



- A study by Cleveland Fed suggests lower threshold for reserve balances ([link](#))
- European investors are likely to face substantial USD-hedging needs ([link](#))
- ECB cuts rates by 25 bp as expected, drops “restrictive” language from statement ([link](#))
- Japanese stocks gain following progress on trade talks ([link](#))
- EM bond issuance rebounds ([link](#))
- Chinese shares could face downside valuation risks from ADRs delisting ([link](#))

[Mature Markets](#)


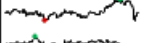





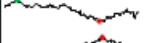

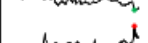
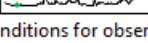
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ECB cuts rates as expected

Global equity markets are mostly higher this morning as sentiment responds to a mixed bag of news. While reported progress on US/Japan trade talks sent Asian equities higher overnight, US equity futures pared some of their gains following criticism of Fed chair Powell by the US president. This morning the ECB cut its deposit facility rate by 25 bp as expected. The most notable change in the language of the statement was the dropping of the word “restrictive” to describe the monetary policy stance. Following the announcement, the euro extended its decline versus the dollar, with the exchange rate about 0.5% lower this morning. In a social media post, president Trump criticized Fed chair Powell, arguing that the Fed should have lowered interest rates and saying that his “termination cannot come fast enough”. While the news dampened the rise in US equity futures, there was little change in pricing for Fed futures. In emerging markets the Turkish central bank unexpectedly raised rates, from 42.5% to 46%.

Key Global Financial Indicators

Last updated: 4/17/25 8:22 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5276	-2.2	-3	-7	5	-10
Eurostoxx 50		4931	-0.7	2	-9	0	1
Nikkei 225		34378	1.3	-1	-9	-10	-14
MSCI EM		42	-1.2	1	-8	5	-1
Yields and Spreads			bps				
US 10y Yield		4.29	1.5	-13	-1	-30	-28
Germany 10y Yield		2.51	0.2	-7	-31	5	14
EMBIG Sovereign Spread		375	4	-17	45	28	51
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.7	0.1	1	-1	-3	4
Dollar index, (+) = \$ appreciation		99.6	0.2	-1	-4	-6	-8
Brent Crude Oil (\$/barrel)		66.7	1.3	5	-6	-24	-11
VIX Index (% change in pp)		31.2	-1.5	-10	11	13	14

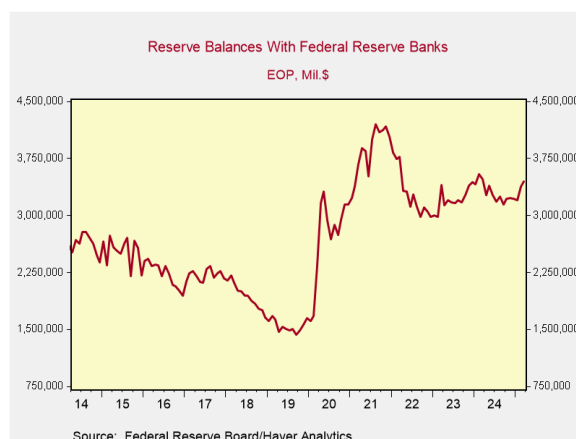
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

A new study by the Cleveland Fed suggests a significantly lower threshold for reserve balances to be considered “ample” than previous estimates. Using an inventory model, the study estimates an optimal buffer ranging from \$90 billion to \$130 billion. Even accounting for potential reserve demand shocks, the study argues that the optimal size could be between \$800 billion and \$860 billion. These figures are considerably lower than previous estimates. For instance, a 2024 New York Fed study estimated an “ample” reserve level at 8–10% of GDP, equating to \$2.3 trillion to \$2.9 trillion based on 2024 GDP levels. Other analyses have placed the “ample” reserve level as low as 7% or as high as 13% of GDP, equivalent to \$2 trillion to \$3.8 trillion. Currently, reserve balances sit at \$3.47 trillion, a level Governor Waller continues to deem “abundant.” The Cleveland Fed study seems to suggest that the Fed may not feel pressured to end its QT efforts any time soon.



