GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 7, 2025
LEAD EDITOR: SONAL PATEL

- **Mixed January payrolls data suggests still strong US labor market** (link)
- **ECB staff analysis estimates neutral rate between 1.75–2.24%** (link)
- **Upbeat household spending adds to investors' bullishness on Japanese yen** (link)
- **Reserve Bank of India cuts policy rate for the first time in almost five years, as expected** (link)
- **Banxico delivers 50 bps rate cut, in line with expectations** (link)
- **Gold rallies to all-time highs on tariffs and policy uncertainty** (link)

Mature Markets | Emerging Markets | Market Tables

US Jobs Report Rounds Off a Busy Week

It's been a week of contrasts with trade policy headlines dominating the first half of the week and data and central bank decisions in focus in the latter part. Today's January US payrolls report showed job growth of 143k, below expectations but with significant upward revisions to the prior two months and the unemployment rate drifting lower. US Treasury yields were higher across the curve while money markets pared back expectations of Fed rate cuts. Meanwhile in Europe, equity markets were largely rangebound, although still trading near record high levels. Some analysts expect European stocks to continue their outperformance over US equities citing attractive valuations as supportive factors. That said, near-term event risks around the upcoming German election and possible Russia/Ukraine peace talks could result in some profit-taking. Reflecting broader, elevated policy uncertainty, gold prices have rallied to trade at all-time highs with the precious metal outperforming US equity market returns on a year-to-date basis. Elsewhere, the Reserve Bank of India cut its policy rate, as expected, for the first time in almost five years. Meanwhile, Banxico delivered a 50bps rate cut, in line with expectations with officials striking a cautious tone, highlighting external risks and the peso's stability as key factors for future policy decisions.

Key Global Financial Indicators

Last updated: 2/7/25 1:45 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		6084	0.4	0	3	22	3
Eurostoxx 50		5342	-0.3	1	7	14	9
Nikkei 225		38787	-0.7	-2	-1	5	-3
MSCI EM		43	0.4	0	3	9	3
Yields and Spreads				bps			
US 10y Yield		4.47	3.2	-7	-22	35	-10
Germany 10y Yield		2.39	0.7	-7	-10	7	2
EMBIG Sovereign Spread		315	-1	-1	-5	-77	-10
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		43.8	0.0	1	2	-7	2
Dollar index, (+) = $ appreciation		107.8	0.1	-1	-1	4	-1
Brent Crude Oil ($/barrel)		74.8	0.6	-3	-3	-6	0
VIX Index (%, change in pp)		15.3	-0.2	-1	-2	3	-2

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

Mature Markets

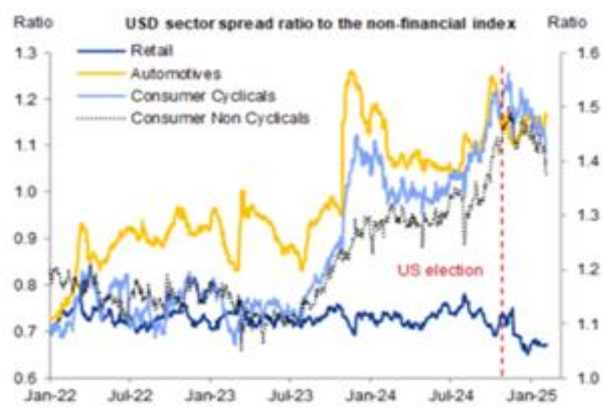
back to top

United States

Nonfarm payrolls for January printed at 143k, below the Bloomberg consensus (175k) and the unemployment rate came in at 4.0% versus consensus expectations of 4.1%. While the headline number was softer-than-expected, average hourly earnings were notably higher than consensus. The US 10-year Treasury was higher by around 5bps in the morning, while S&P500 futures were down by around 0.1%. The Bloomberg dollar index was also higher. Initial market reaction highlighted the strong hourly earnings print and the strong upward revisions, with traders paring back their bets for Fed rate cuts this year.

