



- **US jobs report beats forecasts** ([link](#))
- **Markets reverse post-FOMC gains in major selloff** ([link](#))
- **Futures predict Fed policy rate will hit 2.5% by year end** ([link](#))
- **ECB officials hint at July rate hike** ([link](#))
- **Poland surprises with dovish move** ([link](#))
- **Chile raises policy rate more than expected** ([link](#))

[Mature Markets](#)




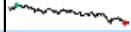
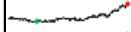

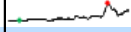

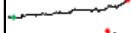


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## Markets on edge after violent selloff

European stocks and US equity index futures are lower this morning after yesterday's violent US selloff, which saw technology stocks plunge as much as 5% in a single session. Interest rates have resumed their march higher, with Treasury and bund yields once again testing multi-year highs. The mood seems particularly bleak, with China doubling down on its zero tolerance Covid policy and raising the risk of an economic slowdown, OPEC proceeding with just a small production gain despite pleas to increase volumes to replace Russian supplies, and growing worries that central banks are falling behind the curve on inflation. The dominant concern is that central banks will have to hike aggressively to tackle inflation, pushing the global economy into recession. Meanwhile, credit spreads are widening even for investment grade bonds as investor pessimism continues to grow, and further rises in interest rates could cause a major shock to the corporate bond market.

Key Global Financial Indicators

Last updated: 5/6/22 7:40 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		4147	-3.6	-3	-7	-1	-13	-2
Eurostoxx 50		3640	-1.5	-4	-5	-9	-15	-8
Nikkei 225		27004	0.7	2	0	-8	-6	2
MSCI EM		42	-3.7	-2	-8	-23	-15	-13
Yields and Spreads			bps					
US 10y Yield		3.08	4.8	15	49	152	157	109
Germany 10y Yield		1.07	2.7	13	42	130	125	84
EMBIG Sovereign Spread		440	-5	3	54	98	73	28
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.1	-0.3	0	-2	-9	-1	-2
Dollar index, (+) = \$ appreciation		103.3	-0.4	0	4	14	8	7
Brent Crude Oil (\$/barrel)		113.4	2.2	4	12	67	46	17
VIX Index (% change in pp)		33.2	2.0	0	11	15	16	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

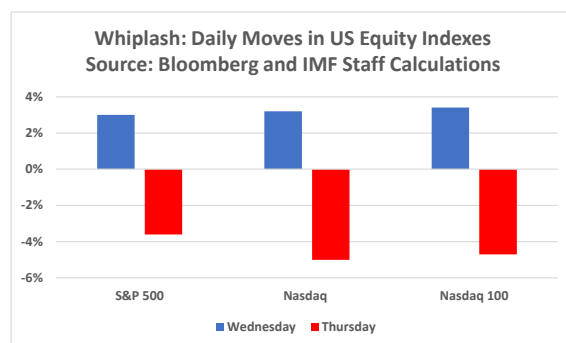
**The jobs report was stronger than expected, although hourly earnings did not keep pace with forecasts.** The market response was muted, with Treasuries, stocks, and the dollar little changed.

#### US April Non-Farm Payrolls Report

Source: Bloomberg

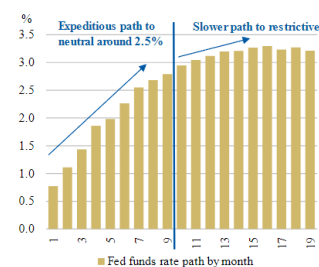
	Consensus Forecast	Actual Number
Non-farm payrolls	380K	428K
Unemployment rate	3.5%	3.6%
Average hourly earnings mom	0.4%	0.3%
Average hourly earnings yoy	5.5%	5.5%
Labor force participation rate	62.5%	62.2%

