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- Bets on Fed rate cuts continue to rise ([link](#))
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- Taiwan POC dollar surges as investors wrestle with dollar weakness ([link](#))
- EM Equity ETFs see strong inflows ([link](#))
- **Special Feature: EM Local Currency Bond Monitor** (attached)

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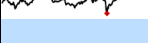



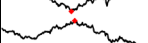

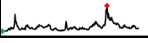
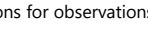
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## Goldilocks and the Three Bears

The Goldilocks situation of rising equities, tighter credit spreads, lower interest rates, falling oil prices and a weaker dollar is likely to be tested in the days ahead as the July 9 US tariff deadline draws nearer, geopolitical risks continue to simmer and the global economy faces mounting challenges. The US administration threatened tariffs on Japanese cars and cited Japan's unwillingness to accept US rice exports, according to Bloomberg. The EU is sending a team to Washington in a last ditch effort to negotiate a trade deal. Equities in Europe are down and US equity index futures are pointing to a negative open, while Treasury and bund yields are lower. News that Iran has cut ties to international atomic energy inspectors reminded market participants that the situation in the Middle East remains very dangerous. Meanwhile, policymakers in the euro area could face challenges due to the relentlessly appreciating euro, while signs of rising inflation are beginning to appear in various parts of the global economy.

Key Global Financial Indicators

Last updated: 7/1/25 7:49 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		6205	0.5	3	5	13	5
Eurostoxx 50		5289	-0.3	0	-1	7	8
Nikkei 225		39986	-1.2	3	7	0	0
MSCI EM		48	0.3	3	6	13	15
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.20	-3.1	-10	-20	-26	-37
Germany 10y Yield		2.55	-5.5	1	5	-6	19
EMBIG Sovereign Spread		322	2	-4	-12	-69	-3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.4	0.1	1	2	1	8
Dollar index, (+) = \$ appreciation		96.5	-0.4	-1	-3	-9	-11
Brent Crude Oil (\$/barrel)		67.2	0.7	0	5	-22	-10
VIX Index (% change in pp)		17.3	0.5	0	-1	5	0

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

### Global Markets in H1 2025

**The first half of 2025 was generally positive for most markets.** There were periods of volatility such as the episode that began after April 2's tariff announcement, with the VIX hitting 52 and the S&P 500 falling into a bear market, but the postponement of the tariffs announced on April 9 ignited a major global rally. The S&P 500 set a new record after an extraordinarily rapid recovery, with the move from a bear market decline to a new record high taking just 57 days, the fastest such move in history.

**However, most global markets continued to outperform the US, with Europe posting some of the largest gains on hopes that greater spending on defense and infrastructure would boost the euro area economy.** The dollar weakened against most major currencies as market participants used the FX market to express negative views about the US while retaining most of their American equity and bond positions. This is the worst start to the year for the dollar index since 1973 when the Bretton Woods system ended. Flows into non-US equity markets were higher than in the past. Most EM stock markets rallied and their currencies were generally stronger against the dollar. Oil prices had a surge during the conflict in the Middle East, with Brent nearing \$79/barrel, but it has since subsided. Gold reached a record high of \$3,432 and remains up 25% for the year. Bitcoin also set a new record when it crossed \$111,000 and remains up by 4% for the year.

**Credit spreads remained tight for corporate bonds in both advanced economies and emerging markets.** Lower US interest rates and a weaker dollar created a favorable funding environment for emerging markets. A number of frontier issuers also successfully launched bond offerings that were well received by investors. The focus now shifts to the July 9 US tariff deadline and the start of the Q2 corporate earnings season. Analysts hope for good results after a very strong Q1.

