



- Equity sector ETFs face the largest monthly outflow on record ([link](#))
- ECB comments continue to diverge on magnitude of July rate hike ([link](#))
- Japan is considering a new type of debt to finance its green transition ([link](#))
- New Zealand's central bank hiked rates by 50 bps to 2%, as expected ([link](#))
- US restricts payments on Russian eurobonds, as expected ([link](#))
- Banxico hints at further hikes despite modest inflation slowdown ([link](#))

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Markets cautious ahead of FOMC minutes

European bourses were modestly lower and US equity futures signaled a mixed opening as market participants awaited minutes from the latest FOMC meeting. US Treasury yields were slightly lower as market participants will examine the minutes carefully for any new language on growth and inflation concerns or hints about changes in the projected pace of future hikes. In currency markets, the dollar appreciated after two consecutive days of weakness, with the euro depreciating as the latest comments by ECB officials indicated that policy normalization would be gradual. The magnitude of the potential ECB hike in July remains a heated debate. ECB's Panetta and Rehn showed support for a 25 bps hike in July, while Holzmann and Kazaks yesterday favored a +50 bps hike. Analysts are divided, while markets are pricing roughly +33 bps of tightening by July. Elsewhere, the ruble was trading weaker as the US Treasury let the waiver expire that allows Russia to pay US Eurobond holders—the next payment is due on June 23.

Key Global Financial Indicators

Last updated: 5/25/22 8:00 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3941	-0.8	-4	-8	-6	-17	-7
Eurostoxx 50		3637	-0.3	-1	-3	-10	-15	-8
Nikkei 225		26678	-0.3	-1	0	-7	-7	1
MSCI EM		41	-1.7	-1	-3	-25	-17	-14
Yields and Spreads			bps					
US 10y Yield		2.73	-2.3	-16	-9	117	122	74
Germany 10y Yield		0.92	-4.8	-11	8	109	110	69
EMBIG Sovereign Spread		482	6	15	64	147	115	69
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.9	-0.7	2	1	-8	1	0
Dollar index, (+) = \$ appreciation		102.3	0.5	-1	1	14	7	6
Brent Crude Oil (\$/barrel)		114.6	0.9	5	12	67	47	18
VIX Index (% change in pp)		30.1	0.7	-1	3	11	13	-1

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

Mature Markets

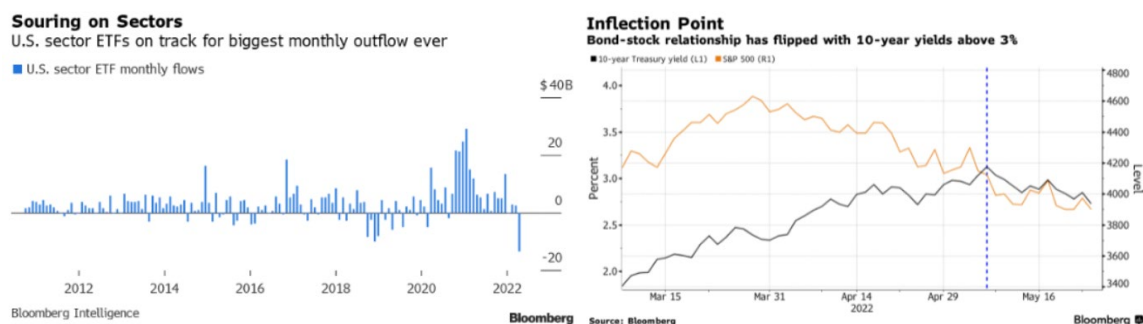
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United States

The S&P 500 closed -0.8% lower yesterday, after an intraday -2.5% drop amid disappointing economic data and corporate earnings releases. The pessimistic outlook was translated into US Treasury markets, with nominal yields falling by 10-15 bps for all tenors, driven predominantly by lower real yields.

April's New Home Sales dropped -17% m/m, a much larger decline than expected (consensus: -2% m/m). The release weighed on US equity prices as some analysts interpreted it as a recession warning. High mortgage rates and house prices are a strong headwind to demand for house purchases and is spilling over into various related sectors including furniture and appliances as well as—potentially—into the broader economy. Additionally, the negative sentiment on Tuesday may have been worsened by the large gap between the released and expected figures for PMI Business Activity in services.

