



- The latest estimate of US Q2 GDP is stronger than expected ([link](#))
- Market estimate of Fed terminal rate falls below 3% ([link](#))
- Yuan-based transactions increase in volume in Southeast Asia ([link](#))
- Markets in Brazil underperform as trade tariffs start to bite ([link](#))
- Two year JGB auction sees weakest demand since 2009 ([link](#))
- Key Hong Kong SAR money market rate surges due to tight liquidity ([link](#))
- Strong currency in Zambia pushed inflation down to two-year low ([link](#))

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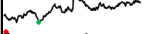




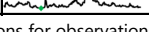
[Market Tables](#)

Markets hold steady ahead of key US economic data

Equity index futures in the US held steady while most equity markets in Europe were slightly lower.

Government bond yields in the US and euro area were relatively unchanged in early morning trading, but the Japanese government bond (JGB) market was under pressure after a startlingly weak two-year JGB auction. French government bonds are also in the spotlight after the PM called for new elections early next month. Meanwhile, market participants seem to have taken the slightly weaker than expected Nvidia earnings in their stride and have shifted their focus to key PCE inflation data due out in the US tomorrow. They are also keeping a close eye on developments at the US Federal Reserve, as well as tariff related developments. In other news, the Mexican peso is under scrutiny as slowing remittances from the US and elsewhere threaten to undo some of the strong gains made by the currency this year. The Swiss franc continued to appreciate versus the US dollar despite the expected weakening of the economy due to US tariffs.

Key Global Financial Indicators

Last updated: 8/28/25 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6481	0.2	1	1	16	10
Eurostoxx 50		5392	0.0	-1	1	10	10
Nikkei 225		42829	0.7	1	5	12	7
MSCI EM		50	-0.6	0	1	15	19
Yields and Spreads			bps				
US 10y Yield		4.23	-0.8	-10	-18	39	-34
Germany 10y Yield		2.71	0.9	-5	2	45	34
EMBIG Sovereign Spread		299	3	8	-3	-96	-26
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.9	0.2	0	1	0	7
Dollar index, (+) = \$ appreciation		98.0	-0.3	-1	-1	-3	-10
Brent Crude Oil (\$/barrel)		68.0	-0.1	0	-3	-14	-9
VIX Index (% change in pp)		14.5	-0.4	-2	-1	-3	-3

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 latest estimate of Q2 GDP came in stronger than expected. Related inflation readings met market forecasts. The market reaction was muted.

US GDP Data

Source: Bloomberg

	Consensus Forecast	Actual Data Print
Q2 GDP quarter-on-quarter	3.1%	3.3%
Q2 GDP Price Index qoq	2%	2%
Core PCE Price Index qoq	2.5%	2.5%

The market estimate of the Fed's terminal policy rate has fallen below 3% for the first time in 12 months. The Fed Funds futures market predicts that the policy rate will fall to 2.95% by December 2026 from the present level of 4.25%. The rest of the yield curve has followed Fed Funds futures lower, with the two-year yield currently at 3.62% and the 10-year yield at 4.23%. At the same time, the yield curve has been steepening. Analysts at Morgan Stanley expect the yield curve to steepen further and the 10-year yield to fall below 4% by the end of the year. They also estimate that the terminal rate will be lower than the market forecast at 2.69%, one more rate cut than the market forecast. The 10-year yield tends to follow the market forecast of the terminal policy rate, although this relationship broke down during the April tariff-related volatility.

