GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, DECEMBER 17, 2025
LEAD EDITOR: FABIO CORTES

- **The Fed rebrands its Standing Repo Facility (SRF) as Standing Repo Operations (SRO)** (link)
- **Bond yields could be more sensitive to public debt levels as corporate issuance looms** (link)
- **The pound weakens and gilt yields fall on softer-than-expected November inflation data** (link)
- **The yen weakens despite broad-based BOJ rate hike expectations** (link)
- **The Indian rupee strengthens amid rumors of an RBI intervention** (link)
- **Fitch downgrades Colombia's credit rating a notch to BB** (link)

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Markets cautiously optimistic post US employment data

European and Asian stocks rose modestly, and US equity futures signaled a positive opening, as investors continued to digest yesterday's US nonfarm payrolls release. Yesterday's US employment data was seen as more of a confirmation of a cooling jobs market, rather than one rapidly weakening. Attention now turns to Thursday's US inflation data for further clues on the Fed's interest rate path. This morning, US Treasury yields were higher, with traders still pricing two full rate cuts by the Fed next year. Global equities were also supported by gains in the energy sector as President Trump's announcement of an oil blockade on Venezuela boosted oil prices (+1.7%), with Brent crude recovering and trading above the $60 a barrel mark earlier this morning. In currencies, the dollar strengthened, with the UK pound and the Japanese yen underperforming. Lower-than-expected inflation data drove the pound weaker, while renewed fiscal concerns weighed on the yen despite broad-based BOJ rate hike expectations later this week. Elsewhere, there was a flurry of central bank interest rate decisions. This morning, the Bank of Thailand lowered its policy rate by 25 bps to 1.25% and Bank Indonesia held its policy rate unchanged at 4.75%. Yesterday, Chile's central bank cut its policy rate to 4.5% while the central bank of Hungary kept its policy rate unchanged at 6.50%, in line with expectations.

Key Global Financial Indicators

Last updated: 12/17/25 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6800	-0.2	-1	2	12	16
Eurostoxx 50		5724	0.1	0	1	16	17
Nikkei 225		49512	0.3	-2	2	27	24
MSCI EM		53	-0.6	-3	-2	23	27
Yields and Spreads					bps		
US 10y Yield		4.18	3.1	3	4	-22	-39
Germany 10y Yield		2.86	1.1	1	14	63	49
EMBIG Sovereign Spread		256	3	-6	-9	-68	-69
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.2	-0.1	0	0	6	8
Dollar index, (+) = $ appreciation		98.5	0.4	0	-1	-8	-9
Brent Crude Oil ($/barrel)		59.9	1.7	-4	-7	-18	-20
VIX Index (%, change in pp)		16.2	-0.3	0	-6	0	-1

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

Mature Markets

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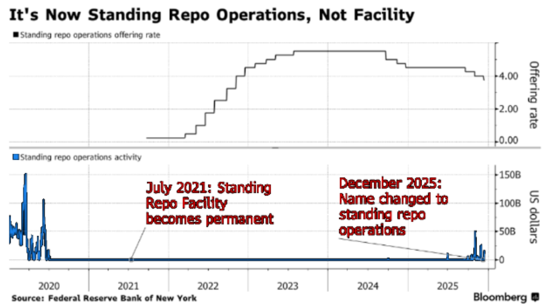
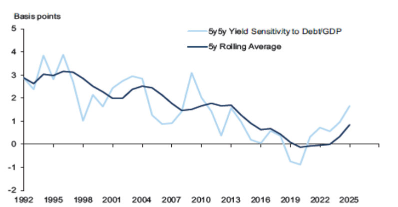
United States



The Fed rebranded its Standing Repo Facility (SRF) as Standing Repo Operations (SRO). In recent weeks, officials had expressed concerns that the SRF was not fulfilling its intended role of providing liquidity, thereby affecting the Fed's ability to keep administered rates within target ranges. Fed chair Powell acknowledged last week that the drop in reserves and distortions in funding markets "came a little quicker than expected". Indeed, with the simultaneous rollout of quantitative tightening (QT) and higher Treasury bill issuance, SRF usage had increased substantially. However, many transactions occurred above the offering rate of 4%, an indication of participants' reluctance to use the facility. In addition to rebranding the SRF, the Fed announced two measures last week: removal of the operational limit on daily transactions under the operation and a $40 bn monthly purchase of short-term Treasuries.

