GLOBAL MARKETS ANALYSIS

Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MAY 19, 2022

- **US equities slumped and credit spreads widened on Wednesday** (link)
- **Rising mortgage rates are starting to weigh on the US housing market** (link)
- **European equities fall back to pre-pandemic levels** (link)
- **China's Premier Li Keqiang tells local governments to act decisively on measures to support growth** (link)
- **Bangko Sentral ng Pilipinas raises rates by 25 bps to 2.25% as expected** (link)
- **Russia Q1 GDP weakens more than expected** (link)

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Market sentiment deteriorates on disappointing corporate earnings

Global equities slumped on mounting concerns that inflation could be cutting into corporate earnings and impacting global growth. Futures on the S&P 500 signaled a negative opening after the equity benchmark suffered its biggest single-day loss since June 2020 on Wednesday. The sharp drop was triggered by weak results from US consumer bellwethers Walmart and Target underscoring how higher prices were impacting both retail spending and supply chain costs. Risk-off sentiment spilled over into European and Asian markets while US and European high yield credit spreads widened sharply. Advanced economy sovereign bond yields fell, with 10-year US Treasury and Bund yields down 5 bps and 8 bps this morning, respectively. Investor concerns were reflected in option markets, with the VIX index up 1 percentage points after yesterday's 5 percentage points increase.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close					Since
5/19/22 8:01 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities				%			%	
S&P 500		3924	-4.0	0	-12	-5	-18	-7
Eurostoxx 50		3621	-1.9	0	-5	-8	-16	-9
Nikkei 225		26403	-1.9	3	-3	-6	-8	0
MSCI EM		40	-2.4	2	-8	-25	-17	-15
Yields and Spreads				bps				
US 10y Yield		2.84	-4.7	-1	-10	117	133	85
Germany 10y Yield		0.95	-7.7	11	4	106	113	73
EMBIG Sovereign Spread		481	13	10	78	150	114	68
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		52.1	0.4	1	-2	-9	-1	-2
Dollar index, (+) = $ appreciation		103.3	-0.5	-2	2	15	8	7
Brent Crude Oil ($/barrel)		108.5	-0.6	1	1	63	39	12
VIX Index (%, change in pp)		32.0	1.0	0	11	10	15	1

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

Mature Markets

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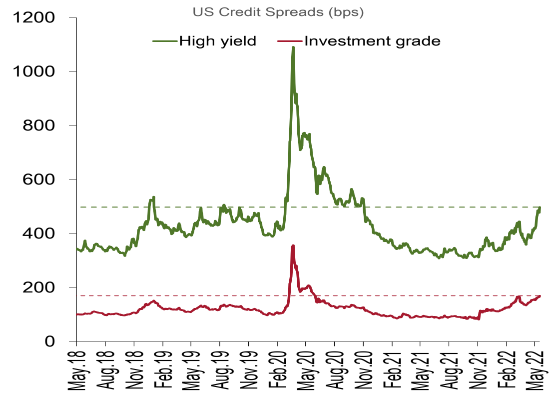
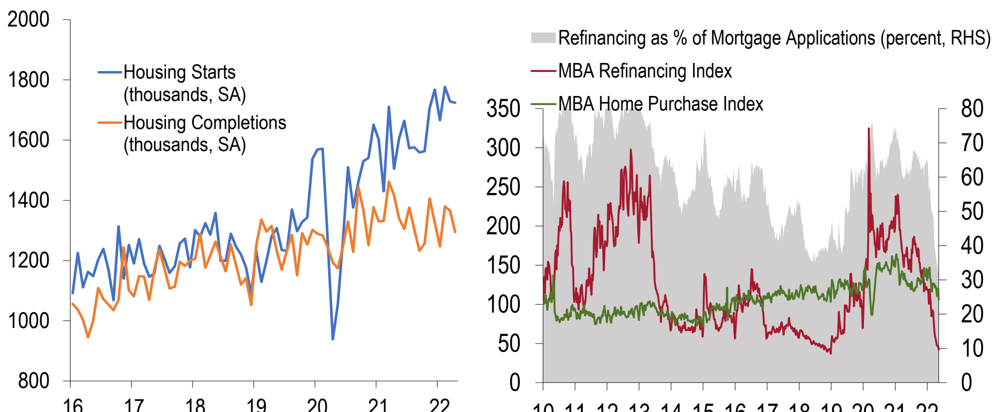
United States

