GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MARCH 19, 2025
LEAD EDITOR: JOHANNES S. KRAMER

- **US data remain firm while market-implied recession probabilities span a wide range** (link)
- **Canada's inflation surprise backs Macklem's data-dependent approach last week** (link)
- **ECB officials continue to weigh rising economic uncertainties against inflation risks** (link)
- **Bank of Japan delivered a rate hold as solid wage growth spurs money market pricing** (link)
- **China's consumer loan rates fall to record lows despite efforts to boost spending** (link)
- **Capital outflows amid renewed market pressure backdrop for Bank Indonesia's hold** (link)

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CEE Currencies Under Pressure as Hopes of a Ukraine Ceasefire Crumble

Equity markets turned lower after two days of gains. In pre-market trading, US stocks are weaker, following cautious trading ahead of the Fed's interest rate announcement and rising geopolitical unrest. European markets were more quiet after yesterday's widely anticipated majority in the Germany's parliament marked one more procedural step for the fiscal stimulus package to become a reality. The Bank of Japan kept rates unchanged while the euro and yen remained weaker on the day as traders pared back dollar shorts into the Fed meeting. Geopolitical developments weighed on EMEA markets as Ukraine ceasefire talks reached a stalemate given Russia's refusal to agree to a broader US ceasefire proposal and Ukraine's hesitation to accept terms that attach conditions to the ceasefire, which include Putin's demand for a suspension of all weapons deliveries to Ukraine. The setback in ceasefire talks was at odds with more aspirational market pricing, particularly in CEE currencies, as traders had been pricing in a possible easing of tensions. As a result, CEE currencies sold off sharply.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
3/19/25 9:05 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5615	-1.1	1	-9	8	-5
Eurostoxx 50		5490	0.1	2	1	10	12
Nikkei 225		37752	-0.2	3	-3	-8	-5
MSCI EM		45	-0.5	3	1	11	8
Yields and Spreads					bps		
US 10y Yield		4.28	-0.4	-3	-25	-1	-29
Germany 10y Yield		2.79	-2.5	-9	23	34	42
EMBIG Sovereign Spread		332	1	0	22	-24	7
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.1	-0.5	1	2	-3	5
Dollar index, (+) = $ appreciation		103.6	0.3	0	-3	0	-5
Brent Crude Oil ($/barrel)		70.5	0.0	-1	-7	-19	-6
VIX Index (%, change in pp)		21.6	-0.1	-3	6	8	4

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

Mature Markets

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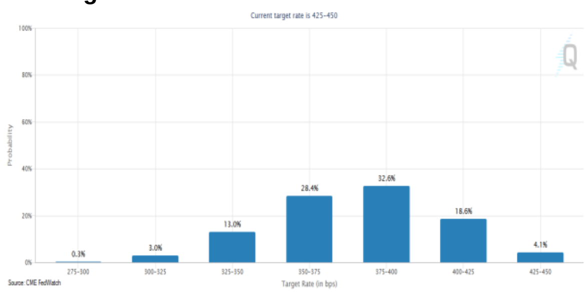
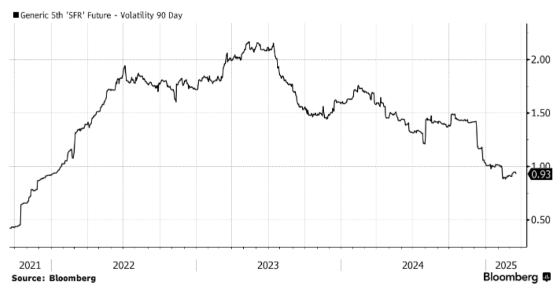
United States

A survey of former Fed staff points to slower growth and stickier inflation ahead, driven by tariffs, uncertainty, and weaker business and consumer sentiment. Most expect higher unemployment and stronger price pressures than previously assumed. The group sees a suitable short-term rate at 4.00–4.25% in 2025, implying one cut from current levels and another 0.25 ppt cut in 2026. That contrasts with overnight forwards, which not only show volatility back at pre-hiking levels but also price in two cuts by year-end. The StoneX survey—run anonymously among former Fed officials—shows most expect no major changes to the dot plot in today's March Fed meeting, even though the survey points to fewer cuts than the Fed projected in its last dot plot.

