GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 28, 2025

LEAD EDITOR: SANJAY HAZARIKA

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US Selloff Rattles Global Markets

The US equity decline has started to unsettle global investor sentiment. The once mighty Nasdaq is now one of the few major global equity indexes to be in the red, along with the Nikkei. Yesterday's US market meltdown sent ripples across global markets this morning, with many European markets lower and big selloffs in Japan and Hong Kong. However, US equity index futures are up in early trading and government bond yields are holding steady ahead of a key US inflation report. Meanwhile, confusion about US tariffs continues among market participants. The US announced a further 10% tariff on imports from China in addition to the additional 10% imposed earlier this month. The authorities in China warned of retaliatory measures, according to reporting from Bloomberg. Tariffs of 25% are scheduled to be imposed on Canada and Mexico on Tuesday, and a 25% tariff could be imposed upon the EU in the near future. In other news, Bitcoin is down 25% from its post-election high as the crypto market comes under pressure.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
2/28/25 7:55 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5862	-1.6	-4	-3	15	0
Eurostoxx 50		5429	-0.8	-1	3	11	11
Nikkei 225		37156	-2.9	-4	-4	-7	-7
MSCI EM		44	-1.9	-3	3	10	5
Yields and Spreads			bps				
US 10y Yield		4.26	-0.4	-18	-28	-1	-31
Germany 10y Yield		2.40	-1.5	-7	-17	-6	3
EMBIG Sovereign Spread		325	-1	8	3	-43	0
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.2	-0.1	-1	2	-5	3
Dollar index, (+) = $ appreciation		107.3	0.1	1	-1	3	-1
Brent Crude Oil ($/barrel)		73.1	-1.3	-2	-5	-13	-2
VIX Index (%, change in pp)		21.2	0.0	3	5	8	4

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 PCE inflation data, the Fed's preferred inflation gauge came in exactly on target, providing some relief for markets rattled by the recent US selloff. Treasury yields and the dollar were unchanged in the immediate aftermath of the data and US equity index futures ticked higher.

US Economic Data

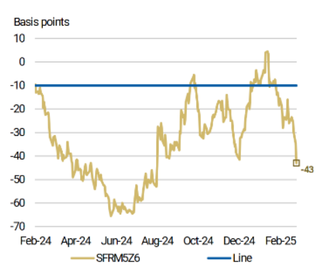
Source: Bloomberg

Data Release	Consensus Forecast	Actual Print
PCE Inflation Year-on-Year	2.5%	2.5%
PCE Inflation Quarter-on-Quarter	0.3%	0.3%
Core PCE Inflation yoy	2.6%	2.6%
Core PCE Inflation qoq	0.3%	0.3%

Treasury yields have declined sharply in recent days, unwinding the surge that began the year. The 10-year Treasury yield rose from 4.55% on January 1 to 4.80% on January 14 before beginning a long decline of more than 50 bps. This was partly driven by weaker than expected economic data, as the widely followed Citi US Economic Surprise Index turned negative earlier this month. In addition, consumer sentiment has turned very negative. However, part of the decline could be caused by the belief among some investors that the policies of the new administration could lead to lower interest rates. Treasury Secretary Bessent has been very vocal about a lower 10-year yield being a very important goal for the administration. This rhetoric might explain why CFTC data show that both regular investors and hedge funds have greatly increased their long positions in Treasury futures. Other analysts point to the delay in imposing tariffs as a potential cause for lower rates, and they warn that rates could go the other way if the tariffs do get imposed and inflation starts to rise. A renewed surge in interest rates would be bad news for the stock market.

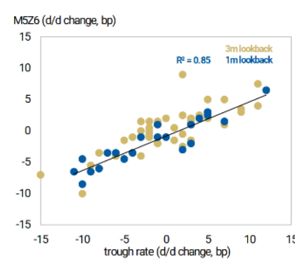
The short-term interest rate futures curve in the US is flattening, with yields on longer maturity futures contracts falling more than yields of shorter maturity contracts. The spread between Secured Overnight Funding Rate (SOFR) futures maturing in December 2026 (SFRZ6) and those maturing in June 2025 (SFRH5) has declined sharply. The M5Z6 spread has also been highly correlated with the market's estimate of the Fed's terminal or "trough" rate, and the market has gone back to pricing two full rate cuts from the Fed, thus flattening the M5Z6 curve. Morgan Stanley thinks that this curve flattening is being caused by growing worries about the US economy as well as growing uncertainty about geopolitics. There is also the sense that the delay in tariffs is postponing their potentially inflationary impact. Some contacts still believe that all the tariff threats are just a negotiation tactic, and that the US government will not put its economy at risk by blanket tariffs on all US trading partners.

