



- Fears of slower consumer spending drag down US equities form all-time highs ([link](#))
- Rising Treasury swap spreads reflect anticipation of regulatory tailoring for banks ([link](#))
- A similar shift toward regulatory tailoring is pondered among some ECB officials ([link](#))
- Pound sterling loses ground amid slightly weaker than expected PMI ([link](#))
- Inflation in Japan accelerated with hedge funds raising bets on stronger yen ([link](#))
- Bank of Mexico leans dovish, signaling more half-point interest rate cuts ([link](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Markets Hold Steady as Investors Struggle for Conviction

Mixed signals and policy ambiguity keep investors cautiously constructive. Treasuries remain bid as real money investors cautiously deploy capital after staying on the sidelines for too long, while trend-followers gradually cover large short positions amid mixed economic signals and policy ambiguity, leaving investors with little conviction. In the US, stock markets yesterday declined on concerns over slowing consumer spending and rising borrowing costs. In Europe, today's inconclusive PMI data has shifted the focus to the implications of increased defense spending and the potential easing of Germany's debt brake after Sunday's Bundestag elections. Weak survey data in the UK highlights stagflation risks, prompting calls for further Bank of England rate cuts. In Japan, headline inflation accelerated as expected, fueling short-term bets on a stronger yen, though official's remarks of rising government bond yields straining public finances could eventually yen cap gains. In other parts of Asia, equities advanced, led by Chinese tech stocks on strong earnings. In Latin America, Mexico's central bank held rates steady while signaling more easing in response to slowing growth, geopolitical risks, and tariff uncertainty.

Key Global Financial Indicators

Last updated: 2/21/25 9:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6118	-0.4	1	1	23	4
Eurostoxx 50		5478	0.3	0	6	15	12
Nikkei 225		38777	0.3	-1	-3	-1	-3
MSCI EM		45	0.9	3	6	12	8
Yields and Spreads			bps				
US 10y Yield		4.49	-1.4	2	-8	17	-8
Germany 10y Yield		2.49	-4.8	6	-2	4	12
EMBIG Sovereign Spread		317	2	2	-4	-65	-8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.5	-0.1	0	3	-5	4
Dollar index, (+) = \$ appreciation		106.6	0.2	-1	-1	2	-2
Brent Crude Oil (\$/barrel)		75.9	-0.7	2	-4	-9	2
VIX Index (% change in pp)		15.3	-0.3	0	0	0	-2

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

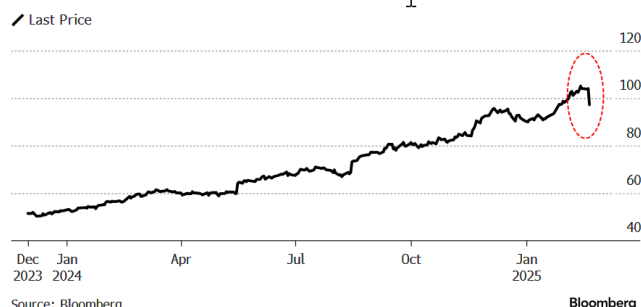
Mature Markets

[back to top](#)

United States

Equities slid lower from all-time highs on fears of a slowdown in consumer spending. Banks and consumer-related sectors faced rising investor scrutiny after Walmart, a bellwether for consumer spending, warned that its sales and profit growth would slow this year as consumers are increasingly frustrated with higher prices and high borrowing costs. The CFO stated that the guidance does not include the potential impact of tariffs, given the unpredictability around the levels. Walmart's share price doubled in 2024 before selling off on Thursday (-6.5%). KBW bank index underperformed the S&P500, down by -2.4%.

