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Markets to deliver largest quarterly decline in two years

Global equity markets are set to deliver the largest quarterly decline in two years in the face of tighter monetary policy, high inflation, and the war in Ukraine. Inflation numbers in Germany and France hit record levels and Spanish inflation was the highest in nearly 40 years, raising the risk that the ECB will have to turn more hawkish. Markets promptly priced in 50 bps of rate hikes for the year, up from 40 bps earlier. Oil prices are down sharply on news that President Biden is considering a very large release from the US Special Petroleum Reserve, perhaps up to a million barrels per day and up to 180 million barrels in total. Press reports indicated that negotiations between Ukraine and Russia are to continue via video conference after earlier in-person talks in Turkey failed to yield results, which further weighed on market sentiment as European stocks lost ground. Meanwhile, officials in Germany said that Russia was withdrawing an earlier demand that energy supplies be paid for in rubles.

Key Global Financial Indicators

Last updated: 3/31/22 7:59 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4602	-0.6	3	5	16	-3
Eurostoxx 50		3938	-0.5	2	0	0	-8
Nikkei 225		27821	-0.7	-1	4	-5	-3
MSCI EM		46	-0.3	1	-2	-14	-6
Yields and Spreads			bps				
US 10y Yield		2.31	-4.0	-6	48	57	80
Germany 10y Yield		0.57	-7.9	4	43	86	74
EMBIG Sovereign Spread		438	-1	-29	-31	81	71
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.5	0.1	3	3	-5	2
Dollar index, (+) = \$ appreciation		98.2	0.4	-1	2	5	3
Brent Crude Oil (\$/barrel)		107.4	-5.3	-10	6	69	38
VIX Index (% change in pp)		20.1	0.8	-2	-10	1	3

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

Mature Markets

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Global Bond Markets

Global bond markets are in the midst of an unprecedented series of losses. Bloomberg's aggregate global bond index, which started in 1990, is down two years in a row for the first time in its history. 2022's decline of over 6% is the worst performance on record. The decline began in 2021 but has accelerated in recent months as central banks hike policy rates to fight inflation and begin the rundown of their balance sheets following unprecedented levels of asset purchases during the pandemic. The consensus is that many central banks went too far with their asset purchases and that they now have to reverse course rapidly. Most expect continued high volatility for bond markets in the months ahead.



United States

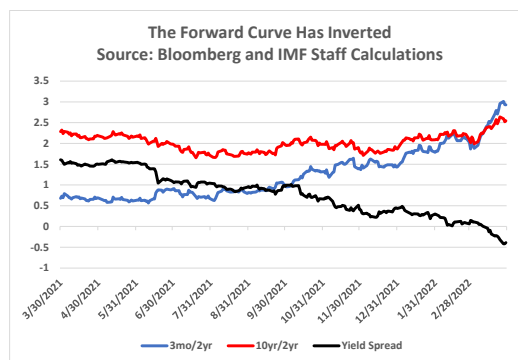
The latest PCE inflation data for February, the Fed's favored measure of inflation, came in close to forecasts and up from levels seen in January. Personal spending was weaker than expected. Treasury yields were slightly lower following the data and equity futures and currencies were little changed.

US Economic Data 8.30 am

Source: Bloomberg

Indicator	Consensus Forecast	Actual Print
PCE deflator month-on-month	0.6%	0.6%
PCE deflator year-on-year	6.4%	6.4%
Core PCE deflator mom	0.4%	0.4%
Core PCE deflator yoy	5.5%	5.4%

A key part of the forward US Treasury curve has now inverted. The Fed uses the yield spread between three-month T-Bills and the 10-year Treasury as an important input for its recession prediction model. In the cash market, this spread has fallen by 20 bps in the last few days but remains very steep at 181 bps (as of yesterday's close). This has led several Fed speakers and outside analysts to discount yield curve inversion as a market prediction of an upcoming recession, despite the inversions in other parts of the yield curve, such as the three-year, five-year and seven year maturities versus 10-year Treasuries. However, other analysts point out that the three-month/10-year spread has inverted in the forward Treasury market. The spreads have inverted both in the one year forward market as well as the two year forward market. This implies that the forward curves are predicting that the spread will be inverted in one year and will remain inverted for another year after that. If these expectations are realized, markets could be facing an inverted three-month/10-year yield spread in the cash Treasury market in the not too distant future, with the potential threat of a recession to follow.

