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- Hawkish comments from Bank of Canada official raises expectations for rate hikes ([link](#))
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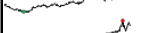

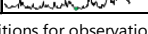
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Global sovereign bond yields climb higher

The selloff in global sovereign bond markets has showed little signs of relenting to start the week. Short-term core sovereign bond yields are moving higher this morning and have stood out over the last week with 2-year US Treasury yields reaching 3-year highs, alongside 10-year yields up over 20 bps for the week. Yields across European sovereign debt markets have moved higher in a similar fashion. The global bond rout was also evident in Asia overnight where Australian yields rose 10 to 20 bps across the curve and the Bank of Japan announced an unlimited buying operation to defend the 0.25% ceiling for 10-year yields. The yen has also depreciated sharply in response and is at its weakest level against the US dollar since 2015. Further hawkish commentary from FOMC members over the last week has been cited as one catalyst for the rise in bond yields and in turn has ratcheted up expectations for a faster hiking cycle. US equities closed with small gains on Friday to post the second consecutive weekly advance. Energy and financial sector stocks have supported the rebound with oil prices trending higher last week and interest rates continuing to increase. However, oil prices are retreating this morning amid demand concerns stemming from the virus situation in China that has triggered a two-stage lockdown in Shanghai. European bourses and US equity futures are trading higher as hopes remain that further Russia-Ukraine talks scheduled for this week will signal some progress in the negotiations.

Key Global Financial Indicators

Last updated: 3/28/22 8:12 AM	Level	Change from Market Close					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4543	0.5	2	4	14	-5
Eurostoxx 50		3946	2.0	2	1	2	-8
Nikkei 225		27944	-0.7	4	5	-5	-3
MSCI EM		45	-0.8	-1	-4	-15	-8
Yields and Spreads			bps				
US 10y Yield		2.46	-0.9	17	64	79	95
Germany 10y Yield		0.59	0.1	12	45	93	77
EMBIG Sovereign Spread		451	-11	-7	21	96	84
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.5	0.2	2	1	-6	0
Dollar index, (+) = \$ appreciation		99.3	0.5	1	3	7	4
Brent Crude Oil (\$/barrel)		114.2	-5.4	-1	13	77	47
VIX Index (% change in pp)		21.5	0.7	-2	-9	3	4

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

This week markets will be focused on the March US labor market report on Friday and Eurozone inflation prints. The US will also release Q4 GDP (third estimate) and PCE deflator. Outside of the US, CPI data in European countries (Eurozone, Germany, France Italy, among others) will be closely watched. On the monetary policy front, central banks in Chile (175 bp hike expected), Colombia (150 bs hike), Czech Republic (+50 bp hike expected) and Thailand (hold) will have meetings. There will be speakers from the Fed, ECB, and the BoE throughout the week. Elsewhere, OPEC+ will meet to discuss production targets and the EU and China will hold a summit in an attempt to temper growing tensions over the war in Ukraine.

Mature Markets

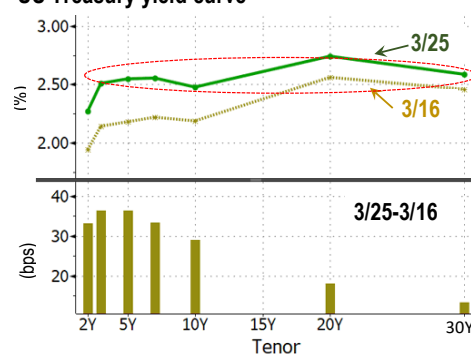
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United States

US equities were mostly higher on Friday, with the S&P 500 closing up 0.5%, driven by the energy sector as the oil prices gained on the news that Saudi Aramco facilities were attacked by Yemen's rebels, likely affecting oil supplies. Tech shares underperformed as Treasury yields rose and the Nasdaq fell 0.2%. **US equities gained for the second straight week, heading for the first monthly gain this year.**