**Markets yesterday suffered a whiplash inducing reversal of Wednesday's post-FOMC gains, with stocks plunging and Treasury yields soaring.** The 10-year Treasury blew past the psychologically important 3% level to trade above 3.10% before ending at 3.05%, and the yield curve steepened across the board. The two-year/ten-year spread more than doubled to 36 bps from 17 bps before the FOMC meeting. The 5/10 spread hit 5 bps after being negative before the FOMC. The largest technology stocks took the biggest losses as 2022's trend of punishing the winners of 2020 and 2021 continued. The Treasury selloff may have been triggered by a very large sale of 9000 June 10-year note futures contracts in the morning, a notional value of \$900 mn, which was followed higher than expected unit labor costs. There was a lot of discussion on trader chats about the Fed having to hike well past 3.25% and causing a recession. Momentum spilled over to stocks, which erased Wednesday's gains.



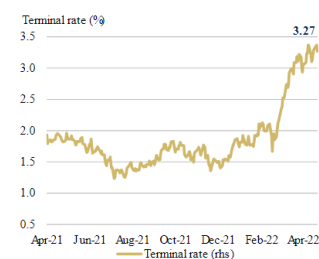
**Despite yesterday's carnage, markets still appear to be comfortable with the Fed's "expeditious" hiking cycle, predicting a 2.5% policy rate by the end of the year and a terminal rate of around 3.25% being reached sometime next year.** This is consistent with the market's view that the Fed is likely to begin cutting rates again not long after hitting the terminal rate, as seen from the perspective of pricing in the Fed Funds and eurodollar futures markets. This view will be tested if the Treasury selloff that occurred yesterday goes any further.

**Exhibit 3:** Market implied Fed path over the coming eighteen months (on May 4)



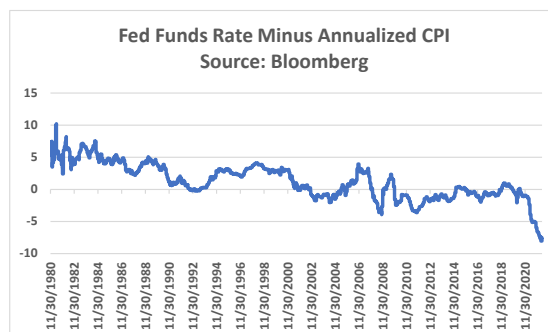
Source: Bloomberg, Morgan Stanley Research

**Exhibit 4:** Market implied terminal rate



Source: Bloomberg, Morgan Stanley Research

**Some market participants are highly skeptical of the optimistic view being expressed by the bond markets.** They point to the record high spread between the Fed Funds rate and CPI and consider this proof that the Fed is falling further and further behind the curve in relation to inflation. They think that the terminal rate will need to be much higher than the Fed's current estimate and that further rate hikes will end up sending the economy into recession. Fed Chair Powell pushed back against this idea at the press conference. He asserted out that the impact of monetary policy is being felt through expectations, pointing out that the two-year yield was trading at a yield of 0.20% back in October, and that hawkish Fed rhetoric pushed the yield higher in subsequent months even before there were any rate hikes. The yield had gone up as high as 2.80% before the FOMC meeting. Nevertheless, the skepticism remains, and there is even a camp that believes that a 75 bps hike could be back on the table if inflation continues to get worse.

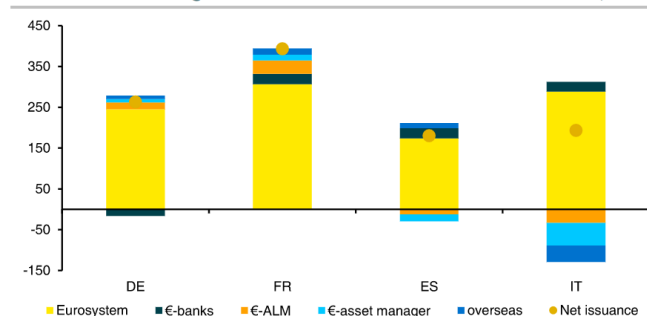


### Euro area

**Shares (-1%) fell but 10-yr bund yields (+4 bps to 1.09%) and the euro (+0.4%) rose after Bank of France governor Villeroy said that above-zero ECB depo rates are reasonable by the end of the year barring unforeseen new shocks.** Money markets have been pricing a hike of 25 bps in July and are now pricing a total of just under 75 bps of hikes by October 2022. **On the data front, German industrial production fell 4% mom in March compared to a drop of 1% expected.**