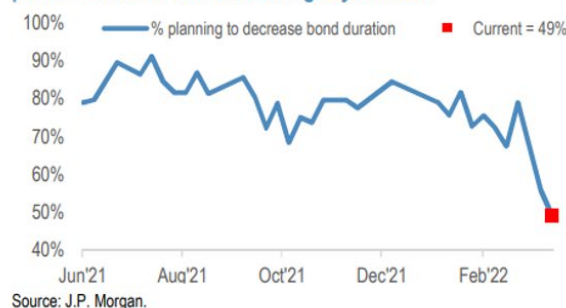


The latest JP Morgan investor survey finds that investors have become more pessimistic despite the partial market recovery. The percentage of investors planning to increase their equity exposure has fallen sharply, while investors are growing less bearish about the bond market as worries about the ongoing crisis in Ukraine lead many to seek safety in Treasuries. 69% of investors think a Treasury yield curve inversion between the two-year and ten-year maturities is a sign that the economic recovery is coming to the end. Another interesting finding is that 80% of investors thinks the market is pricing too many rate hikes for 2022, despite Fed Chair Powell stating in the previous press conference that a hike is likely at all six remaining FOMC meetings this year. This suggests that they expect economic weakness or some other factor to slow down the Fed's hiking cycle.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?



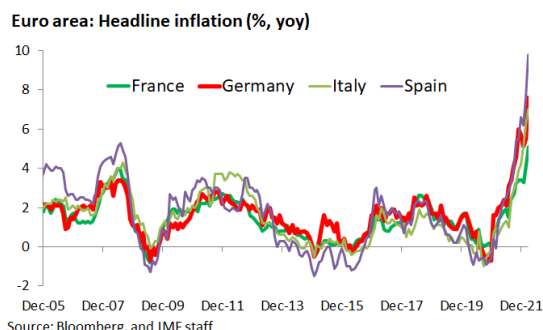
Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



Euro area

Equities (-0.3%) edged lower and 10-yr German bunds fell 6 bps after inflation surprised to the upside in Germany, France, and Spain. French consumer spending disappointed in February (at 0.8% mom compared to 1.1% mom growth expected). Germany retail sales also grew less than expected in February (at 0.3% mom compared to 0.5% mom expected). **Germany's unemployment rate fell to 2.2% in February with euro area unemployment slightly higher than expected at 6.8%.**

Flash headline CPI inflation was higher than expected in Germany at 7.6% yoy (6.8% expected) and France at 4.5% (4.3% expected). Lower French inflation compared to other euro area countries is linked to government interventions and a bigger role for nuclear energy. **Flash inflation was lower than expected in Italy at 7% (compared to 7.2% expected).** Analysts estimate that tomorrow's euro area flash HICP inflation print will be around 7.4% yoy with core inflation at 3.0% yoy.



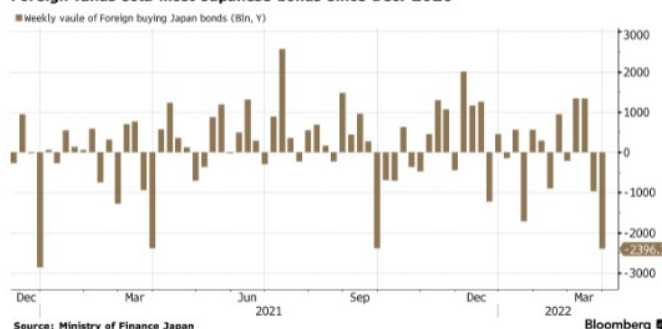
Italian 10-yr spreads are little changed at 149 bps as Italy is expected to increase its deficit target for 2022 to 6% from 5.6%, and updated budgetary plans are expected to show a significant downward revision of the forecast for GDP growth this year. Better-than-expected fiscal data allows for only a small revision to the deficit as the government is reportedly also considering additional fiscal support for businesses.

