



- US Treasury yields continue rising as markets price steeper FOMC policy rate path ([link](#))
- European equities shrug off flash crash in Swedish stocks ([link](#))
- Reserve Bank of Australia surprises with larger-than-expected 25 bp rate hike ([link](#))
- Russia poised to avoid sovereign default on May 4<sup>th</sup> ([link](#))
- Chile aims to tackle rising fuel costs with boost to stabilization fund ([link](#))
- **Special Feature: Emerging and Frontier Markets Issuance Monitor** (attached)

[Mature Markets](#)












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## Global risk sentiment remains muted as central banks take center stage

Markets are trading mixed to little changed this morning as central banks, alongside growth and inflation challenges, remain top of mind. Volatility continues to be the hallmark of equity markets as broad indices have so far recovered from sharp pullbacks during yesterday's trading session. The S&P 500 was down nearly 2% intraday before a rebound in tech sector stocks wiped out losses. European stocks are flat to modestly higher and Asian bourses closed slightly lower. Although stabilizing this morning, advanced economy government bonds started the week under pressure with 10-year nominal US Treasury yields notably breaking above 3% for a brief moment before fading back below, while real rates continue to drive yields higher with the 10-year now trading near +15 bps amid elevated tightening expectations in the run up to the midweek FOMC decision. Overnight, Australian government bond yields rose 10-20 bps across the curve following the Reserve Bank of Australia's decision to raise its policy rate by a larger-than-expected 25 bps and to start running down its balance sheet. On developments in Russia, news has surfaced that dollar payments have started to reach some investors on two bonds that would have seen the payment grace period end tomorrow.

Key Global Financial Indicators

Last updated: 5/3/22 8:06 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		4155	0.6	-3	-9	-1	-13	-2
Eurostoxx 50		3740	0.2	1	-5	-6	-13	-6
Nikkei 225		26819	-0.1	-1	-3	-7	-7	1
MSCI EM		42	-0.1	1	-8	-22	-13	-11
Yields and Spreads			bps					
US 10y Yield		2.95	-2.7	23	57	136	144	96
Germany 10y Yield		0.94	-2.5	13	39	115	112	72
EMBIG Sovereign Spread		439	1	11	40	101	72	26
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.0	0.5	0	-3	-9	-1	-2
Dollar index, (+) = \$ appreciation		103.3	-0.4	1	5	14	8	7
Brent Crude Oil (\$/barrel)		106.6	-0.9	2	2	58	37	10
VIX Index (% change in pp)		32.3	0.0	-1	13	14	15	1

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

## Mature Markets

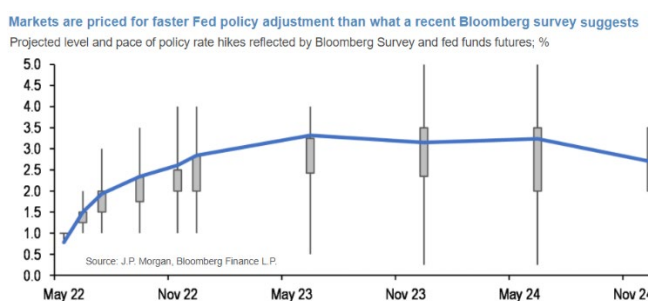
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### United States

**Yesterday, the S&P 500 closed up 0.6% after a volatile day, with intraday losses reaching 2%.** Ten-year US Treasury yields rose by 5 bps, with large movements in its components: real yields increased by 16 bps, while breakeven inflation fell by 12 bps as investors are weighing the potential for the Fed to aggressively tighten monetary policy. The US Dollar appreciated against major G10 and EM currencies.

### Market pricing for the Fed's tightening path is more aggressive than the forecasts of economists.

The chart shows the priced-in policy rate path (blue line) superimposed over the distribution of forecasts gathered by Bloomberg: the gray bars represent the middle 80% of the forecasts for each future date (top 10% and bottom 10% forecasts are excluded). Both the blue line and gray bars show that the hiking will be finished essentially by mid-2023, with most of that increase arriving before year-end 2022. Yet, the market seems to be pricing a somewhat faster pace of hikes. Correspondingly, market participants expect that the Fed's statement and press conference will include substantive forward guidance on the pace of policy rate hikes, not only their targeted levels.



