GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MAY 9, 2022

- **Global selloff continues as risk aversion grows** (link)
- **Fed MBS rundown likely to be slow** (link)
- **Investors flee mutual funds amidst market sell off** (link)
- **Tightening US financial conditions could further strengthen dollar** (link)
- **More Chinese firms face delisting in US** (link)
- **Inflation in Chile hits highest level since 1994** (link)

Mature Markets | Emerging Markets | Market Tables

Markets in full retreat on China lockdowns and Fed rate hikes

US equity index futures were taking heavy losses and stocks in Europe were down sharply in early trading. China's premier warned that the employment situation has worsened due to the ongoing Covid related lockdowns. The yuan depreciated again as the latest data showed that Chinese exports were down significantly in the midst of the ongoing economic crisis. Following Friday's strong US jobs report, markets appear to be grappling with the realization that the Fed is going to be more aggressive than originally thought, sending Treasury rates to new multi-year highs. The US five-year note is at its highest yield since 2008. As risk aversion spreads, the dollar is continuing its relentless appreciation and has reached its strongest level in two years against its major global peers. The Indian rupee hit an all-time low versus the dollar. Oil prices were fell on fears of slowing demand from Asia, although the G-7 agreed to a ban on Russian oil.

Key Global Financial Indicators

Last updated: 5/9/22 7:51 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		4123	-0.6	0	-8	-3	-13	-2
Eurostoxx 50		3551	-2.1	-5	-8	-12	-17	-11
Nikkei 225		26319	-2.5	-1	-2	-11	-9	0
MSCI EM		41	-1.4	-3	-9	-25	-16	-14
Yields and Spreads					bps			
US 10y Yield		3.18	5.4	20	48	160	167	119
Germany 10y Yield		1.18	4.9	21	47	140	136	95
EMBIG Sovereign Spread		444	3	5	47	104	77	31
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		51.5	-0.8	0	-3	-11	-2	-3
Dollar index, (+) = $ appreciation		103.8	0.1	0	4	15	8	8
Brent Crude Oil ($/barrel)		109.7	-2.4	2	7	61	41	13
VIX Index (%, change in pp)		34.2	4.0	2	13	18	17	3

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

Investors hoping for a break after last week's turbulence may be in for disappointment as inflation data grab center stage and market volatility continues unabated. CPI reports are expected in the US, China, India, Mexico, and Brazil, among others. With the FOMC meeting in the rear view mirror, multiple Fed officials are scheduled to speak during the coming week. Tomorrow will see the publication of the latest German ZEW business confidence survey, while Italian PM Draghi is scheduled to visit the White House on the same day and the Queen is set to make her annual speech to the UK Parliament. The central banks of Mexico and Peru will announce their latest rate decisions on Thursday.

Mature Markets

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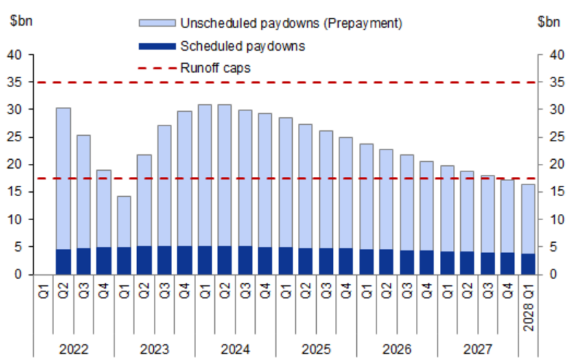
United States

The Fed's mortgage-backed securities (MBS) portfolio is likely to shrink very slowly despite allowing prepayments to run off the balance sheet. At the FOMC meeting, it was announced that up to $17.5 bn per month in MBS would be allowed to *runoff* for three months, and that the runoff cap will be raised to $35 bn in September. Goldman estimates that prepayments will hit the initial runoff cap of $17.5 bn in June, July, and August, but will fall well below the $35 bn cap thereafter. The reason is that most of the Fed's MBS have coupons of 2%, 2.5%, and 3% because mortgage rates were very low over the past two years. With current 30-year mortgage rates averaging 5.25% at present, prepayments on the Fed's low coupon holdings will slow down dramatically as the demand for mortgage refinance dries up. Earlier fears about MBS volatility caused by the market having to absorb much larger volumes may prove unfounded. The MBS market may also receive support because MBS are more fairly valued relative to Treasuries than they were at the end of 2021.

