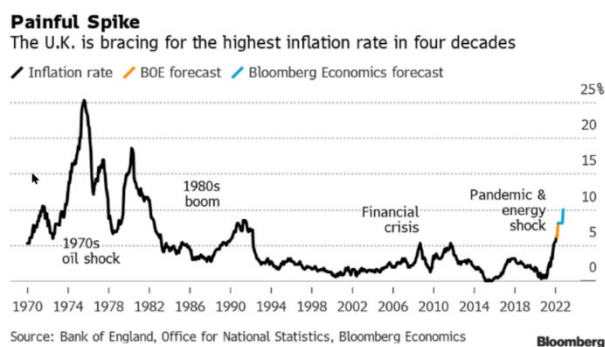
The ECB is expected to start discussions to add climate-change risks to the framework for setting capital requirements in the second half of 2022 after results from the ongoing stress test is available, according to Bloomberg. This would mean banks that fail to prepare for losses from extreme weather and the shift to clean energy would be penalized. Some analysts note that a new approach to setting individual requirements could take a number of years to finalize. **Yesterday ECB governing council member Francois Villeroy de Galhau argued that climate risks faced by lenders should be properly evaluated before capital add-ons could be considered.**

Nickel prices briefly increased by 15% this morning, the intraday limit of the London Metal Exchange (LME). Reuters reports that the LME reportedly has no plans to ban Russian metal within the LME system, following reports that the LME's Copper Committee voted in favor of a ban on deliveries of Russian copper.

United Kingdom

February inflation surprised on the upside, reaching another multi-decade high at 6.2%/y/y (consensus expectations 6.0% from 5.5%), with prices increasing across multiple categories. Core inflation increased to +5.2%/y/y, ahead of the expected 5.0%. **The BoE sees inflation increasing to around 8% in 2Q2022 and possibly increase further later in the year.** ING analysts note that the decrease in gas prices has made the outlook for later this year slightly less worrisome, but still expects inflation to remain above 6% by the end of the year.

The BoE has increased interest rates in the past three consecutive meetings, but the message accompanying the most recent hike was more dovish than some investors anticipated, with a focus on household income pressures. Analysts generally expect another rate hike in May, with some analysts seeing a pause in the hiking cycle thereafter. Markets are pricing in hikes at each of the next five meetings, with roughly +35 bps for the May meeting. **Gilt yields fell (10-yr gilt -3bps).**



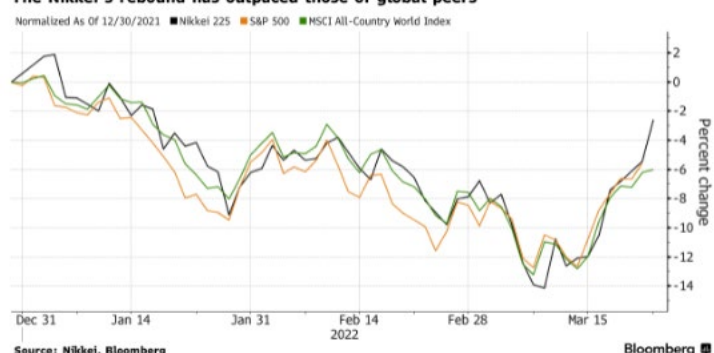
Chancellor Rishi Sunak is set to deliver the 2022 spring statement later today with analysts expecting a slight loosening in the fiscal stance, possibly through higher rebates on energy bills or council taxes. Nomura economists note that there is scope for household support given strong public finance performance.

Japan

Equities surged +2.3%, led by gains in the technology sector and with yen weakening further. **Japan enacted record ¥107.6 tn (\$900 bn) budget.** The 2022 budget aims to tackle the COVID pandemic and address increasing social security and defense expenses, according to Nikkei. Japan's aging population is allocated ¥36.3 tn, while ¥5.4 tn will go to defense, and ¥5 tn as reserves for future COVID-related responses. New bond issuance will fall to ¥36.93 tn (previous:

¥43.6 tn). Debt-servicing costs will increase to ¥24.3 tn (previous: ¥23.8 tn). Next, the government plans to compile a relief package to address surging fuel prices. Also, PM Kishida warned that Japan may reach a primary balance surplus later than its 2025 target due to borrowing-reliant government expenditures. On **data releases**, the leading index was revised down to 102.5 for January (preliminary: 103.7). **10-year yields firmed +0.5 bps, the Japanese yen depreciated -0.1%**, losing about 5% against the US dollar since March 4.

The Nikkei's rebound has outpaced those of global peers



Korea

Changyong Rhee, IMF Asia-Pacific director for the International Monetary Fund, has been lined up to replace Lee Ju-yeol at the helm of the Bank of Korea, Bloomberg reported. The nomination was confirmed by the President Moon Jae-in's office, and now has to undergo parliamentary hearings.