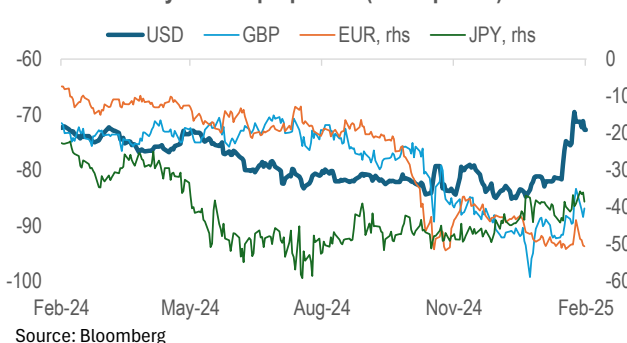
Walmart Tumbles After Doubling in Just Over a Year



Swap spreads are beginning to reflect expectations of regulatory easing aimed at boosting dealer intermediation capacity. With Barr's resignation taking effect on February 28, 2025, the role of Federal Reserve Vice Chair for Supervision is vacant. Market contacts perceive that Fed Board member Bowman's regulatory background, prior role as Kansas State Bank Commissioner, and dissenting votes on monetary policy showcase her deep subject matter expertise and independent stance, making her a leading contender for the vacancy.

In recent remarks on January 31, Bowman revived her 2024 proposal for "*tailoring*"—adjusting bank regulations to reflect a bank's size, business model, and risk profile—which markets interpret as a shift toward easing leverage-based capital constraints. The Supplementary Leverage Ratio (SLR) appears to be a natural target for tailoring since it applies the same capital charge to all assets, regardless of risk. In turn, Treasury swap spreads (i.e., swap rates less Treasury yields of the same maturity)—which capture the inverse of what remains of an almost credit risk-free benchmark sovereign bond's yield after hedging duration risk through a pay-fixed interest rate swap—primarily reflect structural forces that influence residual pricing once most credit and interest rate risks are neutralized, including dealer intermediation capacity among others. A collapse of the swap spread in reflection to SLR constraints having become binding became evident during the early days of the pandemic, when dealers reacted by scaling back intermediation in Treasury markets. In response, the Fed temporarily exempted Treasuries from SLR calculations from 2020 to 2021, widening swap spreads and boosting market liquidity by expanding dealer intermediation capacity. Now, with markets anticipating a permanent exemption, swap spreads are widening again as dealers expect greater balance sheet flexibility. Hence, Wells Fargo analysts view SLR reform as a key priority for the next Vice Chair, with potential changes likely by late 2025. Since January 31, 30-year US swap spreads have widened by 8bps but remain negative at -72bps whereas Gilt, Bund and JGB swap spreads have remained range bound (see chart below).

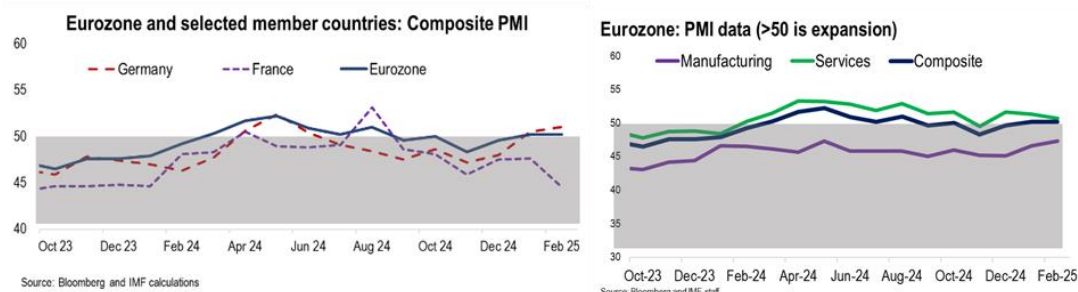
30-year Swap Spreads (basis points)



Euro Area

European markets were mixed today amid inconclusive PMI data. Eurozone flash PMIs disappointed, with the composite index holding up at 50.2 (exp. 50.5 from 50.2), while the flash services PMI for France notably weakened, missing expectations at 45.5 (exp. 48.9 from 48.2). Conversely, Germany's flash PMI slightly surprised to the upside at 46.1 (exp. 45.5 from 45.0), though demand remains weak. Equity markets

gained, with the Stoxx 600 inching up (+0.2%) led by DAX gains ahead of the Bundestag elections on Sunday. The euro fell (-0.3%) to \$1.0470/€, while overnight forwards priced in -78bps of ECB rate cuts for 2025 compared to -74 bps seen yesterday. Sovereign yields eased, with 10y Bunds at 2.48% and sovereign preads holding steady.