Exhibit 1 : We expect passive runoff will land above the temporary runoff caps through August, but below the final runoff caps starting in September
Projected MBS runoff from the SOMA versus temporary/final runoff caps



Source: Goldman Sachs Global Investment Research

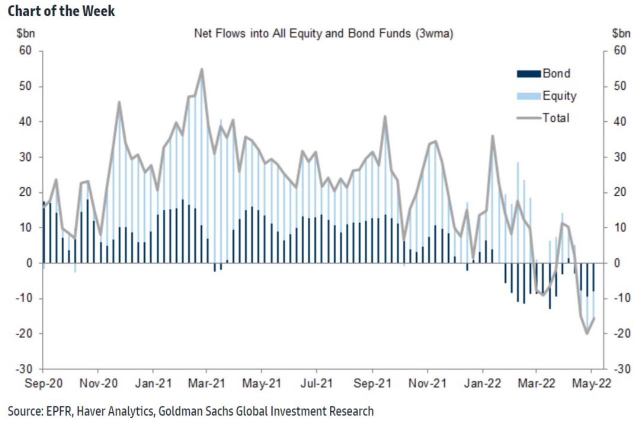
Exhibit 2 : Current coupon MBS basis versus blended Treasuries

Spread of MBS current coupon yield over 5-year/10-year average Treasury yield

Source: Bloomberg, Goldman Sachs Global Investment Research

Global Fund Flows

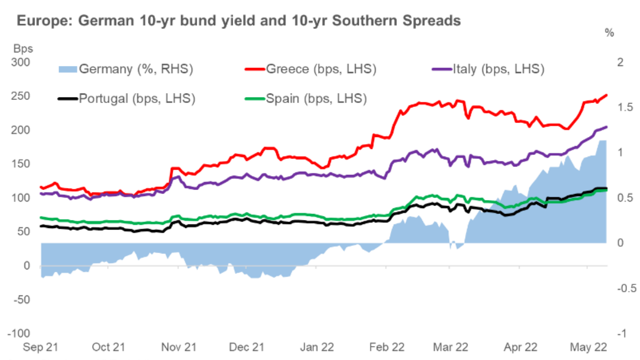
Investors fled from mutual funds and related investments over the past week, perhaps contributing to the sharp market selloff. They did not discriminate between equities and fixed income, selling both sectors. Outflows also spanned both developed and emerging markets. The currencies with the most outflows included the euro and the Renminbi. Financial assets were the most heavily sold, while telecoms and infrastructure saw inflows.



Euro Area

European equities were trading lower with the benchmark Stoxx 600 European index down 2%. Losses were broad-based across sectors, with the mining (-3.5%), and technology (-2.6%) sectors underperforming.

European sovereign yields increased with the 10-yr bund (+4 bps to 1.17%) reaching the highest level since 2014, while southern spreads widened (Italy +5 bps to 205bps). ECB Governing Council (GC) member Robert Holtzmann said up to three hikes are required in 2022 to fight inflation and GC member Olli Rehn opined that an interest rate hike in July is required to stop inflation expectations from becoming de-anchored. ECB President Christine Lagarde said that euro area stagflation is not currently the ECB's baseline scenario and reiterated that net asset purchases are seen to end at the start of the third quarter. In an interview published over the weekend Lagarde also noted that the present situation is not comparable to the 1970s. **Markets are pricing in roughly +90 bps of tightening by end-2022, with +20bps of tightening in July.**



