



- Markets may be too dovish on Fed in 2026 ([link](#))
- Downside inflation surprise reinforces expectations of ECB rate cut ([link](#))
- Dollar shorts approach 2023 levels ([link](#))
- New US Treasury issuance could shorten maturities ([link](#))
- Strong 10-year bond auction stabilizes Japanese markets ([link](#))
- Yuan rallies on hopes of US-China talks ([link](#))

[Mature Markets](#)



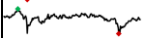



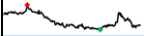


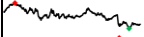
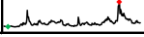
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Risk assets fall back as trade tensions simmer

The OECD downgraded its global growth forecast due worries about the global trade conflict, even as the Caixin PMI in China slowed to its weakest level since September 2022. Markets in Europe were mixed, while US equity index futures were lower. However, government bond markets rallied after a strong Japanese 10-year JGB auction. The dollar appreciated and oil prices were slightly higher. Looking ahead, markets will be focused on the Bank of Canada meeting tomorrow, the ECB meeting on Thursday and the US jobs report on Friday. Inflation in Europe was lower than expected at below 2%, strengthening the case for a rate cut at the ECB meeting. In the US, lawmakers and the administration continued their negotiations over the new tax package, amidst worries that it could increase the budget deficit further and push interest rates higher.

Key Global Financial Indicators

Last updated: 6/3/25 7:31 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5936	0.4	2	4	12	1
Eurostoxx 50		5341	-0.3	-1	1	7	9
Nikkei 225		37447	-0.1	-1	2	-4	-6
MSCI EM		46	0.7	-1	2	9	10
Yields and Spreads			bps				
US 10y Yield		4.42	-2.4	-3	11	3	-15
Germany 10y Yield		2.50	-2.7	-4	-4	-8	13
EMBIG Sovereign Spread		332	-2	1	-24	-48	7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.7	0.0	0	1	-2	7
Dollar index, (+) = \$ appreciation		99.1	0.4	0	-1	-5	-9
Brent Crude Oil (\$/barrel)		64.9	0.4	1	6	-17	-13
VIX Index (% change in pp)		18.7	0.3	0	-4	6	1

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

Mature Markets

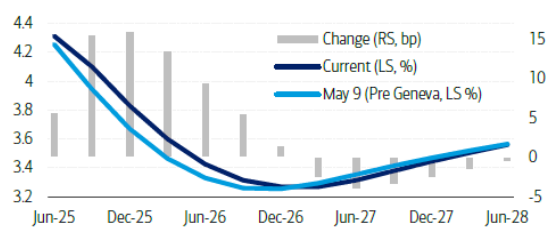
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United States

Markets may be too dovish about Fed policy in 2026. Analysts at Bank of America think last week's Treasury rally and market expectations for Fed rate cuts in 2026 are overdone. After the trade truce between the US and China was announced in Geneva, markets reduced their expectations for Fed rate cuts in 2025 but kept their estimates for rate cuts in 2026 largely unchanged. At the end of April, the Fed Funds futures market was pricing four full rate cuts in 2025, but that has now changed to just two rate cuts. However, for 2026, markets are still predicting more than two full Fed rate cuts. This could change if US economic data continue to improve; the widely followed Citi US Economic Surprise Index is now back in positive territory as recent data have been stronger than expected. In addition, inflation in 2026 could be lower as 2025's tariff-related base effects are taken out of consideration. If these trends do play out, the Fed may not have to cut rates at all.

Exhibit 4: SOFR curve implied rate, today vs pre-Geneva

Trade de-escalation has seen Fed cut re-pricing concentrated in '25

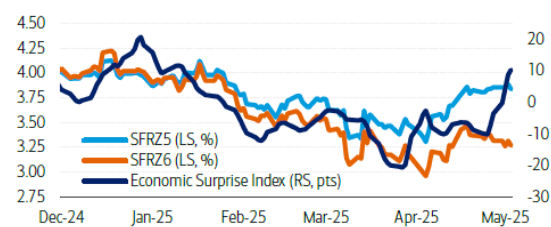


Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 5: SOFR end '25, end '26, & BBG economic surprise index

US data positive surprises have not been reflected in Z6



Source: Bloomberg; note: BBG eco surprise index is 5D MA

BofA GLOBAL RESEARCH

Short positions in the US dollar are reaching levels not seen since 2023.

