GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MAY 20, 2022

- **Crypto collapse has limited impact on household net worth or consumption** (link)
- **Money markets are still pricing about 100 bps of ECB hikes in 2022** (link)
- **China's 5-year loan prime rate cut by 15 bps to support the housing market** (link)
- **Analysts warn that restrictions on the export of Ukrainian cereals risks food security** (link)
- **South Africa hikes benchmark rate by 50 bps, further tightening expected** (link)

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China's mortgage lending rate cut boosts market sentiment

Global equity markets recovered after China cut its 5-year loan prime rate by a more-than-expected 15 bps to support the housing market. Asian equities outperformed as a result, with the cut injecting a note of optimism at the end of another volatile week for global markets. European bourses rose and US equity futures gained over 1% in pre-market trading. Advanced economy sovereign bond yields increased, with 10-year US Treasury and bund yields up between 3 and 4 bps. Credit spreads narrowed, with the iTraxx Crossover CDS 5-year index narrowing 10 bps, partly reversing yesterday's widening. The dollar was steady and oil prices held above $112 a barrel. Elsewhere, there was a flurry of monetary policy decisions in emerging markets. The South African rand appreciated after the central bank accelerated the pace of tightening with a +50-bps hike. The Egyptian pound was little changed after the central bank of Egypt surprised markets with a +200-bps increase. Hungarian equities outperformed after its central bank left the one-week deposit rate unchanged at 6.45%. Moreover, the central bank of Ukraine is reportedly considering returning to regular interest rate decisions by mid-2022.

Key Global Financial Indicators

Last updated: 5/20/22 8:01 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		3901	-0.6	-1	-13	-6	-18	-8
Eurostoxx 50		3701	1.7	0	-5	-7	-14	-7
Nikkei 225		26739	1.3	1	-1	-6	-7	1
MSCI EM		41	1.6	4	-6	-24	-16	-14
Yields and Spreads					bps			
US 10y Yield		2.87	3.4	-5	4	125	136	88
Germany 10y Yield		0.99	3.6	4	13	109	116	76
EMBIG Sovereign Spread		486	6	12	81	155	119	73
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		52.7	0.4	2	-1	-9	0	-1
Dollar index, (+) = $ appreciation		102.9	0.2	-2	3	15	8	7
Brent Crude Oil ($/barrel)		112.6	0.5	1	5	73	45	16
VIX Index (%, change in pp)		28.7	-0.7	0	8	8	11	-2

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

Mature Markets

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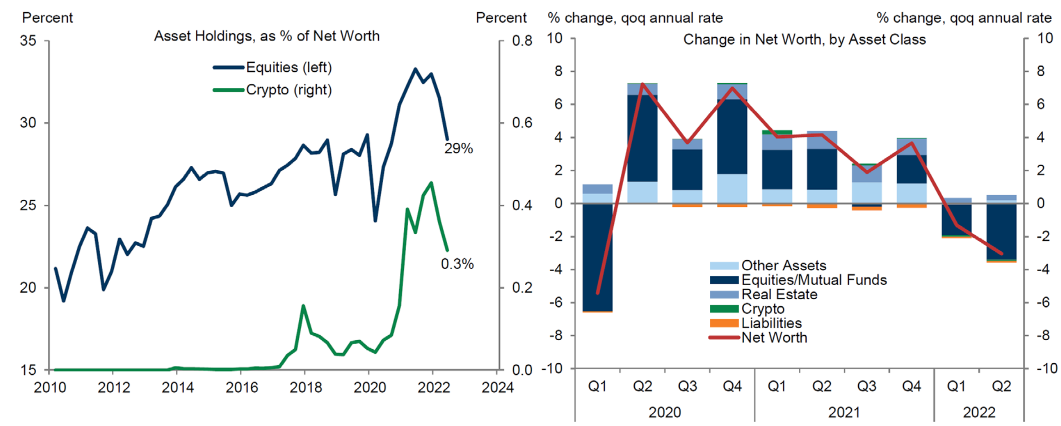
United States

US equities closed 0.6% lower on Thursday after a volatile day of trading. Weak economic data weighed on sentiment, as initial jobless claims came in worse than expected at 218k (vs 200k) and the Philadelphia Fed Manufacturing survey underwhelmed. Treasury bonds rallied sharply in the morning with yields falling over 10 bps before retracing in the afternoon, with the 10-year yield ending the day 3 bps lower on net at 2.85%. **High yield credit spreads widened another 7 bps and are up about 100 bps since late April**.