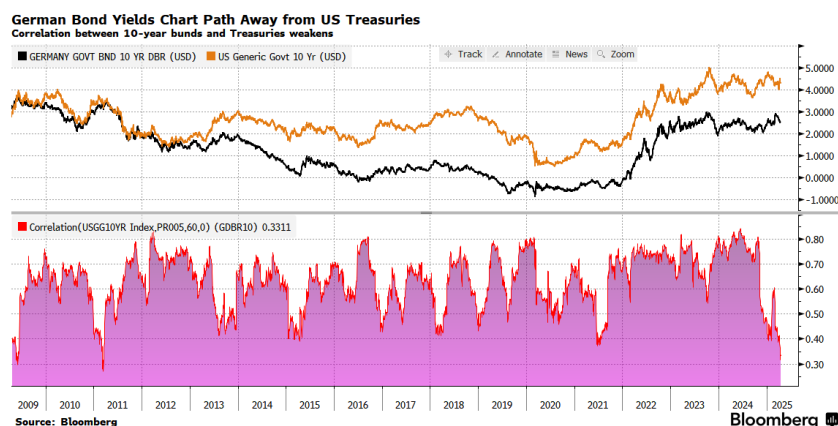
European investors are likely to face substantial USD-hedging needs. In recent years, European investors have been major buyers of U.S. equities. However, Bank of America strategists note that about 73% of European investors' US equity holdings remain unhedged, in stark contrast to just 4% of their U.S. fixed income holdings. Foreign equity investors might have reduced their hedging in recent years due to the largely negative USD-US equity correlations, the strengthening dollar, and elevated hedging costs. However, the recent aggressive trade policies have triggered a simultaneous sell-off in both US equities and the dollar, changing the underlying assumptions of these dynamics. Based on pre-pandemic hedging ratios, Bank of America estimates suggest that an incremental \$2.5 trillion in notional equity exposures by European investors may now require hedging.

Europe

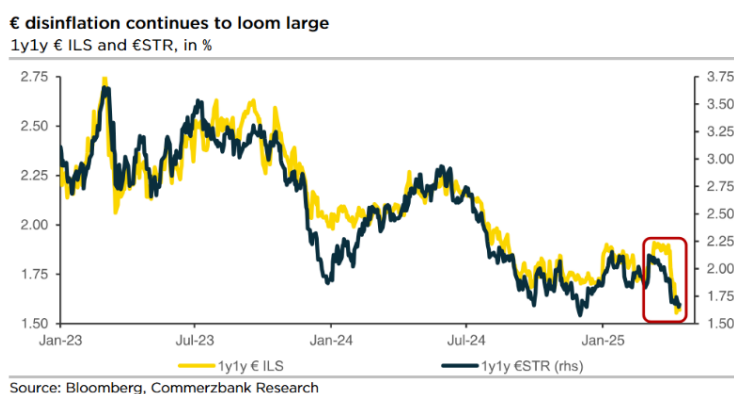
ECB cuts its three main policy rates by 25 bp, as expected, and removes the word “restricted” from the decision statement. With the deposit rate now at 2.25%, today's statement removed wording seen in the previous statement, that “monetary policy is becoming meaningfully less restrictive”. Following the announcement the euro extended its early morning decline against the dollar to 0.5% (trading around 1.1345) while European bond yields retraced some early morning increases, with 10y bund yields little changed around 2.5%.

Ahead of the ECB monetary policy decision later today, European equity markets were mixed, with the Stoxx 600 index lower, while the euro depreciated against the dollar and sovereign yields edged higher. The Stoxx 600 index was 0.5% lower this morning, with mixed performance across sectors. The euro weakened against the dollar (-0.2%), trading at around 1.1378, while euro area sovereign bond yields were edging higher (10y bund +3bp to 2.53%). Bloomberg analysts highlight that German debt has become

a fixed income haven this month, with its path diverging from that of US Treasuries. The analysts attribute the resilience of bunds to several factors, including Germany's relatively low debt levels and anticipated ECB rate cuts. The analysts estimate that the correlation between 10y German bund and UST yields, measured in dollar terms over a 60-day window, is the weakest since 2011.