Target rate probability for 10 December 2025 meeting

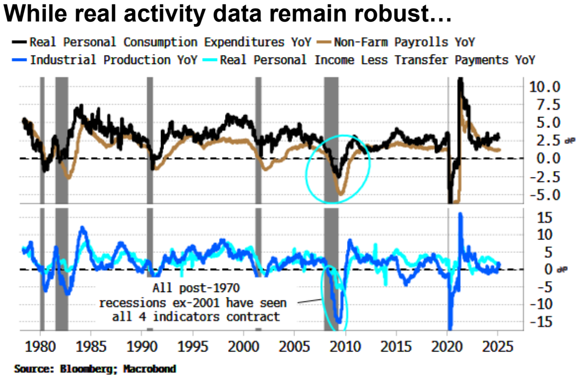


SOFR Futures volatility

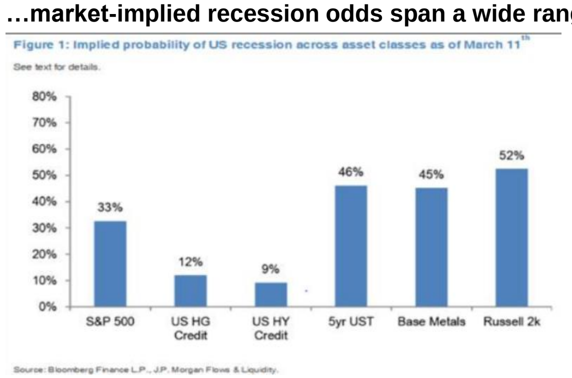


Markets continue to price in recession risk, but incoming data paint a more resilient picture. US industrial production rose 0.7% m/m in February (exp. 0.2% from 0.5%), the strongest monthly gain in a year. A 0.9% jump in manufacturing, driven by higher auto output, led the rebound. Ex-autos, factory production still rose 0.3%. With that, none of the NBER indicators—which include y/y changes in real PCE, non-farm payrolls, industrial production, and real personal income (left chart)—are currently contracting. Still, JPMorgan analysts ran a battery of recession probability models, and found market-implied risks spread widely—from under 10% to over 50% (right chart), concluding that the disconnect between macro data and market pricing remains stark.

While real activity data remain robust…



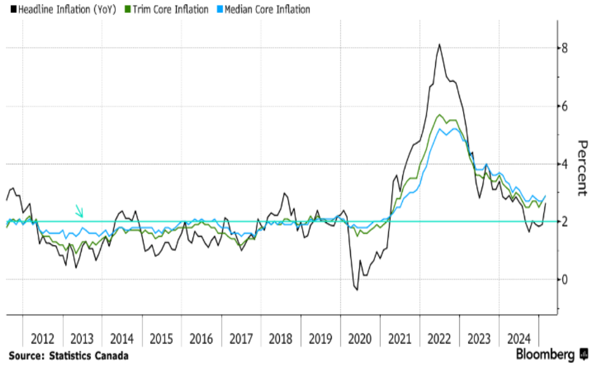
…market-implied recession odds span a wide range



Canada

A sharp inflation surprise in Canada, partly driven by fading temporary factors, backs Governor Macklem's data-dependent approach. Headline inflation rose 2.6% y/y in February (exp. 2.2% from 1.9%)—the highest since June. Monthly CPI jumped 1.1% m/m (exp. 0.6% from 0.1%), the fastest pace in three years. Core inflation came in at 2.9% (exp. 2.7%). The spike followed the end of a temporary federal sales tax holiday that had kept grocery prices down. Without that tax break, some analysts estimate inflation would have reached 3.0%, right at the top of the BoC's target range. Markets are still pricing in two cuts by year-end, but the data make it harder to argue for a steady easing path. As noted in the GMM on March 13, the BoC cut rates, but Governor Macklem leaned less dovish than many expected, warning that inflation risks were still alive, which now looks justified.