Bloomberg estimates that higher costs due to the energy crisis will cut euro area GDP by 1.8%. Increased heating and electricity costs, along with higher prices of fuel for motorists, will combine to add €230 bn euros to households' expenses in 2022. ECB President Lagarde said that the European Council is looking into how to "repurpose" about €200 bn of not-requested NGEU loans to tackle the shock from the war in Ukraine.

Japan

The Bank of Japan will extend its bond buying program through June to meet its goal of keeping the 10-year government bond yield at or close to 0%. The BOJ's target had been tested in recent days as global bond yields surged. Meanwhile, foreign funds sold the most Japanese bonds since December 2020 as the local market becomes less attractive due to the BOJ's actions. Separately, PM Kishida stated that Japan would stay in the Sakhalin-2 natural gas project in Russia because of its importance to Japan's energy needs, but Japan would try to reduce its reliance on Russia in the future.

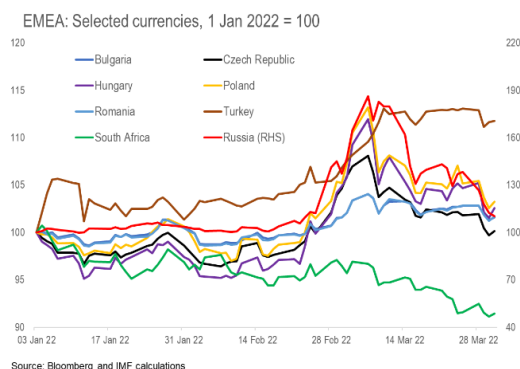
Foreign funds sold most Japanese bonds since Dec. 2020



Emerging Markets

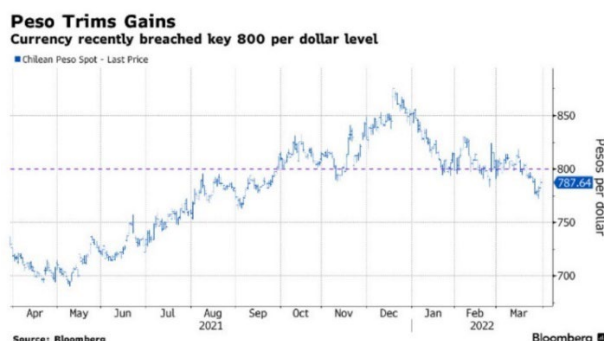
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EMEA markets were weaker across the board as Russia-Ukraine negotiations failed to produce results. The Hungarian forint depreciated on strong inflation data and a downgraded growth forecast from the minister of finance. A rate hike of 50 bps is expected today from the Czech central bank. **Asian** equities were weaker on balance and currencies were mixed. India received an offer to buy Russia's Urals grade petroleum at a discount of \$35/barrel, while discussions regarding payments in rubles and rupees are ongoing. Australia imposed 35% tariffs on imports from Russia and Belarus. Stocks were mixed in **Latin America**, while local government bond rates fell.



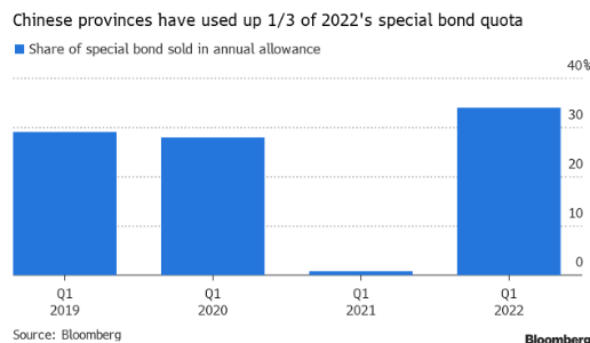
Chile

The Chilean peso depreciated and swap yields declined as the central bank adopted a more dovish policy stance. The central bank raised rates by 150 bps to 7% while indicating that further hikes would come at a slower pace. 10-year interest rate swap yields fell as much as 55 bps, the biggest one-day decline since December 2020. The peso weakened as much as 1.4%, the largest decline among the 24 major emerging markets tracked by Bloomberg. Meanwhile, policymakers revised up their inflation forecasts (5.6% in 2022, from a previous estimate of 3.7%), while downgrading estimates for economic growth. Officials now expect GDP to expand 1% to 2%, less than the 1.5% to 2.5% previously estimated.