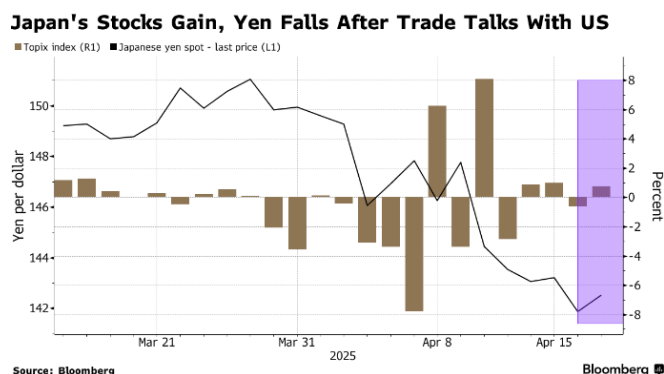
Trade shock is seen to possibly shift inflation risks to the downside. Deutsche Bank analysts highlight that since ECB President Lagarde noted last month that a trade war could temporarily raise inflation by around 0.5 percentage points, driven by a weaker euro and anticipated EU countermeasures, the situation has been shifting quickly. Although uncertainty remains high, the analysts highlight several developments that they see as pushing inflation downward. For one, the EU's response has been cautious and gradual. Additionally, the euro has been appreciating rapidly, contrary to initial expectations. There is also growing evidence that the economic drag from US tariffs may be greater than the ECB originally projected. Meanwhile, the potential for trade diversion, particularly involving Asia, appears to have increased. Also, falling oil and gas prices are further contributing to downward pressure on inflation. Against this backdrop the analysts have provisionally revised down their HICP forecast to 2.0% this year (2.1% previously) and 1.7% in 2026 (1.9% previously). Commerzbank analysts also noted earlier this week that disinflation focus has intensified, with the 1y1y € euro inflation-linked swap reaching the lowest point in several years while the 5y5y euro inflation-linked swap has declined to 2.035%, from 2.099% at the start of the month.



Japan

The stock market gained (Nikkei 225: +1.4%) after initial trade talks with president Trump noting "big progress". The yen weakened against the dollar (-0.8%) after top trade representative Akazawa denied currencies were part of Wednesday's talks. However, discussions on the currency will occur between finance minister Kato and US treasury secretary Bessent as previously announced. The first trade talk did not bring any immediate halt on the tariffs, and a second round of negotiations is scheduled for later

this month. Akazawa expressed a desire to reach an agreement soon but acknowledged uncertainty about the outcome. Due to the high uncertainty, strategists expect major insurers, with a combined ¥388 tn (\$2.7 tn) of invested assets, to enhance risk management by raising their dollar hedge ratios to 50% or above from the previous 30% in 2024, as part of their annual investment plans to be announced this week. Businesses' cautious stance has already been reflected in slower export growth (+3.9% y/y in March vs. +11.4% y/y previously), lower than expected (+4.4% y/y). Export growth to the US also slowed (+3.1% y/y in March vs. +10.5% y/y previously), and analysts expect car exports to the US to decline from April onward.



Korea

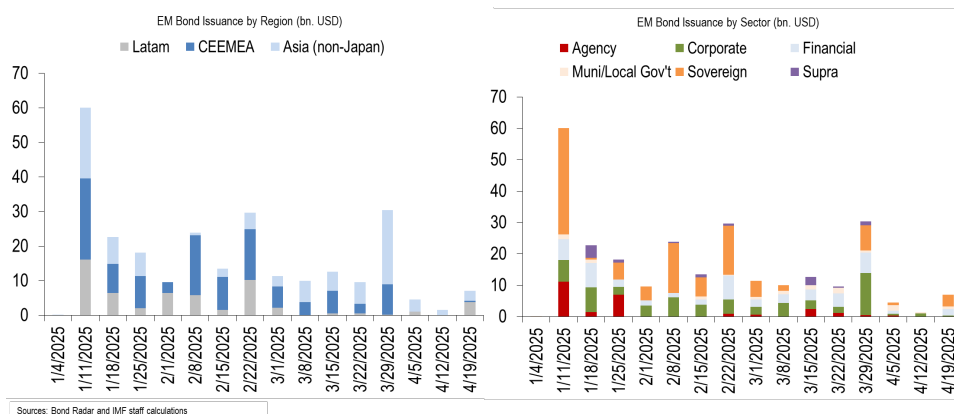
The Bank of Korea (BOK) kept its benchmark interest rate steady at 2.75%, citing the need to monitor FX volatility and household debt. The Korean won weakened slightly on the rate decision (-0.1%), while the stock market gained (+0.9%). Economists expect the BOK to resume its easing cycle in May with a 25bp rate cut, followed by two more cuts in August and November, bringing the base rate to 2% by year-end, though the presidential election in June may complicate the situation.

