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- The pound depreciates as UK preliminary PMI disappoints ([link](#))
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Market sentiment worsens on tech profit warning

Global equities fell with US tech shares underperforming in pre-market trading after a profit warning from social media group Snap fueled concerns about global growth. Snap shares plunged more than 30% after warning that *the macroeconomic environment has deteriorated further and faster than anticipated*. Futures contracts tracking the technology-heavy Nasdaq 100 index fell 1.7%, with shares in Facebook owner Meta (-7%), Pinterest (-14%), and Twitter (-4%) also underperforming in pre-market trading. In China, the government rolled out additional stimulus measures but failed to impress investors which, combined with persistent concerns over China's zero covid policies, also weighed on market sentiment. Elsewhere, analysts are warning of rising issuance costs in emerging markets while a number of central banks announced their monetary policy decisions amid persistent inflationary pressures. In EMEA, the central banks of Israel (yesterday), Ghana (yesterday), and Nigeria (today) hiked rates. In Asia, Bank Indonesia kept the policy rate at 3.5%, as expected.

Key Global Financial Indicators

Last updated: 5/24/22 8:19 AM	Level Last 12m Latest	Change from Market Close				YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days	12 M		
Equities		%				%	
S&P 500	3974	1.9	-1	-7	-5	-17	-6
Eurostoxx 50	3676	-0.9	-2	-4	-9	-14	-7
Nikkei 225	26748	-0.9	0	1	-6	-7	1
MSCI EM	41	0.8	3	-2	-23	-15	-13
Yields and Spreads		bps					
US 10y Yield	2.81	-4.2	-18	-9	121	130	82
Germany 10y Yield	1.00	-1.3	-4	3	114	118	78
EMBIG Sovereign Spread	476	-13	2	58	143	109	63
FX / Commodities / Volatility		%					
EM FX vs. USD, (+) = appreciation	53.2	0.3	2	1	-8	1	0
Dollar index, (+) = \$ appreciation	101.9	-0.1	-1	1	13	7	6
Brent Crude Oil (\$/barrel)	114.1	0.6	2	7	67	47	18
VIX Index (% change in pp)	29.3	0.9	3	1	11	12	-2

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

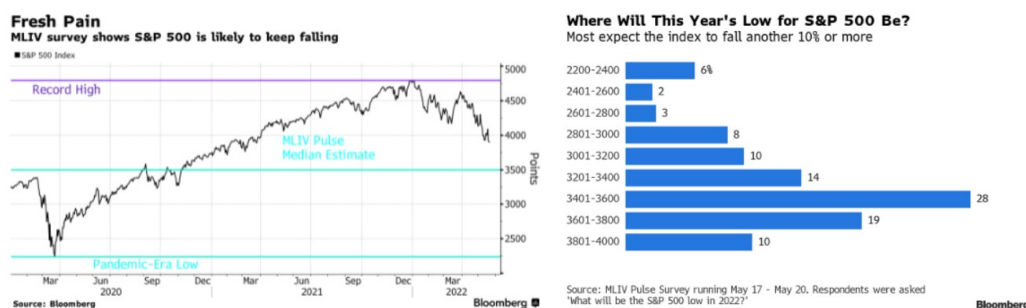
Mature Markets

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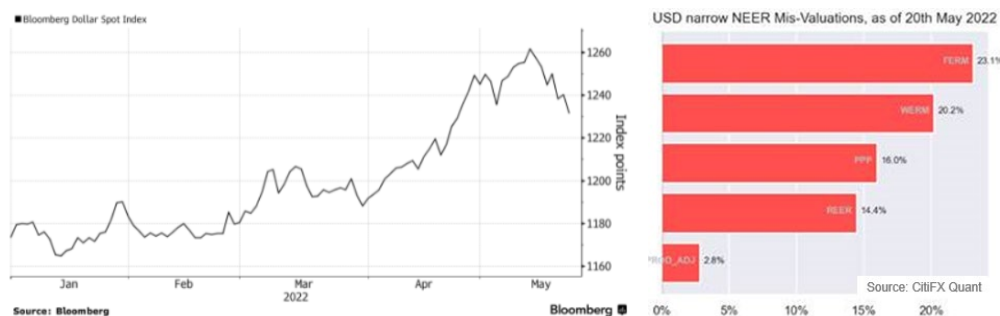
United States