Exhibit 1: Market-implied trough fed funds rate vs. SEP median 2025, 2026, and longer-run dots

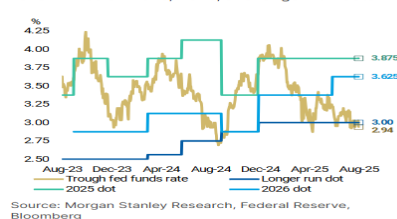
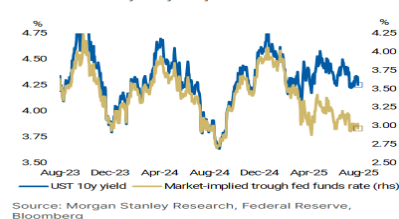
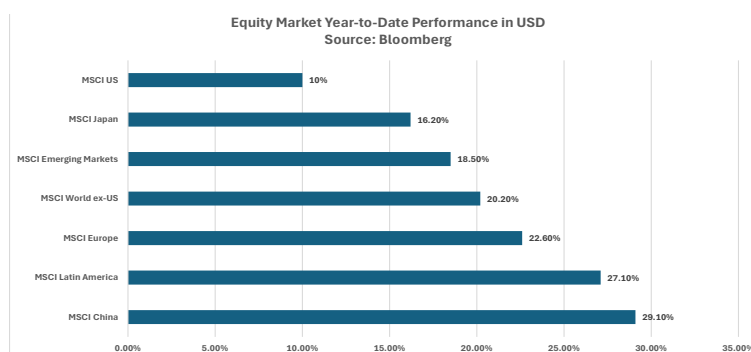


Exhibit 2: Market-implied trough fed funds rate and US Treasury 10-year yield



US equity markets continue to trail global peers in 2025, despite the S&P 500 index making multiple new highs in the year. The “Sell America” trade of April and May may have gone away, but investors remain worried about the impact of tariffs on the US economy and corporate profitability. The latest concerns about the independence of the Fed have also weighed on the outlook for the US.



The sharp depreciation of the dollar has also eroded US equity returns. Moreover, some analysts are worried that expensive US equity valuations will cause them to underperform next year as well. The past outperformance was justified by much stronger earnings companies in the US compared to companies in other countries. Estimates for next year predict that US corporate earnings will be more in line with global peers.

