GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MARCH 8, 2022

- **European equities higher on reports of joint bond issuance** (link)
- **Global earnings revised negatively for first time since Sept 2020** (link)
- **Japan's current account turns into a larger-than-expected deficit** (link)
- **London Metal Exchange suspends trading in its nickel market** (link)
- **China sees record reduction in foreign investor holdings of government bonds** (link)
- **Russia to be excluded from all JPMorgan bond indexes** (link)
- **Turkey CDS credit spreads trade near multi-year highs** (link)
- **Sri Lanka abandons currency peg** (link)

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Eyes on Frankfurt and Versailles

Risk sentiment remained poor in Asian trading but improved in Europe on reports that the EU is considering a joint-bond sale to finance defense and energy spending and news that China wants to support peace talks between Ukraine and Russia together with France and Germany. The ECB is meeting on Thursday, but investors will also follow the EU leadership summit in Versailles on March 10–11 closely. EU leaders reportedly plan to discuss how to phase out the EU's dependency on Russian energy but contacts now expect that further news on a joint fiscal response to the war in Ukraine is also possible. Oil prices rose following reports that the US will limit US energy imports from Russia. Global markets continue to digest the implications of higher energy prices. The London Metal Exchange, for example, has suspended trading in its nickel market.

Key Global Financial Indicators

Last updated: 3/8/22 12:56 PM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4201	-3.0	-4	-7	10	-12
Eurostoxx 50		3565	1.5	-5	-14	-5	-17
Nikkei 225		24791	-1.7	-8	-10	-15	-14
MSCI EM		43	-3.7	-8	-12	-18	-12
Yields and Spreads			bps				
US 10y Yield		1.85	7.2	12	-12	25	34
Germany 10y Yield		0.10	11.0	17	-17	37	27
EMBIG Sovereign Spread		523	12	54	143	162	157
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.8	-0.2	-3	-7	-10	-5
Dollar index, (+) = $ appreciation		99.0	-0.3	2	4	7	4
Brent Crude Oil ($/barrel)		126.3	2.5	20	39	85	62
VIX Index (%, change in pp)		34.9	-1.5	2	13	9	18

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

Mature Markets

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Energy markets

Brent crude oil (+3% to $127/bbl) rose following reports that senior congressional Democrats and Republics had reached an agreement to limit US energy imports from Russia. According to Russia, the ban would push oil prices up to $300/bbl. A US delegation also met Venezuela's president Maduro over the weekend where discussions included energy security. **Goldman Sachs analysts have revised their 2022 brent crude spot price forecast to $135/bbl from $98/bbl and to $115/bbl in 2023 from $105/bbl.**

European gas prices remained extremely volatile—jumping (+19%) to €252/MwH in opening trade and later retracing gains (-2%) to €208/MwH. Prices jumped after Russia warned yesterday that it would cut off gas flows to Europe via the Nordstream 1 pipeline, but reversed gains following reports that Gazprom confirmed that gas flows are continuing as normal and that the European Commission will present plans today to reduce Europe's energy-reliance on Russia. The plan is seen to involve reducing imports by up to 80% in 2022. The EC vice president Frans Timmermans hinted that the plan would include proposals to accelerate the rollout of renewable energy, hydrogen and biofuels.

The London Metal Exchange suspended trading in its nickel market after a unit of China Construction Bank was given additional time by to pay hundreds of millions of dollars of margin calls it missed Monday amid an unprecedented spike in nickel prices. Reports are that the necessary payment was made earlier today. Nickel price surged 73% yesterday. According to news reports, the non-payment is not necessarily an indicator of any problem at the bank and is related to a large short position held by Chinese entrepreneur Xiang Guangda.