A combination of risk aversion vis-à-vis the US, worries about a weaker economy and the trade conflict, and expectations of multiple Fed rate cuts next year have worked to weaken the world's reserve currency. The DXY Dollar Index is close to its lowest level since early 2022 at 98.83. Analysts across the Street are marking down their forecasts for the dollar, including Morgan Stanley, which expects the DXY to fall to 91 over the next 12 months. The euro was at a five week high above 1.14, and Morgan Stanley expects it to reach 1.25 in 2026. Goldman estimates that the dollar is still overvalued by as much as 15%. The Yen, euro, Swiss franc, and Australian dollar are among the currencies expected to make significant gains against the dollar.

Dollar Short Position Stays Close to Highest Since 2023

Aggregate net positions on 10 currency pairs and Dollar Index



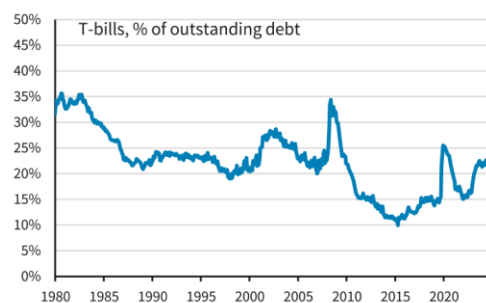
Sources: Bloomberg, Commodity Futures Trading Commission
Note: Data as of May 27

Bloomberg

The US Treasury could change its issuance pattern to shorten the weighted average maturity (WAM) of new debt.

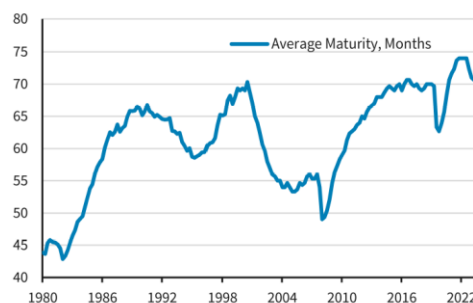
The share of T-Bills in overall outstanding debt is low compared to historical standards, which could enable the Treasury to ramp up issuance in this sector. Contacts think a potential larger supply of T-Bills would be welcomed by the market, as demand for shorter maturity paper is very strong. In addition, the WAM of existing Treasury debt is close to historical highs, so the Treasury could issue fewer 10, 20, and 30-year paper and increase the issuance of two, three, and five-year notes. Such a move would also be favored by investors as reducing the WAM of US Treasury debt would reduce the overall level of interest rate risk in the Treasury market. It would also reduce the government's funding costs as the yield curve is upward sloping.

FIGURE 7. Share of T-bills still below historical averages



Source: US Treasury, Barclays Research

FIGURE 8. WAM is still close to the highs



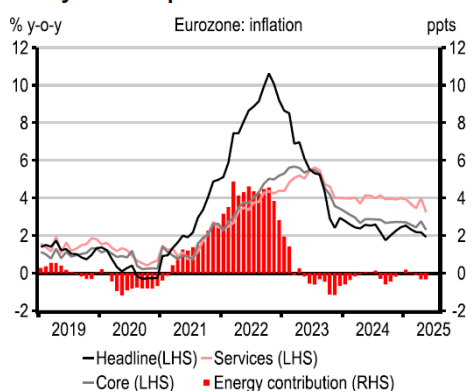
Source: US Treasury, Barclays Research

Euro Area

European equities were mixed with mining stocks underperforming following disappointing data from China. The Stoxx 600 was 0.3% lower in early morning trade led by declines in the basic resources (-1.9%) and banking (-0.9%) sectors. Bloomberg analysts attribute the underperformance of the mining sector to data showing a decline in China's manufacturing sector and the ensuing decline in metal prices. Separately, Dutch equities were -0.3% lower after reports this morning that Dutch right-wing leader Wilders' Freedom party has exited the Dutch coalition, triggering a government collapse and a snap election. **The euro weakened against the dollar after eurozone preliminary May inflation data surprised on the downside.** The euro was trading roughly 0.3% weaker against the dollar around 1.14. **Sovereign bond yields were lower across the curve with the 10y bund yield (-2bps) trading around 2.5%.** Bloomberg analysts partly attribute the easing of sovereign yields to a solid auction of 10y debt in Japan.