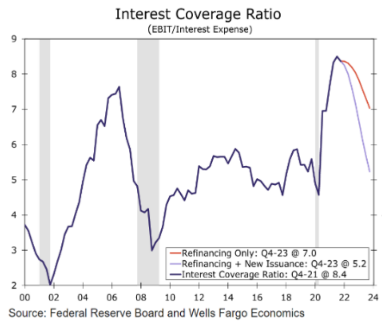
The crypto collapse has made headlines but has limited impact on household net worth or consumption The market cap of crypto assets has collapsed by close to $1 tn since late 2021 to around $1.3 tn. However, assuming US residents hold about 1/3 of the crypto universe (GS estimate), crypto only accounts for about 0.3% of total household net worth. In contrast, the nearly 20% decline in the S&P 500 this year has wiped out about $8tn in household net worth. Goldman also believes crypto has had little direct impact on labor supply as labor force participation rates for young men (the demographic with the highest propensity to own crypto) has already returned to pre pandemic levels. Similarly, while Goldman estimates that the sell-off in stocks could subtract over 0.5% from Q3 real personal consumption expenditure growth (annualized) through wealth effects, crypto will have little to no impact.

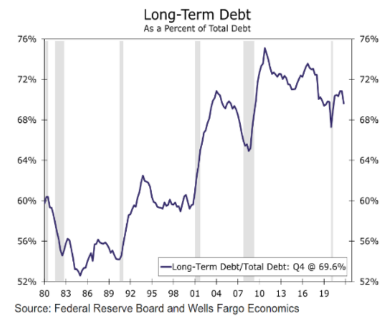
Exhibit 2: Cryptocurrency Holdings Account for a Small Fraction of the Level and Change in Household Net Worth



Source: CoinMarketCap, Federal Reserve, Goldman Sachs Global Investment Research

Analysts see corporate debt servicing burdens remaining manageable into 2023 despite increased pressure from Fed policy tightening. The amount of nonfinancial corporate (NFC) debt has risen to nearly $12 tn, up about $1.5 tn from the end of 2019, and the prospect of the Federal Reserve hiking 300-350 bps in an 18-month period is likely to put pressure on debt servicing costs for corporates**.** However**,** with close to 70% of debt issued with longer term maturities, only 30% of debt may need to be refinanced in the near term at higher variable rates. Wells Fargo (WF) examines two scenarios, one where the level of NFC debt remains flat (refinancing only), and one where its increases at a 5% annual rate. Holding earnings (EBIT) flat at Q4:2021 levels, WF finds the interest coverage ratio would decline from its Q4 level of 8.4% to 7% by Q4:2023, or to 5.2% in the second scenario, which would still be in line with the recent historical average. Nevertheless, interest expenses would increase from about $270 bn to an all-time nominal high of $470 bn, according to WF estimates.

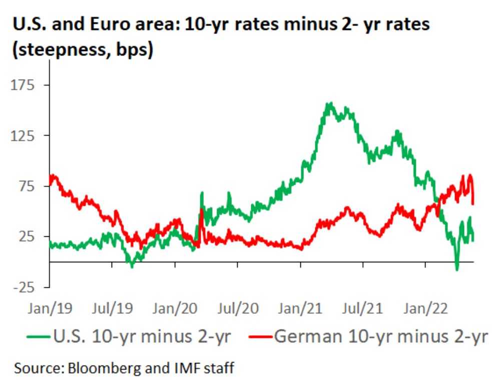




Euro area

Equities (+1.6%) gained as better sentiment in Asia carried over to Europe in a quiet session in terms of news with the euro little changed. The European Commission will publish its confidence indicator for May later today.

German 10-year bund yields (+4 bps to 0.99%) are higher with 10-year Italian and Greek spreads 2 bps higher. The German yield curve has flattened as money markets have priced in more ECB tightening in recent weeks.



Money markets are still pricing about 100 bps of hikes in 2022. In line with expectations, accounts of the ECB's April policy meeting signaled concerns about the breadth and persistence of inflation, pointing to *initial signs of above-target revisions in a number of indicators of inflation expectations.* Reasons for higher inflation mentioned included supply bottlenecks, workers wanting to protect their real wages and upward pressure on inflation stemming from a likely acceleration of the green transition and *reshoring* efforts by governments.