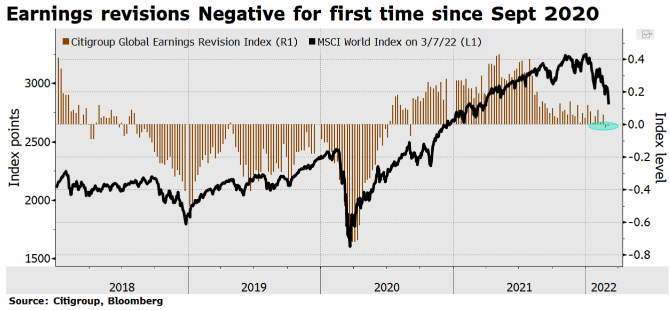
United States

The turmoil on global financial markets intensified yesterday as U.S. stocks fell the most in 17 months and commodity prices closed higher. The S&P 500 sank 3% for its worst day since October 2020, while the tech-heavy Nasdaq index dropped 3.7%. **The decline was driven by the financials (as treasury curves flattened and stagflation concerns rose), tech sector and the retail sector. Energy and the utilities subsectors were notable outperformers—benefitting from the sharp commodity rally.**

The U.S. treasury curve continued to flatten with the spread between two-year and 10-year Treasuries briefly dropping below 20 basis points, a level not seen since March 2020. US inflation breakevens rose by 14-16 bps across the curve. Dollar rose by 0.6%, with the currency rising vs all the G-10 peers.

The sharp melt-up in commodity prices has pushed inflation breakevens higher. US 5 year and 10 year breakevens are up 46 and 38 bps respectively since the Russian invasion of Ukraine. On the other hand, Investors have reassessed the path of policy rates lower, even as they have repriced the path of inflation higher, leading to a sharp fall in implied real yields. Market analysts note that this reflect the rising risks to global growth dynamics, a trend which is also reflected in a sharp flattening of the global yield curves.

Bloomberg data also shows that global earnings have started to turn around with the last 2 weeks being the first time since Sept 2020 that earnings have revised negatively. Analysts note that this could weigh further on global equities exacerbating the impact of hawkish global central banks.

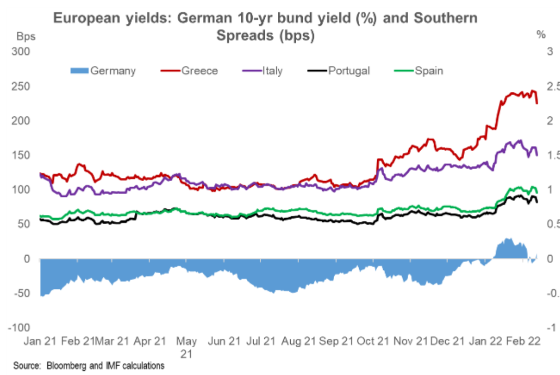


Australia
Government bond yields rose on inflation concerns (1-year: +6.3 bps; 10-year: +9.5 bps). Analysts noted that soaring commodity prices heightened concerns that inflation will keep accelerating. **Traders are pricing a 50% chance that the Reserve Bank of Australia will hike the policy rate in May, with expectations that the policy rate reaches 1% by November.** The Australian dollar depreciated (-0.3%) and equities declined (-0.8%).

Japan
The Japanese yen (-0.3%) edged lower as current account turned into a larger-than-expected deficit. The current account deficit amounted to 1.19 tn yen ($10.3 bn) in January, the largest deficit in eight years**. Some analysts view that the slew of sanctions on Russia is fueling a further surge in oil prices, which will in turn weigh on Japan's growth and widen its current account deficit.** Governor Kuroda said that cost-push inflation without wage gains is negative for the economy and will not sustainably cement inflation above the Bank of Japan's target at 2%. Long-end JGB yields edged up (10-year: +1.3 bps; 30-year: +5.8 bps); the weak auction of 5-year JGBs, along with the rise in US treasury yields, added upward pressure to JGB yields. Equities declined (NIKKEI: -1.7%).

