



- US headline and core inflation print higher than expected for April ([link](#))
- US corporate debt trading at distressed levels is on the rise ([link](#))
- ECB commentary continues to point to July policy rate hike ([link](#))
- Rising concerns about supply via Ukraine drives volatility in natural gas prices ([link](#))
- Sluggish start to May adds to sharp year-to-date slowdown in EM debt issuance ([link](#))
- Bank Negara Malaysia surprises with 25 bp hike and signals further tightening ahead ([link](#))

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Global markets stabilize amidst fragile risk sentiment

Markets have steadied this morning as investors have shifted their focus to incoming inflation data and its implications for central bank tightening. In the US, the S&P 500 struggled to stay afloat yesterday against ongoing uncertainties around the path of inflation and monetary policy that has prompted some lingering nervousness amongst investors. Risk sentiment has signaled some stabilization overnight as most Asian equity indices posted modest gains with Chinese stocks leading on some better virus case numbers and despite higher headline inflation prints. Major European indices are advancing this morning by over 1%. The April US CPI print was the focal point for markets this morning which came in higher than forecast with headline and core CPI at 8.3 and 6.2% y/y, respectively, and so far not providing any immediate relief to investors inflation concerns. Core sovereign bond markets reacted with yields rising across maturities and front-end yields leading the moves higher as markets price in further policy tightening alongside speeches from central bank officials that continue to circle more aggressive policy moves. Elsewhere, volatility in commodity markets is persisting with investors confronting a confluence of both supply and demand related factors. Oil and natural gas prices have swung between sharp losses and gains pressured by mounting concerns on the demand side emanating from China's slowdown, and spillovers and disruptions associated with the war in Ukraine.

Key Global Financial Indicators

Last updated: 5/11/22 8:48 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
Equities			%					
S&P 500		4001	0.2	-4	-9	-4	-16	-5
Eurostoxx 50		3595	1.1	-3	-6	-9	-16	-10
Nikkei 225		26214	0.2	-2	0	-7	-9	-1
MSCI EM		40	0.5	-6	-10	-25	-18	-16
Yields and Spreads			bps					
US 10y Yield		3.03	3.8	9	25	141	152	104
Germany 10y Yield		1.06	6.4	9	25	123	124	84
EMBIG Sovereign Spread		468	2	23	70	137	101	55
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.4	-0.1	-3	-3	-11	-2	-3
Dollar index, (+) = \$ appreciation		104.0	0.1	1	4	15	9	8
Brent Crude Oil (\$/barrel)		105.5	2.9	-4	7	54	36	9
VIX Index (% change in pp)		33.6	0.6	8	9	12	16	3

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

Mature Markets

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United States

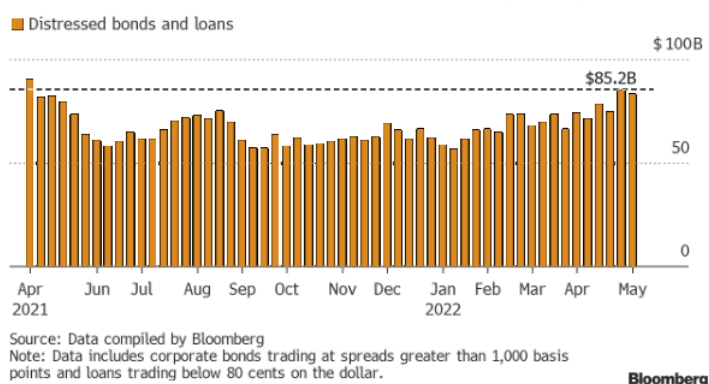
The sell-off took a breather yesterday, with stocks rising and Treasury yields falling. The yield curve flattened, with 2-year yield up 2 bps and 10-year yield down 6 bps to below 3%. The tightening in breakevens (-8 bps to 2.65%) and widening in real rates (+3 bps to 0.32%) continues: Ten-year breakeven rates are now 40 bps below its recent peak in April, which has been more than offset by the rise in 10-year real rate, leaving 10-year nominal yield 9 bps higher over the period. Fed officials reinforced Chair Powell's message that half-point hikes are favored in June and July, but a larger move later this year could be warranted. Fed Governor Waller said the US economy is strong enough to withstand higher rates.

