



- Stock and yield correlations are increasing ([link](#))
- Secular headwinds weigh on US dollar despite improved outlook ([link](#))
- Italian spreads continue to narrow after German fiscal plan announcement ([link](#))
- Tokyo consumer inflation eases but stays well above 2% target ([link](#))
- EM sovereign dollar issuance expected to remain robust in H2 ([link](#))
- Mexico's central bank cuts benchmark rate by 50 basis points to 8% ([link](#))

[Mature Markets](#)

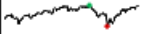









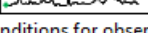
| [Emerging Markets](#)

| [Market Tables](#)

Trade deal optimism fuels risk appetite

News that the US has finalized a trade understanding with China and that it is nearing a deal with other major trade partners is pushing equity markets higher. The S&P 500 approached record territory yesterday, and equity futures are indicating a further rise to close out the week. Asian equities also mostly advanced in Friday trading and European equity markets are up nearly 1% so far on the day. Yesterday, Mexico's central bank cut its benchmark rate by 50 bp, in line with expectations, with one dissenting vote. In its statement, it removed guidance that further cuts of similar size are likely going forward. The overall dollar index is slightly higher this morning after falling for 5 straight days. Despite that, most emerging market currencies are advancing versus the dollar so far today, with the Thai baht (-0.4%) the largest exception after the central bank indicated its willingness to step in to counter excessive volatility in the currency market.

Key Global Financial Indicators

Last updated: 6/27/25 8:21 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		6141	0.8	3	4	12	4
Eurostoxx 50		5299	1.0	1	-2	8	8
Nikkei 225		40151	1.4	5	6	1	1
MSCI EM		48	0.7	4	5	14	15
Yields and Spreads			bps				
US 10y Yield		4.27	2.7	-11	-17	-2	-30
Germany 10y Yield		2.59	1.6	7	5	14	22
EMBIG Sovereign Spread		324	2	2	-7	-68	-1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.2	0.0	1	1	1	8
Dollar index, (+) = \$ appreciation		97.3	0.2	-1	-2	-8	-10
Brent Crude Oil (\$/barrel)		68.2	0.7	-11	6	-21	-9
VIX Index (% change in pp)		16.2	-0.4	-4	-3	4	-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 markets resumed their ascent as investors look to price a more dovish monetary policy while leaving geopolitical uncertainty behind. Overall, US equities staged a broad-based rally with the S&P500 coming close to setting a new all-time high, and volatility continued to decline. UST yields fell, and the curve continued to steepen as short-dated treasuries saw a stronger rally with yields on 2yr and 5yr UST declining by 6–7bp. Notably, the market-implied policy rate for mid-2026 declined more than that for year-end 2025.

In data released this morning, headline May PCE inflation remained flat at 0.1% m/m, is in line with market expectations. However, the data on personal income and spending surprised on the downside, showing a decline on a m/m basis. Treasury yields fell slightly on the report.

	Actual	Expected
PCE inflation m/m	0.1%	0.1%
PCE inflation y/y	2.3%	2.3%
Core PCE inflation m/m	0.2%	0.1%
Core PCE inflation y/y	2.7%	2.6%

The correlation between equities and the yields is improving on the optimistic outlook. The correlation between equities and yields had turned deeply negative following the tariff announcement on April 9 as the curve steepened, led by higher yields in long-end, and a deteriorating outlook for equity returns. However, now that the markets are pricing a more dovish monetary policy, the UST curve has bull steepened with the short-end of the curve experiencing a stronger rally. Yields on 2-yr UST have fallen by 25 bp in the last month. The prospects for declining borrowing costs, in turn, have boosted the equity valuations, with the S&P 500 closing near its all-time high, yesterday. Overall, improved market sentiment has rapidly started pulling up the correlation between yields and equities. However, analysts warn this optimism could be tested by the July tariff deadline.

