



- Strains emerge in measures of US Treasury market trading liquidity ([link](#))
- US to supply EU with extra LNG shipments to help cut dependence on Russia ([link](#))
- Holders of Russian Eurobond receive coupon payments ([link](#))
- South African Reserve Bank hikes 25 bps and sees upside risks to inflation outlook ([link](#))
- Mexican central bank lifts policy rate 50 bps in unanimous vote ([link](#))
- **Special Feature: Emerging Markets Local Currency Bond Monitor** (attached)

[Mature Markets](#)


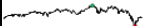

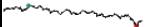

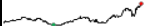


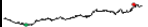


[Emerging Markets](#)

[Market Tables](#)

Markets trade cautiously as geopolitical uncertainty weighs on sentiment

Global equity markets are trading mixed to slightly higher this morning as investors remain torn between geopolitical uncertainties and hopes that growth prospects may not be derailed by the ongoing war in Ukraine or the increasingly hawkish shift by major central banks. In the US, the S&P 500 closed up over 1% yesterday with tech sector shares leading the way as the Nasdaq gained close to 2%. Although stabilizing this morning, core sovereign bond yields moved broadly higher yesterday and market-based FOMC policy rate expectations have now priced an 80% chance of a 50 bp hike in May and close to 200 bps of tightening for the rest of the year. European equities are posting modest gains, while Asian equity markets struggled across most of the region with Chinese stocks trading down over 1% amid some US-China tensions. Energy prices have pulled backed over the last day with news overnight of a US-EU agreement to boost LNG supply to Europe in order to reduce dependence on Russian gas, though so far there has been no further signals from the EU summit of a potential consensus on cutting oil and gas imports from Russia. Emerging market central banks continue to also respond to the rising inflationary pressures with the South African and Mexican central banks both hiking their policy rates as expected, while also providing further hawkish guidance by revising up their inflation forecasts and noting price pressures emanating from the intensification of geopolitical turmoil.

Key Global Financial Indicators

Last updated: 3/25/22 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4520	1.4	2	3	16	-5
Eurostoxx 50		3900	1.0	0	-2	2	-9
Nikkei 225		28150	0.1	6	6	-4	-2
MSCI EM		45	0.5	2	-4	-13	-7
Yields and Spreads			bps				
US 10y Yield		2.36	-1.4	21	40	72	85
Germany 10y Yield		0.50	-3.2	13	27	88	68
EMBIG Sovereign Spread		462	-5	8	11	108	95
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.4	0.3	1	-1	-7	0
Dollar index, (+) = \$ appreciation		98.6	-0.2	0	2	6	3
Brent Crude Oil (\$/barrel)		116.4	-2.3	8	19	88	50
VIX Index (% change in pp)		21.7	0.1	-2	-6	2	5

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

Mature Markets

[back to top](#)

United States

Yesterday, the S&P 500 rose by 1.4% (with virtually all sectors advancing), while UST 10Y yields increased by 8 bps (mostly due to real yields). The US dollar appreciated 0.2% against major currencies.

US 30-year mortgage rates reached the highest in more than 3 years due to the ongoing monetary policy tightening and rise in interest rates. The increase in mortgage rates along with house price appreciation is expected to reduce mortgage originations. This in turn may ease the upward pressure on the yields of Treasury bonds, which are used for hedging the mortgage-related exposure.

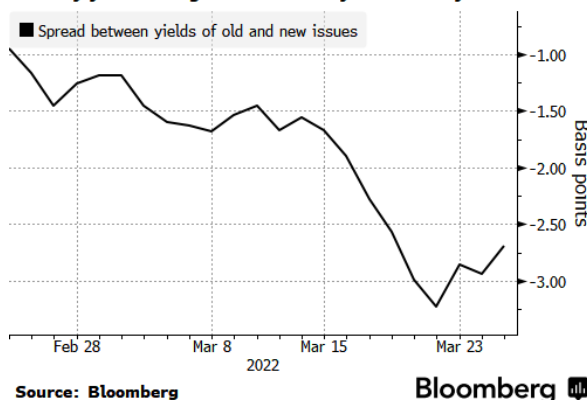


The uncertainty over the pace of the Fed's policy normalization has triggered some signs of impaired trading liquidity of Treasury bonds (left chart below). The gap between liquid on-the-run issues and the less liquid off-the-run counterparts has also widened (right chart). In the short-term funding markets, the elevated demand for physical 2-year bonds, to be used in the tightening-driven short sales, has led to deeply negative interest rates on overnight cash loans backed by such securities, while the rates for loans backed by other tenors remain close to the Fed's reverse repo rate.