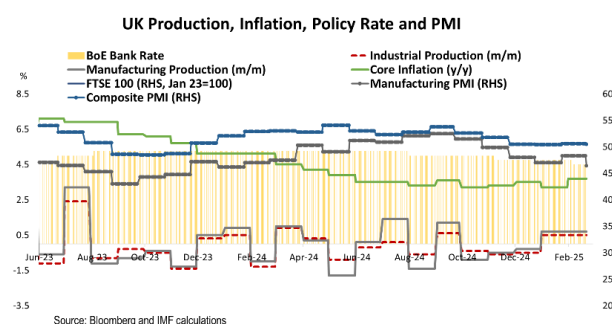


Recent market moves and central bank commentary suggest that a shift toward regulatory tailoring is also on the mind of ECB officials amid anticipation of a structurally domestic sovereign bond supply. The latest compression in long-term swap spreads, with 30y Bund swap spreads tightening by 5bps since last Friday to -46bps, has left market participants debating whether this reflects a global shift toward regulatory easing or expectations of rising defense spending and a looser German fiscal stance after the upcoming Bundestag elections. Supporting the former, ECB's Fabio Panetta recently acknowledged the competitive disadvantages European banks face if regulatory burdens remain disproportionately high compared to global peers, while also warning of the financial stability risks of a regulatory "race to the bottom." That said, Commerzbank analysts call into question whether leverage ratio requirements meaningfully constrain repo intermediation in the Eurozone, citing ECB research showing no significant impact on centrally cleared money market transactions, which account for 70% of Bund trades, according to Bundesbank data. Conversely, Deutsche Bank analysts argue that the recent spread tightening reflects expectations of increased Bund issuance supply after the elections, with centrist parties signaling a more flexible stance on Germany's debt brake to accommodate rising defense spending.

United Kingdom

February PMI data printed below expectations.

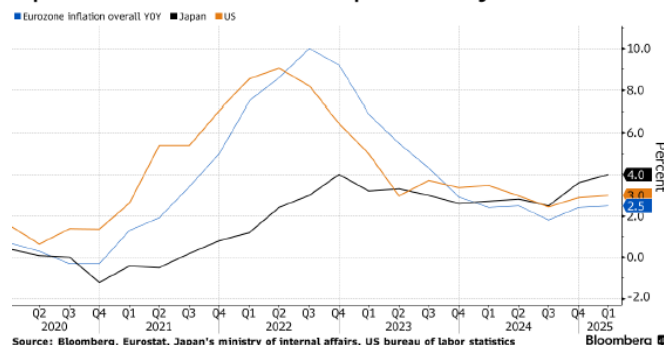
The manufacturing index declined to 46.4 (exp. 48.5pts) from 48.3), only partly offset by a rising services PMI at 51.1 (exp. 50.8 from 50.8), leading to a reading of 50.5 (exp. 50.6 from 50.6) in the composite PMI (see chart below). Bloomberg analysts see today's PMI exemplifying the risk of stagflation in the UK, bolstering their call for the Bank of England to cut policy rate three more times to 3.75% at the end of 2025 which surpasses pricing in overnight forwards which sees two cuts by the end of the year, unchanged from yesterday. The pound sterling lost some ground (-0.2%) against the dollar this morning, trading at \$1.2646/£.



Japan

Inflation in Japan accelerated in January, adding to expectations for further yen strength. Validating consensus estimates, headline inflation rose to 4.0% y/y (exp. 4.0% from 3.6%, driven by higher food prices that capture a 70.9% jump in the cost of rice, a record high. The "core"-core inflation gauge, excluding fresh food and energy, rose to 2.5% y/y (exp. 2.5% from 2.4%). The 4% reading for headline inflation is the highest among G7 economies and has stayed at or above the BOJ's 2% target for nearly three years.

