GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MAY 2, 2022

- **Inflation and supply chain disruptions cloud outlook for US and European corporates** (link)
- **European natural gas prices trend lower on warmer weather and LNG imports** (link)
- **EM bond fund outflows intensify amid pullback from Chinese local currency bonds** (link)
- **Decline in Chinese PMIs stokes growth and supply chain concerns** (link)
- **Reports suggest EU likely to propose ban on Russian oil imports by year-end** (link)
- **Colombian central bank hikes policy rate 100 bps and signals more tightening ahead** (link)

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Global growth concerns keep markets on edge

Markets are trading cautiously this morning after a confluence of worries around the growth outlook, tighter monetary policy, and mixed earnings results drove a volatile end to April for global markets. US equities declined sharply on Friday as weak corporate profit guidance, particularly from a few key tech companies, added to the growing pessimism towards the overall growth outlook. Tech sector shares drove the declines in broader indices with both the S&P 500 and Nasdaq falling over 3.5%, while European equities are catching up with the declines in the US from Friday and trading down over 2% this morning. Although core sovereign bond yields are slightly lower this morning, the sell-off in US Treasuries also accelerated on Friday with yields up 10 to 12 bps across the curve as 10-year nominal yields approach 3% and 10-year real yields are on the verge of trading in positive territory. European bond markets also contributed to the fixed income sell-off that gained momentum late last week amid higher inflation reads and policy rate expectations as 10-year German bund yields climbed back towards the 1% threshold. Those Asian markets not on holiday closed slightly lower as softer PMI readings from China over the weekend added to the negative sentiment in the region. Investors will be focused on the midweek FOMC meeting decision with markets pricing in a 50 bp hike. Attention will also be on Chair Powell's guidance during the press conference in an attempt to gauge future policy intentions and the committee's reaction function.

Key Global Financial Indicators

Last updated: 5/2/22 8:04 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4132	-3.6	-3	-9	-1	-13
Eurostoxx 50		3725	-2.1	-1	-5	-6	-13
Nikkei 225		26819	-0.1	-1	-3	-7	-7
MSCI EM		42	0.4	0	-8	-21	-13
Yields and Spreads					bps		
US 10y Yield		2.92	-1.5	10	54	129	141
Germany 10y Yield		0.92	-1.9	8	36	112	110
EMBIG Sovereign Spread		438	1	20	-1	99	71
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.0	-0.1	-1	-3	-9	-1
Dollar index, (+) = $ appreciation		103.4	0.5	2	5	13	8
Brent Crude Oil ($/barrel)		103.3	-3.6	1	-1	54	33
VIX Index (%, change in pp)		34.4	1.0	7	15	16	17

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

In the week ahead, Wednesday's FOMC announcement of its policy rate decision will be the main focus: a survey by Bloomberg expects a 50-bps increase. On Thursday, the Bank of England is expected to increase its policy rate by 25 bps. In other countries, the following interest rate increases are expected: Australia (Tuesday, +15 bps), Brazil (Wednesday, +100 bps), Norway (Thursday, unchanged), Czech Republic (Thursday, +50 bps), Chile (Thursday, +100 bps), Poland (Thursday, +100 bps). On the data front, the US nonfarm payrolls report (consensus +390k) on Friday will be top of mind.

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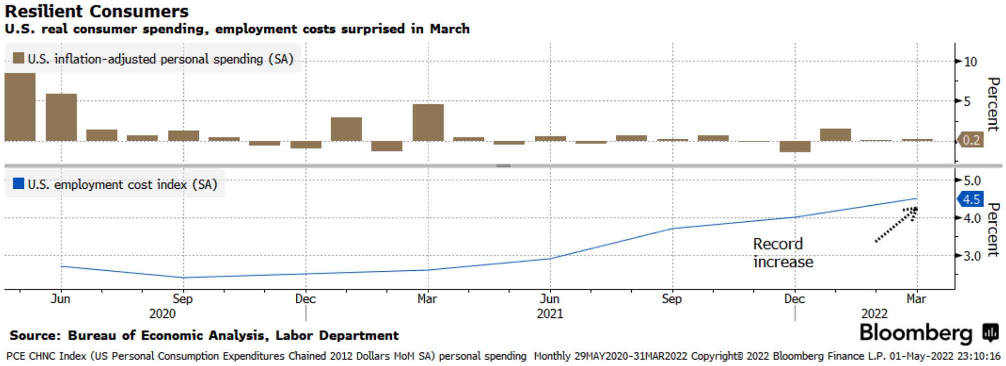
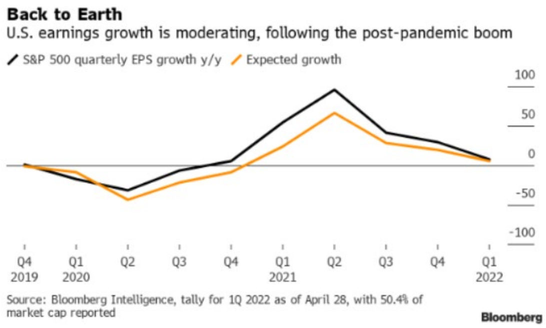
United States

