



- US Treasury yield curve flattens as selloff in short-maturity bonds persists ([link](#))
- Strong balance sheets and ratings upgrades support US corporate credit markets ([link](#))
- ECB rate hike expectations build on worries energy prices will push inflation higher ([link](#))
- ECB confirms euro liquidity lines with non-euro area central banks until 2023 ([link](#))
- Bank of Japan continues to defend 10-year yield target ([link](#))
- China appoints new government advisors to the central bank ([link](#))

[Mature Markets](#)



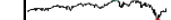


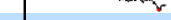
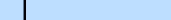




| [Emerging Markets](#)

| [Market Tables](#)

Risk sentiment improves on optimism around Russia-Ukraine talks

Global risk assets are rallying on positive news soundbites regarding talks between Russia and Ukraine. Stock markets are rising amid some hope a ceasefire may be brokered between Russia and Ukraine. European equities are gaining 3% and US equity futures are pointing to modest gains at the open. Yesterday, the S&P 500 extended its streak of gains for the third day, led by a rotation to tech sector growth stocks that again saw the Nasdaq outperform by advancing over 1%. On the other hand, energy sector shares have been on the defensive with crude oil prices falling more than 9% yesterday and remaining volatile this morning in reaction to spreading COVID lockdowns in China that continue to stoke demand concerns. Further on energy supplies, the offshore Russian ruble has appreciated more than 8% as analysts have cited the EU is not expected to materially reduce its dependency on Russian natural gas imports in the near-term, while Russian authorities have maintained their stance of insisting that Europe pays for gas in rubles, which Europe has so far refused. The fluctuations in global interest rates have remained top of mind with the moves higher in core sovereign bond yields continuing to be concentrated in the policy-sensitive front-end of yield curves. Bond yields in the US, Germany, and the UK are up 4 to 15 bps across the curve this morning, led by sharp moves higher in short-term rates, as 2-year bund yields are up 12 bps and hovering near positive territory for the first time since 2014.

Key Global Financial Indicators

Last updated: 3/29/22 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4576	0.7	3	5	15	-4
Eurostoxx 50		4006	3.0	2	2	3	-7
Nikkei 225		28252	1.1	4	7	-4	-2
MSCI EM		45	0.3	1	-3	-15	-7
Yields and Spreads			bps				
US 10y Yield		2.50	4.1	12	67	79	99
Germany 10y Yield		0.70	12.4	20	57	102	88
EMBIG Sovereign Spread		449	-2	-4	-21	95	82
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.5	1.8	3	3	-4	2
Dollar index, (+) = \$ appreciation		98.5	-0.6	0	2	6	3
Brent Crude Oil (\$/barrel)		110.4	-1.9	-4	9	70	42
VIX Index (% change in pp)		19.2	-0.4	-4	-11	-2	2

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

Mature Markets

[back to top](#)

United States

US equities were higher on Monday, with the S&P 500 closing up 0.7%, driven by mega-cap tech shares, while the energy sector underperformed as oil prices declined. Tesla gained 8% on the news that it plans to seek shareholders' approval for a move that would enable another stock split. US Treasury markets were relatively calm during the NY session, with the 10-year yields closing down by 1.5 bps to 2.46%. The yield curve continued to flatten, with the 2 year yields up 4 bps while 30-year yields were down 4 bps, and 5-year yields (2.56%) rose above 30-year yields (2.54%) for the first time since 2006. JPMorgan analysts commented that in the medium-term, they expect the Treasury yield curve to flatten further as strong demand from liability-driven investors likely keep the long-end well anchored. Elsewhere, the TIPS breakeven curve steepened as the oil prices declined.