Japan's Overall Inflation Now Tops Other Major Economies



The continued upward momentum in headline inflation, coupled with expectations for more BOJ rate hikes, rekindled investor demand to bet on a stronger yen with call positions.

Market contacts note that hedge funds are once again wagering the yen to outperform its major peers in coming months by buying yen call options. Data from the Chicago Mercantile Exchange indicated that yen call options against the dollar were seven times larger than put options as of the end of this week. That said,

Bank of America analysts note that most of these positions remain tactical and short dated, suggesting limited conviction behind the sustainability of yen strength beyond the short term. Meanwhile, the yen fell (-0.5%) against the dollar to \$150.37/¥ on comments from Finance Minister Kato who noted that policy rate increases could risk lifting JGB yields further, with rising interest rate costs adding pressure to government finances amid an already elevated debt-to-GDP ratio.

Dollar-Yen Continues to Fall



Emerging Markets

[back to top](#)

EMEA equities were mostly trading lower while currencies were mixed. CEE equities were mostly lower, while Polish equities were an exception (+0.3%). CEE currencies were mostly trading in a tight range against the euro this morning while the Hungarian forint underperformed (-0.5% to 404.65) with the currency set for its first week of losses against the euro since the start of the year. ING analysts anticipate more mixed trading in CEE FX markets given the unclear direction of Ukrainian negotiations, while Tellimer analysts caution that CEE debt and equity markets appear to be pricing in the upside of a potential settlement and none of the risks. On the ratings front, contacts expect Fitch to confirm Romania's rating at BBB- with a negative outlook today.

Asian markets rose, led by Chinese tech stocks amid divergent currencies. Asian equities gained, led by Chinese tech stocks with the Hong Kong Hang Seng Index outperforming (+4.0%). Currencies were mixed following comments from officials that raised concerns related to the impact of rising JGB yields on government finances.

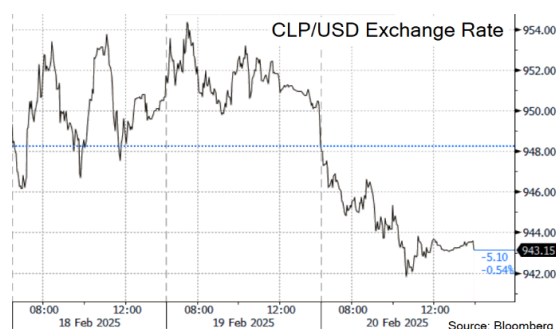
Yesterday, Latin America's currencies and stock markets mostly gained. Major economies except for Argentina experienced appreciation, whereas the Argentina showed a modest depreciation. All major Latin American bourses were in the green on Thursday. Bank of Mexico suggests more half-percentage point interest-rate cuts in future decisions, following eased inflation, looming economic growth, and risks of tariffs.

Chile

Chilean Peso outperforms with prospects of US-China trade agreement.

Chilean peso is among top performers in emerging markets on Thursday, following Trump's remarks on a possible trade deal with China. The appreciation is bolstered by the rising commodity prices. As a major commodity exporter, Chile's currency is significantly influenced by global commodity prices. A US-China trade deal could lead to increased demand, thus boosting prices. Chilean peso, against the US dollar, strengthened as much as 0.75% on Thursday to 943.15,

with higher copper prices manifesting optimism of a deal between US and China. Additionally, Anglo American Plc signed a pact with Chile's state copper company Codelco to jointly develop adjacent mines near Santiago, aiming to increase production. However, the production boost is not expected to materialize until 2030.