A More Balanced Outlook

Global earnings move onto more even footing next year

■ 2026 EPS Growth Y/Y Projections

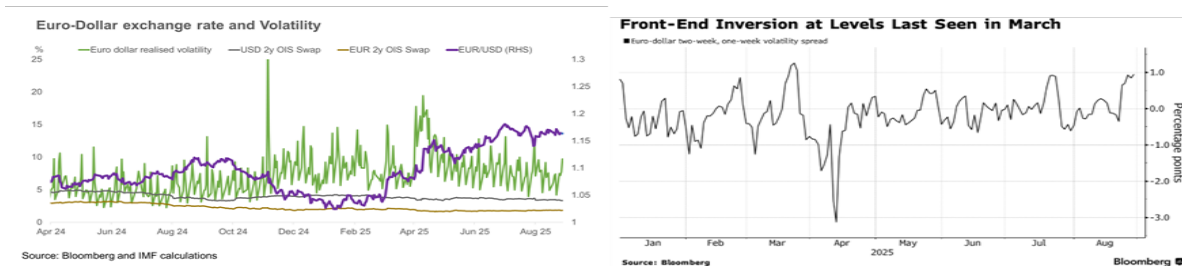


Source: Bloomberg Intelligence

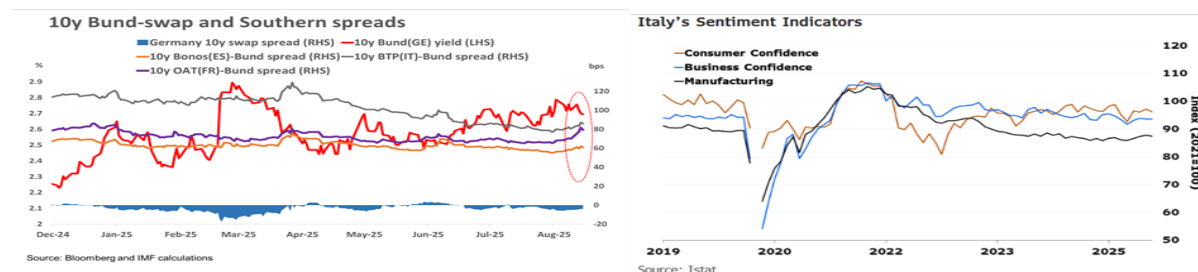
Bloomberg

Euro Area

European equities were slightly lower this morning, with the Stoxx 600 index down by 0.3%. **The euro was stronger against the dollar this morning, trading at \$1.1665.** The currency was under pressure yesterday morning due to political turmoil in France but managed to regain ground above the 1.16 level later in the day. Still, analysts at Bloomberg note that the option prices indicate that the cost of hedging the euro over the next two weeks has increased significantly since the French Prime Minister Bayrou surprised markets by calling a confidence vote on September 8.



European government bond (EGBs) yields were little changed this morning. Bund yields were marginally higher across tenors (2-year Bund yield +2bps at 1.93% and 10y yield +1bp at 2.71). The 10-year Bund-OAT spread narrowed this morning (-3bps) to 79 bps after having risen above 84 bps yesterday, while the 10-year Bund-Italian BTP spread were only fractionally lower this morning, remaining at around 87bps as the Italian government auctioned €1.25bn of bonds maturing in 2023 at a yield of 3.54% (coupon rate 3.65%), reporting a bid/offer coverage ratio of 1.85. Analysts at Julius Baer think that France's political turmoil will have relatively limited impact on markets. Citi is of the view that and that the OAT-Bund spread could possibly widen towards 90–95bps if the government falls and reach 120–125bps if President Macron then also resigns, although the latter event is seen as extremely unlikely.



Elsewhere, the EU is reportedly weighing secondary sanctions to prevent third countries from helping Russia evade existing punitive measures. EU foreign ministers will meet in Copenhagen later this week and are expected to discuss the use of the so-called anti-circumvention tool that was adopted in 2023 but that has not been used yet. This tool can prohibit the export, supply, or transfer of certain goods to third countries that are considered to aid sanctions circumvention.

Japan

The 2-year JGB auction drew the weakest demand since 2009 amid rate hike speculation, with the average bid-to-cover ratio falling to 2.84 (vs. 4.47 in the previous sale and a 12-month average of 4.01), pushing the 2y yield up to 0.86%, near its highest level since 2008. Analysts note that the weak auction may signal that upward pressure on long-term yields is spilling over into the short end. BOJ board member Nakagawa reaffirmed the BOJ's commitment to raise rates if economic and price conditions align with forecasts, which markets interpreted as surprisingly hawkish. The probability of a BOJ rate hike by October rose to 55%, up from around 40% early last month, based on overnight index swaps. Today, the stock market gained (NIKKEI 225: +0.7%) after reports that Berkshire Hathaway raised its stake in major trading houses.



