



- US equities and long-term Treasury yields fall as inflation and growth worries mount ([link](#))
- UK economic growth unexpectedly contracts in March ([link](#))
- European natural gas prices rise as supply through Ukraine falls further ([link](#))
- Strong safe haven demand drives appreciation in Japanese yen ([link](#))
- April inflation surprises to upside in Brazil and reinforces expectations for rate hikes ([link](#))

[Mature Markets](#)



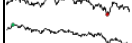
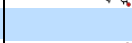


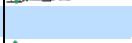



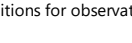
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Inflation worries keep global markets on shaky ground

Global equity markets are retreating as investors react to recent data prints that have sent mixed signals about the persistence of inflation and the implications for central bank policy tightening and the growth outlook. Risk-off sentiment prevailed in Asia overnight where most bourses closed down over 1% amidst further COVID concerns in China and volatility remains elevated this morning with European indices down over 2%. US equity futures are also pointing to further declines at the open after the S&P 500 fell over 1.5% yesterday with weakness again led by tech stocks as the high growth sector fell out of favor amidst deteriorating risk sentiment. Bond markets have also been rattled by recent inflation prints that have renewed concerns of more aggressive central bank policy tightening and the potential for a consequent economic slowdown. As a result, the US Treasury yield curve is flattening as an uptick in near-term policy rate expectations have tempered the declines in front-end Treasury yields, while longer maturity yields have seen a more pronounced move lower as ten-year real rates have fallen sharply. Similar moves are evident across European bond markets with 10-year German bund yields down 13 bps. The US dollar and Japanese yen are also appreciating close to 1% on rising demand for safe haven assets. Crypto assets have not been spared with Bitcoin down almost 20% so far this week and the asset class seeing broader spillovers following the collapse of the TerraUSD stablecoin.

Key Global Financial Indicators

Last updated: 5/12/22 8:04 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3935	-1.6	-8	-11	-3	-17	-7
Eurostoxx 50		3565	-2.3	-4	-7	-10	-17	-10
Nikkei 225		25749	-1.8	-4	-4	-6	-11	-3
MSCI EM		40	-0.7	-8	-10	-24	-19	-16
Yields and Spreads			bps					
US 10y Yield		2.82	-9.6	-21	10	113	131	83
Germany 10y Yield		0.86	-13.1	-19	7	98	103	63
EMBIG Sovereign Spread		470	3	24	67	138	103	58
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.5	-0.4	-1	-3	-10	-2	-3
Dollar index, (+) = \$ appreciation		104.7	0.8	1	4	15	9	9
Brent Crude Oil (\$/barrel)		105.8	-1.6	-5	1	53	36	9
VIX Index (% change in pp)		34.2	1.7	3	10	7	17	3

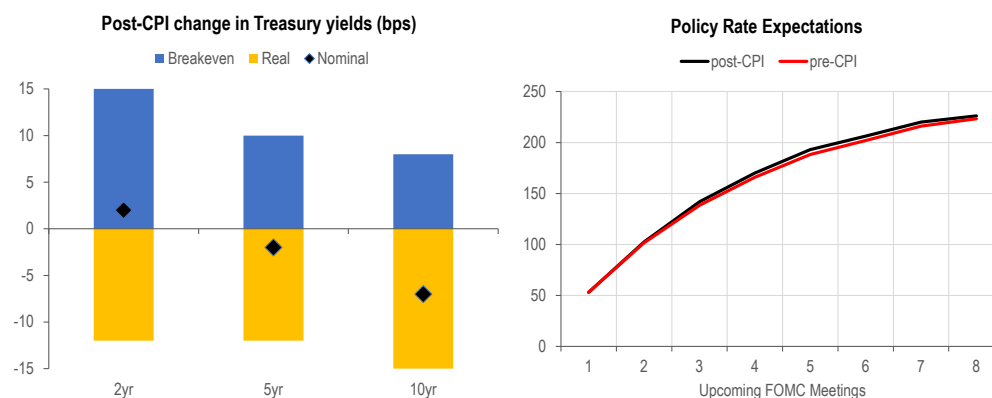
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