On Friday, the S&P 500 lost almost 4%, due to disappointing quarterly results that drove rising pessimism around the outlook for tech giants (in particular, Amazon), as well as the uncertainty regarding the Fed's policy path. US Treasury yields rose by 10–12 bps across all tenors (attributed to rising real yields) as data releases showed U.S. spending and employment costs' growth were higher than expected. The US dollar depreciated 0.4% versus major currencies.

Last Friday's data release showed that first-quarter US employment costs increased by 1.4%—the largest increase since the early 2000s and significantly exceeding expectations (1.1%). US inflation-adjusted spending increased by 0.2% in March—upper panel in the chart below—in part, fueled by spending from accumulated consumer savings. These developments underpin expectations of a more aggressive tightening path by the Fed, including the expected 50-bp policy rate increase this week.



Corporate executives in the US and Europe express concerns around inflation and supply chain disruptions during quarterly management calls. Bloomberg analyzed management call transcripts for the S&P 500, the Nasdaq 100, and the Stoxx Europe 600 indexes: inflation and supply chain disruptions are the largest concerns for company executives going forward (left chart below). In addition, the topic of a possible economic slowdown is sharply rising in frequency of mentioning (though, not yet entering the top-5 list). In the US, these concerns have not yet materially affected the 1Q2022 earnings as they (on average) were in line with market expectations, though their pace of growth no longer exceeded market expectations as it was during the last several quarters (right chart).



Euro area

European equities are trading sharply lower today, with the Euro Stoxx index down 2%, as the negative momentum in global markets continued after the heavy losses in North America on Friday. European losses are broad-based across sectors, with all major sectors in the red, led by information technology (-2.6%) and consumer discretionary (-2.2%).

European bond yields are lower today, with 2-year and 10-year German bond yields down 3 bps and 2 bps, respectively, on growth concerns underpinned by worries about monetary policy normalization and energy prices. German 10-year real yields dropped 3 bps to -2.20%, while breakeven inflation edged higher by 1 bp.

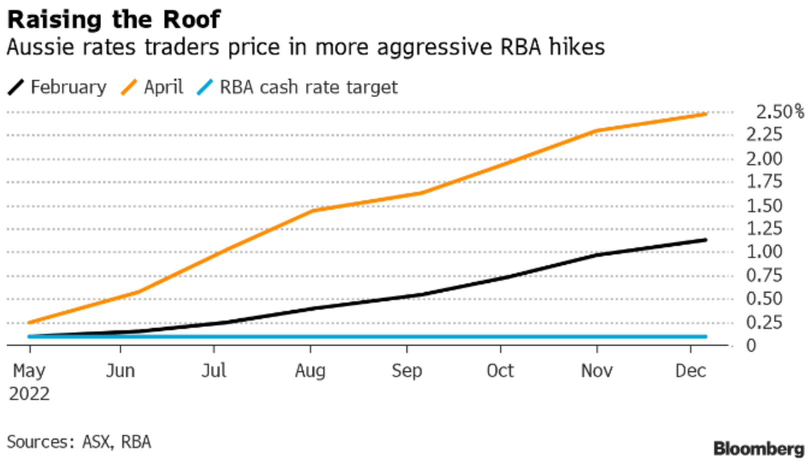
The euro-area manufacturing PMI was slightly better than expected in April—at 55.5 compared to the consensus and previous estimate of 55.3. Across the region, PMIs in Germany, France, and Italy remained in expansion territory in April.

