Financial Markets Report - First Quarter 2022

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The first quarter of 2022 was characterized by continued global inflationary pressures, which were accentuated by the increase in commodity prices following Russia's invasion of Ukraine. In this context, most central banks continued to withdraw monetary stimulus adopted during the pandemic, leading to higher interest rates as well as yields on debt securities. On the other hand, the rise in COVID-19 cases in China and measures taken by its authorities to contain the pandemic, along with idiosyncratic events, generated high uncertainty, which was reflected in increased risk aversion internationally. Meanwhile, the US dollar strengthened against most developed country currencies and some emerging market currencies, while stock markets mostly performed negatively.

Latin American assets benefited from better terms of trade due to the increase in commodity prices, as well as the geographical and commercial distance from the conflict in Ukraine. Most exchange rates in the region appreciated. The Colombian peso was no exception and appreciated, a dynamic supported by oil prices and some idiosyncratic factors. Regarding local public debt securities, they depreciated in line with what was observed in securities of other countries in the region, reflecting the flattening of the US Treasury curve. However, devaluations in the long end of the curves were contained by significant purchases by foreign investors during the quarter. Additionally, Colombia's CDS and EMBI reported reductions, mainly associated with improved terms of trade due to rising oil and coal prices, and Latin America's distance from the conflict in Ukraine. This was further bolstered by a better economic growth outlook due to continued high levels of business confidence indexes, economic activity figures that surprised the market for most of the quarter, and the results of the latest presidential polls, which exhibit a technical tie between the two main candidates. However, consumer confidence deteriorated significantly. During this quarter, the Board of Directors of *Banco de la República* (the Central Bank of Colombia) increased its interest rate by 200 bps (from 3.00% to 5.00%) in response to increasing inflationary pressures. During this period, the overnight benchmark interbank rate (IBR in Spanish) and the interbank rate were, on average, above the Monetary Policy Rate.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/financial-markets-report/first-quarter-2022