GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 27, 2025
LEAD EDITOR: SANJAY HAZARIKA

- **Markets confront multiple tariff deadlines** (link)
- **European equities sink on tariff worries** (link)
- **CRE market in US faces rising defaults** (link)
- **Tariffs fears weigh on RMB** (link)
- **Investors bet on Yen strength as wage pressures build** (link)
- **Yields in Brazil surge on fiscal concerns** (link)

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Tariff Confusion Pressures Markets

Stocks in Europe are painting a sea of red although the underperforming UK market was an unlikely exception with a small gain. Tariffs were cited as the main reason for the selloff in Europe, with analysts estimating that blanket tariffs of 25% across the board could hit the bloc's GDP by as much as 1.5%. Germany is likely to suffer the largest impact at a time when its economy is struggling, and political uncertainties are high. On the other hand, US equity index futures are up after tech bellwether Nvidia announced results that beat market forecasts. However, sentiment remains negative, and market participants are confused about when and where and on what products the US will impose tariffs in the weeks ahead. In Switzerland, markets have almost fully priced in a 25 bps rate cut at its next meeting in March. The Swiss franc is expected to benefit from safe haven flows as global uncertainties persist.

Key Global Financial Indicators

Last updated: 2/27/25 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5956	0.0	-3	-1	17	1
Eurostoxx 50		5496	-0.6	1	6	12	12
Nikkei 225		38256	0.3	-2	-3	-2	-4
MSCI EM		45	1.0	0	6	10	7
Yields and Spreads				bps			
US 10y Yield		4.29	3.6	-21	-24	-1	-28
Germany 10y Yield		2.45	1.2	-9	-9	-2	8
EMBIG Sovereign Spread		327	0	12	11	-41	2
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		44.4	0.0	0	2	-5	4
Dollar index, (+) = $ appreciation		106.6	0.2	0	-1	3	-2
Brent Crude Oil ($/barrel)		73.4	1.2	-4	-5	-12	-2
VIX Index (%, change in pp)		17.7	-1.4	2	0	4	0

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

Mature Markets

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United States

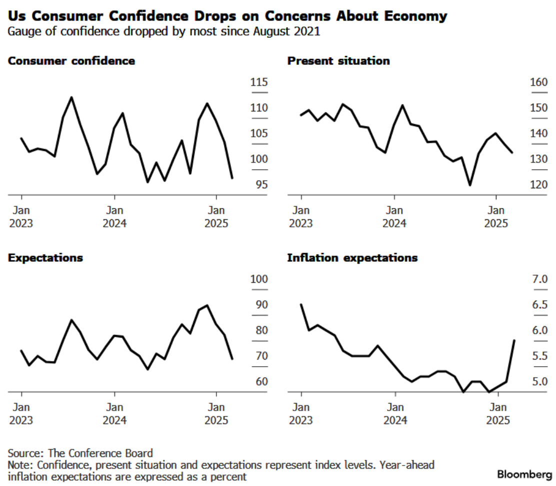
The latest economic data releases were mixed, but the immediate market reaction was for Treasury yields to rise slightly accompanied by a slight appreciation of the dollar. However, these moves quickly faded. US equity index futures were unchanged after the data.

US Economic Data

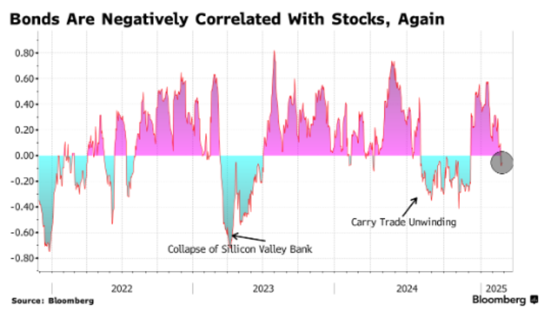
Source: Bloomberg

Data Release	Consensus Forecast	Actual Print
Core PCE Price Index qoq	2.5%	2.7%
Q4 GDP	2.3%	2.3%
Durable Goods Orders	2%	3.1%
Durable Goods Ex-Transportation	0.3%	0%

