



- Markets gird against tariff wars with risk-off positioning ([link](#))
- Tariffs' growth and inflation impact meaningful but asymmetric on US, Canada, Mexico ([link](#))
- Asian markets tumbled as US tariffs spark concerns about regional spillovers ([link](#))
- Yen relatively resilient against dollar strength from US tariffs ([link](#))
- Turkish lira depreciates past 36 against the US dollar as inflation surprises to the upside ([link](#))

[Mature Markets](#)






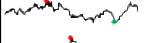

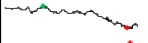


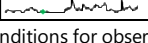
| [Emerging Markets](#)

| [Market Tables](#)

Tariff-ied: Markets React to Tariff Announcements

Global markets enter risk-off mode as investors fear a broader trade war. Over the weekend, plans for US tariffs on Canada, Mexico (25%) and China (10%) were confirmed, and the US president warned the EU that sanctions will “definitely happen.” Canada and Mexico announced counter tariffs. Global stock markets started this week deeply in the red, with declines led by tariff-exposed stocks. US stocks are set to open lower as well, with S&P500 futures trading 1.5% lower this morning. Reflecting the market’s risk-off sentiment, global sovereign yields declined across the board, with the US Treasury curve being the important exception. The impact of tariffs on the US curve is complex, with tariffs affecting expectations for inflation, growth, US dollar strength, and the Fed’s policy path. Today, the Canadian dollar weakened by 1% versus the US dollar, and the Mexican peso by 2%. Energy commodity prices increased as US tariffs also affect Canadian oil exports to the US. Despite planned calls on Monday, reports suggest that deals are not expected to materialize before Tuesday, when the announced US tariffs should come into effect. However, legal challenges could slow implementation.

Key Global Financial Indicators

Last updated: 2/3/25 8:13 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6041	-0.5	-1	2	22	3
Eurostoxx 50		5186	-1.9	0	6	11	6
Nikkei 225		38520	-2.7	-3	-3	7	-3
MSCI EM		43	-1.1	-1	1	11	2
Yields and Spreads			bps				
US 10y Yield		4.51	-3.0	-3	-9	49	-6
Germany 10y Yield		2.39	-7.2	-14	-4	15	2
EMBIG Sovereign Spread		316	-1	1	-9	-86	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.2	-0.7	-1	1	-8	1
Dollar index, (+) = \$ appreciation		109.2	0.8	2	0	5	1
Brent Crude Oil (\$/barrel)		77.0	1.7	0	1	0	3
VIX Index (% change in pp)		20.0	3.5	2	4	6	3

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

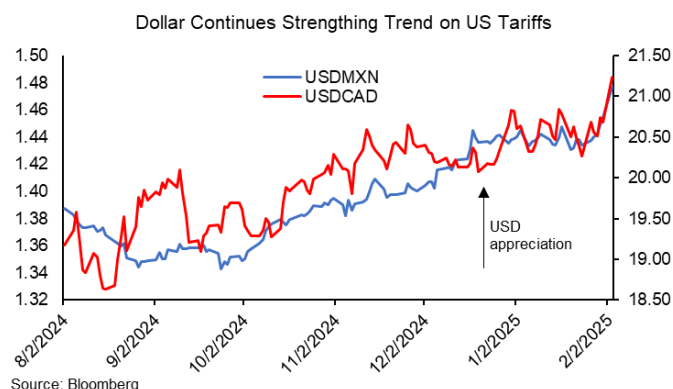
This week, market participants will look for further details on tariff retaliation and counter retaliation, as well as any signs of last-minute negotiation ahead of the Tuesday 12:01 AM (EST) implementation. Aside from trade policy, the data docket in the US will be heavy, with the Employment Situation Report on Friday, as well as second-tier data including JOLTs and ISM manufacturing and services data. Markets will also parse through a slew of Fed speakers, particularly for any reaction to tariff developments, and will be attentive to US Treasury's quarterly refunding announcement on February 5. Central bank decisions will also be of focus, including the BoE (UK) on February 6, which is expected to cut by 25 bps following weaker labor and growth data, and Banxico (Mexico) on the same day, where wagers for a 50 bps cut have risen following tariff announcements. The RBI (India) will also announce their rate decision on February 7, with most market participants expecting a 25 bps cut to kick off their easing cycle.