Equity sector-specific exchange-traded funds (ETFs) are facing the largest monthly outflow on record (left chart below). Bloomberg Intelligence reports that roughly \$11.9 bn has been pulled from equity sector ETFs so far in May—the first net outflows since September 2020—and almost all the sectors were subject to outflows. Some analysts suggested that it may be part of the rotation from equities to bonds. For many, the Fed seems to be strongly committed to curb inflation—thus, making inflationary pressures less of a concern for bond markets, while elevating recession risks for equity markets. This shift in the outlook may have contributed to change the pattern in the co-movement between equities and bonds. Since early May, the downward trend in equity prices has been accompanied by declining yields, suggesting that bonds work as a safe haven for relocating from risky assets (right chart).



Euro Area

European equities were modestly lower in muted trade. The mining sector (+1.7%) saw the largest gains.

The euro weakened (-0.6%) and sovereign yields edged lower (10-year bund -3 bps) with ECB comments this morning showing support for a more gradual monetary policy tightening. ECB executive board member Panetta and Governing Council (GC) member Rehn spoke in support of more gradual monetary policy normalization, echoing earlier views from ECB President Lagarde and GC member Villeroy de Galhau. Rehn indicated support for a +25 bps hike in July and another +25 bps hike at the start of autumn. Yesterday comments from members Holtzmann and Kazaks indicated support for a possible +50 bps hike in July. **Markets are pricing in roughly +33 bps of tightening in July (up from +28 bps one week ago), with roughly +100 bps of tightening priced in**



by the end of 2022. Separately ECB Vice President de Guindos noted that the GC has not yet discussed in detail a concrete instrument to limit fragmentation. Southern spreads were trending lower (roughly -2 bps) this morning.

On the data front, an indicator of estimated euro area negotiated wages increased to +2.8% y/y from +1.5%. JP Morgan analysts see the latest wage developments as reinforcing gradual tightening by the ECB, noting that data is impacted by large one-off payments in Germany. However, ING analysts argue that higher wage growth could see inflation remaining above target for longer, and sees a 50 bps hike in July as a possibility. ING analysts also highlight that while higher wages support households amid high inflation, real wage growth remains negative.

Some analysts still expect a mild contraction in Germany's economy in Q2, despite optimism seen in traditional leading indicators. This morning data showed that final Q1 GDP data for Germany was in line with previous estimates showing +0.2% q/q growth. However, analysts pointed out that GDP composition data show that the economy was mainly supported by the construction sector and inventory build-up, while private consumption decreased for the second consecutive quarter (-0.1% q/q vs expected +0.2% from -1.8%) and net exports fell. Separately, Germany's GfK consumer confidence index (-26) increased by less than expected in June (expected -25.5 from -26.6). Following PMI data released yesterday -that remained well in expansionary territory- **analysts highlighted the discrepancy between leading indicators and macro data, and argued that weak Q1 consumption and weakening confidence data dents optimism over Germany's economic outlook.** Separately May consumer confidence data disappointed in France, falling to 86 (vs expected 89 from 87).

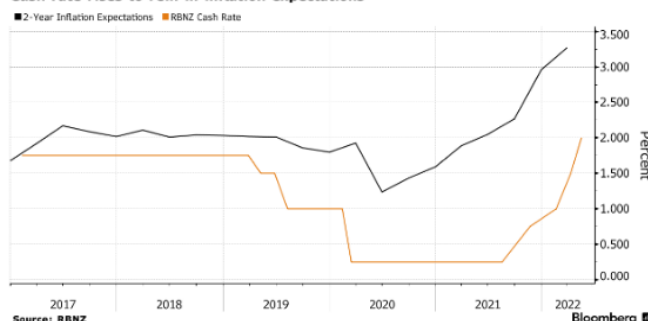
Japan

Japan plans to issue green economy transformation bonds to help meet climate goals. The bonds will help raise up to ¥20 tn (\$157 bn) to reduce emissions, and may be used to finance nuclear power expenditures, according to Bloomberg. The bond framework will be developed later this year. Separately, the **monthly economic report by Japan's cabinet stated there were signs of domestic employment picking up.** The assessment improved compared to the April report, which stressed remaining weakness in the labor market due to COVID. **On data releases,** Japan's final leading index was revised down to 100.8 in March (previous: 101.0), with support from machinery orders (+6.6 m/m) but drags from consumer confidence (-2.4 m/m) over the period. **Equities slipped -0.1%, the Japanese yen depreciated -0.1%, 10-year yields declined -1.9 bps.**

