



- **US PCE inflation comes in on target** ([link](#))
- **Equity indexes in US rally past tariff pressures** ([link](#))
- **Strong RMB fixing raises expectation that currency could rally further** ([link](#))
- **High yields attract large inflows into US corporate bond markets** ([link](#))
- **Government bond yields in Japan hit multi-year highs** ([link](#))
- **Indonesian markets under pressure due to social unrest** ([link](#))
- **Special Feature: EM Local Currency Bond Holdings Monitor**

[Mature Markets](#)

[Emerging Markets](#)

[Market Tables](#)

Global markets turn cautious

The **S&P 500** marked yet another record close yesterday, but global market sentiment is more cautious this morning, with **US equity index futures falling back and European stocks lower across the board**. China and Hong Kong SAR were the outliers, as local stocks continued their strong year to date rally. A number of US tariffs have come into effect this week, including a de minimis tax on small shipments and a 50% tariff on imports from India, and market participants are trying to work out what their impact might be. Meanwhile, press reports indicated that Fed governor Waller favors a rate cut at the September FOMC meeting, as well as more rate reductions over the next several months. He dissented against the decision in July to keep the Fed's policy rate unchanged, arguing that a 25 basis point rate cut was justified. Government bond yields in the US, euro area and Japan were up today, while currencies held steady. However, expectations for a rally in the yuan continued to grow, encouraged by an especially strong fixing today. In other news, markets in Indonesia sold off due to social unrest, while government bonds in Colombia rallied as banks made a tender offer to buy its dollar bonds.

Key Global Financial Indicators

Last updated: 8/29/25 7:59 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6502	0.3	2	2	16	11
Eurostoxx 50		5378	-0.3	-2	0	8	10
Nikkei 225		42718	-0.3	0	5	11	7
MSCI EM		50	0.4	1	2	16	20
Yields and Spreads			bps				
US 10y Yield		4.22	1.9	-3	-10	36	-35
Germany 10y Yield		2.71	1.4	-1	0	44	34
EMBIG Sovereign Spread		297	-2	6	0	-97	-28
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.7	-0.1	0	0	0	7
Dollar index, (+) = \$ appreciation		98.0	0.2	0	-1	-3	-10
Brent Crude Oil (\$/barrel)		68.2	-0.6	1	-6	-15	-9
VIX Index (% change in pp)		14.6	0.2	0	-1	-1	-3

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

Mature Markets

[back to top](#)

United States

PCE inflation, the Fed's favored measure of price trends, came in on target, meeting consensus forecasts. The market reaction was limited.

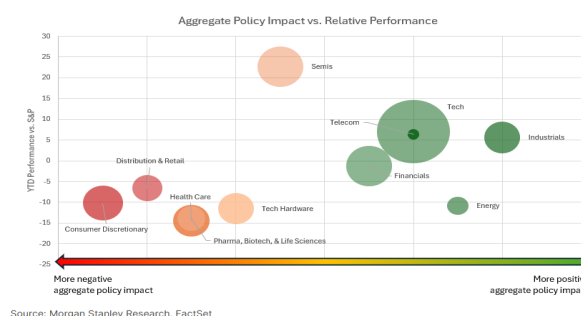
US PCE Inflation Data

Source: Bloomberg

Indicator	Consensus Forecast	Actual Data
PCE price index month-on-month	0.2%	0.2%
PCE price index year-on-year	2.6%	2.6%
Core PCE price index mom	0.3%	0.3%
Core PCE price index yoy	2.9%	2.9%

US equity markets remain close to all-time highs despite sustained trade tensions and policy uncertainty. Domestic demand remains strong, while foreign flows have returned after the April selloff rapidly reversed. Morgan Stanley analysts argue that the market sectors most vulnerable to the tariffs account for a small portion of the market capitalization of S&P 500. On the other hand, the sectors accounting for the largest share of market capitalization and making the biggest gains are relatively immune from the impact of tariffs. In addition, many of these companies are expected to derive major benefits from the recent tax package introduced by the US administration, due to provisions such as the ability to deduct R&D expenses upfront and take full depreciation immediately when building factories or other production facilities onshore. The AI theme also plays a role, due to plans by the major technology companies to build large numbers of data centers and the electricity infrastructure needed to support them. In addition, the financial sector has also made strong gains this year due hopes of deregulation.

