GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 6, 2025

LEAD EDITOR: SONAL PATEL

- **BoE cuts Bank Rate in line with expectations** (link)
- **Hawkish comments from Bank of Japan official fuels rate hike bets** (link)
- **US Treasury yields rallied yesterday driven by several catalysts** (link)
- **Crackdown of "de minimis" trade loophole raises China growth concerns** (link)
- **Türkiye priced its first dollar-denominated issuance of 2025** (link)
- **US AI standard-bearers are lagging the broader S&P500 since the Nov 2024 election** (link)

Mature Markets | Emerging Markets | Market Tables

Central Bank Decisions and Corporate Earnings Back in Focus

While trade policy headlines dominated the first part of the week, attention today shifts to central bank policy decisions and corporate sector earnings. In the UK, the BoE delivered its third rate cut of the cycle taking the policy rate to 4.5% with officials emphasizing a "gradual and careful approach" to further easing. Elsewhere, the Czech National Bank is expected to deliver a 25bps rate cut at its policy meeting later today while consensus expectations are for a larger, 50bps rate cut in Mexico. Hawkish comments from BoJ board member Tamura fueled expectations of further rate hikes and saw the Japanese yen rally against the dollar. Elsewhere, sovereign bond yields were a touch higher this morning, although 10Y yields in the US and UK remain lower than they were at the start of the year. US equity futures markets fluctuated, paring earlier gains after disappointing earnings from Qualcomm, Ford, and semiconductor company Skyworks Solutions, with attention now focused on Amazon's earnings update due after market close. Meanwhile European equities were trading in the green this morning and at record high levels following a slew of better-than-expected corporate earnings data from several sectors including banking and healthcare.

Key Global Financial Indicators

Last updated: 2/6/25 12:55 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6061	0.4	0	1	22	3
Eurostoxx 50		5311	0.8	1	7	13	8
Nikkei 225		39067	0.6	-1	-3	8	-2
MSCI EM		43	-0.3	1	2	9	3
Yields and Spreads					bps		
US 10y Yield		4.44	2.6	-7	-19	34	-12
Germany 10y Yield		2.38	0.9	-14	-7	8	1
EMBIG Sovereign Spread		316	-1	-2	-3	-75	-8
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		43.7	0.0	0	2	-7	2
Dollar index, (+) = $ appreciation		108.0	0.4	0	0	4	0
Brent Crude Oil ($/barrel)		74.9	0.4	-3	-2	-5	0
VIX Index (%, change in pp)		16.0	0.2	0	0	3	-1

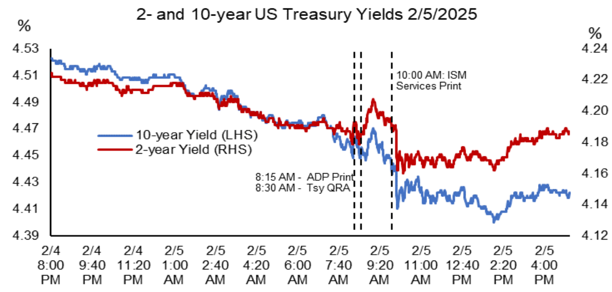
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

back to top

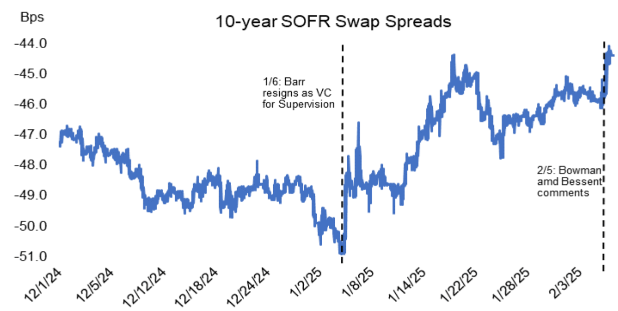
United States

US Treasuries rallied on several catalysts yesterday, including overnight strength across developed market rates, Treasury's quarterly refunding announcement, and a weaker ISM services data print. After wading through tariff clouds earlier this week, and minimal reaction to the higher-than-expected ADP employment change number (183k vs 150k exp), Treasury yields moved discretely lower following the release of the ISM services index, which saw the headline figure drop to 52.8 in January, below the median survey of 54.0. Some market participants noted that the magnitude of the miss was small, but that weaker December JOLTS and ISM manufacturing data earlier in the week may have supported the yield moves. Treasury's commitment to maintaining its current forward guidance around nominal coupon auction sizes in its quarterly refunding announcement also helped traders find direction via a flatter curve, with the 10-year declining faster than the 2-year. Traders will now seek more definitive signs of labor market health in Friday's Employment Situation Report.