United Kingdom

The pound was little changed after GfK consumer confidence fell to -40 in May, the lowest observation since records began in 1974, marginally worse than expected. In contrast, retail sales were a bit better than expected in April, with a contraction of 4.9% yoy (7% contraction expected). Retail sales ex fuel fell 6% yoy (contraction of 8% expected) but rose 1.4% mom (compared to drop of 0.2% expected).

Japan

Core CPI increased 2.1% y/y in April, stronger than expected, accelerating from 0.8% in March. Headline inflation also accelerated to 2.5% y/y. Analysts noted that the pickup in core inflation is just not sustainable, mostly reflecting cost-push factors. Signs for demand-driven inflation have not emerged, with still limited upward pressure on wages. As a result, the Bank of Japan will likely maintain its monetary policy easing. Equities gained (NIKKEI: +1.3%); Japanese yen depreciated (-0.3%); long-end JGB yields dropped after a strong 20-year debt auction (10-year: -0.1 bp; 30-year: -1.8 bps).

Emerging Markets

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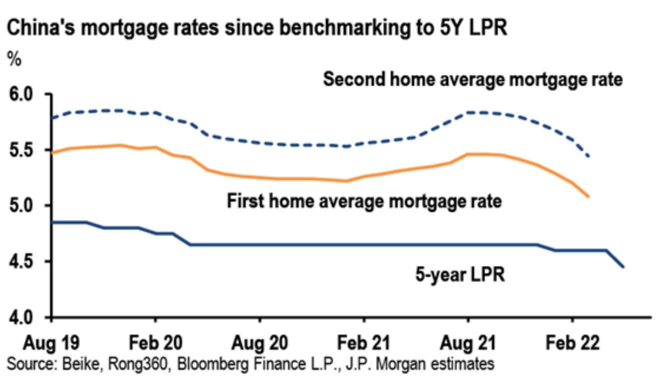
Asian markets advanced as China's 5-year loan prime rate cut lifted risk sentiment. Asian equities were led by Hong Kong (+3.0%), Indian (+2.7%), and Chinese (CSI 300: +2.0%) equities. Asian currencies appreciated, led by Thai baht (+0.8%), Korean won (+0.7%), and the Chinese yuan (+0.5%). The Indonesian rupiah also appreciated (+0.5%) as a ban on palm oil will be lifted on May 23. Most long-end government bond yields declined, with 10-year yields falling in Thailand (-11 bps), Korea (-7 bps), and Indonesia (-7 bps). **Equity markets in EMEA mostly traded higher** with equities in Hungary (+1.2%) outperforming. **EMEA currencies were mixed against the dollar, with the Turkish lira (-0.6%) seeing the largest depreciation.** Equities in Moscow fell (-1.5%) while the offshore Russian ruble appreciated (+3.8%). **Polish 10-year yields increased (+2bps) after growth in annual gross wages surprised on the upside. The Egyptian pound was little changed after the central bank of Egypt yesterday surprised markets with a +200 bps increase to take the deposit rate to +11.25%.** Median consensus survey expectations saw a +100 bps increase. **The central bank of Hungary yesterday left the one-week deposit rate unchanged at 6.45%, in line with expectations. Latin American assets advanced on Thursday.** Equities outperformed in Peru (+2%) and Mexico (+1.8%), while posting losses in Colombia (-3.7%) and Argentina (-2.4%). Brazilian stocks (+0.7%) gained, with shares in Electrobras (+3%) outperforming as Brazil's audit court allowed the Brazilian government to proceed with plans to dilute its stake in the power utility. Currencies predominantly appreciated, the Chilean peso (+2%) in particular. The region's hard-currency treasury yield curves mirrored the downward move and flattening of their US peer. Local currency yield treasury curves moved in most countries down as well.