Exhibit 1: Sectors with positive net impacts represent a larger share of overall S&P market cap: YTD performance vs. directional impact of aggregate policy choices. Bubble size indicates market cap as a % of the S&P 500.

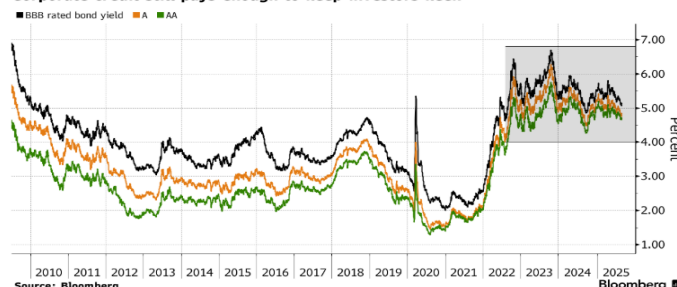


Source: Morgan Stanley Research, FactSet

Historically high yields have attracted large inflows into US corporate bond markets. Despite credit spreads that are at their tightest level since 1998, high absolute yields continue to attract investors who are anxious to lock in the average investment grade yield of 5% before expected Fed rate cuts lower the overall level of interest rates in the market. Net issuance has been low, with most companies rolling over existing debt, further boosting demand. Foreign investors are back with a vengeance, with Citi reporting that June saw foreign inflows of \$40 bn. The strong Q2 corporate earnings were reassuring to credit investors.

Last Chance to Grab Best Blue-Chip Yields in Decades

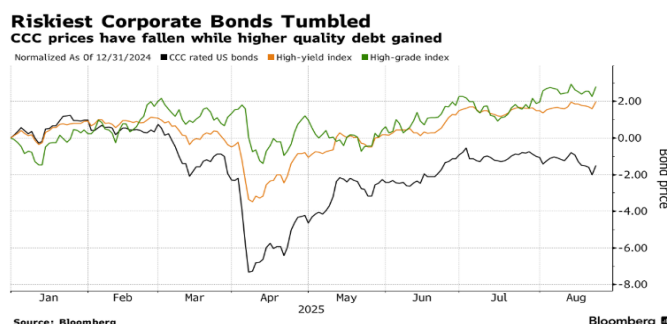
Corporate credit still pays enough to keep investors keen



Source: Bloomberg

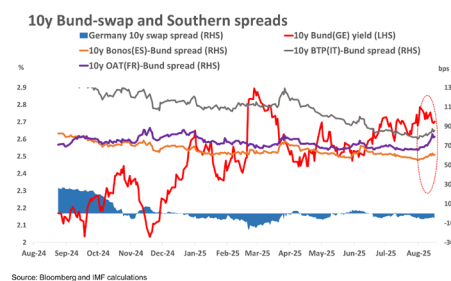
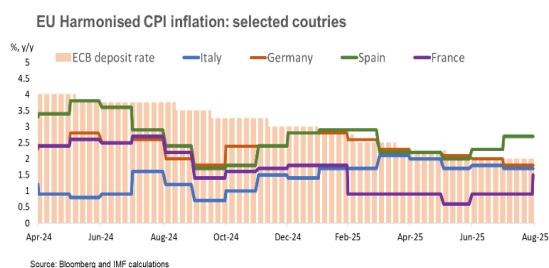
Bloomberg

However, the riskier portion of the corporate bond market is going through a phase of falling prices and rising yields. The credit spread between the single B rated sector and the CCC sector is at 388 bps according to Bloomberg, at the high end of the historical range. Private credit has helped alleviate some of the stress in the high yield corporate bond market.