Stocks, Yield Curve Close Their Gap

Negative correlation pulls back from extremes seen in April

Correlation between S&P 500, Treasury 5s30s yield curve



Source: Bloomberg

Note: 30-day correlation based on difference in values over time

Bloomberg

Secular headwinds drive US dollar down amid improvement in the economic outlook. Despite an improvement in the US economic outlook, the dollar has continued to depreciate due to “secular headwinds,” according to a market report. That is, the improvement in the growth outlook is not large enough to counterbalance the challenges in financing a current account deficit of 4% of GDP. Going forward, while most analysts on

Exhibit 9: The Dollar Has Weakened Further on Net Despite a Partial Recovery in Relative US Growth Expectations



Source: Goldman Sachs Global Investment Research

the street see more scope for further US dollar depreciation, some argue for its stabilization at the current levels for some time, noting that the currency is trading at a substantial discount to rate differentials. The US dollar has depreciated by about 10% YTD and is now trading at levels last seen in early 2022.

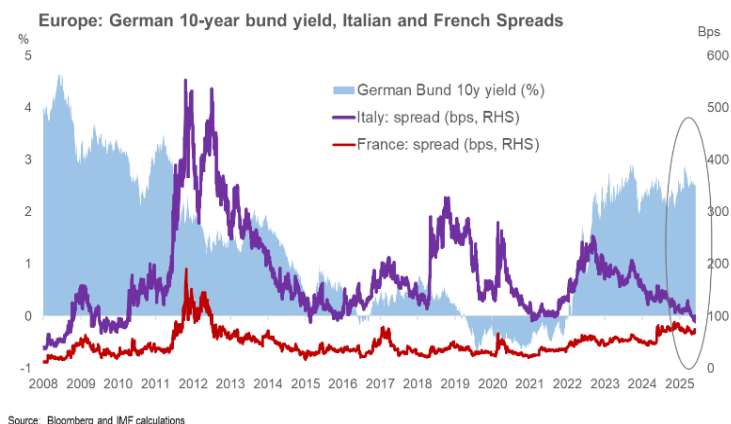
Euro Area

European equities were trading higher while the euro and European bond yields were little changed.

The Stoxx 600 index gained (+1.0%), with all sectors trading in the green. European Government Bond yields were little changed with the 10-year bund yield trading little changed around 2.57%, and the euro trading marginally stronger against the dollar (+0.1%). On the data front **preliminary June inflation data in France and Spain showed inflation inching higher**. A separate data release showed economic confidence in the euro area declining in June to 94.0 (versus expectations to remain unchanged at 94.8).

Italian spreads narrow to multi-year lows following German fiscal plans, with further tightening expected.

The 10y Italian-German spread reached a multi-year low of roughly 88bp yesterday, about 8 bp lower than last Friday and about 27 bp lower than at the start of the year. Commerzbank analysts cite a constructive risk environment as a factor supporting further compression over the near term while Citi analysts also point to the announcement of a prompt rollout of German fiscal stimulus this week. The

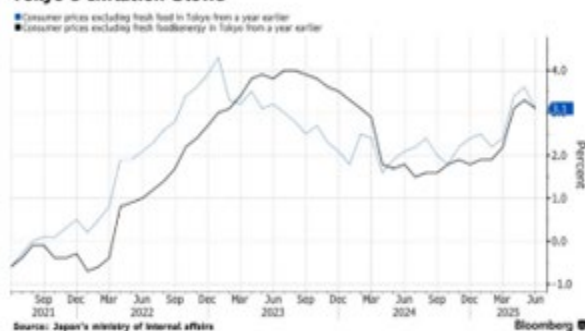


analysts remain constructive and anticipate further tightening versus German debt to 75bp in the remainder of this year. In particular, the analysts cite expectations for continued foreign investor interest and think there is a potential structural shift underway in the perception of Italy's legacy risk premium. In contrast, French sovereign debt has underperformed some peers recently, with Commerzbank analysts pointing to renewed concerns over fiscal dynamics. The analysts highlight recent media reports that suggest achieving the government's targeted deficit of 5.4% of GDP may require additional expenditure reductions amounting to approximately €5bn. The 10y French-German spread is around 68bp, roughly 4bp lower than last Friday and 15bp lower than at the start of the year.