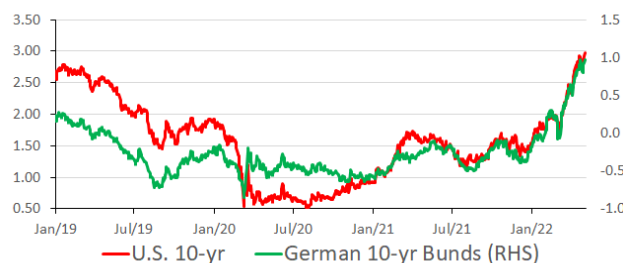
### Euro area

**Equities (+0.3%) rose and the euro was little changed as bank earnings surprised to the upside. Citi also confirmed that a trading error of one of its trading desks was behind yesterday's flash crash of 8% in Swedish stocks.** The OMX Stockholm 30 Index closed 1.9% lower, roughly in line with a drop in European markets.

**Bank stocks (+1.5%) outperformed today after BNP Paribas reported a surge in both equities and fixed-income trading.** Shares in BNP (+2.8%) jumped as markets revenue rose 53% to €2.8 bn euros in Q1, compared to gains of €1.8 bn expected. Eurogroup President Donohoe is expected to present a two-phase model for European deposit insurance at today's Eurogroup.

**German 10-year bund yields (-1 bps to 0.95%) are slightly lower after briefly trading above the widely watched level of 1% earlier.** The EU said it will provide more detailed guidance in the coming days on what companies can and cannot do under EU sanctions rules to address Russia's demands to pay for gas in rubles. **The German government has continued to indicate that an oil embargo is very likely with the EU expected to make a proposal for a phase-out as early as today.**

Core rates: 10-yr German and U.S. yields (%)



Source: Bloomberg and IMF staff

**Italian 10-year spreads (+1 bp higher at 190 bps) are consolidating at higher levels after the government raised windfall tax on profits in the energy industry to 25% (from 10%) and approved an aid package of €14 bn to help its economy deal with higher energy costs, including an extension of tax breaks for energy-intensive industries.** Italian 10-yr spreads have risen 15 bps in the past days, with 10-yr Greek spreads 25 bps higher.

**The German regulator postponed planned rules for classifying funds as sustainable investments as the environment is not stable enough for permanent regulation.** BaFin President Mark Branson said that fund managers can still set up and market sustainable investments and cited the need for ESG funds to be 75% invested in sustainable assets as a principle that it would carry over from its planned directive. Last year, German investment firms managed around 10% of the country's total funds in sustainable funds.

## Australia

**The Reserve Bank of Australia (RBA) raised its policy rate by 25 bps; a larger-than-expected move.** The cash rate was raised to 0.35% (consensus: +15 bps). The RBA will also run down its holdings of government bonds by not reinvesting the proceeds of maturing bonds. In terms of the inflation outlook, the RBA expects headline inflation to accelerate to around 6% y/y and core inflation to around 4.75% y/y. The RBA also projected that core inflation will only ease back to the top of the target band (i.e., 2%-3%) by mid-2024 even with further rate hikes.

Governor Lowe said that the RBA is committed to doing what is necessary to ensure that inflation returns to target. Government bond yields rose (1-year: +20.5 bps; 10-year: +13.6 bps; 30-year: +11.5 bps) following the RBA's hawkish stance. Australia dollar appreciated (+0.6%); equities declined (-0.4%).