Mature Markets

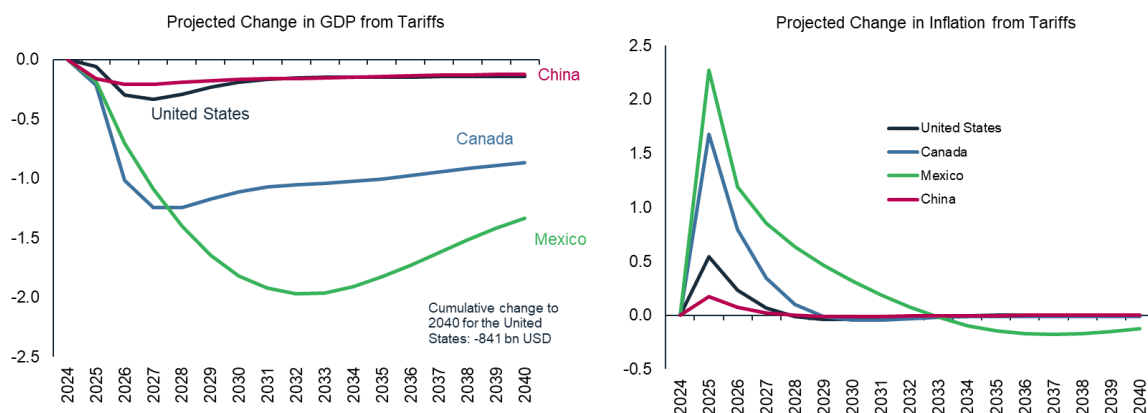
[back to top](#)

United States

Markets reprice for the speed and scope of the Trump tariffs, and their resulting implications for both inflation and company profit margins. Rates analysts broadly believe that the front-end of the US treasury curve will be most impacted, with some noting that tariffs are more likely to be a price-level shift, and not a longer-run driver of inflation expectations. Deutsche Bank believes that a tariff war will be generally bearish for US rates across the curve, given that tariffs are most comparable to a VAT hike coupled with a negative supply shock, and that the US will likely offset negative impacts with fiscal support (increasing deficits). In FX, the broad US dollar index is expected to sustain its strengthening trend seen since last summer, with the Canadian dollar and Mexican peso facing significant weakness against the greenback. Elsewhere, equity investors weighed uncertainty and parsed through sector—and company—specific tariff vulnerabilities, while oil futures were higher amid the tariffs' scoping in of energy, despite the lesser rate on Canadian energy imports. Risk-off sentiment also spread to crypto, as investors shed Bitcoin and more significantly, Ethereum, on trade war concerns.



Analysts expect meaningful impacts on economic growth and inflation from announced tariffs, though effects may be asymmetric. President Trump's announcement of 25% tariffs on Canadian goods (10% on energy), 25% on all Mexican imports, and 10% on Chinese goods is likely to lead to pain according to some analysts and several studies, though the magnitude of impact is expected to differ, with the US and China likely to feel the least negative effects. Economists at Goldman Sachs had previously projected that were tariffs long term, they would raise core PCE prices by 0.7% and decrease GDP by 0.4% in the US. A BoC [study](#), meanwhile, suggests that Canadian GDP may be around 2.5% lower, with CPI rising by 0.1pp in the first year and by 1pp in the third year. For Mexico, the impact on GDP and inflation may be significantly higher, given their larger portion of exports (80%) and tighter supply chain integration with the US, as projected by a PIEE [study](#).

