



- **Markets fall as Eurozone inflation hits record high** ([link](#))
- **Global stocks confront bear market** ([link](#))
- **Oil surges as EU agrees to ban most Russian oil exports** ([link](#))
- **Futures market cuts Fed terminal rate estimate to below 3% from 3.25%** ([link](#))
- **Negative data surprises raise fear of US recession** ([link](#))
- **China stocks rally on easing Covid restrictions** ([link](#))

[Mature Markets](#)



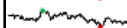
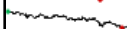
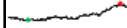
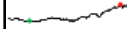
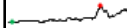
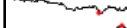

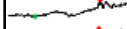

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Global markets in retreat as euro area inflation surges to record high

Both stocks and bonds lost ground in early trading following the euro area's record high 8.1% CPI print. US equity futures are down and euro area stocks are lower. The rise in euro area bond yields has spilled over to the US, pushing Treasury yields higher after several days of falling interest rates. The global economy is struggling with stubbornly high food and energy costs made worse by the Russian invasion of Ukraine. Brent crude has hit \$123 per barrel as the European Union agreed to continue its partial ban on Russian oil imports. Weakness in China remains a key focus as the authorities announced new measures to boost the economy. However, Chinese stocks saw gains on news that lockdowns are gradually being eased in some areas.

Key Global Financial Indicators

Last updated: 5/31/22 8:10 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		4158	2.5	7	1	-1	-13	-2	
Eurostoxx 50		3807	-0.9	4	0	-6	-11	-4	
Nikkei 225		27280	-0.3	2	2	-5	-5	3	
MSCI EM		42	1.2	2	-1	-23	-14	-11	
Yields and Spreads			bps						
US 10y Yield		2.82	8.6	7	-11	123	131	83	
Germany 10y Yield		1.11	5.3	14	17	130	129	88	
EMBIG Sovereign Spread		454	-8	-35	22	122	87	41	
FX / Commodities / Volatility			%						
EM FX vs. USD, (+) = appreciation		52.7	-0.4	-1	1	-9	0	-1	
Dollar index, (+) = \$ appreciation		101.9	0.2	0	-1	13	6	6	
Brent Crude Oil (\$/barrel)		123.7	1.7	9	13	78	59	28	
VIX Index (% change in pp)		27.7	1.2	-1	-6	11	10	-3	

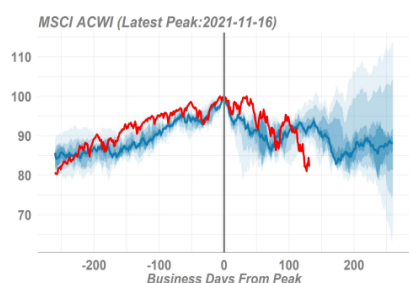
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Despite the US holiday, this shortened work week could see some market volatility amidst a busy data and events calendar. The Fed will begin reducing its \$8.9tn balance sheet starting tomorrow. The US jobs report is due on Friday, with the consensus forecast calling for a gain of 329K jobs and an unemployment rate of 3.5%. The Bank of Canada is expected to hike by 50 bps tomorrow. More earnings are due from companies such as Broadcom and HP. An EU summit is ongoing with the war in Ukraine the main item on the agenda.

Global Equity Markets

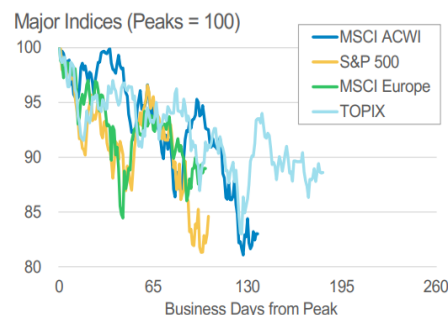
The global equity selloff of 2022 is on track with previous bear markets. The S&P 500 suffered a historic seven week decline before finally delivering a positive weekly return last week. US markets have done worse than most other countries this year, a possible mean reversion after years of outperformance. Among major markets, China has seen the biggest losses amidst the Covid lockdowns and the slowdown in the economy. Unusually, Japan has been the strongest market this year. Some investors are hoping that the worst of the selloff is over as US inflation data show signs of moderating and the job market remains firm. Others remain pessimistic and expect further declines, seeing the latest recovery as a bear market rally. They cite the Ukraine war, the China lockdown, stubbornly high inflation and hiking central banks as major headwinds for risk assets. The current market decline is not as severe as previous bear markets and an 8–10% rally over a month is not uncommon with bear markets, according to research by Morgan Stanley.