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EM Asian stocks rose (EM Asia: +1.1%) following progress in US-Japan trade negotiations. Hong Kong SAR (+1.6%) and India outperformed (+1.7%). EM Asian currencies showed mixed performance against the dollar—the Thai baht depreciated (-0.5%) while the Indian rupee appreciated (+0.3%). **EMEA equities and currencies are mixed.** Turkish equities retraced some gains after the central bank of Turkey surprised consensus and hiked its one-week repo rate to 46.0%. Elsewhere on the central bank front, Ukraine kept its key rate unchanged at 15.5%, while Bloomberg consensus had expected a 50bp rate hike, and Egypt is expected to deliver its first rate cut in close to five years later today. The South African rand was little changed against the dollar with contacts remaining focused on continuing talks to resolve the budget dispute. **Latin American currencies appreciated against the dollar Wednesday** while equities were mixed. The Argentine peso (+5.3%) outperformed the region, as the Colombian peso (+1.1%) and Mexican peso (+0.9%) followed suit. Equities rallied in Colombia (+1.4%), Mexico (+0.7%), and Chile (+0.2%), but experienced losses in Argentina (-4.7%) and Brazil (-0.7%). On the ratings front, Fitch affirmed Mexico's long term debt rating at BBB- with a stable outlook.

EM Bond Issuance

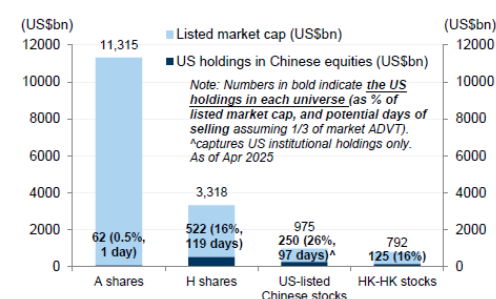
EM bond issuance has rebounded after two consecutive subdued weeks. Issuance through Wednesday reached \$7.1bn, surpassing the first two full weeks of April. Regionally, Latam made up 53% of the total, all coming from Colombia which tapped the bond market for the first time this year. This also comprised all the sovereign bonds issued so far this week. Financial (30%) and Muni/Local Gov (12%) bonds were the next largest sectors.



China

Strategists at Goldman Sachs noted downside valuation risks from ADRs delisting, with ADRs and the MSCI China Index potentially losing 9% and 4%, respectively, though no timeline for potential delisting has been provided yet. They estimated that approximately 7% of ADRs' market cap is held by US institutions that cannot trade in Hong Kong SAR, and, in an extreme scenario where US investors are banned from investing in Chinese A shares, H shares and ADRs, the selloff could be around \$800 bn. Bloomberg reported that due to trade tensions, the iShares MSCI China ETF and KraneShares CSI China Internet ETF declined sharply in the past month—by 16% and 20%, respectively. However, Morgan Stanley analysts believe the long-term impact should be manageable, as the Hong Kong market, with greater liquidity support through Stock Connect with the mainland, could supplement lost trading volume, especially for large caps. Today, the stock market was little changed. Services stocks rose after the announcement that top officials will hold a briefing next Monday on the work plan to promote the service sector. The yuan appreciated against the dollar (+0.1%) following a stronger RMB fixing at 7.2085 per dollar (-48 pips).