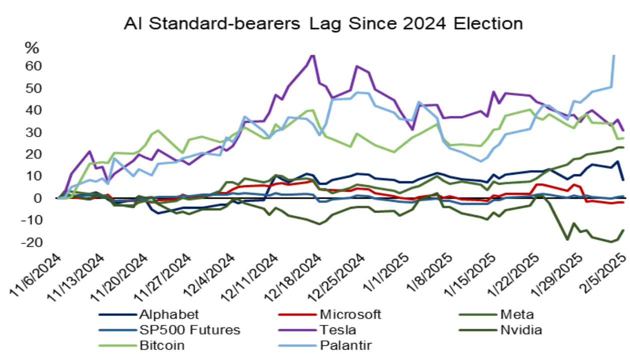
Source: Bloomberg

Market participants were attentive to comments from US Treasury Secretary Bessent and Fed Governor Bowman. Governor Bowman—who some market participants believe may be slated to become the new Vice Chair for Supervision—called for a more tailored supervisory approach to banks, as well as for regulators to take a closer look at amending rules to improve liquidity in the US Treasury markets, primarily by amending the leverage ratio and G-SIB surcharges for the largest US banks. Both the KBW banks and KBW regional banks indices ended the day higher by around 1% following her speech. Long-end SOFR swap spreads further widened on Bowman's comments, with the 10-year SOFR swap spread rising from -45.6bps to -44.6bps. Changes to capital requirements that allow more favorable treatment for holding Treasuries—as alluded to by Governor Bowman—could alter the relative value of US Treasuries vs SOFR swaps. Remarks by Treasury Secretary Bessent late in the afternoon that the administration was "focused on the 10-year Treasury" rate, along with the need for "concrete measures to close the budget deficit" may have also contributed to the spread widening.



Source: Bloomberg

AI standard-bearers like Nvidia and Microsoft have lagged since the November 2024 election. This has become more apparent in the current earnings cycle, with disappointing earnings from Alphabet and AMD. Bloomberg analysts note that Nvidia, a Mag 7 stalwart, has trailed not only the S&P500, but also Trump-related trades like Tesla, Bitcoin, and to a lesser extent, Palantir. Similarly, shares in Microsoft and Alphabet are also treading water, potentially reflecting investor weariness on increased AI capex spending, especially amid the revelation of low-cost AI models from the likes of DeepSeek.