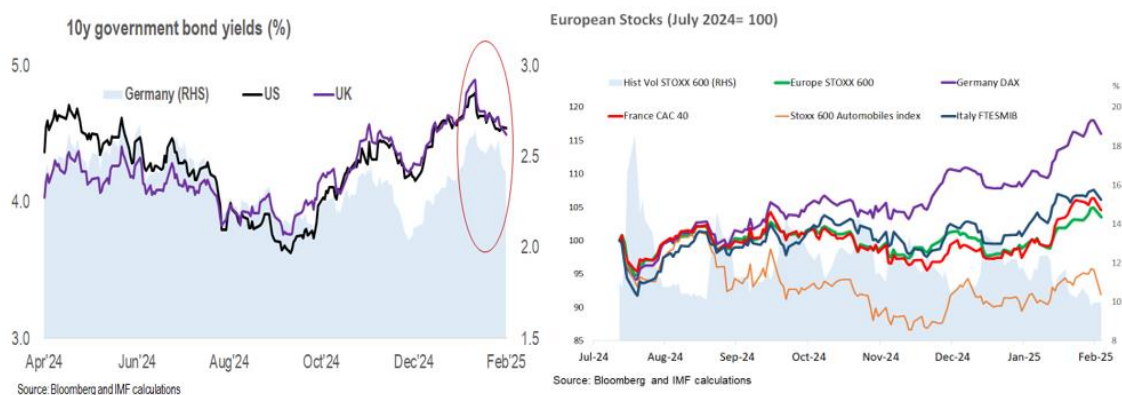


Source: Peterson Institute for International Economics

Europe

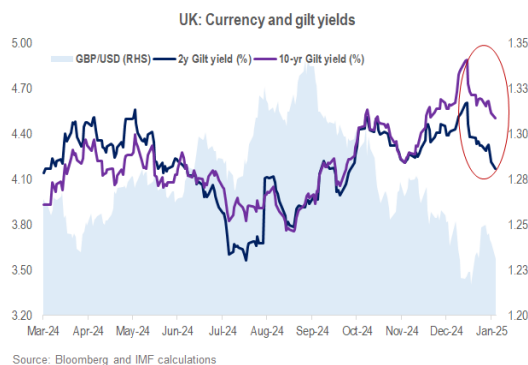
European equities, government bond yields and the euro were all lower following tariff news flows.

The Eurostoxx 600 was around 1.2% lower, led by declines in the industrials and information technology sectors. The share prices of European car manufacturers were particularly hard hit (- 4.4%); companies such as Volkswagen have factories in Mexico. According to Bloomberg, while equity market trading volumes are above average, there is “no sense of panic” in markets, with buyers from the retail segment and systematic investors stepping in. **European sovereign bond yields were also lower across all tenors** with the curve bull steepening and reflecting the broader risk-off tone. The 10y bund yield declined by 6 bps to 2.40% and the 2y bund yield fell by 7 bps to 2.03%, the lowest level this year. Pricing for the upcoming March ECB meeting suggests some investors start to consider the possibility of a larger rate cut with around 27 bps priced in. The euro was weaker against a broadly stronger dollar (-1.1%) to trade at 1.0245/\$. Meanwhile on the data front, January flash euro area inflation data surprised on the upside.



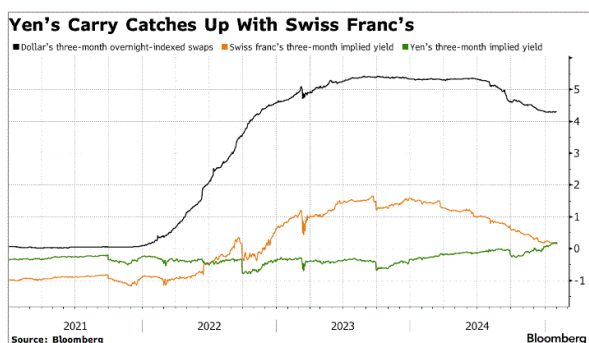
United Kingdom

UK equities, gilts, and pound sterling lower on tariff-related developments. Sterling is down around 0.7% against a broadly stronger dollar to trade at 1.2309, with UK equities also lower in line with global peers reflecting the risk-off tone in markets. UK gilt yields were also lower across the curve with the 2Y yield at 4.17% (-6 bps), a level last seen in October 2024 and the 10Y yield at 4.49% (-5 bps), back at levels seen at the end of last year. Elsewhere, money markets have scaled up expectations of easing from the Bank of England with around 81 bps of easing priced in through December 2025, up from 72 bps last week, as markets react to the news flow of US tariffs. Separately, the **Bank of England is expected to deliver 25 bps rate cut this week.** Consensus expectations are that the MPC will vote in favor of a 25 bps reduction in Bank Rate to 4.5%, at its policy meeting on Thursday.



Japan

The yen strengthened as much as 0.3% intraday before depreciating by 0.1% following some swings, showing a much milder depreciation compared to G10 peers. According to Bloomberg, while the yield differential between the US and Japan remains significant, the yen is making gains as a haven currency versus the Swiss franc. Earlier, during a weekend television interview, Finance Minister Kato had emphasized the need to monitor the impact of tariffs on the yen exchange rate among other factors, reiterated concerns of cost-push inflation through a weaker yen, and gave little indication on USD/JPY trends from his recent virtual meeting with US Treasury Secretary Scott Bessent. Meanwhile, a summary of opinions at the January 23–24 MPC, released today by the Bank of Japan (BOJ), suggests that some members stressed the importance of avoiding both a “rapid depreciation of the yen” and an excessive retraction of recent yen depreciation. According to Bloomberg, this would reinforce prevailing market views that foreign exchange rates are an important factor for the BOJ when considering rate hikes, given the concerns over its impacts on inflation. Today, Japanese equities posted a major loss (Nikkei 225: -2.7%) after Trump tariffs, with carmakers hardest hit.