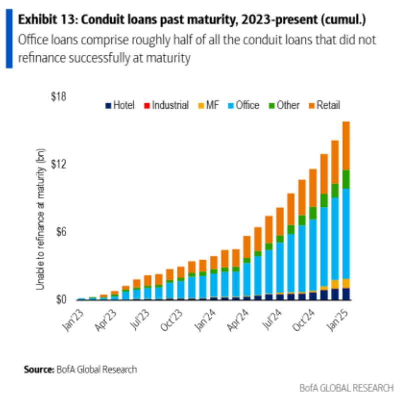
Markets are starting to confront the possibility that the impact of tariffs could be more negative than originally expected. The US President stated this week that the previously postponed tariffs on Canada and Mexico would be imposed on April 2. There are a number of other tariffs scheduled to be imposed in the weeks after. Meanwhile, consumer sentiment in the US has turned quite negative and survey measures of inflation expectations have risen significantly. The moves are seen as relatively bipartisan among survey responders, meaning that these changes are real and not driven by partisan bias. The consumer confidence gauge is at its lowest level since August 2021. The tariff rhetoric is probably playing a role here.

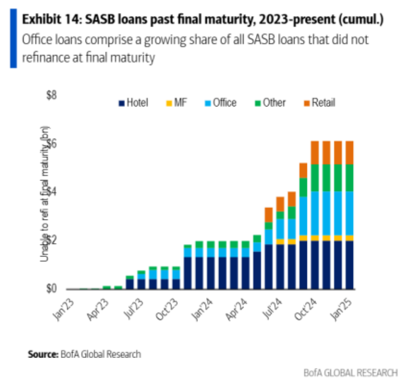


US Treasury yields have fallen significantly in recent days due to the rising pessimism on the US economy. The 10-year Treasury yield has fallen by over 50 bps since its 2025 high of 4.80% on January 14, and the yield curve has flattened as investors position for a potentially weaker economy. Equities have pulled back sharply from the S&P 500's record close on February 19, down to 5950, turning the Treasury-Equity correlation negative. The widely followed Citi Economic Surprise Index for the US has turned negative. If widespread tariffs really are imposed, the US economy and financial markets could be in for some difficult times.



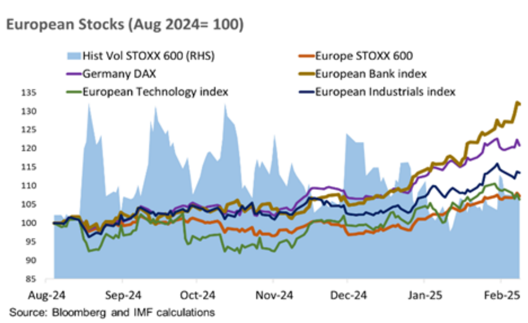
The Commercial Real Estate (CRE) market is experiencing a steady rise in defaults, led by the office sector. This is occurring in both segments of the market, the conduit loans which are pools of multiple loans combined into commercial mortgage-backed securities (CMBS) and Single Asset Single Borrower (SASB) loans. Surveys find that lenders are increasingly reluctant to negotiate more lenient terms for borrowers who are facing difficulties. Lenders think there is very little chance of interest rates falling much below current levels, so there is not much of chance for relief for borrowers due to lower funding costs. In fact, lingering inflation could lead to even higher interest rates in the months ahead. In addition, there is a great deal of pessimism about the prospects for office properties, especially in the small metropolitan areas where there was a great deal of overbuilding in recent years. However, some contacts were much more optimistic, especially for the larger markets. They point out that there have been large new purchases of office properties in New York City and Boston by a variety of institutional investors.

