



- NY Fed's survey shows steady inflation expectations, U-Mich's surge seen as outlier ([link](#))
- Norway's Q4 GDP missed, fueling anticipation of a Norges Bank rate cut in March ([link](#))
- Surge in Japanese retail investors' foreign equity purchases limits yen's upside ([link](#))
- Israel returns to the primary market with a dollar bond issuance ([link](#))
- Strong demand for EM dollar bonds prompts spread compression to pre-pandemic level ([link](#))
- Tighter interbank liquidity in China suggests policy guidance to delay RRR cut ([link](#))

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India's Rupee Surges on Suspected RBI Currency Intervention

European stock markets hit new all-time highs, with the US following suit. President Trump clarified the 25% tariffs on steel and aluminum, impacting all trading partners, including Canada and Mexico, to begin on March 4. An exception may be granted for Australia, a major importer of American aircraft. These tariffs, justified by national security interests as in 2018, aim to strengthen the US steel industry and create jobs. Despite modest market reactions, the bid for safe-haven currencies and gold signals rising investor concerns. Trump also announced new tariffs on semiconductors, pharmaceuticals, and cars, which could bring tariffs closer to the Euro Area. This has prompted market contacts to reconsider ECB jumbo rate cuts and predict the euro-dollar currency pair to approach parity later this year. A large Reserve Bank of India currency intervention is suspected behind a sharp Rupee appreciation, likely to squeeze speculative short positions ahead of a meeting between Prime Minister Modi and President Trump next week. In Central Eastern Europe, an inflation surprise in Hungary drove the forint to its strongest level since October, while other CEE currencies have appreciated amid optimism over peace talks between Russia and Ukraine. Market contacts will be watching for updates on progress at the Munich security conference this weekend.

Key Global Financial Indicators

Last updated: 2/11/25 8:27 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6066	0.7	1	4	21	3
Eurostoxx 50		5374	0.3	2	8	14	10
Nikkei 225		38801	0.0	1	-1	5	-3
MSCI EM		44	1.2	3	6	10	5
Yields and Spreads			bps				
US 10y Yield		4.53	3.4	2	-23	36	-4
Germany 10y Yield		2.41	4.8	1	-19	3	4
EMBIG Sovereign Spread		315	1	-3	-5	-75	-10
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.8	0.1	0	2	-7	2
Dollar index, (+) = \$ appreciation		108.3	0.0	0	-1	4	0
Brent Crude Oil (\$/barrel)		77.2	1.8	1	-3	-6	3
VIX Index (% change in pp)		16.1	0.3	-1	-3	3	-1

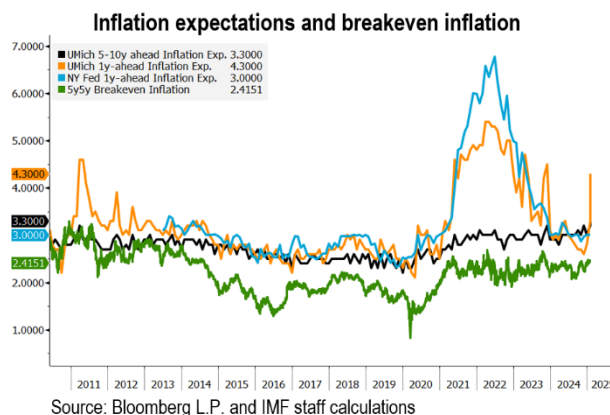
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