Exhibit 1: Global equities sell-off still tracking prior bear markets



Source: Bloomberg, Morgan Stanley Research; Note: Shows summary of bear market episodes. Each band represents observation decile starting at 10% to 90%, solid line is median. Red line is current sell-off. Data from whenever history begins.

Exhibit 2: Sell-off across major indices – TOPIX the most resilient



Source: Bloomberg, Morgan Stanley Research; Note: Shows sell-off vis-à-vis each index's own peak.

Mature Markets

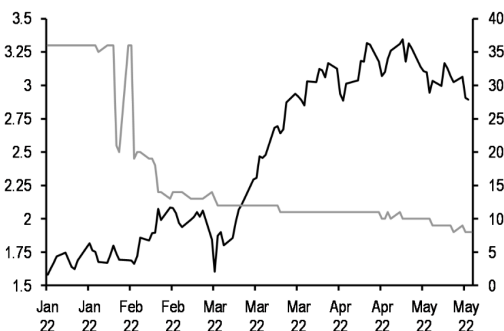
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United States

Interest rate futures markets have lowered their forecast for the Fed's terminal rate to below 3% from 3.25% earlier. The expectation is for a short and shallow hiking cycle that ends in less than a year. According to analysis by JP Morgan, this was driven by growing worries about the growth of the economy. The move has resulted in the unwinding of curve steepening trades, with investors now taking the view that 10-year yields are unlikely to move higher than the 3.25% intra-day high and 3.13% closing high set back on May 6. In other words, the interest rate peak for the current rate hike cycle has already been reached. Other investors disagree, arguing that inflation is too high for the Fed to stop at 3%. They think the Fed will need to go much further, raising the risk of a recession. The inversion in the eurodollar futures curve between December 2022 and December 2023 lends some support to this view.

Exhibit 1: The USD OIS market has priced a faster and more aggressive tightening cycle with the peak now expected in less than a year from now, even if lately the expected terminal rate has declined from over 3.25% to below 3%

Peak level in 1M OIS forward rate on the USD OIS curve over the following 3Y and timing of the peak in months; %



Negative data surprises have increased worries about a potential US recession. The risk gets even higher if the Fed keeps hiking past 3%, as discussed above. With interest rates peaking, at least for the time being, the tightening of financial conditions is being driven by falling equities and wider credit spreads. The big question is whether financial conditions are tight enough to keep inflation in check, or whether the Fed keeps going to tackle still rising inflation. The most benign scenario is that the tightening is sufficient and the Fed ends when the market expects. In that case, the market will be able to tolerate higher long term interest rates, and equities and credit markets can continue the nascent rebound. The negative scenario is where the Fed keeps going, putting more pressure on risk assets. In this case, long term rates are likely to head back down again.

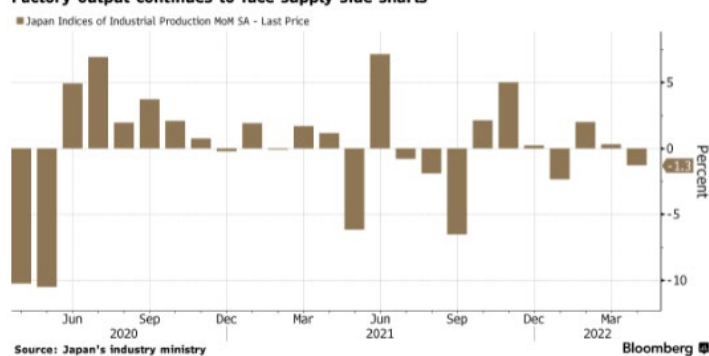
Exhibit 1: US economic data have been surprising to the downside, intensifying market fears of a recession



