



- Net foreign purchases of Treasuries slowed in March ([link](#))
- EU confirms European corporates can buy Russian natural gas ([link](#))
- ECB official signals potential 50 bps hike in July depending on inflation data ([link](#))
- Chinese equities gained on optimism around Shanghai's reopening ([link](#))
- **Special Feature: Emerging Markets Local Currency Bond Monitor** ([attached](#))

[Mature Markets](#)




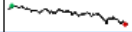


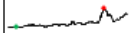




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Hope of reduced lockdowns sends markets higher

Optimism of reduced Covid restrictions in Shanghai, along with news that European companies can continue to buy Russian gas, are sending markets higher. Shanghai has now reported three straight days of zero community transmission, setting the stage for a reopening. Asian equities rose sharply overnight, led by Hong Kong where markets gained over 3%. News that the EU confirmed companies can continue to import Russia gas without breaking sanctions helped send European equities higher. Adding to the revitalized optimism was better than expected euro-area growth data in Q1. European equities are about 1.5% higher this morning and US futures are up over 1%. Most emerging market currencies are higher on the improved sentiment, although the Turkish lira has continued its slide, falling over 1% this morning on reports of reduced FX intervention by state-owned banks.

Key Global Financial Indicators

Last updated: 5/17/22 8:05 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%					
S&P 500		4008	-0.4	0	-9	-4	-16	-5
Eurostoxx 50		3739	1.5	5	-3	-7	-13	-6
Nikkei 225		26660	0.4	2	-1	-6	-7	1
MSCI EM		40	-0.4	1	-9	-24	-17	-15
Yields and Spreads			bps					
US 10y Yield		2.91	2.7	-8	8	126	140	92
Germany 10y Yield		1.01	7.0	1	17	112	118	78
EMBIG Sovereign Spread		474	5	8	71	141	107	61
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.0	0.5	1	-2	-10	-1	-2
Dollar index, (+) = \$ appreciation		103.3	-0.9	-1	3	15	8	7
Brent Crude Oil (\$/barrel)		115.6	1.1	13	3	66	49	19
VIX Index (% change in pp)		26.6	-0.9	-6	4	7	9	-4

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

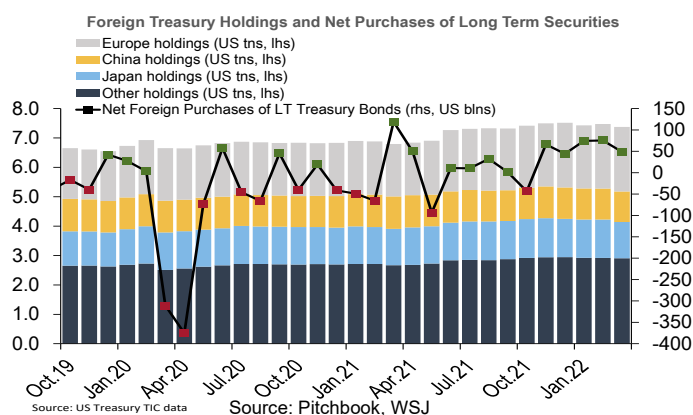
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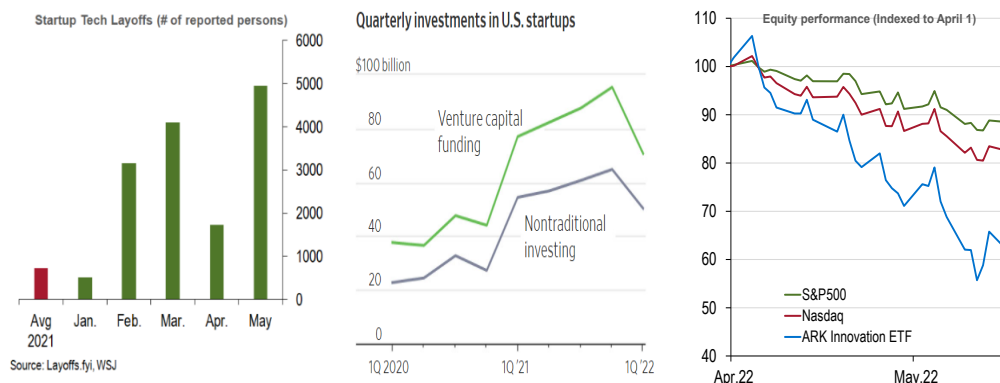
US stocks dipped lower (-0.4%) on Monday in a quiet day for markets. 10y Treasury yields slipped 4 bp to 2.88%, down from a recent high of 3.19% on May 9th. The dollar index edged lower but has rallied another 1.2% so far in May.