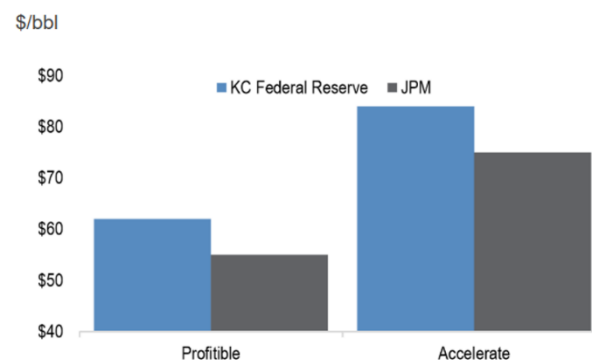
Inflation expectations from the NY Fed remain steady compared to the University of Michigan's (UMich) survey. The NY Fed's survey of consumer expectations shows that median households expect inflation to remain at 3% both 1- and 3-years ahead. In contrast, the University of Michigan's preliminary survey for February showed a surge in 1-year inflation expectations to 4.3% (from 3.3%). This helped reassure investors who viewed the UMich reading as an outlier, especially since other inflation surveys remained consistent, which contributed to the stabilization of 5-year breakeven inflation at 2.41%. However, the NY Fed's survey also shows that 5-year inflation expectations have increased to 3.0% (from 2.7%). This rise could prompt questions for Chair Powell at his upcoming congressional hearings (Senate today, House on Wednesday), particularly around concerns of inflation deanchoring. Market participants expect Powell to reiterate the Fed's stance from January, emphasizing that the Fed is not in a rush to cut rates as long as the economy remains strong.



Lowering oil prices while expanding oil output seems difficult.

According to the Kansas Fed's Q1-2025 Energy survey, oil producers in the Midwest anticipate that for drilling to be profitable, the price of WTI crude oil would need to be at least \$55/bbl. To significantly boost drilling activity, the price would need to rise to \$75/bbl. Smaller producers face even higher breakeven prices. One way the administration could help is by cutting royalties and taxes, reducing methane emission rules, and simplifying the process for drilling on federal lands. A study by JP Morgan estimates that these changes could lower breakeven prices by about \$10/bbl (see chart). However, a sharp drop in oil prices from the current level of \$70/bbl for WTI crude oil might discourage producers from increasing production, especially shale producers who are more sensitive to price changes. This could conflict with the administration's goal to increase oil production, as seen in Treasury Secretary Bessent's 3–3–3 plan, which aims to boost U.S. output by 3 million barrels per day by 2028, nearly an 8% increase, while the administration also expressed preference for lower energy prices to help control inflation and reduce trade deficits.

Price Needed to Accelerate Oil Production



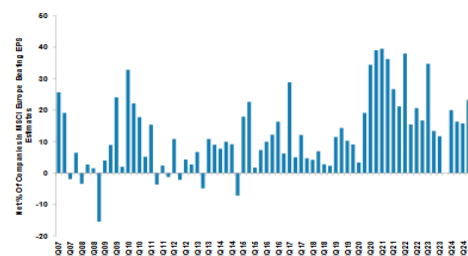
Source: Kansas City Federal Reserve, Rystad, J.P. Morgan Commodities Research

Euro Area

The Stoxx 600 only fractionally retraced from the all-time high that it reached yesterday. The index, which reached 545.9 points yesterday, opened a touched lower today (-0.1%), led by declines in the materials and health care sectors, while energy and industrials sectors advanced. Commentary from European Union officials that it would retaliate against US tariffs prompted European sovereign bond yields to rise across tenors with the 10y bund yield +4bps to 2.40% and the 2Y bund yield +3bps at 2.05%. What further contributed to duration remaining on offer is a surprise 30-year French government bond sale today along with slated issuance supply from Italy and the European Union later today. Meanwhile, the euro fractionally appreciated to the dollar, trading at 1.0361/\$.

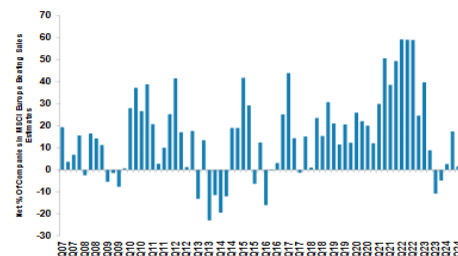
So far, European corporate earnings are holding up well. Morgan Stanley analysts note that financial statement releases from the 46% of European companies that have reported their Q4–2024 results thus far suggests that earnings and sales have beaten consensus expectations by 4% and 3%, respectively. In terms of sector leadership, banking along with technology, healthcare, and construction sectors led the upbeat sales and EPS beats. However, with 54% of companies yet to report, Morgan Stanley analysts warrant caution of a “*skew towards misses in the remainder of the earnings season*”. Meanwhile, Bank of America analysts note that the solid set of corporate earnings results is one reason why the Stoxx 600 has been outperforming the S&P 500 this year up until now.