Japan

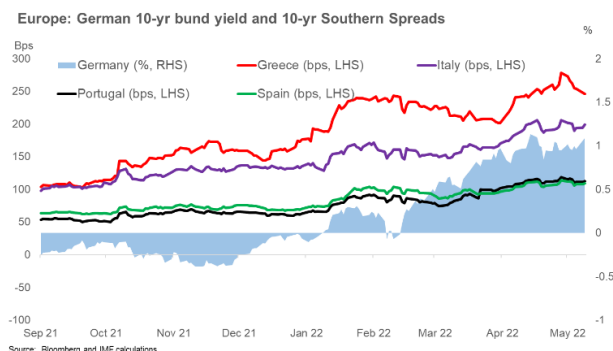
Equities lost -0.5% amid index rebalancing. The proposal for PM Kishida's "New Capitalism" plan to be unveiled soon, according to Bloomberg. The plan may include support for 1mn people to rejoin the labor force, expanded tax-free investment plans to improve citizens' asset-based incomes, and a new bond class designed to support clean energy, among others. In **April data**, unemployment rate fell to 2.5% (previous: 2.6%) and preliminary industrial production slumped -4.8% y/y (previous: -1.7%). Retail sales firmed +2.9% y/y (previous: +0.7%), aided by departmental stores and supermarkets (+4%).

Factory output continues to face supply side snarls



Euro Area

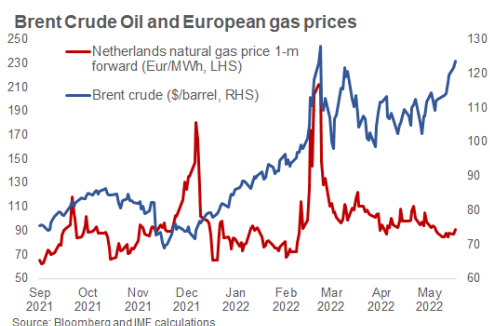
Surging inflation sent local markets sharply lower. Both stocks and bonds fell as CPI hit a new record of 8.1%. Peripheral spreads also widened. **ECB chief economist Lane yesterday reinforced President Lagarde's message, saying that a benchmark pace of normalization is +25 bps increases in the July and September ECB meetings.** Markets are pricing in roughly 116 bps of tightening by end-2022, with +34 bps priced in for July.



Preliminary eurozone inflation surprised on the upside in May, with headline inflation accelerating to +8.1% (vs expected +7.8% from 7.5%) as energy prices continued to accelerate. ING analysts note food prices are also having a larger impact on eurozone prices and expect further food price increases in June. **Core inflation increased to +3.8% (vs expected +3.6% from 3.5%).** Yesterday preliminary German and Spanish inflation data for May also surprised on the upside, followed by another upside surprise in Italy's inflation this morning. Inflation in France was in line with expectations, increasing to +5.8%yoy (from +5.4%). Separately France's economic growth data disappointed, with preliminary Q1 GDP contracting by -0.2% qoq. ING analysts believe the economy is already in a recession but expect a slight recovery in H2 2022.



Oil prices increased (brent crude +2% to \$124/barrel) after EU leaders yesterday agreed to an embargo on Russian crude and petroleum products delivered by tankers, with a temporary exemption for Russian oil delivered via pipelines. According to the European Council President, roughly 66% of EU imports occur via tankers. Hungary—who had opposed a full oil embargo—would not be impacted by a ban on deliveries by sea as it is a landlocked nation. While details are yet to be finalized, the oil embargo agreement opens the doors to progress on Europe's sixth sanction package. Separately, Russia is set to cut natural gas exports to Dutch energy firm GasTerra BV after the firm opposed the new payment terms demanded by Russia, according to a Bloomberg report. European gas prices increased (1-month ahead +4% to €90/MWh).



The Basel Committee on Banking Supervision looks set to view the euro area bloc as a unified market when determining capital requirements, according to a Bloomberg report. This would mean that cross-border exposures within the currency-bloc would be seen as domestic exposures, which are considered to be less risky. According to analysts BNP Paribas and Deutsche bank stand to benefit the most.