Emerging Markets

[back to top](#)

Asian equities were mixed, up 0.8% on net. Hong Kong (+1.2%) outperformed, India closed lower (-0.3%). **Asian currencies were mixed.** South Korean outperformed (+0.4%), Thai baht lost 0.4%. **10-year yields mostly climbed.** Yields in Philippines jumped +23 bps, while those in Vietnam dipped 10 bps. On Tuesday, Philippines raised \$2.25bn from its first international bond sale this year, which also marked its inaugural foray into the sustainable debt market. In Indonesia, Governor Warjiyo said the central bank is not in a hurry to hike rates and that it can first reduce liquidity to maintain stability and support growth, according to Bloomberg. Also, he reiterated the bank will only respond to price pressures reflected in core inflation, not to food and administered prices. In Singapore, headline inflation rose to 4.3% y/y in February, above expectations; core inflation moderated to 2.2% y/y but remained above 2% historical mean. There seem to be a market consensus expecting further tightening of the monetary policy at the April meeting.

EMEA stock markets are trading without much direction but swap rates in Eastern Europe traded higher as central bankers are maintaining a hawkish tone. Deputy Governor Mora of the Czech National Bank said that the central bank will have to raise interest rates to well above 5% (from 4.5% currently) as the central bank forecasts that CPI inflation may accelerate to around 13%-14% y/y in coming months, from 11.1% in February. Yesterday, the National Bank of Hungary hiked its policy rate 100 bps but also signaled that it will maintain tighter monetary conditions for longer. **In contrast, 2-yr swap rates fell in South Africa after CPI inflation was slightly lower than expected at 5.7% y/y (5.8% expected) or 0.6% m/m (0.7% expected).** In **Latin America**, currency movements were largely muted. The Colombian Peso (+1.5%) caught up with the recent gains in other EM commodity currencies and oil prices after a national holiday on Monday. Local interest rates rose sharply by ~20bps across major LatAm markets (e.g., Colombia, Mexico) following the hawkish comments by Fed Chair Powell. Brazil swap rates were an exception, declining marginally after the release of BCB minutes (see below).

Russia

The off-shore ruble (+2% to \$103) firmed as Brent oil prices (+2.4%) traded higher and contacts await further news on potential restrictions on Russian energy imports with focus on EU/NATO summits in coming days. While the stock market in Russia remains closed, **the Moscow Exchange banned short selling** in some of Russia's biggest companies, a move is seen as a sign that officials are getting ready for the market to reopen. Investors will not be allowed to bet on declines in about 30 Russian companies, including Gazprom PJSC, Lukoil PJSC, Sberbank PJSC, MMC Norilsk Nickel PJSC and Rosneft Oil Co., and some Eurobonds.

France's Credit Agricole has suspended all services in Russia. The bank had previously stopped new financing for Russian companies and said in a statement it had contacted international corporate clients to begin suspending services. **Similarly, BNP Paribas plans to end all business in Russia.** The bank previously announced that it would halt new financing operations, and today said it would stop processing other types of transactions for large companies.

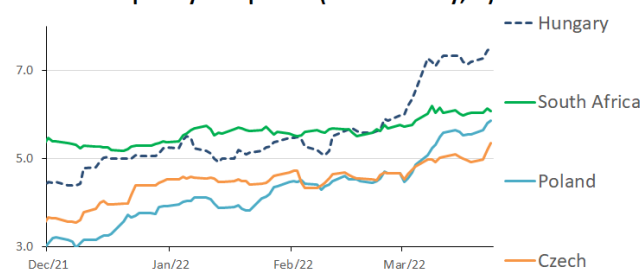
Ukraine

Ukraine raised an additional 6bn hryvnia (\$207 mn) from another war bond auction. Ukraine raised about \$691 mn cumulatively in its three previous war bond auctions.

Hungary

2-yr swap rates traded 13 bps higher today after the National Bank of Hungary (NBH) hiked its policy rate 100 bps to 4.4% (as expected) yesterday but also signaled that it will maintain tighter monetary conditions for a longer period to manage increasing second-round inflation risks resulting from persistently negative supply effects. The NBH expects inflation to be between 7.5 and 9.8% in 2022 and core inflation will rise further in the coming months. CPI inflation is expected to be 3.3–5.0% in 2023, before falling in line with the inflation target from 2024. Contacts see terminal rates for the NBH as high as 8%.

Eastern Europe: 2-yr swap rates (local currency, %)



Source: Bloomberg and IMF staff.

China

China unveils 14th energy development plan, targets greater energy security by 2025.