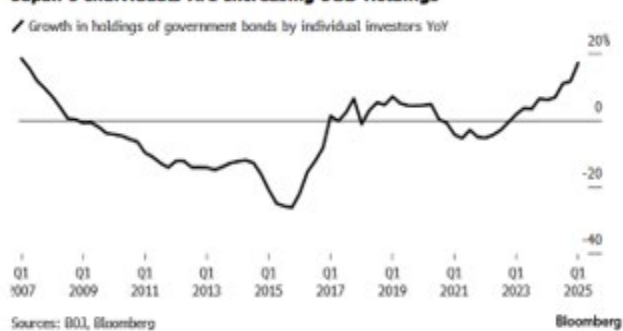
Japan

Tokyo inflation slowed for the first time in four months. Core consumer prices (excl. food) rose 3.1% y/y in June (consensus: +3.3%; May: +3.6%), while headline inflation also slowed to 3.1% (May: +3.4%). The slowdown in Tokyo price growth, a leading indicator for nationwide data, may offer some relief to Prime Minister Ishiba ahead of a July 20 upper house election. However, inflation pressures are expected to build further as oil prices remain elevated following the Israel-Iran conflict. Government data on Friday also showed that unemployment remained low at 2.5% in May, a positive development for the virtuous cycle of wage price growth the authorities have been aiming for. The quarterly flow of funds report from the Bank of Japan showed that **holdings of JGBs among individuals also rose 17.1% y/y, a ninth consecutive quarterly increase, and the fastest pace since March 2007**. Individuals still account for a relatively small 1.5% share of the market, versus 52% held by BOJ and 6% by foreign investors. The data underscore a widening trend in which individuals look for safe assets as elevated inflation undermines the value of their cash holdings. Japan's benchmark 10-year bond yields have stayed above 1% consistently this year, well above the average rate for a normal deposit which stood at 0.182% this month.

Tokyo's Inflation Slows



Japan's Individuals Are Increasing JGB Holdings



Emerging Markets

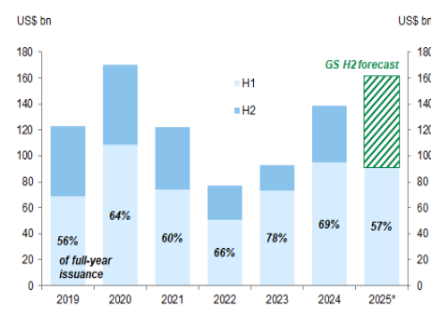
[back to top](#)

Asian currencies were mixed (EM Asia: -0.1%), with the Thai baht (-0.4%) weakening the most. Bank of Thailand deputy governor Piti Disyatat said in an interview late Thursday that the central bank is ready to tackle excessive baht volatility driven by non-fundamental reasons, amid calls from local businesses to temper the baht's rally this year. Asian equities mostly advanced (EM Asia: +0.1%) but were dragged down by Thailand (SET Index: -1.9%). **EMEA equities and currencies were trading mixed.** In CEE, equities were underperforming in Poland (-0.2%), while those in Romania were outperforming (+0.2%) and CEE currencies were mostly advancing against the euro. Elsewhere, the Turkish lira was around 0.3% weaker against the dollar, with Turkish equities also trading in the red. **Latin American assets rose Thursday.** Stocks gained in Mexico (+1.0%), Brazil (+1.0%), Chile (+0.4%), Colombia (+0.3%) and Peru (+2.1%). Currencies appreciated in Brazil (+1.4%), Chile (+0.6%), Colombia (+0.5%), and Peru (+0.6%). Moody's downgraded Colombia's credit rating to Baa3, citing concerns about its debt burden and the suspension of the fiscal rule.

Emerging markets

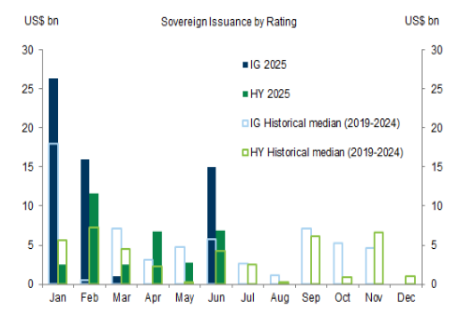
EM sovereign dollar issuance is expected to remain robust in H2, but downside risks remain. Goldman Sachs analysts note that EM sovereigns **have** issued approximately \$91bn in USD bonds year-to-date, placing issuance at the higher end of recent H1 ranges. Monthly activity has shown significant

Exhibit 1: Total H1 issuance this year is towards the higher end of historical H1 issuance, and we expect a more active H2 than historically



Source: Bloomberg, Dealogic, Goldman Sachs Global Investment Research

Exhibit 2: IG issuance started the year at a high rate, whereas HY supply was muted, and the opposite was true going into the spring



