



- Energy prices soar as U.S. considers ban on Russian oil imports ([link](#))
- Russian ruble at record low in off-shore trading on talks of oil embargo ([link](#))
- U.S. Inflation breakevens rise across maturities ([link](#))
- EM bond funds record large outflows ([link](#))
- Yields on USD bonds of several African countries rise further ([link](#))
- China sets a growth target at “around 5.5%” for 2022 ([link](#))

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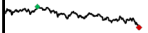




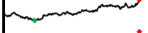


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Risk-off persists as commodity prices increase further

Markets started the week in a severe risk-off mode but risk assets recovered from larger losses as Ukraine confirmed that a third round of negotiations with Russia will take place later today. Energy prices soared on news that the U.S. is considering a ban on Russian oil and energy exports. In contrast, Germany said that it is open to discussing an oil embargo on Russia but sees no acute pressure to act. Yields on U.S. dollar bonds of many emerging markets have risen further as EM bonds funds recorded large outflows last week. On Thursday, the ECB is expected to emphasize optionality and flexibility while upgrading inflation forecasts and downgrading its growth outlook.

Key Global Financial Indicators

Last updated: 3/7/22 12:31 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4329	-0.8	-1	-3	13	-9
Eurostoxx 50		3531	-0.7	-10	-14	-4	-18
Nikkei 225		25221	-2.9	-5	-8	-12	-12
MSCI EM		45	-2.0	-6	-8	-17	-9
Yields and Spreads			bps				
US 10y Yield		1.78	4.4	-5	-14	21	27
Germany 10y Yield		-0.03	3.5	-17	-26	27	14
EMBIG Sovereign Spread		511	32	81	135	160	144
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.8	-1.5	-4	-7	-11	-5
Dollar index, (+) = \$ appreciation		99.0	0.3	2	4	8	3
Brent Crude Oil (\$/barrel)		124.9	5.7	24	35	80	61
VIX Index (% change in pp)		34.1	2.1	4	11	9	17

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

The ECB is meeting on Thursday while Fed has entered a blackout period leading up to the March 16 meeting. Inflation prints are expected to show a further build-up of inflationary pressures in the United States (Thursday; 7.9% yoy), Hungary (Wednesday; 8.1% yoy), Chile (Tuesday; 8.3% yoy), Mexico (Wednesday; 7.3% yoy) and Czech Republic (Thursday; 10.4% yoy). **Central banks are expected to hike in Peru (Thursday; by 50 bps to 4.0%), Poland (Tuesday; by 50 bps to 3.25%) and Hungary (Thursday; by 65 bps to 6.0%).**

Mature Markets

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Energy

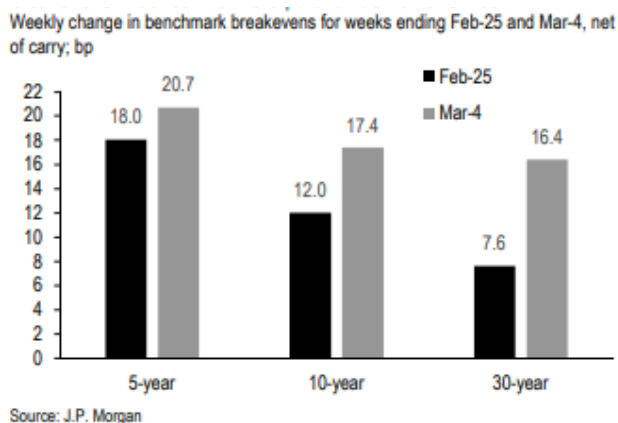
Energy prices soared on reports of a potential embargo on Russian oil by at least the U.S. Brent crude (+6% to \$125/bbl) jumped as much as 18% in opening trade to briefly reach 138/bbl following reports that the US is considering banning Russian oil and energy imports. Prices were further supported by news of delays in the possible return of Iran's crude to global markets. **JPMorgan analysts forecast that Brent crude could reach \$185/barrel if Russian supply continues to be disrupted.** European gas prices jumped (+38%) to €290/Mwh amid supply concerns.

United States

The S&P500 closed lower despite a strong jobs report. Treasury yields declined, with the curve continuing to flatten, as 2- and 10-year yields fell 4 bps and 10 bps respectively.

The US nonfarm payrolls report beat expectations with 678k jobs (vs 423K expected), up sharply from 467K in January. Notably, average hourly earnings came in below expectations at 5.1% y/y (vs 5.8% expected), and they were unchanged m/m.

