GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 28, 2025

LEAD EDITOR: SONAL PATEL

- **DeepSeek rattles US tech stocks in broad AI rout** (link)
- **Japan's technology stocks fall on DeepSeek disruption fears** (link)
- **Latin American currencies drop following weekend tariff dispute** (link)
- **Brazilian economists lift inflation forecasts ahead of central bank meeting** (link)
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Tariff-talk and tech sector dominate market attention

US equity markets look set to stage a tentative rebound led by the technology sector. US futures markets are pointing to a slight positive open while sovereign bond yields are drifting higher, paring some of yesterday's gains. Comments last night from President Trump suggesting potential universal tariffs, including higher tariffs "in the very near future" on foreign semiconductors, pharmaceuticals and metals provided a fillip to the dollar which is advancing against major G-10 currency peers. Meanwhile, in Latin America, currencies remain weaker against the dollar following a tariff dispute between the US and Colombia over the weekend. Elsewhere, the fear of widespread disruption from Chinese AI firm DeepSeek, saw shares in Japanese technology stocks extend their decline. While on the data front, ahead of Thursday's policy meeting, the ECB's latest Q4 bank lending survey showed a renewed net tightening in corporate credit conditions.

Key Global Financial Indicators

Last updated: 1/28/25 12:42 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6012	-1.5	0	1	23	2
Eurostoxx 50		5207	0.4	1	6	12	6
Nikkei 225		39017	-1.4	0	-3	8	-2
MSCI EM		42	-1.8	0	0	8	1
Yields and Spreads					bps		
US 10y Yield		4.56	2.6	-2	-6	42	-1
Germany 10y Yield		2.55	2.3	4	16	26	19
EMBIG Sovereign Spread		322	7	1	-7	-77	-3
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		43.5	0.0	0	1	-8	2
Dollar index, (+) = $ appreciation		108.0	0.6	0	0	4	0
Brent Crude Oil ($/barrel)		77.7	0.8	-2	5	-7	4
VIX Index (%, change in pp)		18.1	0.2	3	2	5	1

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

Mature Markets

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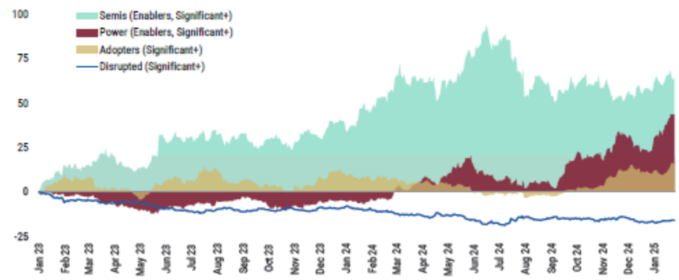
United States

Exhibit 1: Returns relative to S&P500 since January 2023 by AI Enabler and Adopter companies



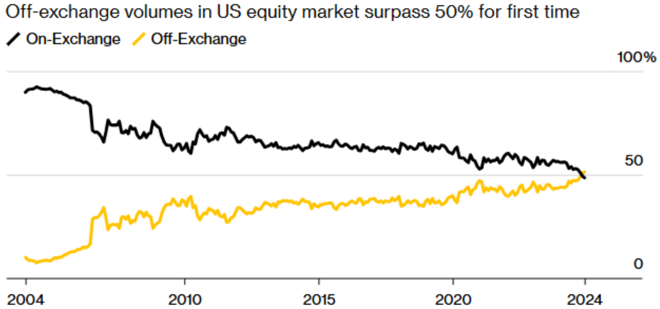
Source: FactSet, Morgan Stanley Research. Note: Exposures and materialities of stocks plotted can be found in our semi-annual mapping work linked above.

DeepSeek rattles tech stocks in broad AI rout. Chinese AI startup DeepSeek unveiled a low-cost AI model that rivals the performance of leading global models. This development raises investor concerns about future demand for advanced processors and questions the validity of the current "build AI at all costs" strategy. Correspondingly, the NASDAQ tumbled 3.1% with the S&P500 down 1.5%, as chipmakers plunged 10%, the most since March 2020. Shares in Nvidia sank 17%, with the company losing $590bn in market cap, marking the largest single-day value destruction in history. Shares of independent power producers, which have significantly outperformed the market since early 2024, experienced even larger losses reflecting concerns about energy demand from AI data centers. That said, Monday's decline was more limited in scope, with 40% of S&P500 members falling, compared to over 90% in recent selloffs on January 10 and December 18. Big tech's earnings releases start this week and will be under closer scrutiny. Although analysts see limited risks to near-term earnings due to the delayed impact of potential changes in CAPEX plans, the sector faces high derating risk given elevated valuations and earnings expectations. **Treasuries rallied on a flight to safety bid.** US Treasury yields dropped 7 to 10 bps across the curve, easily digesting the $140bn note auctions. Investors resumed fully pricing in 2 rate cuts this year, and the probability of a March rate cut also increased to 33% from 25% last week.