On Fed's Back Burner
Bloomberg gauge of Treasuries liquidity has deteriorated



Widening Spreads
Treasury yields diverge between closely matched 5-year maturities



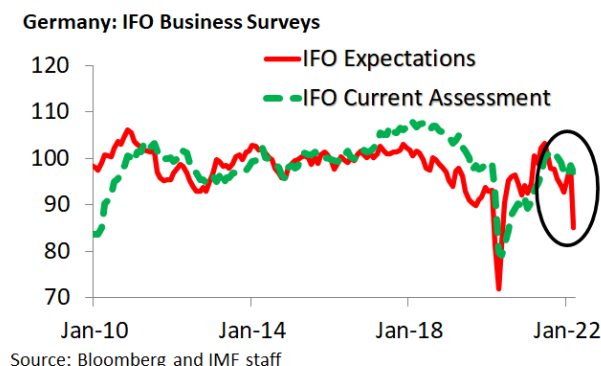
Euro area

Euro area 10-yr yields traded 2-3 bps lower as a record collapse in German business climate IFO expectations served as a reminder that the war is weighing on sentiment, even if euro area PMI data yesterday painted a more optimistic picture. Euro area equities are little changed with bank equities (-1.5%) underperforming. EU leaders are expected to back a modest tightening of earlier sanctions against

Russia for its invasion of Ukraine but refrain from imposing major new measures for now. Several countries are reportedly remaining reluctant to impose energy-related sanctions. **President Biden has continued meetings with EU leaders today before traveling to Poland.**

Prices of natural gas futures in Europe are little changed after closing 5% lower yesterday on news that the EU will receive additional supplies of LNG from the U.S. The U.S. will supply the EU with as much as 15 bcm of LNG by the end of this year. In past years, Russia shipped about 150 bcm of gas to Europe via pipelines, with just about 14 to 18 billion coming in the form of LNG. EU gas consumption in a typical year peaks around 55 bcm/m in Dec/Jan, then drops to 20 bcm/m in the summer months. **Brent oil prices (-1.7%) are lower today. Several EU leaders have rejected Russia's demand to pay natural gas imports in ruble.** Two days ago, President Putin announced that Russia would request gas payments from "hostile nations" in ruble, a move contacts believe could lead to further disruptions in energy supply and higher natural gas prices.

The IFO business climate expectations index fell more sharply than at the start of the pandemic in March 2020, dropping to 85, from 99 in February. Businesses also assessed their current situation as worse, but the fall here was comparatively moderate (1.6 points). Companies in Germany are expecting tough times. **Analysts at ING warn that the risk of another contraction in Q1 is high in Germany.**



Euro Area bank lending grew 4.4% y/y in February led by strong growth in France and Germany. Analysts expect that the war in Ukraine could slow down companies' investment plans and weigh on bank lending but also support public investment expenditure and put more focus on the deployment of EU Recovery Fund investments.