**Italian 10-yr spreads are little changed at 199 bps after trading 14 bps higher this week as Commerzbank expects spreads to widen further given persistent de-risking by euro-based institutional investors.** Spreads have widened but trading conditions have remained orderly. High-frequency data from the Banca d'Italia shows that market depth as well as the market's ability to digest large orders remain strong. **Bank of France governor Villeroy said that that the ECB could resume targeted net purchases under its pandemic bond-buying program, if needed, but without providing further details.**

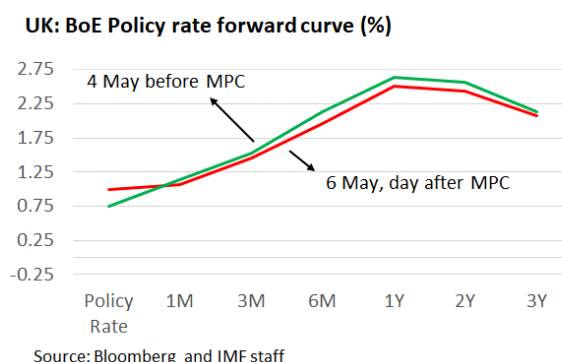
Estimated net sovereign debt\* flows and net issuance Q4-21 vs. Q4-19, in €bn



Source: Bloomberg, ECB, IMF; World Bank, Commerzbank Research, \*) 1y+ general government bonds

## United Kingdom

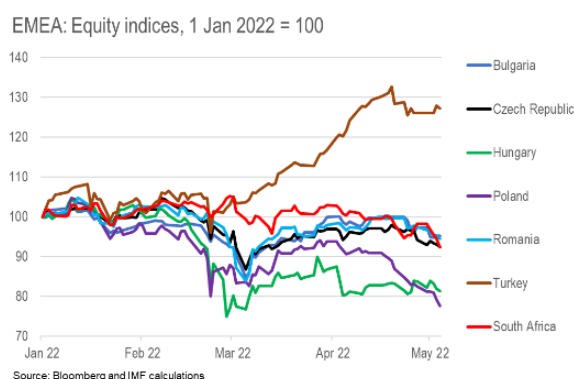
The pound is little changed after yesterday's 2% drop to its weakest level since mid-2020. Yesterday, the Bank of England (BoE) hiked its policy rate 25 bps, but traders cut back on expectations for future rate hikes after the BoE also downgraded its growth outlook. **Governor Bailey said that the BoE is navigating a narrow path on policy.** Contacts perceived the hike as *dovish* given the BoE baseline of negative growth in 2022 Q4, almost no growth in 2023–24 and more cautious language. **In contrast, some traders had still expected a hike of +50 bps yesterday or even a detailed announcement on gilt sales, which has been postponed till August at the earliest.**



## Emerging Markets

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**EMEA stocks continued weakening as sentiment remains fragile.** However, several local currencies bucked the downward trend and appreciated. S&P downgraded the debt of Belarus to CC from CCC. **Asian stocks took their cue from the US decline and fell 2.7% in aggregate in a broad based selloff.** Hong Kong SAR equities lead losses (-3.8%), with technology shares slumped as much as -4.5% alongside other Chinese equities. **Latin American** stocks also fell and local currencies depreciated.



## Chile

**Chile raised the policy rate by 125bps, while most analysts expected a 100bps hike.** Yesterday, Chile's benchmark rate reached 8.25% to curb inflation that hit 9.4% yoy in March. Propelled by fuel prices and last year's fiscal stimulus, inflation is running high in the Andean country despite 775bps of rate hikes since July 2021. Short-term inflation prospects remains bleak, as analysts expect inflation to hit double-digit in April. This latest move comes after Colombia and Brazil also lifted their rates to contain elevated inflation rates.