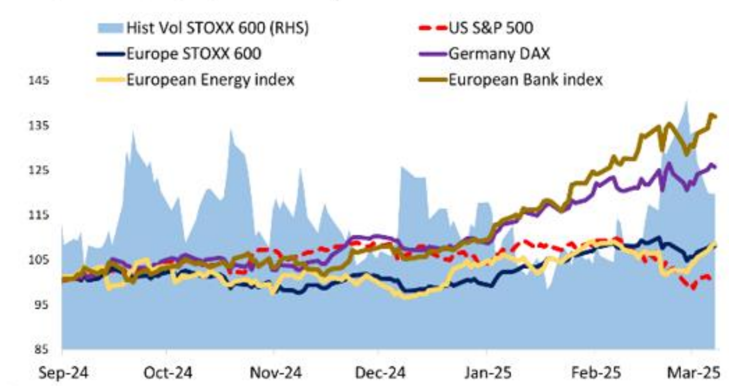
Canada core and headline inflation



Euro area

European markets were mostly range-bound this morning. The euro weakened (-0.4%) to \$1.0899/€, as traders reportedly closed dollar shorts into the Fed. European government bond yields edged lower, with 10-year Bund yields slightly down (-2bps) to 2.78%. French 10-year OATs yielded 3.46%, and Italian 10-year BTPs 3.89%, leaving spreads to Bunds unchanged at 68 bps and 111 bps, respectively. European equities changed little with the Stoxx 600 fractionally down with slightly stronger markets in Italy and France while Germany's DAX edged slightly down after a strong five-day run (+2.9% since last Thursday). Euro area February inflation came in softer than expected, with headline CPI at 2.3% y/y (exp. 2.4% from 2.4%). The core inflation release delivered no news at 2.6% y/y (exp. 2.6% from 2.6%). In reaction, Money markets held steady, pricing -14 bps of cuts in April (about 55% probability of a 25 bp cut) and -48 bps by year-end.

European Stocks (Sept 2024= 100)



Source: Bloomberg and IMF calculations

Euro area inflation showed signs of easing in February, with softer-than-expected headline CPI, as ECB officials continue to weigh rising economic uncertainties against inflation risks. Euro area inflation printed softer than expected, with February headline CPI at 2.3% y/y (vs. exp. 2.4%), while core inflation remained steady at 2.6% y/y, in line with expectations. ECB's Rehn highlighted that inflation is nearing the 2% target, though he flagged two-sided risks, particularly due to rising trade protectionism. To this effect, Nomura analysts expect the ECB to pause rate cuts in April due to heightened uncertainty and the potential offset from large-scale European fiscal stimulus, which could mitigate the inflationary impact of expected US tariffs. In other remarks, Schnabel and Buch urge banks to prepare for more active use of ECB liquidity facilities, emphasizing the need to reduce excess liquidity. Money markets are pricing -14 bps of cuts in April, with a 55% probability of a 25 bps cut and -48 bps by year-end.

Japan

The BoJ kept its policy rate unchanged as expected. In maintaining a rate hold at 0.50% as expected by analysts, the central bank added trade uncertainty to its list of downside risks, highlighting concern over the global impact of escalating tensions. Solid wage growth has fueled expectations for more hikes this year, with 10-year JGB yields rising to 1.51%—the highest in two decades. Interest rate swaps now price a 77% chance of a 25 bp hike by July, and near certainty by October. The yen briefly weakened 0.6% vs the dollar after the decision but ended the day little changed at JPY/$ 149.20.

