



- **US safe haven appeal is waning** ([link](#))
- **High US long end interest rates test market confidence** ([link](#))
- **New US tax package could hurt foreign investors in US assets** ([link](#))
- **Offshore Chinese equities fall to three-week low on rising trade tensions** ([link](#))
- **Euro and Yen appreciate on safe haven flows** ([link](#))
- **Polish equities lower following Presidential election** ([link](#))
- **Special Feature: Emerging Market Local Currency Bond Holdings Monitor** (attached)

[Mature Markets](#)



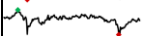



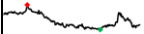


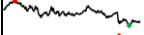
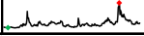
[Emerging Markets](#)

[Market Tables](#)

Markets wary ahead of eventful week

Global equities were down across the board ahead of a week packed with potentially market moving events. From tomorrow's Presidential elections in Korea to the ECB meeting and the US jobs report later in the week, there is much to engage the attention of market participants. Trade tensions are back in focus as the rhetoric between the US and China heated up over the weekend, and markets in Asia were especially hard hit this morning. The "Sell America" trade is continuing, with the dollar depreciating, Treasury yields rising and US equity index futures pointing to a negative opening. Dollar shorts are at their highest level since 2023. However, there is a sense that markets will be less reactive to news about the trade war as they grow more accustomed to the ebb and flow of the news cycle. Market volatility remains low.

Key Global Financial Indicators

Last updated: 6/2/25 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5912	0.0	1	4	12	1
Eurostoxx 50		5342	-0.5	-1	1	7	9
Nikkei 225		37471	-1.3	0	2	-4	-6
MSCI EM		46	-1.2	-1	1	9	9
Yields and Spreads			bps				
US 10y Yield		4.43	2.8	-8	12	-7	-14
Germany 10y Yield		2.53	2.9	-3	0	-14	16
EMBIG Sovereign Spread		334	3	3	-34	-35	9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.6	0.0	0	1	-2	6
Dollar index, (+) = \$ appreciation		98.8	-0.5	0	-1	-6	-9
Brent Crude Oil (\$/barrel)		65.1	3.8	1	6	-20	-13
VIX Index (% change in pp)		19.6	1.0	-3	-3	7	2

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

A key market focus will be the US jobs report on Friday, with the consensus forecast predicting that **130K jobs were added in May and that the unemployment rate will hold steady at 4.2%**. Tomorrow's durable goods report could also have an impact on markets. In the euro area, today's PMI data will be followed by eurozone inflation and unemployment tomorrow. However, the main event in the euro area will be ECB meeting on Thursday, with markets almost fully pricing in a 25 bps rate cut. In China, the focus will be on the latest PMI data. The Bank of Canada is expected to stay on hold at 2.75% on Wednesday and the market expects the Reserve Bank of India to cut by 25% to 5.75% on Friday. Market participants will also be keeping a close eye on the latest legal developments on the tariff front. In other news, the South Korean Presidential election will be held tomorrow.

Mature Markets

[back to top](#)

United States

The perception of the US as a safe haven during periods of market stress continues to erode. In 2025 alone, US Treasuries, the dollar, and US equities have sold off together twice as many times as occurred during the entire previous decade. Investors are favoring the Yen, the Swiss franc and the euro over the US dollar, and markets are not experiencing the usual decline in Treasury yields when global volatility rises. Instead, safe haven buying has shifted to euro area government bonds, Swiss government bonds and shorter maturity Japanese government bonds. The dollar has become more positively correlated with risk, depreciating when equities sell off and vice versa. Some analysts think that the US will suffer more than other countries if a full-scale tariff war breaks out, facing the prospect of stagflation. However, others are less optimistic about the rest of the world, pointing out that the greater risk is stagflation in multiple major economies, which could result in a significant change in the relative performance of international markets.

Exhibit 1: US Treasuries and the Dollar have been selling off alongside lower equities more often