Exhibit 7: SFRM5Z6 curve over the past year



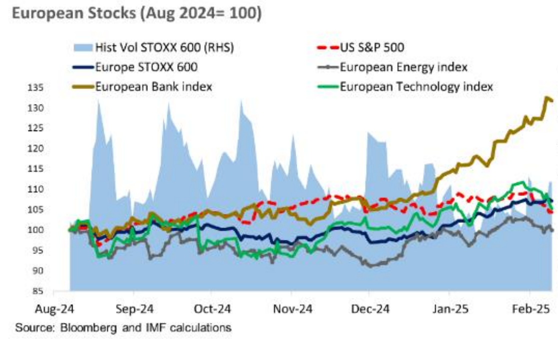
Source: Bloomberg, Morgan Stanley Research

Exhibit 8: M5Z6 has been highly correlated to the trough rate over the past month



Source: Bloomberg, Morgan Stanley Research

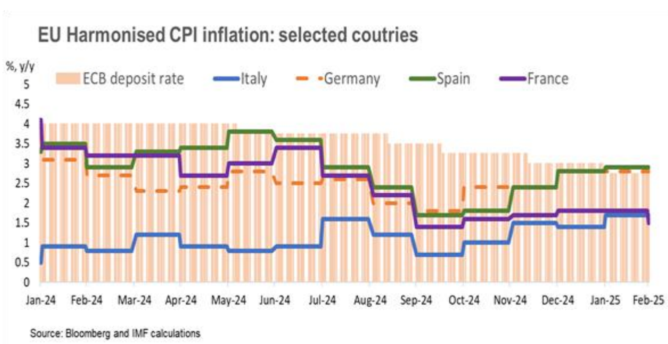
Europe

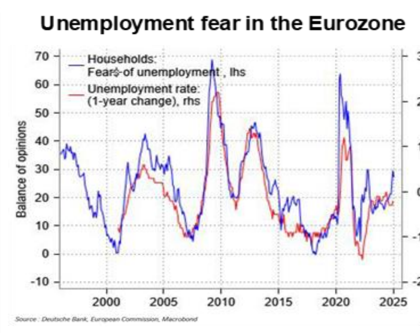


Stocks were down this morning, with the STOXX 600 index lower by -0.3%, **amid risk-off sentiment on the back of tariffs headlines and ahead of the US January PCE later today.** However, European stocks continue to outperform US peers (the S&P 500 index closed at -1.6% yesterday and is down by 0.3% YTD while the Stoxx 600 index up +9.4% YTD) driven by a strong 4Q earnings, better than expected macro data and investors' hopes that the change of government will increase spending in Germany, with the perspective of US tariffs weighing so far mainly on exposed sectors like automobiles. Today's losses in Europe were heavier in the information technology (-1.4%) and the energy (-0.8%) sectors. Bank of America reported that European stocks saw a third consecutive week of positive inflows.

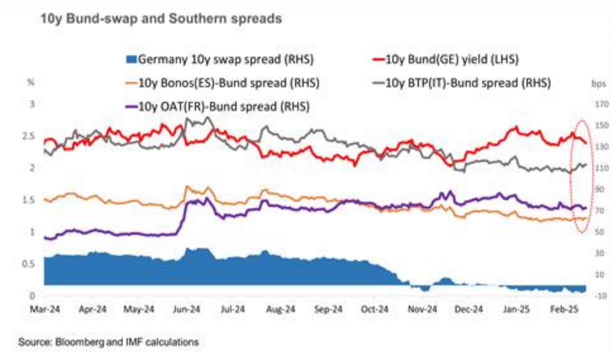
Today's data showed inflation surprising to the downside in February in France and in Italy. The EU-harmonized headline inflation index dropped in France to 0.9% y/y in February (vs. est. 1.1%) from the prior 1.8%, while inflation printed at 1.7%y/y (vs. est. 1.8%) unchanged from January in Italy. Today's release also pointed to slightly softer than anticipated inflation expectations in January in the Eurozone, as the ECB survey reported inflation expected at 2.6% in one year (vs. est. 2.8%) and at 2.4% three years ahead (vs. est. 2.5%). After today's inflation data money markets have marginally scaled up expectations of further rate cuts by the ECB in the rest of 2025, pricing in -89bps (-2bps from yesterday) of easing by the December meeting to a final implied rate of 1.76%.