Retail sales for April were largely in line with expectations at 0.9% m/m (vs 1% expected), while sales excluding autos and gas beat expectations at 1.0% (vs 0.7%). S&P futures were little changed, while Treasury yields moved 1–2 bps higher initially following the release.

Net foreign purchases of long-term Treasuries slowed in March to \$48.8 bn, following inflows of \$75 bn in both January and February, according to the latest TIC data. Foreign official institutions net sold \$32.4 bn in March, following outflows of \$16 bn in February. Total foreign holdings were \$7.61 tn in March. Higher frequency data from the Ministry of Finance shows that Japanese investors pulled money from overseas bond markets in April and early May, suggesting Japanese demand has not been driving the recent bond rally, though the geographic breakdown is not available.



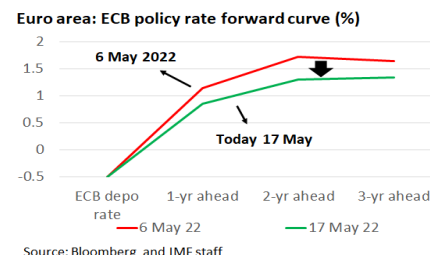
Tech sector underperformance has deepened alongside a slowdown in startup financing and hiring. Market sentiment in the tech sector, especially for high growth, speculative firms has soured amid the sharp selloff in bond yields and the end of pandemic-related investment trends. The Nasdaq is down nearly 18% since April 1, compared to 11% for the S&P500, while the Ark Innovation ETF has collapsed nearly 35%. Venture capital investments in the first quarter declined over 25% from \$95 bn in Q4, according to the Wall Street Journal, while investors have reportedly started marking down private valuations as well. In recent months, layoffs at tech startups have accelerated—including at the likes of Carvana, Better.com, Robinhood—while larger firms such as Uber, Twitter, and Metahave slowed or frozen hiring.



Euro Area

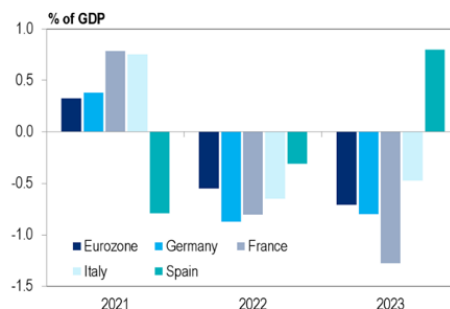
Equities (+1.5%) and the euro (+0.8%) are higher as the EU confirmed that companies can import Russian gas without breaching sanctions. The authorization was expected but removes a big source of uncertainty for corporates. Gazprom will make a payment confirmation in the contractual currency (in euro or U.S. dollar). Gazprom also confirmed that transactions related to gas payments will be carried out by unsanctioned entities such as GazpromBank. **Euro area growth was also a bit better than expected at 0.3% q/q (0.2% q/q expected).**

German 10-yr bund yields (+8 bps) are sharply higher and money markets are pricing in almost 100 bps of hikes in 2022 after Dutch central bank governor Knot said that he supports an increase of 25 bps in interest rates in July and that a bigger move of 50 bps may be justified if data shows that inflation is broadening or accelerating. Interestingly, money markets are pricing in a lower terminal rate by the ECB even as they have priced in more hikes in 2022.