### Year to Date Movement of Selected Market Variables as of 4pm 6/30/25

Source: Bloomberg

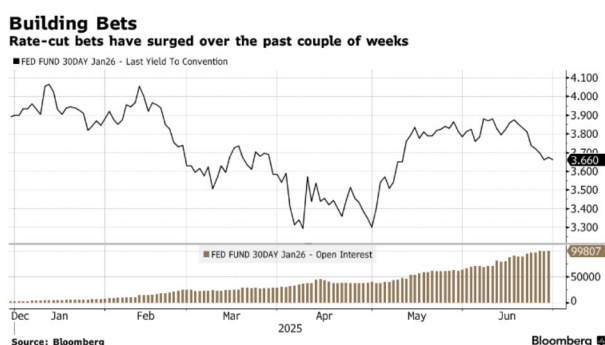
10-year US Treasury	4.23% (-34 bps)
10-year Bund	2.61% (+24 bps)
10-year JGB	1.43% (+30 bps)
10-year China Government Bond	1.65% (No Change)
EUR	1.1784 (13.81% stronger than the dollar)
JPY	143.98 (9.18% stronger than the dollar)
CNY	7.1626 (+2.5% versus dollar)
S&P 500	6204.95 (+5.5%, record close)
Euro Stoxx 600	541.37 (+6.65%)
German DAX	23909.61 (+20.09%)
China CSI 300	3936 (flat)
Brazil Bovespa	138854.6 (+15.445)
India BSE 30	7%
Brent Crude	\$67.61 (-9.42%)
Gold	3304.15 (+25.89%)
Bitcoin	\$107620 (+15%)

## Mature Markets

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### United States

**Bets on Fed rate cuts are on the rise.** Fed Funds futures pricing now suggests that the market thinks three rate cuts in 2025 are more likely than two cuts. The latest PCE inflation report generally met expectations and appeared to lower the bar for Fed rate cuts. There has been a steady rise in open interest in Fed Funds futures as investors begin to position for a potentially more dovish Fed. Bloomberg analysts speculate that dovish rhetoric from Fed governors Waller and Bowman may also have played a role. There have been hints from the US administration that a new Fed Chair could be named this year even though Fed Chair Powell's term does not end until May 2025. This could create a situation where there could be a shadow Fed Chair, a prospect not relished by market participants.

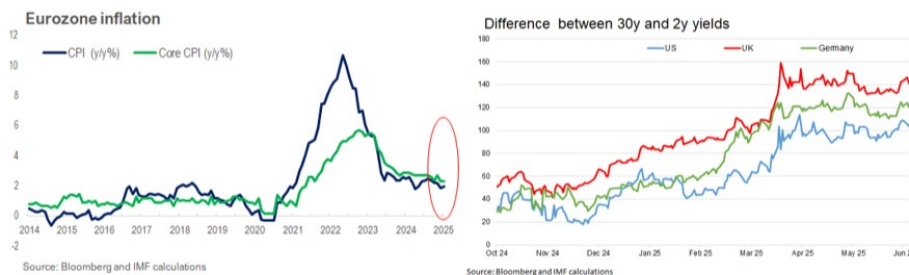


### Euro Area

**European equities continued to trade lower this morning as markets focus on trade negotiations.**

The Stoxx 600 index was around 0.3% lower, with most sectors trading in the red and other regional bourses also falling. The Stoxx 600 banking sector gauge was even lower, down 1%.

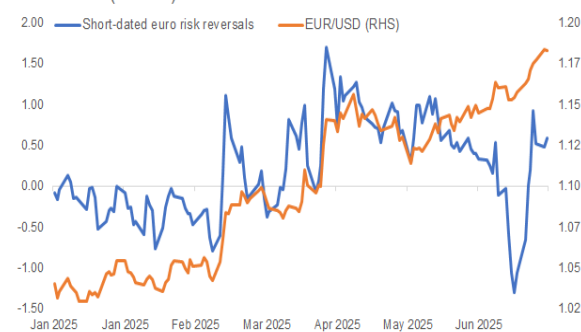
**June euro area flash headline inflation was unchanged, in line with expectations.** Data released this morning showed that preliminary euro-area headline inflation was 2.0%/y/y in June (2.0% exp, 1.9% prior). Preliminary June euro-area core inflation also printed in line with expectations at 2.3%/y/y, unchanged on the prior month. Separately, ECB 1-year ahead inflation expectations declined to 2.8%/y/y in May from 3.1% in April, mainly driven by lower energy prices at the pump. Following this morning's data, European government bond yields were trading 4–7bps lower across the curve, led by declines at longer tenors with the 30Y German bund yield around 7bps lower to trade at 3.03%, while the 2Y German Bund yield was trading at 1.82% and the 10Y bund yielding 2.55%. Intra-European government bond spreads were a touch tighter with the 10Y Italian BTP-Bund spread at around 87bps while the 10Y French OAT-Bund spread was around 68bps. Money market pricing for ECB rate cuts was broadly unchanged with around 26bps of easing priced by December and no change expected in the policy rate at the upcoming July ECB meeting.