A re-acceleration of core inflation bolstered the case for aggressive policy tightening while raising concerns around the economic outlook, triggering a sharp selloff in equities and a rally in long rates. Immediately following yesterday's CPI report, Treasuries sold off aggressively with 2-year and 10-year yields up over 10 bps before retracing half of the increase by mid-morning. Similarly, stock futures rebounded after initially sinking over 2%. However, risk sentiment gave way to increasing concerns about the economy's ability to handle a more aggressive path of policy tightening, as a steady decline in stocks led the Nasdaq (-3%) and S&P 500 (-1.6%) to close at session lows, while medium and long-term rates fell on safe haven flows. Breakeven rates rose across the curve, with the 2-year up 15 bps, 5-year up 10 bps and 5-year-5-year forward up 6 bps. However, outside of the front-end of the curve, the move was more than offset by an even larger drop in real rates, leading to a flattening of the yield curve. **Policy rate expectations were little changed after a volatile session**, with 50 bp hikes priced in for June and July FOMC meetings and only a modest upward shift for meetings in H2.

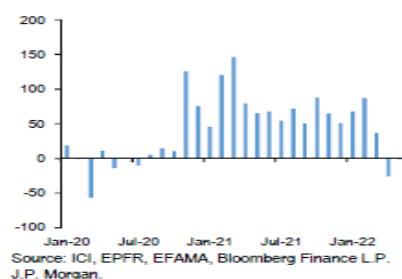


In data releases this morning, April headline PPI inflation rose more than expected. Headline PPI printed at 11.0% y/y vs. 10.7% y/y expected, down from 11.5% y/y last month. Core PPI came in at 8.8% y/y vs. 8.9% y/y expected, from 9.2% y/y previously. Market reaction following the release was limited with the overall risk-off momentum remaining as S&P 500 futures are down almost 1% and US Treasury yields are declining 6 to 8 bps across the curve.

April saw the first and the highest monthly outflows from global equity funds since 2020. Year-to-date, total equity fund inflows remain positive at \$210 bn, following a record \$1.1 tn last year. Some analysts warn that the outflow from equity fund investors (mutual funds and ETFs) could signal the start of

a withdrawal by the more mature and stable group of retail investors. The younger cohorts of the retail investors, who fueled the explosive growth in single stock options and meme-stock frenzy, have been deleveraging for some time now as the favored stocks by the retail investor base have erased all the pandemic-era gains and some.

Figure 1: Equity Fund flows globally including Mutual funds and ETFs
\$bn per month.



Round Trip
Meme stock basket slumps to an all-time low amid selloff



Euro area

European equity markets were trading sharply lower with the benchmark Stoxx 600 European index down -2.3%. The euro depreciated (-0.8%) to 1.044, a level last seen in 2017. Sovereign yields fell sharply (10-yr bund yield -12bps) and yield curve flattened. On the data front, Sweden's inflation surprised on the upside (+6.4% y/y vs expected +6.2% from 6.0%).

Yield curves: 10yr - 2yr curves (bps)

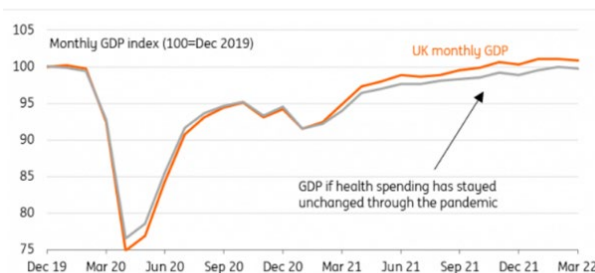


United Kingdom

The pound depreciated (-0.4%) following disappointing preliminary 1Q 2022 UK GDP data as consumers reduced spending. Quarterly growth slowed to +0.8% q/q (vs +1% expected from +1.3%). **Monthly GDP estimates show that output contracted by -0.1% m/m in March** (vs expected 0.0%), weighed down by a decline in services, mostly as a result of a decline in retail sales.

Analysts have divergent views on GDP growth in 2Q2022, with ING analysts expecting modestly negative GDP growth, Goldman Sachs analysts forecasting no growth and JPMorgan seeing +0.1% q/q. ING analysts expect GDP to continue declining in April, which marks the end of free COVID-19 testing, and highlight that health sector spending was an important driver of GDP during the pandemic.