Exhibit 2: Still early read, but the net beat on EPS has come in positively at 23%...



Source: Factset, MSCI, Bloomberg, Morgan Stanley Research
Note: EPS beat / miss defined as +/-5% from consensus estimates

Exhibit 3: ...while net sales breadth has shot up to 55%

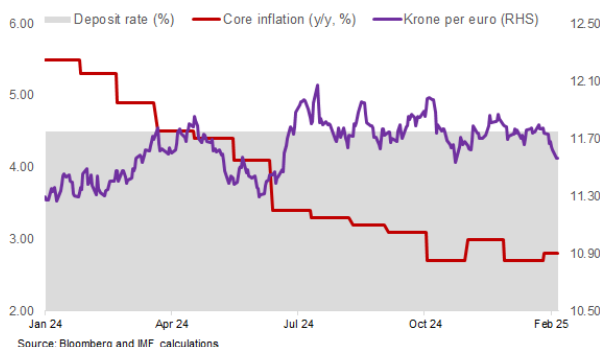


Source: Factset, MSCI, Bloomberg, Morgan Stanley Research
Note: Sales beat / miss defined as +/-1% from consensus estimates

Norway

The Q4 GDP release missed expectations, fueling speculation of policy easing in March. Mainland GDP declined by -0.4% q/q (exp. +0.3% from +0.5%), marking the largest contraction since Q2 2020 and significantly below Norges Bank's forecast of +0.3%. This miss contrasts with recent data suggesting a recovery in growth momentum, though high policy rates (currently 4.5%) are weighing on domestic sectors like construction, where activity remains subdued. Following today's data, money markets are firmly anchoring an initial -25bps rate cut in March and a total of -39bps in cuts by June. Norges Bank's guidance points to three rate cuts by year-end, bringing the policy rate to 3.75%. Despite “*weaker-than-expected activity and persistent cost pressures*,” analysts from Svenska Handelsbanken align with Norges Bank's forecast, expecting the first cut in March and a total of three cuts by 2025. The krone was broadly steady against the euro at 11.56/€, but is up almost 2% year-to-date.

Norway: Deposit rate, inflation and exchange rate



Source: Bloomberg and IMF calculations

Japan

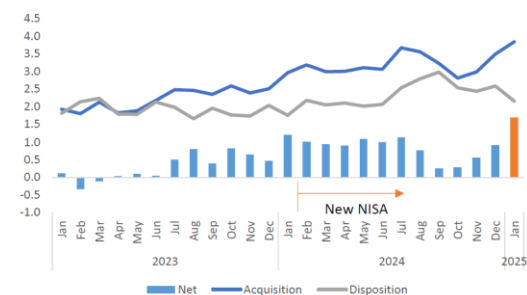
Today, the yen appreciated while stock markets remained flat. The yen rose (+0.1%) to ¥152.1/\$ as investors regard the currency as a haven asset with less tariff impact. The stock market remained little changed (NIKKEI 225: +0.04%).

A surge in foreign equity purchases has led to increased yen selling, limiting the yen's upside. Last month, Japanese retail investors made a record net purchase of ¥1.7tn in foreign equities, driven by high bonus payments and robust Nippon Individual Savings Account (NISA) outflows. Last year, the Japanese government introduced the new NISA with enhanced tax exemptions to motivate households to shift their savings into financial investments. Based on the latest balance-of-payments data, Bloomberg estimates

that Japanese investors' holdings of foreign stocks and investment funds rose 8.1% last year, while bond holdings dipped 0.3%. Analysts also highlight that negative inflation-adjusted policy interest rates continue to support demand for overseas risk assets. JP Morgan notes that retail margin investors' JPY short positions have notably increased across JPY pairs and expects monthly NISA-related JPY selling flows to maintain a pace of ¥1tn, contributing to JPY weakness.