### Running Hot Chile's inflation running well above 3% target

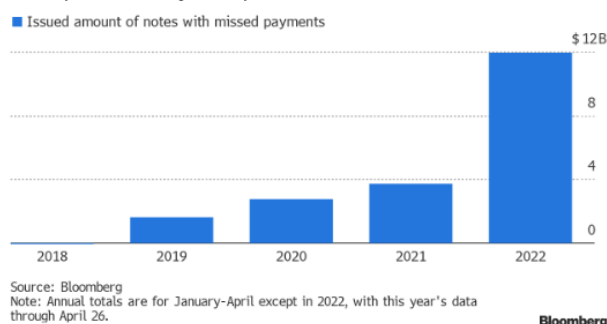


## China

### Equities slumped with the CSI index down -2.5%.

Property developer stocks fell as much as -4.4% on Friday amid broader market declines, according to Bloomberg. **China's Politburo Standing Committee (PSC) reaffirmed support for the COVID-zero approach.** It also pledged to fight against any speech that distorts, questions, or rejects this strategy, Bloomberg reports. Reopening-related sectors fell, while medical-related equities advanced following the news. Separately, **China ordered government agencies, state-backed firms to replace foreign-branded computers.** Domestically produced replacements must be made within two years, with at least 50 mn central-government computers to be impacted, Bloomberg reports. Equities of domestic computer makers such as Lenovo rallied on the news. **The Renminbi depreciated (onshore: -0.3%, offshore: -0.4%) as the currency hit an 18-months low offshore.** Additional selling pressure may come from Chinese firms, which are poised to ramp up dividend payments in coming months. Bloomberg estimated that over 500 Hong Kong SAR companies will hand out around \$86 bn this year.

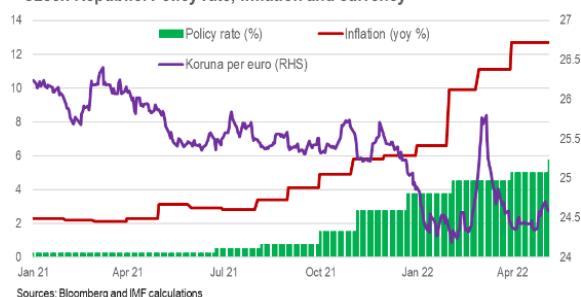
### Developers lead this year's spike in China offshore bond defaults



## Czech Republic

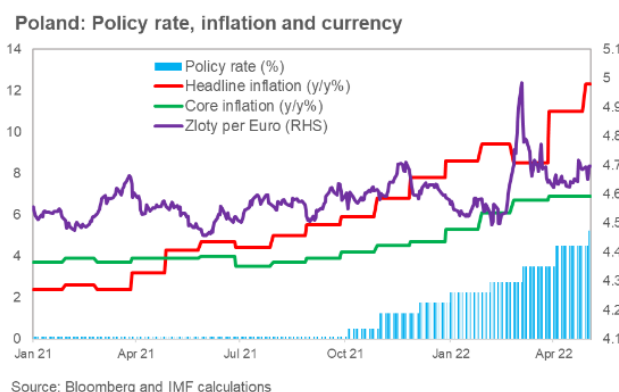
**The Czech National bank surprised markets with a larger than expected +75bps interest rate hike (50 bps was the consensus forecast) and indicated possible further tightening ahead.** The eight consecutive hike since June 2021 took the benchmark interest rate to 5.75%, with market interest rates seen to increase until mid-2022 in the new baseline scenario. Headline inflation is seen to reach almost 15% around mid-2022, with cost pressures expected to moderate later in the year. Economic growth is expected to slow in 2022 with a slight annual contraction expected in 2H 2022. Yields on 5-yr sovereign bonds increased (+30 bps) after the decision, and the Czech koruna appreciated (+0.2% to 24.6 against the euro). ING analysts caution that further strengthening could be limited.