Europe
Stocks (+1.3%) swung into positive territory following a Bloomberg report that the EU is considering a joint-bond sale to finance defense and energy spending. Details remain limited but the plan could reportedly already be shared this week. The European Union is also set to outline a plan today to cut Russian gas imports. **The banking sector (+6%) outperformed, while the media sector (-1.0%) underperformed.** That said, investor economic confidence for the Eurozone declined to a 16-month low in March. **The euro appreciated (+0.5%) to 1.09 against the dollar.**

European sovereign yields increased (10-yr bund +10 bps) and Southern spreads narrowed (Italian spread -6 bps, Greek spread -15 bps) following a Bloomberg report that the EU is planning a joined bond issuance. Analysts note that peripherals would benefit from joint issuance as it would imply less issuance at a national level.



Medium term inflation expectations fell back slightly with the 5-yr 5-yr EUR inflation swap 11 bps lower at 2.26%.

On the data front, **Germany's industrial production surprised on the upside (+1.8%yoy, consensus -1.7% from -4.1%) in January, confirming a solid start to 2022 before the war in Ukraine**.

Emerging Markets

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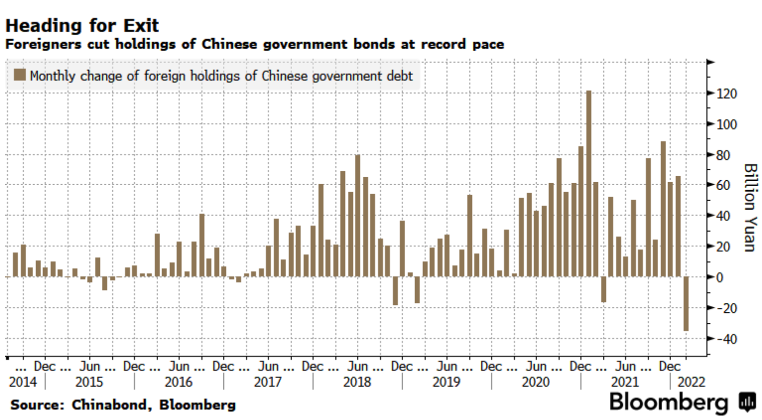
Asian equities declined, -1.4% on net, led by Philippine (-4.3%), Taiwan (-2.1%) and Chinese (CSI 300: -2.0%) equities. The Chinese yuan (+0.1%) was little changed but most currencies depreciated, led by Sri Lankan rupee (-12.9%), Korean won (-0.8%), and Thai baht (-0.6%). Meanwhile, Long-end government bond yields rose, with 10-year yields rising in Philippines (+12.8 bps) and Hong Kong SAR (+12.6 bps). **Exit polls in India show that PM Modi's party looks set to retain power in Uttar Pradesh, one of the most politically crucial states with a population of 230 mn.** The Indian rupee appreciated (+0.1%); equities gained (+1.0%); government bond yields edged up slightly (10-year: +0.7 bp). **Markets traded with a markedly better tone in Eastern Europe as Ukraine and Russia said that they would make a fourth attempt to establish humanitarian corridors.** Hungarian assets outperformed after selling off sharply in the past couple days. Hungarian equities (+5%) gained with the forint (+2%) sharply higher against the euro but 2-yr swap yields little changed at 7.17%. BNP Paribas analysts expect Poland's central bank to raise its key rate by 125 bps later today, while PKO BP and Pekao both expect an increase of 100 bps. **Yesterday, equities saw sizable losses in Chile (-0.5%), Argentina (-1.8%), Mexico (-1.9%) and Brazil (-2.5%).** The slip in Brazil was led by the state oil company, Petrobras (-8%), following the Brazilian government's intention to cap domestic oil prices temporarily despite the jump in international prices. Meanwhile, currencies depreciated in Argentina (-0.3%), Brazil (-1.0%), Chile (-0.7%), and Mexico (-1.7%). The Colombian peso appreciated moderately (0.3%).