Figure 1: Japanese households net bought ¥1.7 trillion of foreign equities in January, the largest outflow on record

Foreign equity flow by "Investment Trust Management Companies", which is a proxy for portfolio flows from Japanese households (¥ in trillions)



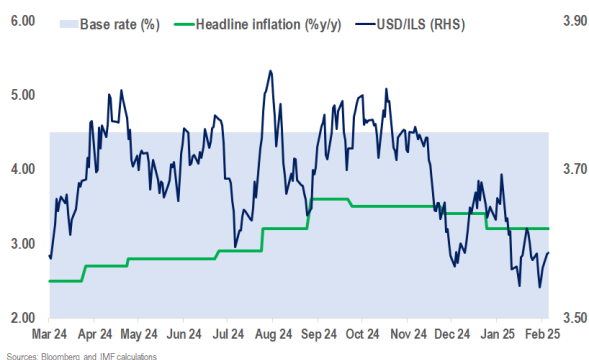
Source: Bank of Japan, Ministry of Finance, J.P. Morgan.

Israel

Israel returns to the primary market with dollar bond issuance.

Israel has tapped debt markets with a dollar-denominated bond offering. Initial price guidance suggests the 5-year and 10-year bonds to price around +150bps and +165bps respectively over US Treasuries with the same maturity. The previous US dollar bond offering from Israel was in March 2024, when the sovereign issuer raised \$8bn, its largest ever bond issuance, according to Bloomberg analysts. Market participants note that ceasefires in the conflict with Hamas and Hezbollah since last November have begun to ease the economic impact of the war on Israel's finances with the budget deficit narrowing to -5.8% of GDP in January from -6.9% in the prior month. More broadly, the ceasefires also prompted market sentiment in the MENA region to recover, providing a favorable market environment for issuers in the MENA region. This morning the Israeli shekel was trading broadly unchanged at 3.59/\$.

Israel: Inflation, currency and base rate



Sources: Bloomberg and IMF calculations

Emerging Markets

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EMEA equities and currencies were mixed as markets digested the latest US tariff announcements.

Equities in CEE somewhat gained, except for Bulgaria (-0.8%). In Africa, stock markets in Namibia (-0.8%) and South Africa (-0.4%) were also contracting. Currencies in Middle East and Africa were mostly trading depreciating to the US dollar, while CEE currencies posted mixed results to the euro. The Hungarian forint (+0.2%) and Polish zloty (+0.2%) gained while the Czech koruna inched fractionally weaker. Meanwhile, Lebanon's defaulted sovereign eurobonds staged a recovery rally on hopes that the new government could jumpstart economic reforms to advance the country's debt restructuring.

Asian currencies have remained within a narrow range, while stock markets showed mixed performance. Among currencies, the Indian rupee outperformed regional peers, rising (+0.8%) amid rumors that the Reserve Bank of India has been intervening to support the rupee and prevent one-sided expectations. In contrast, the Thai baht depreciated (-0.6%) due to concerns over tariffs. In the stock markets, Thailand (+1.1%) and Korea (+0.7%) saw gains, while India (-1.3%) and Indonesia (-1.7%) lagged.