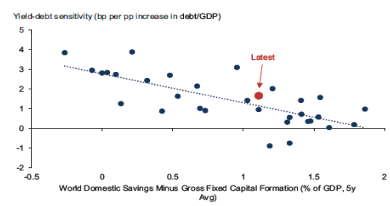
Rising sensitivity of yields to public debt levels could increase further with larger corporate issuance. Goldman Sachs noted that while yield sensitivity to public debt has been declining since the early 1990s, it has started to rise recently (Figure 1). Around the COVID-19 pandemic, the change in 5-year/5-year forward yields for a 1 ppt increase in debt-to-GDP was close to zero, but it has recently climbed to about 2 bps. Looking ahead, AI-related corporate capex is expected to be funded largely through debt, while public debt supply remains elevated. As both sectors compete for private capital, the market's ability to absorb duration may be tested. If the AI investment cycle reaches about 2% of US GDP, yield sensitivity to public debt is estimated to rise to 3–4 bps, assuming a proportionate deterioration in the savings-investment demand balance. Historically, a favorable savings-investment demand balance has helped to reduce yield sensitivity to public debt (Figure 2).

Exhibit 1: There had been a trend decline in the sensitivity of yields to changes in public debt-to-GDP, but this has started to reverse in recent years
G10 panel regression coefficient of 5y5y yields on debt-to-GDP (ex-central bank holdings) interacted with calendar year dummies, controlling for macro variables



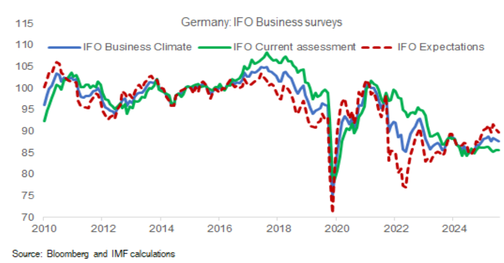
Source: Goldman Sachs Global Investment Research

Exhibit 2: Higher savings relative to investment demand helps to lower the sensitivity of yields to rising debt/GDP
Annual data, 1992-2025



Source: Goldman Sachs Global Investment Research

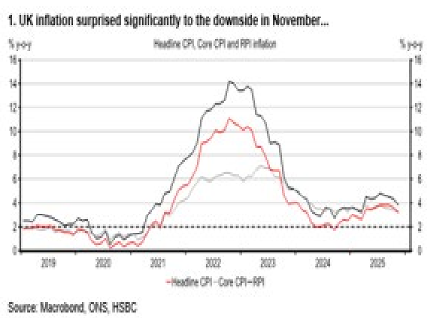
Euro area



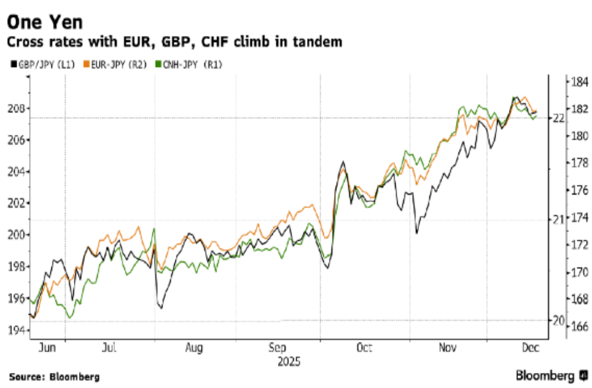
European equities were higher on the back of geopolitical developments. The Stoxx 600 was (+0.5%) higher in early morning trade led gains in the energy sector after President Trump announced an oil blockade on Venezuela. Brent crude prices jumped +1.7% to trade above the $60 a barrel mark earlier this morning. Regional bourses were trading mixed while the euro was weaker (-0.2%) to a broadly stronger dollar to trade at 1.17. This morning, **German business confidence declined more than expected.** The December Ifo business expectations index declined to 89.7 in December, from a revised 90.5 last month and below consensus expectations of 90.5. The measure of existing conditions was unchanged on the month at 85.6, but also below expectations of 85.8. According to the Ifo, German businesses are "more pessimistic about the first half of 2026…the year is ending without any sense of optimism". Today's data follows yesterday's preliminary December PMI release which showed a decline in the manufacturing sector PMI suggesting that uncertainty continues to weigh on private-sector activity. Money markets continue to expect the ECB to hold rates unchanged at tomorrow's policy meeting with rates expected to be kept on hold for much of next year, reversing expectations of a possible hike from earlier in the week. European government bond yields were little changed in early morning trade with the 10-year bund yield at 2.86% and intra-EMU government bond spreads holding firm with the 10-year BTP-bund spread at 70 bps and the 10-year OAT-bund spread at 71 bps.