China

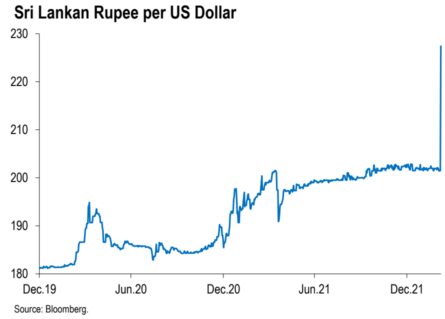
China saw a record reduction in foreign investors' holding of its government bonds. Foreign investors sold a net 35 bn yuan ($5.5 bn) of Chinese government bonds in February, marking the largest monthly withdrawal on record and the first since March 2021. Analysts noted various potential drivers, including the narrowing interest rate differential between RMB and USD assets and liquidity generation by EM fund managers to meet redemptions. Some suggested that the outflow might reflect the Central Bank of Russia's bond sales; though there was only one trading day in February after sanctions were imposed.

The People's Bank of China unexpectedly set the daily RMB fixing stronger-than-expected by 54 pips, in contrast to the recent trend of weaker-than-expected RMB fixings. RMB appreciated (+0.1%). Equities declined (CSI 300: -2.0%).



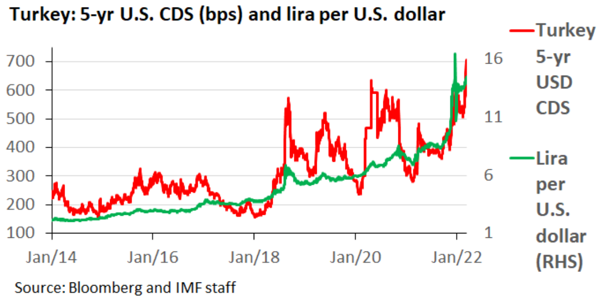
Sri Lanka

Sri Lanka abandoned its currency peg and greater flexibility was allowed with immediate effect. The central bank believes that transactions will be capped at 230 rupees per dollar. The Sri Lanka rupee traded at about 227 per dollar, depreciating 12.9% today. **Analysts noted that with limited foreign reserves, Sri Lanka is struggling to service its debt and pay for its imports.** So far, the government has relied on bilateral loans to bolster its finance, including from China and India, while shunning an IMF program. **Last week, the central bank raised its lending rate to 7.5% from 6.5%, higher than expected (consensus: 7%).** Equities declined (-4.0%); JP Morgan's EMBIG sovereign spread reached 3,400 bps, an increase of about 3 percentage points yesterday.



Turkey

The Turkish lira (-0.8%) fell and CDS credit spreads trade near highs not seen since the 2000s as investors assess the consequences of higher commodity prices for the Turkish economy. Turkish equities (+1.4%) are higher. **Analysts at Citi write that de-dollarization may be losing steam as central bank data show that residents' FX deposits rose by $186mn in the week through February 25 marking the first weekly increase since 24 Dec.**



Russia

The off-shore ruble gained following German caution on energy sanctions against Russia but is now little changed at 140/$. Liquidity in off-share trading is poor with wide bid-ask spreads. **Yesterday, Russia threatened to cut natural gas supplies to Europe via the Nord Stream 1 pipeline as part of its response to sanctions.**

According to media reports, China is considering buying or increasing stakes in Russian energy and commodities companies, such as Gazprom and aluminum producer United Rusal. Discussions are reportedly at an early stage.

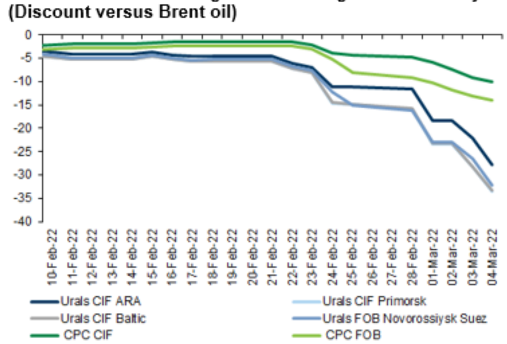
Russia will be excluded from all JP Morgan bond indexes as of 31 March, according to Bloomberg. As of March 2, Russian debt accounted for 0.7% of the EMBI Global Diversified gauge and 1.8% of the local currency GBI-EM Global Diversified index. Russia will also be removed from ESG indexes.