UK GDP would be lower if health output hadn't increased due to Covid testing/vaccines

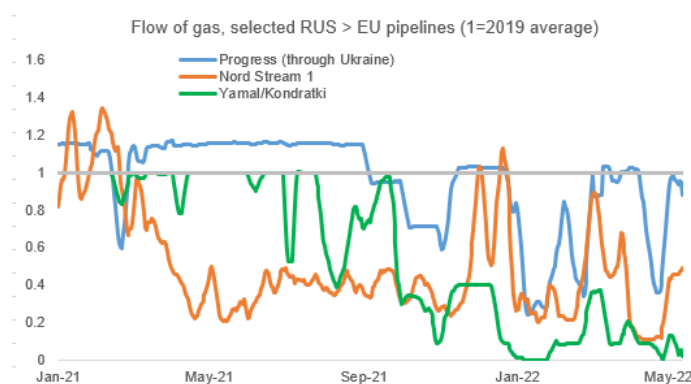


BoE deputy governor Ramsden said further interest rate hikes are required to bring down inflation. The central bank has raised interest rates at each of the past four monetary policy meetings, to take the key rate to 1%. Goldman Sachs analysts argue that the UK's fiscal stance remains growth-supportive and expect four additional 25 bp hikes, cautioning that larger hikes could be required. **Markets are pricing in 25 bp hikes at each of the next three upcoming monetary policy meetings.**

Commodities

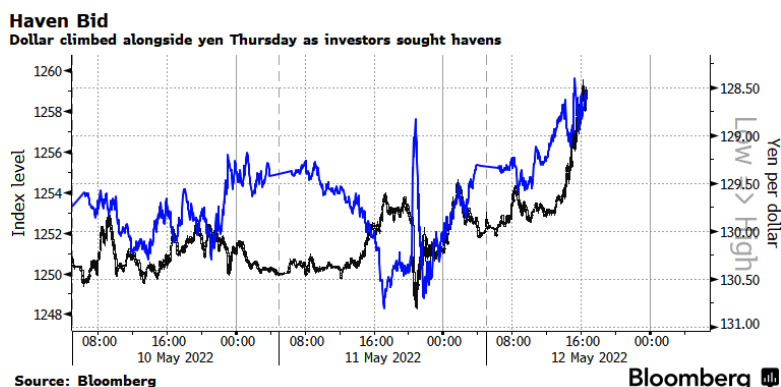
European natural gas prices (1-m forward) are 13% higher as Russian gas supplies via Ukraine fall further and more supply disruptions are seen as likely. BNP does not expect gas flows from Gazprom

to European clients to cease completely but expects that more buyers could stop getting gas as these buyers reject the ruble-for-gas scheme. Yesterday, Russia sanctioned the former Gazprom subsidiary in Germany, including German energy supplier Wingas and London-based unit Gazprom Marketing & Trading Ltd. The German government also confirmed that Russia has cut shipments to Gazprom Germania.



Japan

Japanese yen appreciated (+1.0%) on the back of strong safe-haven demand amid global risk-off sentiment, against the trend of depreciating Asian currencies. Meanwhile, the Bank of Japan's summary of opinions of the latest MPC meeting indicated its lack of appetite for changing policy to address the recent depreciation of Japanese yen. **Japanese equities declined (NIKKEI: -1.8%)**, similar to the regional trend, following the selloff of U.S. equities yesterday on strong U.S. inflation data. The 10-year **JGB yield was little changed at around 0.242%**, while longer-end JGB yields edged down (30-year: -1.3 bps).