New Zealand

The Reserve Bank of New Zealand (RBNZ) hiked its official cash rate (OCR) by 50 bps to 2%, as expected. In its post-meeting statement, the bank reaffirmed its commitment to bring consumer inflation to the 1%–3% target range and that it will lift OCR at a pace and to a level required to do so. The OCR is expected to return to a lower and more neutral level once supply and demand are more balanced. So far, the RBNZ has increased the OCR by 175 bps since October 2021, with its updated forecasts showing the rate peaking at 3.9% by June 2023. The neutral OCR lies in the 2%–3% range, according to RBNZ's governor Orr. **Equities slipped -0.6%, the New Zealand dollar was little changed, 10-year yields firmed +5 bps.**

Cash rate rises to rein in inflation expectations



Emerging Markets

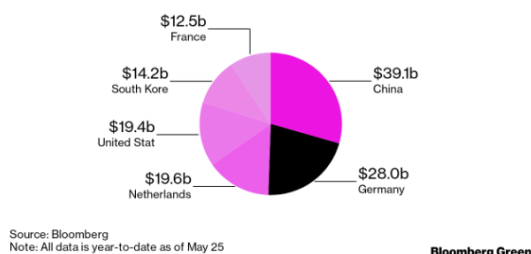
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Asian equities were mixed. Vietnam outperformed (+2.6%) while stocks in Indonesia (-0.5%) and India (-0.4%) fell. **Asian currencies were also mixed.** The Indonesia rupiah strengthened (+0.2%) while the Chinese renminbi depreciated (onshore: -0.3%; offshore: -0.4%). **10-year yields mostly fell**, with large slides seen in Hong Kong SAR (-13.3 bps). In **Singapore**, the final Q1 2022 GDP was revised upwards to 3.7% y/y (preliminary: 3.4%) with growth driven by the manufacturing sector (+7.1% y/y). In the **Philippines**, central bank governor Diokno said inflation expectations remain anchored, but did not rule out another rate hike in June. In **Malaysia**, food inflation reached a 4-year high of 4.1% y/y, driving the headline index further up to 2.3% y/y. In **EMEA**, regional **markets traded with a cautious tone**. Equities fell in Hungary, Poland, and South Africa. Currencies weakened in line with broader dollar strength. The Turkish lira (-1.3%) continued to underperform with the central bank expected to leave rates unchanged tomorrow. **Latin American equities saw little gains while currencies moderately depreciated on Tuesday.** Stocks outperformed in Argentina (1.0%). Meanwhile, currencies moderately depreciated in Argentina (-0.2%) and Chile (-0.2%) and saw little movement elsewhere. Argentina plans to ease FX conditions for oil and gas companies to boost production and investment.

China

China state-backed press highlighted President Xi's focus on economic growth. Local media emphasized Xi's recent moves to foster *high-quality growth while balancing high-level security*, according to Bloomberg. Separately, **China continues to lead globally in corporate sustainable debt issuance.** About \$39.1 bn (+81% y/y) of green, social, and sustainability corporate bond sales by Chinese issuers were made so far in 2022, while issuance fell in other countries. **Equities gained (Shanghai: +1.2%, Shenzhen: +1.2%). The Renminbi depreciated (onshore: -0.3%, offshore: -0.4%), 10-year yields slipped -2.7 bps.**

China's corporate sustainable debt issuance tops global ranking

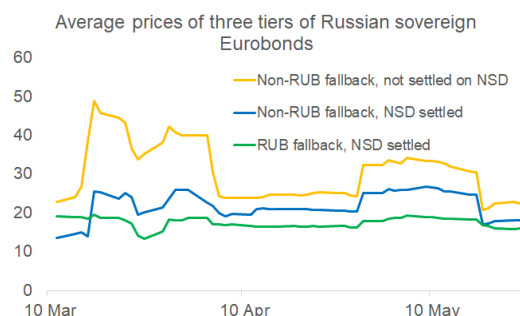


Egypt

Eurobond spreads edged lower as Saudi Arabia-based International Islamic Trade Finance Corporation (ITFC) doubled Egypt's credit limit to \$6 bn from \$3 bn to support wheat purchases. Egypt had signed an agreement of \$3 bn with the ITFC in 2018 to ensure dollars were available for the country's state grains buyer to use for payment at its international tenders.