US Treasury yields rose, and the yield curve flattened on Friday. There were several headlines earlier in the session, which likely drove the moves. One is that Russian military forces will focus on the complete liberation of the Donbas region, suggesting a potential de-escalation of the war. Another is that Citi analysts revised their Fed call and expect four consecutive 50 bps hikes and another two 25 bp hikes for the rest of this year followed by an additional 75 bps of hikes in 2023, which would raise the policy rate up to 2.75-3.00% in 2022 and to 3.5-3.75% in 2023, well above the median Fed dot plot (2.8% in 2023). **Treasury yields on 2-year through 10-year tenors increased more than 10 bps, attributed to both higher real yields and breakeven rates.**

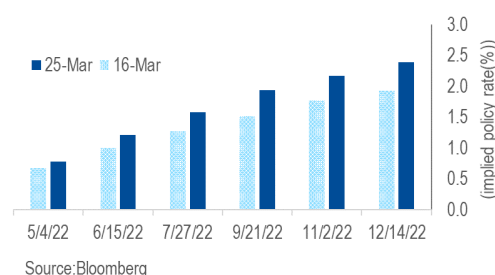
US Treasury yield curve



Source: Bloomberg

On the discussion of how much the Fed will raise its policy rate in May (25 bps vs. 50 bps), NY Fed President Williams said on Friday that the rate hikes should be data-driven, and he would support whichever is appropriate when being asked if he supports a 50-bps hike in May. After Chair Powell's speech last Monday, followed by several other Fed officials expressing their support for a 50 bp hike, **markets priced more aggressive tightening on Friday, with the odds of a 50 bp hike in May rising above 80%, and over 200 bps of hikes now priced for the rest of this year.**

Fed Rate Hike Expectations (OIS)



Source: Bloomberg

Canada

Canada's government bond yields climbed, and the curve flattened in step with higher US Treasury yields, with the 10-year yields rising by 15 bps to 2.54%, the highest level since 2018, as hawkish comments from a top official of the Bank of Canada (BOC) supported the move. Deputy Governor Kozicki said that the BOC is prepared to act forcefully to tame inflation and signaled more aggressive action, including quantitative tightening, will be discussed at the next policy meeting in April. Markets ramped up bets on rate hikes and priced in an additional 215 bps of hikes for the rest of this year.

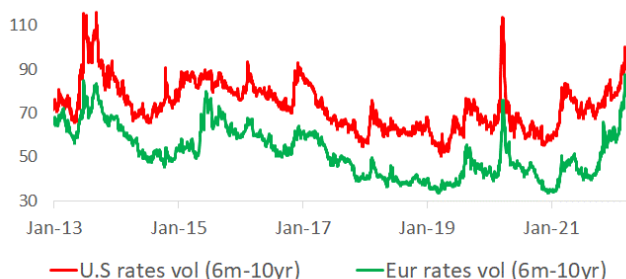
Commodity Prices

Brent oil prices (-4%) are lower but prices of natural gas futures in Europe are up 7% as Russian FM Siluanov said that western countries will have to “adjust” to settling gas imports in rubles. On Friday, Russia said that Gazprom needs to work out how ruble payments can be done from a technical and logistical point of view, with further news flow expected given a ten-day deadline communicated by Russia last Wednesday. **Several EU leaders have rejected Russia’s demand to pay for gas imports in ruble.**

Euro area

Equities (+1.3%) are higher with bank stocks (+2.2%) outperforming. Bond markets remain in focus as measures for European bond market volatility have settled above pandemic highs. German 10-yr bund yields rose 47 bps this month. Today, 10-yr bund yields rose 1 bps and 10-yr Italian spreads are 3 bps higher, with 1-yr bund yields 5 bps higher. **Traders are now pricing over 40 bps of ECB hikes in 2022.**

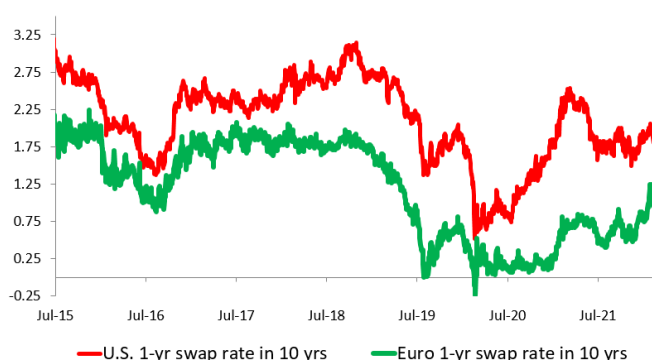
Core bond markets: Implied Volatility Measures
(bps per year, swaptions)