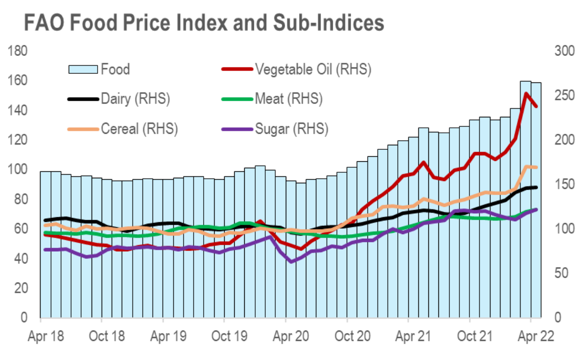
The Euro traded weaker this morning (-0.2% at 1.05) with contacts seeing hawkish commentary from ECB officials as unlikely to provide long-term support for the currency as expected tightening remains comparatively small to other economies. **Almost half of the economists and portfolio managers recently surveyed by Bloomberg expect the euro to fall to parity with the US dollar.**

The Sentix investor confidence index for the euro area disappointed in May, falling to -22.6 (vs. te -21.6 forecast) from -18 in April. The third consecutive decline takes the index to its lowest point since June 2020. The press release warned of recession risks and expressed the view that the economic downturn will cause distortions in equities and lead to higher bank risk provisions. Sentix analysts date the start of the recession to April.

Source: Press release sentix Economic Index May 2022

Commodity Markets

The UN's Food and Agriculture Organisation (FAO) Food Price Index decreased slightly (-0.8% m/m) in April from the all-time high reached in March, but it remains nearly +30% higher on an annual basis. The m/m decline was mainly driven by the vegetable oil sub-index, while the cereal price sub-index also saw a small decline. In contrast, the sugar, meat, and dairy sub-indices saw moderate increases. **A UN FAO official also said that almost 25 mn tons of grain in Ukrainian warehouses is unable to leave Ukraine as a result of infrastructure challenges and blocked ports.**

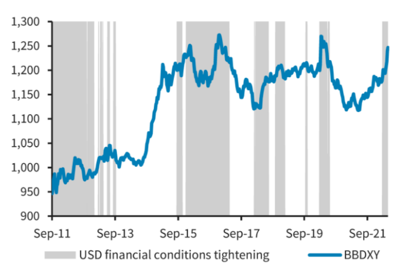


Source: Bloomberg and IMF calculations

Foreign Exchange Markets

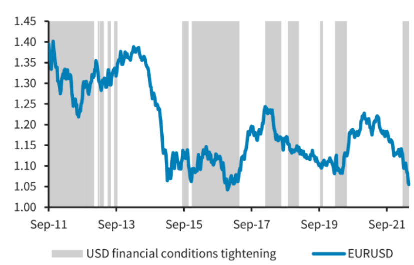
Tightening US financial conditions are usually good for the US dollar versus other currencies, but the path is not always straightforward, according to analysis by Barclays. Over the past few years, the dollar has strengthened when financial conditions grew tighter, but there were episodes of weakening as well. In the summer of 2015, the dollar weakened against the euro despite Fed rhetoric turning hawkish, while in March 2022 the dollar was strong going into the first lockdown but the euro rebounded as the crisis intensified.