Emerging Markets

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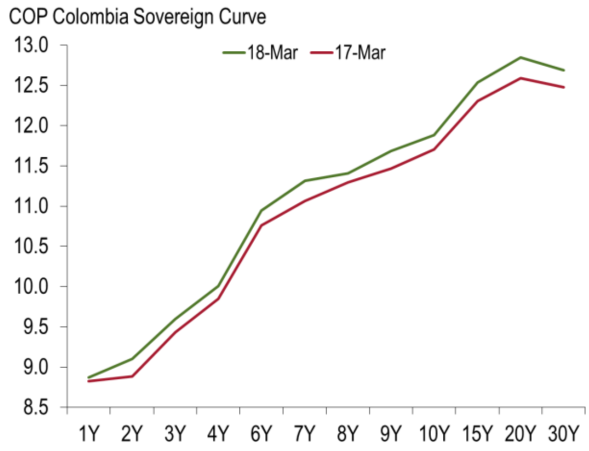
The ceasefire failure weighed on EMEA assets. CEE currencies declined against the euro, reflecting risk-off sentiment. Reflecting the ceasefire failure, the Hungarian forint dropped (-0.4%) to 399.1/€ after briefly falling -0.9%. The Russian ruble weakened (-1.2%) to 82.8/$. Ukraine's hryvnia remained flat at 41.58/$, with 10-year foreign bonds dropping to 60.87 cents on the dollar. EMEA equities saw modest losses, pressured by political and geopolitical factors. In South Africa, February inflation remained softer 3.2% y/y (exp. 3.4% from 3.2%) with the rand closing at 18.22/$, depreciating (-0.4%) on the day.

Asian equities broadly flat regional currencies weakened. The Indonesian rupiah underperformed (-0.6%) as domestic concerns gained traction. Reaction to the BoJ's rate hold was muted, with limited spillover into broader Asia markets.

Yesterday, Latin American assets performed mixed. Stocks gained in Brazil (+0.5%), and Mexico (+0.6), while Colombia's equity market declined by 0.7%. Currencies appreciated in Chile (+0.3%), and Peru (+0.5%), while the Colombian peso weakened 1.1% against the US dollar.

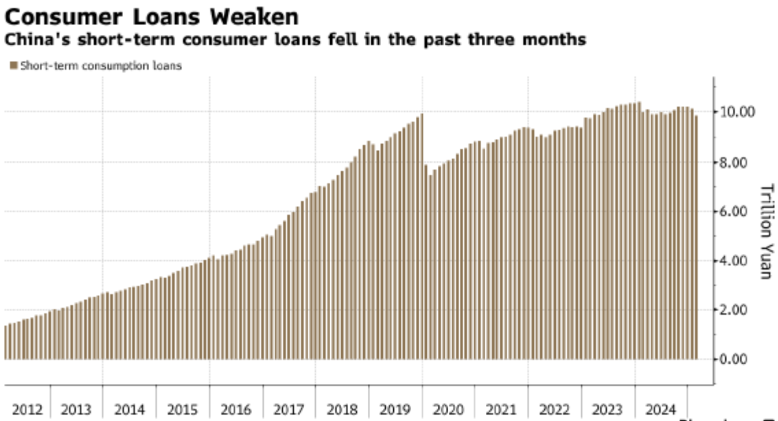
Colombia

Colombian bonds and the peso sold off on unconfirmed reports that Finance Minister Diego Guevara may resign. Guevara, a fiscal conservative, has struggled to convince President Petro to rein in spending as the deficit widened to -6.8% of GDP. The peso dropped as much as -1.7% intraday, while local bonds fell across the curve, ranking among the worst EM performers. The selloff came just days after Fitch maintained Colombia's sovereign rating at BB+ while updating the credit outlook to negative on fiscal risks. The uncertainty ahead of the central bank's policy meeting has raised market nerves—five-year swap rates jumped (+17bps) to 8.60%, as traders now expect the bank to hold rates steady.