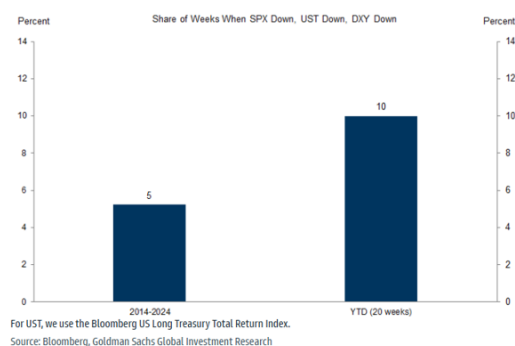
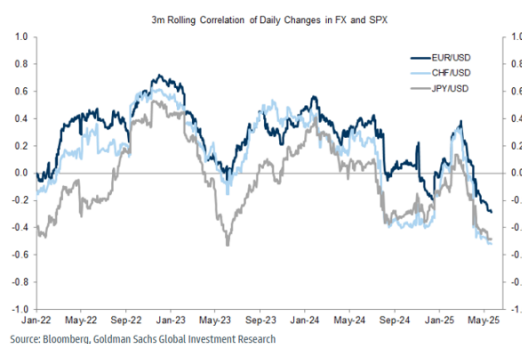
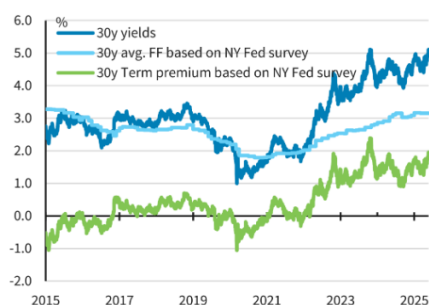


Exhibit 2: The Dollar has become increasingly positively correlated with risk in recent months vs other safe havens and EUR



The rise in the 30-year long bond yield above 5% is testing market confidence as investors worry that trade tariffs could put upward pressure on interest rates and destabilize financial markets. The yield recently rose as high as 5.15% on May 22. Along with a similar episode in 2023, this was the highest long bond yield since 2007. However, analysts at Barclays think that these levels should be attractive for investors because the level of term premium as determined by survey data is much higher than historical averages. Term premium is the compensation demanded by investors for longer maturity debt relative to shorter maturity debt. Academic models to estimate term premium are deemed unreliable by many market participants, and the New York Fed and other entities conduct surveys as an alternative. The latest surveys indicate that the current 30-year term premium is at multi-year highs. Contacts report heavy buying of long bonds in recent days, and the yield has fallen to 4.96%.

Figure 6. 30y Term premium is almost 200bp...



Source: NY Fed, Barclays Research

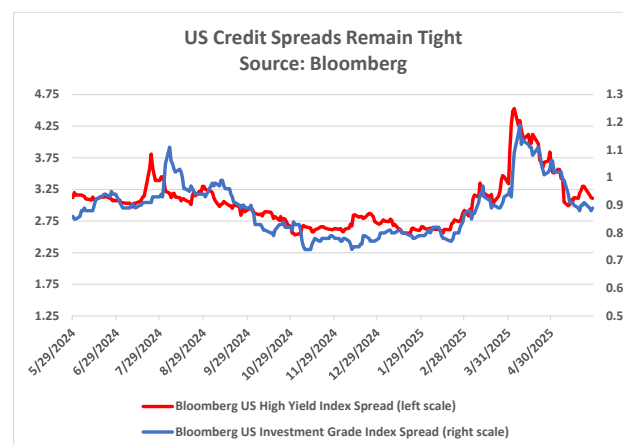
Figure 7. ...well above historical averages

Average slope (bp)	Since 85	Since 85 (with FF>1%)	Current TP based on survey (bp)
FF-10y	134	102	139
FF-30y	180	133	196
10s-30s	46	31	57

Source: Bloomberg, Barclays Research

Analysts and contacts have been discussing a feature of the new US tax package that could negatively impact foreign investors in US assets. According to Bloomberg and CNBC, a provision in the bill known as “Section 899” proposes to impose taxes on entities from “discriminatory foreign countries.” These could include countries that impose digital service taxes on US technology companies. France imposes a 3% digital tax on revenues from US companies such as Meta and Google, while Germany is considering a 10% tax. Other countries could also be classified as “discriminatory” on other grounds.

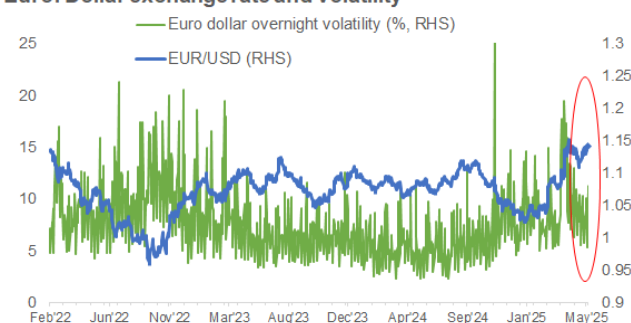
The proposal calls for a 5% tax to be imposed on the earnings from US assets gained by entities from these countries, to be increased annually until it hits 20%, Bloomberg and CNBC reported. This could apply to foreign companies with US businesses, or foreign investors owning US government and corporate bonds. Some analysts worry that such a tax would make US assets much less attractive for foreign investors and disrupt US markets. Others are more optimistic, arguing that the proposal is unlikely to be accepted by the US Senate, and that there will be many exemptions. There has been no market reaction so far, with US corporate credit spreads remaining tight.