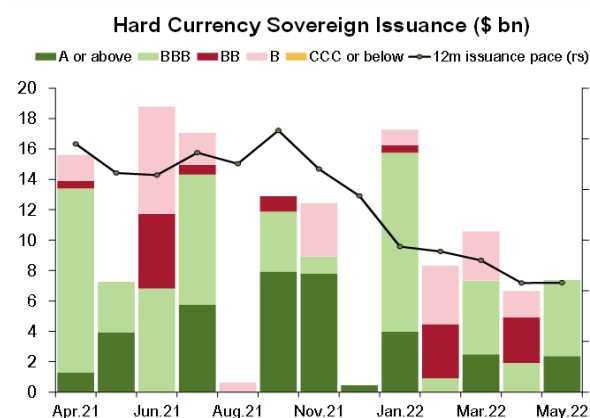
Emerging Markets

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Equities were mixed in EMEA while currencies were mostly trading weaker against the dollar. Yesterday Kenya unexpectedly increased its key rate by 50bps to +7.5%, the first increase in close to seven years, surprising markets. In Asia, stocks rallied despite higher rates and weaker currencies. A central bank official in New Zealand came out with hawkish rhetoric. In Latin America, the Mexican peso appreciated by 1% to its highest level since the start of the COVID-19 pandemic. In Colombia on Sunday, the independent candidate Rodolfo Hernandez surprised analysts by coming second and moving to runoff stage against the frontrunner Gustavo Petro on June 19. The latest polls show a tight race. Colombian markets were closed on Monday due to a local holiday.

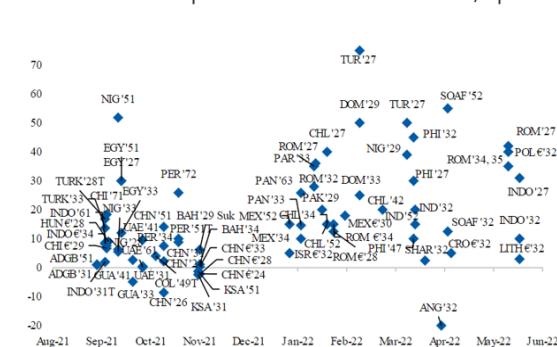
EM Hard Currency Issuance

Sovereign issuance in May remained low at \$7bn with no HY issuers coming to market. YTD pace is at its slowest since 2015. Issuance came primarily from three sovereigns: Poland, Romania, and Indonesia. The premia on new issues remained high for a fourth month in a row (RHS chart) despite no high yield issuers coming to market since South Africa in early April. Morgan Stanley highlights that upcoming issuance—subject to market conditions—may include Saudi Arabia and Uruguay among IG; Oman, Colombia, and Brazil among BB rated; and Ivory Coast, Nigeria, the Republic of Congo, Bahrain, Kenya, and Egypt among B rated issuers.



Source: Bondradar

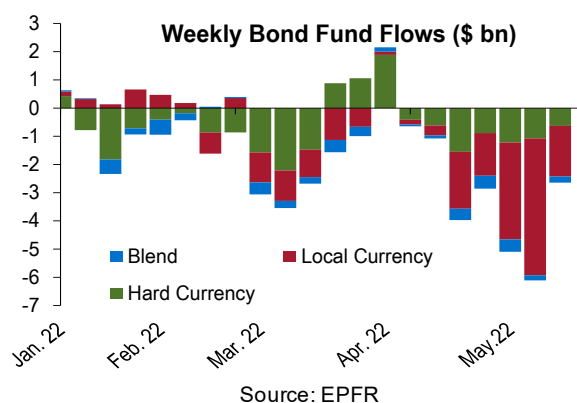
Exhibit 52: Deal-specific new issue concession, bp