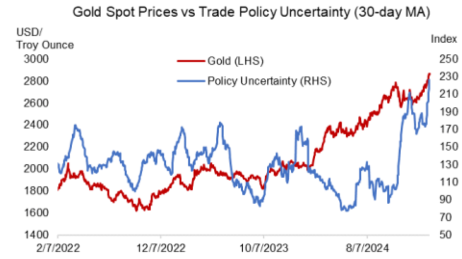
	Actual	Consensus	Prior	Revisions
Nonfarm payrolls	143k	175k	256k	307k
Private payrolls	111k	158k	223k	
Avg hourly earnings (MoM)	0.5%	0.3%	0.3%	
Avg hourly earnings (YoY)	4.1%	3.8%	3.9%	
Unemployment rate	4.0%	4.1%	4.1%	
Participation rate	62.6%	62.5%	62.5%	

Rates and credit markets offer insights into market thinking regarding the threat of tariffs. US rates market responded to the news of tariffs on Monday by trading on increased front-loaded inflation risks that would delay Fed rate cuts as well as amplified medium-term risks to growth. While nominal moves related to tariffs basically unwound after delays were announced against Canada and Mexico, market-implied near-term inflation has reset still relatively higher since last Friday, perhaps reflecting the go-ahead increase in tariffs on China. In credit markets, the response in tariff-sensitive sectors for USD IG corporates was relatively muted, at least compared to corresponding equities. Retail and consumer corporates were resilient, while automotives widened only slightly relative to the broader IG index. Goldman Sachs analysts note that the bar for tariffs to impair credit quality is high, as the hit to leverage and coverage ratios via the earnings channel would likely be modest.



Source: Goldman Sachs, iBoxx

Gold rallies to all-time highs on tariffs and policy uncertainty. Gold prices have increased by around 9% year-to-date to $2889.5/oz with global fears around potential tariffs, a US-China trade war, as well as elevated policy uncertainty, all supporting safe-have demand for the commodity. This has come in addition to long-running trends underpinned by central bank demand and increased ETF holdings by investors. Relatedly, Bloomberg reports that trade-war concerns have even led dealers in London to shift some of their metal to the US on fears that gold may not be excluded from potential trade levies. These fears have subsequently led to a widening in the “exchange-for-physical” pricing between New York Comex futures and London spot gold prices.

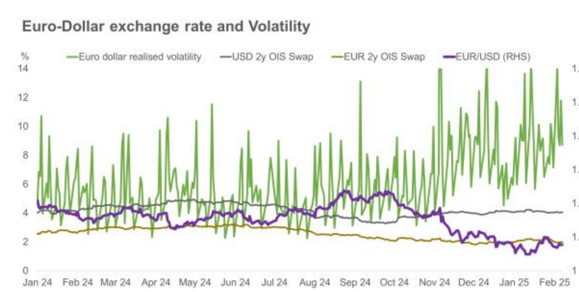


Source: Bloomberg; Baker, Bloom & Davis

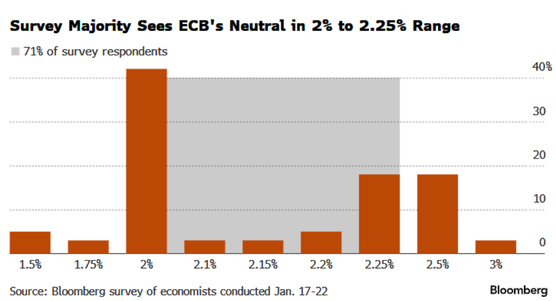
Europe

European stocks traded sideways, mirroring US equity futures, as investors wait for US nonfarm payroll data later today. European government bond yields were little changed across tenors with the euro steady against the dollar. The Stoxx 600 index was slightly down (-0.1%) today, after having risen by 1% this week, with utilities outperforming (+0.5%) and the health care sector underperforming (-0.5%); the banking sector traded lower today (-0.2%) although it is poised to close the week by 3% higher. On the data front, December industrial production in Germany surprised to the downside**,** as production dropped by -3.1%y/y (vs. est. -2.1%) from -2.8% in November. The German industrial production index has reached its lowest level since May 2020 and output remains around 10% down on its pre-pandemic level, dragged mainly by weakness in the automotive (-12%y/y in 2024) and machinery (-7.8%y/y) sectors. Analysts at HSBC highlight risks for the German industry from potential tariff wars and uncertain German economic policy after February’s snap election. Elsewhere, industrial production surprised to the upside in Spain, rising by 2.1%y/y (0.9%m/m) in December (vs. est. 0.7%y/y).