In data releases this morning, April CPI inflation rose more than expected but slowed modestly from March. Headline CPI inflation printed at 8.3% y/y vs 8.1% y/y expected, down from 8.5% y/y previously. Similarly, core inflation was 6.2% y/y vs 6% y/y expected, from 6.5% y/y previously. On all measures, both the monthly and annual rates are higher than consensus expectations. Markets focused on the larger than expected monthly increase, reinforcing the Fed's tightening mode, with 2-year Treasury yields up 11 bps.

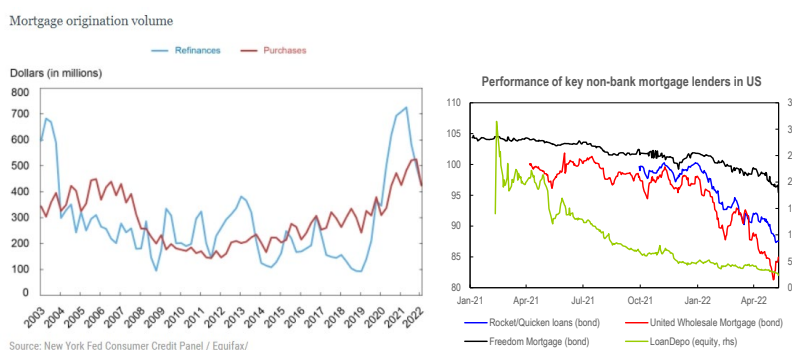
Distressed debt in the US corporate bond and loan market is rising amid inflation and supply-chain disruptions.

The volume of troubled debt—bonds with over 1000 bps spreads over Treasuries, or loans at 80 cents on the dollar or less—has crept up in recent months to its highest level in a year. In April, \$7.7 bn of junk bonds fell into distress, the largest monthly increase in 2 years. While corporate fundamentals remain generally healthy relative to their interest payments, especially after the strong re-financing activities in the last 2 years, firms with large debt loads and weak profitability are likely to be the first to see funding pressure from tightening financial conditions, which would also dampen investor demand for risky credits.

Pile of troubled debt in the Americas swells to a one-year high



The US mortgage market saw a modest slowdown in new purchase origination and a sharp drop in refinancing. Over the last 2 years, households took on \$8.4 tn in new mortgage debt, with a steady rise in new purchase originations and a substantial boom in mortgage refinances. That said, many market participants and policymakers believe a repeat of the 2007 housing crisis is unlikely, despite the continued rise in house prices. Household balance sheets are in a much stronger position and mortgage debt has risen much more slowly than home values. More than 70% of mortgages originated in the last two years were to borrowers with credit score over 760, compared to only 38% pre-GFC. Lastly, subprime mortgages remain effectively non-existent. **Many non-bank mortgage lenders have been under pressure**, amplified by recent market volatility, with sharp declines in their bond and equity prices. They were the major beneficiary of the refinancing boom and had captured significant market share compared to banks. (See [April 2022 GFSR Chapter 3](#)).



Euro area

European equity markets were mostly trading higher with the benchmark Stoxx 600 European index up over 1%, while the euro was trading stronger (+0.3%) and implied euro volatility eased slightly. The euro remains roughly 7% weaker against the dollar year-to-date, and contacts caution further downside risk to the currency with European economic growth seen to be weighed down by steps towards additional Russian energy sanctions.

Sovereign yields continued yesterday's downward trend with yields on the 10-yr bund -4 bps lower. Peripheral spreads continued to narrow. On the data front Germany's final CPI print for April confirmed preliminary estimates (+7.4% y/y). **Medium-term inflation expectations in Europe have eased since the start of May, with 5-yr/5-yr inflation swaps at 2.2%, down from 2.5% at the start of May.**



Comments from ECB officials continue to point to a policy rate hike in July. ECB executive board member Frank Elderson said rates could increase in July and reiterated the view that an economic recession is not currently expected. Governing Council member Francois Villeroy sees a gradual increase in rates starting in the summer, and Joachin Nagel cautioned that 'the risk of acting too late is increasing notably' and noted that the first hike could be in July (depending on data in June) while the total number of hikes in 2022 remains to be determined. ECB President Christine Lagarde this morning reiterated that interest rates could be hiked within a few weeks after net asset purchases come to an end – with expectations for asset purchases to be concluded early in 3Q 2022.