Figure 2. Dollar performance during tightening USD financial conditions



Source: Bloomberg, Barclays Research

Figure 3. EURUSD performance during tightening USD financial conditions



Source: Bloomberg, Barclays Research

Emerging Markets

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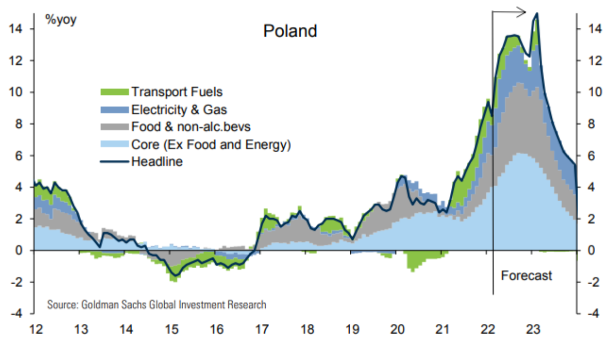
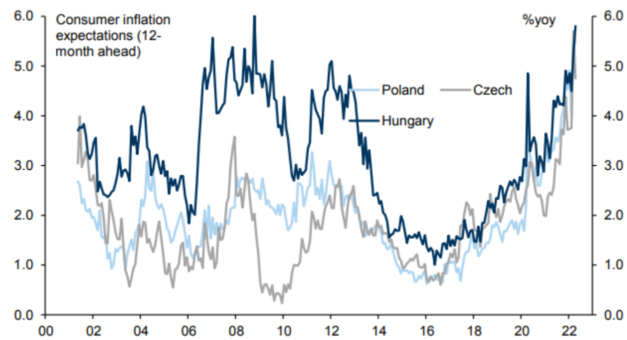
Markets in eastern Europe were down, but not as much as in Western Europe. South Africa is down more than 2%. **In Asia,** stocks also took significant losses overnight in reaction to the selloff in the US. Hong Kong SAR stood out with a loss of nearly 4%. **In Latam,** most markets followed the US lower and local interest rates moved higher.

EMEA

More aggressive tightening is required in CEE (Central and Eastern Europe) countries to curb inflation. Inflation in the region is expected to grow further even in the baseline scenario, despite already being at historically high levels. The projected dynamics in Poland (left chart below) is similar to the projected inflation path in other CEE countries. The situation is worsened by two factors. First, despite the substantial tightening seen so far, the devaluation of CEE currencies continues and passes through into inflation. Second, as inflation expectations are rapidly increasing (right chart), it raises the risks of inflationary inertia due to second-order effects. Yet, analysts remain uncertain whether the central banks have sufficient willingness and/or independence to engage in aggressive tightening at the expense of short-term output.

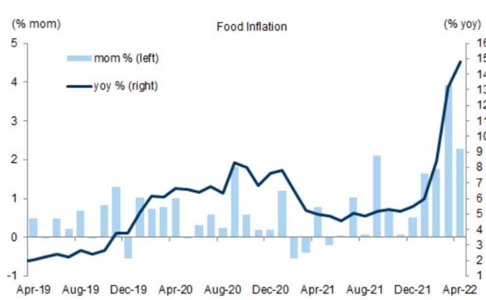




Chile

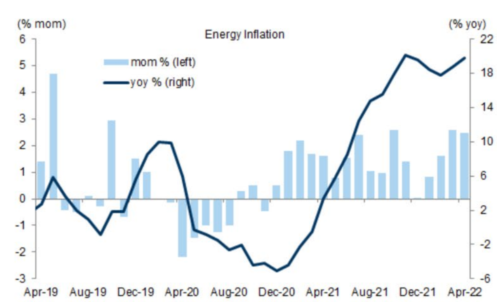
April CPI came in at 1.4%, well above the consensus forecast of a 1% gain. Annualized headline inflation hit 10.5%, up from 9.4% in March. This is the worst headline inflation print since 1994. Price increases in food and energy get the biggest headlines, but severe inflation has spread to housing, utilities, health care and other sectors. However, despite these pressures, local markets are doing well. The main equity index is up 13% this year as the country benefits from the surge in commodity prices. The Chilean peso has held steady so far despite the major appreciation the dollar has enjoyed against most currencies in 2022.