### Continued euro strength could challenge policymakers.

According to ECB Vice President de Guindos, further gains in the euro beyond the \$1.20 mark could prove tricky. Speaking at Sintra, de Guindos said that the speed of the common currency's ascent is "something that the ECB is monitoring and looking at" although no specific level of the exchange rate is targeted. Governing Council (GC) member Kazaks also remarked that continued appreciation of the euro "would weigh down on inflation and exports" which may require further policy rate cuts. However, GC member Nagel was more sanguine about the recent moves in the euro, noting that the currency was trading close to its long-term average. According to Bloomberg data, the euro advanced close to 4% against the dollar in the month of June, bringing YTD gains to over 13%. Separately, short-dated risk reversal data from Bloomberg shows a preference for euro calls, suggesting that market participants are hedging for further upside in the currency. This morning, the euro continued to edge higher (+0.2%) against the dollar to trade at 1.1816.

Short-dated (1 week) euro risk reversals and EUR/USD

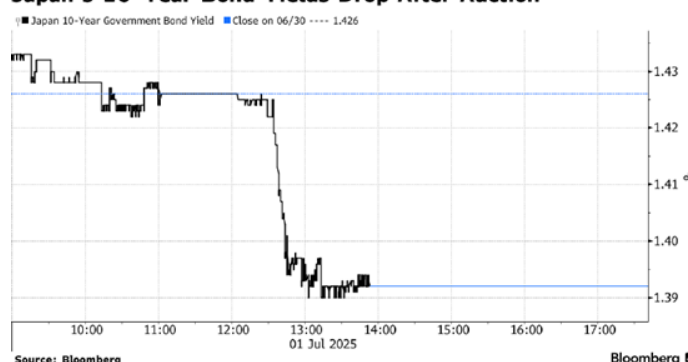


Source: Bloomberg and IMF calculations

### Japan

**Relatively strong interest for 10-year JGBs at auction boosts prospects for future demand.** The bid-to-cover ratio at the auction was at 3.51x, higher than the 12-month average of 3.14x. Following the auction, the 10-year JGB yield fell 4 bps to 1.39% while bond futures rose 23 ticks to 139.25. That said, the yield on the 30- and 40-year JGBs remained little changed, suggesting lingering investor reservations surrounding super-long bonds, particularly ahead of the upcoming auction of the 30-year bond. Lackluster demand for the 20-year note auction in late May had raised concerns about investor demand amidst worries about the expanding government deficit, leading JGB yields to increase this year, particularly for the super long bonds.

Japan's 10-Year Bond Yields Drop After Auction



Meanwhile, **investors are boosting bets on yen appreciation.** Leveraged funds increased their net long yen position by 7,301 contracts to 15,935 in the week through June 24, according to CFTC data. Overnight index swaps suggest a probability of about 40% that the BOJ could raise rates in its October meeting and more than 50% probability of an increase by year-end. Meanwhile, T&D Asset Management noted US dollar weakness, particularly as the July 9 trade negotiation deadline nears, is also boosting the yen on a bilateral basis.