For the first time, most US stock trading occurs outside public exchanges. Off-exchange activities, which happens internally at major firms or in alternative platforms known as dark pools, accounted for 51.8% of trading volume in January, according to Bloomberg. The market shift is attributed to increased retail participation in penny stocks and the rise of alternative trading systems. The trend raises concerns about pricing efficiency, potentially increasing costs for investors and issuers.

Stock Trading Goes Dark

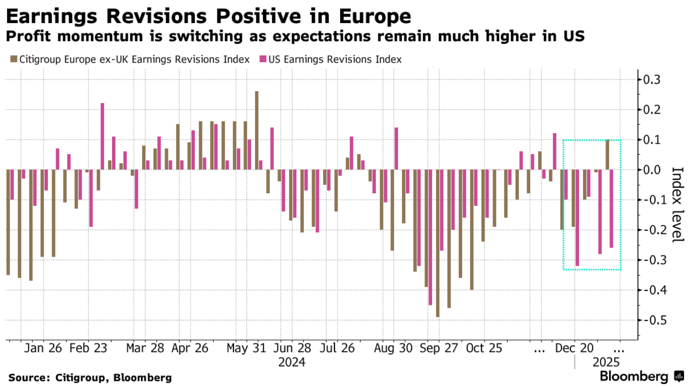
Off-exchange volumes in US equity market surpass 50% for first time



Source: Bloomberg Intelligence

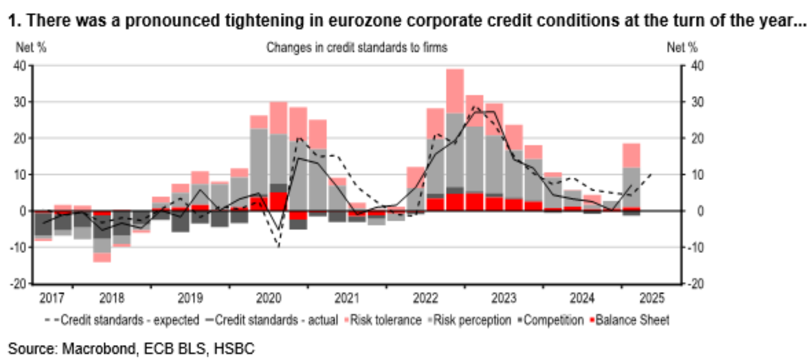
Europe

European equities were trading in the green this morning, while sovereign yields resumed an upward trend. The Stoxx 600 index (+0.6%) gained this morning after closing marginally lower yesterday (-0.1%), compared to the S&P500 that closed -1.5% lower yesterday led by a sell-off in US technology shares. Bloomberg analysts argue that cheaper valuations in Europe could play a supportive role in weathering any further selloffs in US peers led by the tech sector. This morning in Europe all sectors were trading in the green, with the retail (+2.4%) and utility (+1.8%) sectors outperforming, and the technology sector (+0.9%) retracing some of yesterday's losses (-3.3%). European sovereign bond yields were edging higher this morning (10y bund yield +2bps to 2.55%), retracing some of yesterday's moves as bond markets benefitted from safe-haven demand.



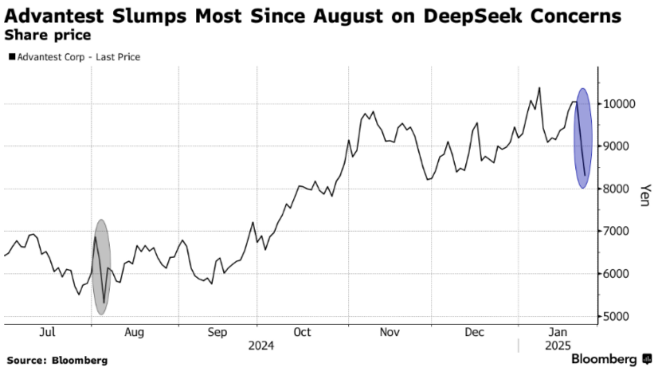
In the meantime, the euro weakened against the dollar (-0.6%), trading at around $1.04/€, as the dollar broadly appreciated with focus on US President Trump's comments regarding higher universal tariffs. US President Trump commented that he is keen to impose universal tariffs that are significantly larger than 2.5%. ING analysts argue that the tariff-related news has shifted the short-term balance of risks back to the downside for EUR/USD and see the euro weakening to below 1.04 as warranted.