US equities slumped 4% lower in a broad-based sell off on Wednesday. Tech continued its recent struggles, down nearly 5%, while retail stocks underperformed after Walmart and Target reported pressure on profit margins. After the markets closed, Cisco Systems cut its full-year earnings outlook, noting that Covid-19 lockdowns in China and the war in Ukraine had negatively impacted its sales. Analysts noted that weak sales of certain higher priced goods could signal pressure on corporate earnings, or early signs of flagging consumer demand, though some think the results would also be consistent with the reversal of pandemic-induced trends as consumers transition from goods to services. Treasuries rallied, with 10-year yields falling 11 bps, and the dollar index gaining 0.5%. **High yield credit spreads widened 21 bps** to the highest level since November 2020.

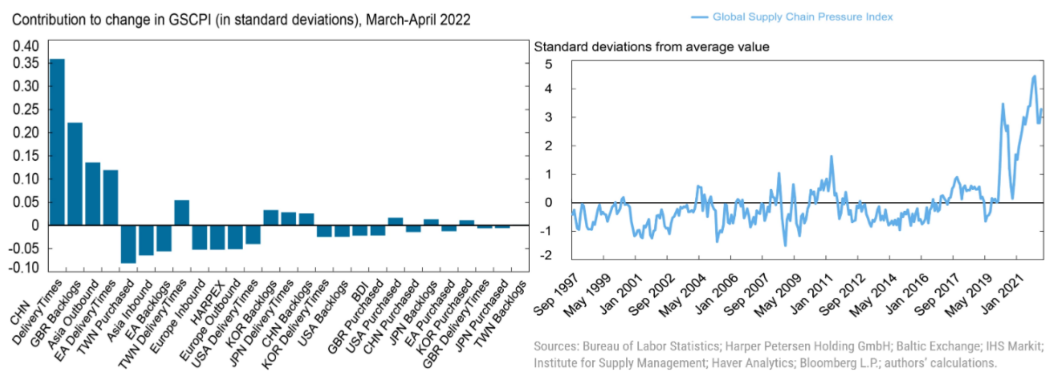


Rising mortgage rates are starting to weigh on the US housing market, with the 30-year fixed rate rising about 60 bps since the beginning of April to 5.3%. Refinancing applications as a share of mortgages fell to 33% in the first 2 weeks of May, while the number of applications fell to their lowest level since December 2018. Declining refinancing volumes may have implications for the Fed's quantitative tightening efforts and the possibility of needing active asset sales. Refinancing volumes are closely related to assumptions around repayment rates that determine estimates for the organic run off of MBS from the balance sheet. Overall mortgage applications (MBA Purchase Index) have also slowed, down about 11% from a month ago. The implications for the real economy are more complex however, as supply chain constraints have created an unusually large gap between housing starts—which have started to level off since December—and completions, indicating that investment associated with new household formation could remain strong for longer than a normal cycle.



Source: FRED, US Census

Supply chain spressures worsened in April on back of disruptions in Asia. The NY Fed's Global Supply Chain Pressure Index (GSCPI) deteriorated again in April after improving in the first quarter. Chinese delivery times were the main contributor amid the renewed COVID lockdowns. Backlogs (based on PMIs) in the UK and Euro area, as well as increasing airfreight costs for US-Asia also played a role.



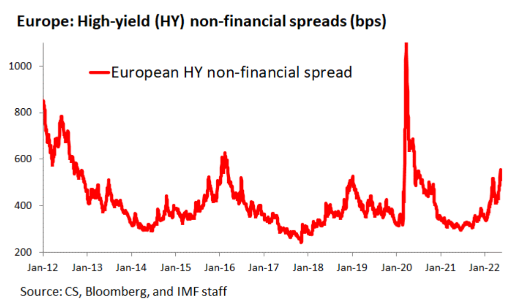
Euro Area

Risk-off sentiment spilled over into European markets with equities (-2%) back at pre-pandemic levels. German 10-year bund yields (-8 bps to 0.95%) are also sharply lower, with the German bund curve flattening as 1-year yields were little changed.

The euro (+0.5%) appreciated against the dollar, which may suggest that the unfolding risk-off episode is less acute or reflects a focus on disappointing US corporate earnings but keep in mind that the euro has weakened almost 8% so far in 2022.