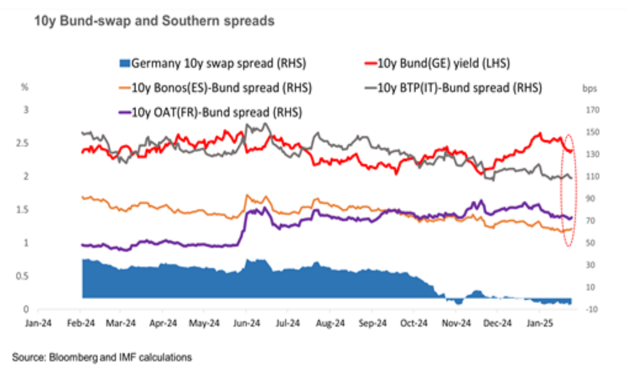


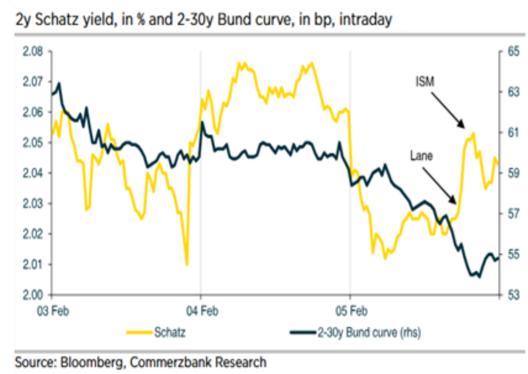
Source: Bloomberg

Europe

European equities continued to edge higher for the third consecutive day this morning, while government bond yields were little changed across tenors with the euro weaker against the dollar. The Stoxx 600 index was up by around +0.7%, with gains primarily in materials (1.8%) and the banking sector (+1.3%) which was led by an 8.7% rise of Société Générale after strong Q4 results released today. All major European bourses were trading in the green this morning, with France (CAC 40 +0.7%) and Germany (DAX +0.7%) outperforming. On the data front, December factory orders surprised to the upside in Germany, with sequential growth of 6.9% m/m (vs. est. 2%, -5.2% prior) and the construction PMI also climbed up to 42.5pts in January from 37.7pts in November.

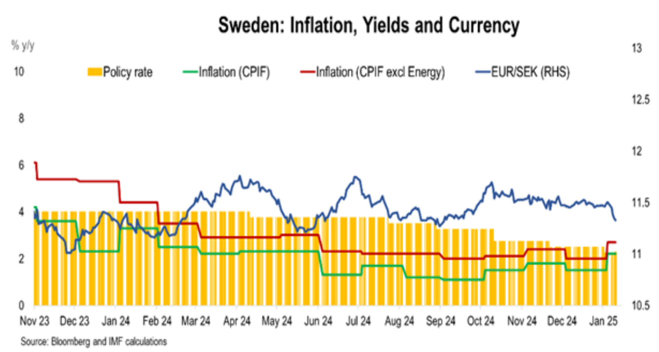
ECB's Chief Economist Philip Lane said yesterday that the ECB should remain agile in setting monetary policy in both directions due to persisting inflation risks. Lane flagged that the return of inflation to the 2% target, which is foreseen this year, might "take longer than expected," but also warned that in case of an overly cautious approach from policymakers "a below-target inflation dynamic could take hold." Meanwhile, ECB Governing Council member Mario Centeno said that the policy rate needs to reach 2% "sooner rather than latter" this year through further gradual cuts of 25 bps. After Lane's comments, money markets pared slightly wagers of further ECB rate cuts this year, pricing-in -87bps of easing against prior -90bps; 2y German government bond yields are little changed today, with the 10y Bund yields at 2.37% (+1bp). The 10y French-German spread was little changed at its three-month low of 71 bps this morning, and the spread between 10y BTP and Bund yields was also little changed at 108bps (-1bp).





Sweden

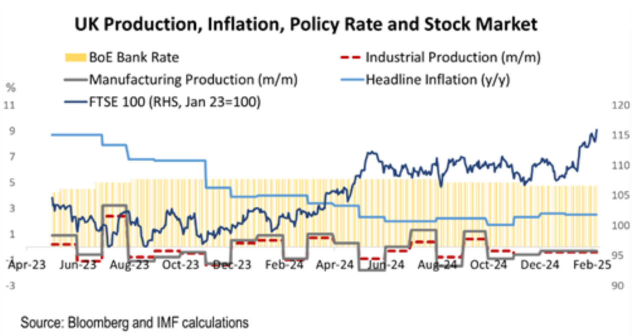
The Swedish krona advanced (+0.1%) **against a weaker euro,** trading at SEK 11.33/€, but edged lower (-0.3%) against the dollar (at SEK10.93/$) after **inflation surprised to the upside.** Headline inflation for January (CPIF index) printed at 2.2%y/y (vs. est. 1.6%, 1.5% prior), with core inflation (excluding more volatile energy prices) also above expectations at 2.7%y/y (vs. est. 2.1%, 2% prior). As inflation hit an eight-month high money markets have scaled down expectations of another rate cut by the Riksbank in March, which is now priced-in with a likelihood of 9% compared to 41% yesterday. The central bank has cut its policy rate by -150bps to 2.25% in the last six months with the latest -25bps cut in January when the Riksbank estimated January inflation at 1.8%y/y. Analysts at Swedbank now expect another cut