Europe

European equities were trading lower on trade and geopolitical developments. The Stoxx 600 was 0.4% lower in early morning trade led by declines in the information technology (-1.6%) and consumer discretionary (-1.4%) sectors. The energy sector was trading in the green on the back of higher oil prices (+1.4%). Meanwhile, **the euro advanced to a five-week high against the dollar.** Analysts at ING note that US trade policy developments appear to be supporting the euro, even though the ECB will likely deliver another 25bp rate cut at its Thursday meeting. The analysts believe that further details on the German fiscal expansion later this month should also provide some support to the common currency vis-à-vis the dollar. Elsewhere, European government bond yields

Euro: Dollar exchange rate and Volatility



Source: Bloomberg and IMF calculations

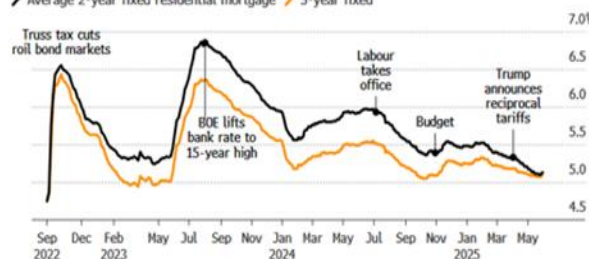
were 2-5bps higher with the curve bear steepening as the 30Y German bund yield rose close to 6bps to 3.02%. There were similar increases in the 30Y French OAT and 30Y Italian BTP yields.

United Kingdom

UK house prices rose unexpectedly in May. Data released this morning showed that UK house prices rose by 0.5%/m/m in May, the fastest pace so far this year and against economist expectations which had expected prices to remain flat. According to the Nationwide Building Society, today's data suggest that demand for housing remains resilient, buoyed by declining interest rates, low unemployment, and strong household balance sheets. Separate data from the Bank of England showed mortgage approvals declined to 60.5K in April, below estimates of 62.8K. Elsewhere, the final May manufacturing PMI printed at 46.4 (45.1 preliminary reading, 45.4 prior). Sterling gained 0.7% to 1.3552 against the dollar in early morning trade, while UK equities were a touch lower (-0.2%). Elsewhere, UK gilt yields were 3-6bps higher across all tenors, led by the long end of the curve where 30-year gilts were around 6bps higher to trade at 5.4%. Analysts at JP Morgan expect to see "further bouts of uncertainty over long end demand dynamics globally against a backdrop of ongoing focus on the limited fiscal headroom in the UK."

Falling Mortgage Rates Bring Relief for UK Homebuyers

▲ Average 2-year fixed residential mortgage ▲ 5-year fixed



Source: Moneyfacts

Bloomberg

House Prices Rose in May Despite Stamp Duty Tax Increase

■ Average house price monthly change



Source: Nationwide Building Society

Bloomberg

Japan

The Yen strengthened for a third consecutive session as a revival in US-China trade tensions boosted demand for the haven currency. According to data from the US Commodity Futures Trading Commission, in the week ended May 27,

short-term funds cut their net long positions in the yen by 12,183 contracts, offset by asset managers increasing their net long positions by 3,218 contracts. However, analysts believe this reduction in bullish yen bets may reverse in the new week as market players digest the implication from latest news, including steel tariffs. According to the minutes of the May 20-21 "Bond Market Group" meetings released today, while market participants had divergent views on the pace of BOJ's purchases, there were also suggestions that BOJ should consider addressing the poor liquidity in the super-long maturity by making more flexible responses, e.g., unscheduled purchases, or modifying JGB purchases in each maturity segment. The market will be monitoring two JGB auctions this week, ¥2.6 tn (\$18 bn) of 10-year notes on Tuesday and ¥800 bn of 30-year bonds on Thursday.