Source: Bloomberg and IMF

Euro area 5-yr/5-yr inflation swap rates rose 4 bps to 2.22% ahead of an expected rise in flash euro area inflation data for March, to be released on Friday. Euro area flash inflation data are expected to show an increase in headline CPI inflation of 1.9% m/m in March (from 0.9% m/m in April) or 6.7% y/y (from 5.8% y/y in April). Core inflation is expected to rise to 3.1% y/y (2.7% y/y in April). Individual countries will release data earlier with Spain and Germany publishing on Wednesday, and France, Germany, and Italy on Thursday. **Measures for the terminal rate in the euro area have also traded higher as traders expect the ECB to tighten in response to higher inflation.**

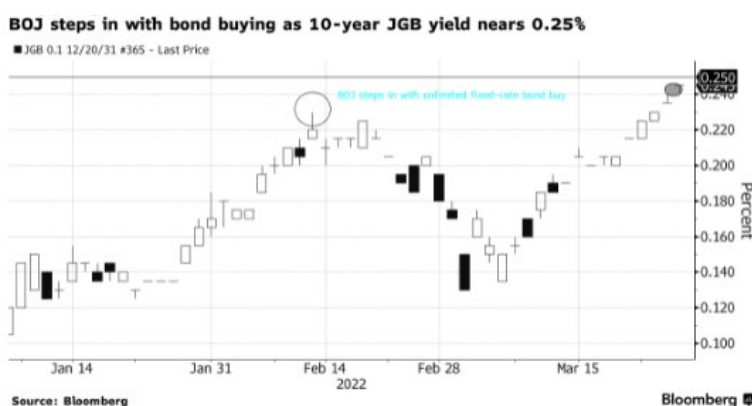
Euro area and U.S. : 1-yr rate in ten years (nominal, %)



Source: Bloomberg and IMF staff

Japan

The Bank of Japan (BOJ) offered to buy unlimited amount of bonds for three days to defend its 10-year yield target. The BOJ announced it would continue to buy bonds on March 29, 30, and 31 after two offers on Monday failed to bring the yields below the BOJ's 0.25% upper policy band, Bloomberg reports. Some analysts expressed doubts on the BOJ's ability to repeatedly defend the 0.25% yield line. Others saw the BOJ possibly enacting yield targets for super-long yields (e.g., 20-year, 30-year) in the future. Meanwhile, Japan's 30-year yields hit a six-year high of 1%. Separately, **Japan PM Kishida will order a support package next week to tackle increased prices.** Finance Minister Suzuki said that a solid response is needed to address impacts from oil and grain price inflation, and PM Kishida will provide instructions later this week on measures to be drawn by the end of April, Bloomberg reports. Separately, **major Japanese banks will join US, Europe peers to lend Kuwait Oil \$1 bn.** The loan is aimed at directly supporting Kuwait's oil production in a bid to stabilize global fuel prices, according to Bloomberg. **Equities slipped -0.4%, 10-year yields were broadly unchanged. Japanese yen depreciated -1.4%, to its weakest against the US dollar since 2015.**



Emerging Markets

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Stock markets were mixed on Friday in Latin America, with Argentina (+3.2%) leading the gains, followed by Colombia (+0.8%) and Peru (+0.8%), while Mexico saw losses of 0.7%. The Mexican peso breached a key barrier on Friday amid its longest rally in more than 50 years as a hawkish central bank and positive sentiment toward risk assets encouraged bulls. The Mexican peso appreciated for an 11th straight session and broke below 20-per dollar level for the first time since September. **Asian equities were little changed.** Hong Kong SAR equities gained +1.3%, China's CSI 300 was down -0.6% with Shanghai partially locked due to rising infections, Sri Lanka (-1.5%) and Vietnam (-1.1%) underperformed. **Asian currencies mostly weakened.** South Korean won (-0.7%) and Thai baht (-0.5%) underperformed. **10-year yields increased**, Hong Kong SAR (+22.6 bps), Malaysia (+11.7 bps), and Singapore (+11.1 bps). The **Philippines'** Governor Diokno reiterated over the weekend that a policy rate hike will not change the reality of supply-driven commodity price inflation, according to Bloomberg. He also suggested several non-monetary policies to combat inflation, including lower import tariffs, higher fuel subsidies, expanded coal supplies, and increased electricity generation changes among others. **EMEA markets are mixed.** Equities gained in Hungary (+1%) and Poland (+0.4%) but the Hungarian forint (-0.4%) and Polish zloty (-0.8%) fell. Local rates in Eastern Europe have remained under pressure on the back of elevated inflation, increased geopolitical tensions and high sensitivity to global rates.