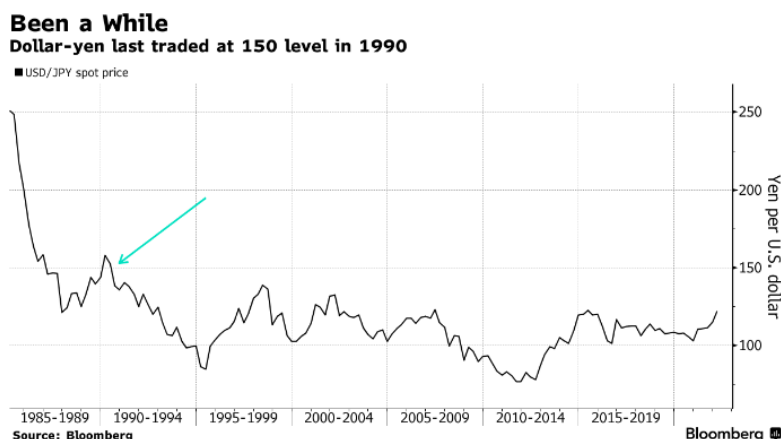


United Kingdom

10-yr gilt yields fell 3 bps and the pound was little changed after **GfK Consumer Confidence data fell to the lowest level in 16 months in March and U.K. retail sales unexpectedly contracted 0.3-0.7% m/m in February.**

Japan

Analysts expected the yen to weaken further due to the widening interest rate differentials and increasing commodity prices. Societe Generale saw the possibility of the yen reaching 150 per USD, a level not seen since the last century. The spread between US and Japanese benchmark yields has widened almost 60 bps this year to 2.13%, nearly the highest levels since 2019. At the same time, the BoJ has showed little inclination to remove policy accommodation even as the Russia-Ukraine war has fueled global inflation. Also, Japan is a net oil importer, which has contributed to the yen's underperformance against the currencies of commodity exporters. The BoJ Governor said on Friday that a weaker yen remained positive for Japan's economy, and they would continue to observe currency moves carefully.



Emerging Markets

[back to top](#)

In **Latin America**, the **Mexican peso** appreciated by 0.8% as the central bank hiked by 50 bps in line with analyst expectations. In **Brazil**, swap rates declined by over 30 bps across the curve as the central bank signaled again that rate hikes could end in May, prompting investors to dial back expectations of a longer hiking cycle. The real was unchanged but the 3m and 6m ahead cost of hedges in option markets keeps creeping higher as investors adjust their positions for the presidential election - first round is on Oct 2022. The real remains the best performing currency YTD (+15.6%). **Asian equity bourses mostly fell across the region.** Hong Kong stocks (-2.5%) posted the largest losses, while Chinese indices fell over 1% on news headlines suggesting that earlier optimism on a US deal to keep Chinese firms from being delisted might be premature. **EMEA markets were mixed ahead of a visit of President Biden to Poland.** Equities fell 0.3% in Hungary and Poland, but the Polish zloty and Hungarian forint traded higher.

Russia

The offshore ruble (-4%) gained as holders of 2029 Eurobonds have reportedly received coupon payments. Earlier this week, the Russian Finance Ministry said that it had transferred the U.S. dollar coupon payments to Russia's National Settlement Depository. **Stocks in Moscow are 4% lower after reopening with restrictions yesterday.** The trading day was shortened to 4 hours, only 15% of shares are allowed to trade, short selling is banned, and foreigners cannot sell equities. Analysts also expect the welfare fund in Russia to make purchases and stabilize the market, if needed.

Russian steelmaker Severstal has reportedly missed a deadline on a \$12.6 mn interest payment to bondholders after a 5-day grace period expired. The money was originally due to creditors by March 16 but paying and transfer agent Citigroup will reportedly not transfer the payment without receiving explicit permission from the U.S. Treasury.

Yesterday, the U.S. announced a new package of sanctions on Russian elites, lawmakers, and defense companies. The sanctions will affect more than 400 individuals and entities, including the Duma, and 328 of its members, more than a dozen Russian elites and 48 Russian defense companies. **President Biden also wants Russia removed from the G-20. The U.S. Treasury also issued a notice clarifying that U.S. persons are prohibited from engaging in any gold-related transactions involving the Russian central bank, ministry of finance or national wealth fund.** U.K. PM Johnson said that the U.K. is seeing signs that Russia is using gold to avoid sanctions. He added that the U.K. is taking steps to ensure that Russia cannot sell gold.