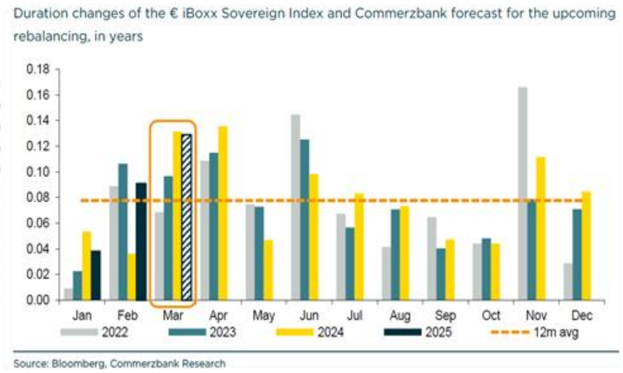
Following the release yesterday of January 29–30 ECB meeting accounts, Goldman Sachs notes that ECB officials remain divided on policy restrictiveness, with more hawkish members arguing that the current rate (2.75%) is "no longer far from neutral," as opposed to doves advocating for three more consecutive cuts until June. ING believes that, although inflation will likely remain too high, the ECB will eventually cut the policy rate to at least 2% by the summer once growth in the Eurozone is revealed to be weaker than the ECB's projections.





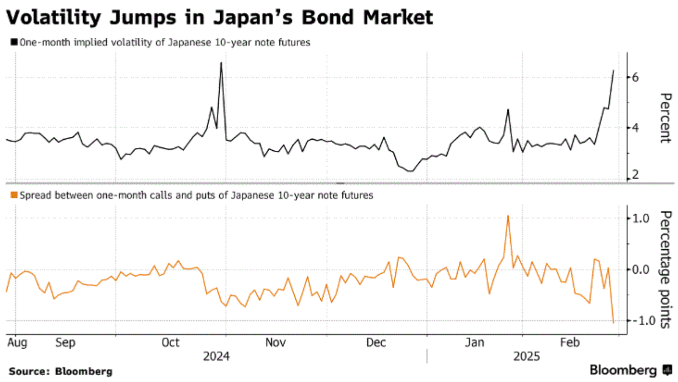
European sovereign bond yields were little changed today, with the Bund yield curve shifting marginally down (by about -2bps across tenors) as the 10-year Bund yields traded at 2.39% and the two-year yield at 2.01%. The spreads between the 10-year French OAT and the Bund and between the 10-year Italian BTP and the Bund yields were broadly unchanged at respectively 74bps and 113 bps. Tonight, S&P will release its first review of France in 2025, the first assessment (current rating at AA-/stable) for the new government and the 2025 budget, with analysts at Commerzbank not expecting any negative rating action. Fitch commented earlier this month that the slower fiscal consolidation and this year's lower 5.4% deficit target is broadly in line with its rating (AA-/negative since Oct-24) assumptions.





Japan

Tokyo February CPI was lower than expected (headline: +2.9% y/y vs expected +3.2% y/y; ex fresh food +2.2% y/y vs expected +2.3% y/y), mainly due to slowing of fresh food inflation and the resumption of government subsidies on electricity and gas. However, the underlying price momentum remains resilient, with services inflation holding steady, probably reflecting solid wage growth. Governor Ueda said at the G20 meetings that BOJ stands ready to intervene in the bond market if bond yields rise exceptionally. Today, 10-year sovereign yields fell (-2.5 bps to 1.37%) on the soft inflation print and tariff-driven safe haven demand. The spread between one-month call and put options on 10-year bond futures fell to the lowest since August, pointing to a surge in demands for protection if yields were to rise again. The Yen fell depreciated to 150.55/$ (-0.5%), while Japanese equities sharply declined (NIKKEI 225: -2.9%), led by exported-related automobile stocks and semiconductor stocks, after Nvidia's warning on tighter-than-anticipated gross profit margins.