Emerging Market Fund Flows

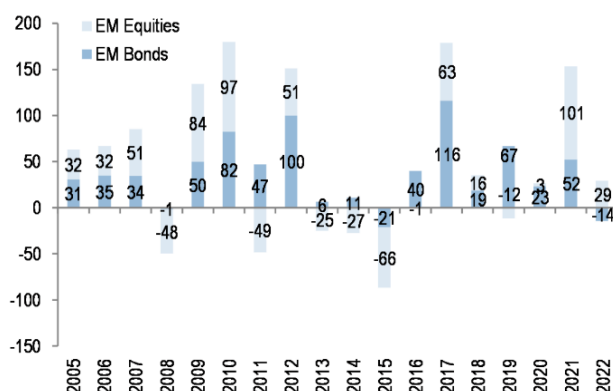
Emerging market hard currency bond funds attracted inflows for the first time in 10 weeks (+\$670 mn), and local currency bond fund outflows were similar in size to the previous three weeks (-\$1.3 bn). China-focused bond funds had their largest weekly outflow on record (-\$1.1bn) while EM ex-China

bond fund outflows eased materially compared to last week (-\$175mn, from -\$657mn). EM equity funds reverted back to inflows (+\$3.5bn, from -\$742mn) after three weeks of outflows. Regional equity funds observed inflows across the board: Asia ex-Japan (+\$811mn), EMEA (+\$78mn) and Latam (+\$108mn).

Exhibit 1: Weekly Cross-Asset Flows
(USD billion)

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		2.9	14.9
EM Bonds		-0.6	-14.3
Hard Ccy		0.7	-12.8
Local Ccy [^]		-1.3	-1.5
o.w. EM ex-China		-0.2	-1.0
o.w. China		-1.1	-0.8
EM Equities		3.5	29.1
US HG		1.0	-19.1
US HY		-3.7	-25.2
Global Equities		-2.9	117.2
EM Bond and Equity ETFs		2.8	26.9
EM Bond ETFs		0.2	-0.4
EM Equity ETFs		2.6	27.3
Non-resident EM flows*		5.2	-27.6

Exhibit 2: Annual EM bond and equity fund flows
(USD billion)



*High frequency non-resident EM portfolio flow data where available. [^]Local currency split is retail only. Source: All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

China commences two-phase Shanghai lockdown. Shanghai, a city of 25 mn people, has first locked down areas east of Huangpu River, including the financial district and industrial parks, for mass COVID testing, starting Monday for four days. Thereafter, the city's other half will be locked down for four days for testing. Shanghai's stock exchange moved several services online; city's port, airlines, and railways in the city, remain operational. Separately, **major oil refiner Sinopec ramps up capital expenditures amid China's energy security push.** The state-owned company will redouble its efforts in oil exploration and boost capital spending by 18% to 198 bn yuan (\$31 bn), according to Bloomberg. Also, gasoline demand has slumped in some regions by as much as 70%–80% due to virus outbreaks, and China is set to export gasoline and diesel in April, according to industry consultants. Separately, **China's industrial profits grew +5% YTD y/y in January-February.** This was driven by the mining sector (+132% YTD y/y) while manufacturing and utilities dragged. **Equities were mixed (Shanghai: +0.1%, Shenzhen: -0.8%), renminbi weakened -0.1%. 10-year yields slipped -0.7 bps.** State-backed paper stressed that the China-US interest rate differential has rapidly narrowed beyond a "comfort zone" to less than 40 bps, which may explain why China refrained from cutting rates or reserve requirements (RRR) in March. China-US 3Y yield gap meanwhile has turned negative from the first time since 2009.