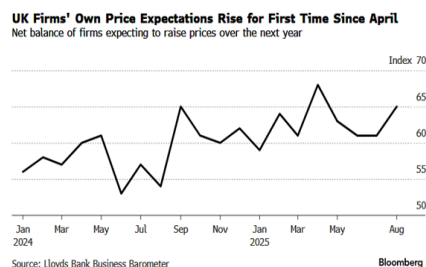
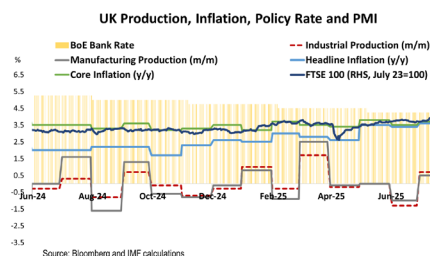
Euro Area

European equities traded in the red this morning, mirroring US equity-index futures, as traders cut risk ahead of US July PCE data later today. **The euro was a touch weaker (-0.1%) against the dollar this morning, trading at around \$1.1653.** In the ECB July MPC minutes disclosed yesterday, policymakers viewed inflation risks as "broadly balanced" with inflation near the 2% target amidst a resilient eurozone economy, with only a few ECB members considering possible further rate cuts. Money markets continue to price-in only -9bps of easing (26% likelihood of a 25bps cut) by year-end and -19bps by July 2026, after today's release of an ECB survey showed that **Eurozone inflation expectations have slightly increased in July**, with inflation foreseen at 2.6% over the next year (vs. est. 2.5%, from prior 2.6%) and at 2.5% over the next three years (vs. est. 2.4%, from prior 2.4%).



United Kingdom

The pound sterling lost ground (-0.4%) against the dollar today, to trade at \$1.3459/£, as gilt yields edged higher and UK equities extended losses (FTSE 100 -0.4% today, -1.4% week-to-date). The banking sector suffered the most, with the shares of major UK banks down by 4–5% on headlines of renewed calls for the government to impose a windfall tax on banks in the autumn budget. UK retail sales continued to weaken for the eleventh month in August, with the CBI index remaining contractionary space at -32pts, only slightly better than July's -34pts. The Lloyds Bank's survey released yesterday, however, showed that the business confidence index rose to 54pts in August from p52 the month before, the highest since November 2015, suggesting that firms are coping with the £26bn increase in payroll taxes and 7% hike in the minimum wage that took effect in April. About 35% of employers are set to increase pay by 4% or more, 10% more than a month ago, with the share of firms planning to put up prices in the coming year was up to 67% in August, indicating limited capacity for profits to buffer higher labor costs.



Japan

Inflation in Tokyo eased but remains above BOJ's target.

August consumer prices excluding fresh food rose 2.5%, y/y, slowing from 2.9% previously; this latest print represented the slowest pace of increase since March and was largely attributable to government utility subsidies. Meanwhile, Tokyo CPI excluding food and energy rose 3.0%, y/y, down from 3.1% previously. Analysts noted that these data are unlikely to alter BOJ's rate hike path. A Bloomberg survey found that the BOJ is expected to hold its policy rate unchanged at 0.50% at its September meeting but a rate hike could come in October. Meanwhile, the Ministry of Finance (MOF) surveyed primary dealers for their views on a further reduction in longer-maturity government bond issuance. The MOF typically consults with market participants ahead of its annual primary dealer meeting in September. This time, the survey solicited views on reducing issuance by ¥100 bn (\$680 mn) for maturities between 15.5 years and 39 years, as well as skipping the auction of these tenors in October. Increases in bond yields in recent weeks have raised concerns that bond financing could become difficult, particularly as investor demand weakened at recent JGB auctions.