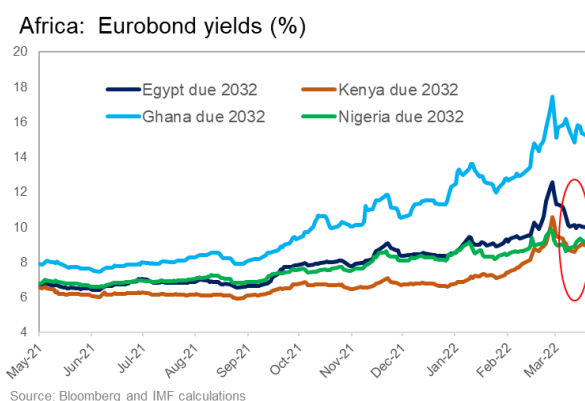
China

China's government and central bank pledged additional support for the economy. A State Council meeting led by Premier Li reiterated the country's 5.5% growth target and called for contingency plans to address increased uncertainties, according to Bloomberg. China's central bank also said it will provide greater support, further unblocking the monetary policy transmission mechanism, and increasing credit to agriculture and small businesses. Separately, **issuance of local government special notes hit a record of 1.25 tn yuan (\$197 bn) in Q1 2022.** The total issuance was equivalent to 34% of the annual quota and were mainly used for infrastructure investment funding, according to Bloomberg.



Egypt

Egypt's Eurobond yields decreased (-41 bps) following news of further Gulf Cooperation Council (GCC) support. Saudi Arabia pledged \$15 bn in support to Egypt and deposited \$5 bn with the Central Bank of Egypt (CBE) yesterday. This follows a pledge by Abu Dhabi for a \$2 bn investment earlier this month and Qatar's announcement of a \$5bn investment earlier this week. Goldman Sachs analysts expect the deposit and investment pledges to stabilize Egypt's balance of payments directly by providing relief to the FX liquidity squeeze caused by the outflow of portfolio investments. **Analysts also expect that the GCC support will smooth the path for an IMF package and will strengthen investor confidence.**



Russia

The Russian equity market traded higher (+5.7%) as the central bank of Russia partly lifted the short-selling ban on local equities and extended the trading hours. The restriction on foreigners' transactions in any Russian securities remains in place, with the central bank reported to have said that this ban is open-ended according to Bloomberg. On the data front, inflation came in at +8.91% in the year-to-date through March 25. The offshore ruble traded near 82 versus the dollar, almost back to pre-invasion levels.

This monitor is prepared under the guidance of 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), Deepal 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: 3/31/22 8:00 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4602	-0.6	3	5	16	-3
Europe		3939	-0.5	2	0	0	-8
Japan		27821	-0.7	-1	4	-5	-3
China		4223	-0.7	-1	-9	-17	-15
Asia Ex Japan		77	-0.3	1	-3	-17	-7
Emerging Markets		46	-0.3	1	-2	-14	-6
Interest Rates			basis points				
US 10y Yield		2.31	-4.2	-6	48	57	80
Germany 10y Yield		0.57	-8.0	3	43	86	74
Japan 10y Yield		0.22	-0.7	-1	3	13	15
UK 10y Yield		1.62	-4.9	-3	21	77	65
Credit Spreads			basis points				
US Investment Grade		138	1.6	-8	-8	45	26
US High Yield		376	1.6	-25	-35	29	39
Europe IG		72	-1.0	-7	2	20	24
Europe HY		332	-4.9	-40	-12	78	90
Exchange Rates			%				
USD/Majors		98.15	0.4	-1	1	5	3
EUR/USD		1.11	-0.5	1	-1	-5	-2
USD/JPY		121.6	-0.2	-1	6	10	6
EM/USD		53.5	0.1	3	3	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		107	-5.3	-10	10	83	40
Industrials Metals (index)		214	-0.1	-3	13	50	24
Agriculture (index)		74	-0.1	-2	5	43	21
Implied Volatility			%				
VIX Index (% change in pp)		20.1	0.8	-1.6	-10.1	0.7	2.9
US 10y Swaption Volatility		113.0	0.3	8.0	15.5	23.9	33.9
Global FX Volatility		9.1	0.0	0.0	0.8	1.3	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		211	-1.8	-16	-28	95	59
Italy		147	-1.1	-5	-10	51	12
Portugal		80	0.7	3	-7	28	15
Spain		89	-0.5	1	-9	26	15