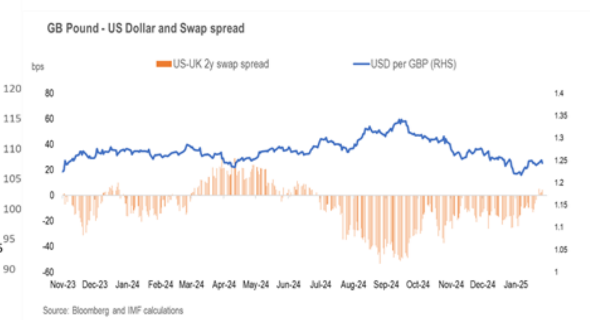


only in June (vs previous estimate of March), while Handelsbanken believes that the Riksbank will keep its policy rate on hold at 2.25% for the rest of 2025. UBS continues to expect another last -25bps cut for 2025 in March given the downside risks from lower growth in Germany (an important trading partner for Sweden), potential US tariffs and the weak consumption recovery in Sweden.

United Kingdom

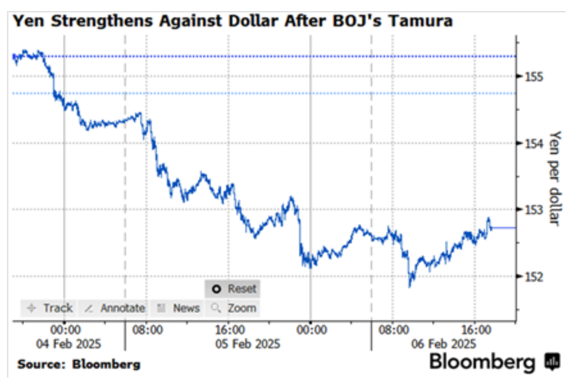
Bank of England cuts Bank Rate, in line with expectations. Pound sterling edged lower (-1%) against the dollar, trading at $1.2377/£, while gilt yields were lower (10y yield -5bps at 4.38%, 2y yield -7bps at 4.07%) and the FTSE 100 rose by 1.1%, after the Bank of England (BoE) cut its policy rate by -25bps to 4.5% as expected. The MPC voted in favor of the cut by a majority of 7–2, with two members preferring to reduce the policy rate by 50bps to 4.25%. The BoE highlighted progress on disinflation (inflation inched down to 2.5%y/y in December) but noted that domestic inflationary pressures remain elevated and expects headline inflation to reach 3.7%y/y in Q3 2025 and to then fall back to around the 2% target thereafter. Elsewhere, according to Bloomberg, option traders had reduced their bearish bets on the pound ahead of today's BoE meeting, as the pound-dollar one-week risk reversals moved to trade at 10bps puts over calls, down from Tuesday's high of 91bps, although the shift also reflects diminished dollar bullish momentum amid moderation on tariffs talks.





Japan

The yen rallied as much as 0.5% past the 152-level following hawkish comments from Bank of Japan (BOJ) board member Naoki Tamura, before erasing gains in the afternoon. Known as one of the most hawkish board members, Tamura believes Japan's neutral rate is at least around 1%, and suggests the policy rate should be at least 1% in the second half of FY2025, though he also stated the pace of rate hike should be data dependent. His remarks, coupled with yesterday's higher wage data, reinforced the expectation that more rate hikes are on course. Nomura analysts believe the BOJ may consider accelerating its rate hikes if households raise their inflation expectations in response to current price increases, as the CPI excluding imputed rent, a key measure of household-perceived inflation, has recently accelerated to 4.2% y/y. Today, Japanese equities advanced (Nikkei 225: +0.6%), with the share price of Nomura jumping as much as nearly 8% to its highest level in 16 years, before closing 3.8% higher, on its upbeat Q3 earnings. According to Nikkei, **the combined net profits of five major Japanese brokers surged by 74% y/y during the first three quarters of FY2024**, partly fueled by retail businesses benefiting from the revamped Nippon Individual Savings Account (NISA) tax-free investment program.