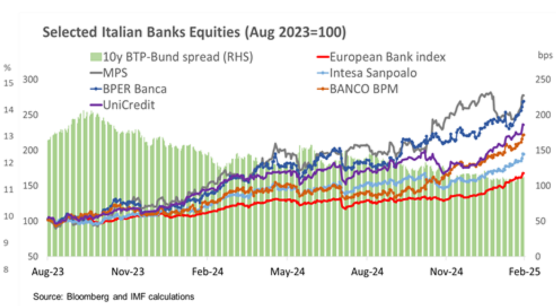




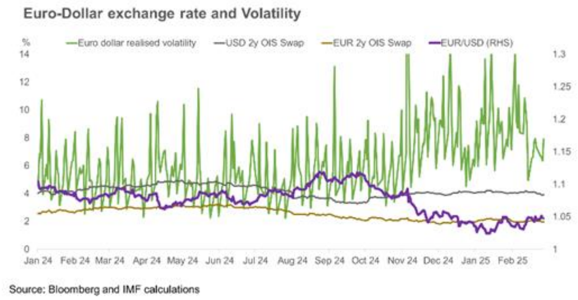
Euro Area

European equities edged lower this morning, with the STOXX 600 index down by -0.4%**, after US President Trump said yesterday that tariffs on EU products, including automobiles, will be 25% and** US Secretary of Commerce Lutnick adding that reciprocal tariffs would start on April 2. European banks' equities traded sideways this morning, after the sector outperformed yesterday and is advancing by +22.2% YTD vs +9.8% YTD for the Stoxx 600 index. Analysts at HSBC have a constructive view on Italian banks as they see the risk of lower net interest income being offset by the repricing of sight deposits and higher asset management fees.



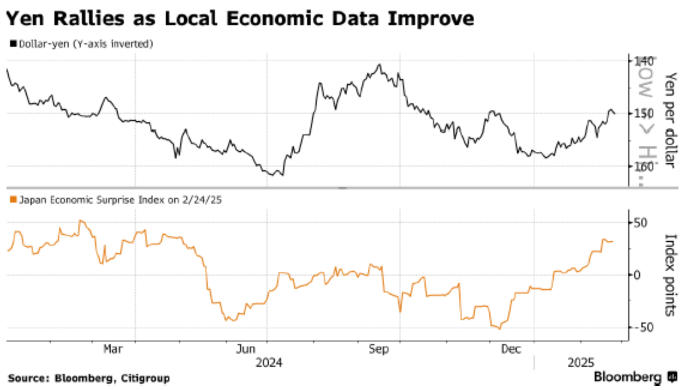


The euro was little changed against the dollar today, trading rangebound around $1.0480/€. Despite geopolitical tensions, the euro has regained some ground against the dollar (+1.2% YTD), recently supported by increased EUR-USD short-term interest rate differentials as fears over a slowdown in US consumption have prompted the pricing of a slightly more dovish Fed stance for 2025. Analysts at ING continue however to have a bearish view on the euro expecting, US tariffs to weigh on the currency from April.



Japan

Momentum for wage increases builds while investors bet on more yen strength. A labor union representing manufacturers is seeking a record wage increase in its annual negotiations, suggesting building momentum for greater pay rises. The Japan Council of Metalworkers' Union requested a monthly base salary gain of ¥14,149 ($94.84) on average; this represents a 14% increase from last year and marks a record high since 2014 for the union. Trade unions are currently compiling demands from their members as the spring wage negotiations are underway. Earlier in the month, Ministry of Health, Labor, and Welfare noted that cash earnings rose 5.2% last December, the fastest pace in nearly three decades. Meanwhile, market contacts noted that asset managers remain bullish on the yen, and hedge funds are reducing their short yen bets as investors expect positive wage growth and BOJ rate hikes to support the yen further.



Emerging Markets

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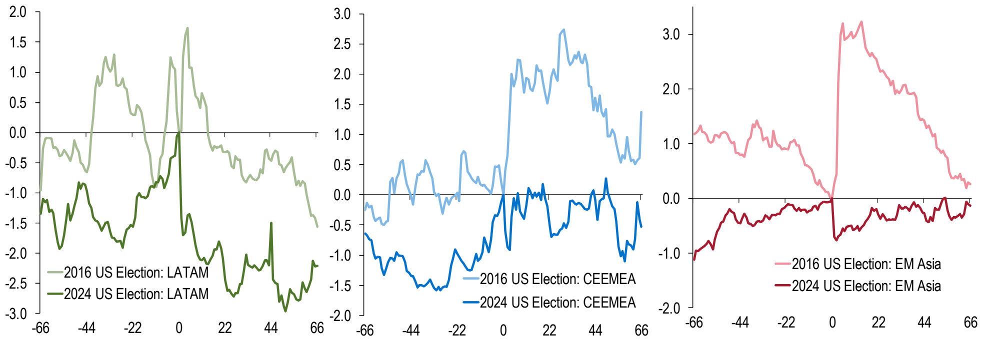
EMEA equity markets were mostly higher, while currencies were mixed. Equities in Türkiye (+0.8%) and Czechia (+0.4%) were outperforming, while those in South Africa were underperforming (-0.5%). Analysts at ING note that CEE currencies and Ukraine's Eurobonds have all been performing well on mounting speculation that there may be a signing of a US-Ukraine mineral deal on Friday which may lead to security guarantees and a ceasefire. **Asian equities pared gains to end the day little changed due to cautious investor sentiment amidst ongoing uncertainty over US tariffs on Chinese imports.** Bloomberg reported that Bank Indonesia intervened in the spot, domestic non-deliverable forwards, and bond markets to support the rupiah. Still, the rupiah extended its depreciation to IDR 16450/$, or 0.5% weaker on the day. **In Latin America,** President Trump's delay in tariffs on Mexico gave some room for most Latin American currencies to pare back a small part of their losses since the US election.