The S&P 500 rose by 1.9% on Monday, partially as a correction to the previous prolonged decline and also in response to President Biden's signal that he would reconsider the China tariffs imposed by the Trump administration. 10-year US Treasury yields rose by 7 bps, mostly attributed to an increase in real yields.

A Bloomberg survey shows that analysts expect further declines in the S&P 500. The median estimate of this year's low is 3500, about 12% lower than the current levels (left chart below). The distribution of responses shows that 90% of respondents see further downside potential for the index (right chart). As the Fed continues tightening, surveyed investors appear concerned that further corporate earnings releases may show worse earnings growth outlooks than expected, potentially triggering another sell-off in equity prices. Relatedly, various metrics show increasing short positioning in the US equities.



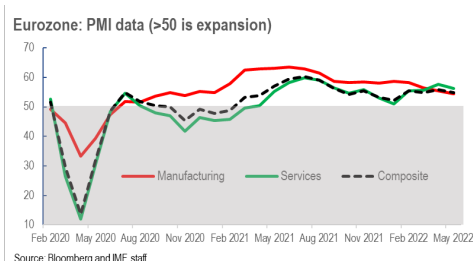
The dollar weakened on Monday but investors still see room for further dollar appreciation. One factor behind the correction was a series of relatively hawkish rhetoric from central banks in Europe that made investors reassess the expected interest rate differential between the US and other countries. Positioning indicators suggest that hedge funds reduced their long positions in the dollar. CitiFX analysts highlighted that all their fair value models indicate that dollar is overvalued (right chart below). However, many still consider the dollar as a haven in the medium-run amid a negative outlook for risky assets. As a result, demand for the dollar may persist even during a prolonged sell-off in the US equities (as it happened during previous episodes of recessionary environments).



Euro Area

Equity markets fell (Stoxx 600 Europe -0.8%) as global risk sentiment faded. The utilities sector (-3%) saw the largest losses, while the banking sector (+0.7%) outperformed. The euro appreciated (+0.2%) while sovereign yields edged marginally lower. ECB President Lagarde and Governing Council member Villeroy de Galhau highlighted the lack of a consensus for a +50bps interest rate increase, arguing that monetary policy tightening has to be gradual.

Eurozone's May flash composite PMI surprised on the downside, but remained in expansionary territory—decreasing to 54.9 (vs expected 55.1 from 55.8). The services sector component decreased (56.3 vs expected 57.4 from 57.7) but continued to benefit from easing pandemic-related restrictions, with the manufacturing component (54.4 vs expected 54.7 from 55.5) also disappointing. **Firms' input cost inflation edged lower for the second consecutive month, but inflationary pressures remain.** S&P Global economists warn of a services sector growth slowdown as living costs increase. **ING analysts see the data as a hawkish signal for the ECB.**



Goldman Sachs analysts have revised Euro area inflation forecasts upwards and now expect core inflation at 3.2% y/y and headline inflation at 7.9% y/y respectively in December 2022. Core inflation is expected to peak in June at +3.6% y/y, while headline inflation to peak in September at +8.9% y/y. Analysts expect more significant second-round effects of higher energy prices, and estimate that the weaker euro will provide moderate support to inflation. Moreover, worsening supply-bottleneck pressures are expected to keep core inflation at elevated levels while food price inflation is expected to remain high, adding pressure to headline inflation.