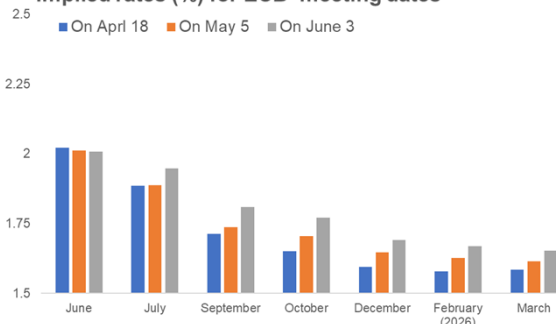
A downside inflation surprise reinforced expectations for ECB rate cut this week. Data released this morning showed **the eurozone's preliminary May inflation was lower than expected** (headline inflation eased to 1.9% y/y versus expected 2.0% from 2.2%, while core inflation eased to 2.3% y/y versus expected 2.4% from 2.7%). Most analysts anticipate a 25bps policy rate cut this week, and markets are currently pricing in roughly 56 bps of easing by end-2025. However, CACIB analysts think that the ECB will likely adopt a more hawkish monetary policy, with the anticipated rate cut this week expected to be the final policy rate change in 2025. ING analysts see this morning's downside surprise in inflation as a clear indication that it remains a possibility that the ECB could undershoot its inflation target, while HSBC analysts see the data as reinforcing expectations for a rate cut this week but not necessarily another rate cut in July.

1. Eurozone inflation fell below 2% in May led by the sharp fall in services inflation...



Source: Macrobond, Eurostat, HSBC

Implied rates (%) for ECB meeting dates

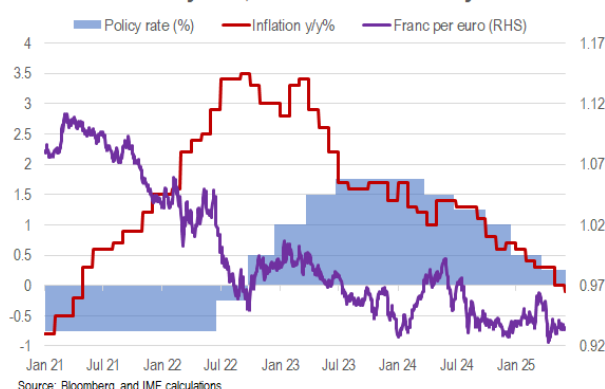


Source: Bloomberg and IMF calculations

Switzerland

Swiss inflation eased to below zero in May. Data released this morning showed Switzerland's headline inflation easing to -0.1% y/y in May in line with consensus expectations (from 0.0%). Bloomberg point to the strengthening Swiss franc as a contributing factor for today's inflation print – with the franc now roughly 0.5% stronger against the euro YTD. UBS analysts note that Swiss national bank officials have emphasized their focus on medium-term price stability and argue that the persistence of the current deflationary pressure will be a key question ahead of the Swiss National Bank's (SNB) policy meeting later this month, where the SNB is widely expected to cut rates by 25bps, to take borrowing costs to zero. This morning, the Swiss franc was little changed against the euro, with Bloomberg analysts noting that the currency is being supported by a general risk-off tone.