Money markets priced about 100 bps of hikes in 2022 after ECB sources signaled that at least two hikes of 25 bps are possible this year. Money markets priced more than 100 bps at some point yesterday, which would have required at least one hike larger than 25 bps. **Bank of Estonia Governor Muller also said that gradual means hikes of 25 bps.**

High yield spreads widened this morning, with the iTraxx Crossover 5-year CDS index 19 bps wider. European high-yield spreads remained below pandemic highs but have widened 170 bps in 2022 as the growth outlook has deteriorated and the ECB is expected to tighten further.



According to the Russian energy ministry, about half of the 54 Gazprom clients from Europe have opened bank accounts with Gazprombank to conduct payments under the ruble-for-gas scheme. The ministry will analyze which companies refused to do so "in the next couple of days." Among big gas distributors, Eni (Italy) and Uniper (Germany) will or are already making payments in the new scheme. **The European Union called for up to €300 bn of investments by 2030 to end its reliance on Russian oil and gas.** About €225 bn of loans should be made available under the already existing RRF (part of NGEU) and €72bn of grants will reportedly come from redirecting cohesion and agricultural funds.

Switzerland

The Swiss Franc was +2% stronger against the euro this morning after SNB president Jordan said yesterday that the SNB will take care of price stability and sees the risk of second-round effects.

United Kingdom

The Bank of England will release the results of its 2021 Biennial Exploratory Scenario (BES) next week, which Barclays believes could pave the way to regular climate stress testing and the introduction of climate risk into bank capital requirements. Aside from implications on corporate lending portfolios, Barclays expects that mortgage lending could see significant changes. The pricing differential between green and regular mortgages could widen over the coming years if factors such as EPC ratings and flood risk exposure are more directly embedded into pricing decisions.

Japan

The trade deficit widened in April as a weaker yen drove up the cost of energy imports. The trade deficit expanded to 839 bn yen ($6.6 bn) in April from 412 bn yen ($3.2 bn) in March. Trade data also showed the impact of China's lockdowns, with both imports from and exports to China falling, pointing to signs of supply-chain disruptions. **Equities declined** (NIKKEI: -1.9%), similar to the regional trend, following a sharp decline in US equities. The Bank of Japan purchased 70.1 bn yen ($0.6 bn) of ETFs today, the first time since April 7. Japanese yen appreciated (+0.3%). The 10-year JGB yield was little changed at 0.239%, while longer-end JGB yields dropped (30-year: -1.4 bps).

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Asian equities declined, led by Indian (-2.8%) and Hong Kong (-2.5%) equities, following a sharp decline in U.S. equities. **Asian currencies were mixed**. The Korean won depreciated (-0.8%), while Singaporean dollar strengthened (+0.3%). **Long-end government bond yields declined,** with 10-year yields falling in the Philippines (-28.4 bps) and Hong Kong SAR (-6.1 bps). **In Hong Kong,** the unemployment rate increased to 5.4% for the February-April period (consensus: 5.0%) due to the COVID-19 outbreak. **In Thailand,** Governor Sethaput said that the Bank of Thailand's rate decisions will be guided by local factors and will not necessarily follow US rate hikes. **In Sri Lanka,** authorities said that the government will not make debt repayments until debt restructuring is completed. **Equity markets in EMEA were mostly lower** with equities in Hungary (-2.6%) and Poland (-1.7%) seeing the largest declines. **EMEA currencies were generally trading stronger against the dollar, while the Turkish lira (-0.2%) continued its weakening trend. The South African rand was marginally stonger (+0.1%) ahead of the monetary policy meeting later today,** with consensus expectations seeing a +50bps increase to take the repo rate to +4.75%. **The Egyptian pound was marginally weaker (-0.1%) ahead of Egypt's monetary policy announcement later toda**y, with consensus expecting a +100 bps increase to take the deposit rate to +10.25%. **Latin American assets reversed course and declined yesterday.** Local equities posted losses of over 2% in Colombia (-2.7%), Brazil (-2.3%), and Mexico and Peru (both -2.1%). Currencies depreciated, particularly in Colombia (-1%), Brazil (-0.6%), and Mexico (-0.5%). Local currency treasury yield curves moved down or flattened throughout the region. 5-year CDS spreads rose between 3 and 8 bps, with Costa Rica facing a jump of 41 bps.