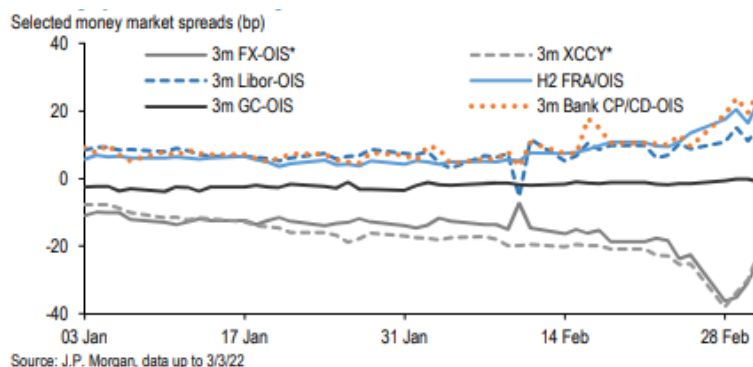
The inflation breakeven curve shifted across tenors last week. This is in contrast to the week before when the front-end breakevens had expanded sharply with relatively limited movement on the longer-end. While the sharp spike in commodity prices is clearly a driver of the breakevens, JP Morgan analysts note that TIPS breakevens have significantly outperformed the move in the energy prices – potentially reflecting investors' lingering concerns over the extent of dislocation in energy prices. **TIPS-focused ETFs also recorded significant inflows over the past week, in sharp contrast to the heavy outflows recorded for much of the previous two months, indicating a renewed demand for inflation protection.**



Analysts note that significantly impaired Treasury market liquidity has accelerated moved in the Treasury markets. JP Morgan analysts note that treasury market depth has declined sharply in recent weeks. For instance, the 5-year Treasury market depth has fallen to levels observed during the throes of the COVID-19 crisis in 2020 and the GFC in 2008-2009. This weakening is observable in other metrics as well, though in less severe fashion. The concerns are also reflected in a sharp spike in the realized front-end volatility with some metrics showing volatility at the highest levels since 2009.

Initial signs of stress in the funding markets remained on the investor watch-list, as price action in the U.S. remained volatile over the last week. The announcement of the sanctions on Russia unleashed fears of a funding crisis possibly similar to those in September 2008 and March 2020. On Monday, spreads in the FX and cross-currency basis markets opened sharply wider, as did the CP/CD market. **But while the**

FX and cross-currency basis markets retraced nearly all of their spread widening by week's end, funding costs in CP/CD continued to climb, as noted by the JP Morgan analysts. 3m Libor-OIS increased by 10 bps last week, the largest weekly jump since early 2020. March FRA-OIS also surged by 19bps. Some tentative signs of stress emerged in interbank and USD funding markets as the FRA-OIS spread jumped 10 bps to 36, its highest level since March 2020.



Japan

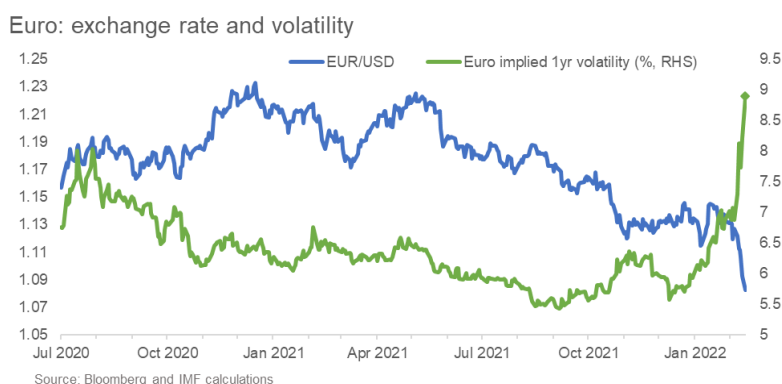
The Nikkei (-3%) closed lower whereas JGB yields (10-year: -1.5 bps; 30-year: -1.4 bps) benefited from safe-haven demand. The Japanese yen depreciated (-0.2%) as the effect of safe-haven flows was outweighed by the effect of rising prices of oil and other commodities.

While the Japanese government has imposed various sanctions on Russia, Japanese businesses are split on their exit from Russia's markets. Toyota and Honda, the major carmakers, have halted vehicle shipments to Russia, while Mitsubishi Corp and Mitsui & Co. do not rush into exiting from a Russian oil & gas project. Uniqlo, Asia's largest apparel retailer, affirmed to continue its operations in Russia.