The ECB's Q4 bank lending survey showed a renewed net tightening of credit standards to firms and a net increase in loan demand from firms and consumer credit. The bank lending survey showed a net tightening in credit standards to firms (following unchanged standards in Q3), mainly driven by banks in Germany and France amid increased political uncertainty, while Italy saw credit standards easing. For the current quarter, banks expect corporate credit standards to tighten further. The survey also showed that while net demand for loans to enterprises increased marginally, it remains weak overall. For households banks reported that credit standards for loans were broadly unchanged for housing loans, while banks' overall credit terms and conditions for these loans eased strongly. HSBC analysts see the tightening in credit standards for businesses as the most striking development in the survey, and notes that if lending conditions weigh on the broader economy the ECB would likely have to consider the extent of headwinds for growth but also how disinflationary it might be. The analysts continue to expect the deposit rate to reach 2.25% by April, which they see as close to neutral. ECB President Lagarde remarked in December 2024 that the neutral rate is likely slightly higher than before, citing a range of between 1.75–2.5%.



Japan

The sell-off in Japanese technology stocks, driven by the potential disruptive impact of DeepSeek, led to a 1.39% decline in the Nikkei 225 Index. Shares of semiconductor-related companies, including Nvidia Corp. tester supplier Advantest Corp. (-11.14%) and chip equipment maker Disco Corp. (-2.90%), extended losses from the previous day. This selling pressure also affected power generators, who had anticipated increased electricity demand from AI-driven data centers, with shares of Kyushu Electric Power, Tokyo Electric Power, and Kansai Electric Power falling over 2%. Analysts attribute the sell-off to shifting growth outlooks and crowded positioning in AI sectors, viewing recent declines as profit-taking after prior gains. Concerns persist that DeepSeek could signal broader disruptions in the AI market, potentially leading to prolonged market drawdowns. However, the situation may present long-term opportunities for Japanese companies to leverage DeepSeek's cost-saving technology to develop competitive Japanese-language AI models. Today, the yen depreciated (-0.8%) against the dollar as the market speculates that, based on the BOJ's gradual approach, the next rate hike might not occur until six months later.



Emerging Markets

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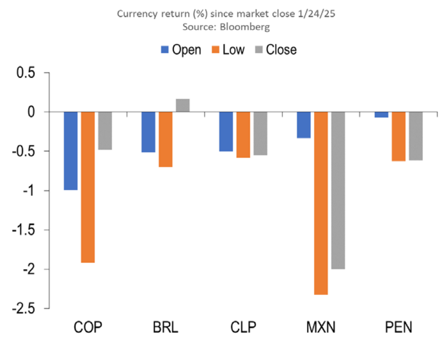
Most Asian currencies depreciated against the dollar following Trump's comments for higher universal tariffs, led by the Korean won (-1.0%) and Singapore dollar (-0.6%). AI valuation worries continued to pressure Japanese equities (Nikkei 225: -1.4%) while EM Asian equities were little changed (-0.1%) with markets in China, Indonesia and South Korea closed for Lunar New Year. **EMEA equities were mixed while currencies were mostly weaker this morning, as US Treasury's plans on universal tariffs supported the dollar.** In CEE, equities outperformed in Poland (+0.4%) but slid in Czechia (-0.3%). CEE currencies were little changed against the euro, with the Hungarian forint trading at 407.85/€ (+0.1%) after the central bank kept the policy rate unchanged at 6.5%, in line with expectations. In South Africa equities gained +0.2% and the rand advanced by +0.2% against the dollar to trade at ZAR 18.70/$ after the Democratic Alliance, the second-largest party in South Africa's government of national unity, confirmed today that it is committed to the coalition. **Latin American currencies mostly depreciated, and equities were mixed.** Currencies fell across the region following a weekend tariff dispute between the US and Colombia. Equities gained in Brazil (+2.0%), Colombia (+1.2%), and Mexico (+0.6%) but fell in Argentina (-5.0%) and Chile (-0.6%).