Road Toward 4%

Aussie bond yields still need to break through 3.75% zone



Source: Bloomberg

Bloomberg

## Japan

**Japan's markets were closed.** Japanese yen was little changed.

## Emerging Markets

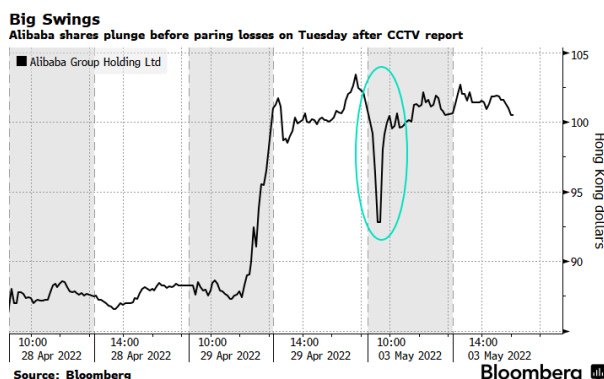
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**Latin American equities were mixed while currencies depreciated yesterday.** Equities rallied in Mexico (0.9%), but slumped in Chile (-0.4%), Argentina (-0.7%), and Brazil (-1.2%). Ahead of a likely Fed rate hike, currencies depreciated in Argentina (-0.4%), Brazil (-2.2%), Chile (-1.0%), and Colombia (-1.3%), despite last Friday's rate lift in Colombia and a stronger-than-expected recovery in Chile. **Asian markets traded modestly lower.** Asian equities declined, with share prices falling in Taiwan Province of China (-0.6%) and

Thailand (-0.5%). Many markets in the region, including China, remained closed. **Asian currencies depreciated**, led by Thai baht (-0.7%). Long-end government bond yields, with 10-year yields rising in Thailand (+16.3 bps) and Hong Kong SAR (+9.1 bps). In Korea, exports to China dropped 12.4% m/m in April due to pandemic-related lockdowns in China. In Hong Kong SAR, real GDP declined 2.9% q/q in 2022Q1 (consensus: -0.9%). The larger-than-expected economic contraction highlighted how a COVID-19 outbreak may cause severe economic disruptions as the economy moved away from the zero COVID situation. **EMEA equities were trading mixed with several markets including Russia and Turkey closed for local holidays.** Equities in Czech Republic (+1.6%) outperformed, while equities in Poland (-1.5%) and Bulgaria (-1.3%) fell. **Central and Eastern European currencies were generally little changed against the dollar**, while the South African rand (+0.8%) outperformed after closing at a multi-month low yesterday in holiday-thinned trading. Poland and the Czech Republic have their respective monetary policy meetings later this week, with consensus expecting a 100 bp hike in Poland (taking the key rate to 5.5%) and a 50 bp hike in Czech Republic (taking the key rate to 5.5%).

### China and Hong Kong SAR

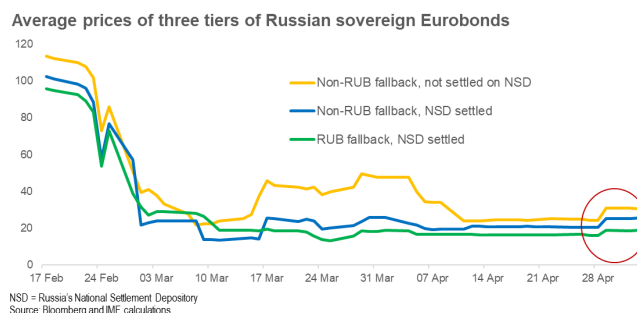
**Chinese tech stocks listed in Hong Kong SAR declined (-1.4%).** Chinese tech stocks saw another volatile trading day, as Alibaba led a selloff overnight on news that Hangzhou authorities imposed a curb on an individual surnamed Ma. Alibaba's share price plunged as much as 9.4% before recovering after a clarification that the accused person was not Jack Ma. Analysts noted that today's episode highlighted how anxious investors remain toward the tech sector after Beijing's regulatory clampdown.



### Russia

**Russia seems set to avoid a sovereign debt default, as some investors are said to have received payment on Russia's Eurobonds ahead of the May 4 deadline.** On Friday average indicative prices of Russian Eurobonds rose by around 5 points after Russia said that it completed, in dollars, the payment of \$565 mn on a 2022 Eurobond and a coupon payment of \$84 mn on a 2042 Eurobond. The payments were originally due on April 4<sup>th</sup> with a 30-day grace period, but earlier payments had been blocked. **Russia reportedly used non-sanctioned U.S. dollar reserves** and made the payments via a non-sanctioned domestic bank, which then passed the funds to Bank of New York Mellon, which in turn forwarded the payment on to Citigroup. Last Friday, Russian central bank governor Nabiullina told journalists that *there cannot be any talk of default*. Bloomberg reported this morning that the custodian banks of some investors have received payment, following reports that payments were processed by at least one international clearing house. **The Russian ruble appreciated (+2.2% to 69.3 against the dollar).**