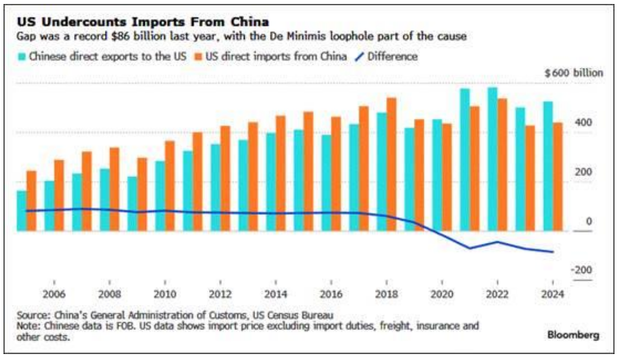


Emerging Markets

back to top

Most Asian currencies weakened (EM Asia: -0.2%), with the Thai baht (-0.8%) and Korean won (-0.5%) leading the depreciation, amid uncertainties over whether the US and China could reach a trade deal. **Asian equities mostly advanced** (EM Asia: +0.6%), with equities in Hong Kong SAR (+1.4%) and China (CSI 300: +1.3%) posting a rally, reflecting sanguine market sentiment in the aftermath of the DeepSeek shock. Indonesian equities underperformed (-2.1%), amid net selling of US$30.1 mn in stocks by foreign investors, according to Bloomberg. **EMEA equities were mostly trading in the green while currencies weakened against the dollar.** Equities in Hungary and Czechia outperformed, gaining by around 2% respectively. CEE currencies were mixed against the euro this morning with the Czech koruna gaining (+0.3% to 25.18/€) after January's preliminary inflation print showed a smaller-than-anticipated easing ahead of the policy decision later today, where a 25bps rate cut is expected. Elsewhere on the policy front, the Polish central bank left rates unchanged at 5.75% yesterday, as expected. **Latin American assets performed mixed**. Stocks declined in Mexico (-0.6%) and Colombia (-0.9%), while Peru's equity market rose by 0.7%. Currencies depreciated in Brazil (-0.8%), Mexico (-0.4%), and Colombia (-0.4%) against the US dollar.

China



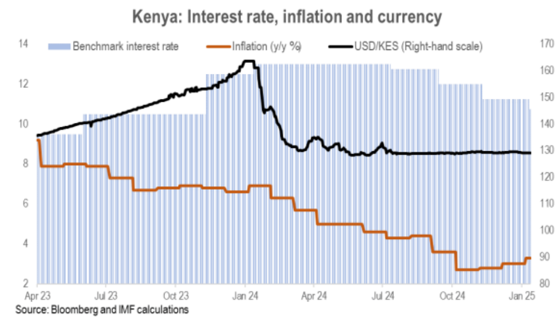
Estimates by Nomura suggest "de minimis" ban, on top of other new costs, will slash shipments of small packages of declared value under $800, cut total export growth by 1.3pps and reduce China's GDP by 0.2pps this year. Since 2023, Chinese e-commerce giants including Shein and Temu had been taking advantage of US's de minimis exemption, not only driving up China-to-US air freight costs, but also indirectly through bulk items to Mexico and then broken down into small packages to enter the US. Such tariff impacts continue to underscore the importance of a more sustainable consumption growth momentum. Elsewhere, based on data published by the Ministry of Culture and Tourism, during Lunar New Year holidays, box office receipts soared to a historical high, and tourism revenue rose to RMB 677bn ($93.1 bn), +7% y/y. Chinese equities rebounded (CSI 300: +1.3%) on EV supply chain and robotics optimism. Both onshore CNY and offshore CNH depreciated by 0.3%, while the fixing was set at 7.1691, still 972 pips stronger than market consensus. The yield curve shifted lower, with 10y sovereign yields revisiting the year-to-date low of 1.60%.

Türkiye

Türkiye priced its first dollar-denominated issuance of 2025. The Ministry of Treasury and Finance noted that the transaction was finalized with a nominal amount of $2.5bn and maturity date of 2032, a coupon rate of 7.125% and 7.2% yield, with the ministry noting that the orderbook was close to three times oversubscribed. The notes will settle on February 12. The country is aiming to borrow $11bn from international markets this year, according to Bloomberg, with analysts also highlighting that the spread between the yield of Turkish dollar bonds and equivalent US Treasuries has decreased significantly over the past year. Contacts report that EM issuance has been well-absorbed so far in 2025—with issuances over the past week including those from Poland, Croatia and Romania.