Exhibit 8: ...but given rising pension funded ratios, there is more scope for the curve to flatten over the medium term

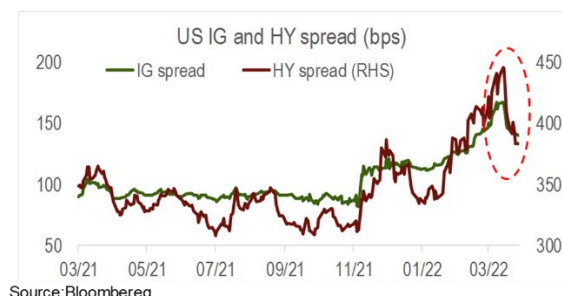
Milliman 100 Pension Fund Index funded ratio, with March 2022 nowcast*, %



* Nowcast based off 4-year regressions: Pension fund assets regressed on S&P 500 (pts), 20-year Treasury yields (%) and JULI spread to Treasuries (bp). Pension fund liabilities regressed on 20-year Treasury yields (%) and JULI spread to Treasuries (bp). All independent variables are 1-month moving averages.

Source: Milliman PFI, J.P. Morgan

US IG and HY corporate bond spreads have tightened recently, recovering nearly 50% of their year-to-date sell-off, likely supported by solid fundamentals. Corporate ratings have been upgraded within both HG and HY, with the wave of rising star upgrades following. According to JPMorgan analysts, of the originally identified 41 names, nine have already been upgraded, and 12 new issuers are also identified as candidates, with the energy sector leading this upgrade trend. HY upgrades have outpaced downgrades every month since December 2020.



Source: Bloomberg

Figure 5: We have already seen upgrades outpace downgrades within HG and YTD this trend accelerated with the ratio of upgrades to downgrades at 3:1



Source: J.P. Morgan, ex-EM. Figures are the percent of the market with rating changes each year.

Commodity Prices

Brent oil prices (-4%) are lower and natural gas prices are higher (+4%) in Europe. Germany's economy and climate minister said that Germany can become independent from Russian coal by autumn, virtually independent from Russian oil by the end of 2022, and largely do without Russian natural gas by summer 2024.

Crypto Assets

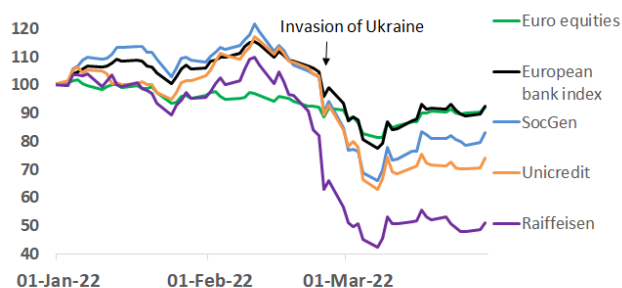
Bitcoin is little changed this morning at \$47k after gaining 14% in March. The latest digital asset flow of funds data shows a record weekly inflow for the year, totaling \$193 mn as of March 25.

Euro area

Equities (+2.0%) are higher, with bank equities (+3%) outperforming. Yesterday, ECB supervisory board chair Enria said that banks could earn almost €6 bn euros in annual revenue given the estimated \$2.3 tn a year in financing needed from global banks to finance the green transition. The

ECB is also pushing banks to prepare for losses they could face from extreme weather or the possibility of polluting companies going out of business given carbon emission targets. **German 10-yr bund yields (+10 bps to 0.67%) jumped, with 1-yr bund yields 3 bps higher at -0.47%.**

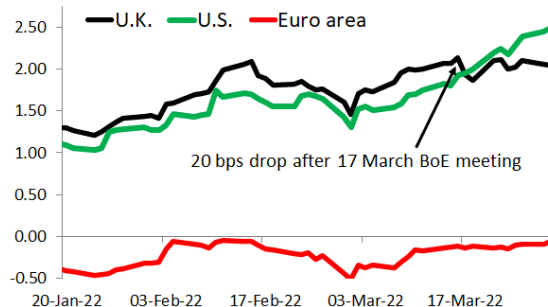
Europe: Bank equity performance (1 Jan 2022: 100)



Source: Bloomberg and IMF

Money markets are continuing to price in ECB hikes in 2022 as Bank of Spain governor De Cos warns that additional increases in energy prices will push inflation significantly higher in March. Yesterday, ECB chief economist Lane warned that the drops in euro area sentiment data is a “major concern” but sees scenarios where it would be appropriate to start normalizing interest rates in 2022. **German GfK consumer confidence for April fell to the lowest level in over a year.**