Yesterday, Latin American stock markets saw gains, while currencies showed mixed results. Brazilian stocks rose by 0.8%, defying the US announcement of new steel tariffs. Despite the materials sector comprising 15% of the index, Brazilian stocks are less reliant on exports than other emerging markets. Other stock markets in Colombia (+0.6%), Mexico, and Chile also advanced. In currency markets, the Brazilian real strengthened following a rise in weekly inflation data, while the Chilean peso gained as much as 0.9% during the day, driven by a 2.6% surge in NYMEX copper prices. However, the Colombian and Mexican pesos ended lower. In Ecuador, the presidential election concluded with an unexpectedly close result, leading to an April runoff. Sovereign spreads widened by 259bps, and 5-year bond prices fell 8 points to 70.5 cents on the dollar due to market uncertainty. Fitch Ratings warned that a 25% US tariff on Mexican goods could push the country into recession this year and reduce output by 3 percentage points by 2026.

Emerging Market Bonds

Emerging market (EM) sovereign spreads have tightened to pre-pandemic levels, driven by rising demand for sub-investment grade hard currency debt.

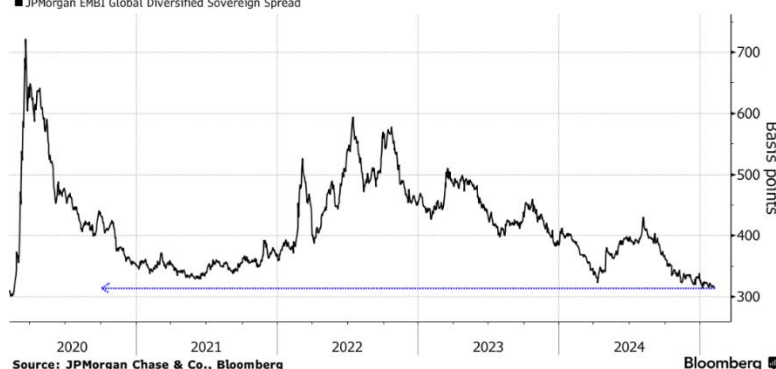
The spread between EM sovereign dollar bonds and US Treasuries has compressed to 314bps, thanks to investor optimism about debt restructurings and fiscal reforms. Since the JP Morgan EMBI hard currency bond index peaked at 430bps over Treasuries during last year's selloff in August, sovereign issuers like

Lebanon, Argentina, and Ukraine have seen returns of 156%, 65%, and 39%, respectively. This improving risk sentiment has been supported by stronger fundamentals, Fed rate cuts, and renewed market access. In contrast, investment-grade EM bonds have lagged, with spreads widening by +15bps over the last three months to 121bps. The gap between high-yield and investment-grade EM bonds has shrunk to 411bps, down from 890bps at the height of the EM debt crisis in 2022.

EM Buries Covid Ghost

Bond-risk premium falls to lowest since February 2020

■ JPMorgan EMBI Global Diversified Sovereign Spread



China

The RMB was little changed against the dollar. The yuan fixing inched up slightly. Chinese equities retreated (CSI 300: -0.5%) after the announcement of new tariffs on steel and aluminum.

Tighter interbank liquidity in China suggests the need for policy guidance to delay cutting the Reserve Requirement Ratio (RRR). The overnight repo rate increased by +8.1bps to 1.94%, and the 7-day repo rate rose by +9.3bps to 1.90%, indicating tighter liquidity. However, the PBoC may hesitate to act immediately due to broader policy considerations. Market contacts expect that the PBoC could postpone the RRR cut until the Two Sessions policy meetings in March, allowing the central bank to align its actions with broader fiscal and economic reforms. An immediate cut could risk further currency depreciation or trigger capital outflows, concerns the PBoC is seen wanting to avoid. Meanwhile, the 10-year sovereign

yield remains near a record low of 1.62%, but declining turnover suggests that bond inflows may not be sustained, especially if the medium-term lending facility rate stays unchanged in two weeks and the AI-driven rally in Chinese equities continues. Bloomberg reports that bond traders have turned to basis trades between futures and cash bonds to boost returns, as reflected in higher bond lending volumes.