United Kingdom

The pound and UK gilt yields declined sharply on softer-than-expected November inflation data. Headline inflation printed at 3.2% y/y, below consensus expectations of 3.5% and down from last month's 3.6% print, driven in large part by lower food prices. Immediately following the release, the pound weakened (-0.7%) while gilt yields were sharply lower, led by the front end of the curve as money markets scaled up BoE easing expectations. 2-year gilt yields were 7 bps lower in early morning trade at 3.69% while money markets moved to price-in around 68 bps of easing by November 2026, up from around 55 bps priced last Wednesday. Analysts at Deutsche Bank noted that today's data, combined with yesterday's soft labor market data, is likely to cement a rate cut at tomorrow's MPC meeting and may result in a 6:3 vote in favor of a cut. While the analysts projected the BoE to cut rates to 3.25% by 1H'26, they noted that weaker price momentum and higher unemployment may lead to a deeper easing cycle than their current forecast.



Japan



Renewed fiscal concerns weighed on the yen and JGBs. According to Kyodo news reports, the authorities' initial draft budget for fiscal 2026 is set to top ¥120 tn. Renewed fiscal concerns lifted the yield on the 10-year JGB to 1.97%, its highest level since 2007. Meanwhile, the yen weakened past the ¥155/USD level (-0.5% on the day) despite **broad-based expectations for the BOJ to raise rates on Friday**. In a Bloomberg survey, surveyed economists unanimously expect the BOJ to raise its benchmark rates by 25 bps to 0.75% at the end of its two-day meeting on Friday. Overnight-indexed swaps now imply a better-than-90% chance of a rate hike this week, roughly double the probability priced in at the end of October. The contracts also fully price in another rate increase by October 2026. The BOJ last raised rates in January. Since then, trade uncertainties from US tariffs had cast doubts over the rates outlook. Meanwhile, positive nominal wage growth and the yen's weakness had promoted analysts to expect rate hikes from the BOJ. According to a recent survey of 29 BOJ watchers by QUICK—a Nikkei affiliate, the BOJ's next raise could come in July 2026.

Emerging Markets

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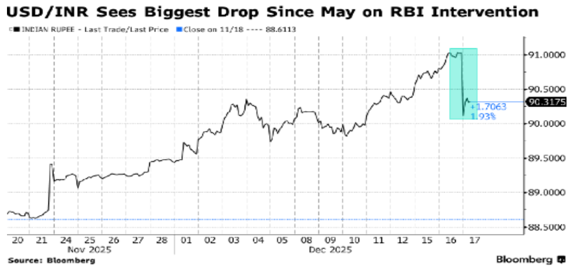
In **Asia**, stocks pared losses with Chinese stocks (CSI, +1.8%) outperforming, lifted by a rebound in technology shares. Investor confidence was boosted by the IPO of MetaX Integrated Circuits Shanghai. Shares of the chip maker soared as much as 755% intraday before settling at a staggering +700% higher. In **EMEA**, equities and currencies continued to trade mixed on idiosyncratic drivers. In CEE, equities jumped +1.4% higher in Czechia but fell in Hungary (-0.3%) and Romania (-0.6%), while among currencies the Polish zloty and Romanian leu were little changed to the euro, but the forint continued weakening (-0.5%) for a second day. Turkish equities extended yesterday's losses trading -0.7% lower this morning, while the lira continued to be relatively unchanged. The South African rand was steady, with stocks rebounding 1% up today. In **Latam**, regional risk-assets mostly declined yesterday. Brazilian assets led the sell-off, with the real weakening -0.9%, 10-year yields rising +15 bps, and the IBOVESPA index falling -2.4%, as a cautious monetary policy stance compounded investor unease over domestic political developments.