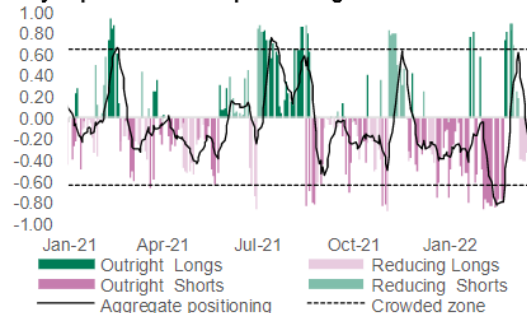
Policy rates at end-2022 (%)



Source: Bloomberg and IMF staff

Italian spreads are little changed as Crédit Agricole points out that a large, short bias for IK futures on Italian government bonds has been growing, compared to only a modest short bias in German and French bond futures. Data suggests that investors have been adding shorts in IK futures though it has yet to signal a crowded position.

Italy: Open interest for positioning for IK futures



Source: Crédit Agricole CIB, Bloomberg

The ECB confirmed euro liquidity lines with non-euro area central banks until 15 January 2023 to address possible liquidity needs in non-euro area countries given the uncertainty from Russia's invasion of Ukraine and regional spillover risks. The ECB and central bank of Poland will set up a new €10 bn swap line until 15 January 2023. The ECB also extended temporary bilateral repo lines with Hungary (€4 bn), Albania (€400 mn), North Macedonia (€ 400 mn) and San Marino (€100 mn). These bilateral lines were established in 2020 to provide euro liquidity to financial institutions in those countries via their central banks. The lines were due to expire at the end of March 2022, as they were specifically aimed at addressing possible euro liquidity needs in the presence of market dysfunctions due to the COVID-19 pandemic.

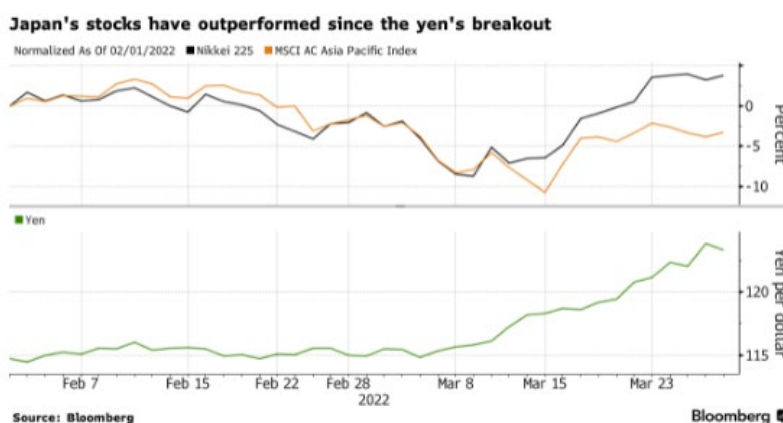
United Kingdom

10-yr gilt yields are 8 bps higher, reversing yesterday's drop. Bonds rallied yesterday after **Governor Bailey confirmed that the BoE softened its rate guidance in face of uncertainty.** The Bank of England will also delay the 2022 stress test for banks.

Shares in Barclays are 6% lower as an anonymous shareholder sold about £ 900 mn (\$1.2 bn) of stocks. Yesterday, stocks closed 7% lower after the bank said that it expects to record a £450 mn hit net of tax after issuing about \$15 bn more of structured notes and exchange traded notes than it had registered for sale. The bank also delayed a share buy-back. **The three largest shareholders of Barclays are BlackRock, Vanguard, and the Qatar Investment Authority, according to Bloomberg.**

Japan

Equities rallied +0.9%. PM Kishida's new support package will be ready by end-April. The package, meant to address rising prices, will be financed by reserve budget funds for emergency spending, Kyodo reports. Separately, **Bank of Japan (BOJ) reiterated dovishness in its March Summary of Opinions.** The Board members argued that continued easing is needed as domestic inflation is unlikely to exceed 2% in a continuous manner amid low domestic demand, with higher inflation due to heightened geopolitical risks. Meanwhile, **Finance Minister Suzuki called for close yen monitoring.** He said the government should assess whether the weaker yen is starting to have a negative impact. **Japanese yen recovered +0.1%.** **10-year yields declined -0.5 bps to 0.24%.** BOJ bank offered twice today to buy unlimited amounts of government bonds and recorded a total uptake of ¥528.6 bn (\$4.3 bn), Bloomberg reports.