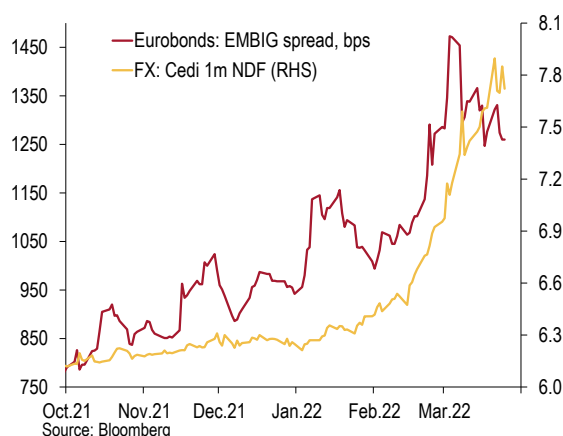


Russia

The offshore ruble (+4%) gained as Russia said that there has been no progress in talks with Ukraine but confirmed that delegations will meet in Turkey tomorrow. Russia is due to pay a \$102 mn Eurobond coupon today, with another coupon and a principal payment due this week. **Stocks in Moscow are 2% lower as analysts write that Russia has so far refrained from using its sovereign wealth fund to purchase equities.**

Ghana






















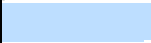



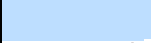


Last week policy makers announced monetary and fiscal tightening measures to stabilize the economy and restore investor confidence. The Bank of Ghana hiked the policy rate by 250 bps to 17%, above consensus expectations of 100 bps. Soon after the finance minister announced fiscal measures aimed at narrowing the fiscal deficit to 7.4% of GDP from 12.4% in 2021. JP Morgan analysts revised their deficit forecast to 8.6% from 9.4% given the new measures. Market reaction was relatively muted, the exchange rate in the non-deliverable forward market was slightly stronger (see chart) after the announcements but remains under significant pressure this year (20% weaker). Eurobond prices trade at distressed levels with EMBIG spreads at 1260 bps.



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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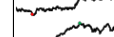
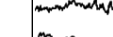




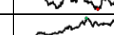
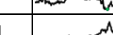



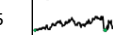

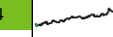



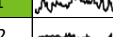

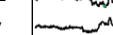


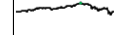
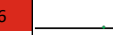



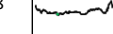


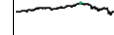
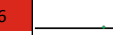



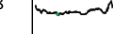
Global Financial Indicators

Last updated: 3/28/22 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4543	0.5	2	4	14	-5
Europe		3946	2.0	2	1	2	-8
Japan		27944	-0.7	4	5	-5	-3
China		4148	-0.6	-3	-9	-18	-16
Asia Ex Japan		75	-1.1	-2	-4	-19	-9
Emerging Markets		45	-0.8	-1	-4	-15	-8
Interest Rates			basis points				
US 10y Yield		2.46	-0.9	17	64	79	95
Germany 10y Yield		0.59	0.1	12	45	93	77
Japan 10y Yield		0.25	1.3	4	6	17	18
UK 10y Yield		1.68	-1.9	4	27	92	71
Credit Spreads			basis points				
US Investment Grade		142	0.7	-2	-4	46	30
US High Yield		382	-1.7	-12	-30	32	44
Europe IG		79	-1.2	-1	8	25	31
Europe HY		360	-8.1	-14	16	97	119
Exchange Rates			%				
USD/Majors		99.28	0.5	1	3	7	4
EUR/USD		1.10	-0.1	0	-2	-7	-4
USD/JPY		124.1	1.6	4	8	13	8
EM/USD		52.5	0.2	2	1	-6	0
Commodities			%				
Brent Crude Oil (\$/barrel)		114	-5.4	-1	13	77	47
Industrials Metals (index)		215	-1.2	3	13	47	24
Agriculture (index)		75	-1.6	-1	6	47	23
Implied Volatility			%				
VIX Index (% change in pp)		21.5	0.7	-2.0	-8.6	2.7	4.3
US 10y Swaption Volatility		125.8	2.5	23.3	26.3	46.6	46.8
Global FX Volatility		9.2	0.1	0.3	0.9	1.3	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		227	4.4	5	-12	106	76
Italy		151	1.4	-3	-6	55	16
Portugal		75	0.8	-5	-11	23	11
Spain		87	1.2	-7	-11	24	13