Dollar-Yen Resumes Bear Trend After Squeezed Higher



Source: Bloomberg

Bloomberg

Emerging Markets

[back to top](#)

Emerging market equities and currencies were under pressure this morning. Bloomberg reports that Romania's central bank will conduct a repo operation today aimed at injecting liquidity into the market and to lower money market rates. Meanwhile, according to Bloomberg data, Ukraine's GDP linked warrants due 2041 declined to 72 cents on the dollar, the lowest since April, after the government said it would skip the latest payment due Monday. The Korean won appreciated due to foreign investor buying of equities ahead of tomorrow's Presidential election. Offshore Chinese stocks fell sharply due to rising trade tensions.

Emerging Market Bond and Equity Flows

Emerging markets bond funds saw outflows last week (-\$37mn, from +\$279mn). Hard currency funds also saw to outflows (-\$455mn, from +\$123mn), while local currency fund saw the largest inflow increase since September 2024 (+\$418mn, from +\$156mn). Bond ETFs had outflows (-\$236mn, from +\$206mn), and non-ETFs inflows increased slightly (+\$199mn, from +\$73mn). EM equity funds saw significant inflows (+\$1.4bn, from -\$2.2bn). Equity ETFs had inflows (+\$1.7bn, from -\$886mn). Non-ETFs had decreased outflows (-\$307mn, from -\$1.4bn). Across regional equity funds, there were inflows in Asia ex-Japan (+\$695mn), Latam (+\$382mn), and EMEA (+\$10mn). The year-to-date flows currently stand at -\$11.8bn and -\$19.2bn for bonds and equities, respectively.

Figure 1: Weekly cross-asset flows

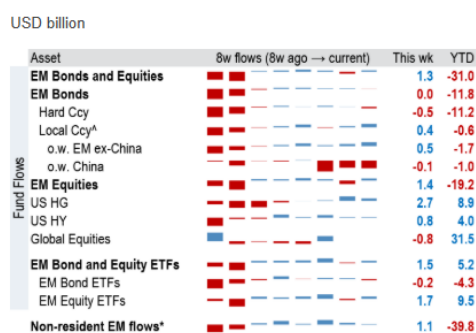
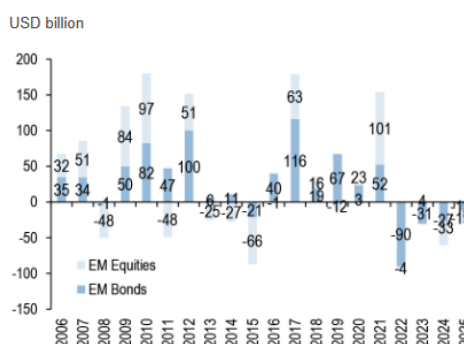


Figure 2: EM bond and equity fund flows



^{*}High-frequency non-resident EM portfolio flow data where available. ^aLocal ccy split is retail only.

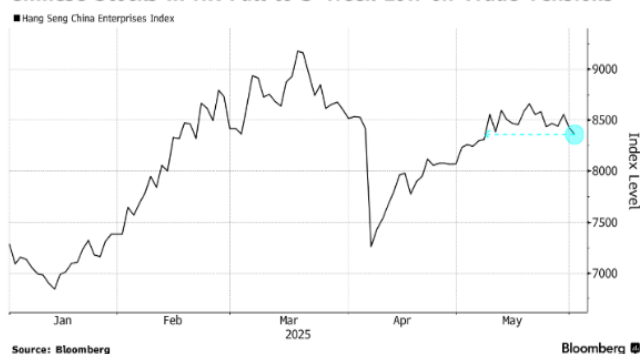
Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

Chinese shares traded in Hong Kong declined to a three-week low, as heightened US-China trade tensions weakened market sentiment.

The Hang Seng Index declined (-0.6%) while the Hang Seng Chinese Enterprises Index closed 0.9% lower after dropping as much as 3.1% earlier. The onshore market is closed for a holiday on Monday. Electric-vehicle companies led the declines after BYD's sweeping price cuts triggered a Sunday People's Daily commentary criticizing the "rat-race competition" and warning that price wars can seriously affect supply-chain security. Technology stocks also declined after the plans by US administration to broaden restrictions on China's tech sector and place limits on Chinese students' visas. In a statement today, the Chinese

Chinese Stocks in HK Fall to 3-Week Low on Trade Tensions



government called on the US to immediately correct “discriminatory restrictive measures” and uphold the consensus reached at their Geneva talks. Released over the weekend, the official manufacturing PMI was up slightly to 49.5 from 49.0 in April, indicating some relief from the 90-day trade truce, but residential property sales continued to fall in May (-8.6% y/y).