Emerging Markets

[back to top](#)

Stock markets slightly declined in Latin America yesterday, with Argentina (-1.5%) falling the most, followed by Peru (-0.9%) and Chile (-0.5%). The Peruvian sol (+0.2%) rose as President Castillo faces the second ousting attempt since he took office less than one year ago. **Asian stock markets were mixed, gaining +0.7% on net.** Hong Kong SAR (+1.1%) and Vietnam (+0.9%) outperformed while Malaysia

slipped -0.9%, with losses distributed across sectors. **Asian currencies mostly appreciated.** South Korean won (+0.6%) outperformed. **10-year yields mostly fell.** South Korean yields declined the most (-7.5 bps). **EMEA markets traded with an optimistic tone.** Equities rose sharply in Hungary (+3%) but are up in several countries. The Hungarian forint (+1.1%) and Polish zloty (+0.4%) firmed. Swap rates edged lower. The Ukrainian government estimated yesterday the economic damage caused by the Russian invasion so far at \$565 bn, including property damages and lost trade and GDP.

China

China appointed new government

advisers to the central bank. Kang Yi, the new head of the National Bureau of Statistics, and Yu Weiping, Deputy Finance Minister, will join the People's Bank of China's monetary policy committee. Separately, **more than ten property developers will delay audited results.** Most of them cited COVID pandemic effects as a reason for the delays and will instead report unaudited results by the March 31 deadline,

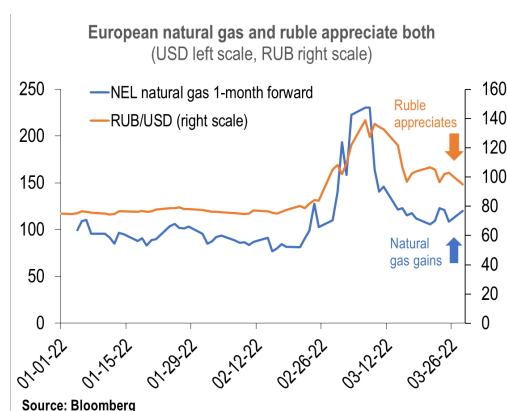
Bloomberg reported. They will face share trading suspensions if audited results are not published by April 30. Further, Sunac shares will be suspended from trading in Hong Kong SAR from April 1, as the company announced it will not even publish unaudited results by March 31. Its shares dived by as much as 22% following the announcement. Separately, **state-owned Citic Group will become the largest shareholder of Huarong Asset Management.** It will receive 2.41 bn shares from the Ministry of Finance to optimize the layout of state-owned financial capital, Bloomberg reported. Citic's stake will increase to 26.46%, with the ministry's ownership down below 25%. Huarong stocks declined more than 60% since trading resumed in early January. **Equities declined (Shanghai: -0.3%, Shenzhen: -0.2%), renminbi and 10-year yields were little changed.**