India

10y yields fell to intraday low of 6.63% and closed at 6.72%, lowest since February 2022. After local markets closed on Monday, the Reserve Bank of India (RBI) announced measures to ease banking system liquidity through auctions of OMO purchases, 56-day variable rate repos, and USD/INR FX swaps. The injection of approximately INR 1.5 trn ($17 bn) could help address the current banking system liquidity shortfall of INR 2.9 trn ($34 bn), caused by recent FX interventions and tax outflows, according to Bloomberg estimates. These measures could also ensure effective transmission of upcoming monetary easing, ahead of the Union budget announcement on 1 Feb and the RBI monetary policy committee decision on 5 Feb, where the market is expecting a policy repo rate cut from 6.50% to 6.25%. The Indian rupee depreciated (-0.2%) against the US dollar today and has weakened by 3.2% since end-September 2024.

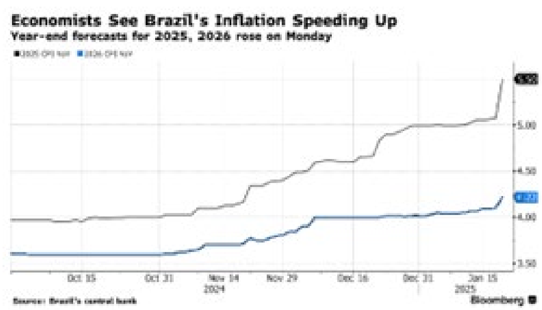
Colombia

Latin American currencies drop following the weekend tariff dispute between the US and Colombia. The conflict began after Colombian President Gustavo Petro refused US military planes carrying deportees to land, resulting in President Trump threatening 25% tariffs on Colombian imports. President Petro subsequently responded with his own 25% tariff threat on US imports. The dispute between the two presidents was resolved rather quickly after a deal was made on returning deportees. Despite the resolution, the Colombian peso opened yesterday morning 1% lower, before paring some losses to close 0.5% lower. Currencies across the region followed a similar trend and volatility increased as investors digested uncertainty regarding future use of tariffs.



Brazil

Brazilian economists lift 2025 and 2026 year-end inflation forecasts ahead of central bank meeting. In the central bank's weekly economist survey, forecasted inflation for year end 2025 was raised to 5.5% y/y from 5.08% and year end 2026 was raised to 4.22% y/y from 4.10%. The results come just two days before the central bank is expected to increase their benchmark Selic rate by 100 bps to 13.25%. Bloomberg analysts highlight the government is planning to cut some import taxes on cheaper foreign food and avoid "unorthodox measures" in its fight against food inflation, which rose 1.06% m/m in the first half of January. Economists expect the Selic rate to reach 15% at the end of 2025, and 12.5% (from 12.25% previously) at the end of 2026.



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Global Financial Indicators

1/28/25 12:45 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,012	-1.5	0.3	0.7	22.9	2
Europe		5,208	0.4	0.8	6.3	12.3	6
Japan		39,017	-1.4	0.0	-3.1	8.3	-2
China		3,817	-0.4	-0.3	1.1	19.3	-3
Asia Ex Japan		72	-2.0	-0.4	-1.9	11.8	-1
Emerging Markets		42	-1.8	0.2	-0.3	8.4	1
Interest Rates					basis points		
US 10y Yield		4.6	3	-2	-6	42	-1
Germany 10y Yield		2.6	2	4	16	26	19
Japan 10y Yield		1.2	-1	1	8	49	10
UK 10y Yield		4.6	1	1	-4	63	3
Credit Spreads					basis points		
US Investment Grade		117	1	0	0	-8	-3
US High Yield		303	9	6	-18	-76	-26
Exchange Rates					%		
USD/Majors		108.0	0.6	-0.1	0.0	4.4	0
EUR/USD		1.04	-0.7	-0.1	0.1	-3.8	1
USD/JPY		155.3	0.5	-0.2	-1.0	5.3	-1
EM/USD		43.5	0.0	0.4	0.7	-8.1	2
Commodities					%		
Brent Crude Oil ($/barrel)		77.7	0.8	-2.0	5.3	-0.6	4
Industrials Metals (index)		142.1	-0.3	-2.6	0.0	1.6	1
Agriculture (index)		58.8	0.5	-0.2	3.9	-3.6	3
Implied Volatility					%		
VIX Index (%, change in pp)		18.1	0.2	3.0	2.2	4.8	0.8
Global FX Volatility		8.3	0.0	-0.2	-0.9	0.8	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		85	-2	-2	0	-17	-1
Italy		108	-2	0	-7	-45	-8
France		73	-2	-4	-9	24	-10
Spain		61	-2	-3	-8	-30	-9