China

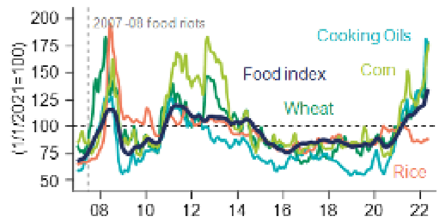
The 5-year loan prime rate (LPR) was reduced by 15 bps to support the housing market. The 5-year LPR fell to 4.45% after a bigger-than-expected cut (consensus: -5 bps). The LPRs are benchmark lending rates set by banks but are largely influenced the policy setting, including the policy rates. Analysts noted that the 5-year LPR cut suggested that Chinese authorities want to provide support to the housing market, particularly through mortgage lending. Earlier this week, the minimum mortgage lending rate for first-time homebuyers was reduced to 20 bps below the 5-year LPR from the LPR itself. Reportedly, banks in major cities have already offered new mortgages at a rate as low as 4.4%. However, the impact of the 5-year LPR cut on existing mortgages will likely be slow, as the interest rate reset typically occurs once a year. **Meanwhile, the 1-year LPR was kept unchanged at 3.70% (consensus: -5 bps).** Analysts noted that this would help protect bank net interest margins amid rising NPLs on the back of weakening economic activity. **Chinese equities gained (CSI 300: +2.0%); the RMB appreciated (+0.5%); the 10-year CGB yield rose marginally.**



Food Prices

Analysts at BNP warn that restrictions on the export of Ukrainian cereals risks food security in several smaller poorer nations with a risk of an increase in global hunger. Much of Russian and Ukrainian wheat goes to poorer nations. Egypt, Pakistan, Bangladesh, and Indonesia are among the major countries which have imported significant quantities of Ukrainian wheat in 2019–21, according to data from the OEC.

Fig. 2: Global food price indicators close or above 2007-08 levels (selected commodities traded prices, 3mma)



Source: FAO, S&P Platts, Macrobond, BNP Paribas

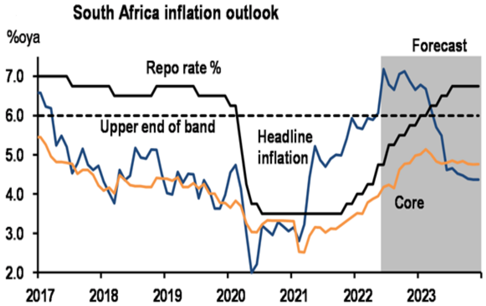
Fig. 4: Share of global trade affected by export restrictions (% of total calories)

Horizontal axis shows number of weeks from the outbreak of crisis
Sources: IFPRI, BNP Paribas

South Africa

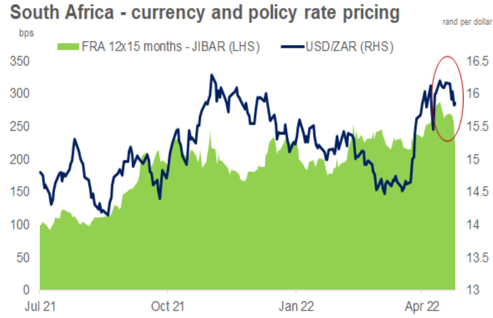
The South African rand appreciated (+1.3%) against the dollar yesterday after the central bank accelerated the pace of tightening with a +50bps hike to take the key rate to 4.75%. The increase was in line with median consensus survey expectations, but the first +50 bps hike since 2016. Four out of five members on the monetary policy committee voted in favor of the +50 bps hike. **The central bank revised 2022 headline inflation forecasts to 5.9% (from 5.8%) amid higher food and fuel costs, with inflation seen to peak at 6.3% in Q2 and return to 4.5% in Q4 2024.** This year's growth forecasts were revised lower with 2022 GDP growth seen at +1.7% (previous forecast +2.0%). **JP Morgan analysts expect another +50 bps increase in July, with the central bank then expected to move back to +25 bps increases**. The repo rate is seen at 5.75% by end-2022, and 6.75% by end-2023. The central bank's quarterly projection model (QPM) showed a marginally higher repo forecast than in March, with rates still below what markets are pricing. The QPM forecast the repo rate at 5.3% by the end of 2022 and 6.2% by the end of 2023 (vs March projections of 5.1% and 6.1% respectively). **While the rand was trading -0.2% weaker this morning, the currency remains roughly 1.8% stronger than at the start of the week.**