China's dollar junk bond yields are near historic highs



Russia

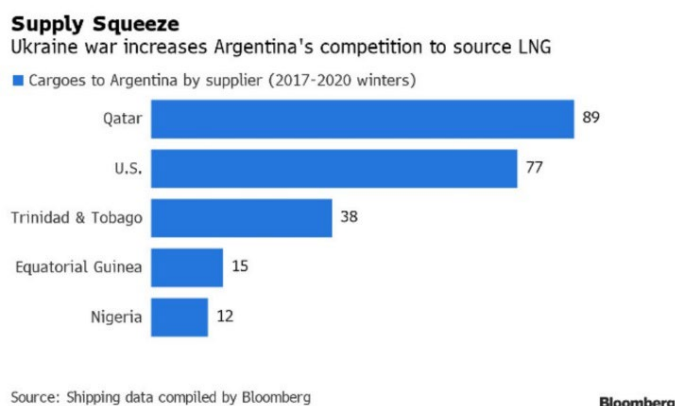
Reactions to sanctions continue to impact markets. Payment modalities for Russia's natural gas exports remain unclear, with Russia demanding that countries characterized as "hostile" pay in rubles or gold, and its western customers rejecting the demand. At the same time, EU customers do not appear ready to eliminate their dependency on Russian natural gas over the short run, which provided support for the ruble and pushed up European natural gas prices (+10%) yesterday. **The offshore ruble (+8%) gained as defense minister Shoigu said that the Russia's main goal in Ukraine is focused on the Donbas region. Stocks in Moscow (-1%) are trading lower.**



Several Russian corporates face the risk of defaulting despite attempts to service their external debt, as settlement processes are severely compromised by international sanctions and capital controls introduced by the Russian central bank. Several international companies, including the breweries Heineken and Carlsberg, announced plans to pull out their business activities from Russia, with Heineken estimating its associated costs to EUR 400 mn. In the financial sector, Credit Suisse announced yesterday that it has stopped all new business in Russia and is cutting its current exposures of \$900 mn. **Russia has continued to make coupon payments**. Yesterday the finance ministry filed notifications for an “interest payment” and “principal repayment” on \$2 bn of dollar-denominated debt due on April 4.

Argentina



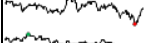

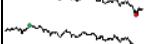













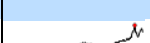

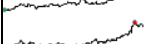
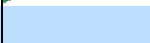



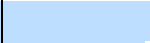


Argentina could struggle to compete with other LNG buyers in the wake of the war between Russia and Ukraine. The nation was once a gas exporter and aspired to become a shale powerhouse. According to Bloomberg, despite its shale-gas reserves which rival those in Appalachia, Argentina’s gas industry has suffered from years of underinvestment that’s left it unable to meet domestic demand, not to say the needs from overseas markets. As a result, Argentina is competing for shipments of LNG with industrial powerhouses such as the U.K. and Japan. To many observers, the specter of fewer-than-needed LNG cargoes puts the country on the cusp of having to limit energy supplies to industrial consumers.



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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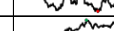
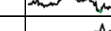









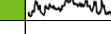




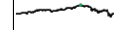




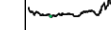


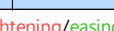





Global Financial Indicators

Last updated: 3/29/22 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4576	0.7	3	5	15	-4
Europe		4006	3.0	2	2	3	-7
Japan		28252	1.1	4	7	-4	-2
China		4134	-0.3	-3	-10	-19	-16
Asia Ex Japan		75	0.4	1	-4	-18	-9
Emerging Markets		45	0.3	1	-3	-15	-7
Interest Rates			basis points				
US 10y Yield		2.50	4.1	12	67	79	99
Germany 10y Yield		0.70	12.4	20	57	102	88
Japan 10y Yield		0.25	0.1	4	6	18	18
UK 10y Yield		1.71	8.8	0	30	92	73
Credit Spreads			basis points				
US Investment Grade		140	-1.1	-4	-6	44	28
US High Yield		377	-5.9	-14	-34	30	40
Europe IG		73	-6.1	-5	2	19	25
Europe HY		332	-28.7	-31	-13	69	90
Exchange Rates			%				
USD/Majors		98.47	-0.6	0	2	6	3
EUR/USD		1.11	0.9	1	-1	-6	-2
USD/JPY		123.4	-0.4	2	7	12	7
EM/USD		53.5	1.8	3	3	-4	2
Commodities			%				
Brent Crude Oil (\$/barrel)		110	-1.9	-4	9	70	42
Industrials Metals (index)		213	-0.1	5	13	48	23
Agriculture (index)		73	-1.6	-3	4	45	20
Implied Volatility			%				
VIX Index (% change in pp)		19.2	-0.4	-3.7	-10.9	-1.5	2.0
US 10y Swaption Volatility		127.2	0.0	20.2	27.7	48.0	48.2
Global FX Volatility		9.6	0.0	0.7	1.4	1.7	2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		219	-6.7	-5	-20	100	68
Italy		151	-1.7	-1	-6	55	16
Portugal		75	-1.1	-4	-12	23	11
Spain		86	-1.3	-5	-12	23	12