The European Commission (EC) cut its 2022 real GDP growth forecast to 2.7% from 4.3% for the euro area and raised its inflation forecast to 6.1%. German GDP is expected to grow by just 1.6% this year and 2.4% in 2023, France by 3.1% followed by 1.8%, Italy 2.4% this year (just about avoiding a recession) and 1.9% next, while Spain is projected to grow by 4.0% and 3.4% in 2023. Euro Area aggregate government borrowing in 2021 was much lower than expected at 5.1% of GDP compared to 7.1% of GDP estimated last autumn. For 2022, the Commission expects borrowing to fall to 3.7% of GDP followed by 2.5% of GDP in 2023, roughly unchanged compared to previous forecasts. Citi points out that the reduction in fiscal policy support to the economy now amounts to 0.6% of GDP fiscal tightening in the Euro Area this year and 0.7% next.

Euro area – Change in cyclically adjusted primary fiscal balance



United Kingdom

The pound (+1.2%) jumped and 2-yr gilt yields rose 9 bp after data showed rapid job growth in April and a falling unemployment rate of 3.7% in March. According to news reports, the UK government could publish new legislative plans that would override elements of the Northern Ireland protocol.

Japan

Japanese equities gained (NIKKEI: +0.4%). The yen depreciated (-0.1%). Long-end JGB yields edged up (10-year: +0.2 bp; 30-year: +1.7 bps), with 10-year yields at 0.242%.

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Asian equities gained, +3.5% on net, led by Hong Kong (+3.3%) and Indian (+1.9%) equities. Most Asian currencies appreciated, led by the Thai baht (+0.6%). Meanwhile, the Indonesian rupiah depreciated (-0.3%) on potential weak trade data as a result of the ban on palm oil exports. Long-term government bond yields were mixed, with 10-year yields rising in India (+4 bps) while falling in Taiwan Province of China (-10 bps). In India, wholesale prices rose 15.1% in April, higher than expected (consensus: +14.9%). The Indian rupee depreciated (-0.2%). In Thailand, GDP grew 1.1% q/q in 2022Q1, stronger than expected (consensus: +0.9%), supported by a rebound in services exports. The government downgraded the economic growth outlook by 1 ppt to 2.5%-3.5% due to the impact of the war on the global economy. Equities gained (+1.2%). **Equity markets in EMEA were generally trading higher** while currencies traded stronger against the dollar as risk appetite improved on hopes of easing Covid-related restrictions in China. Equities in Poland (+2.4%), Hungary (+2.3%) and Romania (+0.8%) gained while the Polish zloty (+0.2%), Hungarian forint (+0.9%) and Czech koruna (+0.1%) appreciated against the euro after preliminary Q1 GDP growth data surprised on the upside. Poland's Q1 GDP increased to +2.4%q/q (vs expected +1.8% from +1.8%), while Hungary's Q1 GDP came in at +2.1%q/q (vs expected 1.5% from 2.2%) and 1Q economic growth in Romania increased to +5.2%q/q (vs expected 1.0% from 1.0%). Goldman Sachs analysts note that CEE economies remain exposed to the war in Ukraine and while there are limited signs of a meaningful slowdown in data, analysts expect economic growth to weaken from Q2 onward. **Latin American assets advanced for another day**. Stocks rallied across the region, with Mexican stocks (+2%) surging the most. Except for the Argentine peso (-0.4%) and a flat Brazilian real, currencies appreciated (0.3–0.5%), with the Colombian peso running ahead (+1.3%), presumably driven by higher oil (+3.3%) prices as well as by better-than-expected prints in GDP growth (+8.5% y/y, for Q1 2022) and economic activity (+7.6% y/y, for March). Yield curves remained roughly unchanged, except for downward shifts in the local currency curves of Brazil (-14 bps at 10-year) and Peru (-10 bps at 10-year), as well as an upward move in Colombia's local currency curve (+15 bps at 10-year maturity).