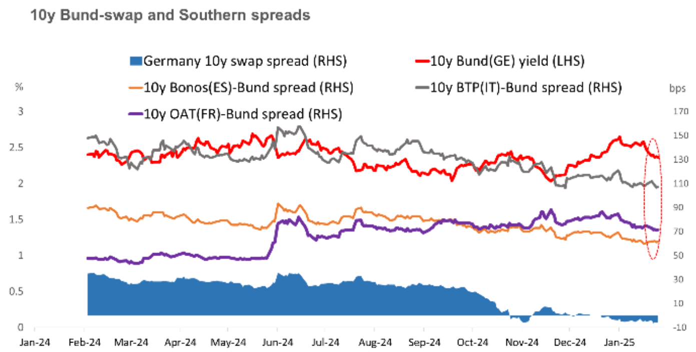
ECB staff analysis published today estimates the neutral rate in the range of 1.75–2.25%, in line with previous communications from policymakers. ING analysts expected the neutral rate projections to embed higher inflation than in previous estimates and to be increased as a result. Yesterday ECB Governing Council member Olli Rehn warned however that the ECB should not constrain its freedom of action “because of a theoretical concept", and today ECB Chief Economist Philip Lane said that the ECB “won’t spend too much time thinking about the so-called neutral rate.” According to a Bloomberg survey, analysts see the ECB neutral rate in the range of 2–2.25%, although Citi sees the lower bound down to 1.5%.



Source: Bloomberg and IMF calculations



Analysts at Citi see markets as largely pricing-in a benign outcome of the February elections in Germany (a CDU and SPD/greens coalition government). While they warn that the risk of a blocking minority is non-insignificant and could drive up EGB spreads, any fiscal loosening via a debt brake reform would in their view keep German net supply largely unchanged vs 2023–25 with limited implications for repo and swap spreads. Separately, French PM Bayrou survived a no-confidence motion on Wednesday, assuring that the 2025 budget gets adopted. Analysts at Natixis note however that to meet the target of reducing the deficit to 3% of GDP, in accordance with European rules, France will have to continue with large adjustments in future budgets since the one just adopted only cut the deficit to 5.4% of GDP in 2025 from 6% estimated for 2024. This morning, the 10y French-German spread was little changed at 71 bps, and the spread between 10y BTP and Bund yields was also little changed at 107bps.



Source: Bloomberg and IMF calculations

Japan

The yen briefly gained past 151 per USD, after data showed household spending, one of the key indicators that the Bank of Japan (BOJ) is watching, grew 2.7% y/y in real terms in December, exceeding the market expectation (+0.5%) by a large margin. While the yen soon pared gains (-0.3%), it is set to head towards its fourth straight weekly gain. According to Bloomberg, hedge funds are adding bullish yen options, not only versus USD but also against GBP and CHF. Barclays analysts believe the yen will remain robust in the near term, as annual spring wage negotiations are expected to result in another solid 5% hike while inflation may remain above the 2% target, likely keeping the BOJ on the hawkish side. However, they do not expect a sustained large drop in USD/JPY, considering retail outflows may continue to weigh on the yen due to the renewed tax exemption limit associated with the Nippon Individual Savings Account (NISA) scheme in the new year, and the yen's still-low yields make it susceptible to carry trades. Japanese equities declined (Nikkei 225: -0.7%) amid concerns of a stronger yen weighing on exporters. Investors are closely monitoring PM Ishiba's first meeting with President Trump to find clues on whether Japan may become a target for tariffs and if the Trump administration will tolerate yen weakness.