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		3,817	0.0	-0.3	1.1	19.3	-3.0		95	1	-1	-67	-1
Indonesia		7,166	0.0	0.2	1.2	-0.4	1.2		97	4	9	-13	6
India		75,901	0.7	0.1	-3.6	5.5	-2.9		92	6	8	-31	6
Philippines		6,153	-0.7	-2.9	-5.7	-7.1	-5.7		91	6	15	-1	12
Thailand		1,346	0.4	-0.5	-4.0	-2.2	-3.9						
Malaysia		1,553	-0.4	-1.8	-5.5	2.6	-5.5		72	1	4	-19	2
Argentina		2,439,099	-4.9	-3.9	-5.4	94.6	-3.7		647	4	19	-1210	10
Brazil		124,862	2.0	1.6	3.8	-3.2	3.8		226	2	-18	7	-21
Chile		7,028	0.0	-0.1	4.9	16.0	4.7		121	4	13	-10	8
Colombia		1,432	1.2	2.9	3.7	11.7	3.8		317	6	-2	12	-9
Mexico		51,687	0.6	3.0	4.9	-9.1	4.4		315	5	7	-22	3
Peru		28,950	-0.7	-2.4	-0.6	7.9	0.0		142	4	6	-11	1
Hungary		85,084	0.1	0.1	7.0	32.8	7.3		153	-2	4	-13	-2
Poland		85,900	0.4	1.7	7.6	13.5	7.9		115	2	6	14	3
Romania		17,034	0.3	0.7	0.6	12.6	1.9		261	12	28	62	26
South Africa		84,134	-0.1	-0.8	-0.7	12.1	0.0		304	8	18	-33	11
Türkiye		10,077	0.8	0.8	0.5	20.7	2.5		266	-7	12	-76	7
EM total		42	0.0	0.2	-0.3	8.4	0.8		359	-2	-5	-1	-5

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

Last updated: 1/28/2025 12:51 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		7.24	0.0	0.4	0.7	-0.9	0.8		1.7	-3	-4	-4	-86	-3
Indonesia		16173	0.7	1.2	0.1	-2.9	-0.4		7.0	0	-10	-4	32	-3
India		87	-0.2	0.1	-1.1	-3.9	-1.1		7.1	-2	-7	-29	-11	-25
Philippines		58	0.0	0.1	-1.0	-3.7	-1.0		5.1	0	-2	20	-39	20
Thailand		34	-0.6	0.6	0.5	4.9	0.5		2.4	-2	-10	3	-38	2
Malaysia		4.39	-0.3	1.9	1.6	7.7	1.8		3.8	0	-2	-2	-1	-2
Argentina		1050	-0.3	-0.4	-2.0	-21.4	-1.8		25.3	-12	1	-434	-4966	-382
Brazil		5.90	0.0	2.1	4.6	-16.2	4.6		15.4	-8	11	-35	523	-56
Chile		991	-0.3	1.2	0.4	-6.2	0.4		5.7	-4	-7	4	31	4
Colombia		4198	-0.5	2.9	5.0	-6.4	4.9		11.3	11	-25	-47	168	-51
Mexico		20.68	0.0	-0.3	-0.2	-16.7	0.7		10.0	4	-19	-31	64	-30
Peru		3.7	-0.6	-0.2	0.1	1.8	-0.1		6.7	0	8	1	6	10
Uruguay		43	-0.3	0.7	0.7	-9.9	1.2		9.7	0	1	1	42	4
Hungary		392	-0.7	0.7	0.8	-8.3	1.4		6.5	1	-17	7	44	4
Poland		4.04	-0.6	0.9	1.8	-0.1	2.3		5.6	-2	-6	4	47	3
Romania		4.8	-0.7	0.0	0.1	-3.8	0.6		7.6	-10	-11	33	138	36
Russia		98.5	-1.3	1.3	12.2	-9.4	15.2							
South Africa		18.7	0.1	-1.2	0.5	0.5	0.7		10.6	14	5	17	-67	16
Türkiye		35.77	-0.1	-0.4	-1.3	-15.1	-1.1		27.4	32	-69	-261	-43	-236
US (DXY; 5y UST)		108	0.6	-0.1	0.0	4.4	-0.5		4.36	2	-4	-10	32	-2

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