Euro area

Equities (-1.3%) are lower but recovered from earlier losses. All sectors were trading in the red apart from the energy (+4.2%) and resources (+3%) sectors. Austria (-5.2%) underperformed. So far this year, the **German Dax 40 and French CAC40 is trading at -19.5% and -17.7% lower respectively.**

The euro fell (-0.5%) to 1.089 per \$ and has weakened by roughly 3% since 23 February. Citi analysts see the euro weakening to 1.06 on an additional 10% increase in oil prices, and to 1.048 in the event of a 20% increase in oil prices. Goldman Sachs analysts note that spillovers damaging the euro area's growth prospects might not result in a continued EUR depreciation, as policy makers could respond with fiscal easing. The EURUSD basis swap was little changed this morning, while implied 1-yr volatility increased.



Switzerland is reportedly ready to intervene in the currency markets and address the strengthening franc following an increased demand for safe haven assets. According to media reports the Swiss National Bank said this morning that it could intervene is necessary. **This morning the euro briefly fell below parity with the Swiss franc for the first time since 2015.**

European sovereign yields were trading marginally higher in morning trade, with the 10-yr bund yield (+1 bps) remaining in negative territory at -0.07. Southern spreads widened.

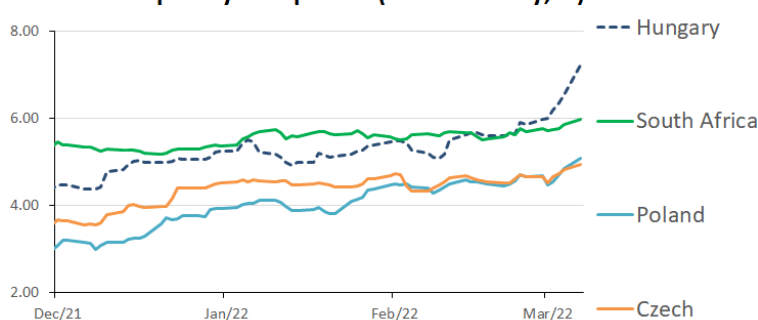
The 5-yr/5-yr EUR inflation swap increased (+18bps) to a multi-year high of 2.28% this morning. Some analysts note that this is unusual and differs from previous market volatility episodes: While the market thinks that central banks will not accelerate tightening in response to the commodity shock, it is not clear that investors actually believe that higher oil prices will only have a transitory impact on inflation.

Emerging Markets

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Asian equities declined, -3.9% on net, led by Hong Kong (-3.9%), Chinese (CSI 300: -3.2%), Taiwan (-3.1%) and Indian (-3.0%) equities. Asian currencies depreciated, led by Korean won (-1.1%), Indian rupee (-1.0%), and Philippine peso (-0.8%). Long-end government bond yields were mixed, with 10-year yields rising in Indonesia (+9.5 bps) and India (+7.0 bps) while falling in Hong Kong SAR (-7.4 bps) and Singapore (-4.3 bps). In India, markets underperformed as investors were worried that the economy is highly vulnerable to higher oil prices. State-owned banks were seen to sell USD. In Korea, authorities warned that they are watching for speculative movements against Korean won offshore. **Equities fell sharply in the Czech Republic (-6%) and Hungary (-5%) but traded also lower in Poland (-1.6%). The Hungarian forint (-2.5%) fell to a record low against the euro.** The Polish zloty (-1.7%) and Czech koruna (-0.6%) are also weaker. **Swap yields are sharply higher across Eastern Europe.** Latin American equities mostly slumped while currencies depreciated. Equities declined in Mexico (-0.4%), Brazil (-0.6%), and Argentina (-2.2%) and rallied in Chile (1.5%) on the back of rising copper prices following Russia's invasion of Ukraine. Meanwhile, currencies depreciated in Brazil (-0.6%), Chile (-1.4%), Mexico (-1.5%), and Colombia (-1.9%), partially reversing the recent momentum of the Colombian Peso.

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



Source: Bloomberg and IMF staff. Brazil is 10-yr sovereign rate.

EM Capital Flows

EM bond funds recorded large outflows at -\$2.7bn, the highest level since October 2021, split between hard currency bond funds outflows (-\$1.7bn) and local currency bond funds (-\$0.9bn), pushed by EM ex-China bond funds largest outflows since June 2020 (-\$850mn). **On the other hand, EM equity funds saw moderate outflows at -\$347mn, from \$3.4bn inflows the week before.** Within the regional equity funds, outflows were seen in Asia ex-Japan (-\$414n), while Latin America and EMEA saw modest inflows at \$139mn and \$77mn, respectively.

China

China set a growth target at “around 5.5%” for 2022 in a government work report. The growth target at around 5.5% is generally viewed by market participants as ambitious (consensus: +5.2%). Analysts viewed that achieving the growth target would be a challenging task amid domestic property sector slowdown and external uncertainties so expect more active policy support, especially from fiscal policy.