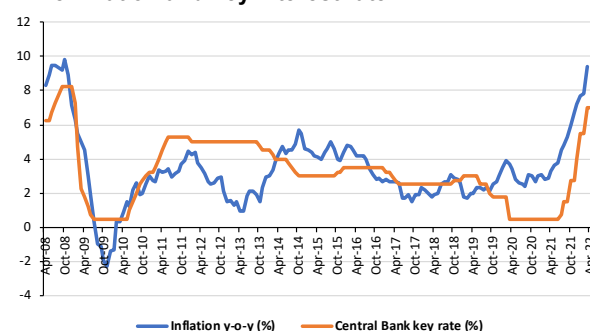
**Contacts believe that Russia has signaled a strong willingness to pay foreign bonds and sees further payments using non-sanctioned FX reserves as likely, as long as the war does not escalate further, and the U.S. Treasury's Office of Foreign Assets Control (OFAC) allows U.S. banks to let payments go through.** Under current legislation, OFAC will allow such payments until May 25<sup>th</sup>.



## Chile

**Chile's president plans to boost the fuel stabilization fund to fight surging prices.** In a press conference, president Boric announced a plan to inject \$40 mn into the country's fuel stabilization fund to curb inflation. Last month, authorities also unveiled a \$3.7 bn plan to help vulnerable segments of society. Driven by the global commodity price spike, Chile's annual inflation reached 9.4% y/y in March—a 14-year high—and is pushing toward double-digits. As a result, analysts expect the central bank to raise its policy rate this week, on top of the 650 bps of hikes already implemented since June 2021.

Chile Inflation and key interest rate





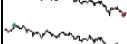










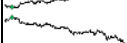


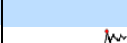











Sources: Bloomberg and IMF Staff

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## Global Financial Indicators



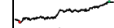








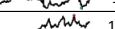




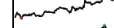
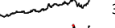



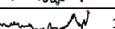







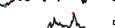
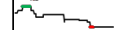




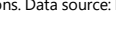




Last updated: 5/3/22 8:08 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4155	0.6	0	-9	-1	-13	-2
Europe		3740	0.2	1	-5	-6	-13	-6
Japan		26819	-0.1	-1	-3	-7	-7	1
China		4016	2.4	0	-6	-22	-19	-13
Asia Ex Japan		71	0.1	1	-7	-24	-14	-10
Emerging Markets		42	-0.1	1	-8	-22	-13	-11
<b>Interest Rates</b>			basis points					
US 10y Yield		2.95	-2.7	23	57	136	144	96
Germany 10y Yield		0.94	-2.5	13	39	115	112	72
Japan 10y Yield		0.23	0.0	-1	1	13	16	3
UK 10y Yield		1.95	4.5	15	34	111	98	47
<b>Credit Spreads</b>			basis points					
US Investment Grade		158	0.0	3	22	67	46	15
US High Yield		423	1.3	7	56	95	86	17
Europe IG		89	-0.7	2	19	40	42	18
Europe HY		424	-3.2	14	92	176	183	73
<b>Exchange Rates</b>			%					
USD/Majors		103.31	-0.4	1	5	14	8	7
EUR/USD		1.05	0.4	-1	-4	-13	-7	-7
USD/JPY		129.9	-0.2	2	6	19	13	13
EM/USD		52.0	0.5	0	-3	-9	-1	-2
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		107	-0.9	2	4	69	41	17
Industrials Metals (index)		193	-1.7	-4	-10	24	12	3
Agriculture (index)		76	0.2	-1	6	31	25	8
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		32.3	0.0	-1.2	12.7	14.0	15.1	1.3
US 10y Swaption Volatility		131.2	0.1	6.7	25.9	59.2	52.2	36.9
Global FX Volatility		10.9	0.0	1.1	1.9	3.8	3.5	3.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		244	1.4	26	31	124	92	3
Italy		190	1.0	16	36	82	55	19
Portugal		110	0.2	5	27	43	45	18
Spain		105	0.5	7	13	39	31	2