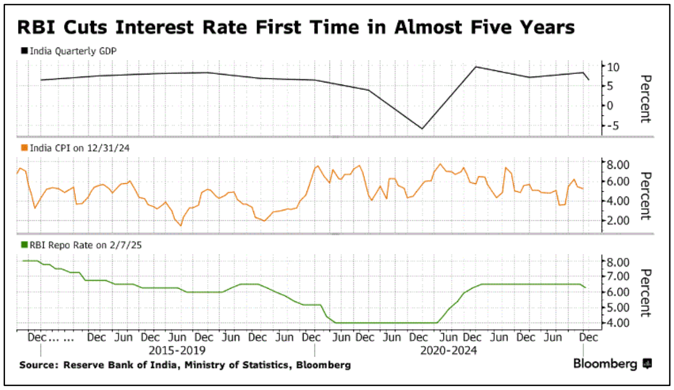
Emerging Markets

back to top

Most Asian currencies gained, led by Thai baht (+0.5%) and Indonesian rupiah (+0.4%). **EM Asian equities gained (+0.9%) but performance was mixed**, with declines in Indonesia (-2.2%) and Philippines (-1.4%). CSI 300 (+1.3%) and Hang Seng Index in Hong Kong SAR (+1.2%) gained, thanks to continued AI optimism and property stocks, which were supported by stabilizing home sales during the Lunar New Year and China Vanke executive appointments, indicating State oversight now extended into Vanke's regional operations, according to Caixin. **EMEA equities were mostly gaining while currencies were trading in a tight range ahead of the US Payroll data.** Equities outperformed in South Africa (+0.5%), while the South African rand was little changed against the dollar. CEE currencies were mixed against the euro this morning with the Hungarian forint underperforming (-0.2% to 405.32). **Latin American assets advanced yesterday.** Stocks gained in Brazil (+0.6%), Mexico (+2.1%), Chile (+0.4%), Colombia (+1.0%), and Peru (+0.9%). Currencies appreciated in Brazil (+0.7%), Mexico (+0.6%), Colombia (+0.9%), and Chile (+0.8%) against the US dollar.

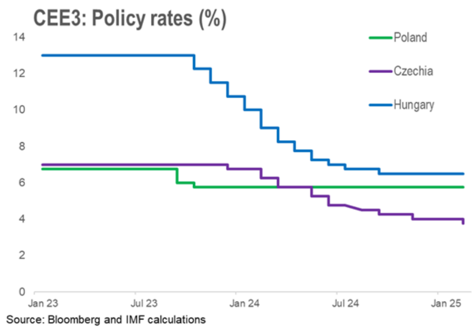
India

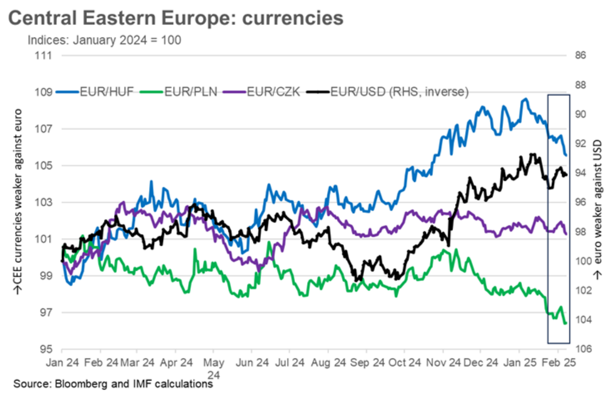
Reserve Bank of India (RBI) cut the policy repo rate by 25bps to 6.25% but retained policy stance as "neutral" rather than "accommodative," more hawkish than expected. Governor Malhotra delivered his first policy speech in a measured tone, reaffirming the RBI's commitment to a flexible inflation target while being mindful of growth risks. Growth for FY2025–26 is projected at 6.7%, with CPI inflation at 4.2%y/y, slightly above the bank's 4% target. Governor Malhotra also announced (i) a plan to allow bond forwards trading that will help long-term investors manage interest rate risk; and (ii) delay of Liquidity Coverage Ratio (LCR) norms to end-March 2026, but disappointed some market players by not announcing immediate measures to boost banking system liquidity. 10y sovereign bond yields rose by 5bps to 6.70%, while the Indian rupee appreciated (+0.2%) against the US dollar and equities dropped (-0.2%) led by banking stocks.