Japan's Yields Rise to Multi-Year Highs



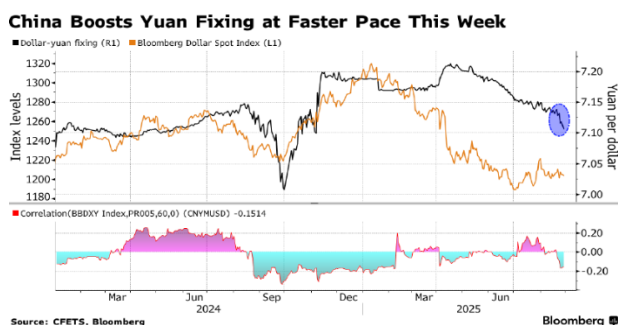
Emerging Markets

[back to top](#)

EMEA equities were trading lower while currencies were mixed ahead of US inflation data. In CEE, equities underperformed in Poland (-0.8%) and Hungary (-0.6%). Meanwhile, the Central Bank of Egypt surprised with a larger than expected 200bp rate cut yesterday, taking the policy rate to 22.0% citing easing inflationary pressures. **Asian equities were mostly little changed, with gains in Chinese shares (+0.7%) offset by losses elsewhere amid profit taking.** Asian currencies mostly weakened. The Indonesian rupiah, equities and bonds have all come under pressure as protests against government policies spilled into a third day. **Sentiment in Latin American markets was cautious ahead of key US inflation data.** Local equity indexes were up and the MSCI Latin America index rose by 1.6% yesterday.

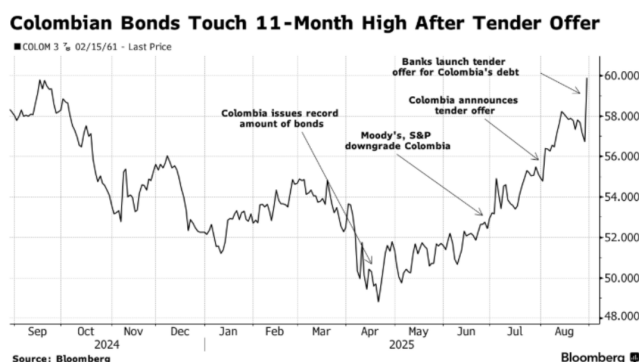
China

A strong daily fixing raised expectations that the RMB could strengthen going forward. The People's Bank of China (PBOC) strengthened the yuan's fixing, which limits the currency's moves against the dollar by 2% on either side, by 0.4% this week; this is the largest move since last September. Notably, the fixing was set at RMB 7.1030/USD on the day, the strongest level since November. As a result, the correlation between the dollar-RMB fixing and the USD has weakened. Market analysts noted that the move in RMB suggests that the PBOC could be recalibrating its FX strategy and further strengthening of the RMB could be possible. Notably, given that implied volatility for the RMB remains near the low end of its one-year range, there is room for further RMB strengthening, according to Bloomberg.



Colombia

Colombian's dollar bond rallied following banks' tender offer. Six global banks launched a tender offer to purchase the sovereign's dollar debt that are trading below par, marking the first step in the government's broader strategy to diversify its external debt profile and reduce debt service cost. Earlier in July, officials stated Colombia's intention to raise up to \$10 billion in Swiss francs to refinance costlier liabilities and reduce debt service costs. Then, the government was in talks with global banks to secure financing to buy back peso and dollar bonds. Barclays analyst remarked that the bonds will serve as collateral for a CHF-linked loan under negotiation, with the banks entering into a total return swap agreement that requires the use of these bonds as collateral for the swaps underpinning the loan.