United Kingdom

The pound depreciated (-0.5%) following disappointing flash May PMI data with composite PMI falling to 51.8 vs expected 56.5 (from 58.2). The services component saw the largest decline, falling to a 15-month low of 51.8 (from 58.9), while the manufacturing component fell to a 16-month low of 54.6 (from 55.8). The survey saw a record-high increase in operating expenses as input costs increased across the services industry. Economists at S&P Global Market Intelligence noted **that data signals a severe slowdown in the UK's economic growth rate with indications of further weakening ahead.** Yields fell (-9 bps at 2-years) this morning, and while markets scaled back slightly their hiking expectations, a +25 bps hike in June remains fully priced in.

Japan

PMI composite improved to 51.4 in May, underpinned by the services PMI. Manufacturing PMI remained expansionary, though falling to 53.2 in April from 53.5 in March. Meanwhile, services PMI improved to 51.7 from 50.7. Equities declined (NIKKEI: -0.9%), similar to regional trends, while the Japanese yen appreciated (+0.4%), benefiting from safe-haven demand amid renewed risk-off sentiment. Long-end JGB yields declined (10-year: -0.4 bp; 30-year: -1.8 bps). Analysts noted that the Bank of Japan's unlimited bond purchases to cap JGB yields have helped stabilize market volatility.



Emerging Markets

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Asian equities declined, led by Chinese (CSI 300: -2.3%), Hong Kong (-1.7%), and Korean (-1.6%) equities amid renewed risk-off sentiment. Meanwhile, share prices rose in Indonesia (+1.1%). **Most Asian currencies depreciated**, led by Chinese yuan (-0.3%) and Indian rupee (-0.2%). **Long-end government bond yields were mixed**, with 10-year yield rising in Philippines (+50.4 bps) while falling in Singapore (-8.1 bps) and Korea (-6.1 bps). In **EMEA**, **markets traded with a cautious tone, in line with global markets**. Equities fell in Hungary, Poland, and South Africa. Currencies were mixed, with the Turkish lira 1.3% weaker. Yesterday, **the central bank of Ghana hiked interest rates 200 bps to 19%, as expected**, after inflation rose 24% yoy in April. This morning, **the central bank of Nigeria surprised the markets, increasing its benchmark rate unexpectedly by 150 bps to 13%**, in the face of accelerating inflation. Only 2 of 10 economists in a Bloomberg survey had forecast an increase in the benchmark rate. **Latin American equities surged while currencies mostly appreciated yesterday**. Stocks gained in Brazil (+1.7%) and Argentina (+2.5%). IPSA, the Chilean benchmark equity index, surged by 3.6%, reaching its highest level since the pandemic. Meanwhile, currencies appreciated in Chile (1.0%) and Brazil (1.4%) and saw little movement in Colombia and Mexico.

EM Outlook and Issuance Costs

JP Morgan warns that persistent deficits coupled with higher financing costs and deteriorating balance sheets will weigh on the debt service of several frontier and high-spread countries going forward. Despite an improving trend in primary balances, JP Morgan expects that this group of countries is set to maintain twin deficits the next five years. **This will put significant pressure on debt dynamics in an environment where issuance has dwindled, and issuance costs have risen**.

Annual average new USD issuance coupon rates (%) split by rating buckets

Average coupon rate (%)	AA	A	BBB	BB	B	CCC
2000		8.25	8.75	10.72	11.75	8.25
2001		3.56	8.09	9.73	11.69	
2002		2.18	7.13	9.56	8.43	
2003		4.66	6.29	8.89	8.64	7.71
2004		5.12	6.50	8.03	8.58	
2005		3.32		6.12	7.65	9.21
2006		4.34		6.74	7.58	
2007			6.09	6.74	7.58	
2008			6.19	7.23	6.53	
2009			5.95	6.94	8.50	
2010	6.18	6.21	6.89	7.68	8.00	
2011	5.60	4.69	5.97	5.60	7.41	
2012	4.50	4.51	5.67	5.69	7.39	
2013	3.69	3.41	4.53	5.13	6.17	
2014	4.85	3.80	4.51	5.22	7.00	8.50
2015	3.13	3.88	4.68	5.88	6.77	8.25
2016		3.07	4.75	6.81	7.26	
2017	3.19	3.23	4.54	5.45	6.96	7.50
2018	3.13	3.29	4.15	5.12	7.10	
2019	4.00	3.97	4.56	5.78	7.54	
2020	3.00	3.18	3.67	5.21	7.34	11.50
2021	2.39	2.48	2.88	4.84	5.94	7.00
2022	1.75	2.17	2.63	4.12	6.30	7.00
		3.50	3.57	5.24	8.13	

Source: J.P. Morgan.