Gazprom paid a U.S. dollar bond of $1.3 bn due yesterday in U.S. dollars. Over the weekend, Russia gave Russian debt issuers the option of repaying foreign-currency debt in rubles to lenders in jurisdictions that imposed sanctions, while those in jurisdictions that have not imposed sanctions could be paid in foreign currency.

Analysts expect a Russian default as the most likely scenario. Morgan Stanley expects that Russian debt will trade like Venezuela in the event of a default, with debt values slipping to single digit levels. **Russia has sovereign debt payments of $117 mn due on 16 March.**

Russian oil remains heavily discounted as Shell announced that it will phase out all purchases of Russian oil and gas. Shell will halt crude deals on the short-term market immediately. While loading data remains volatile, analysts at GS point out that more than half of March loadings remaining unsold, consistent with the large discounts of Russian export barrels relative to Brent. **If sustained, this would represent a 3 mn bbl/day decline in Russian crude and petroleum product seaborne exports, the fifth largest one-month disruption since WWII, after the Arab Oil Embargo (1973), the Iranian Revolution (1978), the Iran-Iraq war (1980), and the Iraq-Kuwait war (1990).**

Russia: Crude oil trading at discounts given lack of buyers (Discount versus Brent oil)



Source Platts, Goldman Sachs

Ukraine

The government is in talks with its primary dealers, the 11 international and local banks that can place bids on Ukrainian debt, to widen access via instruments called global depositary notes, or GDNs. GDNs would be dollar-denominated debt tied to local currency bonds.

Brazil

Analysts lift their 2023 Brazil rates forecasts as inflation accelerates. As the Russian-Ukraine crisis unfolds and food and energy prices surge, analysts expect Brazilian inflation to hit 5.7% in 2022 and 3.5% in 2023. **As a result, according to a weekly survey, analysts expect the Selic rate to reach 8.25% in December 2023, against a previous forecast of 8%. For end-2022, the benchmark rate forecast remains unmoved at 12.25%.**

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Global Financial Indicators

Last updated: 3/8/22 1:02 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		4200	-3.0	-2	-7	10	-12
Europe		3547	1.0	-6	-14	-6	-17
Japan		24791	-1.7	-8	-10	-15	-14
China		3294	-2.4	-6	-5	-2	-10
Asia Ex Japan		72	-3.9	-8	-12	-21	-13
Emerging Markets		43	-3.7	-8	-12	-18	-12
Interest Rates			basis points				
US 10y Yield		1.85	7.2	12	-12	25	34
Germany 10y Yield		0.10	11.2	17	-17	37	27
Japan 10y Yield		0.16	1.3	-2	-6	4	9
UK 10y Yield		1.38	7.5	25	-11	63	41
Credit Spreads			basis points				
US Investment Grade		162	6.1	16	34	65	50
US High Yield		436	11.5	25	48	83	99
Europe IG		85	-2.5	7	21	35	37
Europe HY		406	-13.9	27	96	149	164
Exchange Rates			%				
USD/Majors		99.07	-0.2	2	4	7	4
EUR/USD		1.09	0.4	-2	-5	-8	-4
USD/JPY		115.7	0.3	1	0	6	1
EM/USD		49.8	-0.3	-3	-7	-10	-5
Commodities			%				
Brent Crude Oil ($/barrel)		126	2.6	20	39	85	63
Industrials Metals (index)		280	17.2	44	53	95	62
Agriculture (index)		76	-0.3	4	15	46	25
Implied Volatility			%				
VIX Index (%, change in pp)		35.4	-1.1	2.1	13.9	9.9	18.2
US 10y Swaption Volatility		132.6	-1.8	14.7	52.2	42.3	53.6
Global FX Volatility		10.1	0.0	1.4	2.7	2.0	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		224	-17.3	-15	0	101	72
Italy		149	-12.1	1	-9	45	14
Portugal		81	-7.9	1	1	23	17
Spain		95	-7.3	2	9	27	20