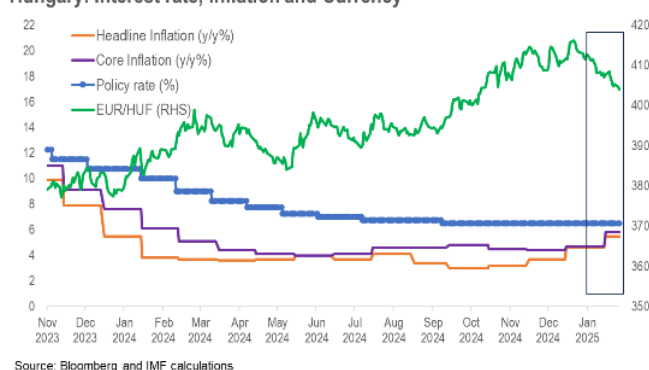
Repo Rate Inversion Emerges as Liquidity Tightens



Hungary

An upside inflation surprise led to Hungarian forint appreciation. January data released this morning showed headline inflation unexpectedly accelerating to 5.5% y/y (exp. 4.8% from 4.6%). Goldman Sachs analysts had previously noted that January inflation data is often volatile, as firms reassess pricing and statistical offices adjust weights in the consumer price baskets. At its January meeting, Hungary's central bank kept its policy rate on hold at 6.5% for a fourth consecutive time, with a hawkish tone in its statement. Following today's data, Hungary's 10-year local currency bond yields rose by +12bps to 6.7%, while the forint strengthened by 0.2% to 403.80/€, the strongest level since October 2024. Analysts also note that the forint, along with other CEE currencies, has been benefitting from growing expectations of peace talks between Ukraine and Russia. Market contacts will be watching for statements at this weekend's security conference in Munich for insights into progress toward a potential draft agreement.






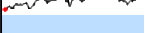













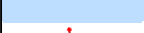

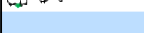


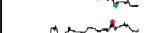
Hungary: Interest rate, Inflation and Currency



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Global Financial Indicators

2/11/25 8:31 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		6,052	0.7	0.2	3.9	20.4	3
Europe		5,376	0.3	2.1	8.0	14.0	10
Japan		38,801	0.0	0.7	-1.0	5.2	-3
China		3,883	-0.5	1.7	4.0	15.4	-1
Asia Ex Japan		74	1.2	3.1	5.7	13.9	3
Emerging Markets		44	1.2	3.1	6.4	10.5	5
Interest Rates			basis points				
US 10y Yield		4.5	4	2	-23	36	-4
Germany 10y Yield		2.4	5	2	-18	3	4
Japan 10y Yield		1.3	0	4	11	59	22
UK 10y Yield		4.5	3	-4	-35	40	-8
Credit Spreads			basis points				
US Investment Grade		117	0	-1	-3	-11	-3
US High Yield		300	-1	-4	-11	-72	-28
Exchange Rates			%				
USD/Majors		108.3	0.0	0.3	-1.2	4.0	0
EUR/USD		1.03	0.1	-0.6	0.7	-4.2	0
USD/JPY		152.4	0.3	-1.3	-3.2	2.0	-3
EM/USD		43.8	0.1	0.4	2.2	-6.5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		77.2	1.7	1.3	-2.1	0.4	4
Industrials Metals (index)		146.6	-1.7	1.8	2.1	10.9	4
Agriculture (index)		61.0	-0.1	0.1	5.8	0.6	7
Implied Volatility			%				
VIX Index (% change in pp)		16.1	0.3	-1.1	-3.5	3.2	-1.3
Global FX Volatility		8.7	0.0	0.3	-0.4	1.4	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		87	0	0	5	-28	1
Italy		109	1	-1	-8	-49	-6
France		78	6	7	-5	27	-5
Spain		63	0	1	-4	-36	-6