Emerging Markets back to top

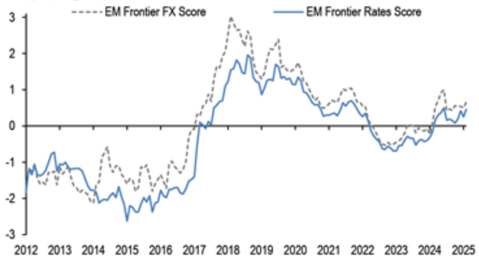
EMEA equity markets were mostly lower, in line with global averages, while currencies were mixed ahead of US PCE data. Equities in Czechia (-1.2%) and Poland (-0.9%) were leading losses, while CEE currencies were mixed against the euro. **Asian equities declined sharply (EM Asia: -2.6%), led by Korea (KOSPI: -3.4%), Hong Kong SAR (Hang Seng: -3.3%) and Indonesia (Jakarta Composite: -3.3%).** Indonesia and Thailand equities have fallen more than 20% from their respective Sep/Oct 2024 highs. Asian currencies depreciated, led by the Indonesian rupiah (-0.9%), prompting Bank Indonesia to conduct a "bold" intervention, as said by an official. **Latin American currencies were not spared from yesterday's market meltdown.** The Chilean peso (-1.2%) followed the Polish zloty as the second worst performer among emerging markets. Stocks in Colombia (-1.1%) and Mexico (-1.3%) saw the biggest losses.

Frontier markets

Some analysts remain constructive on frontier local markets despite reductions in international aid. Analysts at JP Morgan retain a positive stance on frontier local markets noting that the macro backdrop is "evolving in a more supportive direction." Specifically, the analysts note that lower US real yields should be supportive for frontier risk and recent geopolitical developments also appear to be evolving in a more positive direction. Furthermore, frontier markets are not directly subject to any US tariffs. While the new US administration's decision to withdraw support for aid programs such as US AID may impact the future growth prospects of frontier economies, the analysts do not think that the loss of aid is material enough to impact asset prices in the near term, noting that investor positioning turned more bullish in February with their metric of aggregate frontiers rate positioning rising this month.

Figure 4: J.P. Morgan *EM Client Survey*: Frontier FX and Rates Exposure

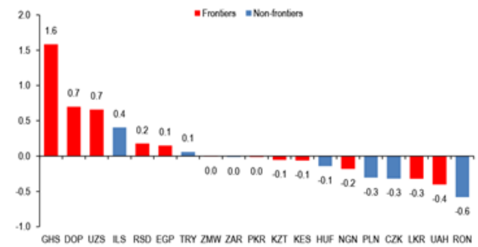
Positive number indicates long exposure. Scores are simple averages of Egypt, Kazakhstan, Ukraine, Nigeria, Serbia (from Mar-18), DomRep (Aug-18), Ghana (Aug-18), Sri Lanka (Jan-19), Zambia (Aug-19) and Kenya (Aug-19)



Source: *J.P. Morgan Emerging Markets Client Survey*

Figure 5: Latest ranking of net risk-reward scores

Net risk-reward score calculated as the reward minus risk score



Source: J.P. Morgan, Bloomberg Finance L.P., Haver Analytics

Chile

Investors may bet against the Chilean peso if tariff risks persist. The peso was the worst performing currency in the region yesterday (-1.2%) as tariff risks on China came back into focus this week and risk sentiment across global markets continued to deteriorate. Chile's strong trade links with China, especially through its copper exports, makes the peso one of the most sensitive currencies to tariff developments concerning China. The currency had mostly recovered its losses from the US presidential election (-6.5%) since the start of the second Trump administration as tariffs announcements had been less severe than investors had expected. A recovery in copper prices and the central bank's hawkish shift in forward guidance were also other major factors behind the currency's appreciation. The peso's performance was the strongest among emerging markets, which is why J.P. Morgan analysts think that investors have reduced their short positions against the currency. However, with the bank's assumption that tariffs on Chinese imports could reach up to 60%, the strategists think the peso's rally could be short-lived.