## Emerging Markets

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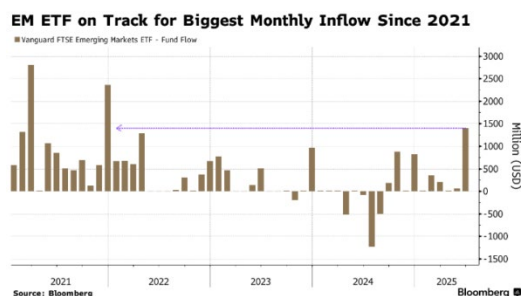
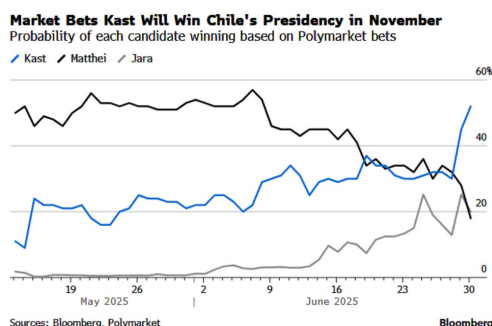
**EMEA equities were mixed, and currencies were mostly stronger.** In CEE, equities in Hungary were outperforming (+0.2%) while those in Czechia were lower (-0.4%). **Asian currencies posted broad-based appreciation amid USD weakness.** The Taiwan POC dollar surged as local exporters and insurers sold USD to hedge against more US dollar depreciation. **Latin American currencies mostly appreciated against the dollar and most equities gained.** The Chilean peso (+1.1%) was the best performing major EM currency after the results of a left-wing presidential primary. **On the monetary policy front, the Dominican Republic and Jamaica both held interest rates at 5.75%.**

### EM Equity ETF Flows

**EM equity ETFs have experienced strong inflows over the last few weeks.** The iShares Core MSCI EM ETF has experienced inflows of almost \$3bn since June 15, the third best US listed ETF in terms of fund flows over that span, and only behind the iShares Core S&P 500 and SPY. Total monthly inflows for June reached \$3.1bn. Another ETF tracking EM equities, the Vanguard FTSE EM ETF, is on pace to record the highest monthly inflow since December 2021. This ETF, known as VWO, has received inflows of almost \$572mn over the past week, pushing total monthly inflows to \$1.4bn. Bloomberg analysts acknowledge that increasing optimism of Fed rate cuts later this year and easing tensions in the Middle East are likely driving the move out of US assets and into EMs. Year to date, the MSCI EM Index (+14.2%) is outperforming both the MSCI ACWI (+8.7%) and the S&P 500 (+5.5%).

### Chile

**The Chilean peso outperformed EM currencies following left-wing presidential primary results.** Jeannette Jara won the left-wing primary after receiving 60.2% of the vote on Sunday. Jara will go up against Evelyn Matthei, Jose Antonio Kast, and Johannes Kaiser in the first-round presidential vote in November. Bloomberg analysts think the peso rallied because Jara's victory is seen as increasing the likelihood of a right-wing candidate winning the election, which is perceived to be more market friendly by investors. The peso (+1.1%) led EM currencies and equities (+0.4%) rallied following the results. Stocks in Chile are up over 22% so far this year, and the peso is stronger by nearly 7% versus the dollar.



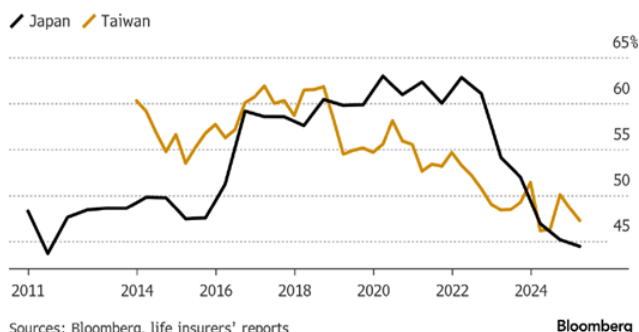
### Taiwan Province of China

**The Taiwan POC dollar surged as investors once again wrestled with USD depreciation and large USD exposures.** The Taiwan POC dollar gained as much as 2.5% to 29.16 per US dollar, its biggest one-day gain since early May, before setting at +1.4%. Today's rally lifted the Taiwan POC dollar's total gain to 12% against the dollar thus far this year. The latest surge is reportedly boosted by exporters accelerating their USD sales amid concerns that the US dollar could weaken further. Repatriation of funds from local asset managers also played a role. Meanwhile, local insurers, which have more than 90% of their overseas assets denominated in the USD, are uniquely exposed to further dollar volatility. Notably, major Taiwan POC life insurers' hedging against foreign-currency volatility fell to 47.2% of their overseas asset holdings in Q1 this year, compared to a historic high of 61.9% in 2017, according to Bloomberg's analysis.