Contacts believe that payments for natural gas in ruble is relatively easy from a technical point of view as foreign banks can buy RUB on the MOEX exchange, from Russian banks or offshore but believe that implementation could be complicated for legal reasons and given sanctions. President Putin asked the central bank to develop a mechanism to enable ruble payments within a week. Putin emphasized that Russia would continue to supply gas in line with volumes, prices and pricing mechanisms set out in contracts. Some 58% of Gazprom's gross gas sales abroad were in euros as of Q3 last year with another 39% in U.S. dollars.

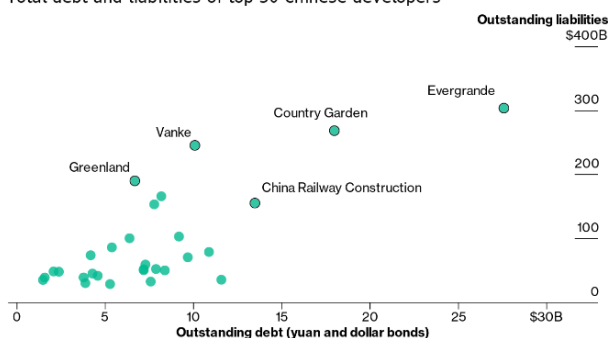
The withdrawal of foreign banks from financing projects in Russia is estimated to affect about 10-12% of total lending in Russia. According to Bloomberg, Sberbank, with 30–40% of the domestic loan market, is most likely to expand its loan book in response. The government and regulator are also expected to take efforts to boost local lending capacity—including the recapitalization of banks—to mitigate the impact of economic sanctions.

China

China's central bank conducted 100 bn RMB (\$15.7 bn) of reverse repos on Friday. The 7-day reverse repo rate was set at 2.1%. The central bank said this measure aimed to maintain stable liquidity in the banking sector at the end of the quarter. **Separately, analysts expect China's builders to face a challenging earnings season,** as at least nine firms were expected to miss the March 31 deadline for reporting audited results. The delays extended uncertainty about whether the property firms have progressed in replenishing cash to repay creditors and continue to operate after cracking down on excessive leverage. Analysts at Citi saw an average of a 20% decline in core profit among the 29 major builders they track.

Big Spenders

Total debt and liabilities of top 30 Chinese developers



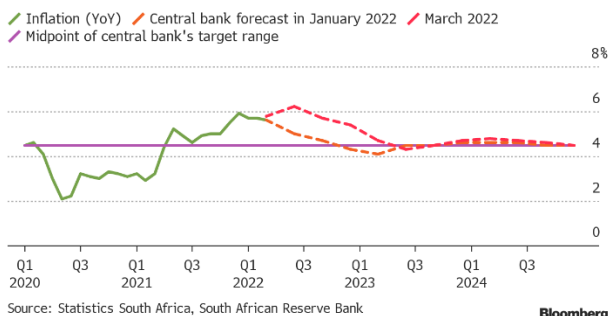
Sources: Bloomberg-compiled data including companies' filings as of Oct. 29 **Bloomberg**

South Africa

South African equities (+0.3%) and the rand (-0.3%) are mixed after **the South Africa Reserve Bank hiked rates 25 bps to 4.25% yesterday, as expected, with two MPC members voting for a hike of 50 bps.** The MPC raised its headline inflation forecast to 5.8% for 2022, up from 4.9% y/y previously and expects inflation to average 4.6% y/y in 2023 and 2024 (4.5% in both years previously). The MPC also sees upside risks to the inflation outlook emanating from the Russia-Ukraine conflict that puts further upward pressure on oil prices, and existing global producer price and food inflation.