Very High Food Inflation



Source: INE, Goldman Sachs Global Investment Research

Continued Pressure in Energy Prices

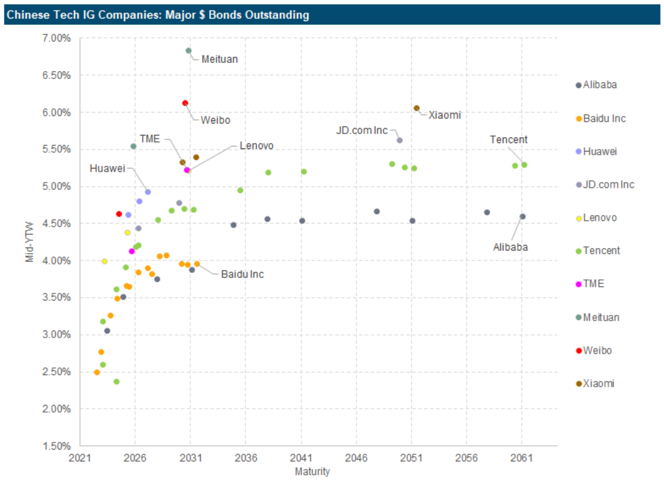


Source: INE, Goldman Sachs Global Investment Research

China

The US Securities and Exchange Commission (SEC) added 88 US-listed Chinese firms to an enlarged provisional list of companies that could be delisted from US exchanges for failing to comply with audit requirements. The list now includes 105 firms in total. Market reaction after the headlines Thursday was limited. Analysts believe that the potential delisting would not have a material adverse impact on the credit profile of the firms. They are dual-listed in Hong Kong or China and the US, enabling them to tap capital even if they are delisted from US exchanges.

Chinese Tech IG Companies: Major $ Bonds Outstanding



Source: Bloomberg, CreditSights. Note: Prices as of 6 May 2022, 9.10 am SGT/HKT.

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Global Financial Indicators

Last updated:	Level		Change					Since
5/9/22 7:52 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		4123	-0.6	0	-8	-3	-13	-2
Europe		3551	-2.1	-5	-8	-12	-17	-11
Japan		26319	-2.5	-1	-2	-11	-9	0
China		3877	-0.8	0	-8	-22	-22	-16
Asia Ex Japan		69	-1.4	-3	-8	-27	-17	-13
Emerging Markets		41	-1.4	-3	-9	-25	-16	-14
Interest Rates					basis points			
US 10y Yield		3.18	5.4	20	48	160	167	119
Germany 10y Yield		1.18	4.9	21	47	140	136	95
Japan 10y Yield		0.25	0.4	2	2	16	18	5
UK 10y Yield		2.07	7.7	17	32	130	110	59
Credit Spreads					basis points			
US Investment Grade		156	0.7	-1	18	64	45	14
US High Yield		428	0.0	6	48	94	90	21
Europe IG		99	3.8	9	21	49	51	28
Europe HY		480	23.4	51	106	230	238	128
Exchange Rates					%			
USD/Majors		103.78	0.1	0	4	15	8	8
EUR/USD		1.05	-0.1	0	-3	-13	-7	-7
USD/JPY		131.1	0.4	1	5	20	14	14
EM/USD		51.5	-0.8	0	-3	-11	-2	-3
Commodities					%			
Brent Crude Oil ($/barrel)		110	-2.4	2	7	71	45	21
Industrials Metals (index)		181	-3.4	-8	-15	11	5	-4
Agriculture (index)		75	-0.5	-1	0	22	24	7
Implied Volatility					%			
VIX Index (%, change in pp)		34.2	4.0	1.9	13.1	17.5	17.0	3.2
US 10y Swaption Volatility		123.6	0.0	-6.7	-6.4	54.5	44.5	29.3
Global FX Volatility		11.1	0.1	0.2	2.1	3.9	3.7	3.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		249	4.7	7	30	127	98	9
Italy		205	4.8	16	36	87	70	34
Portugal		115	1.6	6	22	43	51	23
Spain		113	2.0	8	13	42	38	9