Mexico

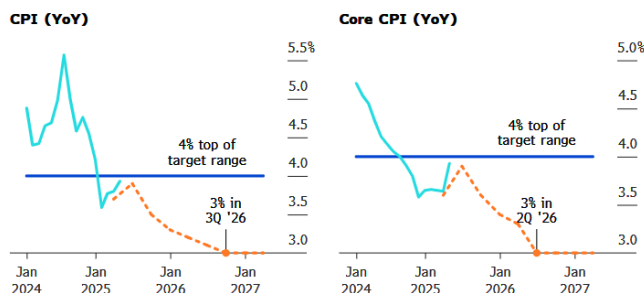
Mexico’s central bank plans to continue cutting interest rates gradually, after the economy narrowly avoided a recession.

However, inflation pressures and trade tensions could limit how much the bank can ease. Inflation rose to 4.22% in early May, above the central bank’s target range. Some policymakers warned that rate cuts would continue only if inflation risks decline. As U.S. interest rates stay high, the difference with Mexico’s rate could also affect future decisions. Governor Victoria Rodriguez said weak U.S. demand could hurt Mexico’s exports, even though most exports still benefit from duty-free status. Policymakers also noted that rising tariffs add uncertainty and may increase inflation risks. Still, most economists expect another 50-basis-point cut in June.

Banxico Sees Headline, Core Back to 3% Target in 2026

Headline CPI to hit 3% in 3Q 2026, core CPI to do so in 2Q 2026

Actual CPI / core CPI Banxico forecast path 4% top of CPI target range



Source: National statistics agency, central bank, Bloomberg
Note: Banxico forecasts via May 2025 post-decision statement

Bloomberg

Poland

Polish equities fell following the Presidential election.

Nationalist candidate Karol Nawrocki won the second round of Poland’s presidential election with 50.9% of the vote, narrowly defeating centrist opponent Rafal Trzaskowski. Bloomberg analysts point out that the tight margin underscores political divisions within country, particularly around issues such as migration, social policy, and relations with the European Union. UBS analysts argue that while Mr. Nawrocki’s win is not entirely unexpected given the close opinion polls and also the outcome of in the first round of elections, investors may react with caution, particularly given how well Polish stocks performed earlier this year. Polish equities were 3% lower in early morning trade, but pared losses to trade around 1.3% lower although they remain roughly 26% higher YTD.

Poland: Equities and Currency



Source: Bloomberg and IMF staff calculations

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Shehryar 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), Lawrence Tang (Senior 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

6/2/25 12:39 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,912	0.0	1.2	4.0	12.0	1
Europe		5,341	-0.5	-1.0	1.1	7.2	9
Japan		37,471	-1.3	-0.2	1.7	-3.7	-6
China		3,840	-0.5	-1.1	1.8	7.0	-2
Asia Ex Japan		77	-1.3	-1.1	1.6	10.4	7
Emerging Markets		46	-1.2	-1.1	1.2	8.9	9
Interest Rates			basis points				
US 10y Yield		4.4	3	-8	12	-7	-14
Germany 10y Yield		2.5	3	-3	0	-13	17
Japan 10y Yield		1.5	1	-1	25	44	41
UK 10y Yield		4.7	2	-2	16	35	10
Credit Spreads			basis points				
US Investment Grade		135	0	-4	-18	18	15
US High Yield		372	4	-12	-62	22	43
Exchange Rates			%				
USD/Majors		98.8	-0.6	-0.4	-1.3	-5.6	-9
EUR/USD		1.14	0.6	0.3	1.1	4.7	10
USD/JPY		142.7	-0.9	-0.1	-1.6	-8.6	-9
EM/USD		45.6	0.1	-0.3	0.6	-2.3	7
Commodities			%				
Brent Crude Oil (\$/barrel)		65.1	3.7	1.5	6.8	-15.8	-11
Industrials Metals (index)		144.1	2.3	-0.2	2.2	-10.2	3
Agriculture (index)		56.1	0.3	-2.2	-3.4	-7.7	-2
Gold (\$/ounce)		3358.8	2.1	0.4	3.6	42.9	28
Bitcoin (\$/coin)		104243.4	-0.7	-2.9	7.4	53.8	11
Implied Volatility			%				
VIX Index (%, change in pp)		19.7	1.1	-2.6	-3.0	6.8	2.3
Global FX Volatility		8.8	0.1	-0.4	-0.8	2.0	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		74	-1	1	-9	-28	-11
Italy		98	0	-1	-12	-33	-17
France		66	0	-1	-5	19	-17
Spain		59	0	-3	-7	-14	-10