Meanwhile, hedging has become more expensive, underscoring insurers' dilemma of deciding between higher hedge costs against further local currency gains or risk growing paper losses on their approximately \$780 billion in foreign assets. Three-month dollar hedging costs using forwards stand at 11% for Taiwanese life insurers, more than twice the rate of 10-year Treasury notes. In comparison, similar costs for Japanese life insurers stand at 4%.

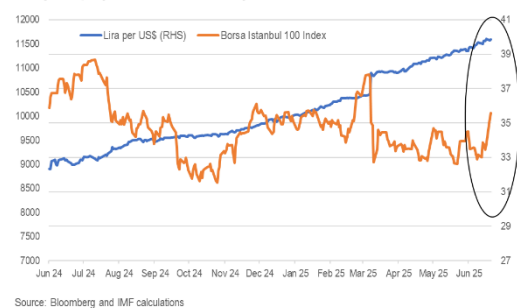
**Life Insurers Cut FX Hedging Both in Taiwan and Japan**  
Ratios of foreign exchange derivatives to overseas assets



## Türkiye

**Turkish equities surged after court case against a key opposition leader was postponed.** Bloomberg analysts note that the case involves alleged irregularities in the 2023 party congress that elected Özgür Özel as chairman of the Republican People's Party. Türkiye's benchmark equity index closed 5.78% higher yesterday, government bonds rallied (10-year yield close to -90bps lower at roughly 29%), while the lira appreciated against the dollar (+0.2% to 39.81). The next court session is scheduled for September 8. While the delay eased immediate concerns, Bloomberg analysts caution that risks remain.

Türkiye: Equity market and currency



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## Global Financial Indicators

7/1/25 7:50 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		6,205	0.5	3.0	5.0	13.3	5
Europe		5,287	-0.3	-0.2	-1.5	7.2	8
Japan		39,986	-1.2	3.1	5.3	0.9	0
China		3,943	0.2	1.0	2.7	13.4	0
Asia Ex Japan		83	0.0	3.0	6.7	14.5	14
Emerging Markets		48	0.3	3.3	6.0	13.0	15
<b>Interest Rates</b>			basis points				
US 10y Yield		4.2	-3	-11	-21	-27	-38
Germany 10y Yield		2.5	-6	0	5	-6	18
Japan 10y Yield		1.4	-4	-3	-11	33	29
UK 10y Yield		4.4	-7	-5	-22	14	-15
<b>Credit Spreads</b>			basis points				
US Investment Grade		129	-2	-3	-5	1	9
US High Yield		344	-6	-13	-28	-14	16
<b>Exchange Rates</b>			%				
USD/Majors		96.5	-0.4	-1.4	-2.8	-8.9	-11
EUR/USD		1.18	0.2	1.7	3.2	9.9	14
USD/JPY		142.9	-0.8	-1.4	0.2	-11.5	-9
EM/USD		46.4	0.1	0.7	1.8	1.5	8
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		67.2	0.7	1.6	8.3	-16.1	-7
Industrials Metals (index)		149.3	0.5	2.7	5.9	-1.4	6
Agriculture (index)		54.4	-0.5	-1.9	-2.8	-5.3	-5
Gold (\$/ounce)		3351.6	1.5	0.8	-0.9	43.7	28
Bitcoin (\$/coin)		106517.7	-1.0	-1.2	1.4	68.4	14
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		17.2	0.5	-0.2	-1.3	5.0	-0.1
Global FX Volatility		8.5	0.0	0.0	-0.3	1.0	-0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		71	2	-3	-4	-47	-14
Italy		87	0	-5	-11	-63	-28
France		68	0	-3	2	-6	-15
Spain		64	1	-2	5	-22	-5