Exhibit 12: US institutional investors currently have around US\$250bn of exposures to Chinese ADRs

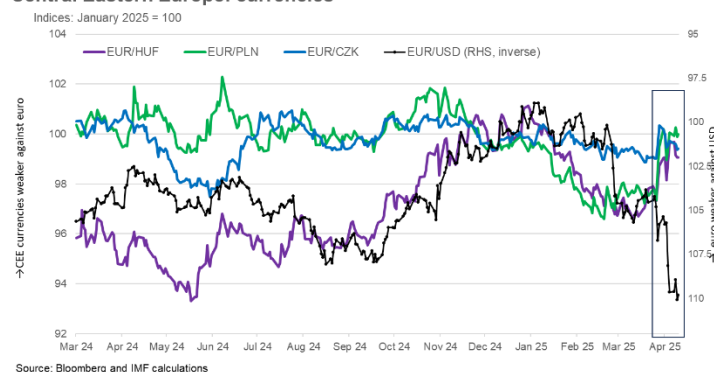


Source: Bloomberg, Wind, FactSet, Goldman Sachs Global Investment Research

Poland

Some analysts anticipate a gradual weakening of the polish zloty after the central bank's dovish change. Commerzbank analysts expect the polish zloty to weaken gradually into 2026 after the most recent MPC press briefing, which the analysts describe as an abrupt U-turn after governor Glapinski signaled the possibility of 100bp of rate cuts this year. Commerzbank analysts now anticipate that the rate easing cycle in Poland could start as soon as May, and also see a 50bp rate cut as a possibility. Since the start of the month, the polish zloty has gained roughly 3.3% against the dollar, and weakened by roughly 2.2% against the euro, underperforming the Hungarian forint and the Czech koruna which depreciated by 1.4% and 0.3% respectively. In the meantime, Bloomberg analysts estimate that the Polish Zloty continues to look overvalued, while the Czech koruna is estimated to be close to its fair value.

Central Eastern Europe: currencies



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Global Financial Indicators

4/17/25 8:22 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,295	-2.2	0.5	-6.7	5.4	-10
Europe		4,931	-0.7	2.3	-9.4	0.3	1
Japan		34,378	1.3	-0.7	-9.2	-9.7	-14
China		3,772	0.0	1.0	-5.9	5.7	-4
Asia Ex Japan		70	-1.5	0.5	-9.2	6.8	-3
Emerging Markets		42	-1.2	1.0	-8.2	4.8	-1
Interest Rates			basis points				
US 10y Yield		4.3	2	-13	-1	-30	-28
Germany 10y Yield		2.5	0	-7	-31	5	14
Japan 10y Yield		1.3	5	-3	-20	43	22
UK 10y Yield		4.6	-1	-5	-4	33	3
Credit Spreads			basis points				
US Investment Grade		155	-2	-7	29	31	35
US High Yield		451	-6	-25	95	78	123
Exchange Rates			%				
USD/Majors		99.6	0.2	-1.3	-3.7	-6.0	-8
EUR/USD		1.13	-0.5	1.3	3.9	6.3	10
USD/JPY		142.6	0.5	-1.3	-4.5	-7.7	-9
EM/USD		44.7	0.1	1.2	-1.1	-2.8	4
Commodities			%				
Brent Crude Oil (\$/barrel)		66.7	1.3	5.4	-5.5	-16.7	-9
Industrials Metals (index)		140.1	-0.8	3.0	-9.1	-8.8	0
Agriculture (index)		58.7	0.0	1.7	0.4	-0.4	3
Gold (\$/ounce)		3331.4	-0.4	4.9	11.0	41.1	27
Bitcoin (\$/coin)		84760.0	0.5	-0.9	1.0	39.3	-10
Implied Volatility			%				
VIX Index (% change in pp)		31.2	-1.5	-9.6	10.7	13.0	13.8
Global FX Volatility		9.9	0.0	0.2	1.8	2.3	0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		92	0	-1	14	-16	7
Italy		119	1	-5	9	-25	4
France		77	1	0	10	26	-5
Spain		71	1	-2	10	-13	2