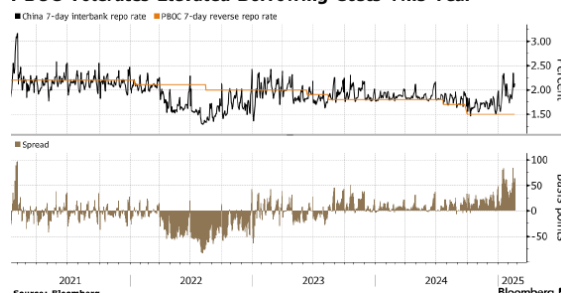
China

Money market rates reached an eight-month high as

investors shift allocations into rising equities. The seven-day repo rate notably rose (+14 bps) to 2.2%, while the overnight repo rate hovered near an eight-month high, reaching as much as 2.5% for some financial institutions. In response to the increases in short rates, the PBOC increased its liquidity injections, adding a net RMB 84 bn (\$11.6 bn) of short-term funds in its open market operations on Friday, making it according to Bloomberg analysts the largest single-day liquidity injection thus far in February. The rise in short rates has weighed

on government bond yields, too, with 10-year bond yields rising (+4bps) to 1.75%, the highest level since December. Against the backdrop of the lackluster economy amid lingering tariff uncertainty, market contacts anticipate that the PBOC to continue injecting liquidity over the short run to uphold RMB stability.

PBOC Tolerates Elevated Borrowing Costs This Year



Chinese equities gained amid a DeepSeek-led tech rally and reports of positive earnings.

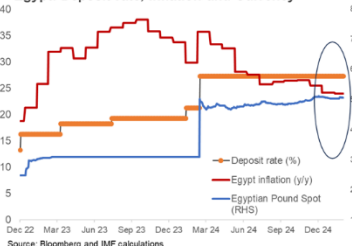
A gauge of Chinese technology stocks traded in Hong Kong rose 6.5% to reach its highest level since early 2022, while the onshore SSE Science and Technology Innovation Board 50 Index gained 6%, the most in four months. Notably, gains in Hong Kong were led by Alibaba Group, which surged 15% after the company reported higher-than-estimated sales. By comparison, increases in the broader CSI index was more modest, having risen 4.8% since the beginning of February. The onshore CNY and the offshore CNY lost 0.2% and 0.3% on the day, respectively.

Egypt

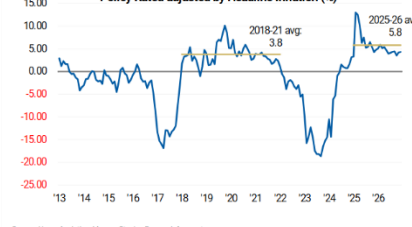
The central bank of Egypt (CBE) left its policy rate unchanged at 27.25%, as expected, amid an increasingly uncertain global and regional outlook. The CBE has now left rates unchanged for seven meetings. The accompanying press statement noted higher upside risks

around the inflation outlook due to "the increasingly uncertain global and regional outlook regarding the impact of US protectionist trade policies and geopolitical tensions." Despite real rates remaining high,

Egypt: Deposit rate, Inflation and Currency



Policy Rate adjusted by Headline Inflation (%)



Morgan Stanley analysts expect the CBE to proceed with gradual rate cuts given geopolitical and global uncertainties together with tight near-term external funding conditions. The analysts have revised their rate cut expectations and now forecast 80bps of rate cuts in 2025 (compared to 100bps previously). Separately, earlier this week Moody's affirmed Egypt's Caa1 rating with a positive outlook, with the rating agency pointing to potential debt and external profile improvements.

Mexico

Bank of Mexico signals potential for further half-percentage point interest-rate cuts amid downgraded growth outlooks.

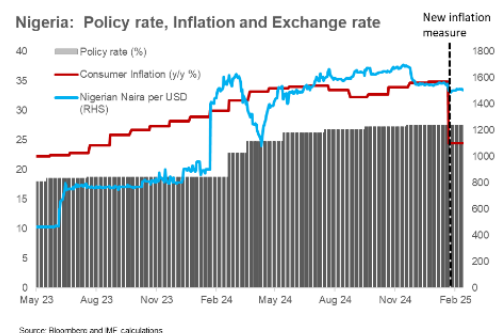
This follows the central bank's rate cut from 10% to 9.5% earlier this month, speeding up the pace of its monetary easing. Bank of Mexico board members highlighted the economic risk related to policies of U.S. President Trump, who announced 25% tariffs on imports from Mexico but later suspended them for a month. However, uncertainty remains given that 80% of Mexican exports go to US, marking a serious concern about a potential trade war. The second-largest economy in Latin America suffered a contraction of 0.6% in Q4 from Q3 last year, and the annual growth slowed to 1.5% from 3.3% in 2023. Inflation has eased to a four-year low of 3.58% in January 2025 from 4.21% in December 2024. On Wednesday, the central bank slashed its economic growth estimate for 2025 to 0.6% from 1.2% previously.