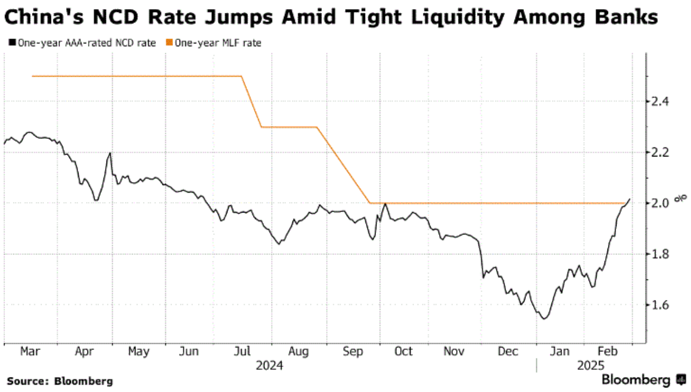
Figure 17: Offshore investors no longer hold a heavy short CLP position

Foreigners FX derivatives positions; USDbn (negative means short CLP)

Source: J.P. Morgan, BCCh, Bloomberg Finance L.P.

China

A liquidity crunch has pushed banks' short-term funding rates to eight-month high. The yield of one-year AAA-rated negotiable certificates of deposit (NCDs), funding instruments issued by banks, rose to 2.005%, exceeding the corresponding one-year medium-term facility (MLF) rate (2.00%) for the first time since October. Analysts believe that, with MLF loans unavailable until the next offering in late-March, funding may remain restricted unless PBOC expands its cash offerings. Financial institutions have been pressured by elevated funding costs since January amid PBOC's restraint in liquidity operations, delayed policy easing and the halt of bond buying, which are all seen as measures preventing the yuan from weakening. Today, Reuters reported that Chinese banks have been asked by the authorities to cut interest rates offered on US dollar deposits, possibly to curtail dollar hoarding and support a weakening yuan. Onshore CNY (-0.2%) and offshore yuan (-0.2%) weakened, with the fixing little changed at 7.1738. The seven-day repo rate has eased to 2.13%, while 10-year CGB yield remains at 1.77%. Declines in onshore equities (CSI 300: -2.0%) were not as severe as those offshore (Hang Seng: -3.3%; Hang Seng Tech: -5.0%).



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Global Financial Indicators

2/28/25 8:00 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,862	-1.6	-4.2	-3.0	15.0	0
Europe		5,429	-0.8	-0.8	2.7	11.3	11
Japan		37,156	-2.9	-3.9	-3.5	-6.9	-7
China		3,890	-2.0	-2.2	1.9	10.0	-1
Asia Ex Japan		75	-2.1	-2.5	2.7	13.3	3
Emerging Markets		44	-1.9	-2.7	2.6	9.6	5
Interest Rates					basis points		
US 10y Yield		4.3	0	-18	-28	-1	-31
Germany 10y Yield		2.4	-2	-7	-17	-6	3
Japan 10y Yield		1.4	-2	-5	18	68	28
UK 10y Yield		4.5	-3	-9	-13	30	-8
Credit Spreads					basis points		
US Investment Grade		120	2	9	3	-5	0
US High Yield		330	4	21	27	-33	1
Exchange Rates					%		
USD/Majors		107.3	0.1	0.7	-1.0	3.0	-1
EUR/USD		1.04	0.1	-0.5	0.4	-3.7	0
USD/JPY		150.6	0.6	0.9	-2.9	0.4	-4
EM/USD		44.2	-0.1	-0.6	1.5	-5.4	3
Commodities					%		
Brent Crude Oil ($/barrel)		73.1	-1.3	-1.8	-3.4	-3.9	-2
Industrials Metals (index)		145.9	-0.9	-1.7	2.9	5.8	4
Agriculture (index)		58.9	0.0	-3.8	-1.1	0.5	3
Implied Volatility					%		
VIX Index (%, change in pp)		21.2	0.0	2.9	4.7	7.8	3.8
Global FX Volatility		8.2	0.0	0.1	0.0	1.6	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		84	1	0	-2	-21	-1
Italy		113	0	5	4	-30	-2
France		74	1	-1	-1	26	-9
Spain		64	1	1	3	-24	-5