Source: Bloomberg and IMF staff

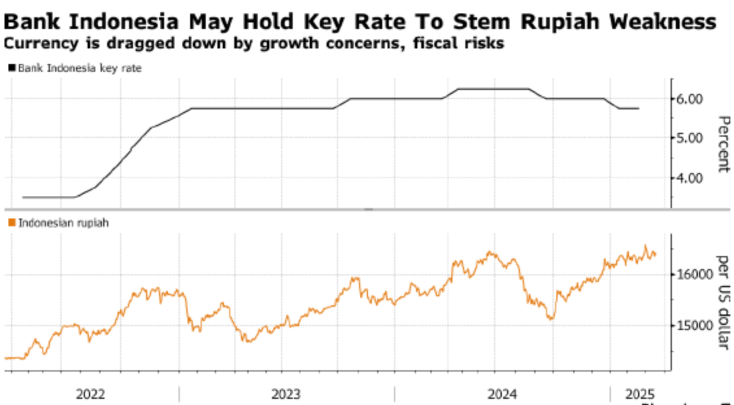
China



Source: People's Bank of China, Bloomberg

Despite official efforts to boost spending, consumer loan rates in China have fallen to record lows as banks compete for limited demand. The National Financial Regulatory Administration last week urged banks to expand personal lending while keeping terms “reasonable” on credit limits and rates. Ads in cities like Shanghai, Beijing, and Hangzhou now show annual rates as low as 2.58%, aimed at encouraging restaurant visits and retail activity—down from around 10% two years ago. Against that backdrop, UBS analysts note that weak income expectations and economic uncertainty continue to weigh on household sentiment, limiting the impact of cheaper credit and underscoring that fiscal stimulus has yet to gain traction.

Indonesia

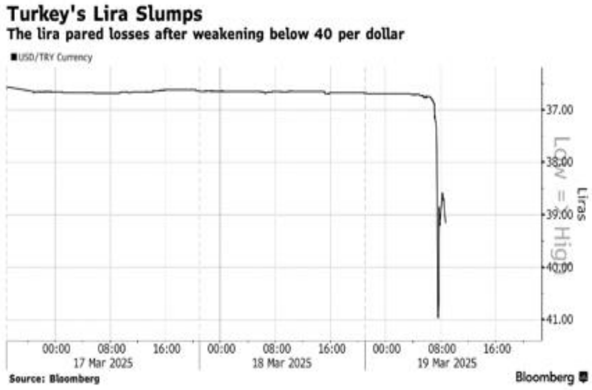


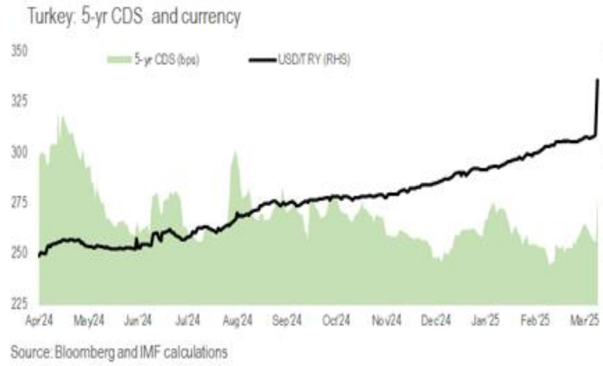
Source: Bloomberg

The Bank Indonesia (BI) opted for a rate hold amid capital outflows amid renewed market pressure. The central bank held its policy rate at 5.75% for a second straight month,. The decision was in line with expectations and came after recent losses in Indonesian assets. Foreign investors were net sellers of sovereign bonds last week, according to Bloomberg, following a fiscal warning from Fitch Ratings. Year-to-date, the equity market is down 12%, the 10-year bond yield has risen 26 bps, and the rupiah has underperformed (-2.6%), making it one of the weakest in the region. Analysts noted that BI’s rate hold—just ahead of the Fed meeting today—signals a clear focus on currency stability amid both external trade risks and domestic concerns. The rupiah closed weaker (-0.6%) at IDR/$ 16,525, remaining within its recent range.