Energy generating capacity would increase to 3,000 from 2,200 gigawatts seen in end-2020. Annual crude oil production will be restored to 200 mn tons. Annual natural gas production will increase to 230bn cubic meters, from 205bn in 2021. Also, clean energy usage continues to be targeted to reach 20% of total consumption by 2025. Separately, **further ratings downgrades were seen for Chinese developers.** Moody's

downgraded corporate family ratings for Sunac (Caa1, previous: B1) and Ronshine (Caa2, previous: Caa1), citing heightened liquidity and refinancing risks, among other reasons. Also, Evergrande told investors it will reveal its restructuring proposal by end-July, Bloomberg reports. Kaisa became the latest developer to announce it will likely miss the March 31 deadline for audited 2021 results reporting. Separately, **China local governments have issued more than 1.5 tn (\$240 bn) of bonds so far this year.** The amount

10-year yield gap between China and U.S. narrows



Source: Bloomberg

Bloomberg

nearly doubles the issuance volume seen over the same period last year, Bloomberg reports. **Equities climbed (Shanghai: +0.3%, Shenzhen: +0.5%), the renminbi depreciated 0.2%, 10-year yields were little changed.**

Egypt

Egypt plans to raise \$500 mn via yen-denominated 5-yr bonds with a target yield of between 0.80% and 0.85%. Egypt has never sold yen-denominated bonds. Sumitomo Mitsui Banking is reportedly managing the transaction.

Turkey

The Turkish lira is little changed as Turkey's banking regulator reportedly warned local lenders not to provide lira liquidity to firms looking to speculate or shorting lira in offshore money markets.

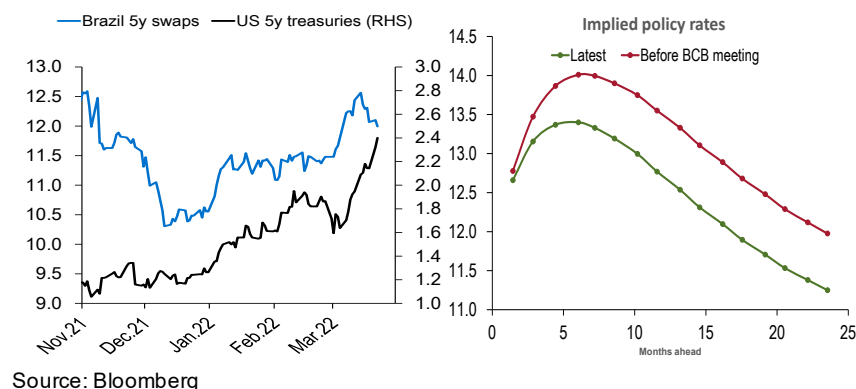
Analysts at Bank of America see significant economic costs of the war in Ukraine for Turkey in the short-term, pointing to a higher current account deficit at 3.8% GDP (vs. 0.7% without), higher inflation at 63% y/y on average (vs. 60%) and lower growth at 2% (vs. 3%) based on a higher oil price forecasts (Brent \$110/bbl compared to \$85 previously), a hit to tourism income from the region and lower European growth.

The lira fell 6% against the U.S. dollar in March

Brazil

Recent central bank communication had a relatively dovish tone according to market analysts.

BCB communication—meeting last week and minutes on Tuesday—have shifted the whole DI curve lower (see chart) despite the recent large selloff in US bond markets. In the minutes released on Tuesday, BCB was more explicit on their new oil price assumptions given the current *abnormal* market conditions. In their latest assumptions, oil prices drop to \$100 per barrel at the end of 2022 compared to \$115 currently. Relatedly, analysts highlight that short term interest rate futures have become highly dependent on oil price developments. Markets are currently pricing a 100 bps hike in May (in line with BCB guidance) but they also price-in another 80 bps of hikes in 2022 after May.



Source: Bloomberg

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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 3/23/22 8:06 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
United States		4501	1.1	3	7	15	-6
Europe		3882	-1.1	0	-2	1	-10
Japan		28040	3.0	11	8	-1	-3
China		4277	0.5	3	-6	-13	-13
Asia Ex Japan		76	1.9	10	-4	-17	-8
Emerging Markets		45	1.8	9	-4	-14	-7
Interest Rates							
			basis points				
US 10y Yield		2.38	-0.4	19	39	76	87
Germany 10y Yield		0.50	-0.7	11	27	84	68
Japan 10y Yield		0.23	0.9	2	3	14	16
UK 10y Yield		1.68	-2.4	5	21	92	71
Credit Spreads							
			basis points				
US Investment Grade		143	0.7	-13	0	44	31
US High Yield		393	2.1	-28	-13	33	56
Europe IG		78	0.3	4	6	24	30
Europe HY		366	3.3	20	15	95	125
Exchange Rates							
			%				
USD/Majors		98.76	0.3	0	3	7	3
EUR/USD		1.10	-0.3	0	-3	-7	-3
USD/JPY		120.8	0.0	2	5	11	5
EM/USD		51.9	0.2	0	-2	-8	-1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		119	2.6	21	26	104	54
Industrials Metals (index)		211	4.3	-5	13	47	22
Agriculture (index)		76	0.8	4	8	47	25
Implied Volatility							
			%				
VIX Index (% change in pp)		23.9	1.0	-2.7	-7.1	3.6	6.7
US 10y Swaption Volatility		105.6	-1.4	6.7	11.3	28.1	26.6
Global FX Volatility		9.0	0.0	-0.3	1.5	0.9	1.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		224	-0.4	-4	-16	103	72
Italy		152	0.2	2	-19	58	17
Portugal		78	-0.4	-3	-14	27	14
Spain		91	-1.0	-4	-13	27	16