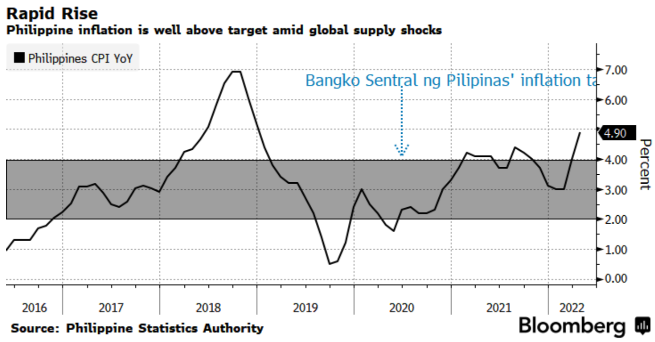
China

Premier Li Keqiang told local governments to act decisively on measures to support growth. Urgent actions are required, and local governments were encouraged to roll out additional measures as soon as possible. In addition, policies outlined in the government work report should be enacted by the end of June; analysts noted that this may give some room for Beijing to introduce additional fiscal support in the second half of the year. Premier Li also reiterated support for digital platform companies, echoing Vice Premier Liu He's earlier remarks. **Onshore equities gained (CSI 300: +0.2%), outperforming other markets in the**

region. Meanwhile, Hong Kong-listed Chinese equities declined (Hang Seng China Enterprises: -2.7%), led by a drop in tech firms. RMB depreciated (-0.1%).

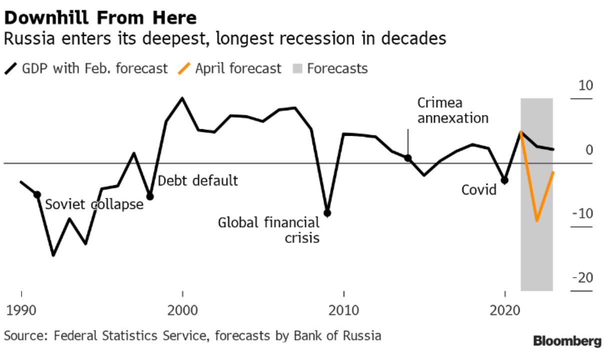
Philippines

Bangko Sentral ng Pilipinas (BSP) raised the policy rate by 25 bps to 2.25% as expected. BSP underscored the need to start normalizing monetary policy and anchor inflation expectations. BSP revised up its inflation forecast to 4.6% for 2022 (previously, 4.3%) while mentioning upside risks owing to higher oil and food prices. BSP will reconfigure its government securities purchasing window, shifting from a crisis intervention measure to a regular liquidity facility. The Philippine peso was little changed, while government bond yields were mixed (1-year: -16.4 bps; 10-year: -28.4 bps; 20-year: +4.8 bps). Equities declined (-1.0%).



Russia

Russia's estimated Q1 economic growth (+3.5%yoy) slowed more than expected (+3.7%yoy from 5.0% in Q4 2021) and analysts continue to see an economic contraction in 2022 amid further price pressures. Bloomberg economists noted that Q1 growth was likely supported by higher demand as a result of stockpiling, together with support from high energy prices and decisive policy action, amongst other factors. Economists point out that Russia's economy likely already contracted in March, and expect a -10% contraction in 2022, with a -9% contraction seen in the second quarter. A separate data release showed **weekly inflation in Russia continued to slow, coming in at +0.05% w/w in the week ending May 13 (from +0.12%), with consumer prices up +11.84% so far this year.** JP Morgan analysts have lowered end-2022 inflation forecasts to +17% y/y from +18%, and while cautioning downside risks to the forecast, analysts expect additional prices increases amid logistic pressures and restricted imports. **JP Morgan analysts expect the central bank to cut rates by 100 bps in June, with a total 200 bps of easing expected in 2022.**