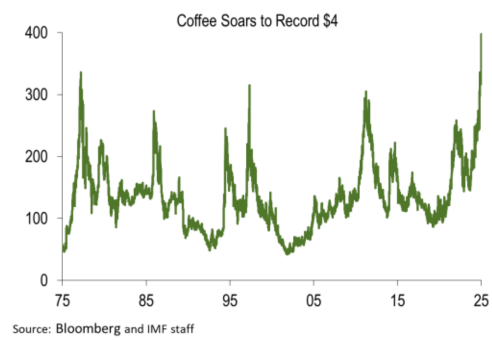
Kenya

Kenya delivers fourth consecutive interest rate cut and lowers the cash reserve ratio. The central bank yesterday lowered the central bank rate by 50bps to 10.75%, as expected. In addition to cutting rates, the central bank also lowered the cash reserve ratio by 100bps to 3.25% aimed at lowering lending rates and boost economic growth, with some contacts noting that the central bank appears frustrated that commercial bank lending rates have only eased marginally despite the 225bps of central bank rate cuts delivered since August 2024. The central bank expect that the inflation rate would remain below the central bank's target range midpoint of 5%. Bloomberg analysts note that a more stable currency has helped to keep inflation lower, with the Kenyan shilling remaining at around 129 shillings per dollar over the past six months. JPMorgan analysts anticipate a final 50bps rate cut in April, while Absa analysts expect rate cuts to continue, and forecast the central bank rate at 9.25% by end-2025.



Brazil

Arabica coffee prices surged past $4 per pound in New York for the first time in history, doubling over the past year. The price rise is mainly due to concerns over tight global supplies. Brazil's arabica production is expected to drop to 34.7 million bags in the season starting in May, compared with 39.6 million in the last year. It is the lowest since 2022, as Arabica production area came down 1.6% from the prior year. Vietnam, the leading robusta producer, also suffered weather-related setbacks. These combine to contribute to a forecasted 25-year low in global stockpiles. On Wednesday, the most actively traded arabica futures contract surged 4.6% to $4.01 per pound in New York. It later moderated its gains, closing at $3.9775, marking a 3.8% increase from the previous session.



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

2/6/25 12:58 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,061	0.4	0.4	1.4	22.3	3
Europe		5,310	0.7	0.5	6.5	13.2	8
Japan		39,067	0.6	-1.1	-2.5	8.2	-2
China		3,843	1.3	1.2	1.2	14.9	-2
Asia Ex Japan		73	-0.3	1.2	0.4	12.2	1
Emerging Markets		43	-0.3	1.3	1.8	8.8	3
Interest Rates					basis points		
US 10y Yield		4.4	3	-7	-19	34	-12
Germany 10y Yield		2.4	1	-14	-7	8	1
Japan 10y Yield		1.3	-1	6	14	55	18
UK 10y Yield		4.4	-1	-13	-18	48	-14
Credit Spreads					basis points		
US Investment Grade		117	-1	0	-4	-11	-3
US High Yield		302	-2	1	-8	-84	-26
Exchange Rates					%		
USD/Majors		108.0	0.4	0.2	-0.2	3.6	0
EUR/USD		1.04	-0.4	-0.3	-0.3	-3.7	0
USD/JPY		152.4	-0.2	-1.3	-3.3	3.0	-3
EM/USD		43.7	0.0	0.3	1.6	-7.1	2
Commodities					%		
Brent Crude Oil ($/barrel)		74.9	0.4	-1.3	-1.0	0.7	1
Industrials Metals (index)		146.1	0.8	2.0	4.4	8.1	4
Agriculture (index)		61.1	0.8	2.2	8.0	0.8	7
Implied Volatility					%		
VIX Index (%, change in pp)		16.0	0.2	0.1	-0.1	2.9	-1.4
Global FX Volatility		8.6	0.0	0.3	-0.4	0.9	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		85	-1	-1	7	-35	-1
Italy		108	-1	0	-5	-49	-8
France		72	0	-3	-10	21	-11
Spain		62	0	1	-4	-30	-8