Central Eastern Europe

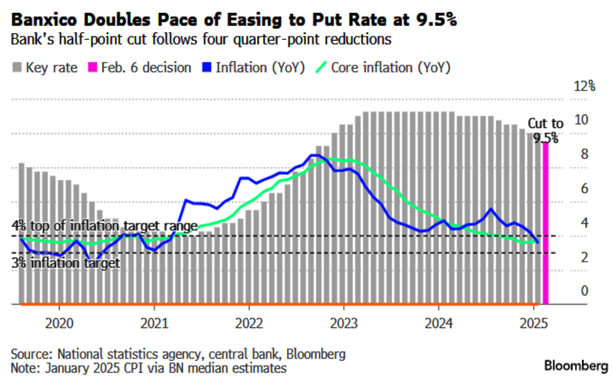
Analysts still expect policy rate cuts in 2025, while CEE currencies gain on hopes for a peace agreement in Ukraine. The Czech National Bank yesterday cut its policy rate by 25bps, to 3.75%, while data released ahead of the meeting showed inflation easing by less than expected. Contacts note that the press conference retained a hawkish tone, with Raiffeisen analysts noting a very cautious tone regarding future meetings. The analysts expect one more rate cut in 2025 with the policy rate expected to only reach the considered 3% terminal rate in 2026. Elsewhere in the region, Poland left interest rates unchanged at 5.75% earlier this week, as expected. Several analysts expect the Polish central bank to only resume rate cuts in H2 2025, with BofA forecasting the policy rate at 5.25% by end-2025. Hungary also left interest rates unchanged at the most recent policy meeting with messaging seen to be hawkish, and BofA analysts argue that in the case of the Hungarian forint remaining stable and inflation risk easing, the rate cuts could resume from the summer. The currencies of Poland, Hungary and Czechia have strengthened this week and are between 0.5% and 2.1% stronger against the euro than at the start of the year. Contacts note that currencies were likely supported by talks around progress on a Ukraine agreement from the US administration.





Mexico

Banxico cut its benchmark rate by 50 basis points to 9.5% on Thursday, in line with expectations and marking the fifth consecutive rate reduction. The decision was mostly due to inflation returning to target, growth slowing, and postponed US tariffs on Mexican exports. However, it was a split decision, with one board member favoring a smaller cut and another pushing for a larger reduction. Policymakers signaled the potential for further rate cuts of similar size, while maintaining a restrictive stance due to lingering inflation risks and economic uncertainty tied to US trade policies. The unexpected tariff delay accelerated consensus for the larger cut, as analysts now anticipate another 50bp reduction in March if tariffs remain on hold. Despite easing, Banxico remains cautious, highlighting external risks and the peso's stability as key factors in its future decisions.



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.

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

2/7/25 1:42 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
United States		6,079	0.4	0.6	2.9	21.7	3
Europe		5,342	-0.3	1.0	6.6	14.2	9
Japan		38,787	-0.7	-2.0	-1.0	5.1	-3
China		3,893	1.3	2.3	4.3	15.7	-1
Asia Ex Japan		73	0.2	-0.2	1.5	12.5	1
Emerging Markets		43	0.4	0.1	3.0	9.1	3
Interest Rates					basis points		
US 10y Yield		4.5	4	-7	-22	35	-10
Germany 10y Yield		2.4	1	-7	-10	7	2
Japan 10y Yield		1.3	3	6	17	58	20
UK 10y Yield		4.5	-2	-7	-22	48	-10
Credit Spreads					basis points		
US Investment Grade		116	-1	-1	-4	-11	-4
US High Yield		297	-5	-3	-12	-83	-31
Exchange Rates					%		
USD/Majors		107.9	0.2	-0.4	-0.5	3.7	0
EUR/USD		1.04	-0.1	0.1	0.3	-3.7	0
USD/JPY		151.8	0.3	-2.2	-4.0	2.4	-3
EM/USD		43.8	0.0	0.8	2.1	-6.6	2
Commodities					%		
Brent Crude Oil ($/barrel)		74.8	0.7	-1.2	-2.1	-0.1	1
Industrials Metals (index)		147.3	1.0	3.9	4.5	9.7	5
Agriculture (index)		60.9	-0.2	2.3	7.4	0.5	7
Implied Volatility					%		
VIX Index (%, change in pp)		15.4	-0.1	-1.1	-2.5	2.5	-2.0
Global FX Volatility		8.6	0.0	0.2	-0.1	1.0	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		84	1	-2	7	-34	-1
Italy		107	1	-2	-7	-50	-8
France		71	0	-3	-11	20	-12
Spain		62	1	1	-5	-30	-7