EM Hard Currency Bond Issuance

In the last week, borrowers issued \$4.4 bn in EM hard currency debt, almost doubling the previous week. Chinese financials and municipalities issued \$2.1 bn, banks and corporates from Hong Kong \$0.8 bn, Korean corporates \$0.5 bn, Estonian banks \$0.5 bn, and Chilean corporates another \$0.5 bn.

Sector	Last week	The week before	YTD
Corporate	1.5	1.2	64.1
Sovereign	-	-	47.5
Financial	2.6	0.3	44.7
Agency	-	0.5	14.8
Muni/Local Gov't	0.3	0.3	11.2
Supra	-	-	2.6
Total	4.4	2.3	185.0

Source: Bond Radar, Bloomberg

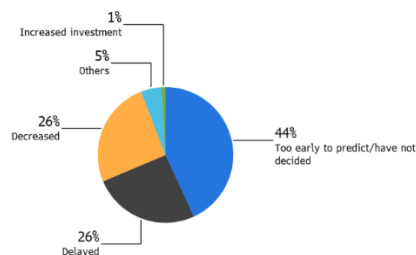
China

Chinese equities gained on optimism around Shanghai's reopening (CSI 300: +1.2%. Hang Seng China Enterprises: +3.9%). Shanghai reported a third consecutive day of no new COVID-19 infection cases in the community, paving a way for a reopening. RMB also appreciated (+0.5%). The American and European Union chambers of commerce in China said that businesses are reassessing their supply chains in the face of China's zero COVID policy in a separate briefing. This does not mean that foreign firms are leaving China. However, they consider the need to expand investment in China amid growing uncertainty while weighing options of building additional production hubs and/or developing alternative supply chains outside China. The China Banking and Insurance Regulatory Commission warned of rising leverage from

policy stimulus. China needs to prevent an excessive increase in debt by nonfinancial institutions and local governments and to develop debt restructuring plans to avoid a rebound in NPLs.

Pessimism Dominates

U.S. firms in China on their investment plans after recent Covid outbreaks

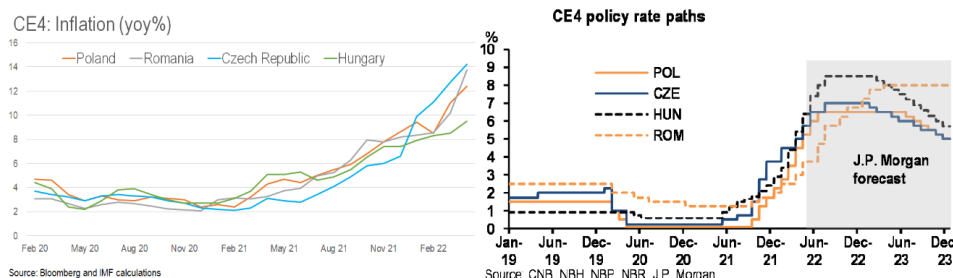


Source: AmCham China
Note: survey conducted on 121 companies between April 29 and May 5

Bloomberg

CEE

Following recent upside inflation surprises, JPMorgan analysts have revised terminal rate forecasts for Czech Republic and Hungary, and expect that Poland, Hungary and Czech Republic will start cutting interest rates in 2023. In contrast analysts expect Romania's terminal rate to reach 8% in 2023 and be kept at this level likely throughout 2024.



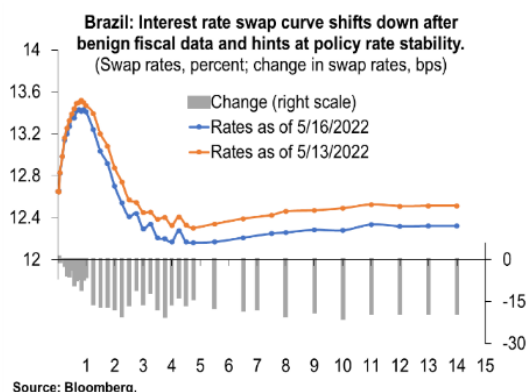
Turkey

Turkey's CDS credit spreads increased to above 710 bps, while the lira (-2.1%) depreciated for the ninth consecutive day with reports that FX interventions by state banks slowed. According to Bloomberg citing anonymous sources, state lenders had sold roughly \$1bn in the last two trading days, but the size of interventions slowed this morning. Yesterday data showed that Turkey's current account deficit had widened to US\$5.55 bn in March (from US\$5.44bn) mainly driven by higher energy import costs. Goldman Sachs analysts expect a current account deficit of 4% of GDP in 2022, but flag risks to the upside.