Source: Bloomberg, Dealogic, Goldman Sachs Global Investment Research

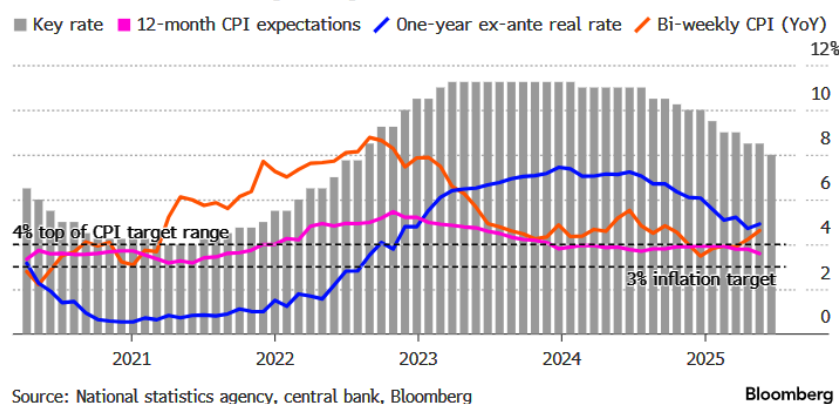
variation, with IG supply concentrated in early 2025, while HY issuance picked up during Q2. The analysts have revised their forecasts for full-year 2025 gross EM sovereign USD issuance modestly higher to around \$160bn (from \$150bn), with roughly 65% expected to come from IG sovereigns. If realized, this would represent the largest annual total since 2020. The analysts forecast implies that approximately 57% of the projected full-year issuance was completed by mid-year, suggesting a potentially more active H2. Issuance in H2 is expected to be supported by a stable US rate environment and reduced macro volatility. However, downside risks remain. Persistent recession concerns, policy and geopolitical uncertainty, and potential widening in credit spreads could prompt sovereigns to postpone issuance. Additionally, EM borrowers may increasingly tap non-USD markets, such as euro-denominated issuance, amid signs of dollar softening—which could further moderate USD bond issuance in H2.

Mexico

Mexico's central bank cut its benchmark interest rate by 50 bp to 8%, the eighth consecutive reduction, but signaled a slower pace ahead as economic headwinds persist and inflation remains above target. Banxico removed prior guidance on additional cuts of similar size, instead committing to data-driven decisions to ensure inflation returns to target. While most economists expected the move, one board member dissented, favoring a hold. Growth projections have been slashed, with some forecasters now expecting zero or even negative growth this year amid shrinking public spending and uncertainty from U.S. trade policy. Inflation and core inflation remain elevated, prompting economists to predict smaller 25 bp cuts going forward.

Banxico Extends Easing Cycle With Half-Point Cut in June

Central bank has delivered eight straight rate cuts from 11%



China

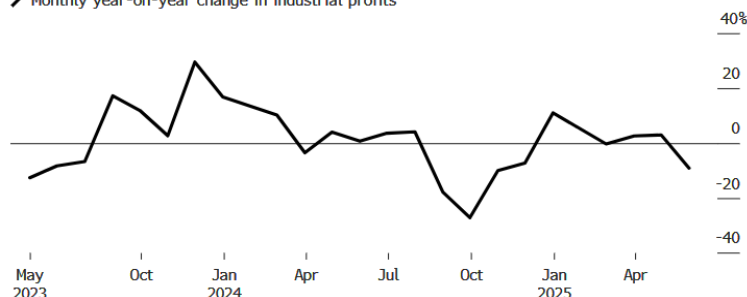
China's industrial profits plummeted, illustrating weakness in an economy strained by higher US tariffs and lingering deflationary pressure.

Industrial profits fell 9.1% y/y in May, the sharpest decrease since October. Profits for the first five months of 2025 are down 1.1%, following a 1.4% gain in the first four months. The consensus forecast was for a 1.0% rise. The disappointing reading came despite the government's program to subsidize upgrades of equipment and consumer