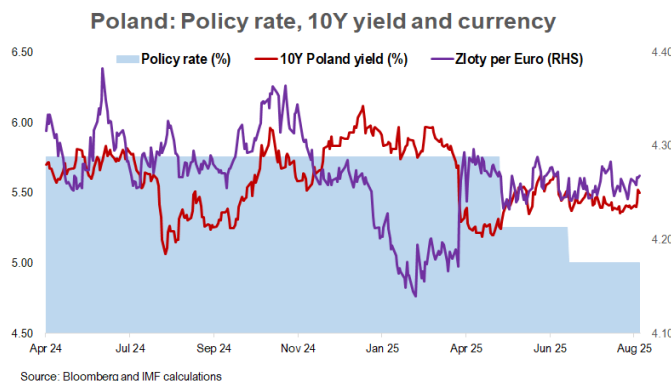
Indonesia

Indonesian assets came under pressure amid policy uncertainty and social unrest. Public anger over lawmakers' new monthly allowance, at nearly 10 times the minimum wage, while austerity measures that have cut into education, health and public works have spurred protests around Jakarta for the third day. Reuters and Bloomberg reported that several government meetings set for Friday were canceled, including the Finance Ministry's monthly budget briefing. Meanwhile, by Bloomberg's estimate, foreign flows have turned negative in the past two days amid domestic unrest. Indonesian stocks fell as much as 2.3% on the day, while the rupiah weakened 0.9%—both underperformed their Asian peers. Yields on the local currency 5- and 10-year government bonds staged their largest increases in recent months. Bank Indonesia said it is ready to intervene to stabilize the currency and ensure it trades according to fundamentals.

Poland

Polish government bond yields rose following the announcement of 2026 budget plans. According to Bloomberg data, the yield on 10-year Polish government bond yields climbed by 9 bps yesterday to 5.53%, reaching the highest level since June after the government unveiled its 2026 budget. At the same time, the government raised its deficit forecast to 6.9% of GDP for 2025 (up from 6.3%) and expects a deficit of 6.5% in 2026. Analysts at ING note that while the budget deficit is expected to decline next year, bond issuance is expected to be higher. This morning, preliminary August headline inflation figures printed










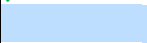





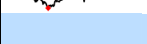











a touch softer than expected at 2.8% y/y (2.9% exp, 3.1% prior), ahead of next week's National Bank of Poland (NBP) meeting where markets are expecting a -25bp rate cut to take the policy rate to 4.75%. ING analysts note that some MPC members have cited the deficit as a reason why September may be the last rate cut this year. The Polish zloty was trading relatively rangebound against the euro at 4.27/€ in early morning trade.



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Global Financial Indicators

8/29/25 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,502	0.3	2.1	2.1	16.3	11
Europe		5,378	-0.3	-2.0	0.0	8.3	10
Japan		42,718	-0.3	0.2	4.7	10.5	7
China		4,497	0.7	2.7	10.9	35.4	14
Asia Ex Japan		86	0.4	0.9	1.6	18.6	20
Emerging Markets		50	0.4	0.9	1.8	15.8	20
Interest Rates			basis points				
US 10y Yield		4.2	2	-3	-10	36	-35
Germany 10y Yield		2.7	1	-1	0	44	34
Japan 10y Yield		1.6	-2	-2	2	70	50
UK 10y Yield		4.7	3	3	9	71	16
Credit Spreads			basis points				
US Investment Grade		121	0	2	1	-12	1
US High Yield		332	-2	-8	5	-38	4
Exchange Rates			%				
USD/Majors		98.0	0.2	0.3	-0.9	-3.3	-10
EUR/USD		1.17	-0.2	-0.5	1.0	5.3	13
USD/JPY		147.3	0.2	0.2	-0.8	1.6	-6
EM/USD		45.7	-0.1	-0.4	0.5	-0.2	7
Commodities			%				
Brent Crude Oil (\$/barrel)		68.2	-0.6	0.7	-4.9	-8.9	-6
Industrials Metals (index)		142.4	0.8	0.6	-8.3	-1.8	1
Agriculture (index)		55.2	-0.2	-1.5	1.7	1.4	-3
Gold (\$/ounce)		3410.4	-0.2	1.1	2.5	35.3	30
Bitcoin (\$/coin)		110109.1	-1.6	-2.4	-6.3	85.0	17
Implied Volatility			%				
VIX Index (%, change in pp)		14.6	0.2	0.4	-1.4	-1.0	-2.8
Global FX Volatility		7.8	0.0	0.2	-0.2	-0.9	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		70	2	5	3	-34	-16
Italy		87	2	6	6	-51	-29
France		79	1	9	14	7	-4
Spain		61	1	3	3	-21	-8