### Czech Republic: Policy rate, inflation and currency



## Poland



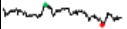
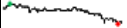
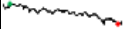

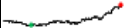






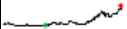

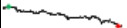


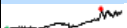


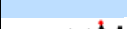


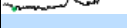
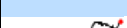


The polish zloty depreciated (-1%) against the euro after the central bank of Poland increased its policy rate by less than expected yesterday. The central bank increased the benchmark rate by just 75 bps to 5.25% instead of the consensus forecast of a 100 bps hike. The press release noted that inflation is expected to remain elevated in the coming quarters but is seen to decrease in coming years. Lower inflation is also expected to be supported by a stronger zloty. Inflation increased to +12.3% yoy in April, mainly driven by higher food prices. A press conference will take place later this afternoon. **Standard Chartered analysts expect the central bank to pause after a further +75bps of tightening in 2022.** The zloty is trading roughly 2.5% weaker against the euro so far this year, while equities in Poland are trading -21% lower year to date.



*This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (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), Henry Hoyle (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), Liumin Chen (Research Assistant), 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), Rohit Goel (Financial Sector Expert), 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), Dmitry Petrov (Financial Sector Expert), 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: 5/6/22 7:43 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4147	-3.6	-3	-7	-1	-13	-2
Europe		3640	-1.5	-4	-5	-9	-15	-8
Japan		27004	0.7	2	0	-8	-6	2
China		3909	-2.5	3	-8	-22	-21	-15
Asia Ex Japan		70	-3.7	-1	-8	-26	-16	-12
Emerging Markets		42	-3.7	-2	-8	-23	-15	-13
<b>Interest Rates</b>			basis points					
US 10y Yield		3.08	4.8	15	49	152	157	109
Germany 10y Yield		1.07	2.7	13	42	130	125	84
Japan 10y Yield		0.24	1.3	1	0	15	17	5
UK 10y Yield		1.95	-1.5	4	25	116	98	47
<b>Credit Spreads</b>			basis points					
US Investment Grade		155	-0.4	-1	18	64	43	12
US High Yield		422	-0.6	10	49	92	84	15
Europe IG		97	3.8	7	22	47	50	26
Europe HY		469	20.6	41	109	215	227	117
<b>Exchange Rates</b>			%					
USD/Majors		103.32	-0.4	0	4	14	8	7
EUR/USD		1.06	0.4	0	-3	-12	-7	-6
USD/JPY		130.4	0.1	1	5	20	13	13
EM/USD		52.1	-0.3	0	-2	-9	-1	-2
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		113	2.3	6	13	78	50	25
Industrials Metals (index)		188	-1.2	-5	-12	18	9	0
Agriculture (index)		76	-1.0	-2	3	24	24	8
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		33.2	2.0	-0.2	11.1	14.8	16.0	2.2
US 10y Swaption Volatility		126.2	0.0	-3.7	9.5	54.7	47.1	31.9
Global FX Volatility		10.5	0.0	-0.1	1.4	3.4	3.1	3.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		245	3.7	4	34	125	93	4
Italy		200	0.2	16	34	86	65	28
Portugal		113	-0.8	5	21	44	49	21
Spain		109	-1.2	6	10	41	35	6