China's Industrial Profits Post Deep Contraction

Earnings worsen in display of US tariff hit, deflationary pressure

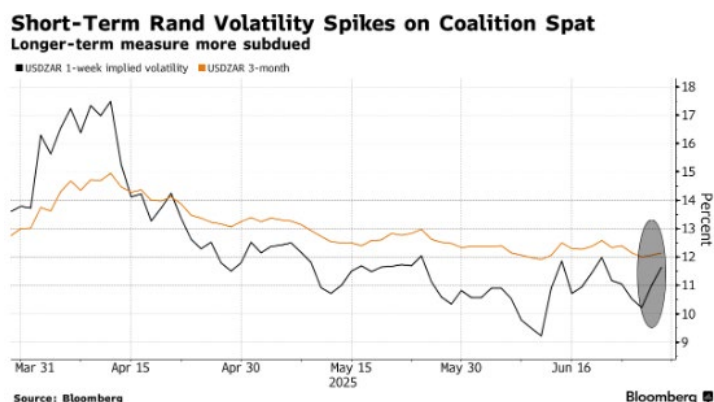
Monthly year-on-year change in industrial profits



goods by businesses and households, which helped to more than double the earnings of companies that make equipment for manufacturing smart consumer devices. Mining continued to lead the drop in profits among industrial firms (-29% y/y in first five months), while profits of automakers also plunged 11.9% y/y in the same period, fueled by intense competition for market share as well as rising trade barriers. Analysts attribute the overall earnings decline to insufficient effective demand and falling prices of industrial products. Looking forward, profits are expected to rebound in June due to the trade truce. Possibly weighed down by the data, both onshore CNY and offshore CNH edged slightly lower today, with yuan fixing minimally weaker at 7.1627. China's Ministry of Commerce said in a statement on Friday that US and China have recently further confirmed the details of the framework for implementing Geneva trade talk consensus.

South Africa

Domestic political developments weigh on South Africa's rand. After reaching a seven-month high against the dollar on Thursday, the rand weakened sharply on press reports that there were strains in the country's governing coalition. Headlines on Thursday suggesting that President Ramaphosa had fired a deputy minister from the Democratic Alliance led to concerns about the stability of the government of national unity, with the rand reversing a gain of as much as 1% to end the day 0.5% weaker against the dollar. Bloomberg data shows that one-week implied volatility for USD/ZAR edged higher this morning, although longer-term measures remain subdued, suggesting that traders see the latest domestic political developments as a short-term risk that should resolve itself with limited impact on the country's economic-reform trajectory. This morning, the rand continued to weaken against the dollar (-0.4%) to trade at 17.91/\$, while the yield on the country's 10Y local currency bond was around 10bp higher to trade at 10.03%.



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Global Financial Indicators

6/27/25 8:22 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		6,154	0.8	3.1	3.9	12.2	5
Europe		5,299	1.0	1.2	-2.2	8.1	8
Japan		40,151	1.4	4.6	5.8	1.4	1
China		3,922	-0.6	2.0	2.1	13.3	0
Asia Ex Japan		83	0.4	3.4	5.6	15.3	15
Emerging Markets		48	0.7	3.6	4.7	13.6	15
Interest Rates			basis points				
US 10y Yield		4.3	3	-11	-17	-2	-30
Germany 10y Yield		2.6	2	7	5	14	22
Japan 10y Yield		1.4	2	4	-3	36	34
UK 10y Yield		4.5	2	-4	-17	37	-7
Credit Spreads			basis points				
US Investment Grade		132	-1	1	-3	4	12
US High Yield		350	-2	-4	-20	-14	21
Exchange Rates			%				
USD/Majors		97.3	0.2	-1.4	-2.2	-8.1	-10
EUR/USD		1.17	0.1	1.7	3.4	9.5	13
USD/JPY		144.6	0.1	-1.0	0.2	-10.1	-8
EM/USD		46.2	0.0	0.9	1.3	1.0	8
Commodities			%				
Brent Crude Oil (\$/barrel)		68.2	0.7	-11.4	7.3	-14.3	-6
Industrials Metals (index)		148.0	-0.5	2.7	3.2	-1.2	6
Agriculture (index)		54.8	0.4	-3.7	-4.1	-4.7	-4
Gold (\$/ounce)		3277.4	-1.5	-2.7	-0.7	40.8	25
Bitcoin (\$/coin)		107140.8	-0.6	7.6	-2.3	74.4	14
Implied Volatility			%				
VIX Index (% change in pp)		16.2	-0.4	-4.4	-2.8	3.9	-1.2
Global FX Volatility		8.6	0.0	0.2	-0.3	1.1	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		71	1	-8	-2	-56	-14
Italy		89	1	-9	-9	-68	-26
France		68	0	-5	1	-14	-15
Spain		65	0	-5	4	-26	-5