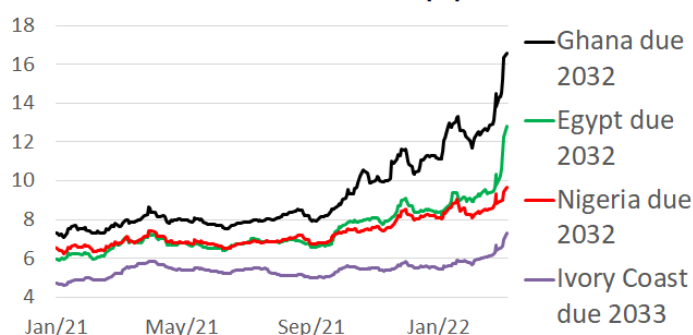
Some commodities rallied (e.g., iron ore) due to the prospect of strong infrastructure investment

The tone of monetary policy remained unchanged; analysts expected the People's Bank of China (PBC) to employ both interest rate and quantitative tools to further ease monetary policy in the coming quarters. While the “housing is for living, not for speculation” policy was reiterated, the government work report called for implementing city-specific policy based on local market conditions. Equities declined (CSI 300: -3.2%); RMB was little changed. The PBC withdrew 290 bn RMB (\$45.9 bn) of liquidity; interbank repo rates remained close to the policy rate.

African Eurobonds

Yields on USD bonds of several African countries rose further. Egypt was the most notable underperformer last week but many issuers, including Kenya/Ghana/Ivory Coast have struggled.

Africa: Yields on U.S. dollar bonds (%)



Source: Bloomberg and IMF

Russia

The off-shore ruble (-10% to 138/\$) fell to record lows following reports that the U.S. is into active discussions with European countries on an oil embargo. EC President von der Leyen said that the EU is preparing additional sanctions against Russia.

The Russian government said that creditors in countries which have not imposed sanctions may be able to receive payment in foreign currency with special permission. On Saturday, Russia said that Russia and Russian companies will be allowed to pay creditors from “countries that engage in hostile activities” in rubles, even on securities denominated in other currencies.

Russian oil remains heavily discounted. Shell said in a statement that its decision to purchase Russian oil on Friday was “difficult.” **Bloomberg reports that a trading house offered a May-loading cargo that will ship Russian oil from the eastern port of De-Kastri at a discount as wide as \$14/bbl to the benchmark Dubai price.**

Several contacts expect that Russia may default on its sovereign debt payments of \$117 mn due on 16 March. Moody's cut Russia's rating to its second-lowest rating on “severe concerns around Russia's willingness and ability to pay its debt obligations.”

Cyber-attacks from Russia remain a key concern of contacts. Last week Deutsche Bank said reportedly assessed options for its IT hub in Russia.

Last week Russia lowered the commission charge on FX purchases by individuals via brokers to 12% from 30%.

The Russian stock market will remain closed until at least Wednesday.

Colombia

Colombia's annualized inflation rose to a 5-yr high of 8% yoy (against a 3% mid-point target and 7.6% expected), its highest level since 2016, with consumer prices rising by 1.6% from a month earlier. With the recent surge, analysts expect the central bank to lift the key interest rate to 6.5% by June, from 4% now.

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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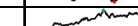
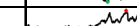







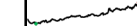





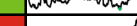

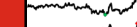

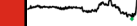


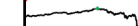



Global Financial Indicators

Last updated: 3/7/22 12:32 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4329	-0.8	-1	-3	13	-9
Europe		3531	-0.7	-10	-14	-4	-18
Japan		25221	-2.9	-5	-8	-12	-12
China		3373	-2.2	-3	-2	-1	-7
Asia Ex Japan		75	-2.2	-5	-8	-20	-9
Emerging Markets		45	-2.0	-6	-8	-17	-9
Interest Rates			basis points				
US 10y Yield		1.78	4.4	-5	-14	21	27
Germany 10y Yield		-0.03	3.5	-17	-26	27	14
Japan 10y Yield		0.15	-1.6	-5	-5	5	8
UK 10y Yield		1.27	6.5	-14	-14	52	30
Credit Spreads			basis points				
US Investment Grade		156	7.1	13	29	64	44
US High Yield		425	15.8	27	39	78	87
Europe IG		86	3.6	15	20	36	38
Europe HY		411	12.6	67	90	154	170
Exchange Rates			%				
USD/Majors		98.96	0.3	2	4	8	3
EUR/USD		1.09	-0.4	-3	-5	-8	-4
USD/JPY		115.2	0.3	0	0	6	0
EM/USD		49.8	-1.5	-4	-7	-11	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		125	5.7	24	35	80	61
Industrials Metals (index)		235	9.4	24	28	64	36
Agriculture (index)		77	2.9	11	17	49	27
Implied Volatility			%				
VIX Index (% change in pp)		34.1	2.1	4.0	11.3	9.5	16.9
US 10y Swaption Volatility		129.7	3.9	30.2	50.4	39.4	50.7
Global FX Volatility		9.8	0.0	1.5	2.2	1.8	2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		242	-1.2	3	14	116	91
Italy		163	2.0	6	7	57	28
Portugal		91	0.0	4	12	31	26
Spain		104	0.4	6	19	35	30