Market expectations for ECB policy rates have nevertheless fallen back slightly over the past week, with + 20 bps of tightening priced in for July and a total of +83 bps priced in for the end of 2022 (compared to +23 bps in July +88 bps end-2022 priced one week ago). **HSBC analysts expect a 25 bp interest rate hike in July 2022, and additional 25 bp hikes in September, December, and March 2023, when the ECB tightening cycle is seen to come to an end.**

Commodities

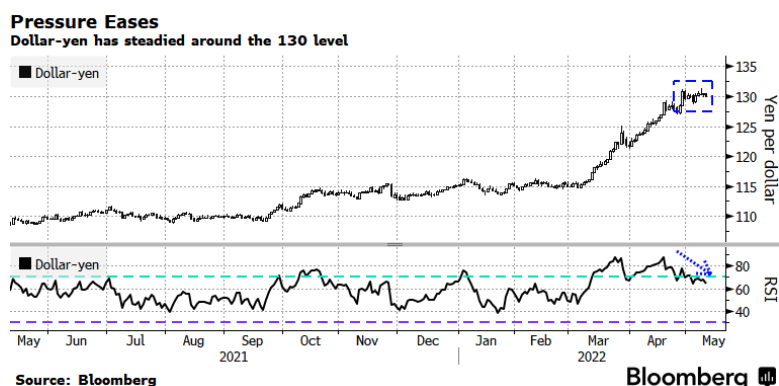
European gas prices remain volatile as focus increased on the impact of the war on gas supplies from Russia. European natural gas prices (1-m forward) are 4% lower after the Gas Transmission System Operator of Ukraine said that Russian gas flows via one of the two entry points in Ukraine has stopped but added that fuel could be rerouted to avoid disruptions. Gas prices had opened higher on fears of a complete disruption of supply through Ukraine but eased after gas flows through another entry point had increased, while demand was lower as a result of warmer weather, according to Bloomberg.

Japan

Japanese yen appreciated (+0.4%).

Some analysts noted that the relentless selling of the currency looks to have come to an end. Japanese yen is now perceived to be significantly undervalued against the dollar and has emerged as one of the cheapest safe haven assets amid rising global recession risks. Japanese equities did not have a clear direction (NIKKEI: +0.2%; TOPIX: -0.6%). Toyota lowered its

operating profit outlook, citing an unprecedented rise in costs for logistics and raw materials; its share price dropped (-4.4%). The 10-year JGB yield was little changed at 0.242%, while the longer JGB yields dropped (30-year: -1.2 bps). There was no take-up in the Bank of Japan's unlimited fixed-rate bond purchase operations.



Emerging Markets

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Latin American markets were mixed yesterday. Equities in Brazil and Mexico were little changed but sold off in Peru (-1%) and Chile (-1%). Regional currencies recovered marginally. The minutes of **Brazil** Central Bank's (BCB) May 4th meetings indicate that the scope for extending monetary policy tightening to anchor inflation expectations was discussed, as per a Bloomberg report. The BCB has already hiked the policy rate by 1075 bps over the last year. **Asian equities were mixed, gaining 0.7% on net**, led by Chinese (CSI 300: +1.4%) and Hong Kong (+1.0%) equities. Meanwhile, share prices fell in Philippines (-1.3%), India (-1.1%), and Thailand (-0.8%). Most Asian currencies were little changed, while long-end government bond yields generally declined, with 10-year yields falling in Korea (-14.9 bps) and India (-7.4 bps). In **India**, speculations that the Reserve Bank of India will conduct additional OMOs to push down the government's borrowing costs further drove down bond yields. In **Korea**, the unemployment rate remained at 2.7%, beating market expectations (consensus: 2.8%). Analysts now expected another policy rate hike in May given strong labor market conditions. In **Indonesia**, Bank Indonesia issued rules that will only allow the use of Indonesian rupiah outside Indonesia only for certain activities. Indonesian rupiah was little changed. **EMEA equities rose and local rates fell in Hungary, Poland, and South Africa ahead of US inflation data.** The Turkish lira (-0.5%) underperformed as the South African rand (+0.6%) and the Polish zloty (+0.2%) firmed with the forint little changed after inflation was higher than expected yesterday. **The Czech koruna (-1.5%) fell and 2-yr swap rates traded 17 bps lower to 6.18% as newly appointed central bank governor Ales Michl said that he expects Czech rates to remain stable for some time after he starts in July.**

Emerging Market Bond Issuance

Emerging market bond issuance volumes remain sluggish in early May and came in at \$3.1 bn for the first ten days of the month. In comparison, the issuance for the full month of May in 2021 was \$58.9 bn. In terms of sectors, corporate (~45% share in total issuance) saw the largest slowdown with YTD issuance down over 60% y/y to \$64.5 bn, while sovereign issuances declined 42% y/y to \$57.6 bn. Total 2022 YTD issuance stand at \$187 bn (-46.8% y/y). In terms of regions, issuance in CEEMEA decelerated the most (-57%), while other regions saw a uniform decline in the volumes.