Nigeria

The central bank of Nigeria left rates unchanged at 27.5%, as expected, after six consecutive rate hikes since the start of 2024.
















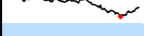




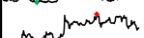


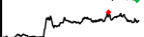

All other parameters were also left unchanged, including the cash reserve ratio (50%). The accompanying press statement noted that recent macroeconomic developments, including the stability and subsequent appreciation of the Nigerian Naira, as well as a gradual moderation of petrol motor spirit prices, are expected to support the easing of inflation. The National Bureau of Statistics earlier this week published the new inflation series which was re-weighted and re-based. The new measure showed inflation in January at 24.5%y/y, compared to 34.8% in December (based on the old series). JPMorgan analysts note that while the new inflation data could have played a role in yesterday's decision, the governor's comments on the data was limited. With the real policy rate at +3% under the new inflation measure, contacts think that rate hikes could have come to an end. For example, JP Morgan analysts see the path for inflation ahead as unclear but note that there could be scope for rate cuts later this year. Absa analysts see scope for at least 400bps of rate cuts this year, but also think that the MPC would take a cautious approach and keep rates unchanged again at the upcoming MPC meeting in May.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), 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 John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (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

2/21/25 9:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,125	-0.4	0.2	1.3	22.9	4
Europe		5,478	0.3	-0.3	6.0	14.7	12
Japan		38,777	0.3	-1.0	-2.9	-0.8	-3
China		3,978	1.3	1.0	3.8	14.0	1
Asia Ex Japan		77	0.8	2.9	5.5	15.7	6
Emerging Markets		45	0.9	2.8	5.9	12.0	8
Interest Rates			basis points				
US 10y Yield		4.5	-1	2	-8	17	-8
Germany 10y Yield		2.5	-5	6	-2	4	12
Japan 10y Yield		1.4	-2	7	24	70	33
UK 10y Yield		4.6	0	11	2	51	4
Credit Spreads			basis points				
US Investment Grade		111	0	0	-5	-10	-8
US High Yield		309	0	0	13	-61	-20
Exchange Rates			%				
USD/Majors		106.6	0.2	-0.7	-1.4	2.5	-2
EUR/USD		1.05	-0.2	-0.2	0.5	-3.2	1
USD/JPY		150.4	0.5	-1.3	-3.3	0.0	-4
EM/USD		44.5	-0.1	0.5	2.8	-4.9	4
Commodities			%				
Brent Crude Oil (\$/barrel)		75.9	-0.7	1.6	-3.2	-0.8	2
Industrials Metals (index)		148.4	-0.8	-0.3	1.7	8.4	6
Agriculture (index)		61.5	0.1	0.7	4.4	4.6	8
Implied Volatility			%				
VIX Index (% change in pp)		15.3	-0.3	0.2	0.3	0.0	-2.0
Global FX Volatility		8.1	0.0	0.0	-0.4	1.3	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		84	0	-2	-2	-25	-1
Italy		108	0	-1	0	-42	-7
France		75	1	0	-2	27	-8
Spain		62	0	-1	-1	-29	-7