Emerging Market Currencies

EM FX markets have been better prepared for a second Trump presidency but may be underpricing tail risks. The delay of the tariffs on Canada and Mexico to April 2 (from March 4) allowed the Mexican peso to maintain its gains against the US dollar. Compared to the 2016 election, when markets were surprised by President Trump's victory, investors appear to have been better prepared this time around for a second Trump administration. The implied volatility of major emerging market currencies has, for the most part, either decreased or traded sideways 3 months after the election. The decisions from the new US administration have been softer-than-expected on net so far, leading investors to price out risk premiums across global assets. However, it is also possible that the flurry of mixed announcements coming out of the White House may be making it more difficult for investors to price tail risks.

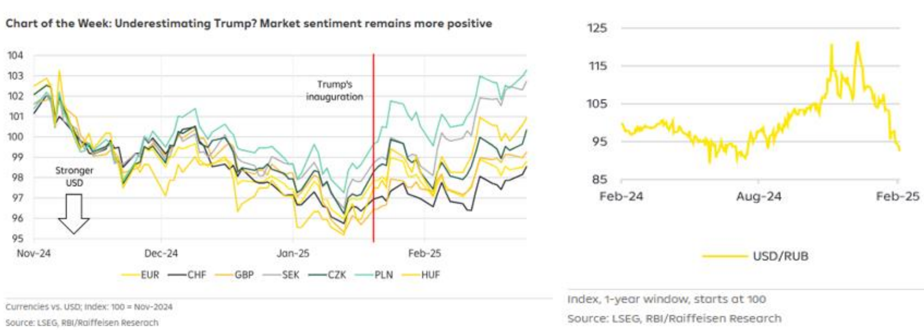
EM currency markets were better prepared for a second Trump administration but may be underpricing tail risks
Change in 3-month implied FX options relative to 2016 and 2024 US election dates (percentage per annum)



Source: Bloomberg, IMF Staff Analysis.
Note: x-axis shows working days around 2016, 2024 US election days. The average implied volatility for all regions around the two elections hav traded at similar levels.

Central and Eastern Europe

Some analysts think CEE FX markets may be pricing in too much optimism. Analysts at Raiffeisen note that the threat of US tariffs and the on-going war in Ukraine remain and that foreign exchange markets may be overly optimistic. Specifically, the analysts caution that while potential peace talks in the Russia-Ukraine conflict are a positive development, a "bad deal for Ukraine would most likely be a bad deal for Europe as a whole." The analysts note that CEE currencies have continued to benefit from more positive risk sentiment while the Russian ruble has seen a significant rally on the back of potential peace talks. The currency is up around 2% against the dollar over the past week and around 30% YTD.