European natural gas prices fell today on warmer-than-expected weather, based on Bloomberg reporting. Dutch futures initially declined up to 6.5% this morning amid thin trading after falling 21% in April. Reportedly, Europe has imported large amounts of liquefied natural gas taking advantage of subdued imports in Asia. However, volatility remains high amid the likelihood of new European sanctions against Russia and worries about Russian deliveries.

UK markets are closed for holiday.

Australia

Australian bonds sold off as investors anticipate the RBA could raise interest rates on Tuesday for the first time since 2010. Yields on benchmark 10-year government notes jumped 14 basis points to 3.26%, the highest since November 2014. Markets are pricing more aggressive moves from the RBA as OIS rates see the cash-rate target at 2.5% by year-end, from a record-low 0.1%, which would be the sharpest annual increase since 1994.



Emerging Markets

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Latin American equities slumped while currencies were little changed on Friday. Equities declined in Argentina (-2.3%), Brazil (-1.9%), Chile (-0.3%), and Mexico (-2.3%). Meanwhile, currencies depreciated in Argentina (-0.1%) and Brazil (-0.6%) and moderately appreciated in Chile (0.8%) and Colombia (0.3%). **Most EM Asia markets were closed for a holiday**, with broader equity markets and currencies in the Asia region little changed. **EMEA equity markets were mixed on Monday**, with South Africa rallying over 1% while Poland and Hungary sold off.

Emerging Market Fund Flows

Emerging market bond and equity funds saw significant outflows last week. EM bonds saw the largest outflows since the beginning of the pandemic (-$3.4bn), split between hard currency bond funds (-$1.8bn) and local currency bond funds (-$1.6bn). The local currency bond outflows were led by China (-$1.6bn), which experienced outflows for the 11th consecutive week. Similarly, EM equity funds saw strong outflows at -$1.7bn, from -$1.6bn last week. Within the regional equity funds, outflows were seen in Asia ex-Japan (-$786mn) and Latin America (-$116mn), while EMEA saw modest inflows ($35mn).

Weekly Cross-asset Flows (USD billion)

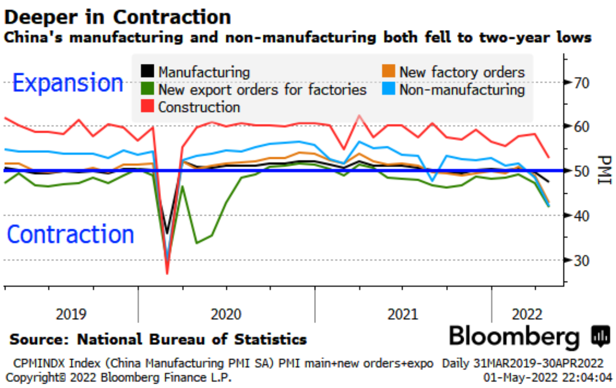
	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-5.1	17.6
	EM Bonds		-3.4	-18.6
	Hard Ccy		-1.8	-12.3
	Local Ccy^		-1.6	-6.2
	o.w. EM ex-China		0.3	-2.1
	o.w. China		-1.9	-4.4
	EM Equities		-1.7	36.2
	US HG		-2.1	-22.5
	US HY		-0.6	-31.0
	Global Equities		-5.2	99.0
	EM Bond and Equity ETFs		0.0	38.8
	EM Bond ETFs		-0.5	-0.1
	EM Equity ETFs		0.5	38.9
	Non-resident EM flows*		-4.2	-42.8

*High frequency non-resident EM portfolio flow data

Source: JP Morgan

China

Chinese Purchasing Managers' Indices (PMIs) dropped in April after the lockdown forced many firms to reduce or halt production as well as dampened consumer demand (left chart below; a level above 50 indicates economic expansion, while lower figures mean contraction). The manufacturing PMI dropped in April to 47.4 (from March's 49.5) the lowest level in more than two years—which was in line with expectations. The non-manufacturing PMI fell much deeper—to 41.9—well below both the expectations (46) and March's figure (48.4). The data release further elevated concerns about disruptions to global supply chains: the index of delivery time of suppliers fell sharply to 37.2 from 46.5, indicating a longer required time for raw materials to reach their manufacturing customers, in spite of the authorities' efforts to avoid interruptions in logistics and transportation.