Price Pressures

South Africa's MPC sees inflation breaching the 6% ceiling of its target

**Mexico**

The central bank hiked by 50 bps to 6.5%. The decision was expected by market analysts but there were two notable surprises. Firstly, the vote was unanimous as Deputy Governor Esquivel moved to 50 bps from 25 bps in the previous meetings when the votes were 4–1. Secondly, the vote outcome was pre-announced by the president in the morning. JP Morgan noted that maybe the president made the announcement by mistake on the assumption that Banxico had already released their statement due to a scheduling conflict. Other analysts attributed the announcement to a leak from inside the central bank with potential implications for its autonomy. The board highlighted once again the increase of inflation expectations for 2022 and 2023. Core inflation in Q4 22 is now forecasted at 5.2% (compared to 4.3% previously), peaking in Q2 22 at 6.7% (from 6.1%). Core inflation would converge to the target only in the first quarter of 2024 (compared with Q2 23 previously). **Swap rates declined marginally (1-year TIIE - 5bps) on the day with the curve still pricing in 250 bps of additional tightening this year.**

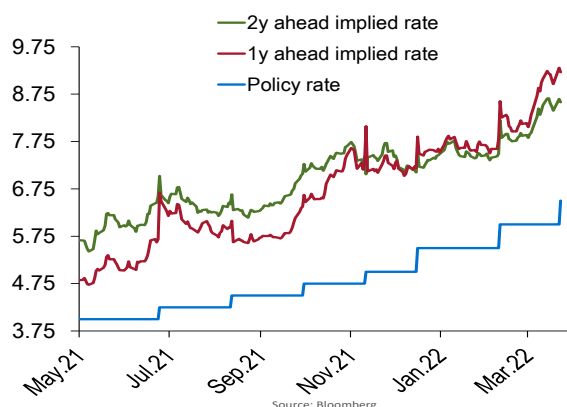
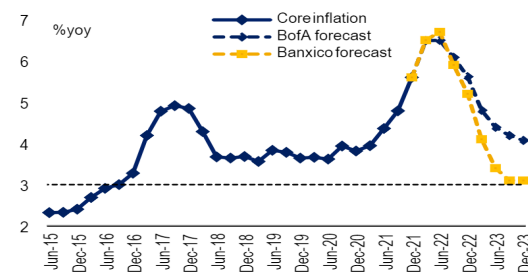




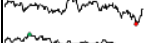

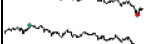


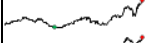




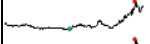





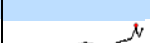


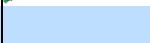



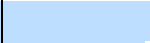


Exhibit 2: Core inflation forecasts
And higher core inflation than Banxico



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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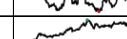
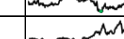





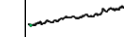



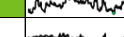

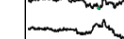



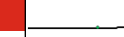



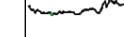



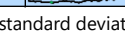




Global Financial Indicators

Last updated: 3/25/22 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4520	1.4	2	3	16	-5
Europe		3900	1.0	0	-2	2	-9
Japan		28150	0.1	6	6	-4	-2
China		4175	-1.8	-2	-9	-17	-16
Asia Ex Japan		76	0.5	1	-4	-16	-8
Emerging Markets		45	0.5	2	-4	-13	-7
Interest Rates			basis points				
US 10y Yield		2.36	-1.4	21	40	72	85
Germany 10y Yield		0.50	-3.2	13	27	88	68
Japan 10y Yield		0.24	0.8	3	3	15	17
UK 10y Yield		1.61	-3.2	12	16	89	64
Credit Spreads			basis points				
US Investment Grade		143	0.2	-3	0	45	31
US High Yield		392	-0.1	-13	-6	37	54
Europe IG		79	-0.5	9	12	25	32
Europe HY		367	-5.5	27	35	96	125
Exchange Rates			%				
USD/Majors		98.61	-0.2	0	2	6	3
EUR/USD		1.10	0.1	0	-2	-6	-3
USD/JPY		121.6	-0.6	2	5	11	6
EM/USD		52.4	0.3	1	-1	-7	0
Commodities			%				
Brent Crude Oil (\$/barrel)		116	-2.3	8	19	88	50
Industrials Metals (index)		217	-1.6	1	15	52	25
Agriculture (index)		75	0.1	2	11	48	23
Implied Volatility			%				
VIX Index (% change in pp)		21.7	0.1	-2.1	-5.9	1.9	4.5
US 10y Swaption Volatility		112.5	0.8	20.3	19.7	36.2	33.5
Global FX Volatility		9.1	0.0	0.1	1.3	1.2	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		230	2.8	3	-4	106	78
Italy		151	-1.3	-1	-10	54	16
Portugal		75	-0.9	-6	-12	22	11
Spain		87	-0.8	-7	-11	23	13