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		3,893	1.3	2.3	4.3	15.7	-1.1		94	-4	-2	-66	-2
Indonesia		6,743	-1.9	-5.2	-4.9	-6.8	-4.8		95	-1	-3	-21	4
India		77,860	-0.3	0.5	0.6	8.8	-0.4		97	14	5	-25	11
Philippines		6,155	-1.4	5.0	-5.3	-10.1	-5.7		90	7	0	-6	11
Thailand		1,282	1.6	-2.5	-6.3	-7.7	-8.4						
Malaysia		1,591	0.4	2.2	-0.7	5.2	-3.1		73	1	-2	-17	3
Argentina		2,503,484	1.0	-3.7	-11.3	117.1	-1.2		654	35	83	-1205	17
Brazil		126,346	0.1	0.2	4.3	-2.8	5.0		224	-3	-9	3	-23
Chile		7,313	0.2	1.6	7.4	21.7	9.0		124	6	10	-12	11
Colombia		1,525	1.0	0.2	7.5	19.2	10.6		329	13	10	6	3
Mexico		52,675	2.1	2.2	5.2	-10.3	6.4		309	-8	9	-25	-3
Peru		29,561	0.9	1.4	0.3	8.6	2.1		143	1	3	-12	2
Hungary		86,832	-0.2	1.6	7.6	34.9	9.5		158	9	-2	-11	3
Poland		89,048	0.8	1.9	8.3	12.0	11.9		114	3	-3	4	2
Romania		17,145	0.0	0.9	0.7	9.0	2.5		246	6	6	46	10
South Africa		87,543	0.4	1.8	4.0	17.8	4.1		312	16	23	-38	19
Türkiye		9,850	0.1	-1.5	-1.2	11.4	0.2		262	3	2	-92	3
EM total		43	0.7	0.1	3.0	9.1	3.4		353	2	-3	0	-11

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

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
2/7/2025	Level		Change (in %)					Level		Change (in basis points)				
1:38 PM	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	-0.1	-0.6	0.5	-1.3	0.1		1.6	-2	-3	1	-85	-7
Indonesia		16275	0.3	0.2	-0.9	-3.9	-1.1		6.9	-4	-11	-16	23	-16
India		87	0.2	-0.9	-2.0	-5.1	-2.1		7.2	5	7	-12	4	-17
Philippines		58	0.3	0.6	0.2	-3.5	-0.3		5.1	1	0	18	-36	21
Thailand		34	0.4	0.1	2.5	5.8	1.3		2.4	0	2	-1	-35	3
Malaysia		4.44	-0.1	0.5	1.1	7.2	0.7		3.8	1	1	0	1	0
Argentina		1054	0.0	-0.3	-1.8	-21.2	-2.2		26.7	-65	90	51	-4739	-250
Brazil		5.75	0.2	1.6	6.1	-13.5	7.4		15.0	4	-3	-23	488	-89
Chile		960	0.4	2.1	4.7	-0.6	3.7		5.8	1	2	10	48	12
Colombia		4131	0.1	1.9	5.1	-4.2	6.6		11.4	3	3	-31	170	-42
Mexico		20.50	-0.2	0.9	-0.8	-16.8	1.6		9.8	-9	-20	-52	33	-56
Peru		3.7	0.0	0.1	1.2	3.9	0.6		6.6	0	-7	-7	-10	0
Uruguay		43	0.0	-0.5	0.7	-9.9	1.2		9.7	2	3	4	49	6
Hungary		391	-0.3	0.6	2.8	-7.8	1.6		6.3	-3	-8	-25	29	-12
Poland		4.04	-0.2	0.5	1.9	-0.3	2.2		5.5	-5	-6	-12	41	-8
Romania		4.8	-0.1	0.1	0.3	-3.7	0.1		7.2	-10	-10	0	99	-4
Russia		97.2	-0.4	1.6	10.6	-6.1	16.8							
South Africa		18.5	-0.1	1.2	1.3	2.4	2.1		10.6	3	11	17	-79	11
Türkiye		35.98	-0.3	-0.7	-1.8	-15.0	-1.7		28.1	-13	95	-108	48	-157
US (DXY; 5y UST)		108	0.1	-0.5	-0.7	3.6	-0.6		4.31	4	-1	-15	24	-7

back to top