Emerging Markets

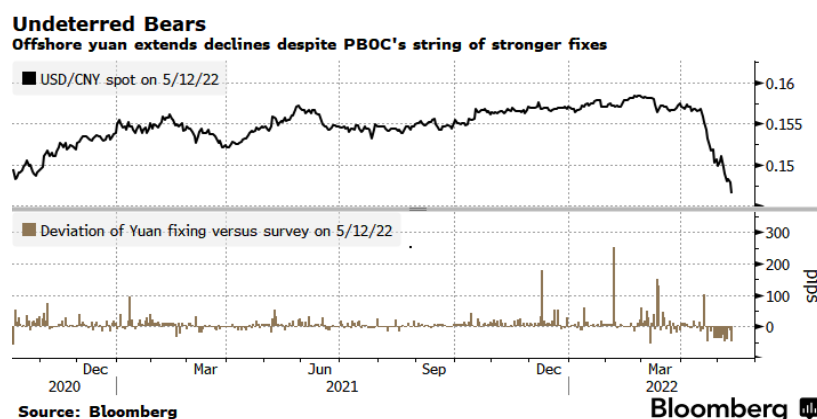
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Latin American equity markets were mixed yesterday, while most regional currencies registered small appreciation against the USD. In **Chile**, polls indicate that the people could reject a new constitution in a referendum to be held on Sept. 4th, as per a Bloomberg report. **Asian markets retreated amid renewed risk-off sentiment**. Asian equities declined, falling 3.2% on net, led by Indonesian (-3.2%), Taiwan (-2.4%), Indian (-2.3%), and Hong Kong (-2.2%) equities. Asian currencies also depreciated, led by Chinese yuan (-1.1%) and Korean won (-1.0%). Meanwhile, long-end government bond yields dropped, with 10-year yields falling in Korea (-8.6 bps) and Singapore (-7.4 bps), following the decline in U.S. treasury yields. In **Philippines**, real GDP grew 1.9% q/q in 2022Q1, stronger than expected (consensus: +1.5%). Equities declined (-1.6%); Philippine peso depreciated (-0.4%). In **EMEA, global risk-off sentiment drove equities and local rates lower in Hungary, Poland, and South Africa**. The Polish zloty was little changed but the Hungarian forint (-0.7%) fell as deputy governor Virag said that the central bank is transitioning from an

aggressive rate hike cycle to a more gradual phase and no breakthrough is expected in discussions with the EU towards an agreement on a Russian oil embargo. The Russian ruble (+1.5%) outperformed.

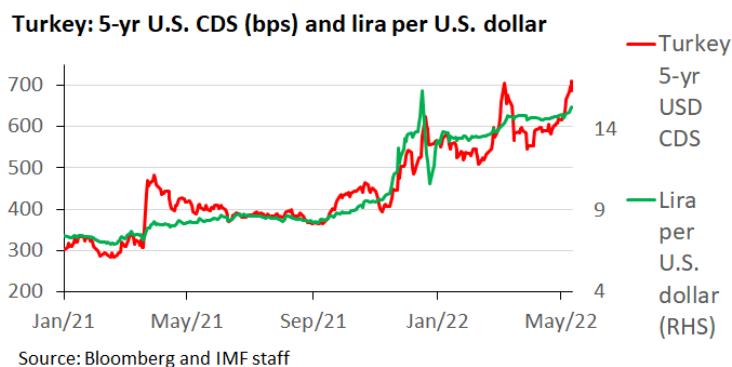
China

Chinese equities declined (CSI -0.4%), while RMB depreciated (-1.1%), amid deteriorating market sentiment across the region. New COVID-19 cases outside the isolation areas in Shanghai reset the city's re-opening timeline, dampening market sentiment locally and in other Asian markets. Meanwhile, Chinese officials said that the unemployment insurance fund has enough reserves to cope with large-scale unemployment. RMB continued its depreciation trend following the People's Bank of China (PBC)'s comment that it will guide lending rates lower. The PBC also said that it made stabilizing economic growth a more prominent priority. Against the backdrop of the recent RMB depreciation trend, the PBC has leaned against the depreciation by successively setting RMB fixing stronger than market expectations in the past two weeks. Sunac, another major Chinese property developer, admitted a default on its \$750 mn offshore USD bond as it did not make a coupon payment within the 30-day grace period that ended yesterday. Analysts noted that this will likely trigger cross-defaults of Sunac's other offshore debt.