Switzerland: Policy rate, Inflation and Currency



Japan

Japanese government bond futures rebounded after solid demand at the 10-year auction. The bid-to-cover ratio at the ¥2.6 tn (\$18 bn) 10-yr debt sale rose to 3.66, the strongest since Apr 2024. The auction result provided support to the volatile JGB market, with 10-yr yield -1.9 bps to 1.48% and 30-yr yield -0.2 bps to 2.93%. Meanwhile, a draft of the government's annual fiscal policy plan seen by Bloomberg on Tuesday emphasized the need to increase domestic JGB holdings to help curb further yield increases. It stressed the importance of maintaining market confidence in Japan's public finances, particularly as the BOJ continues to raise interest rates and reduce its bond purchases. The unusual prominence of references to the JGB market in the draft plan, which will be approved by PM Ishiba's cabinet later this month, hints at emerging concerns within Ishiba's government over market volatility. Overnight index swaps continue to price in a 75% probability of rate hike by the end of 2025.

Japan's Bond Yields Have Lately Seen Sharp Volatility
Change since April 2



Emerging Markets

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Emerging markets took their cue from yesterday's gains in the US. Markets in EMEA, Asia and Latin America were generally higher and currencies were stronger. Korean markets were closed for the election. In South Africa, Q1 GDP came in stronger than expected, strengthening the rand. In Poland, stocks extended their decline due to worries about the outcome of the Presidential election, taking the cumulative

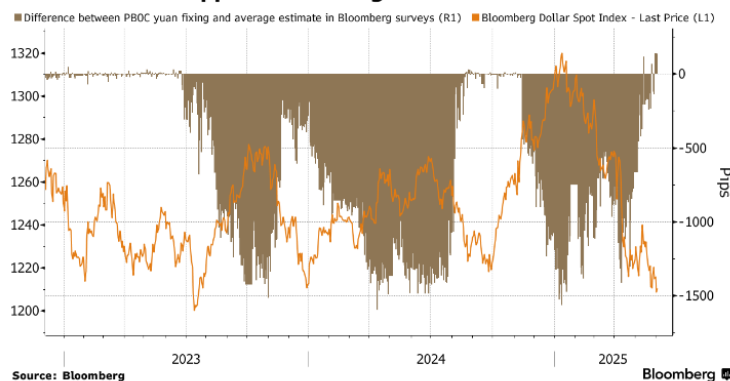
loss to 5% over the past four days. Chile's economic activity expanded by 0.6% in April, surpassing forecasts, driven by a 3.3% surge in mining production.

China

Offshore CNH rises towards its onshore peer CNY as the US pushed for talks this week between President Trump and President Xi. Onshore CNY strengthened (+0.2%) to 7.1876 and offshore CNH strengthened (+0.3%) to 7.1877, inching very close to Tuesday's fixing of 7.1869, which is weaker than Bloomberg's survey consensus for a second consecutive trading day. Mizuho analysts believe that the PBOC may be trying to scale down its yuan support as depreciation

pressure fades, pointing to the gap between the yuan fixings and average survey estimates narrowing to within +/- 200 pips since May 23. Goldman Sachs analysts take note of the yuan underperformance versus the dollar among Asian currencies (+1% since Apr 2, versus +10% TWD and +6% KRW) and confirm that interest from investors in chasing the yuan rally is low, given the likely slow pace of appreciation and negative carry to be short \$/CNY. Today, the seven-day repo rate declined 11 bps to 1.55%, while 10-yr government bond yield held steady at 1.71%. Both onshore (CSI300: +0.3%) and offshore (Hang Seng: +1.5%) equities rose on hopes of further stimulus, after Caixin manufacturing PMI fell to 48.3 in May, the lowest since September 2022 and well below analyst estimates.

PBOC's Yuan Support Via Fixing Eases Amid USD Retreat



Mexico

The Mexican peso rallied on Monday, leading gains among emerging-market currencies, as investors brushed off concerns over the country's unprecedented judicial elections. The Mexican peso strengthened 1.1%. It is now near its strongest level since September 17. Mexico held an unprecedented election to elect federal judges last Sunday. Despite ultra-low voter turnout, estimated between 12.6% and 13.3%, and a complex electoral process, markets welcomed the removal of immediate event risk.