Figure 1. EM bond issuance, by sector (bn. USD)

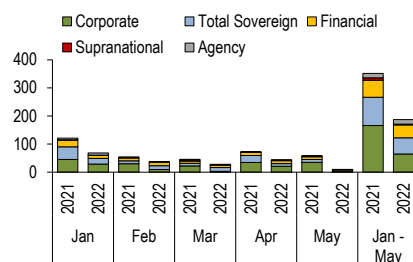
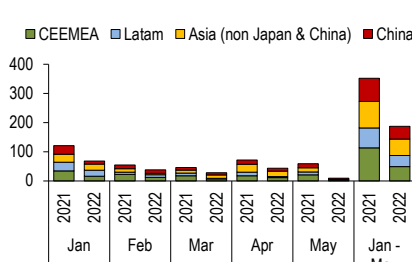


Figure 2. EM bond issuance, by region (bn. USD)

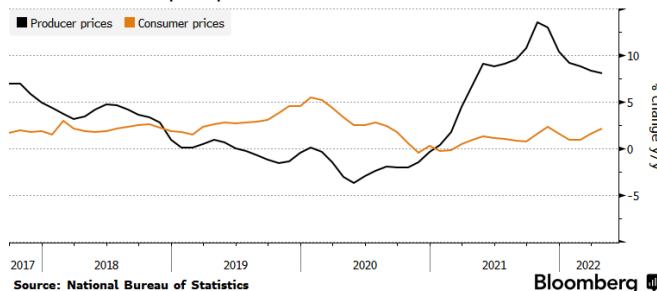


Note: May 2022 data are available until the 10th May, and are prorated for comparative analysis.
Sources: Bond Radar, and IMF staff calculations.

China

Both CPI and PPI inflation in April came in above expectations. Headline CPI inflation accelerated to 2.1% y/y in April from 1.5% in March (consensus: 1.8%), driven by rising food and fuel prices. However, core CPI inflation softened to 0.9%, pointing to the role of COVID disruptions in driving up prices rather than a buildup in underlying inflationary pressure. Meanwhile, PPI inflation moderated to 8.0% y/y in April (consensus: +7.8%), reflecting the impact of elevated global commodity prices. CGB yields edged up (10-year: +1.6 bps). **Chinese equities rose** (CSI 300: +1.4%; Hang Seng China Enterprises: +1.7%), as a drop in COVID cases in Shanghai and increased expectations of policy stimulus supported market sentiment. RMB appreciated (+0.1%). Reportedly, the U.S. Department of Commerce is weighing a ban on American firms selling advanced semiconductor equipment to Chinese firms.

Higher Consumer Prices
China's CPI climbed in April on pricier food



Source: National Bureau of Statistics

Bloomberg

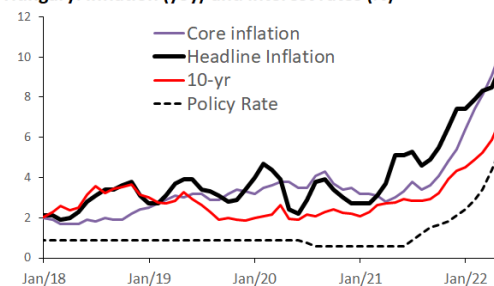
Malaysia

Bank Negara Malaysia (BNM) unexpectedly raised the policy rate by 25 bps to 2%, as markets did not expect a rate liftoff at this policy meeting. BNM signaled that it will further tighten monetary policy albeit at a gradual pace. Headline inflation remains relatively low at 2.2% in March, among the lowest in the region. Analysts noted that BNM's decision primarily reflected its acknowledgement of global inflationary pressures and affirmed its satisfaction with the prevailing economic growth trajectory. Malaysian ringgit appreciated (+0.1%); equities declined (-0.1%); long-end government bond yields edged up (10-year: +1.4 bps).