Emerging Markets

[back to top](#)

EMEA currencies were sharply weaker while equities were trading in the red as markets digest the impact of US tariff announcements. Among CEE countries, Polish equities saw the sharpest declines (-1.6%), with the Polish zloty also leading the region's currency declines against both the euro and the dollar. The South African rand was roughly 1.4% weaker against the dollar at 18.93/\$ with contacts noting that the rand was also weighed down by comments from US President Trump that the US would cease sending aid to South Africa given its land expropriation policies. Data released this morning showed better than expected PMI manufacturing data for Poland and Czechia, while PMI data in Hungary disappointed. Elsewhere, Egypt issued \$2bn in dollar bonds last week, with contacts noting strong investor demand.

Asian markets tumbled after additional tariffs by the US on its major trading partners and pledged retaliation ignited concerns about negative regional impacts due to worries about slower global growth, the risk of universal tariffs, and potential dollar strength from possible slower rate cuts by the US Fed. Equity markets witnessed heightened sell-offs across the region (EM Asia: -2.5%), particularly in sectors heavily reliant on US markets and with higher exposure to production bases in Mexico, such as automakers, e-commerce platforms, and chip makers. Geographically, equities in Taiwan POC (-3.5%) led the slide in a catch-up trade to a global sell-off on artificial intelligence names after the market reopened from holidays.

The decline was followed by Korean equities (-2.5%), weighed down by technology heavyweights. Offshore listed Chinese stocks (HSCEI) fell by as much as 2.4% before erasing losses, on the news that China has drafted a preliminary proposal for trade negotiations with the Trump administration, as well as a rally in Chinese semiconductor stocks. Traders anticipated that Trump's tariffs would accelerate China's efforts to achieve industrial self-sufficiency in the chip industry. **Key Chinese markets remained closed due to the Lunar Calendar New Year holidays.**

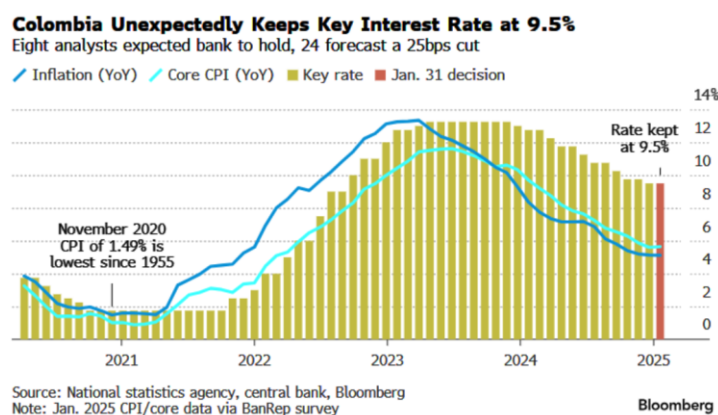
Asian currencies weakened amid a stronger dollar, with the Taiwan dollar, Thai baht, and Korean won weakening by as much as 1%, while the Indian rupee softened past 87/US dollar to its weakest level on record on rate cut bets. Bank Indonesia vowed to continue to ensure a balance of supply and demand in the Forex market, with the rupiah depreciating 0.9%. Today, offshore RMB weakened by 0.6% to 7.3679/US dollar at one point, before regaining some lost ground (-0.3%), as China reportedly will pledge not to devalue the RMB to support its exports, as part of the trade deal with the US.



Latin American risk assets saw negative performance last Friday. Stocks declined in Brazil (-0.6%), Mexico (-1.6%), Colombia (-1.4%), and Peru (-0.6%). Currencies appreciated mostly versus the US dollar, with the Mexican peso down 1.8% this morning and the Colombian peso down 1.3%. The central bank of Mexico is expected to cut its policy rate by 50 bps on its Thursday meeting.