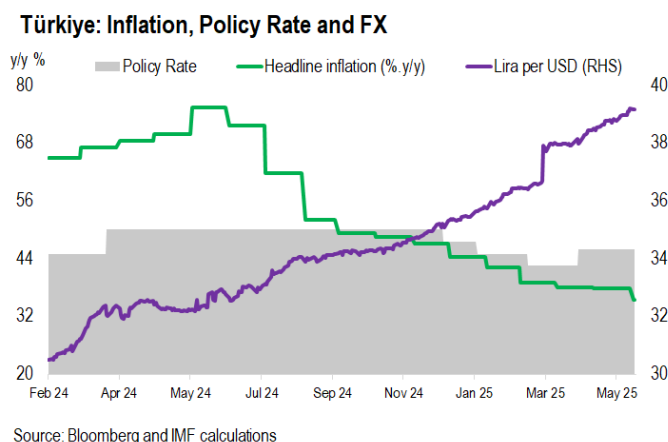
While the long-term impact on Mexico's judiciary remains to be seen, markets appear to be reacting positively to the clearing of near-term political uncertainty.



Türkiye

May headline inflation eases by more than expected in Türkiye. Annual headline inflation slowed to 35.4% y/y in May (36% expected, 37.9% prior), the lowest since November 2021. Some market participants think today's data may pave the way for a resumption of interest rate cuts by the Turkish central bank. Last month, at a quarterly update, policymakers kept their year-end inflation forecast of 24% y/y unchanged, dividing analysts as to the likely timing of the next rate cut. Analysts at Goldman Sachs expect headline inflation to pick up in the coming months as they believe that the FX weakness from March has not been fully passed through to prices in April. In addition, they note that growth momentum in Türkiye remains

strong, with inflation expectations stable at elevated levels. On the other hand, they note that lower global energy prices and season effects should help inflation to fall to 25.8% y/y by year-end. This morning, the Turkish lira was trading broadly unchanged at TRY39.17/\$ while Turkish equities were higher in early morning trade (+2.1%).



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), 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.

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Global Financial Indicators

6/3/25 12:30 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,936	0.1	2.3	4.4	12.4	1
Europe		5,341	-0.3	-1.4	1.1	6.8	9
Japan		37,447	-0.1	-0.7	1.7	-3.8	-6
China		3,852	0.3	-0.2	2.2	7.3	-2
Asia Ex Japan		78	1.0	-0.5	2.6	10.0	8
Emerging Markets		46	0.8	-0.8	1.9	8.6	10
Interest Rates			basis points				
US 10y Yield		4.4	-4	-3	11	3	-15
Germany 10y Yield		2.5	-3	-4	-4	-8	13
Japan 10y Yield		1.5	-2	2	23	43	39
UK 10y Yield		4.6	-5	-5	11	39	5
Credit Spreads			basis points				
US Investment Grade		133	-1	-5	-16	17	13
US High Yield		367	-4	-17	-38	17	39
Exchange Rates			%				
USD/Majors		99.1	0.4	-0.5	-1.0	-4.9	-9
EUR/USD		1.14	-0.5	0.5	0.6	4.4	10
USD/JPY		143.2	0.3	-0.8	-0.4	-8.3	-9
EM/USD		45.7	0.0	0.2	0.8	-2.2	7
Commodities			%				
Brent Crude Oil (\$/barrel)		64.9	0.4	2.0	6.5	-14.0	-11
Industrials Metals (index)		143.1	-1.0	-0.2	1.4	-11.1	2
Agriculture (index)		55.6	-0.2	-2.8	-4.3	-7.8	-2
Gold (\$/ounce)		3357.1	-0.7	1.7	0.7	42.8	28
Bitcoin (\$/coin)		105293.5	0.3	-0.8	9.3	52.4	12
Implied Volatility			%				
VIX Index (%, change in pp)		18.7	0.3	-0.3	-4.0	5.6	1.3
Global FX Volatility		8.9	0.0	0.0	-0.7	2.0	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		74	1	0	-9	-29	-11
Italy		98	0	-1	-13	-33	-18
France		67	1	0	-5	20	-16
Spain		59	1	-1	-6	-13	-10