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

Emerging Market Financial Indicators

Last updated: 6/2/2025 7:53 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		7.20	-0.2	-0.3	1.0	0.5	1.4		1.8	-2	1	5	-52	7		
Indonesia		16253	0.5	0.0	1.1	-0.1	-0.7		6.7	0	1	-5	-14	-28		
India		85	0.2	-0.3	-1.0	-2.6	0.3		6.7	-1	-4	2	-62	-61		
Philippines		56	0.1	-0.5	-0.2	5.3	4.1		4.9	1	2	-6	-59	7		
Thailand		33	0.9	0.2	1.6	12.4	5.5		2.0	-2	-4	-3	-91	-37		
Malaysia		4.26	-0.3	-0.6	1.4	10.5	5.1		3.6	5	3	-8	-31	-23		
Argentina		1189	-0.5	-4.8	-1.5	-24.8	-13.3		29.0	-92	-51	-396	-937	-20		
Brazil		5.72	-1.0	-1.3	-0.9	-9.1	7.9		14.1	6	-2	3	260	-183		
Chile		946	-1.1	-0.7	0.3	-3.0	5.4		5.6	-2	-2	9	-28	-8		
Colombia		4159	-0.9	-0.2	1.6	-7.0	5.9		12.1	-1	-5	3	112	26		
Mexico		19.31	0.7	-0.3	1.4	-8.4	7.9		9.4	2	-5	0	-59	-99		
Peru		3.6	0.1	1.1	1.3	3.6	3.8		6.5	2	-9	-10	-59	-15		
Uruguay		42	0.0	0.0	0.9	-7.0	5.0		9.3	-5	-7	-31	15	-34		
Hungary		353	0.8	0.4	1.4	1.4	12.6		6.7	2	-3	15	-24	24		
Poland		3.73	0.3	-0.2	1.4	5.0	10.7		4.9	-6	-14	18	-64	-64		
Romania		4.4	0.7	0.5	-0.5	3.0	8.4		7.4	0	-3	6	78	14		
Russia		79.0	-1.9	1.2	4.8	13.1	43.7									
South Africa		17.9	0.4	-0.4	2.6	3.2	5.1		10.5	-3	-27	-31	-144	2		
Türkiye		39.19	0.0	-0.6	-1.6	-17.9	-9.8		33.9	15	-13	-113	517	419		
US (DXY; 5y UST)		99	-0.5	-0.3	-1.2	-5.6	-8.9		3.98	2	-10	6	-52	-40		

	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		3,840	0.0	-1.1	1.8	7.0	-2.4		107	-11	-19	-32	11			
Indonesia		7,065	-1.5	-1.4	3.7	0.4	-0.2		103	0	-23	7	12			
India		81,374	-0.1	-1.0	1.1	6.4	4.1		109	-5	-23	18	23			
Philippines		6,353	0.2	-0.6	-0.9	-1.8	-2.7		85	2	-17	2	6			
Thailand		1,149	0.0	-2.3	-4.2	-14.1	-17.9									
Malaysia		1,508	0.0	-1.8	-2.2	-5.5	-8.2		81	-2	-14	3	11			
Argentina		2,278,992	-1.3	-2.9	8.5	38.0	-10.1		686	12	-43	-622	49			
Brazil		137,027	-1.1	-0.6	1.4	12.2	13.9		225	5	-10	14	-22			
Chile		8,048	-1.8	-4.2	0.1	21.3	19.9		119	1	-11	5	6			
Colombia		1,609	-1.7	-2.8	-2.0	14.9	16.6		339	-1	-43	35	13			
Mexico		57,842	-1.3	-1.0	3.6	4.8	16.8		304	7	-35	10	-8			
Peru		31,316	0.0	0.0	3.6	3.6	8.1		132	3	-18	-18	-9			
Hungary		96,260	0.6	0.2	4.4	41.8	21.3		161	0	-26	18	6			
Poland		99,931	-1.5	-2.3	-1.3	15.8	25.6		113	1	-6	19	1			
Romania		18,400	0.5	3.7	7.4	4.6	10.0		263	-2	-33	88	28			
South Africa		94,499	0.2	0.8	2.3	23.2	12.4		319	-1	-44	-4	26			
Türkiye		9,037	0.2	-3.3	-1.4	-13.1	-8.1		328	21	-31	54	69			
EM total		46	-0.1	-1.1	1.2	8.9	8.8		385	2	-31	56	21			

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

[back to top](#)