Turkey

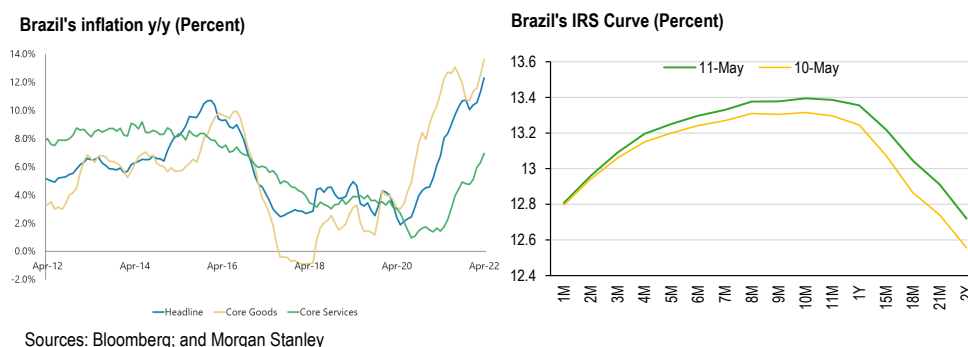
CDS credit spreads rose to a new 2022 high of 709 bps as the lira (-0.5%) remains under pressure despite reports of sizable FX interventions by state banks. According to a Bloomberg report, state lenders could have sold around \$5 bn in the last six trading days. **Such interventions have not been sufficient to stabilize the lira.** Stocks (-2.7%) fell today.



Brazil

April inflation surprised on the upside and came in at 12.13% y/y, the highest print in over 25 years.



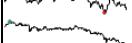
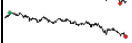

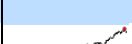

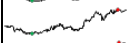







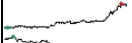




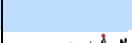

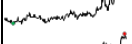

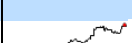



The consensus estimate was 12.06%. This was driven by an increase in both core and services inflation which were 7.74% (6.98% in March) and 6.94% (6.30% in March), respectively. In addition, prices of industrial goods rose by 14.2% y/y (13.4% in March 2022, and 0% in May 2020) due to supply chain disruptions caused by lockdowns in China and the war in Ukraine. Analysts believe, this higher-than-expected inflation print could increase inflation expectations, and hence the central bank might continue to hike policy rates for longer than what had been expected so far, i.e., beyond June 2022.



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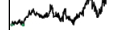



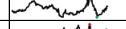

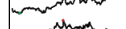





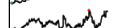

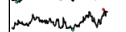

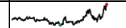



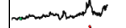

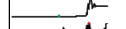

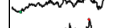





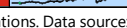






Global Financial Indicators

Last updated: 5/12/22 8:06 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	%
United States		3916	-1.6	-6	-11	-4	-18	-7
Europe		3565	-2.3	-4	-7	-10	-17	-10
Japan		25749	-1.8	-4	-4	-6	-11	-3
China		3959	-0.4	-1	-4	-21	-20	-14
Asia Ex Japan		66	-0.8	-8	-9	-26	-20	-16
Emerging Markets		40	-0.7	-8	-10	-24	-19	-16
Interest Rates			basis points					
US 10y Yield		2.82	-9.6	-21	10	113	131	83
Germany 10y Yield		0.86	-13.1	-19	7	98	103	63
Japan 10y Yield		0.25	0.0	2	0	16	18	5
UK 10y Yield		1.69	-13.8	-28	-12	80	72	21
Credit Spreads			basis points					
US Investment Grade		163	1.2	8	18	68	51	20
US High Yield		481	11.0	59	83	144	143	74
Europe IG		97	3.0	2	19	44	49	25
Europe HY		466	15.7	14	96	205	225	115
Exchange Rates			%					
USD/Majors		104.66	0.8	1	4	15	9	9
EUR/USD		1.04	-1.1	-1	-4	-14	-9	-8
USD/JPY		128.6	-1.1	-1	3	17	12	12
EM/USD		51.5	-0.4	-1	-3	-10	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		106	-1.6	-5	2	61	39	16
Industrials Metals (index)		176	-2.7	-7	-16	10	2	-6
Agriculture (index)		75	-0.5	-1	-1	23	24	7
Implied Volatility			%					
VIX Index (% change in pp)		34.2	1.7	3.0	9.9	6.6	17.0	3.2
US 10y Swaption Volatility		118.9	-0.1	-4.3	-0.1	46.1	39.9	24.6
Global FX Volatility		10.6	0.0	0.1	1.6	3.2	3.2	3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		250	3.4	9	44	134	99	10
Italy		190	-0.9	-9	28	75	55	19
Portugal		110	0.5	-4	24	40	46	18
Spain		104	0.0	-6	12	36	30	1