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 3/23/2022 8:08 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		6.37	-0.1	-0.3	-1	2	0		2.9	-2.5	5	3	-41	4
Indonesia		14347	0.0	-0.2	0	0	-1		6.7	-2.3	-4	23	0	34
India		76	-0.2	0.0	-2	-5	-3		6.3	0.0	0	9	75	0
Philippines		52	0.1	-0.1	-2	-7	-3		5.2	0.0	13	20	48	70
Thailand		34	-0.4	-0.6	-4	-8	-1		2.4	1.0	3	13	52	50
Malaysia		4.22	-0.1	-0.6	-1	-2	-1		3.8	3.9	10	12	35	19
Argentina		110	-0.1	-0.7	-3	-17	-7		49.1	16.5	103	140	390	-149
Brazil		4.90	0.2	3.6	2	13	14		12.2	-5.0	-33	58	329	148
Chile		793	0.0	0.8	0	-9	7		6.2	-1.0	24	30	294	79
Colombia		3763	0.8	1.8	4	-5	8		8.0	0.0	-4	10	277	156
Mexico		20.26	0.1	1.9	0	3	1		8.4	0.0	4	60	172	92
Peru		3.8	0.2	-1.0	-1	-2	6		6.6	2.1	-6	62	201	72
Uruguay		42	0.5	0.9	1	4	5		8.5	1.8	7	32	103	-26
Hungary		338	-0.8	-1.0	-6	-9	-4		6.2	17.5	49	143	378	173
Poland		4.28	-0.8	-1.2	-5	-9	-6		4.9	3.5	40	95	318	132
Romania		4.5	-0.4	-0.5	-3	-8	-3		5.8	5.5	-11	67	317	100
Russia		102.7	2.2	-5.0	-21	-26	-27		21.9	50.9	-1076	1072	1436	1313
South Africa		14.8	0.0	0.8	2	1	8		8.1	-5.0	9	52	41	68
Turkey		14.84	-0.1	-1.5	-7	-47	-10		27.3	48.0	122	487	819	297
US (DXY, 5y UST)		99	0.3	0.1	3	7	3		2.37	-2.5	19	47	156	111

	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		4277	0.5	3	-6	-13	-13		221	-10	13	16	18
Indonesia		6996	-0.1	0	3	14	6		186	-20	-3	11	21
India		57685	-0.5	3	6	17	-1		162	-42	4	8	30
Philippines		7009	0.0	0	-3	8	-2		139	-16	-1	38	38
Thailand		1678	0.0	1	1	7	1		0	0	0	0	0
Malaysia		1598	0.8	2	2	0	2		134	-10	-1	11	17
Argentina		90170	0.1	7	-1	85	8		1789	-26	66	298	109
Brazil		117272	0.0	8	5	4	12		301	-24	-30	32	-10
Chile		4888	0.0	4	12	2	13		153	-20	-20	19	13
Colombia		1556	1.0	2	3	18	10		346	-15	-39	129	-2
Mexico		55722	0.5	6	8	19	5		346	-26	-22	15	14
Peru		25434	0.2	5	9	18	20		172	-14	-17	21	22
Hungary		44451	0.3	1	-7	2	-12		139	-20	-18	2	15
Poland		64012	-0.5	2	2	11	-8		49	-4	37	12	17
Romania		12716	-0.2	3	-4	17	-3		208	-34	-15	17	16
Russia		2470	0.0	0	-20	-29	-35		3348	-2003	2990	3172	3171
South Africa		75052	-0.9	6	0	15	2		363	-10	-29	2	8
Turkey		2193	0.2	5	9	59	18		564	-28	9	44	-14
Ukraine		519	0.0	0	0	0	-1		3383	-499	2226	2878	2624
EM total		45	-0.4	9	-4	-14	-7		541	-42	102	175	155

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

[back to top](#)