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

Emerging Market Financial Indicators

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					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		3,843	1.3	1.2	1.2	14.9	-2.3		97	2	1	-60	1
Indonesia		6,876	-2.1	-2.8	-2.9	-5.0	-2.9		99	4	5	-7	8
India		78,058	-0.3	0.7	-0.2	8.2	-0.1		97	6	13	-23	11
Philippines		6,242	-0.6	2.2	-4.6	-8.6	-4.4		92	4	9	7	13
Thailand		1,262	-1.9	-5.5	-9.3	-9.9	-9.9						
Malaysia		1,585	0.7	2.1	-2.7	4.8	-3.5		73	1	3	-16	3
Argentina		2,477,714	-1.8	-2.7	-11.5	103.8	-2.2		662	44	76	-1213	25
Brazil		125,534	0.3	-1.1	4.6	-3.7	4.4		220	-11	-13	-2	-27
Chile		7,247	-0.4	0.3	6.9	20.7	8.0		125	6	12	-10	12
Colombia		1,510	-0.8	-2.1	8.2	18.3	9.5		328	6	7	4	2
Mexico		51,570	-0.6	0.1	4.2	-12.1	4.2		309	-6	1	-24	-3
Peru		29,311	0.7	1.5	-0.5	7.3	1.2		146	3	7	-6	5
Hungary		86,271	2.5	1.2	7.9	32.7	8.8		158	9	1	-6	3
Poland		87,842	2.0	0.3	7.9	11.0	10.4		117	6	4	10	5
Romania		17,113	0.2	0.6	0.5	9.0	2.3		251	11	15	60	16
South Africa		87,433	0.9	2.0	3.2	17.3	4.0		305	7	18	-44	12
Türkiye		9,813	1.0	-2.7	-2.7	10.6	-0.2		260	-1	2	-90	1
EM total		43	0.2	1.3	1.8	8.8	3.0		354	0	-3	1	-10

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

Last updated: 2/6/2025 1:01 PM	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		7.29	-0.2	-0.6	0.5	-1.4	0.1		1.6	-2	-2	2	-79	-5
Indonesia		16330	-0.3	-0.4	-0.8	-3.7	-1.4		6.9	-8	-8	-11	27	-12
India		88	-0.1	-1.1	-2.0	-5.2	-2.2		7.1	2	4	-24	-4	-22
Philippines		58	-0.2	0.2	0.2	-3.4	-0.6		5.1	-1	-1	18	-37	20
Thailand		34	-0.6	-0.2	2.5	5.6	0.9		2.4	-2	2	2	-37	3
Malaysia		4.44	-0.3	-0.9	1.7	7.5	0.8		3.8	-1	0	-2	0	-1
Argentina		1052	0.2	0.0	-1.6	-21.1	-2.0		27.3	61	150	89	-4851	-184
Brazil		5.80	0.0	1.2	5.4	-14.5	6.4		15.0	17	-41	-45	478	-93
Chile		970	0.2	1.4	4.2	-2.2	2.5		5.8	-4	1	15	45	11
Colombia		4174	0.1	-0.5	4.1	-5.3	5.6		11.4	-2	-4	-34	146	-45
Mexico		20.60	-0.1	0.6	-1.4	-17.3	1.1		9.9	-7	-18	-44	49	-46
Peru		3.7	-0.1	0.0	1.2	3.9	0.6		6.6	-1	-5	-8	-13	1
Uruguay		43	0.0	-0.4	1.1	-9.9	1.1		9.7	0	2	2	50	4
Hungary		392	-0.4	0.0	2.2	-8.4	1.4		6.3	-11	-8	-23	29	-9
Poland		4.06	-0.6	-0.4	0.8	-0.4	1.7		5.6	-2	-5	-6	43	-3
Romania		4.8	-0.4	-0.3	-0.3	-3.7	0.0		7.3	-13	-5	11	111	6
Russia		96.7	1.3	1.7	11.1	-6.3	17.3							
South Africa		18.6	-0.2	0.0	-0.1	1.3	1.4		10.6	-5	10	13	-87	8
Türkiye		35.89	0.1	-0.3	-1.6	-15.0	-1.5		28.3	21	76	-99	17	-145
US (DXY; 5y UST)		108	0.4	0.2	-0.2	3.7	-0.4		4.27	2	-5	-16	23	-11

back to top