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

Last updated: 3/31/2022 8:04 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.34	0.1	0.4	-1	3	0		2.9	1.5	0	1	-37	2
Indonesia		14363	-0.1	-0.1	0	1	-1		6.7	-0.9	4	22	-4	36
India		76	0.2	0.8	-1	-4	-2		6.3	0.0	0	9	75	0
Philippines		52	0.5	1.1	-1	-6	-1		5.3	-2.5	13	20	65	83
Thailand		33	0.3	0.8	-2	-6	0		2.3	-9.3	-11	5	38	42
Malaysia		4.20	0.0	0.5	0	-1	-1		3.9	-3.4	6	20	61	28
Argentina		111	-0.1	-0.6	-3	-17	-7		49.4	10.1	10	105	289	-112
Brazil		4.79	-0.4	0.8	8	18	16		11.7	7.7	-47	0	231	98
Chile		788	0.2	0.1	1	-9	8		6.1	0.0	-40	27	263	64
Colombia		3756	0.1	0.6	5	-1	8		8.0	0.0	-42	-9	246	155
Mexico		19.90	-0.1	1.0	3	3	3		8.2	0.0	-23	34	137	71
Peru		3.7	0.3	1.4	2	2	8		6.6	-0.4	-2	46	167	71
Uruguay		41	0.5	2.4	3	8	9		8.8	0.4	32	69	137	11
Hungary		333	-1.1	2.5	-1	-7	-3		5.9	-22.0	-63	72	317	134
Poland		4.19	-0.9	3.5	0	-6	-4		4.7	-4.8	-34	79	282	116
Romania		4.5	-0.5	1.0	-1	-6	-2		5.9	-2.9	5	37	324	106
Russia		81.8	2.0	24.8	29	-8	-8		13.9	-54.6	-741	-98	650	508
South Africa		14.6	-0.7	-0.4	5	1	9		7.9	-2.5	-17	26	28	51
Turkey		14.67	-0.1	1.1	-6	-44	-9		25.4	-23.0	-275	100	654	108
US (DXY; 5y UST)		98	0.4	-0.6	1	5	3		2.40	-3.8	0	68	146	114

	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		4223	-0.7	-1	-9	-17	-15		215	-4	1	12	12	
Indonesia		7071	0.3	0	2	18	7		172	-19	-38	0	7	
India		58569	-0.2	2	4	17	1		152	-10	-18	-1	20	
Philippines		7203	0.5	2	-3	12	1		122	-20	-41	22	21	
Thailand		1695	-0.2	1	0	6	2		0	0	0	0	0	
Malaysia		1587	0.3	-1	-1	0	1		121	-11	-25	-2	4	
Argentina		90868	1.0	1	3	89	9		1734	-105	-80	158	54	
Brazil		120260	0.0	2	6	3	15		287	-24	-44	11	-24	
Chile		4895	0.0	-1	8	0	14		147	-16	-36	16	7	
Colombia		1601	0.1	0	5	22	13		329	-30	-54	102	-19	
Mexico		55815	-0.5	1	5	18	5		335	-22	-32	-9	3	
Peru		25196	-0.2	-2	6	18	19		159	-23	-33	6	9	
Hungary		45934	0.1	5	5	4	-9		141	-7	-37	8	17	
Poland		65522	-0.6	1	7	13	-5		13	-38	-49	-25	-19	
Romania		12788	0.5	3	1	14	-2		207	-11	-48	14	14	
Russia		2666	6.1	3	8	-25	-30		3411	-577	938	3228	3234	
South Africa		75143	-0.4	1	-1	13	2		364	-14	-48	-3	9	
Turkey		2236	0.3	3	15	61	20		532	-37	-65	-12	-46	
Ukraine		519	0.0	0	0	0	-1		2766	-648	-430	2248	2007	
EM total		46	-1.1	1	-2	-14	-6		515	-43	-42	137	129	

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

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