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

Emerging Market Financial Indicators

Last updated: 3/28/2022 8:18 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	-0.2	-1	3	0		2.9	0.6	1	2	-38	3
Indonesia		14363	-0.2	-0.2	0	1	-1		6.7	3.0	2	21	1	35
India		76	0.1	-0.1	-1	-5	-2		6.3	0.0	0	9	75	0
Philippines		52	0.0	0.5	-2	-7	-2		5.2	5.0	18	23	53	75
Thailand		34	-0.6	-0.7	-3	-8	-1		2.5	3.5	19	32	83	69
Malaysia		4.22	-0.2	-0.3	0	-2	-1		4.0	12.7	29	32	65	39
Argentina		110	-0.2	-0.6	-3	-17	-7		49.8	42.5	73	138	403	-80
Brazil		4.75	-0.2	3.9	8	22	17		11.8	-12.0	-46	10	243	107
Chile		779	-0.1	2.0	3	-6	9		6.4	0.0	35	58	300	95
Colombia		3794	-0.2	0.6	3	-5	8		8.5	13.5	75	60	316	211
Mexico		20.06	-0.1	1.5	2	3	2		8.6	13.5	36	73	172	107
Peru		3.7	-0.2	1.0	0	0	7		6.9	0.0	34	74	218	100
Uruguay		41	0.6	2.7	3	7	8		8.6	5.6	22	47	118	-11
Hungary		341	-0.5	-0.8	-3	-10	-5		6.4	0.0	57	124	388	186
Poland		4.30	-0.9	-1.0	-3	-8	-6		5.1	4.8	49	122	340	159
Romania		4.5	-0.2	-0.5	-2	-7	-4		6.0	1.8	32	58	338	118
Russia		118.7	1.4	-8.3	-37	-38	-37		19.5	-21.5	-60	468	1219	1073
South Africa		14.6	-0.3	2.2	5	2	9		8.1	2.0	7	45	53	69
Turkey		14.84	0.0	-0.1	-7	-45	-10		26.6	-98.0	1	222	789	230
US (DXY; 5y UST)		99	0.5	0.8	3	7	4		2.56	1.3	24	84	169	130

	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		4148	-0.6	-3	-9	-18	-16		212	-13	1	5	9	
Indonesia		7050	0.7	1	2	14	7		174	-18	-20	-1	9	
India		57593	0.4	1	2	18	-1		160	-9	-1	7	28	
Philippines		7134	0.1	3	-2	8	0		121	-16	-26	20	20	
Malaysia		1598	-0.3	1	-1	-1	2		123	-12	-15	-4	6	
Argentina		93010	3.2	4	6	100	11		1788	-3	-5	244	108	
Brazil		119081	0.0	3	5	4	14		291	-17	-30	11	-20	
Chile		4965	0.0	-1	9	2	15		150	-10	-24	16	10	
Colombia		1607	0.8	4	5	22	14		337	-1	-40	112	-11	
Mexico		55436	-0.7	2	4	17	4		337	-14	-21	-9	5	
Peru		25568	0.8	2	8	19	21		167	-6	-18	13	17	
Hungary		44443	1.0	0	2	1	-12		132	-20	-36	-6	8	
Poland		64645	0.3	2	6	12	-7		45	-5	3	6	13	
Romania		12514	0.8	-1	-2	14	-4		209	-7	-28	17	16	
Russia		2431	-2.2	-2	-2	-30	-36		4038	842	3229	3853	3861	
South Africa		74352	0.0	-1	-2	11	1		358	-11	-35	-8	3	
Turkey		2185	0.4	0	12	58	18		549	-29	-31	16	-29	
Ukraine		519	0.0	0	0	0	-1		3202	-46	827	2692	2443	
EM total		45	0.2	-1	-4	-15	-8		537	-3	50	162	150	

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

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