Source: Bond Radar, Bloomberg, Morgan Stanley Research. We

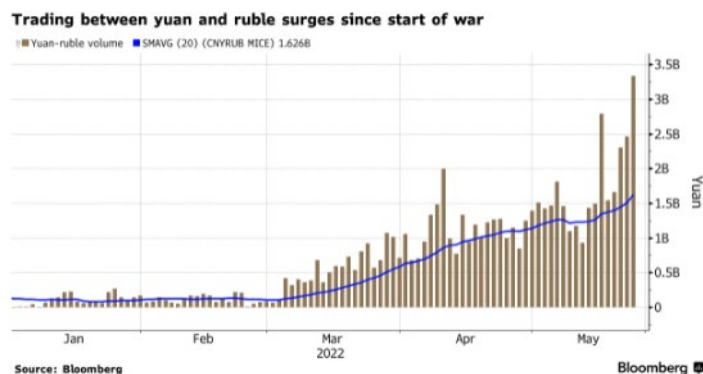
EM Fund Flows

Outflows from bond funds moderated the week up to 25 May but remained sizable (\$2.6bn vs. \$6.1bn the week before). In line with recent weeks, this is mostly due to outflows from local-currency funds (\$1.8bn vs. \$4.9bn the week before). Hard-currency funds also saw a continuation of outflows, but their magnitude was the smallest over the past five weeks. So far, outflows for hard currency funds have totaled \$ 13 billion YTD, a significant amount versus past episodes but relatively mild as a share of AUM at -4%.



China

China's State Council revealed a new policy package to stabilize the economy. According to Bloomberg, it will continue to lower real loan rates, and calls for boosting crude oil and coal reserves. Separately, **China is to ease access to bond exchanges for foreign investors.** From June 30, foreign institutional investors in the interbank bond market are allowed to also invest in the Shanghai and Shenzhen exchange bond markets, either directly or via Bond Connect, and without having to undergo separate filing or approval procedures. China's central bank hopes this will improve capital flows after China saw 15bn yuan (\$2.2bn) of net foreigner outflows from January through May this year. Separately, **China PMIs firmed in May, but remain in contractionary territory.** Manufacturing PMI was up slightly to 49.6 (previous: 47.4), while non-manufacturing PMI surged to 47.8 (previous: 41.9). **Equities continued to rally on easing covid restrictions (Shanghai: +1.2%, Shenzhen: +1.6%).** Monthly trading volume in the yuan-ruble pair has surged almost 12 times since the beginning of the war in Ukraine to about US \$4bn in May.