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



Last updated: 5/6/2022 7:45 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	-0.9	-5	-3	-5	-5		2.9	2.0	0	7	-30	6	4	
Indonesia		14480	-0.4	0.0	-1	-1	-1	-1		7.0	2.0	3	26	47	60	49	
India		77	-0.9	-0.6	-2	-4	-3	-3		6.3	0.0	0	9	75	0		
Philippines		52	-0.2	-0.6	-2	-9	-3	-3		5.4	0.0	5	10	104	88	38	
Thailand		34	0.0	-0.2	-2	-9	-3	-6		3.3	12.5	40	87	126	141	103	
Malaysia		4.37	-0.4	-0.3	-3	-6	-5	-4		4.5	13.0	19	55	150	96	88	
Argentina		116	-0.1	-0.8	-4	-19	-12	-8		52.8	-1.2	17	328	659	225	486	
Brazil		5.03	-2.1	-1.7	-7	7	11	0		12.4	25.0	27	106	312	173	89	
Chile		861	-0.8	-0.4	-9	-18	-1	-8		6.4	7.0	13	15	292	100	51	
Colombia		4087	-0.5	-2.7	-9	-6	-1	-4		8.8	0.0	25	131	310	243	96	
Mexico		20.22	0.1	1.0	0	-1	2	0		9.0	14.0	8	71	223	152	120	
Peru		3.8	-0.5	1.5	-2	1	6	-1		8.1	21.9	31	112	278	215	205	
Uruguay		41	-0.4	-0.5	0	6	8	2		10.1	0.0	0	103	266	134	191	
Hungary		361	0.1	-0.6	-4	-18	-10	-11		7.1	2.0	27	52	452	256	226	
Poland		4.45	0.2	-0.2	-4	-15	-9	-9		6.4	28.7	45	136	449	284	247	
Romania		4.7	0.3	0.3	-3	-13	-7	-7		7.1	0.5	38	94	445	223	190	
Russia		67.8	-3.9	5.8	22	10	11	20		12.0	0.0	-41	-166	475	323	82	
South Africa		16.0	-0.3	-1.6	-9	-11	-1	-6		8.7	10.0	21	71	115	124	108	
Turkey		14.94	-0.5	-0.6	-2	-45	-11	-8		22.7	99.0	139	-352	453	-164	26	
US (DXY; 5y UST)		103	-0.4	0.3	4	14	8	7		3.04	3.6	9	36	224	178	114	

	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		3909	-2.5	3	-8	-22	-21	-15		203	-8	-1	-7	0	-5	
Indonesia		7229	0.0	-1	3	20	10	4		183	-8	27	10	18	-2	
India		54836	-1.6	-5	-8	11	-6	-4		173	-2	27	11	41	19	
Philippines		6760	-1.6	-2	-4	8	-5	-8		141	-5	35	43	40	4	
Thailand		1630	-0.8	-2	-3	3	-2	-4		0	0	0	0	0	0	
Malaysia		1564	-1.2	-2	-3	-1	0	-1		127	3	19	3	10	-6	
Argentina		86434	-3.3	-4	-5	75	4	-5		1788	-2	72	242	108	51	
Brazil		105304	0.0	-4	-11	-12	0	-6		290	-2	15	31	-21	-41	
Chile		4854	-0.7	1	-2	5	13	11		164	-6	27	23	24	-10	
Colombia		1582	-2.0	1	-3	25	12	5		375	12	58	130	27	-17	
Mexico		50530	-1.8	-4	-9	3	-5	-2		369	-5	35	32	37	-1	
Peru		21071	-6.2	-7	-14	8	0	-10		192	-5	40	23	42	2	
Hungary		42239	-0.7	-3	1	-5	-17	-12		191	7	67	48	67	38	
Poland		54318	-2.1	-7	-15	-11	-22	-14		7	-29	-2	-32	-25	-9	
Romania		12348	-0.8	-3	-3	7	-5	-6		225	-16	28	38	33	-7	
Russia		2379	-1.1	-2	-9	-35	-37	-23		3411	-577	938	3228	3234	2897	
South Africa		67925	-2.5	-5	-9	0	-8	-9		385	4	49	41	30	-4	
Turkey		2457	-0.4	2	6	72	32	22		522	9	2	38	-56	-41	
Ukraine		519	0.0	0	0	-2	-1	0		3522	-224	671	2981	2763	2049	
EM total		42	-0.9	-2	-8	-23	-15	-13		391	-20	33	27	5	-67	

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

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