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

Emerging Market Financial Indicators

Last updated: 6/27/2025 8:23 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		7.17	-0.1	0.1	0.3	1.3	1.8		1.7	-1	1	-4	-47	2
Indonesia		16195	0.1	1.2	0.6	1.3	-0.4		6.6	-1	-5	-9	-39	-39
India		85	0.3	1.3	-0.2	-2.4	0.1		6.7	-4	-12	-2	-57	-60
Philippines		57	0.1	1.1	-1.8	3.9	2.5		4.9	-1	-4	-6	-47	2
Thailand		33	-0.4	0.5	0.4	12.9	5.3		1.7	-5	-9	-29	-107	-62
Malaysia		4.23	0.1	0.7	-0.3	11.4	5.6		3.5	-2	-6	-2	-34	-29
Argentina		1189	0.0	-2.1	-3.8	-23.4	-13.3		30.6	26	98	146	-1328	142
Brazil		5.49	0.0	0.4	2.8	0.2	12.4		13.9	-7	-15	-16	209	-199
Chile		932	0.6	0.9	0.9	2.1	7.0		5.5	-1	-1	-12	-54	-20
Colombia		4042	0.5	1.1	2.7	2.4	9.0		12.1	-7	10	-4	125	27
Mexico		18.87	0.1	1.6	2.1	-2.3	10.4		9.2	-1	-5	-21	-87	-112
Peru		3.6	0.6	1.0	2.9	7.7	5.7		6.5	-1	#####	-2	-67	-15
Uruguay		40	0.2	1.7	3.4	-1.9	8.7		9.0	-1	1	-42	-53	-69
Hungary		340	0.4	2.7	4.7	8.9	16.8		6.7	-3	-6	-1	-1	27
Poland		3.62	0.2	2.4	3.7	11.4	14.2		5.0	-1	-15	-9	-44	-57
Romania		4.3	0.0	0.6	2.9	7.2	10.8		7.3	4	-6	-3	68	6
Russia		78.7	-0.1	-0.3	2.1	8.6	44.2							
South Africa		17.8	0.3	1.1	0.9	3.8	5.9		10.3	4	-15	-52	-89	-21
Türkiye		39.88	-0.3	-0.5	-2.3	-17.6	-11.4		32.7	-27	-66	-137	383	296
US (DXY; 5y UST)		97	0.2	-1.4	-2.2	-8.1	-10.3		3.83	3	-13	-21	-47	-56

	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		3,922	-0.6	2.0	2.1	13.3	-0.3		113	6	-5	-25	17
Indonesia		6,897	0.0	-1.0	-3.9	-2.4	-2.6		103	7	0	-2	12
India		84,059	0.4	2.0	3.2	6.4	7.6		106	3	-8	6	20
Philippines		6,408	1.2	1.1	1.1	-0.1	-1.8		90	9	7	3	11
Thailand		1,082	-2.2	1.4	-5.8	-16.8	-22.7						
Malaysia		1,528	0.0	1.8	1.3	-3.9	-7.0		79	3	-4	-8	9
Argentina		2,038,949	0.7	-0.6	-13.4	24.7	-19.5		695	-39	21	-741	58
Brazil		137,114	1.0	-1.2	-1.7	10.3	14.0		227	7	7	-4	-20
Chile		8,177	0.4	1.2	-2.1	25.7	21.9		119	8	1	-3	6
Colombia		1,679	0.3	1.5	2.3	21.9	21.7		346	4	6	34	20
Mexico		57,474	1.0	2.5	-1.9	9.9	16.1		284	1	-13	-32	-28
Peru		32,744	2.1	1.1	4.5	10.5	13.1		135	6	6	-11	-6
Hungary		97,754	0.0	-0.8	1.8	36.7	23.2		167	3	6	15	12
Poland		103,489	0.1	3.1	0.5	17.4	30.0		113	5	1	14	1
Romania		18,532	0.3	-1.6	3.9	2.6	10.8		239	7	-25	45	4
South Africa		95,674	-0.3	1.0	2.0	21.2	13.8		305	7	-15	-12	12
Türkiye		9,326	0.3	1.3	1.2	-12.7	-5.1		326	17	19	34	67
EM total		48	-0.2	3.6	4.7	13.6	15.4		376	0	-8	-7	11

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

[back to top](#)