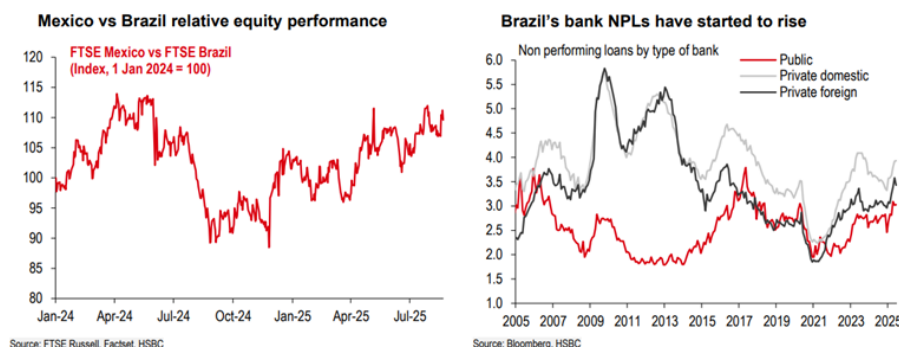
Emerging Markets

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EMEA equities were trading mixed while currencies were mostly weaker. In CEE, equities underperformed in Czechia (-0.3%) on domestic political developments. Polish equities were also weaker (-0.2%) ahead of the government unveiling its 2026 budget plan which is expected to include further details on a proposed tax on banks. **EM Asian stock markets had mixed performance, with China gaining (CSI 300: +1.8%) while India declined (SENSEX: -0.8%) on tariff concerns.** EM Asian currency broadly strengthened against the dollar (EM Asia: +0.3%), led by the Korean won (+0.5%) after the Bank of Korea signaled FX intervention to counter currency weakness, despite holding rates steady and maintaining an easing bias. **In Latin America, regional markets traded cautiously as traders weigh developments in the US alongside evolving trade policies.** Currencies traded mixed, and local yields and equities ended the day relatively unchanged.

Brazil

Fresh tariffs and a weakening banking sector weighed on Brazilian equities performance. HSBC analysts note that Brazilian equities have been underperforming their Mexican counterparts in recent months (*left chart*). Brazilian corporates, especially exporters, face fresh US tariffs on their exports, while the financial sector is increasingly vulnerable to sanctions, compounded by rising delinquency rates (*right chart*). Additionally, foreign outflows from Ibovespa began in July and continued through August. Although year-to-date inflows remain positive at \$3.4 billion, the analysts warned that selling pressure remains. Domestic demand may also be constrained by weakened sentiments from moderating economic growth, resulting in earnings headwinds, alongside persistently high local rates.



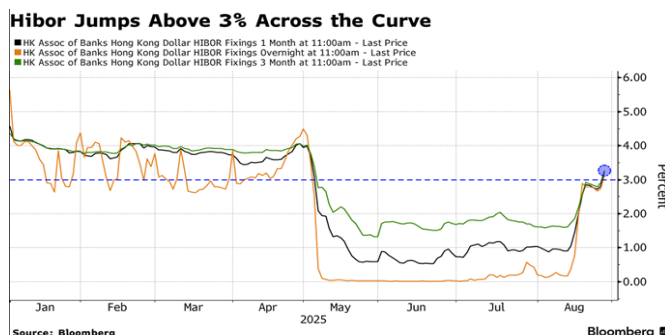
China

Limited offshore yuan (CNH) supply is challenging some Southeast Asian banks as regional trade increasingly settle in yuan. Bloomberg estimates that offshore yuan deposits stood at RMB 1.5tn (\$209bn) at end-2023, far below the RMB 321tn in China's onshore banking system, based on PBOC data. United Overseas Bank Ltd. (UOB), Singapore's third-largest bank, is boosting yuan liquidity by raising deposits, issuing yuan-denominated notes, and increasing activity in the FX swap market. About 20% of China–Southeast Asia trade is settled in yuan, a share expected to rise, as yuan-denominated transactions in Thailand and Indonesia surged ~70% annually in 2023 and 2024, according to UOB's SWIFT data analysis.



Hong Kong SAR

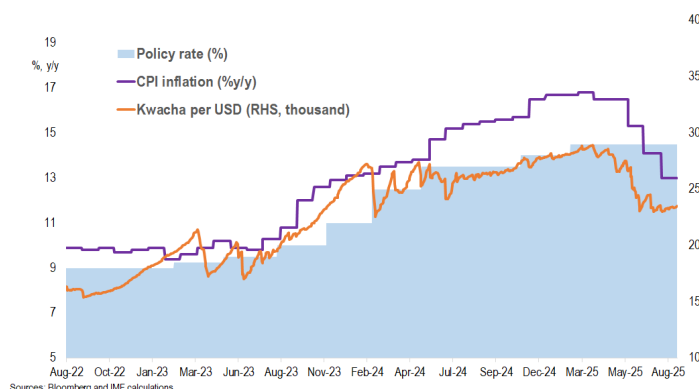
The overnight Hong Kong interbank offered rate (HIBOR) surged by 86bps to 3.98%, the highest since May, as liquidity tightened. Interbank liquidity has shrunk by roughly 70% over the past two months, according to HKMA data. DBS strategists note that banks are hoarding their reserves at month-end and quarter-end, and HIBOR is expected to remain elevated through September due to seasonal factors. Additional drivers include HKMA's FX intervention to support the HKD within its trading band, equity market inflows, and a potential rebound in loan demand. Morgan Stanley analysts warn that sustained rates above 3% could dampen investor sentiment and borrowing demand.