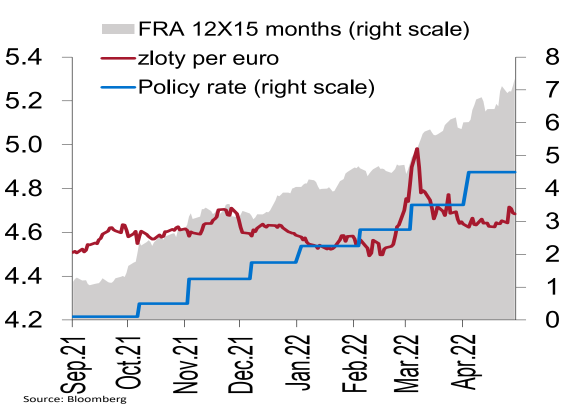


Russia Sanctions

Media reports suggest the EU is likely to propose a ban on Russian oil imports by the end of the year, with restrictions intensifying gradually until then. **However, Hungary stated it will not support an outright ban,** and EU sanctions require unanimous agreement in most cases, so energy sanctions would then need to proceed on a country-by-country basis. The EU is also reportedly considering additional sanctions on Sberbank, including removing its access to the SWIFT payment system. German Foreign Minister Annalena Baerbock said sanctions would only be lifted after Russia completely withdraws from Ukrainian territory. The ruble sold off early in the day before recovering to gain about 0.8% on Monday.

Poland

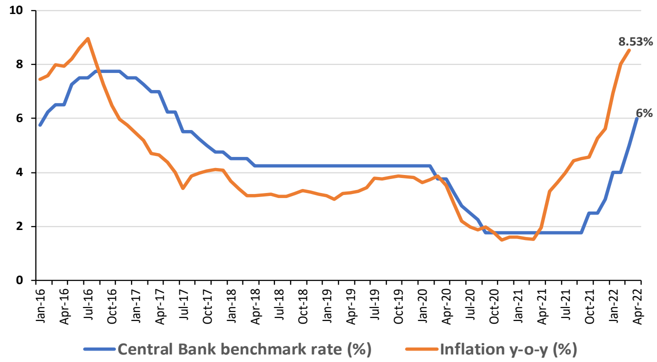
Polish inflation printed above expectations at 12.3% y/y (vs 11.4%) for April (preliminary estimate), the highest since 1998. Analysts expect inflation to remain above the 1.5%-3.5% target range through 2023. Markets are pricing a 100 bp policy rate hike on Thursday with more to come, and ING analysts said that policy rates could reach up to 10% by the end of the cycle.



Colombia

Colombia's central bank raised its policy rate to 6%, as expected. In a split decision (three board members voted for a 150 bp hike) and for the third consecutive time since the beginning of the year, the central bank lifted the key rate by 100 bps to 6%, a five-year high. This widely expected move came as inflation hit a six-year high of 8.5% y/y, and the economy is expected to grow at 5.8% y/y in 2022. According to governor Villar, the inflation rate, driven mainly by external factors and strong domestic demand, should reach 7% y/y at end-2022. As a result, analysts expect the central bank to continue its tightening cycle over the next two meetings.

Colombia Inflation and key interest rate



Sources: Bloomberg and IMF Staff

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Global Financial Indicators

Last updated: 5/2/22 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4132	-3.6	-3	-9	-1	-13
Europe		3725	-2.1	-1	-5	-6	-13
Japan		26819	-0.1	-1	-3	-7	-7
China		4016	2.4	0	-6	-22	-19
Asia Ex Japan		71	0.7	1	-7	-24	-14
Emerging Markets		42	0.4	0	-8	-21	-13
Interest Rates					basis points		
US 10y Yield		2.92	-1.5	10	54	129	141
Germany 10y Yield		0.92	-1.9	8	36	112	110
Japan 10y Yield		0.23	0.1	-2	1	13	16
UK 10y Yield		1.91	2.8	-6	26	106	93
Credit Spreads					basis points		
US Investment Grade		157	1.1	2	21	66	45
US High Yield		415	3.6	10	48	87	78
Europe IG		90	0.0	6	20	40	42
Europe HY		428	0.0	29	96	179	186
Exchange Rates					%		
USD/Majors		103.44	0.5	2	5	13	8
EUR/USD		1.05	-0.2	-2	-4	-13	-7
USD/JPY		129.9	0.2	1	6	19	13
EM/USD		52.0	-0.1	-1	-3	-9	-1
Commodities					%		
Brent Crude Oil ($/barrel)		103	-3.6	1	-1	54	33
Industrials Metals (index)		197	-0.8	-2	-8	27	14
Agriculture (index)		76	-1.2	0	6	30	25
Implied Volatility					%		
VIX Index (%, change in pp)		34.4	1.0	7.4	14.8	15.8	17.2
US 10y Swaption Volatility		130.7	5.7	4.8	25.4	58.7	51.7
Global FX Volatility		10.7	0.1	0.9	1.7	3.6	3.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		247	6.0	33	34	127	95
Italy		190	5.9	16	36	79	55
Portugal		111	2.8	7	28	43	46
Spain		107	2.9	8	15	39	32