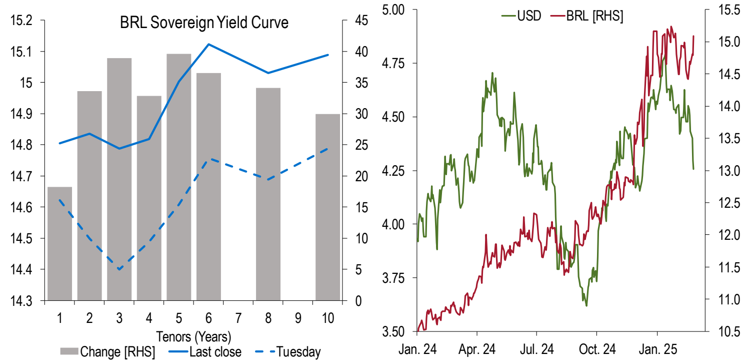


Brazil

Brazilian yields surge as President Lula's approval ratings decline. Bloomberg reports suggest that the declining approval ratings may encourage the Lula administration to further loosen Brazil's fiscal policy to boost the president's popularity among the electorate before next year's elections. Brazilian yields sold are up 30 bps even as US yields continue to come down from this year's peak (-53bps). As a consequence, the Brazilian real has been the worst performing currency across major emerging markets over the last week (-1.1%). The Brazilian central bank had to stop its cutting cycle earlier than expected and hike rates again in the face of sticky inflation and deteriorating inflation expectations on the back of fiscal concerns. While investors' expectations around the BCB's terminal rate of its hiking cycle appear to have stabilized around 15%, fiscal deficit projections are rising due to the country's large share of floating-rate debt.

Brazilian yields rose across tenors as fiscal concerns increase on the back of declining approval ratings…
Percent, basis points

… even declining US yields have not been helpful for Brazilian borrowing costs
Percent, basis points



Source: Bloomberg, IMF Staff Analysis.

China

The RMB falls to its weakest level in a week as the risk of US tariffs weighs on outlook. The RMB weakened both onshore and offshore amid confusion about the timing of tariffs on Canada and Mexico, while a proposal for new levies on the EU is under consideration. The onshore CNY fell 0.2% to 7.2698/$, its weakest level in a week while the offshore CNH lost 0.1% to 7.2729/$ as the one-month implied volatility on USD/CNH climbed for a second day to 4.61%. Meanwhile, liquidity in the onshore bond market remains tight, with the 7-day repo rate rising 4 bps to 2.28%, the highest in a week, despite five consecutive sessions of net liquidity injection from the PBOC. Volatility has also increased. The 60-day historical volatility for the 10-year CGB is hovering near its highest level since April 2020 while the 10-year CGB yield has reached 1.77% (+1 bp on the day), on track for its highest level since December.

China 10-Year Bond Volatility Jumps Amid Tight Liquidity
60-day volatility rises to highest since 2020

Source: Bloomberg

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), 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.

Global Financial Indicators

2/27/25 8:01 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,981	0.0	-2.2	-0.5	17.8	2
Europe		5,496	-0.6	0.6	5.9	12.5	12
Japan		38,256	0.3	-2.3	-3.3	-2.3	-4
China		3,968	0.2	1.0	4.0	12.9	1
Asia Ex Japan		76	1.3	0.4	6.4	14.3	6
Emerging Markets		45	1.0	0.1	6.0	10.3	7
Interest Rates					basis points		
US 10y Yield		4.3	4	-21	-24	-1	-28
Germany 10y Yield		2.4	1	-9	-9	-2	8
Japan 10y Yield		1.4	3	-5	19	71	30
UK 10y Yield		4.5	1	-10	-8	31	-6
Credit Spreads					basis points		
US Investment Grade		118	1	8	2	-8	-2
US High Yield		326	-2	18	32	-37	-2
Exchange Rates					%		
USD/Majors		106.6	0.2	0.2	-0.7	2.7	-2
EUR/USD		1.05	-0.1	-0.2	-0.1	-3.4	1
USD/JPY		149.6	0.4	0.0	-3.2	-0.6	-5
EM/USD		44.4	0.0	-0.3	2.1	-4.8	4
Commodities					%		
Brent Crude Oil ($/barrel)		73.4	1.2	-4.0	-3.6	-4.5	-1
Industrials Metals (index)		147.8	0.9	-1.3	3.7	8.0	5
Agriculture (index)		59.8	0.1	-2.7	2.2	1.9	5
Implied Volatility					%		
VIX Index (%, change in pp)		17.7	-1.4	2.0	-0.2	4.3	0.3
Global FX Volatility		8.2	0.0	0.1	-0.1	1.7	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		83	1	-2	-4	-22	-3
Italy		112	1	4	2	-32	-3
France		72	1	-1	-2	25	-10
Spain		62	1	0	0	-27	-7