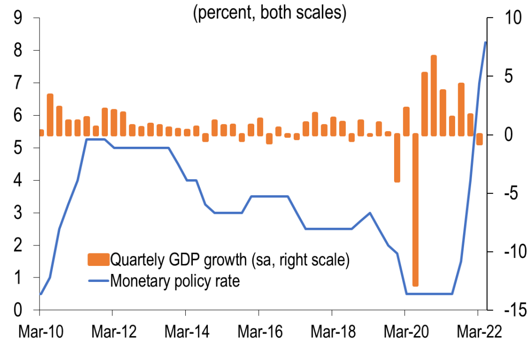


US Treasury Secretary Yellen said she thought it was likely that a waiver that allows Russia to pay Eurobond investors amid sanctions will not be extended. The waiver is set to expire on May 25. Russia's FM Siluanov reportedly **said that if Russia's bond payment options are blocked by the US, Russia would pay its foreign debt in rubles as a last resort,** according to media articles. **Prices of Russia's Eurobonds with coupon payments due on May 27 were little changed today with indicative prices of the 2026 Eurobond at 17 cents on the dollar, and at roughly 11 cents on the dollar for the 2036 Eurobond.** The offshore Ruble was trading stronger (+3.6% at 62.1 against the dollar) and equities in Moscow fell (-0.6%).

Chile

Chilean assets outperformed regional peers yesterday despite weaker than expected GDP growth and current account data. Chilean GDP growth slid down by 4.8 ppt to print at 7.2% y/y in the first quarter of 2022, 70 bps below expectations, while the economy contracted by 0.8% q/q (vs. -0.4% expected). Lower copper production, reportedly reflecting declining ore quality. was one of the drivers of the quarterly contraction. The quarterly current account improved by some $2 bn, but $1 bn less than expected, to a deficit of $5.6 bn. Despite both prints, Chilean assets dodged the brunt of yesterday's regional rout, with stocks retreating by 0.8%, and the peso (-0.3%) only mildly depreciating. Meanwhile, the central bank listed in its latest financial stability report declining global liquidity, tightening global monetary and financial conditions, a tightening in households' access to credit, and a deteriorating economic outlook as sources for financial vulnerabilities. The bank also pointed to the adverse impacts of multiple rounds of early pension fund withdrawals on capital market depth and financing conditions.

Chile: GDP contracted on quarterly base, while policy rate continues to soar
(percent, both scales)



Source: Bloomberg.

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Global Financial Indicators

Last updated: 5/19/22 8:01 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities				%			%	%
United States		3924	-4.0	0	-12	-5	-18	-7
Europe		3621	-1.9	0	-5	-8	-16	-9
Japan		26403	-1.9	3	-3	-6	-8	0
China		4000	0.2	1	-2	-23	-19	-13
Asia Ex Japan		68	-2.4	2	-6	-26	-18	-14
Emerging Markets		40	-2.4	2	-8	-25	-17	-15
Interest Rates				basis points				
US 10y Yield		2.84	-4.7	-1	-10	117	133	85
Germany 10y Yield		0.95	-7.7	11	4	106	113	73
Japan 10y Yield		0.24	-0.2	-1	-1	16	17	5
UK 10y Yield		1.83	-3.9	17	-14	98	86	35
Credit Spreads				basis points				
US Investment Grade		170	4.6	8	22	76	58	27
US High Yield		498	21.5	28	106	157	161	92
Europe IG		100	3.5	5	20	48	52	29
Europe HY		486	18.5	26	106	225	245	134
Exchange Rates				%				
USD/Majors		103.27	-0.5	-2	2	15	8	7
EUR/USD		1.05	0.5	1	-3	-14	-8	-7
USD/JPY		127.9	-0.2	0	-1	17	11	11
EM/USD		52.1	0.4	1	-2	-9	-1	-2
Commodities				%				
Brent Crude Oil ($/barrel)		108	-0.6	1	2	73	43	19
Industrials Metals (index)		179	0.2	1	-16	15	4	-4
Agriculture (index)		77	-0.9	1	0	33	27	10
Implied Volatility				%				
VIX Index (%, change in pp)		32.0	1.0	0.2	10.6	9.8	14.8	0.9
US 10y Swaption Volatility		114.6	-0.5	-4.7	-5.9	42.0	35.6	20.3
Global FX Volatility		10.6	0.0	-0.8	1.4	3.2	3.1	3.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)				
Greece		260	4.0	8	54	141	108	20
Italy		197	4.0	10	34	74	62	26
Portugal		115	2.6	6	18	43	51	23
Spain		110	2.4	6	16	38	36	6