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

## Emerging Market Financial Indicators

Last updated: 7/1/2025 7:52 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		7.16	0.0	0.1	0.5	1.5	1.9		1.7	1	2	-4	-44	2
Indonesia		16200	0.2	1.0	0.3	0.7	-0.4		6.6	0	-12	-12	-34	-40
India		86	0.3	0.5	-0.2	-2.4	0.1		6.7	-3	-9	-3	-62	-64
Philippines		56	0.0	1.4	-1.1	4.1	2.9		4.8	-3	-9	-11	-49	-4
Thailand		32	0.2	0.8	0.4	13.4	6.0		1.7	0	-10	-26	-109	-63
Malaysia		4.20	0.3	1.1	1.4	12.3	6.5		3.5	2	-4	0	-34	-29
Argentina		1204	-1.3	-2.7	-1.9	-24.1	-14.3		32.5	46	172	351	-1168	331
Brazil		5.43	1.0	1.2	4.5	4.2	13.7		13.6	-30	-38	-48	143	-231
Chile		932	1.0	1.7	0.8	1.5	7.0		5.5	0	-1	-12	-52	-20
Colombia		4088	0.3	0.1	1.8	1.5	7.8		12.1	-1	6	-1	129	25
Mexico		18.68	0.3	1.6	2.9	-1.7	11.5		9.2	-8	-13	-16	-82	-114
Peru		3.5	0.2	1.5	2.2	8.4	6.1		6.4	-8	-15	-7	-69	-22
Uruguay		40	0.4	1.3	4.3	-0.2	9.4		8.9	-3	-16	-45	-79	-79
Hungary		338	0.3	2.3	4.3	8.8	17.6		6.6	-2	-10	-1	-7	23
Poland		3.59	0.3	2.0	3.6	11.9	15.1		5.0	-2	-17	6	-45	-58
Romania		4.3	0.4	1.3	3.0	7.9	11.9		7.4	1	2	-5	69	8
Russia		78.4	-0.1	0.0	0.9	10.8	44.8							
South Africa		17.6	0.7	1.0	1.5	4.4	7.1		10.3	-1	-8	-23	-108	-21
Türkiye		39.87	-0.1	-0.7	-1.7	-18.1	-11.3		31.3	-121	-224	-263	284	156
US (DXY; 5y UST)		96	-0.4	-1.4	-2.9	-8.9	-11.1		3.77	-3	-9	-19	-65	-61

	Equity Markets						Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3,943	0.2	1.0	2.7	13.6	0.2		109	-1	2	-30	13	
Indonesia		6,915	-0.2	1.9	-2.1	-2.9	-2.3		100	0	-3	0	9	
India		83,697	0.1	2.0	2.9	5.4	7.1		104	-3	-5	4	18	
Philippines		6,424	0.9	2.1	1.1	1.0	-1.6		87	1	2	4	8	
Thailand		1,110	1.9	0.9	-3.4	-13.9	-20.7							
Malaysia		1,542	0.6	1.6	2.2	-3.5	-6.1		77	1	-4	-11	7	
Argentina		1,994,825	-2.3	0.9	-12.5	25.1	-21.3		710	-18	24	-752	73	
Brazil		138,855	1.5	1.7	1.3	11.3	15.4		220	-2	-5	-8	-27	
Chile		8,248	0.4	2.7	2.5	28.7	22.9		115	1	-4	-2	2	
Colombia		1,668	-0.6	1.2	3.7	20.8	20.9		344	-2	5	38	18	
Mexico		57,451	0.1	2.4	-0.7	8.6	16.0		277	-7	-27	-39	-35	
Peru		32,726	0.2	2.0	4.5	10.1	13.0		129	-1	-3	-11	-12	
Hungary		97,790	0.1	-0.2	2.2	35.3	23.3		165	-3	4	18	10	
Poland		104,843	0.1	3.4	3.3	18.6	31.8		111	2	-2	16	-1	
Romania		18,897	0.9	1.6	3.2	4.0	13.0		242	4	-21	54	6	
South Africa		97,008	0.6	1.2	2.8	21.5	15.4		305	-2	-14	-6	12	
Türkiye		10,045	1.0	6.3	11.4	-2.9	2.2		309	-9	-19	20	50	
EM total		48	0.3	3.3	6.0	13.0	15.4		371	-8	-15	-32	7	

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

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