South Africa inflation outlook



Source: StatsSA, J.P. Morgan forecast

South Africa - currency and policy rate pricing



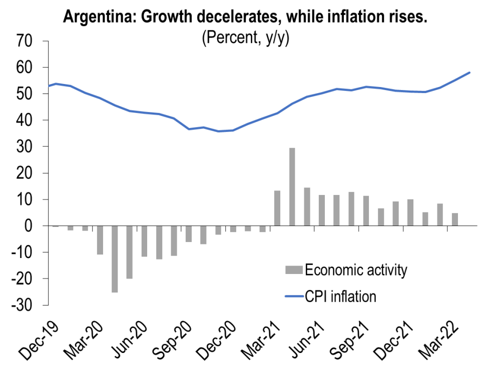
Source: Bloomberg and IMF calculations

Ukraine

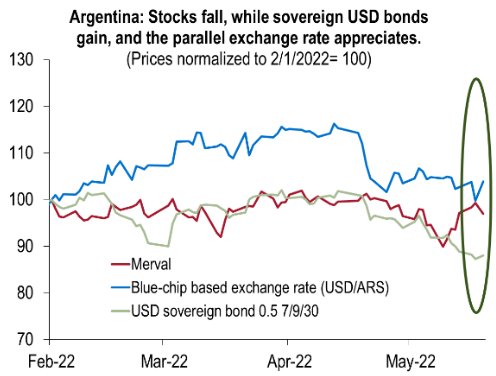
The central bank of Ukraine is reportedly considering returning to regular interest rate decisions by mid-2022 as the war is seen to enter a protracted phase. Monetary policy decisions were put on hold after Russia invaded Ukraine, but the central bank had noted that regular policy meetings would take place again once the economy normalized. The benchmark interest rate is currently at 10%. According to a Bloomberg report, a central bank official said that Ukraine's economy needs to be calibrated given signs that the war is entering a protracted phase.

Argentina

Argentine sovereign dollar bonds gained following a higher-than-expected print in trade balance. April's trade balance came in $1 bn higher than expected, at $1.4 bn, roughly the same size as in April 2021 and $1.1 bn up from March 2022. Accelerating inflation, weighing on internal demand and pushing the real exchange rate down, may have contributed. Neither the stock index Merval (-2.4%) nor the blue-chip swap based parallel exchange rate (+3.9%) reacted immediately to the afternoon's data releases, as both had reversed their previous day's trends already earlier in morning. The price on the sovereign dollar bond maturing in 2030, however, started to climb just shortly before the data release, ending the day higher at 29.4 cents on the dollar.



Source: Bloomberg.



Source: Bloomberg.

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Global Financial Indicators

Last updated: 5/20/22 8:02 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		3901	-0.6	-1	-13	-6	-18	-8
Europe		3701	1.7	0	-5	-7	-14	-7
Japan		26739	1.3	1	-1	-6	-7	1
China		4078	2.0	2	2	-21	-17	-12
Asia Ex Japan		69	1.6	4	-4	-25	-16	-13
Emerging Markets		41	1.6	4	-6	-24	-16	-14
Interest Rates			basis points					
US 10y Yield		2.87	3.4	-5	4	125	136	88
Germany 10y Yield		0.99	3.6	4	13	109	116	76
Japan 10y Yield		0.24	-0.1	0	-1	16	17	5
UK 10y Yield		1.93	6.5	19	2	109	96	45
Credit Spreads			basis points					
US Investment Grade		171	0.8	7	23	76	59	28
US High Yield		505	6.9	19	123	161	168	99
Europe IG		96	-1.9	4	18	45	49	25
Europe HY		468	-10.0	22	96	210	226	116
Exchange Rates			%					
USD/Majors		102.91	0.2	-2	3	15	8	7
EUR/USD		1.06	-0.2	2	-3	-14	-7	-7
USD/JPY		128.0	0.2	-1	0	18	11	11
EM/USD		52.7	0.4	2	-1	-9	0	-1
Commodities			%					
Brent Crude Oil ($/barrel)		113	0.5	1	6	82	49	24
Industrials Metals (index)		186	0.6	5	-12	20	8	-1
Agriculture (index)		78	-0.2	1	0	35	28	11
Implied Volatility			%					
VIX Index (%, change in pp)		28.7	-0.7	-0.2	8.4	8.0	11.5	-2.4
US 10y Swaption Volatility		114.9	-0.4	-0.4	-6.5	46.8	35.9	20.6
Global FX Volatility		10.8	0.0	-0.3	1.6	3.7	3.4	3.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		264	4.3	10	61	151	113	24
Italy		202	6.0	11	36	85	67	30
Portugal		117	2.0	5	18	48	52	25
Spain		111	1.9	6	17	43	37	8