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

Emerging Market Financial Indicators

Last updated: 5/19/2022 8:10 AM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation						% p.a.							
China		6.75	0.0	0.5	-5	-5	-6	-6		2.8	4.9	-1	-3	-33	0	-1
Indonesia		14719	-0.2	-0.8	-3	-3	-3	-3		7.3	-1.4	-9	33	83	93	81
India		78	-0.2	-0.4	-2	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.0	0.0	0	-9	-3	-3		5.5	0.0	5	20	105	98	48
Thailand		35	0.4	0.6	-2	-9	-4	-7		3.1	-11.5	-16	50	120	125	87
Malaysia		4.40	-0.2	-0.2	-3	-6	-5	-5		4.4	-5.6	-2	25	119	80	72
Argentina		118	-0.2	-1.0	-4	-20	-13	-9		54.4	0.0	157	414	863	385	645
Brazil		4.94	0.6	3.9	-6	7	13	1		12.2	-8.5	-34	16	259	154	71
Chile		854	-0.3	1.0	-4	-17	0	-7		6.3	0.0	2	-13	248	84	35
Colombia		4070	-0.9	0.3	-8	-10	0	-4		9.2	0.0	18	99	327	275	129
Mexico		19.94	0.5	1.6	0	0	3	2		8.7	0.0	-1	-8	167	117	85
Peru		3.8	-0.2	0.4	-1	-1	6	-1		7.9	0.3	-10	42	291	199	189
Uruguay		41	-0.1	2.4	2	9	10	4		10.1	2.5	2	85	251	142	200
Hungary		367	-0.2	0.5	-6	-22	-12	-13		6.9	-8.5	-22	39	423	241	211
Poland		4.41	0.6	1.9	-2	-16	-9	-8		6.0	-5.8	-14	54	409	250	213
Romania		4.7	0.5	1.3	-3	-14	-7	-7		8.0	-0.9	-6	154	525	315	282
Russia		62.1	3.6	3.9	29	19	21	31		10.6	-53.6	-82	-178	322	179	-61
South Africa		16.0	0.4	0.8	-6	-12	0	-5		8.4	-6.0	-1	13	89	97	81
Turkey		15.97	-0.1	-3.7	-8	-47	-17	-13		24.7	0.0	-72	230	652	37	227
US (DXY; 5y UST)		103	-0.5	-1.4	2	15	8	7		2.85	-4.1	3	-7	199	159	95

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		4000	0.2	1	-2	-23	-19	-13		211	6	4	0	8	3
Indonesia		6823	0.4	0	-6	18	4	-1		214	2	52	46	49	29
India		52792	-2.6	0	-7	7	-9	-8		184	4	13	23	52	30
Philippines		6660	-1.0	2	-7	7	-6	-10		160	-10	46	68	59	23
Thailand		1606	-0.9	0	-4	3	-3	-5		0	0	0	0	0	0
Malaysia		1549	-0.4	0	-3	-2	-1	-2		140	8	25	20	23	7
Argentina		90803	0.9	9	0	62	9	-1		1953	114	276	471	273	216
Brazil		106247	-2.3	2	-8	-13	1	-5		324	15	52	79	13	-7
Chile		4965	-0.8	5	1	23	15	13		182	3	40	44	42	8
Colombia		1465	-2.7	-3	-9	16	4	-3		405	19	62	172	57	13
Mexico		50394	-2.1	2	-8	2	-5	-2		403	15	55	75	71	33
Peru		19834	-2.1	0	-15	-6	-6	-15		203	1	39	56	53	13
Hungary		41842	-2.4	5	-3	-7	-18	-12		214	4	76	74	90	61
Poland		55655	-1.1	5	-12	-11	-20	-11		17	8	4	-23	-15	1
Romania		11974	-1.0	-1	-8	3	-8	-9		265	15	72	83	72	33
Russia		2428	-0.7	6	5	-33	-36	-21		3411	-577	938	3228	3234	2897
South Africa		68039	-1.5	1	-8	3	-8	-9		435	13	107	113	80	46
Turkey		2394	0.0	-2	-5	64	29	19		602	25	94	141	24	39
Ukraine		519	0.0	0	0	-2	-1	0		3018	-367	-250	2516	2259	1545
EM total		40	-0.6	2	-8	-25	-17	-15		418	5	42	71	32	-40

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

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