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

Emerging Market Financial Indicators

Last updated: 6/3/2025 7:54 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		7.19	0.2	0.1	1.2	0.8	1.6		1.8	0	1	5	-53	7	
Indonesia		16309	-0.3	-0.1	0.9	-0.5	-1.1		6.7	0	2	-6	-12	-28	
India		86	-0.2	-0.3	-1.6	-2.9	0.0		6.7	-4	-7	-1	-66	-65	
Philippines		56	0.0	-0.3	0.1	5.3	4.1		4.9	0	-1	-2	-59	7	
Thailand		33	-0.2	0.5	1.0	12.4	5.4		2.0	0	-4	-5	-91	-37	
Malaysia		4.25	0.3	-0.2	-1.0	10.9	5.3		3.6	5	3	-8	-31	-23	
Argentina		1181	0.7	-3.2	-0.8	-24.1	-12.7		29.2	25	9	-371	-1110	5	
Brazil		5.67	0.9	-0.1	-0.3	-7.6	8.8		14.1	5	5	3	271	-178	
Chile		939	0.7	0.1	1.0	-3.8	6.1		5.6	-1	-2	6	-29	-10	
Colombia		4159	-0.9	-0.2	1.6	-7.0	5.9		12.1	0	-4	6	115	26	
Mexico		19.24	-0.1	0.2	2.4	-8.1	8.3		9.4	0	-8	-3	-53	-99	
Peru		3.6	0.0	1.0	0.8	3.0	3.8		6.5	5	-3	-5	-50	-10	
Uruguay		42	0.0	-0.1	0.8	-6.8	4.9		9.3	1	-6	-27	13	-33	
Hungary		354	-0.5	0.6	0.7	1.0	12.2		6.7	3	-1	18	-15	27	
Poland		3.75	-0.9	-0.1	0.5	4.4	10.0		5.0	3	-12	17	-56	-61	
Romania		4.4	-0.4	0.5	-0.9	2.8	8.2		7.4	3	7	1	81	17	
Russia		79.0	0.1	1.8	1.9	13.1	43.7								
South Africa		17.9	-0.3	0.3	2.1	3.4	5.3		10.6	5	-23	-30	-154	7	
Türkiye		39.15	0.1	-0.5	-1.5	-17.8	-9.7		34.0	10	-4	-40	548	429	
US (DXY; 5y UST)		99	0.4	-0.5	-1.0	-4.9	-8.7		3.97	-3	-6	5	-43	-41	

	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		3,852	0.3	-0.2	2.2	6.5	-2.1		109	-9	-15	-23	13
Indonesia		7,045	-0.3	-2.3	3.4	-0.8	-0.5		102	-1	-14	5	11
India		80,738	-0.8	-1.0	0.3	12.0	3.3		107	-7	-22	16	21
Philippines		6,413	0.9	0.4	0.0	0.4	-1.8		83	0	-10	-3	4
Thailand		1,149	0.0	-2.3	-4.2	-14.1	-17.9						
Malaysia		1,503	-0.3	-2.0	-2.5	-6.9	-8.5		82	-1	-13	4	12
Argentina		2,206,291	-3.2	-6.9	5.0	33.0	-12.9		681	7	-28	-665	44
Brazil		136,787	-0.2	-1.0	1.2	12.1	13.7		224	4	-5	11	-23
Chile		8,049	0.0	-3.6	0.1	21.7	20.0		117	-1	-6	1	4
Colombia		1,609	-1.7	-2.7	-2.0	14.9	16.6		337	-3	-42	34	11
Mexico		57,705	-0.2	-1.3	3.4	11.4	16.5		299	2	-35	1	-13
Peru		31,858	1.7	1.7	5.4	6.0	10.0		132	3	-10	-18	-9
Hungary		95,858	-0.3	-0.2	4.0	38.0	20.8		156	-5	-17	11	1
Poland		99,747	-1.2	-3.1	-1.4	14.9	25.3		114	2	3	19	2
Romania		18,635	0.5	4.5	8.7	6.0	11.4		261	-3	-27	84	26
South Africa		95,070	-0.1	1.4	3.0	22.3	13.1		318	-2	-31	-20	25
Türkiye		9,274	2.9	0.7	1.2	-12.2	-5.7		319	12	-17	41	60
EM total		46	0.4	-0.8	1.9	8.6	9.6		384	0	-22	14	20

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

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