Brazil




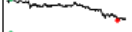
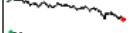

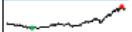

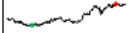









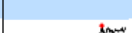

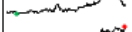




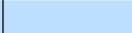


Brazilian assets gained, as inflation and the fiscal budget data appeared benign. Brazil registered in March a primary budget surplus of BRL 4.3 bn, bringing the 12-month trailing primary surplus to 1.4% of GDP. Public net debt jumped by 1.1 ppt, to 58.2% of GDP. Inflation decelerated over the last week by 42 bps to 0.41% w/w, 11 bps less than expected. Meanwhile the **Brazilian central bank's Monetary Policy Director remarked that the central bank would prefer to keep its benchmark rate as steady as possible.** Local currency interest swap rates reacted by falling up to 20 bps and Brazilian stocks gained (+1.2%), while the real remained flat.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior 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), 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), 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), Patrick Schneider (Research Officer), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

Last updated: 5/17/22 8:05 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4030	-0.4	1	-8	-3	-15	-5
Europe		3739	1.5	5	-3	-7	-13	-6
Japan		26660	0.4	2	-1	-6	-7	1
China		4006	1.2	2	-4	-23	-19	-13
Asia Ex Japan		68	-0.6	2	-8	-25	-18	-14
Emerging Markets		40	-0.4	1	-9	-24	-17	-15
Interest Rates			basis points					
US 10y Yield		2.91	2.7	-8	8	126	140	92
Germany 10y Yield		1.01	7.0	1	17	112	118	78
Japan 10y Yield		0.25	-0.1	0	1	16	18	5
UK 10y Yield		1.82	8.6	-3	-7	95	85	34
Credit Spreads			basis points					
US Investment Grade		165	-1.4	4	21	71	53	22
US High Yield		483	-5.6	17	95	143	145	76
Europe IG		92	-1.8	-5	13	41	44	20
Europe HY		442	-8.9	-23	67	188	200	90
Exchange Rates			%					
USD/Majors		103.28	-0.9	-1	3	15	8	7
EUR/USD		1.05	1.0	0	-2	-13	-7	-7
USD/JPY		129.3	0.1	-1	2	18	12	12
EM/USD		52.0	0.5	1	-2	-10	-1	-2
Commodities			%					
Brent Crude Oil (\$/barrel)		116	1.1	13	4	78	52	27
Industrials Metals (index)		181	1.2	0	-15	12	5	-4
Agriculture (index)		79	-0.5	6	3	34	30	12
Implied Volatility			%					
VIX Index (% change in pp)		26.6	-0.9	-6.4	3.9	6.9	9.4	-4.4
US 10y Swaption Volatility		117.3	-0.9	-9.6	-3.8	44.0	38.3	23.0
Global FX Volatility		11.0	0.0	-0.1	2.1	3.9	3.6	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		255	-5.1	4	47	134	103	15
Italy		191	0.2	-9	27	69	56	19
Portugal		111	-0.4	-3	12	38	47	19
Spain		106	-0.3	-4	12	33	32	3