Hungary

Swap yields are around 10 bps lower and reversed yesterday's increase on the back of higher-than-expected inflation. Headline inflation was 9.5% y/y in April (8.9% y/y expected) or 1.6% m/m (1.2% m/m expected). Core inflation rose to 10% y/y (from 9% in March). **In separate news, Hungary's Foreign Minister Szijjarto said that Hungary will only agree to EU sanctions on Russian oil imports if shipments via pipelines are excluded as discussions on the next round of sanctions continue among EU leaders.**

Hungary: Inflation (yoy) and interest rates (%)

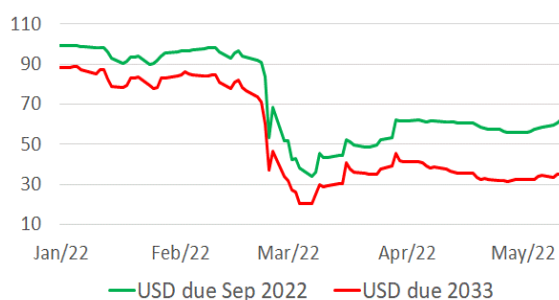


Source: Bloomberg and IMF staff

Ukraine

Eurobonds due in 2022 rose 2 points to 62 cents after the US House of Representatives passed a package of \$40 bn in emergency funding for Ukraine (in a 368 to 57 vote). The bill includes \$19 bn for the US Defense Department, \$8.8 bn in direct economic support for Ukraine along with funds to repair the US Embassy in Kyiv, document war crimes and protect against nuclear fuel leaks, \$4 bn for global food and humanitarian aid to be administered by the US Agency for International Development and another \$700 mn in global food funding. **The bill is expected to pass in the US Senate.**




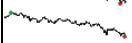











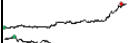




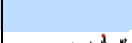

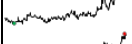





Ukraine: Prices of U.S. dollar bonds



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Global Financial Indicators

Last updated: 5/11/22 8:49 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3990	0.2	-7	-10	-4	-16	-6
Europe		3595	1.1	-3	-6	-9	-16	-10
Japan		26214	0.2	-2	0	-7	-9	-1
China		3976	1.4	-1	-5	-21	-20	-14
Asia Ex Japan		67	0.7	-6	-9	-27	-19	-15
Emerging Markets		40	0.5	-6	-10	-25	-18	-16
Interest Rates			basis points					
US 10y Yield		3.03	3.8	9	25	141	152	104
Germany 10y Yield		1.06	6.4	9	25	123	124	84
Japan 10y Yield		0.25	0.1	2	1	17	18	5
UK 10y Yield		1.90	4.7	-7	5	106	92	42
Credit Spreads			basis points					
US Investment Grade		159	-1.7	6	18	65	47	16
US High Yield		459	-6.9	40	68	122	121	52
Europe IG		96	-0.8	4	17	44	48	24
Europe HY		461	-3.6	28	86	205	220	110
Exchange Rates			%					
USD/Majors		104.04	0.1	1	4	15	9	8
EUR/USD		1.05	-0.1	-1	-3	-13	-7	-7
USD/JPY		130.7	0.2	1	4	20	14	14
EM/USD		51.4	-0.1	-3	-3	-11	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		105	2.9	-4	7	62	39	16
Industrials Metals (index)		180	0.0	-7	-13	11	4	-4
Agriculture (index)		75	0.7	-2	-1	22	23	7
Implied Volatility			%					
VIX Index (% change in pp)		33.6	0.6	8.1	9.2	11.7	16.3	2.5
US 10y Swaption Volatility		122.2	-4.7	2.6	-7.8	49.4	43.2	27.9
Global FX Volatility		11.1	0.0	0.5	2.0	3.7	3.6	3.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		245	-5.9	1	40	128	94	5
Italy		197	-3.1	-2	32	82	62	26
Portugal		111	-3.3	-2	24	41	47	20
Spain		107	-3.2	-3	13	39	33	4