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

Emerging Market Financial Indicators

Last updated: 5/12/2022 8:08 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		6.79	-1.1	-2.0	-6	-5	-6	-7		2.9	-1.6	-2	3	-31	1	0
Indonesia		14597	-0.3	-0.7	-2	-3	-2	-2		7.4	-0.7	41	51	97	102	90
India		77	-0.2	-1.5	-2	-5	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	-0.4	-0.2	-1	-9	-3	-3		5.4	5.0	5	15	109	93	43
Thailand		35	-0.3	-1.9	-3	-10	-4	-7		3.3	-10.0	13	67	133	141	103
Malaysia		4.39	-0.4	-1.0	-4	-6	-5	-5		4.4	4.2	1	36	130	84	76
Argentina		117	-0.1	-0.9	-4	-20	-12	-8		52.8	8.6	1	231	673	227	488
Brazil		5.19	-1.0	-3.1	-10	2	7	-3		12.6	-0.5	15	70	301	187	104
Chile		862	0.6	-0.9	-5	-18	-1	-8		6.3	0.0	-2	-13	275	91	42
Colombia		4086	-0.3	-0.5	-8	-9	0	-4		9.0	0.0	18	109	307	261	114
Mexico		20.43	-0.6	-0.9	-3	-1	0	-1		8.8	-14.5	-15	1	186	123	91
Peru		3.8	0.1	-0.5	-2	-2	6	-1		8.1	-0.4	2	84	316	216	206
Uruguay		42	0.3	-0.7	0	6	8	2		10.1	0.0	6	83	276	140	197
Hungary		368	-1.7	-1.7	-5	-19	-12	-13		7.2	-8.5	11	72	452	265	235
Poland		4.49	-0.9	-0.7	-4	-16	-10	-10		6.3	-19.9	17	92	432	272	235
Romania		4.8	-1.0	-1.3	-4	-14	-8	-8		8.0	37.9	98	158	539	321	288
Russia		65.2	2.1	-0.1	30	14	15	25		11.4	-15.3	-62	-148	406	261	20
South Africa		16.2	-0.9	-1.5	-11	-13	-2	-7		8.4	-12.0	-13	44	88	101	85
Turkey		15.39	-0.4	-3.4	-5	-45	-14	-10		25.3	32.0	364	94	713	101	291
US (DXY; 5y UST)		105	0.8	0.9	4	15	9	9		2.80	-10.0	-21	11	193	153	89

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
									basis points							
China		3959	-0.4	-1	-4	-21	-20	-14		205	1	1	-6	2	-3	
Indonesia		6600	-3.2	-8	-9	11	0	-5		212	15	52	46	47	27	
India		52930	-2.1	-5	-9	9	-9	-8		180	6	17	14	48	26	
Philippines		6532	-1.6	-4	-6	5	-8	-11		170	20	56	77	69	33	
Thailand		1585	-1.8	-4	-5	2	-4	-7		0	0	0	0	0	0	
Malaysia		1539	-1.1	-3	-4	-3	-2	-3		132	5	19	8	15	-1	
Argentina		85763	2.5	-4	-5	68	3	-6		1839	76	115	256	159	102	
Brazil		104397	0.0	-4	-10	-13	0	-7		309	17	22	67	-2	-22	
Chile		4677	0.0	-4	-5	4	9	7		179	8	32	46	39	5	
Colombia		1509	-0.2	-5	-7	17	7	0		386	7	50	158	38	-6	
Mexico		49276	0.3	-4	-9	1	-8	-4		388	19	40	61	56	18	
Peru		19736	-0.5	-12	-18	-9	-7	-16		202	1	23	49	52	12	
Hungary		40440	-1.2	-5	-3	-8	-20	-15		210	6	62	69	86	57	
Poland		52535	-2.5	-5	-18	-16	-24	-16		9	-11	6	-28	-23	-7	
Romania		11998	-1.9	-4	-5	2	-8	-9		250	4	53	70	57	18	
Russia		2353	-1.4	-4	-7	-36	-38	-24		3411	-577	938	3228	3234	2897	
South Africa		66061	-3.4	-5	-10	-2	-10	-12		422	27	87	92	67	33	
Turkey		2392	-2.5	-3	-3	66	29	19		577	49	45	114	-1	14	
Ukraine		519	0.0	0	0	-2	-1	0		3385	-194	379	2870	2626	1912	
EM total		40	-2.1	-8	-10	-24	-19	-16		414	18	35	61	27	-44	

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

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