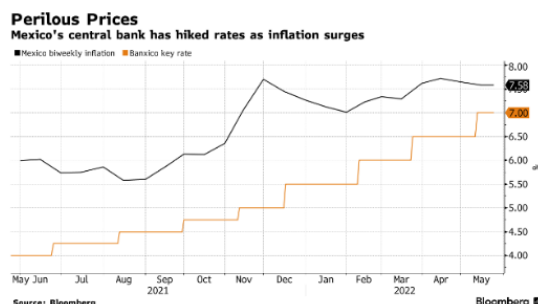
Russia

The ruble (-3% to 57/\$) weakened after the US government allowed the General License 9C to expire thereby introducing restrictions for processing payment by Russia on its USD bonds, as expected. Contacts believe that the eventual non-payment of dollar bonds looks likely now, with the next bond payments in focus due on June 23 and June 24. **Analysts expect that there will be a CDS failure to pay credit event in July once the grace period of 15 business days on the bonds due 2028s is up, even though payments are dependent on the US and Russian governments.** JP Morgan estimates that there is currently about \$2.5 bn of net notional CDS in Russia CDS to be settled, including \$1.7 bn from single name CDS contracts and the remainder from the CDX.EM index.



Mexico



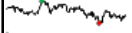
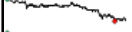
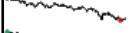



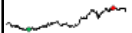
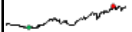
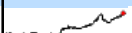




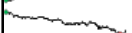
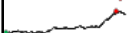



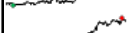
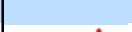



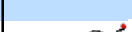


Banxico foresees additional rate hikes despite a modest deceleration in inflation. In early May, Mexico's inflation rate slowed down slightly to 7.6% y/y -as expected- after hitting a two-decade record of 7.7% in early April. This modest deceleration comes a few weeks after the government and top companies agreed to cap the prices of some essential items. However, this slowdown is unlikely to deter Banxico from raising the 7% benchmark rate, for two main reasons. First, some analysts do not see inflationary pressures abating any time soon. Second, according to deputy governor Heath, Banxico must at least keep a 600bps spread rate with the Fed to avoid capital outflows. As a result, the central bank signaled an additional 200 to 300 bps rate hikes over the next year, including a possible and unprecedented 75bps hike in June.



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

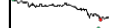

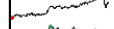

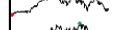

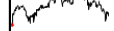
















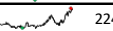



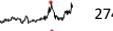









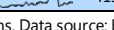


Last updated: 5/25/22 8:03 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3941	-0.8	-4	-8	-6	-17	-7
Europe		3637	-0.3	-1	-3	-10	-15	-8
Japan		26678	-0.3	-1	0	-7	-7	1
China		3983	0.6	0	5	-25	-19	-14
Asia Ex Japan		68	-2.1	-2	-2	-27	-17	-14
Emerging Markets		41	-1.7	-1	-3	-25	-17	-14
Interest Rates			basis points					
US 10y Yield		2.73	-2.3	-16	-9	117	122	74
Germany 10y Yield		0.92	-4.8	-11	8	109	110	69
Japan 10y Yield		0.21	-2.4	-3	-3	14	14	2
UK 10y Yield		1.87	-1.9	0	3	108	90	39
Credit Spreads			basis points					
US Investment Grade		169	-2.0	4	15	77	57	26
US High Yield		507	6.9	30	114	163	169	101
Europe IG		97	-0.8	0	13	46	49	25
Europe HY		476	-2.7	9	78	222	235	125
Exchange Rates			%					
USD/Majors		102.34	0.5	-1	1	14	7	6
EUR/USD		1.07	-0.7	2	-1	-13	-6	-6
USD/JPY		127.0	0.1	-1	-1	17	10	10
EM/USD		52.9	-0.7	2	1	-8	1	0
Commodities			%					
Brent Crude Oil (\$/barrel)		115	0.9	5	12	78	51	26
Industrials Metals (index)		181	-1.4	1	-10	17	5	-4
Agriculture (index)		76	-1.1	-2	0	35	25	8
Implied Volatility			%					
VIX Index (% change in pp)		30.1	0.7	-0.8	3.1	11.3	12.9	-0.9
US 10y Swaption Volatility		107.3	-3.4	-7.8	-18.6	40.9	28.3	13.0
Global FX Volatility		10.4	0.0	-0.2	0.7	3.3	3.0	2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		265	-1.0	9	52	158	114	25
Italy		200	-1.2	7	26	87	65	29
Portugal		115	-1.4	2	11	49	51	23
Spain		110	-1.6	3	12	44	36	7