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

Emerging Market Financial Indicators

Last updated: 2/21/2025 9:13 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		7.25	-0.2	0.0	0.2	-0.9	0.6		1.8	3	9	5	-69	6
Indonesia		16305	0.2	-0.3	0.2	-4.1	-1.2		6.7	-1	-8	-34	10	-28
India		87	-0.1	0.1	-0.1	-4.3	-1.3		7.1	-1	-8	-3	-7	-21
Philippines		58	0.0	-0.2	0.9	-3.4	-0.2		5.1	0	1	4	-31	26
Thailand		34	0.1	0.0	1.5	6.7	1.4		2.4	-1	-2	-9	-26	2
Malaysia		4.42	0.3	0.4	1.3	8.5	1.2		3.8	0	-1	-2	-6	-2
Argentina		1059	0.0	-0.2	-1.2	-20.9	-2.6		27.3	-6	48	192	-4839	-190
Brazil		5.71	0.0	-0.1	5.6	-13.4	8.3		14.8	1	-32	-46	451	-113
Chile		943	0.0	-0.1	6.4	3.0	5.5		5.9	-6	-6	10	51	20
Colombia		4070	0.2	1.4	5.8	-3.6	8.2		11.6	-3	-2	1	189	-25
Mexico		20.36	-0.2	-0.2	1.3	-16.3	2.3		9.9	-2	4	-33	46	-44
Peru		3.7	0.0	0.8	1.6	3.4	1.9		6.5	-1	0	-18	-25	-16
Uruguay		43	0.3	0.9	2.0	-8.7	2.6		9.7	2	1	4	72	7
Hungary		385	-0.5	-0.4	2.5	-7.1	3.2		6.5	0	2	-14	42	7
Poland		3.97	-0.3	0.0	2.6	0.4	3.9		5.6	4	5	-6	45	2
Romania		4.8	-0.3	-0.2	0.5	-3.2	1.1		7.4	2	2	-37	106	10
Russia		89.6	-0.9	2.0	11.4	3.1	26.7							
South Africa		18.3	0.0	0.3	0.9	3.2	2.8		10.7	2	5	15	-76	26
Türkiye		36.41	-0.3	-0.5	-2.2	-14.8	-2.9		28.5	-12	-39	45	53	-122
US (DXY; 5y UST)		107	0.2	-0.7	-1.3	2.5	-1.7		4.34	0	1	-6	4	-4

	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		3,978	1.3	1.0	3.8	14.0	1.1		93	0	-1	-58	-3	
Indonesia		6,803	0.2	2.5	-5.1	-6.7	-3.9		93	-3	0	-13	2	
India		75,311	-0.6	-0.8	-1.2	3.0	-3.6		90	-2	4	-12	4	
Philippines		6,098	0.5	0.6	-3.1	-11.8	-6.6		88	-1	3	-1	9	
Thailand		1,246	0.0	-2.0	-8.0	-10.9	-11.0							
Malaysia		1,591	0.8	0.0	1.1	2.7	-3.1		72	2	1	-10	2	
Argentina		2,410,221	0.4	1.0	-8.0	131.9	-4.9		714	39	71	-1028	77	
Brazil		127,439	0.2	-0.6	3.3	-2.0	5.9		221	4	-3	8	-26	
Chile		7,345	0.6	-0.2	4.4	17.5	9.5		120	-1	3	-8	7	
Colombia		1,635	2.2	5.3	17.4	28.8	18.5		317	-2	6	13	-9	
Mexico		54,304	0.4	0.3	7.6	-4.8	9.7		302	3	-8	-27	-10	
Peru		29,211	0.1	-0.7	-0.3	2.9	0.9		142	-2	4	-2	1	
Hungary		87,896	-0.1	0.4	3.4	32.5	10.8		147	-2	-8	-15	-8	
Poland		93,324	0.4	1.7	10.5	14.6	17.3		111	-1	-2	15	-1	
Romania		17,570	-0.9	-0.6	3.8	10.6	5.1		241	3	-7	44	6	
South Africa		89,046	0.2	0.4	5.0	21.9	5.9		305	0	9	-44	12	
Türkiye		9,641	-1.7	-2.4	-3.6	3.5	-1.9		260	5	-13	-52	1	
EM total		45	0.5	2.8	5.9	12.0	7.7		367	6	6	26	3	

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

[back to top](#)