Zambia

The stronger currency has pushed August headline inflation to a near two-year low in Zambia. Data released today showed headline inflation slowed to 12.6%/y/y in August, down from 13% in July as a stronger kwacha helped curb import costs. Food price inflation also decelerated to 14.9%/y/y in August from 15.3% in the prior month. According to Bloomberg data, the kwacha has appreciated by around 19% against the dollar YTD, making it one of the best-performing currencies. Earlier this month, the Bank of Zambia held rates at 14.5% to further curb inflation which it projects will decline to within its 6% to 8% target range in the first quarter of 2026. This morning the Zambian kwacha was trading relatively unchanged at 23.5/\$.

Zambia: policy rates, currency and inflation



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Timothy Chu (Financial Sector Expert-New York Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Senior Financial Sector Expert), Johannes S. Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Analyst), Deepali Gautam (Senior Research Officer), Zixuan Huang (Economist – EP), Harrison Kraus (Research Analyst), Yiran Li (Senior Research Analyst), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Jeremie Benzaken (Administrative Coordinator), Javier Chang (Senior Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

8/28/25 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,478	0.2	1.7	1.4	15.8	10
Europe		5,392	0.0	-1.3	1.0	9.8	10
Japan		42,829	0.7	0.5	5.3	11.6	7
China		4,464	1.8	4.1	7.5	36.2	13
Asia Ex Japan		86	-0.8	0.4	1.1	18.4	19
Emerging Markets		50	-0.6	0.3	1.5	15.4	19
Interest Rates			basis points				
US 10y Yield		4.2	-1	-10	-18	39	-34
Germany 10y Yield		2.7	1	-5	2	45	34
Japan 10y Yield		1.6	-1	1	5	72	52
UK 10y Yield		4.7	-2	-2	7	71	15
Credit Spreads			basis points				
US Investment Grade		121	1	2	1	-12	1
US High Yield		332	-2	-8	5	-38	4
Exchange Rates			%				
USD/Majors		98.0	-0.3	-0.7	-0.7	-3.1	-10
EUR/USD		1.17	0.2	0.5	0.7	4.9	13
USD/JPY		146.9	-0.3	-1.0	-1.1	1.6	-7
EM/USD		45.9	0.2	0.5	0.7	-0.1	7
Commodities			%				
Brent Crude Oil (\$/barrel)		68.0	-0.1	0.4	-2.0	-8.0	-6
Industrials Metals (index)		140.9	0.4	0.7	-9.4	-3.3	0
Agriculture (index)		55.3	-0.1	-0.5	1.5	2.5	-3
Gold (\$/ounce)		3404.5	0.2	2.0	2.7	35.9	30
Bitcoin (\$/coin)		112956.4	0.5	-2.0	-4.3	90.3	21
Implied Volatility			%				
VIX Index (% change in pp)		14.5	-0.4	-2.1	-0.5	-2.6	-2.9
Global FX Volatility		7.7	0.0	0.1	-0.3	-1.0	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		70	-2	2	3	-35	-16
Italy		87	-1	4	5	-52	-29
France		80	-2	9	13	7	-3
Spain		61	-1	2	3	-22	-8