China

The government rolled out additional stimulus measures but failed to impress investors. The State Council adopted measures to stabilize the economy, including increasing a tax rebate to a broader set of industries by 140 bn yuan (\$21 bn), extending delayed social security payments to the year-end, reducing auto purchase tax, and doubling the quota of lending to support SMEs. Banks were also encouraged to offer repayment moratorium to individual business owners and mortgage borrowers severely affected by the pandemic. **Equities declined (CSI 300: -2.3%) as the stimulus measures failed to impress investors**. Markets remain concerned about the impact of China's zero COVID policy. Analysts also noted that the stimulus measures provide limited support to consumers who face job losses and reduced income. **The People's Bank of China (PBC) urged banks to boost lending to support the economy**. In a meeting with major banks, the PBC discussed credit conditions and called on banks to meet credit demand, especially in areas such as SMEs, green projects, technology innovation, energy supply, and infrastructure. **The RMB depreciated (-0.3%) as optimism around a reduction of U.S. tariffs faded**. The U.S. Trade

Representative Katherine Tai said that the United States must be strategic on the decision of removing the tariffs.



Indonesia

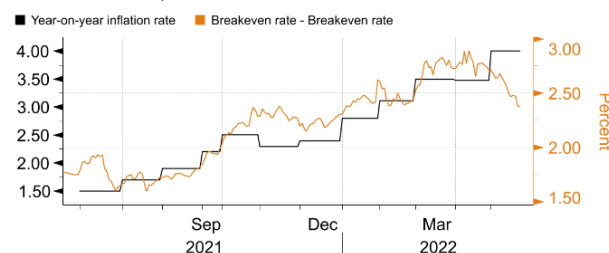
Bank Indonesia (BI) kept the policy rate at 3.5% as expected. However, BI accelerated the hike in the reserve requirement ratio to 9% in September from 6.5% previously (currently, at 6%) to absorb excess liquidity. The decision is expected to withdraw liquidity of about 110 tn rupiah (\$7.5 bn) from the financial system. BI continues to expect that headline inflation will remain within the 2%–4% target range this year and next year following the government's move to increase the energy subsidy budget to guarantee no hike in subsidized fuel and power prices. BI also maintained its growth outlook at 4.5%–5.3% for this year. The Indonesian rupiah appreciated slightly (+0.1%); equities gained (+1.1%); government bond yields increased (1-year: +12.6 bps; 10-year: +3.9 bps).

Israel

The shekel (-0.3%) weakened after closing 0.8% higher after the central bank hiked rates 40 bps to 0.75% (compared to a hike of 25 bps expected) citing strong growth, a tight labor market, and a continued increase in inflation. Inflation rose to 4% yoy in April, exceeding the upper bound of the target range. The central bank also pointed out that an upward trend in home prices accelerated, with prices rising by 16.3 % in the past 12 months. One-year inflation expectations are around the upper bound of the target range. **Longer-term expectations remain anchored within the target range, with breakeven inflation rates have trader lower in recent weeks.**