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

Emerging Market Financial Indicators

Last updated: 3/25/2022 8:21 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		6.36	0.1	0.0	-1	3	0		2.9	0.4	3	1	-37	2
Indonesia		14341	0.1	0.0	0	1	-1		6.7	-0.1	-3	18	-2	32
India		76	0.2	-0.5	-1	-5	-2		6.3	0.0	0	9	75	0
Philippines		52	0.3	0.4	-2	-7	-2		5.2	5.0	18	23	53	75
Thailand		34	0.1	-0.7	-3	-7	0		2.5	12.5	19	27	80	66
Malaysia		4.21	0.4	-0.3	0	-2	-1		3.9	4.6	16	18	49	26
Argentina		110	-0.1	-0.7	-3	-17	-7		49.3	0.0	69	86	389	-122
Brazil		4.81	0.4	4.5	7	18	16		11.9	-26.0	-58	24	255	119
Chile		789	-0.1	1.9	2	-8	8		6.4	-2.0	55	57	309	102
Colombia		3788	-0.1	1.0	4	-5	8		8.4	0.0	61	46	303	197
Mexico		20.04	0.3	1.6	2	3	2		8.4	-2.5	20	57	156	91
Peru		3.7	0.9	0.1	2	0	7		6.6	0.0	8	58	193	73
Uruguay		42	0.7	1.8	3	6	7		8.6	4.8	17	41	115	-16
Hungary		340	0.5	-0.1	-5	-9	-4		6.4	-11.0	63	139	395	186
Poland		4.30	0.9	-0.8	-4	-8	-6		5.0	-1.0	52	109	342	150
Romania		4.5	0.1	-0.4	-2	-8	-3		6.0	14.7	19	57	335	116
Russia		118.7	1.4	-8.3	-37	-38	-37		19.9	-136.2	-529	915	1260	1112
South Africa		14.6	-0.2	2.8	4	3	9		8.1	0.0	5	51	38	67
Turkey		14.84	-0.1	-0.2	-7	-46	-10		27.8	-38.0	135	404	952	345
US (DXY; 5y UST)		99	-0.2	0.4	2	6	3		2.39	-0.6	25	53	156	113

	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		4175	-1.8	-2	-9	-17	-16		216	-10	5	10	13
Indonesia		7003	-0.7	1	2	13	6		184	-1	-8	9	19
India		57362	-0.4	-1	2	17	-2		163	-14	7	12	31
Philippines		7125	0.6	2	-3	9	0		135	8	-9	33	34
Malaysia		1603	0.3	1	0	0	2		127	-12	-11	2	10
Argentina		90107	-0.1	3	2	85	8		1819	48	55	268	139
Brazil		119053	0.0	5	5	5	14		303	-2	-27	29	-8
Chile		4955	0.0	2	11	4	15		155	-4	-22	20	15
Colombia		1594	0.4	3	5	21	13		347	12	-43	126	-1
Mexico		55830	1.2	5	6	19	5		345	-8	-23	4	13
Peru		25364	-1.1	2	7	19	20		175	2	-14	20	25
Hungary		43933	0.3	0	-4	-1	-13		140	-7	-35	1	16
Poland		64796	-0.2	2	7	15	-6		49	1	15	13	17
Romania		12471	0.0	-2	-3	14	-5		216	2	-50	23	23
Russia		2484	-3.7	1	1	-28	-34		4387	1586	2999	4199	4210
South Africa		74578	0.3	1	1	15	1		372	10	-36	8	17
Turkey		2192	0.7	2	12	57	18		565	-3	-47	29	-13
Ukraine		519	0.0	0	0	0	-1		3462	336	628	2955	2703
EM total		45	-0.6	2	-4	-13	-7		553	25	22	180	166

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

[back to top](#)