India

A reported RBI intervention stopped the rupee's slide in its biggest gain in 7 months. The rupee appreciated as much as +0.8% on the day following rumors of an RBI intervention. Traders reported "aggressive dollar sales" in the local market. At INR 90.36/USD, the rupee remains near its historically weak level of INR 91.03/USD seen early in the week. Analysts speculated that the intervention was possibly via foreign-exchange swaps and was intended to penalize those betting on further rupee depreciation. The rupee had touched fresh historical lows in recent weeks, and sparked debate over the RBI's FX management strategy. Meanwhile, according to Standard Chartered's estimates, RBI's FX reserves have dwindled somewhat, with its import coverage ratio standing now at about 10 months, compared to 11 months earlier, after adjusting for the short-dollar book. Despite today's appreciation, the rupee is over 5% weaker year-to-date.



Colombia

Fitch downgraded Colombia's rating by a notch to BB. Fitch cited Colombia's "persistently large fiscal deficits", which are expected to drive general government debt-to-GDP higher and further diverge from the peer median. The agency also highlighted the absence of a credible fiscal anchor, rising fiscal rigidities, and potential political constraints on implementing revenue-raising measures.

These factors are expected to weigh on prospects for fiscal consolidation beyond the 2026 elections, irrespective of the outcome. Similarly, XP Investments' analysts described the downgrade as unsurprising, while cautioning that the primary deficit is likely to continue widening and that Colombia's debt trajectory will further diverge from similar rated peers.

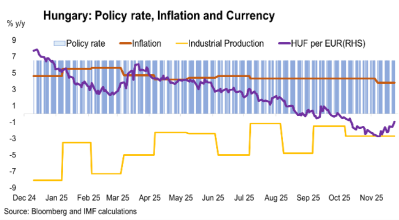
Asian Central Bank Interest Rate Decisions

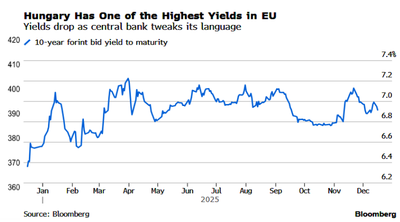
In line with expectations, **the Bank of Thailand lowered its policy rate by 25 bps to 1.25%,** the lowest since 2022, and the fifth reduction in 14 months. Analysts noted that the rate cut could help ease appreciation pressure on the Thai baht, which had gained more than +8% so far this year and has weighed on exports and tourism. The baht ended the day unchanged to the dollar. Separately, **Bank Indonesia**

held its policy rate unchanged at 4.75%, noting the need to "maintain the stability of the rupiah amid global uncertainty," according to BI Governor Perry. Indonesia has faced capital outflows in recent months amid investor concerns about its slowing economy and its fiscal outlook. According to Bloomberg's estimates, nonresidents' sales of domestic debt reached the highest level in 3 years, totaling $4.6 bn last month alone. Meanwhile, the rupiah has depreciated 3.5% year-to-date, making it the second-worst performing Asian currency. The rupiah was little changed after the decision.

Hungary

The forint continued weakening (-0.5%) **to the euro for a second consecutive day**, to trade at HUF387.55/€, with domestic government bonds extending gains (5-year yields -9bps since Tuesday at 6.45%, and 10-year yields -13bps at 6.86%), after the **central bank of Hungary** (NBH) **kept yesterday its policy rate unchanged at 6.50% in line with expectations** while signaling possible interest-rate cuts in the coming months amid an improved inflation outlook**.** Governor Varga said that the NBH will make decisions in a "cautious and data-driven manner from meeting to meeting" adding that the NBH will be ready to cut rates if it sees "favorable trends in the economy, inflation and the exchange rate". The NBH also cut its average inflation forecast for 2026 to 3.2% from previous 3.8%, after inflation softened in November to 3.8% y/y, returning within its 2%–4% tolerance band for the first time in a year. Varga also said the NBH would be able to keep inflation within the tolerance band going forward and meet its 3% goals sustainably from the second half of 2027. Analysts at **Erste** bank see the central bank's tweaked guidance as preparing for a potential rate cut "in the foreseeable future", while **OTP** bank now expects a 25 bps cut in Q1 2026 and another in Q3, from previous estimate of a first rate only cut in September. **Commerzbank** sees the rally of the forint (+6% on the euro year-to-date) stalling with its valuation overstretched.