Israel Breakevens vs. CPI

Breakevens compared to the annual inflation rate

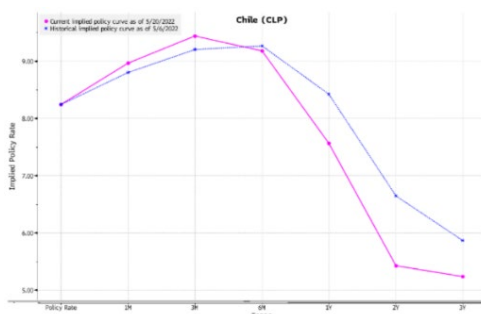


Russia

The ruble (+4% to 56/\$) appreciated after Russia reduced the share of FX proceeds exporters are required to convert into rubles to 50% from 80%. The economy ministry also said that the ruble's appreciation is reaching a peak, imports will adapt, and future cuts will also take pressure of the currency to strengthen. **Equities (-3%) fell in Moscow as data from the energy minister show that oil output in mid-May was 830,000 barrels a day lower than in February.** Gas flows over the weekend from Russia to the EU have dropped dramatically, according to BNP, with zero or close to zero physical flows through Nord Stream 1 and Progress/Brotherhood pipes, as distributors may be adjusting payment mechanisms.

Chile




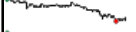
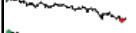













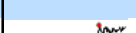

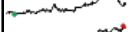




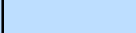


Chile's swap market foresees an earlier end to rising interest rates. Since July 2021, the Chilean central bank has raised its key rate by 775bps to curb staggering inflation that reached a two-decade record of 10.5% in April. However, with the interest rate now hitting 8.25% (its highest level since 2008) and a more-severe-than-expected economic contraction during 2022-Q1 (-0.8% vs. -0.4%), analysts are starting to price in an earlier end to the tightening cycle. Swap rates are now pricing in the benchmark rate to peak within the next three months and end the year at around 7.5%, suggesting some rate cuts by the end of the year. Meanwhile, forwards see inflation peaking at 12.8% in August.



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Global Financial Indicators

Last updated: 5/24/22 8:19 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3949	1.9	-3	-8	-6	-17	-7
Europe		3676	-0.9	-2	-4	-9	-14	-7
Japan		26748	-0.9	0	1	-6	-7	1
China		3959	-2.3	-1	4	-26	-20	-14
Asia Ex Japan		70	0.6	3	-1	-24	-16	-12
Emerging Markets		41	0.8	3	-2	-23	-15	-13
Interest Rates			basis points					
US 10y Yield		2.81	-4.2	-18	-9	121	130	82
Germany 10y Yield		1.00	-1.3	-4	3	114	118	78
Japan 10y Yield		0.24	-0.3	-1	-1	16	17	4
UK 10y Yield		1.89	-8.0	1	-7	108	92	41
Credit Spreads			basis points					
US Investment Grade		172	0.6	6	17	80	60	29
US High Yield		504	3.7	27	111	160	166	97
Europe IG		97	0.9	5	13	45	49	25
Europe HY		474	2.1	32	75	217	232	122
Exchange Rates			%					
USD/Majors		101.93	-0.1	-1	1	13	7	6
EUR/USD		1.07	0.3	2	0	-12	-6	-5
USD/JPY		127.3	-0.5	-2	-1	17	11	11
EM/USD		53.2	0.3	2	1	-8	1	0
Commodities			%					
Brent Crude Oil (\$/barrel)		114	0.6	2	8	77	50	26
Industrials Metals (index)		183	-2.1	1	-13	18	6	-3
Agriculture (index)		78	0.2	-2	2	36	28	11
Implied Volatility			%					
VIX Index (% change in pp)		29.3	0.9	3.2	1.1	10.9	12.1	-1.7
US 10y Swaption Volatility		110.2	-0.1	-9.4	-15.7	42.3	31.2	15.9
Global FX Volatility		10.3	0.0	-0.3	0.9	3.2	2.9	2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		268	-4.5	15	66	158	116	28
Italy		203	1.1	11	33	86	68	31
Portugal		117	1.4	5	15	48	53	25
Spain		113	0.4	5	16	44	38	9