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

Emerging Market Financial Indicators

Last updated: 5/2/2022 8:12 AM	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		6.61	0.3	-1.6	-4	-2	-4		2.9	-2.5	2	3	-33	3
Indonesia		14497	-0.5	-1.1	-1	0	-2		7.0	2.0	3	26	47	60
India		77	-0.1	0.2	-1	-3	-3		6.3	0.0	0	9	75	0
Philippines		52	-0.3	0.1	-2	-8	-3		5.3	0.0	3	3	99	83
Thailand		34	0.6	-0.9	-2	-9	-2		2.9	9.5	9	38	85	101
Malaysia		4.35	0.2	-0.7	-3	-6	-4		4.3	-9.5	13	44	120	73
Argentina		115	-0.1	-0.9	-4	-19	-11		52.5	-15.2	50	316	560	193
Brazil		4.99	-0.4	-2.3	-8	9	12		11.7	-41.4	-36	55	247	104
Chile		851	0.7	-1.7	-8	-17	0		6.3	-0.8	-16	15	268	86
Colombia		3961	0.5	-2.6	-5	-6	3		8.6	8.0	32	57	298	218
Mexico		20.42	0.1	-1.1	-3	-1	1		9.0	0.0	20	68	214	144
Peru		3.8	0.2	-1.8	-3	-1	4		7.9	0.1	-14	110	247	195
Uruguay		41	0.9	-1.8	1	7	10		10.1	0.0	51	123	268	134
Hungary		360	-0.2	-3.4	-7	-17	-10		6.8	0.0	16	76	425	229
Poland		4.46	-0.5	-2.7	-5	-15	-9		6.0	2.0	27	111	398	242
Romania		4.7	-0.2	-1.8	-4	-13	-7		6.8	10.5	33	87	418	196
Russia		71.1	0.9	5.5	17	5	6		10.9	-147.3	-151	-306	360	217
South Africa		15.9	-0.7	-1.4	-8	-9	0		8.5	2.0	26	64	93	106
Turkey		14.89	-0.2	-0.8	-1	-45	-11		21.3	0.0	-45	-396	280	-303
US (DXY; 5y UST)		103	0.5	1.6	5	13	8		2.94	-1.7	8	38	209	168

	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		4016	0.0	0	-6	-22	-19		201	-6	-14	-7	-2
Indonesia		7229	0.0	-1	3	20	10		187	15	7	16	22
India		56976	-0.1	1	-4	17	-2		168	2	9	10	36
Philippines		6721	-0.2	-4	-6	6	-6		141	12	8	45	40
Thailand		1667	0.0	-1	-2	5	1		0	0	0	0	0
Malaysia		1600	0.0	0	0	0	2		120	3	-7	-8	3
Argentina		88251	-2.3	-4	-4	80	6		1803	25	71	267	123
Brazil		107876	0.0	-3	-11	-9	3		298	15	7	39	-13
Chile		4778	0.0	0	-4	7	11		170	7	23	35	30
Colombia		1562	-1.9	-1	-4	25	11		372	21	43	137	24
Mexico		51418	-2.3	-3	-9	7	-3		379	8	48	39	47
Peru		22819	0.9	-2	-9	17	8		200	15	36	36	50
Hungary		42661	-1.9	1	-5	-1	-16		195	49	55	59	71
Poland		56999	-1.3	-4	-13	-6	-18		1	-8	-11	-37	-31
Romania		12691	-0.3	-2	-1	12	-3		240	30	38	55	47
Russia		2445	0.0	10	-11	-31	-35		3411	-577	938	3228	3234
South Africa		72438	0.0	-1	-5	8	-2		391	50	29	50	36
Turkey		2431	0.0	-2	8	74	31		514	13	-15	24	-64
Ukraine		519	0.0	0	0	-2	-1		3734	223	1162	3201	2975
EM total		42	-0.1	0	-8	-21	-13		394	-2	-119	30	7

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

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