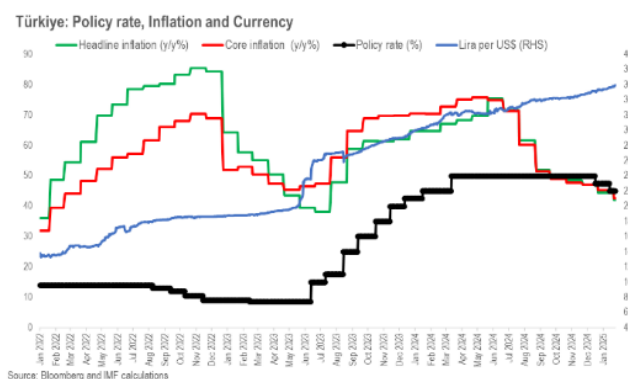
Colombia

Last week, Colombia's central bank unexpectedly kept its benchmark interest rate at 9.5%, citing concerns over the country's fiscal outlook, a large minimum wage hike, and tariff threats from the US. Five of the seven board members supported the decision, while one called for a 0.25 percentage point cut and another for a 0.5 percentage point reduction. This move pauses the bank's 13-month cycle of monetary easing during which the bank lowered borrowing costs by 3.75 percentage points. Policymakers highlighted concerns over FX volatility and the inflationary impact of wage increases and US trade policies.



Türkiye


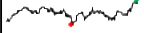



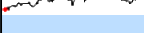









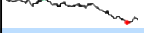









Turkish lira depreciates past 36 against the US dollar for the first time on record with analysts pointing to risk aversion and an upside surprise in inflation. Data released this morning showed headline inflation easing by less than expected in January to 42.1%/y/y (versus expected 41.1% from 44.4%). The central bank of Türkiye in January continued cutting interest rates to take the key rate to 45%, but also vowed to maintain the tight monetary stance until price stability is achieved. Bloomberg analysts expect inflation to ease to 25% by end-2025 and to 14% by end-2026, and as such continue to expect rate cuts at all of the seven remaining monetary policy meetings for this year to take the key rate to 25% by end-2025. Contacts had previously argued that a predictable monetary easing path should keep the Turkish lira relatively stable. This morning Bloomberg analysts caution that an acceleration in the Turkish lira's depreciation—notably after the Fed's hawkish tilt and the new administration's focus on tariffs, poses a risk to the inflation outlook. The Turkish lira was -0.7% weaker against the dollar this morning at around 36/\$ with analysts pointing to US-tariffs-led risk aversion together with Turkish inflation data. The lira is now roughly -1.8% weaker than at the start of the year.



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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.






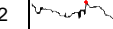





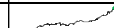

















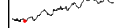

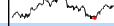


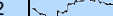
Global Financial Indicators

2/3/25 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,984	-0.5	-0.5	0.7	20.7	2
Europe		5,186	-1.9	-0.1	6.5	11.4	6
Japan		38,520	-2.7	-2.6	-3.4	6.5	-3
China		3,817	-0.4	-0.3	1.1	19.3	-3
Asia Ex Japan		73	-1.0	-0.6	-0.1	14.6	1
Emerging Markets		43	-1.1	-0.5	1.4	10.5	2
Interest Rates			basis points				
US 10y Yield		4.5	-3	-3	-9	49	-6
Germany 10y Yield		2.4	-7	-14	-4	15	2
Japan 10y Yield		1.3	1	4	15	58	15
UK 10y Yield		4.5	-7	-11	-12	55	-10
Credit Spreads			basis points				
US Investment Grade		119	2	2	-2	-9	-1
US High Yield		307	7	4	-4	-78	-21
Exchange Rates			%				
USD/Majors		109.2	0.8	1.8	0.3	5.1	1
EUR/USD		1.03	-0.9	-2.1	-0.4	-4.4	-1
USD/JPY		154.6	-0.4	0.1	-1.7	4.0	-2
EM/USD		43.2	-0.7	-0.7	1.4	-8.2	1
Commodities			%				
Brent Crude Oil (\$/barrel)		77.0	1.7	1.1	1.4	4.7	4
Industrials Metals (index)		141.2	-0.4	-1.0	1.7	3.3	1
Agriculture (index)		59.6	0.1	1.8	6.1	-1.8	5
Implied Volatility			%				
VIX Index (% change in pp)		20.0	3.5	2.1	3.8	6.1	2.6
Global FX Volatility		8.4	0.0	0.1	-0.8	0.7	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		88	2	1	6	-19	3
Italy		111	2	1	-5	-46	-4
France		74	-1	0	-13	23	-9
Spain		62	1	-1	-7	-31	-8