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 5/24/2022 8:24 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		6.67	-0.2	1.1	-2	-4	-5	-5		2.8	0.9	-1	-2	-30	0	-1
Indonesia		14661	0.1	-0.1	-1	-2	-3	-2		7.2	4.9	-10	24	78	85	74
India		78	-0.1	0.0	-1	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	-0.1	0.2	0	-8	-3	-2		5.4	0.0	-3	13	103	95	45
Thailand		34	-0.1	1.1	0	-8	-3	-6		2.9	-2.0	-35	19	102	108	71
Malaysia		4.40	-0.2	-0.1	-1	-6	-5	-5		4.2	-1.9	-21	4	103	64	56
Argentina		119	-0.4	-0.9	-4	-21	-14	-10		55.3	-20.0	189	326	963	469	730
Brazil		4.83	-0.4	2.3	1	10	15	4		11.7	-24.8	-61	-37	214	103	19
Chile		830	0.7	3.3	2	-12	3	-5		6.0	0.0	-34	-40	217	62	13
Colombia		3973	0.1	2.2	-1	-6	2	-2		8.7	0.0	-54	39	254	225	78
Mexico		19.82	0.3	0.6	2	0	4	2		8.5	1.5	-18	-35	152	95	63
Peru		3.7	0.3	1.5	2	3	8	0		7.8	0.3	-12	2	280	186	176
Uruguay		40	0.4	3.5	2	10	11	5		10.1	0.7	0	57	241	140	197
Hungary		358	-0.2	2.2	-3	-21	-9	-11		6.6	-5.0	-40	0	392	213	183
Poland		4.30	0.4	2.7	1	-15	-6	-6		6.0	3.5	-15	28	396	242	205
Romania		4.6	0.2	1.6	0	-13	-6	-5		7.9	-0.1	-6	147	517	310	277
Russia		56.4	3.9	15.3	33	30	33	45		10.4	-8.3	-83	-205	300	162	-79
South Africa		15.7	0.6	1.6	0	-11	2	-3		8.2	3.0	-32	-5	82	75	59
Turkey		16.10	-1.1	-1.6	-8	-48	-17	-14		24.3	0.0	-50	253	609	-2	188
US (DXY; 5y UST)		102	-0.1	-1.4	1	13	7	6		2.83	-3.6	-13	-10	203	157	93

	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		3959	-2.3	-1	4	-26	-20	-14		213	1	6	3	10	5
Indonesia		6914	1.1	4	-4	19	5	0		206	-5	34	35	41	21
India		54053	-0.4	0	-4	7	-7	-6		193	7	27	37	61	39
Philippines		6577	-1.7	0	-6	6	-8	-11		148	-12	19	54	47	11
Thailand		1626	-0.6	1	-3	4	-2	-4		0	0	0	0	0	0
Malaysia		1531	-0.7	-1	-4	-3	-2	-3		135	-2	18	15	18	2
Argentina		90344	2.5	2	-1	61	8	-1		1917	-9	139	402	237	180
Brazil		110346	1.7	2	-1	-11	5	-1		323	8	40	74	12	-8
Chile		5128	3.6	2	5	25	19	17		176	6	13	35	36	2
Colombia		1483	1.6	-2	-8	21	5	-2		387	0	36	143	39	-5
Mexico		51377	-0.3	2	-3	4	-4	0		395	7	24	63	63	25
Peru		20494	1.0	2	-12	1	-3	-12		196	6	11	37	46	6
Hungary		43353	-0.2	3	0	-7	-15	-9		219	12	73	77	95	66
Poland		57322	0.3	2	-6	-10	-17	-9		17	13	8	-20	-15	1
Romania		12286	0.9	2	-6	5	-6	-7		267	30	57	86	74	35
Russia		2274	-1.2	-6	2	-38	-40	-26		3411	-577	938	3228	3234	2897
South Africa		67839	-0.8	-3	-6	3	-8	-10		411	-6	70	92	56	22
Turkey		2395	0.6	0	-3	65	29	19		587	-28	86	123	9	24
Ukraine		519	0.0	0	0	-2	-1	0		3153	-266	-358	2665	2394	1680
EM total		41	-2.1	3	-2	-23	-15	-13		407	-7	11	55	21	-51

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

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