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

Emerging Market Financial Indicators

Last updated: 8/28/2025 8:05 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)						Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation						% p.a.						
China		7.13	0.3	0.7	0.7	-0.1	2.4		1.8	0	-3	4	-28	13	
Indonesia		16353	0.1	-0.4	0.1	-5.7	-1.4		6.3	-2	-8	-20	-39	-76	
India		88	0.1	-0.4	-1.1	-4.2	-2.3		6.8	-4	1	1	-16	-51	
Philippines		57	0.1	-0.1	0.1	-1.5	1.5		4.7	0	0	-7	-41	-14	
Thailand		32	0.4	0.9	0.5	5.4	6.2		1.4	1	-2	-18	-117	-91	
Malaysia		4.22	0.4	0.2	0.3	3.0	6.0		3.4	-1	-1	0	-40	-44	
Argentina		1352	0.3	-3.8	-4.3	-29.8	-23.7		45.7	-169	358	957	592	1658	
Brazil		5.41	0.1	1.2	3.2	2.9	14.1		13.9	-2	-6	-24	216	-206	
Chile		968	-0.2	-0.1	0.0	-6.3	2.9		5.4	0	4	0	-5	-25	
Colombia		4031	0.6	-0.2	3.4	0.2	9.3		11.6	3	-10	-7	148	-26	
Mexico		18.61	0.3	0.8	0.8	5.6	11.9		9.0	-1	-12	-39	-85	-139	
Peru		3.6	-0.2	-0.8	-0.1	5.2	5.8		6.3	-1	-1	-16	-26	-34	
Uruguay		40	0.0	0.3	0.1	0.7	9.2		8.0	5	14	-38	-157	-169	
Hungary		340	0.2	0.5	1.0	4.1	17.0		6.7	4	5	2	65	30	
Poland		3.65	0.4	0.5	0.7	5.8	13.1		4.8	3	2	-6	-22	-74	
Romania		4.3	0.2	0.3	0.8	3.1	10.6		7.4	1	-1	14	89	10	
Russia		80.3	0.0	0.2	1.8	14.0	41.3								
South Africa		17.6	0.4	0.5	1.4	1.1	6.9		10.0	2	1	-23	-57	-51	
Türkiye		41.04	0.0	-0.3	-1.2	-17.0	-13.9		31.5	-5	-22	-35	249	181	
US (DXY; 5y UST)		98	-0.3	-0.7	-0.7	-3.1	-9.7		3.70	1	-15	-27	4	-68	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)						Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M		
									basis points						
China		4,464	1.8	4.1	7.5	36.2	13.4		114	5	10	-37	18		
Indonesia		7,952	0.2	0.8	4.4	4.3	12.3		86	6	-1	-15	-5		
India		80,081	-0.9	-2.2	-1.5	-2.5	2.5		93	6	-2	-18	7		
Philippines		6,190	-1.3	-1.4	-2.1	-10.2	-5.2		73	5	-1	-16	-6		
Thailand		1,250	0.2	0.4	1.3	-7.9	-10.7								
Malaysia		1,587	-0.1	-0.4	4.2	-4.0	-3.4		65	3	-3	-25	-5		
Argentina		1,974,151	-2.9	-5.2	-10.8	22.0	-22.1		862	106	120	-652	225		
Brazil		139,206	1.0	3.4	5.4	1.4	15.7		207	4	-1	-16	-40		
Chile		8,884	0.7	1.8	10.0	39.1	32.4		106	5	-1	-15	-7		
Colombia		1,844	-0.6	-0.5	4.6	37.3	33.7		295	9	-8	-16	-31		
Mexico		58,648	0.9	0.7	2.7	11.8	18.4		245	5	-19	-74	-67		
Peru		34,591	-0.1	2.9	3.6	22.1	19.4		108	6	-11	-33	-33		
Hungary		104,135	-0.1	-1.8	2.8	43.0	31.3		140	6	-10	-16	-15		
Poland		106,421	-0.4	-5.0	-0.3	27.1	33.7		99	5	0	-9	-13		
Romania		20,633	-0.1	-0.5	3.2	12.9	23.4		213	8	3	11	-22		
South Africa		101,838	-0.2	0.1	3.2	21.2	21.1		289	3	-3	-8	-4		
Türkiye		11,414	0.5	0.9	8.3	17.0	16.1		280	10	-5	-18	21		
EM total		50	-0.2	0.3	1.5	15.4	19.3		356	15	-1	-52	-8		

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

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