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: 5/31/22 8:12 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4157	2.5	5	1	-1	-13	-2
Europe		3807	-0.9	4	0	-6	-11	-4
Japan		27280	-0.3	2	2	-5	-5	3
China		4092	1.6	3	2	-23	-17	-11
Asia Ex Japan		71	1.3	2	0	-25	-15	-11
Emerging Markets		42	1.2	2	-1	-23	-14	-11
Interest Rates			basis points					
US 10y Yield		2.82	8.6	7	-11	123	131	83
Germany 10y Yield		1.11	5.3	14	17	130	129	88
Japan 10y Yield		0.24	0.6	1	1	16	17	5
UK 10y Yield		2.02	3.2	13	12	123	105	54
Credit Spreads			basis points					
US Investment Grade		153	-1.1	-16	-2	62	41	10
US High Yield		432	-11.8	-75	21	92	95	26
Europe IG		87	2.3	-10	-3	37	40	16
Europe HY		439	14.4	-42	9	191	196	87
Exchange Rates			%					
USD/Majors		101.88	0.2	0	-1	13	6	6
EUR/USD		1.07	-0.6	0	2	-12	-6	-5
USD/JPY		128.3	0.5	1	-1	17	11	12
EM/USD		52.7	-0.4	-1	1	-9	0	-1
Commodities			%					
Brent Crude Oil (\$/barrel)		124	1.7	9	15	90	63	36
Industrials Metals (index)		188	0.9	1	-5	17	9	0
Agriculture (index)		77	-0.4	0	1	34	27	10
Implied Volatility			%					
VIX Index (% change in pp)		27.7	1.2	-0.8	-5.7	11.0	10.5	-3.3
US 10y Swaption Volatility		100.4	0.0	-10.2	-29.9	37.0	21.3	6.1
Global FX Volatility		9.6	0.0	-0.8	-1.0	2.5	2.2	2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		246	-1.8	-20	5	144	94	6
Italy		200	5.8	-1	17	91	65	29
Portugal		114	2.2	-3	6	49	49	22
Spain		110	2.6	-2	7	45	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: 5/31/2022 8:14 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	-0.1	-0.2	-1	-4	-5	-5		2.8	3.5	0	-3	-32	0	-1	
Indonesia		14578	-0.1	0.6	-1	-2	-2	-2		7.0	1.2	-19	6	62	66	54	
India		78	-0.1	-0.1	-1	-6	-4	-4		6.3	0.0	0	9	75	0		
Philippines		52	-0.1	-0.1	0	-9	-3	-2		5.5	0.0	3	15	115	98	48	
Thailand		34	-0.6	-0.6	0	-9	-3	-6		3.0	6.5	3	11	108	111	74	
Malaysia		4.38	-0.2	0.4	-1	-6	-5	-4		4.2	5.4	-3	-16	97	61	53	
Argentina		120	-0.4	-0.9	-4	-21	-14	-11		56.1	16.0	87	363	1022	556	817	
Brazil		4.76	-0.1	1.3	7	10	17	5		12.8	34.5	65	60	356	214	130	
Chile		830	-0.5	0.0	4	-13	3	-5		6.1	-0.2	5	-28	227	63	14	
Colombia		3810	3.1	4.3	5	-3	7	3		8.5	5.0	-22	15	265	212	66	
Mexico		19.59	-0.3	1.3	4	2	5	3		8.4	-5.5	-11	-56	151	83	51	
Peru		3.7	0.3	1.1	4	4	9	2		7.4	0.0	-35	-44	264	150	140	
Uruguay		40	-0.4	-0.1	2	9	11	5		10.3	0.0	14	19	235	153	210	
Hungary		370	-1.3	-3.6	-2	-23	-12	-14		7.0	6.5	40	23	431	252	222	
Poland		4.28	-0.5	0.1	5	-14	-6	-5		6.3	4.0	39	34	441	277	240	
Romania		4.6	-0.5	-0.2	2	-13	-6	-5		7.7	0.8	-17	96	502	292	259	
Russia		63.0	1.6	-12.2	12	16	19	30		8.2	31.5	-190	-421	80	-57	-297	
South Africa		15.6	-0.9	0.1	3	-12	2	-3		8.4	14.0	27	-8	107	98	82	
Turkey		16.41	-0.1	-1.9	-9	-48	-19	-16		22.7	-6.0	-202	143	412	-160	30	
US (DXY; 5y UST)		102	0.3	-0.1	-1	13	7	6		2.80	7.8	5	-16	200	153	89	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)									
	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	7 Days	30 Days	12 M				
									basis points								
China		4092	1.6	3	2	-23	-17	-11		213	-1	2	4	10	5		
Indonesia		7149	1.6	5	-1	20	9	3		200	-21	13	30	35	15		
India		55566	-0.6	3	-3	7	-5	-3		180	-15	5	26	48	26		
Philippines		6775	-0.7	3	1	2	-5	-8		142	-17	-1	49	41	5		
Thailand		1663	0.6	2	0	3	0	-2		0	0	0	0	0	0		
Malaysia		1570	1.8	3	-2	-1	0	-1		130	-10	7	11	13	-3		
Argentina		93236	-0.5	6	6	57	12	2		1916	-36	147	432	236	179		
Brazil		111032	-0.8	1	3	-12	6	-1		306	-23	18	59	-5	-25		
Chile		5386	0.0	5	13	24	25	23		161	-25	-4	18	21	-13		
Colombia		1532	1.6	3	-2	27	9	1		353	-52	-3	100	5	-39		
Mexico		52162	-0.6	2	1	3	-2	2		368	-38	-2	39	36	-2		
Peru		20984	0.6	2	-8	0	-1	-10		175	-30	-13	10	25	-15		
Hungary		39691	2.4	-8	-9	-14	-22	-17		222	-5	52	82	98	69		
Poland		57483	-0.6	2	0	-13	-17	-9		17	-27	-13	-23	-15	1		
Romania		12506	0.4	2	-2	9	-4	-5		255	-23	19	79	62	23		
Russia		2367	-1.4	3	-3	-36	-37	-23		3411	-577	938	3228	3234	2897		
South Africa		72215	0.4	7	0	6	-2	-4		381	-56	10	71	26	-8		
Turkey		2537	0.4	7	4	79	37	26		596	-17	82	131	18	33		
Ukraine		519	0.0	0	0	-2	-1	0		3243	131	-460	2767	2484	1770		
EM total		42	0.7	2	-1	-23	-14	-11		391	-30	-14	40	5	-67		

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

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