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

Emerging Market Financial Indicators

Last updated: 2/27/2025 8:04 AM	Exchange Rates: Level, Last 12m	Exchange Rates: Level, Latest	Change (in %): 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points): 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.27	-0.1	-0.3	-0.3	-0.9	0.5		1.8	-1	8	11	-60	11
Indonesia		16454	-0.4	-0.7	-1.7	-4.9	-2.0		6.8	1	6	-18	21	-21
India		87	0.0	-0.6	-1.0	-4.9	-1.8		7.1	0	-9	-7	-17	-29
Philippines		58	0.0	0.1	0.9	-3.1	0.1		5.1	-1	0	6	-31	26
Thailand		34	-0.4	-1.0	-0.3	5.8	1.3		2.3	-6	-11	-11	-34	-7
Malaysia		4.44	-0.4	-0.3	-1.5	7.1	0.6		3.8	1	0	0	-7	-2
Argentina		1061	0.0	-0.3	-1.1	-20.8	-2.8		27.7	-7	38	224	-4647	-147
Brazil		5.81	0.1	-1.8	1.7	-15.0	6.3		15.0	25	20	-46	455	-94
Chile		948	-0.7	-0.5	4.2	3.6	5.1		5.7	-1	-20	-2	30	6
Colombia		4099	0.1	-0.6	2.4	-4.1	7.5		11.5	-4	-14	26	157	-36
Mexico		20.39	0.2	-0.3	1.4	-16.3	2.2		9.6	-7	-35	-42	16	-77
Peru		3.7	0.3	0.6	2.0	3.5	2.4		6.3	-1	-14	-40	-53	-29
Uruguay		42	0.2	1.5	2.4	-7.8	2.9		9.7	-1	-1	0	65	4
Hungary		381	0.0	0.5	2.1	-5.5	4.3		6.4	-3	-5	-1	45	2
Poland		3.94	0.1	0.5	1.9	0.7	4.8		5.5	-2	-4	-11	42	-6
Romania		4.7	0.0	-0.2	-0.2	-3.6	1.2		7.2	-15	-19	-56	82	-11
Russia		87.0	-0.2	2.0	11.8	5.8	30.5							
South Africa		18.4	-0.1	-0.4	1.7	3.7	2.3		10.6	-6	-16	6	-113	8
Türkiye		36.43	0.1	-0.4	-1.9	-14.5	-3.0		28.2	-9	-37	120	-47	-148
US (DXY; 5y UST)		107	0.2	0.2	-0.7	2.7	-1.7		4.12	3	-23	-22	-20	-27

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %): 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points): 7 Days	30 Days	12 M	YTD
									basis points				
China		3,968	0.2	1.0	4.0	12.9	0.8		98	5	5	-52	2
Indonesia		6,485	-1.8	-4.5	-8.8	-11.4	-8.4		108	15	16	3	17
India		74,612	0.0	-1.7	-3.7	2.9	-4.5		95	5	6	-4	9
Philippines		6,124	-0.3	0.9	4.5	-11.8	-6.2		102	15	15	16	23
Thailand		1,216	-1.3	-2.4	-7.5	-11.3	-13.2						
Malaysia		1,587	-0.1	0.6	1.9	2.3	-3.4		76	7	6	-6	6
Argentina		2,275,037	-0.3	-5.3	-6.7	120.0	-10.2		753	33	119	-952	116
Brazil		124,769	-1.0	-2.2	-0.1	-5.3	3.7		230	15	9	20	-17
Chile		7,364	0.5	0.6	4.8	16.5	9.7		125	7	8	-3	12
Colombia		1,646	-0.2	0.7	14.9	27.9	19.3		327	14	17	31	1
Mexico		53,297	0.5	-1.5	3.1	-5.2	7.6		309	10	4	-12	-3
Peru		28,658	0.2	-1.8	-1.0	0.4	-1.0		145	6	8	2	4
Hungary		87,948	0.3	0.0	3.5	34.2	10.9		154	9	6	-7	-1
Poland		93,224	0.0	0.3	9.0	12.3	17.1		121	13	11	31	9
Romania		17,664	0.0	-0.4	4.0	11.7	5.6		252	14	-4	58	17
South Africa		87,765	-0.6	-1.2	4.2	20.0	4.4		311	9	23	-37	18
Türkiye		9,778	2.1	-0.3	-2.2	6.5	-0.5		280	21	22	-24	21
EM total		45	-0.8	0.1	6.0	10.3	6.8		375	8	22	48	11

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

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