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

Emerging Market Financial Indicators

Last updated: 8/29/2025 8:05 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		7.13	0.0	0.5	0.6	-0.5	2.3		1.9	2	1	8	-24	16
Indonesia		16500	-0.9	-0.9	-0.6	-6.5	-2.2		6.2	-2	-6	-24	-41	-78
India		88	-0.7	-0.8	-1.6	-4.9	-2.9		6.9	4	2	8	-14	-47
Philippines		57	-0.1	-0.3	0.4	-1.5	1.5		4.7	1	-1	-7	-40	-13
Thailand		32	-0.3	0.0	0.0	4.8	6.0		1.4	0	-3	-19	-118	-91
Malaysia		4.23	-0.2	0.0	0.2	2.0	5.8		3.4	0	0	1	-37	-43
Argentina		1335	1.2	-1.6	-3.1	-29.0	-22.8		48.0	230	694	1075	728	1889
Brazil		5.42	-0.1	0.1	2.9	3.8	13.9		13.8	-8	-25	-28	195	-213
Chile		968	0.1	0.3	0.0	-5.7	3.0		5.4	-1	1	0	-7	-26
Colombia		4027	0.1	0.1	3.5	1.7	9.4		11.5	-3	-14	-12	145	-28
Mexico		18.69	-0.2	-0.6	0.4	6.2	11.4		8.9	-2	-16	-43	-90	-141
Peru		3.5	0.3	0.0	0.2	5.6	6.2		6.3	-1	3	-17	-27	-34
Uruguay		40	0.0	0.1	0.1	0.8	9.3		8.0	0	13	-35	-159	-169
Hungary		340	-0.2	-0.5	1.7	4.2	16.8		6.7	2	4	4	65	32
Poland		3.66	-0.2	-0.5	1.2	5.7	12.9		4.9	8	9	11	-24	-65
Romania		4.3	-0.2	-0.9	1.1	3.3	10.4		7.4	0	0	15	89	10
Russia		80.7	-0.2	-0.2	0.5	13.9	40.6							
South Africa		17.7	-0.1	-1.5	1.0	0.1	6.3		10.0	1	-1	-19	-57	-50
Türkiye		41.15	-0.3	-0.4	-1.4	-17.2	-14.1		31.4	-13	-35	-56	234	167
US (DXY; 5y UST)		98	0.2	0.3	-0.9	-3.3	-9.6		3.71	2	-5	-19	4	-67

	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		4,497	0.7	2.7	10.9	35.4	14.3		114	6	10	-38	18	
Indonesia		7,830	-1.5	-0.4	3.9	2.1	10.6		87	8	5	-15	-4	
India		79,810	-0.3	-2.7	-1.0	-3.1	2.1		93	6	-2	-18	7	
Philippines		6,156	-0.6	-1.9	-2.4	-10.8	-5.7		73	6	3	-18	-6	
Thailand		1,237	-1.1	-1.3	1.5	-9.0	-11.7							
Malaysia		1,575	-0.8	-1.4	2.7	-6.1	-4.1		66	5	-1	-24	-4	
Argentina		1,997,379	1.2	-5.0	-13.3	20.3	-21.2		846	84	119	-642	209	
Brazil		141,049	1.3	4.9	6.3	3.7	17.3		205	0	-3	-16	-42	
Chile		8,921	0.4	0.8	9.8	38.3	33.0		106	5	3	-15	-7	
Colombia		1,838	-0.3	-1.1	4.6	37.7	33.3		276	-11	-23	-41	-50	
Mexico		59,152	0.9	0.8	2.3	11.3	19.5		242	-1	-16	-81	-70	
Peru		34,837	0.7	2.4	4.3	22.5	20.3		108	4	-7	-34	-33	
Hungary		103,179	-0.6	-2.2	2.1	41.0	30.1		142	9	-3	-12	-13	
Poland		104,933	-1.0	-2.5	-2.9	24.2	31.9		101	7	6	-5	-11	
Romania		20,601	0.2	-0.4	3.0	13.0	23.2		216	9	12	16	-19	
South Africa		101,532	-0.3	-1.2	2.4	20.5	20.7		291	5	3	-5	-2	
Türkiye		11,336	-0.3	-0.3	8.1	15.3	15.3		281	11	5	-18	22	
EM total		50	-1.1	0.9	1.8	15.8	19.8		352	9	0	-56	-12	

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

[back to top](#)