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

Emerging Market Financial Indicators

Last updated: 3/29/2022 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.36	0.1	0.0	-1	3	0		2.9	-0.5	-4	1	-38	3		
Indonesia		14364	0.0	0.0	0	1	-1		6.8	3.7	2	25	4	38		
India		76	0.2	0.3	-1	-5	-2		6.3	0.0	0	9	75	0		
Philippines		52	0.1	0.7	-2	-7	-2		5.3	5.0	10	18	68	80		
Thailand		34	0.3	-0.5	-3	-7	-1		2.5	-6.0	14	26	77	63		
Malaysia		4.21	0.1	0.1	0	-2	-1		3.9	-3.9	19	27	62	35		
Argentina		111	-0.3	-0.6	-3	-17	-7		49.5	-27.6	58	110	366	-107		
Brazil		4.73	0.8	3.9	9	22	18		11.6	-14.0	-60	-4	216	93		
Chile		772	0.9	2.7	3	-5	10		6.2	0.0	1	44	285	81		
Colombia		3787	0.2	0.8	4	-3	8		8.2	0.0	26	18	277	182		
Mexico		20.00	0.6	1.4	2	3	3		8.5	0.0	2	57	157	94		
Peru		3.7	0.3	1.4	1	1	7		6.8	0.3	18	63	196	88		
Uruguay		41	0.2	2.8	3	7	8		8.8	21.1	38	68	152	10		
Hungary		334	2.3	0.6	-1	-8	-3		6.1	-21.0	6	99	363	161		
Poland		4.20	1.7	1.0	0	-6	-4		4.9	-12.0	9	100	318	137		
Romania		4.5	1.0	0.5	-1	-6	-2		6.0	3.4	27	52	341	122		
Russia		118.7	1.4	-8.3	-37	-38	-37		14.7	-400.0	-674	-18	734	588		
South Africa		14.6	0.7	1.5	5	2	9		8.1	-2.0	-9	40	48	64		
Turkey		14.72	0.7	0.7	-6	-44	-10		25.8	-76.0	-98	143	685	151		
US (DXY; 5y UST)		98	-0.7	0.0	2	6	3		2.62	5.9	22	90	173	135		

	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		4134	-0.3	-3	-10	-19	-16		213	-9	-1	9	10
Indonesia		7012	-0.5	0	2	15	7		180	2	-30	8	15
India		57944	0.6	0	3	16	-1		159	-2	-11	11	27
Philippines		7115	-0.3	2	-3	9	0		125	-8	-38	27	24
Malaysia		1583	-0.9	0	-2	-2	1		124	-8	-22	-2	7
Argentina		91663	-1.4	3	4	94	10		1748	-46	-66	199	68
Brazil		118738	0.0	2	5	3	13		291	-11	-40	14	-20
Chile		4939	0.0	1	9	0	15		150	-5	-33	18	10
Colombia		1599	-0.5	3	5	21	13		333	-13	-50	107	-15
Mexico		55685	0.4	0	4	17	5		335	-15	-32	-8	3
Peru		25345	-0.9	0	7	18	20		168	-3	-24	17	18
Hungary		45896	3.6	4	5	3	-10		136	-5	-42	1	12
Poland		64934	0.5	1	6	11	-6		11	-29	-51	-28	-21
Romania		12773	2.5	0	0	16	-2		209	7	-46	17	16
Russia		2408	-0.9	-3	-3	-32	-36		3651	211	1178	3468	3474
South Africa		74835	0.9	-1	-2	12	2		362	5	-50	0	7
Turkey		2200	1.3	1	13	58	18		547	-15	-50	15	-31
Ukraine		519	0.0	0	0	0	-1		3009	-353	-187	2503	2250
EM total		45	1.4	1	-3	-15	-7		528	-11	-28	155	142

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

[back to top](#)