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

Emerging Market Financial Indicators

Last updated: 5/20/2022 8:03 AM	Exchange Rates: Level, Last 12m	Level, Latest (vs. USD)	Change (in %), 1 Day ((+) = EM appreciation)	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest (% p.a.)	Change (in basis points), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
China		6.67	0.6	1.7	-4	-4	-5	-5		2.9	1.5	-1	-3	-29	1	0
Indonesia		14642	0.5	-0.2	-2	-2	-3	-2		7.2	-9.1	-16	24	72	84	72
India		78	0.2	-0.1	-2	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.5	0.4	0	-8	-2	-2		5.4	-2.5	3	15	103	95	45
Thailand		34	0.5	1.3	-2	-9	-3	-6		3.1	-4.0	-27	45	116	121	83
Malaysia		4.39	0.4	0.2	-2	-6	-5	-5		4.3	-9.4	-10	12	111	73	65
Argentina		118	-0.2	-0.9	-4	-20	-13	-9		54.7	27.3	159	421	893	412	673
Brazil		4.93	0.8	4.1	-5	8	13	2		12.2	-16.0	-41	9	251	147	63
Chile		837	2.0	3.0	-2	-15	2	-6		6.2	0.0	-10	-17	237	82	33
Colombia		4053	0.4	1.4	-7	-9	0	-3		9.0	0.0	-8	88	298	259	112
Mexico		19.90	0.1	1.0	0	0	3	2		8.6	-7.0	-8	-15	160	110	77
Peru		3.7	1.0	0.7	-1	0	7	0		7.8	-4.7	-15	30	302	194	184
Uruguay		40	0.6	3.3	2	9	10	5		10.1	-3.5	-1	70	246	139	196
Hungary		362	0.3	2.3	-6	-21	-10	-12		6.7	-11.5	-42	17	398	219	189
Poland		4.38	0.2	2.6	-2	-16	-8	-8		5.9	-9.1	-37	43	386	235	198
Romania		4.7	-0.1	1.5	-3	-14	-7	-7		8.0	0.3	7	154	522	315	283
Russia		60.2	3.5	7.4	36	22	25	36		10.5	-4.0	-90	-187	315	169	-72
South Africa		15.8	0.2	2.3	-5	-12	1	-4		8.3	-1.0	-22	8	86	87	71
Turkey		15.89	0.0	-2.6	-8	-47	-16	-13		24.5	-16.0	-64	257	632	21	211
US (DXY; 5y UST)		103	0.2	-1.6	3	15	8	7		2.87	3.1	1	1	206	161	97

	Equity Markets: Level, Last 12m	Level, 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	Level, Latest (basis points)	Change (in basis points), 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
China		4078	2.0	2	2	-21	-17	-12		212	5	6	4	9	4
Indonesia		6918	1.4	5	-4	20	5	0		216	0	54	51	51	31
India		54326	2.9	3	-5	7	-7	-5		195	17	26	36	63	41
Philippines		6746	1.3	6	-4	9	-5	-8		160	-12	44	71	59	23
Thailand		1623	1.1	2	-4	5	-2	-4		0	0	0	0	0	0
Malaysia		1549	0.0	1	-3	-1	-1	-2		137	3	23	19	20	4
Argentina		88634	-2.4	3	-4	55	6	-3		1945	58	257	449	265	208
Brazil		107005	0.7	1	-6	-13	2	-4		323	10	55	78	12	-8
Chile		4982	0.3	6	0	22	16	14		180	3	35	42	40	6
Colombia		1411	-3.7	-7	-14	12	0	-7		405	15	61	171	57	13
Mexico		51290	1.8	4	-5	3	-4	0		402	12	50	73	70	32
Peru		20229	2.0	5	-15	-5	-4	-14		199	0	33	50	49	9
Hungary		42116	1.5	2	-3	-9	-17	-12		221	12	81	83	97	68
Poland		55975	0.8	2	-11	-12	-19	-11		24	17	23	-13	-8	8
Romania		12078	0.9	0	-7	4	-8	-9		286	44	91	106	93	54
Russia		2378	-2.4	3	2	-35	-37	-23		3411	-577	938	3228	3234	2897
South Africa		67977	-0.4	-1	-8	3	-8	-9		441	14	110	120	86	52
Turkey		2380	-0.6	0	-6	63	28	18		618	24	106	156	40	55
Ukraine		519	0.0	0	0	-2	-1	0		3103	-298	-310	2597	2344	1630
EM total		41	1.7	4	-6	-24	-16	-14		419	3	39	70	33	-39

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

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