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

Last updated: 5/9/2022 8:00 AM	Exchange Rates Level		Change (in %)					Since	Local Currency Bond Yields (GBI EM) Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.72	-0.8	-1.6	-5	-5	-5	-6		2.9	-2.0	1	3	-29	4	2
Indonesia		14573	-0.6	-0.6	-1	-3	-2	-2		7.3	29.6	30	48	87	90	78
India		77	-0.7	-1.2	-2	-5	-4	-4		6.3	0.0	0	9	75	0	
Philippines		53	-0.3	-0.6	-1	-9	-3	-3		5.4	0.0	5	10	104	88	38
Thailand		35	-0.8	-0.4	-3	-10	-4	-7		3.3	2.5	43	69	128	143	106
Malaysia		4.39	-0.4	-0.7	-4	-6	-5	-5		4.4	-8.0	1	38	130	78	71
Argentina		116	-0.1	-0.9	-4	-19	-12	-8		52.6	-18.2	14	313	600	207	468
Brazil		5.08	-1.0	-2.1	-7	4	10	-1		12.2	-40.4	-4	43	281	149	66
Chile		859	0.3	-0.8	-7	-19	-1	-8		6.5	0.0	21	-9	308	112	63
Colombia		4049	0.9	-2.1	-7	-6	0	-3		8.9	9.5	34	140	319	252	105
Mexico		20.34	-1.0	0.7	-2	-2	1	0		9.1	7.5	15	70	240	159	127
Peru		3.8	-0.6	0.6	-2	0	5	-2		8.3	-0.3	39	132	319	239	229
Uruguay		42	-0.4	-1.8	1	6	7	2		10.1	0.0	0	103	267	134	191
Hungary		363	-0.4	0.1	-4	-19	-11	-12		7.1	4.5	35	50	465	264	234
Poland		4.46	0.1	0.2	-4	-16	-10	-9		6.6	22.0	61	117	467	303	266
Romania		4.7	0.0	0.4	-3	-13	-7	-7		7.4	32.2	59	121	478	255	223
Russia		70.3	-3.3	0.8	19	6	7	16		12.0	0.1	-39	-23	482	325	84
South Africa		16.2	-1.5	-0.8	-10	-14	-2	-7		8.8	9.5	28	69	132	134	118
Turkey		15.05	-0.6	-1.1	-3	-45	-12	-8		22.9	2.0	164	-249	491	-139	51
US (DXY; 5y UST)		104	0.1	0.0	4	15	8	8		3.07	-0.5	7	32	230	181	117

	Equity Markets Level		Change (in %)					Since	Bond Spreads on USD Debt (EMBIG) 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		3877	-0.8	0	-8	-22	-22	-16		201	0	-6	-8	-2	-7
Indonesia		6910	-4.4	-4	-4	16	5	0		182	-5	22	9	17	-3
India		54471	-0.7	-5	-8	10	-6	-5		173	5	22	9	41	19
Philippines		6760	0.0	-2	-4	8	-5	-8		139	-2	28	41	38	2
Thailand		1604	-1.5	-4	-5	1	-3	-5		0	0	0	0	0	0
Malaysia		1549	-1.0	-2	-4	-2	-1	-2		124	4	12	0	7	-9
Argentina		86507	0.1	-2	-6	68	4	-5		1807	4	94	251	127	70
Brazil		105135	0.0	-3	-11	-14	0	-6		292	-6	10	37	-19	-39
Chile		4839	0.0	2	-3	5	12	11		161	-9	20	20	21	-13
Colombia		1556	-1.6	-2	-4	21	10	3		376	4	55	136	28	-16
Mexico		49542	-2.0	-4	-9	1	-7	-4		369	-10	30	33	37	-1
Peru		20898	-0.8	-8	-14	4	-1	-11		188	-12	27	20	38	-2
Hungary		41831	-0.7	-2	-1	-5	-18	-12		184	-11	46	42	60	31
Poland		54395	-1.5	-6	-15	-12	-22	-13		2	1	-1	-36	-30	-14
Romania		12227	-0.3	-3	-4	5	-6	-7		228	-12	21	41	35	-4
Russia		2393	0.0	-1	-8	-35	-37	-22		3411	-577	938	3228	3234	2897
South Africa		66676	-1.9	-8	-11	-3	-10	-11		393	2	55	50	38	4
Turkey		2448	-0.4	0	2	70	32	21		535	21	-2	57	-43	-28
Ukraine		519	0.0	0	0	-2	-1	0		3516	-218	537	2983	2757	2043
EM total		41	-2.5	-3	-9	-25	-16	-14		394	0	25	32	7	-64

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

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