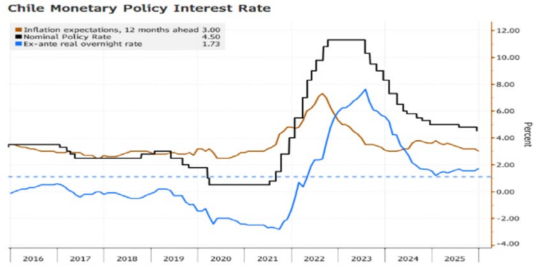




Chile

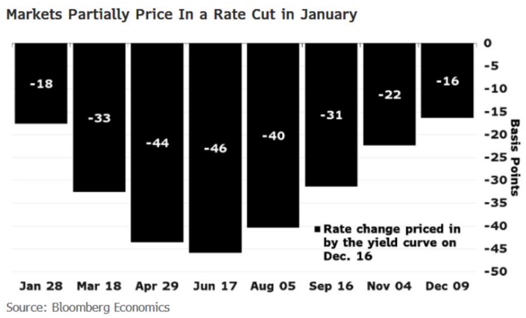
Chile's central bank cut its policy rate to 4.5%, back within neutral range. The central bank lowered its policy rate in a post-market decision, in line with expectations. The move returns the policy rate to the neutral range for the first time since the pandemic and following November's annual inflation holding steady at 3.4% y/y, the lowest since 2022. In its statement, the central bank projects inflation to reach its 3% target in Q1 2026 and reiterated a data-dependent approach in its forward guidance.

Nonetheless, Bloomberg analysts observed that the pace and magnitude of rate cuts have slowed since the easing cycle began in H2 2023, suggesting the cycle may be nearing its end. The policy rate now sits at the upper bound of the central bank's estimated neutral range of 3.5 to 4.5%, implying a stance that is neither expansionary nor contractionary.



Brazil

Brazil's central bank meeting minutes revealed a cautious policy stance. Policymakers reiterated that a restrictive monetary policy remains necessary as inflation expectations, while easing recently, continue to remain above target. The committee emphasized that a restrictive stance is required for a "very prolonged period" to ensure inflation converges sustainably to target. Policymakers also highlighted that labor market conditions remain tight, with unemployment still at low levels despite early signs of cooling. Despite the cautious tone, markets continue to price-in some probability of rate cuts early next year. Goldman Sachs analysts noted that the minutes offered "no hint" of an imminent easing in January but maintained expectations for rate cuts to begin in March next year. Bloomberg analysts, meanwhile, suggested that a January cut remains conditional on a sustained rebound in the currency ahead of the next meeting.



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Global Financial Indicators

12/17/25 8:00 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		6,800	-0.2	-0.6	1.9	12.4	16
Europe		5,724	0.1	0.3	1.5	15.8	17
Japan		49,512	0.3	-2.2	1.7	26.7	24
China		4,580	1.8	-0.3	0.3	16.2	16
Asia Ex Japan		90	-0.6	-3.0	-3.1	22.0	25
Emerging Markets		53	-0.6	-2.8	-2.4	23.3	27
Interest Rates					basis points		
US 10y Yield		4.2	3	3	4	-22	-39
Germany 10y Yield		2.9	1	1	14	63	49
Japan 10y Yield		2.0	2	2	24	89	88
UK 10y Yield		4.5	-4	-2	-5	-4	-9
Credit Spreads					basis points		
US Investment Grade		113	0	1	-6	-3	-7
US High Yield		348	4	9	-5	41	19
Exchange Rates					%		
USD/Majors		98.5	0.4	-0.2	-1.0	-7.9	-9
EUR/USD		1.17	-0.2	0.2	1.1	11.7	13
USD/JPY		155.5	0.5	-0.3	0.2	1.3	-1
EM/USD		46.2	-0.1	0.0	0.3	6.2	8
Commodities					%		
Brent Crude Oil ($/barrel)		59.9	1.7	-3.7	-6.1	-14.9	-16
Industrials Metals (index)		155.1	0.8	0.3	3.1	8.9	11
Agriculture (index)		53.7	0.0	-2.8	-6.0	-4.4	-6
Gold ($/ounce)		4317.1	0.3	2.1	6.7	63.1	64
Bitcoin ($/coin)		86920.1	-0.9	-3.6	-5.3	-18.3	-7
Implied Volatility					%		
VIX Index (%, change in pp)		16.2	-0.3	0.4	-6.2	0.3	-1.2
Global FX Volatility		6.7	0.0	0.0	-0.4	-2.0	-2.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		59	1	-2	-3	-26	-27
Italy		70	1	1	-3	-45	-45
France		71	1	-1	-3	-10	-12
Spain		44	0	-2	-6	-26	-26