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

Emerging Market Financial Indicators

Last updated: 5/11/2022 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.72	0.3	-1.6	-5	-4	-5	-6		2.9	2.5	0	2	-28	3	2
Indonesia		14558	0.0	-0.4	-1	-2	-2	-2		7.4	-0.8	42	55	98	102	91
India		77	0.1	-1.1	-2	-5	-4	-3		6.3	0.0	0	9	75	0	
Philippines		52	0.2	0.4	0	-9	-2	-2		5.4	0.0	5	10	104	88	38
Thailand		35	-0.2	-0.3	-3	-10	-4	-7		3.4	11.5	35	76	140	151	113
Malaysia		4.38	0.1	-0.5	-3	-6	-5	-4		4.4	1.9	2	34	125	79	71
Argentina		117	-0.1	-0.9	-4	-20	-12	-8		52.8	16.6	-10	251	664	219	480
Brazil		5.10	0.6	-3.5	-8	2	9	-2		11.7	-79.4	-51	-10	230	96	13
Chile		867	0.2	-1.3	-6	-20	-2	-9		6.4	0.0	10	-18	291	102	53
Colombia		4074	0.4	-1.1	-8	-8	0	-4		9.0	0.0	21	96	308	255	109
Mexico		20.26	0.6	-1.2	-2	-1	1	0		8.9	2.5	2	18	203	140	108
Peru		3.8	0.8	0.7	-2	-2	6	-1		8.3	0.1	44	119	347	237	227
Uruguay		42	0.2	-1.4	-1	6	7	1		10.1	6.2	6	83	276	140	197
Hungary		359	0.4	-1.4	-3	-18	-10	-11		7.2	-8.0	19	57	462	271	241
Poland		4.41	0.8	-0.8	-3	-15	-9	-8		6.4	-7.3	35	104	450	291	254
Romania		4.7	0.2	-0.7	-3	-13	-7	-7		7.7	18.6	60	140	506	283	251
Russia		68.4	2.7	-3.7	22	8	10	19		11.9	-14.7	-65	-36	462	312	71
South Africa		16.0	0.6	-3.6	-9	-13	-1	-6		8.6	-12.0	21	57	114	121	105
Turkey		15.33	-0.5	-3.9	-4	-46	-13	-10		24.3	80.0	302	-56	617	-1	189
US (DXY; 5y UST)		104	-0.3	1.0	4	15	8	8		2.87	-4.4	-4	8	207	161	97

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)			YTD	Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		23-Feb-22	Last 12m	Latest	7 Days	30 Days			12 M
									basis points							
China		3976	1.4	-1	-5	-21	-20	-14		206	5	1	-5	3	-2	
Indonesia		6816	-0.1	-6	-6	15	4	-2		206	11	48	40	41	21	
India		54088	-0.5	-3	-8	11	-7	-5		178	7	21	14	46	24	
Philippines		6636	-1.3	-1	-4	6	-7	-10		165	18	54	72	64	28	
Thailand		1613	-0.6	-2	-4	3	-3	-5		0	0	0	0	0	0	
Malaysia		1556	0.1	-3	-3	-2	-1	-2		128	3	15	5	11	-5	
Argentina		83677	1.7	-7	-8	64	0	-8		1852	64	138	284	172	115	
Brazil		103110	0.0	-3	-12	-16	-2	-8		307	13	24	68	-4	-24	
Chile		4697	0.0	-4	-5	3	9	7		176	4	34	43	36	2	
Colombia		1512	0.0	-6	-7	17	7	0		392	8	67	168	44	0	
Mexico		49116	0.1	-4	-10	-1	-8	-4		385	6	45	60	53	15	
Peru		19831	-1.0	-12	-18	-5	-6	-15		201	-4	26	48	51	11	
Hungary		41447	1.9	-4	-1	-7	-18	-13		202	1	53	62	78	49	
Poland		54546	1.1	-4	-15	-13	-21	-13		6	9	6	-32	-26	-10	
Romania		12186	0.0	-2	-4	4	-7	-8		243	-1	43	63	50	11	
Russia		2379	-0.6	0	-8	-35	-37	-23		3411	-577	938	3228	3234	2897	
South Africa		68191	1.8	-3	-8	1	-7	-9		422	27	99	96	67	33	
Turkey		2472	-0.7	2	1	71	33	23		578	55	47	117	0	15	
Ukraine		519	0.0	0	0	-2	-1	0		3494	-154	540	2987	2735	2021	
EM total		40	2.1	-6	-10	-25	-18	-16		414	17	43	64	28	-44	

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

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