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

Emerging Market Financial Indicators

Last updated: 07/03/2022 12:34 PM	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		6.32	0.0	-0.1	1	3	1		2.9	-2.0	3	15	-41	5	
Indonesia		14415	-0.2	-0.2	0	0	-1		6.8	8.6	25	27	8	38	
India		77	-1.0	-2.1	-3	-5	-3		6.3	0.0	0	9	75	0	
Philippines		52	-0.8	-1.7	-1	-7	-2		4.9	-2.5	-8	35	78	45	
Thailand		33	-0.9	-0.6	0	-6	1		2.2	3.0	-3	1	40	34	
Malaysia		4.18	0.0	0.5	0	-2	0		3.7	0.6	-1	-4	37	7	
Argentina		108	-0.1	-0.6	-3	-17	-5		48.3	-28.0	-6	-146	529	-223	
Brazil		5.06	0.2	1.9	4	15	10		11.9	13.3	24	33	317	122	
Chile		806	-0.1	-0.9	2	-9	6		5.8	0.0	-3	7	248	35	
Colombia		3825	-1.8	2.3	3	-5	6		8.0	-0.5	-10	62	291	154	
Mexico		21.09	-0.7	-2.9	-2	2	-3		8.0	4.0	12	43	165	45	
Peru		3.8	-0.7	-0.5	2	-2	6		6.5	0.4	30	35	172	55	
Uruguay		43	-0.2	-0.4	2	3	4		8.2	4.7	5	-40	117	-54	
Hungary		361	-1.8	-8.4	-14	-14	-10		5.6	34.5	42	84	298	104	
Poland		4.55	-1.5	-7.9	-13	-15	-11		4.1	17.5	18	21	228	58	
Romania		4.5	-0.3	-2.9	-5	-9	-4		5.7	13.7	30	66	302	91	
Russia		138.5	-11.2	-24.0	-46	-46	-46		29.7	323.6	1486	2032	2260	2091	
South Africa		15.3	0.3	0.2	1	1	4		8.0	12.0	32	29	13	56	
Turkey		14.37	-1.2	-3.7	-5	-46	-7		26.1	106.0	165	347	1219	173	
US (DXY; 5y UST)		99	0.3	2.3	4	8	3		1.67	3.4	-5	-9	87	41	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
									basis points						
China		4353	-3.2	-5	-6	-14	-12		224	13	22	14	21		
Indonesia		6869	-0.9	1	1	10	4		212	18	36	35	47		
India		52843	-2.7	-5	-9	5	-9		187	26	46	32	55		
Philippines		7288	-0.7	0	-2	8	2		157	10	44	58	56		
Malaysia		1573	-2.0	-2	3	-2	0		147	9	24	18	30		
Argentina		89515	-2.2	-2	0	89	7		1926	133	151	394	246		
Brazil		114474	-0.6	2	2	-1	9		340	19	27	59	29		
Chile		4641	0.0	2	4	-2	8		189	15	36	42	49		
Colombia		1542	0.5	1	1	15	9		409	32	49	181	61		
Mexico		53322	-0.4	1	4	15	0		385	27	46	36	53		
Peru		24825	1.5	4	11	10	18		200	15	32	39	50		
Hungary		39367	-2.2	-10	-24	-9	-22		183	15	53	47	59		
Poland		58123	-0.5	-5	-13	1	-16		60	18	50	27	28		
Romania		10895	-4.4	-14	-19	4	-17		270	34	64	77	77		
Russia		2470	0.0	20	-29	-28	-35		3949	3140	3708	3784	3772		
South Africa		74111	-0.8	-3	-2	9	1		412	19	44	49	57		
Turkey		1982	-0.4	2	-1	29	7		663	83	109	223	85		
Ukraine		519	0.0	0	-1	0	-1		5206	2831	4361	4682	4447		
EM total		45	-2.1	-6	-8	-17	-9		606	120	197	245	220		

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

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