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

Emerging Market Financial Indicators

Last updated: 2/11/2025 8:32 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		7.31	0.0	-0.9	0.3	-1.6	-0.1		1.7	3	0	-2	-80	-3
Indonesia		16375	-0.2	-0.2	-0.6	-4.8	-1.7		6.8	-2	-20	-30	19	-20
India		87	0.7	0.3	-0.3	-4.4	-1.4		7.2	0	11	-18	1	-13
Philippines		58	-0.2	0.3	0.9	-3.7	-0.6		5.1	0	1	1	-34	22
Thailand		34	-0.5	-0.7	2.1	5.3	0.1		2.3	-2	-5	-4	-29	1
Malaysia		4.47	-0.7	0.1	0.6	6.6	0.0		3.8	1	0	0	1	0
Argentina		1056	0.0	-0.2	-1.6	-21.3	-2.4		27.0	85	78	169	-4720	-214
Brazil		5.79	0.0	-0.5	5.3	-14.4	6.7		15.2	2	36	-25	494	-69
Chile		962	-0.1	1.0	4.7	0.9	3.4		5.8	-1	0	0	49	15
Colombia		4164	-0.6	-0.1	3.4	-6.0	5.8		11.5	6	-1	0	185	-30
Mexico		20.63	-0.1	-0.6	0.1	-17.3	0.9		9.8	-1	-29	-46	42	-56
Peru		3.7	0.2	-0.1	1.7	4.2	0.8		6.4	0	-24	-27	-29	-20
Uruguay		43	-0.1	0.1	1.5	-9.8	1.3		9.7	4	6	7	63	8
Hungary		391	0.3	0.2	3.1	-8.2	1.6		6.3	1	-10	-34	32	-10
Poland		4.05	0.2	0.2	3.0	-1.1	2.0		5.5	-2	-5	-16	38	-6
Romania		4.8	0.1	-0.6	0.6	-4.2	-0.4		7.3	3	-20	-30	105	4
Russia		96.0	0.6	4.7	7.1	-5.0	18.2							
South Africa		18.5	-0.2	1.0	3.0	2.2	1.9		10.7	5	3	-9	-83	17
Türkiye		36.05	-0.1	-0.3	-1.6	-14.8	-1.9		28.4	26	35	-26	52	-127
US (DXY; 5y UST)		108	0.0	0.3	-1.2	4.0	-0.2		4.37	3	5	-21	23	-1

	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		3,883	-0.5	1.7	4.0	15.4	-1.3		95	-1	4	-65	-1	
Indonesia		6,532	-1.7	-7.7	-7.9	-10.5	-7.7		93	-3	4	-17	2	
India		76,294	-1.3	-2.9	-1.4	7.3	-2.4		96	6	10	-20	10	
Philippines		5,988	-0.8	-1.7	-7.8	-12.0	-8.3		87	-4	8	-5	8	
Thailand		1,284	1.1	-1.3	-5.2	-7.7	-8.3							
Malaysia		1,590	0.0	2.3	-0.8	5.1	-3.2		71	-1	-2	-18	1	
Argentina			-1.0	-3.7	-14.8	111.9	-5.6		682	44	103	-1327	45	
Brazil		125,780	0.8	0.5	5.8	-1.8	4.6		223	0	-6	4	-24	
Chile		7,295	0.1	0.4	7.1	20.9	8.7		121	-1	4	-15	8	
Colombia		1,526	0.6	0.2	8.6	22.2	10.6		323	0	0	1	-3	
Mexico		52,926	0.2	3.4	6.7	-7.7	6.9		305	-5	-2	-27	-7	
Peru		29,702	0.6	3.0	1.6	8.6	2.6		143	-3	0	-10	2	
Hungary		87,852	0.3	3.4	7.4	35.2	10.7		153	4	2	-17	-2	
Poland		90,510	0.7	4.3	10.1	15.4	13.7		108	-2	-1	-2	-4	
Romania		17,182	0.3	1.3	0.8	9.5	2.8		238	-9	1	38	3	
South Africa		87,357	-0.5	1.0	4.7	19.0	3.9		307	7	23	-47	14	
Türkiye		9,866	0.2	0.6	-0.5	9.1	0.4		258	-2	2	-74	-1	
EM total		44	-0.4	3.1	6.4	10.5	4.5		358	2	1	6	-6	

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

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