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



## Emerging Market Financial Indicators

Last updated: 5/3/2022 8:11 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		6.61	0.3	-1.6	-4	-2	-4	-4		2.9	-0.1	0	3	-33	3	2
Indonesia		14497	-0.5	-1.1	-1	0	-2	-1		7.0	2.0	3	26	47	60	49
India		77	-0.1	0.2	-1	-3	-3	-3		6.3	0.0	0	9	75	0	
Philippines		52	-0.3	0.1	-2	-8	-3	-2		5.3	0.0	3	3	99	83	33
Thailand		35	-0.7	-0.8	-3	-10	-3	-7		3.0	15.2	26	62	100	116	78
Malaysia		4.35	0.2	-0.7	-3	-6	-4	-4		4.3	-9.5	13	44	121	73	66
Argentina		116	-0.4	-0.9	-4	-19	-11	-7		52.8	26.9	69	351	629	220	481
Brazil		5.04	0.9	-0.9	-9	8	11	-1		11.4	-85.9	-86	20	211	68	-16
Chile		861	-1.1	-1.8	-9	-18	-1	-8		6.3	0.0	-5	20	272	91	42
Colombia		4010	-1.2	-1.9	-8	-5	2	-2		8.7	0.0	42	114	301	233	86
Mexico		20.38	0.4	0.3	-3	-1	1	-1		9.0	0.3	16	76	211	148	116
Peru		3.8	0.1	-0.7	-5	0	4	-3		7.9	1.3	-18	117	249	202	192
Uruguay		41	-0.8	-1.1	1	7	9	3		10.1	0.0	29	104	265	134	191
Hungary		362	0.4	-2.0	-7	-18	-10	-12		7.0	24.0	34	100	449	253	223
Poland		4.45	0.5	-0.3	-5	-15	-9	-9		6.0	0.0	36	112	399	243	206
Romania		4.7	0.4	-0.9	-4	-13	-7	-7		6.8	0.5	34	85	418	197	164
Russia		69.1	2.5	9.3	21	8	9	18		12.4	-1.0	2	-160	506	363	122
South Africa		16.0	1.0	-0.7	-9	-10	0	-5		8.5	5.5	29	69	98	111	95
Turkey		14.87	0.1	-0.4	-1	-45	-11	-7		21.3	0.0	-19	-396	297	-303	-113
US (DXY; 5y UST)		103	-0.5	0.9	5	14	8	7		3.00	-0.8	26	44	217	173	109

	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		4016	0.0	0	-6	-22	-19	-13		200	-9	-11	-8	-3	-8	
Indonesia		7229	0.0	-1	3	20	10	4		179	-9	7	9	14	-6	
India		56976	0.0	1	-4	17	-2	0		169	0	21	12	37	15	
Philippines		6721	0.0	-4	-6	6	-6	-9		134	-12	11	39	33	-3	
Thailand		1652	-0.9	-1	-3	4	0	-3		0	0	0	0	0	0	
Malaysia		1600	0.0	0	0	0	2	1		125	4	7	4	8	-8	
Argentina		87608	-0.7	-4	-5	79	5	-4		1818	63	96	288	138	81	
Brazil		106639	0.0	-4	-12	-11	2	-5		301	16	12	42	-10	-30	
Chile		4760	0.0	1	-4	4	10	9		175	8	25	42	35	1	
Colombia		1583	1.3	0	-3	30	12	5		384	29	38	155	36	-8	
Mexico		51887	0.9	-2	-8	7	-3	1		386	14	43	52	54	16	
Peru		22386	-1.9	0	-10	14	6	-4		209	20	50	50	59	19	
Hungary		42999	0.7	3	-5	0	-15	-10		189	34	54	53	65	36	
Poland		56886	0.0	-4	-13	-6	-18	-9		2	-16	-7	-39	-30	-14	
Romania		12622	0.0	0	-1	11	-3	-4		233	8	29	48	41	1	
Russia		2445	0.0	10	-11	-31	-35	-21		3411	-577	938	3228	3234	2897	
South Africa		71415	-1.4	-1	-6	7	-3	-5		385	24	26	43	30	-4	
Turkey		2431	0.0	-2	8	74	31	21		507	-9	-24	19	-71	-56	
Ukraine		519	0.0	0	0	-2	-1	0		3732	161	918	3199	2973	2259	
EM total		42	-0.3	1	-8	-22	-13	-11		395	-8	25	35	9	-63	

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

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