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

Emerging Market Financial Indicators

Last updated: 2/28/2025 8:02 AM	Exchange Rates: Level		Change (in %)					Local Currency Bond Yields (GBI EM): 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		7.28	0.1	-0.4	-0.5	-1.2	0.3		1.8	2	7	16	-57	13
Indonesia		16596	-0.9	-1.7	-1.8	-5.3	-2.8		6.9	5	12	-13	27	-16
India		88	-0.4	-0.9	-1.0	-5.3	-2.2		7.0	-10	-18	-15	-27	-39
Philippines		58	-0.2	-0.1	0.7	-3.1	0.0		5.1	0	0	5	-31	26
Thailand		34	-0.3	-1.8	-1.3	5.1	0.5		2.2	-2	-11	-11	-35	-9
Malaysia		4.46	-0.4	-1.0	-0.1	6.3	0.2		3.8	-2	-3	-4	-10	-5
Argentina		1062	-0.1	-0.3	-1.2	-20.8	-2.9		28.5	84	128	319	-4831	-63
Brazil		5.84	-0.2	-1.9	0.1	-14.9	5.7		15.0	4	24	-33	469	-89
Chile		955	-0.2	-0.9	2.7	1.2	4.3		5.8	3	-11	6	28	9
Colombia		4130	0.0	-1.2	1.9	-4.9	6.7		11.4	-1	-13	13	150	-38
Mexico		20.39	0.5	0.1	1.4	-16.4	2.1		9.6	-2	-35	-48	12	-79
Peru		3.7	-0.2	0.3	1.8	3.1	2.3		6.3	1	-11	-35	-51	-28
Uruguay		43	-0.2	1.1	1.8	-8.1	2.7		9.7	-1	-4	-1	65	3
Hungary		384	0.4	0.4	2.5	-5.3	3.6		6.4	0	-5	-2	37	2
Poland		3.99	0.5	-0.1	2.0	0.2	3.6		5.5	-2	-10	-11	35	-8
Romania		4.8	0.1	-0.4	0.4	-3.8	0.5		7.2	1	-19	-46	82	-9
Russia		88.6	-1.0	-0.1	11.4	3.0	28.1							
South Africa		18.4	0.1	-0.3	1.2	4.1	2.2		10.6	7	-12	-1	-100	14
Türkiye		36.52	-0.2	-0.2	-2.1	-14.5	-3.2		28.2	-6	-32	82	-65	-154
US (DXY; 5y UST)		107	0.1	0.7	-1.0	3.0	-1.1		4.07	0	-20	-26	-19	-31

	Equity Markets: Level		Change (in %)					Bond Spreads on USD Debt (EMBIG): 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		3,890	-2.0	-2.2	1.9	10.0	-1.1		99	6	4	-50	3
Indonesia		6,271	-3.3	-7.8	-10.8	-14.2	-11.4		104	11	7	0	13
India		73,198	-1.9	-3.4	-5.2	-0.8	-6.3		98	8	6	-2	12
Philippines		5,998	-2.1	-1.6	2.0	-13.3	-8.1		96	8	5	10	17
Thailand		1,204	-1.0	-3.4	-7.7	-12.0	-14.0						
Malaysia		1,575	-0.8	-1.0	1.4	2.4	-4.1		78	6	6	-4	8
Argentina		2,193,657	-3.6	-9.0	-14.5	116.2	-13.4		778	64	131	-982	141
Brazil		124,799	0.0	-1.8	-1.1	-3.3	3.8		233	12	7	24	-14
Chile		7,386	0.6	1.0	2.6	14.5	10.1		126	6	5	-1	13
Colombia		1,628	-1.1	-0.2	7.0	27.8	18.0		330	13	13	32	4
Mexico		52,608	-1.3	-3.1	2.7	-5.1	6.2		313	11	-2	-10	1
Peru		28,551	-0.4	-2.3	-1.5	1.1	-1.4		145	3	3	7	4
Hungary		87,372	-0.7	-0.7	2.2	32.5	10.1		149	2	-4	-8	-6
Poland		91,768	-0.7	-1.4	5.0	12.0	15.3		117	6	2	28	5
Romania		17,656	-0.4	0.7	3.9	11.1	5.6		247	6	-14	53	12
South Africa		86,390	-1.1	-2.8	0.5	18.8	2.7		309	4	5	-38	16
Türkiye		9,676	-0.7	0.8	-3.3	5.2	-1.6		279	19	13	-29	20
EM total		44	-2.1	-2.7	2.6	9.6	4.8		375	8	16	47	10

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

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