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 5/17/2022 8:07 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since 23-Feb-22	Level		Change (in basis points)					Since 23-Feb-22
	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		6.73	0.9	0.1	-5	-4	-5	-6		2.9	-0.5	0	-3	-35	1	0
Indonesia		14645	0.4	-0.6	-2	-2	-3	-2		7.3	-5.0	-8	40	87	95	84
India		78	0.3	-0.3	-2	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.1	-0.1	0	-9	-3	-3		5.5	5.0	10	20	105	98	48
Thailand		34	0.6	0.4	-2	-9	-4	-6		3.3	-4.0	4	64	140	143	106
Malaysia		4.39	0.1	-0.2	-3	-6	-5	-5		4.4	-2.2	4	31	125	81	73
Argentina		118	-0.4	-0.9	-4	-20	-13	-9		53.4	17.5	78	322	770	280	540
Brazil		5.01	1.1	2.6	-7	5	11	0		12.5	15.5	4	46	300	179	96
Chile		858	0.3	1.3	-5	-16	-1	-8		6.4	1.0	-10	-7	258	93	44
Colombia		4058	1.3	0.8	-8	-9	0	-4		9.1	0.0	13	101	324	268	121
Mexico		19.96	0.3	2.1	-1	-1	3	1		8.7	0.0	-25	-7	174	113	81
Peru		3.8	0.5	1.4	-1	-2	6	-1		7.8	-2.1	-46	52	292	191	181
Uruguay		41	0.0	0.7	0	7	8	2		10.1	0.1	6	83	260	140	197
Hungary		366	2.1	-1.5	-5	-21	-11	-13		7.1	3.0	-25	86	440	254	224
Poland		4.41	1.4	0.9	-3	-15	-8	-8		6.2	6.0	-36	87	419	263	226
Romania		4.7	1.1	0.1	-2	-14	-7	-7		8.0	4.0	51	155	527	316	283
Russia		65.1	-1.2	7.9	25	13	15	25		11.2	-8.5	-81	-113	390	245	4
South Africa		16.0	1.0	0.8	-8	-12	0	-5		8.5	-5.0	-30	41	92	104	88
Turkey		15.73	-1.2	-3.0	-7	-47	-15	-12		24.9	-8.0	134	121	666	53	243
US (DXY, 5y UST)		103	-0.9	-0.6	3	15	8	7		2.87	4.4	-4	8	204	161	97

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				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	YTD	23-Feb-22	
								basis points								
China		4006	1.2	2	-4	-23	-19	-13		212	9	6	1	9	4	
Indonesia		6644	0.7	-4	-9	14	1	-4		211	16	50	39	46	26	
India		54318	2.5	0	-5	8	-7	-5		186	11	15	21	54	32	
Philippines		6595	1.4	-2	-6	6	-7	-10		160	12	44	64	59	23	
Thailand		1614	1.9	1	-3	3	-3	-5		0	0	0	0	0	0	
Malaysia		1549	0.3	0	-2	-3	-1	-2		137	8	23	16	20	4	
Argentina		89965	1.3	9	-1	60	8	-2		1926	80	238	402	246	189	
Brazil		108233	0.0	5	-7	-12	3	-3		315	2	41	72	4	-16	
Chile		4869	0.0	4	-1	17	13	11		170	-9	29	37	30	-4	
Colombia		1517	0.3	0	-6	18	8	0		387	-16	45	153	39	-5	
Mexico		50564	2.0	3	-7	2	-5	-2		388	2	47	59	56	18	
Peru		20047	1.0	0	-15	-8	-5	-14		190	-13	27	41	40	0	
Hungary		42085	2.0	3	-2	-8	-17	-12		207	7	62	68	83	54	
Poland		56640	2.5	5	-11	-10	-18	-10		4	-6	-4	-32	-28	-12	
Romania		12173	0.6	0	-6	5	-7	-8		237	-6	40	57	44	4	
Russia		2393	1.2	0	-1	-34	-37	-22		3411	-577	938	3228	3234	2897	
South Africa		70329	1.6	5	-4	5	-5	-6		417	-5	85	86	62	28	
Turkey		2407	0.7	-3	-3	66	30	19		615	49	102	144	37	52	
Ukraine		519	0.0	0	0	-2	-1	0		3419	-121	231	2905	2660	1946	
EM total		40	1.9	1	-9	-24	-17	-15		415	0	40	62	28	-43	

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

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