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

Emerging Market Financial Indicators

Last updated: 4/17/2025 8:24 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		7.30	0.0	0.3	-1.0	-0.8	0.0		1.7	-1	-1	-19	-59	2
Indonesia		16834	0.0	-0.1	-2.5	-3.6	-4.2		6.9	-4	-15	8	9	-7
India		85	0.4	1.5	1.7	-2.2	0.3		6.7	-8	-19	-12	-81	-69
Philippines		57	0.2	1.2	1.2	1.0	2.4		5.0	0	-6	-15	-60	12
Thailand		33	-0.5	1.8	0.9	10.3	3.2		2.0	-2	1	-18	-78	-31
Malaysia		4.41	0.1	1.4	0.9	8.8	1.5		3.7	-1	-1	-4	-25	-10
Argentina		1138	5.3	-5.4	-6.2	-23.7	-9.4		34.9	47	-877	535	-823	573
Brazil		5.88	-0.1	0.2	-3.3	-10.8	5.1		14.6	-2	-19	-16	336	-135
Chile		969	0.3	1.2	-5.1	1.3	2.8		5.5	1	1	-16	-54	-19
Colombia		4306	1.1	0.4	-5.4	-9.0	2.3		12.2	-2	4	54	102	33
Mexico		19.92	0.1	2.8	0.2	-14.8	4.6		9.4	-1	5	-5	-72	-90
Uruguay		42	-0.4	1.6	-0.2	-7.9	3.2		9.6	-1	5	-2	71	-1
Hungary		359	-0.5	1.1	1.4	2.5	10.6		6.8	-5	-5	-8	-37	36
Poland		3.77	-0.4	0.9	1.7	7.8	9.6		4.8	0	-16	-71	-80	-75
Romania		4.4	-0.5	1.3	3.9	6.3	9.5		7.3	-1	-8	2	72	1
Russia		82.0	1.2	1.8	1.9	14.9	38.4							
South Africa		18.8	0.2	3.2	-3.9	1.1	0.2		11.1	-3	-17	31	-129	57
Türkiye		38.08	0.2	-0.4	-3.8	-14.7	-7.2		35.8	10	177	724	612	612
US (DXY; 5y UST)		100	0.2	-1.3	-3.7	-6.0	-8.2		3.93	2	-14	-16	-69	-45

	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		3,772	0.0	1.0	-5.9	5.7	-4.1		123	5	23	-19	27
Indonesia		6,438	0.6	2.9	2.9	-9.2	-9.1		138	-17	29	40	47
India		78,553	2.0	5.8	2.1	7.5	0.5		131	-11	25	28	45
Philippines		6,135	0.0	2.1	-2.1	-4.8	-6.0		112	-17	14	27	33
Thailand		1,141	0.2	6.2	-3.0	-16.1	-18.5						
Malaysia		1,483	0.4	1.4	-2.9	-4.0	-9.7		91	-20	14	8	21
Argentina		2,177,975	-4.7	-0.3	-10.5	83.1	-14.0		750	-126	9	-632	113
Brazil		128,317	-0.7	0.4	-1.9	3.3	6.7		244	6	12	24	-3
Chile		7,711	0.2	4.6	1.4	19.4	14.9		141	7	15	25	28
Colombia		1,627	1.4	1.6	1.1	22.1	17.9		397	33	69	100	71
Mexico		53,019	0.7	0.9	0.7	-5.1	7.1		356	13	36	31	44
Peru		29,635	-0.3	3.3	-0.8	7.9	2.3		159	2	9	13	18
Hungary		87,338	0.3	1.3	-2.2	32.1	10.1		194	-10	38	49	39
Poland		95,124	1.0	3.7	-2.9	15.4	19.5		121	-16	15	33	9
Romania		17,099	0.2	0.8	-1.7	1.1	2.3		286	-21	36	105	51
South Africa		89,552	-0.2	4.1	1.2	22.7	6.5		366	-30	47	8	73
Türkiye		9,288	0.2	-0.5	-14.5	-2.5	-5.5		337	-17	57	48	78
EM total		42	0.3	1.0	-8.2	4.8	-0.5		408	-22	35	112	44

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

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