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

Emerging Market Financial Indicators

12/17/2025 7:59 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.04	0.0	0.3	0.9	3.4	3.6		1.9	0	2	8	21	24
Indonesia		16694	0.0	0.0	0.3	-3.6	-3.4		6.1	-1	-3	8	-93	-93
India		90	0.7	-0.5	-1.9	-6.1	-5.3		7.2	2	-9	26	4	-12
Philippines		59	0.1	0.9	0.3	0.3	-1.3		4.7	0	2	1	-30	-20
Thailand		32	-0.3	0.9	2.9	8.5	9.0		1.8	-1	0	-7	-55	-53
Malaysia		4.09	-0.1	0.7	1.5	9.2	9.3		3.6	-2	0	11	-27	-26
Argentina		1450	-0.8	-0.8	-4.4	-29.6	-28.9		29.9	29	-100	-130	188	73
Brazil		5.50	-0.6	-0.5	-3.1	11.1	12.2		13.5	10	-6	0	-173	-243
Chile		917	-0.3	0.7	0.7	7.8	8.7		5.3	1	0	3	-13	-42
Colombia		3845	-0.4	0.5	-2.3	12.5	14.6		12.4	3	17	42	123	63
Mexico		17.99	-0.1	1.0	2.4	12.2	15.8		9.0	-5	0	17	-113	-134
Peru		3.4	0.1	-0.2	-0.2	10.9	11.5		5.7	0	-10	-34	-88	-89
Uruguay		39	-0.2	0.4	1.7	13.4	11.6		7.7	-5	-11	-14	-195	-200
Hungary		330	-0.6	-1.0	0.5	18.1	20.3		6.6	-4	2	-3	41	23
Poland		3.59	-0.2	0.5	1.6	13.2	14.9		4.7	-1	4	-8	-80	-90
Romania		4.3	-0.3	0.1	1.0	9.1	10.5		6.8	0	-3	-7	-28	-48
Russia		80.3	-1.5	-2.5	1.2	30.0	41.3							
South Africa		16.7	0.1	1.1	2.6	8.1	12.5		8.8	0	-10	-21	-154	-169
Türkiye		42.72	-0.1	-0.3	-1.0	-18.1	-17.2		31.1	-15	16	-188	27	137
US (DXY; 5y UST)		99	0.4	-0.2	-1.0	-7.9	-9.2		3.72	3	-1	0	-54	-66

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4,580	1.8	-0.3	0.3	16.2	16.4		78	4	-17	-20	-18
Indonesia		8,677	-0.1	-0.3	3.8	22.1	22.6		89	2	4	-3	-2
India		84,560	-0.1	0.2	-0.1	5.5	8.2		94	3	3	10	8
Philippines		6,079	0.4	2.0	5.6	-6.0	-6.9		77	2	7	-3	-2
Thailand		1,257	-0.3	-1.0	-1.0	-10.2	-10.2						
Malaysia		1,641	-0.4	1.9	1.7	2.6	-0.1		58	-1	-2	-12	-12
Argentina		3,034,429	0.7	1.6	3.7	17.1	19.8		569	-71	-53	-104	-68
Brazil		158,578	-2.4	0.4	1.0	27.2	31.8		204	-4	5	-30	-43
Chile		10,188	-1.1	0.2	2.9	51.4	51.8		92	-1	-6	-23	-21
Colombia		2,072	-0.9	-2.2	0.0	51.5	50.2		281	-7	36	-32	-45
Mexico		63,231	-1.7	-0.5	1.4	25.4	27.7		215	-8	0	-93	-97
Peru		2,545	-1.0	3.3	13.2	44.2	50.2		98	-1	4	-43	-43
Hungary		109,351	-0.4	0.7	1.9	38.7	37.8		144	6	5	1	-11
Poland		114,398	0.1	1.8	3.4	43.4	43.8		91	7	7	-14	-21
Romania		23,982	-0.6	0.3	2.0	39.8	43.4		184	-3	-9	-30	-52
South Africa		114,011	1.0	3.0	1.5	33.0	35.6		221	-1	-3	-56	-72
Türkiye		11,277	-0.6	0.7	5.4	12.6	14.7		240	-1	-10	-10	-19
EM total		53	0.8	-2.8	-2.4	23.3	26.7		271	-5	-9	-89	-93

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

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