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 5/25/2022 8:07 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		6.70	-0.6	0.9	-2	-4	-5	-6		2.8	-2.0	3	-4	-32	-2	-3
Indonesia		14618	0.3	0.5	-1	-2	-2	-2		7.2	-6.1	-15	14	73	79	68
India		78	0.1	0.1	-1	-6	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.0	0.2	0	-8	-3	-2		5.5	2.5	0	15	105	98	48
Thailand		34	-0.6	1.1	0	-9	-3	-6		2.8	-8.5	-37	11	96	100	62
Malaysia		4.39	0.0	0.1	-1	-6	-5	-5		4.1	-10.3	-32	-14	92	53	46
Argentina		119	-0.1	-0.9	-4	-21	-14	-10		55.9	59.6	144	385	1022	529	789
Brazil		4.86	-0.8	2.3	0	10	15	3		12.2	3.1	-11	12	272	152	68
Chile		831	0.0	2.5	2	-12	3	-5		6.0	0.0	-25	-43	214	59	9
Colombia		3975	-0.1	1.4	-1	-6	2	-2		8.6	0.0	-62	28	252	214	67
Mexico		19.92	-0.4	0.6	1	0	3	2		8.4	-5.5	-33	-40	146	90	58
Peru		3.7	0.4	1.6	3	3	8	1		7.8	0.0	-13	-23	280	186	176
Uruguay		40	0.2	1.5	2	10	12	6		10.1	0.0	0	57	245	139	197
Hungary		364	-2.1	0.6	-5	-22	-11	-12		6.6	1.0	-37	0	399	213	183
Poland		4.33	-1.2	2.4	0	-16	-7	-6		6.0	4.8	-12	29	401	243	206
Romania		4.6	-0.7	1.9	0	-13	-6	-6		7.9	-4.4	-11	142	513	305	272
Russia		58.1	-4.7	10.8	29	27	29	41		9.5	-62.1	-162	-296	209	71	-169
South Africa		15.7	-0.5	2.0	0	-12	1	-4		8.2	3.0	-29	-6	85	74	58
Turkey		16.32	-1.4	-2.3	-9	-48	-18	-15		24.7	0.0	5	300	638	42	232
US (DXY; 5y UST)		102	0.5	-1.4	1	14	7	6		2.73	-1.4	-16	-13	196	146	82

	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		3983	0.6	0	5	-25	-19	-14		213	3	6	3	10	5
Indonesia		6884	-0.4	1	-5	18	5	-1		217	14	45	45	52	32
India		53749	-0.6	-1	-6	5	-8	-6		194	10	28	39	62	40
Philippines		6598	0.3	-2	-5	4	-7	-10		161	13	32	66	60	24
Thailand		1625	-0.1	0	-3	4	-2	-4		0	0	0	0	0	0
Malaysia		1536	0.3	-1	-4	-3	-2	-3		134	-3	17	14	17	1
Argentina		91272	1.0	1	0	62	9	0		1934	4	156	424	254	197
Brazil		110581	0.2	2	0	-10	5	-1		328	17	45	77	17	-3
Chile		5143	-0.3	4	8	26	19	18		183	16	20	39	43	9
Colombia		1483	0.0	1	-6	23	5	-2		381	-5	30	133	33	-11
Mexico		51304	-0.1	0	-3	5	-4	0		396	10	25	62	64	26
Peru		20417	-0.4	1	-9	1	-3	-13		201	13	16	35	51	11
Hungary		42119	-2.0	-2	0	-8	-17	-12		224	24	78	80	100	71
Poland		56177	-0.6	0	-5	-12	-19	-11		23	24	14	-14	-9	7
Romania		12218	-0.3	1	-6	5	-6	-7		274	45	65	92	82	42
Russia		2299	0.2	-6	5	-38	-39	-25		3411	-577	938	3228	3234	2897
South Africa		67003	-1.0	-3	-4	1	-9	-11		415	7	74	95	60	26
Turkey		2388	0.5	0	-4	71	29	18		612	23	111	147	34	49
Ukraine		519	0.0	0	0	-2	-1	0		3241	-79	-270	2758	2482	1768
EM total		41	-0.4	-1	-3	-25	-17	-14		415	8	19	60	28	-43

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

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