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

Emerging Market Financial Indicators

Last updated: 08/03/2022 1:03 PM	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		6.32	0.1	-0.1	1	3	1		2.9	0.0	0	14	-41	5
Indonesia		14396	0.1	-0.4	0	0	-1		6.8	5.5	31	32	4	44
India		77	0.1	-2.0	-3	-5	-3		6.3	0.0	0	9	75	0
Philippines		52	-0.2	-2.0	-2	-7	-2		5.0	5.0	-13	30	65	50
Thailand		33	-0.6	-1.4	-1	-7	0		2.3	6.0	6	4	46	40
Malaysia		4.18	-0.1	0.3	0	-2	0		3.6	-0.6	-2	-5	28	6
Argentina		108	0.0	-1.0	-2	-17	-5		48.5	20.8	15	-137	524	-202
Brazil		5.09	0.1	1.2	3	14	9		12.3	40.8	65	80	366	163
Chile		811	0.3	-0.5	2	-9	5		5.9	-0.2	19	2	260	47
Colombia		3811	0.0	2.1	4	-5	7		8.1	0.0	21	82	309	173
Mexico		21.35	-0.2	-3.3	-3	1	-4		8.2	0.0	35	62	188	68
Peru		3.7	0.9	1.6	3	-1	7		6.6	-2.0	42	55	174	73
Uruguay		43	0.2	-0.7	2	4	4		8.4	19.7	24	-18	136	-34
Hungary		356	2.1	-5.0	-13	-13	-9		5.6	-1.0	57	94	302	108
Poland		4.52	1.6	-5.4	-12	-14	-11		4.1	16.5	43	25	229	59
Romania		4.5	0.4	-2.1	-5	-9	-4		6.1	38.5	60	105	328	129
Russia		139.7	-0.5	-22.6	-46	-47	-46		30.1	-21.0	1335	2077	2302	2132
South Africa		15.3	0.1	0.5	0	1	4		8.1	10.0	43	43	25	68
Turkey		14.52	-0.9	-4.2	-7	-47	-8		26.6	56.0	223	394	1258	224
US (DXY; 5y UST)		99	-0.2	1.7	4	7	4		1.78	7.5	19	-4	93	52

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4265	-2.0	-8	-8	-14	-14		225	11	23	16	22
Indonesia		6814	-0.8	-1	0	10	4		215	5	32	29	50
India		53424	1.1	-5	-9	5	-8		204	34	59	45	72
Philippines		6978	-4.3	-6	-7	3	-2		164	1	41	56	63
Malaysia		1547	-1.6	-3	0	-5	-1		149	3	25	17	32
Argentina		87948	-1.8	-1	0	90	5		1971	157	192	402	291
Brazil		111594	-2.5	-1	-1	1	6		345	14	29	60	34
Chile		4622	0.1	4	1	-2	7		187	4	30	35	47
Colombia		1538	-0.3	0	1	15	9		412	29	49	171	64
Mexico		52313	-1.9	-2	0	11	-2		390	23	47	29	58
Peru		24283	-2.2	2	3	8	15		200	8	28	31	50
Hungary		41214	3.2	6	-22	-5	-19		185	7	48	45	61
Poland		58744	0.3	-2	-14	1	-15		71	9	59	37	39
Romania		11448	4.4	-8	-14	8	-12		291	36	82	90	99
Russia		2470	0.0	20	-29	-28	-35		4240	1767	3997	4065	4063
South Africa		72641	-0.9	-6	-5	6	-1		423	11	49	51	68
Turkey		2026	1.5	3	1	32	9		698	101	141	248	120
Ukraine		519	0.0	0	0	0	-1		5423	2227	4577	4882	4664
EM total		43	-0.5	-8	-12	-18	-12		620	63	205	245	233

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

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