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

Emerging Market Financial Indicators

Last updated: 2/3/2025 8:14 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.24	0.0	0.4	0.7	-0.9	0.8		1.7	0	-3	-3	-79	-3
Indonesia		16435	-0.8	-1.6	-1.5	-4.4	-2.0		7.0	1	0	-3	38	-3
India		87	-0.7	-1.0	-1.6	-4.7	-1.8		7.1	0	-1	-26	-5	-24
Philippines		59	-0.5	-0.4	-0.8	-4.0	-1.4		5.1	1	2	22	-34	22
Thailand		34	-1.0	-1.0	1.3	5.2	0.2		2.4	1	-1	3	-35	3
Malaysia		4.47	-0.3	-2.1	0.6	6.2	0.0		3.8	1	1	0	4	0
Argentina		1053	-0.3	-0.4	-2.0	-21.3	-2.1		25.9	9	40	-331	-4743	-331
Brazil		5.85	-0.2	0.9	5.7	-14.9	5.5		15.0	-4	-42	-90	487	-90
Chile		988	-0.8	0.0	3.0	-3.3	0.7		5.8	4	7	15	50	15
Colombia		4229	-0.5	-0.7	2.8	-6.2	4.2		11.5	16	33	-29	206	-29
Mexico		20.95	-1.3	-1.3	-1.5	-18.3	-0.6		10.1	8	7	-27	77	-27
Peru		3.7	-0.2	-0.2	0.3	2.2	0.3		6.7	0	-3	4	9	8
Uruguay		44	-0.7	-0.1	1.0	-10.0	1.0		9.7	0	-1	3	42	3
Hungary		398	-1.1	-2.1	1.4	-9.5	-0.1		6.4	2	-5	-2	54	-2
Poland		4.11	-1.2	-2.4	0.7	-1.8	0.4		5.6	-1	-8	-3	58	-3
Romania		4.8	-0.9	-2.1	-0.4	-4.4	-0.8		7.5	12	-28	18	125	18
Russia		99.8	-1.1	-2.6	10.8	-9.2	13.8							
South Africa		18.8	-0.9	-0.6	-0.6	1.2	0.0		10.6	8	6	8	-75	8
Türkiye		35.99	-0.7	-0.7	-1.7	-15.1	-1.8		27.4	18	34	-234	-81	-234
US (DXY; 5y UST)		109	0.8	1.8	0.3	5.1	0.7		4.32	0	-1	-9	34	-6

	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		3,817	0.0	-0.3	1.1	19.3	-3.0		97	4	1	-69	1	
Indonesia		7,030	-1.1	-3.1	-1.9	-2.9	-0.7		94	2	3	-27	3	
India		77,187	-0.4	1.7	-2.6	7.1	-1.2		97	8	11	-27	11	
Philippines		5,883	0.3	-6.6	-10.9	-12.3	-9.9		87	0	8	-17	8	
Thailand		1,304	-0.8	-2.7	-5.8	-5.8	-6.8		73	3	3	-23	3	
Malaysia		1,554	-0.2	-1.5	-4.7	2.4	-5.4							
Argentina		2,564,659	-1.3	-0.1	-6.0	94.9	1.2		626	-8	-11	-1343	-11	
Brazil		126,135	-0.6	1.0	6.4	-0.8	4.9		227	6	-20	-10	-20	
Chile		7,151	-0.3	1.7	6.7	19.3	6.6		120	3	7	-18	7	
Colombia		1,522	-1.4	6.2	9.0	19.1	10.3		323	13	-3	14	-3	
Mexico		51,210	-1.6	-0.3	4.6	-12.1	3.4		309	4	-3	-25	-3	
Peru		28,984	-0.6	-0.6	-0.9	7.1	0.1		142	5	1	-9	1	
Hungary		84,858	-0.7	-0.1	6.4	30.0	7.0		146	-2	-9	-28	-9	
Poland		85,795	-1.8	0.3	5.3	7.8	7.8		108	-2	-4	-2	-4	
Romania		16,995	0.0	0.1	-0.2	8.7	1.6		239	-18	4	38	4	
South Africa		85,133	-1.0	1.1	0.5	14.5	1.2		296	8	3	-60	3	
Türkiye		9,823	-1.8	-1.8	-2.5	13.4	-0.1		256	-2	-3	-114	-3	
EM total		43	-2.3	-0.5	1.4	10.5	2.2		357	4	-7	-7	-7	

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

[back to top](#)