Türkiye

Turkish assets decline sharply on domestic political developments. The arrest of Istanbul's mayor, Ekrem Imamoglu, has been viewed by investors and analysts as raising domestic political risk. According to Bloomberg data, the Borsa Istanbul 100 equity index declined by 6.9% at the open, triggering a trading halt. Meanwhile, the lira initially depreciated by more than 10% against the dollar, although pared losses and was around 6% weaker to trade at 38.98/$. According to Bloomberg reports, Turkish local banks stepped in and sold around $8bn to provide support to the currency. Türkiye's 10Y government bond yields rose sharply, with yields climbing 175bps to reach 29.94%, the highest level this year, and the 5Y CDS premium jumping 24bps to 280bps. Analysts at ING note that the Turkish lira is one of "the most heavily positioned carry trade in the EM space" so a sharp move in the currency, could potentially lead to further outflows, although ING note that local banks could potentially step in and provide some support to the lira. Market contacts note that continued, rapid depreciation of the lira may result in the Central Bank of Türkiye pausing its easing cycle while foreign investors' positive sentiment towards Turkish risk assets may dim if domestic political developments are seen as a U-turn by the administration.





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Global Financial Indicators

3/19/25 9:06 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,625	-1.1	0.5	-8.4	8.6	-4
Europe		5,490	0.1	2.4	0.5	9.6	12
Japan		37,752	-0.2	2.5	-2.6	-7.5	-5
China		4,010	0.1	2.1	2.1	11.8	2
Asia Ex Japan		77	-0.5	2.8	1.1	14.1	6
Emerging Markets		45	-0.5	3.2	1.1	11.0	8
Interest Rates					basis points		
US 10y Yield		4.3	0	-3	-25	-1	-29
Germany 10y Yield		2.8	-3	-9	23	34	42
Japan 10y Yield		1.5	1	-1	8	78	42
UK 10y Yield		4.6	-2	-10	1	57	5
Credit Spreads					basis points		
US Investment Grade		125	-1	-4	15	5	5
US High Yield		357	-2	3	49	9	29
Exchange Rates					%		
USD/Majors		103.6	0.3	-0.1	-3.4	-0.3	-5
EUR/USD		1.09	-0.4	0.1	4.6	0.3	5
USD/JPY		149.8	0.3	1.0	-1.1	-0.7	-5
EM/USD		45.1	-0.5	0.9	1.8	-3.2	5
Commodities					%		
Brent Crude Oil ($/barrel)		70.5	0.0	-0.6	-6.8	-11.3	-5
Industrials Metals (index)		155.2	0.7	1.3	5.0	9.9	11
Agriculture (index)		58.2	-0.1	1.2	-5.3	-1.6	2
Implied Volatility					%		
VIX Index (%, change in pp)		21.6	-0.1	-2.6	6.4	7.8	4.3
Global FX Volatility		8.1	0.0	-0.3	0.2	1.7	-1.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		80	1	-2	-4	-20	-5
Italy		112	1	0	3	-14	-4
France		68	0	0	-5	24	-15
Spain		63	1	1	1	-17	-6

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

Emerging Market Financial Indicators

Last updated: 3/19/2025 9:09 AM	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		7.23	-0.1	0.1	0.7	-0.4	1.0		2.0	-1	2	22	-42	27
Indonesia		16525	-0.6	-0.5	-1.2	-4.9	-2.6		6.9	2	4	17	22	-13
India		86	0.1	0.9	0.6	-3.9	-1.0		6.8	1	-4	-39	-50	-59
Philippines		57	0.0	0.1	1.4	-2.4	0.9		5.1	0	2	1	-30	27
Thailand		34	-0.2	0.6	0.2	7.3	1.4		2.2	0	-2	-16	-37	-12
Malaysia		4.44	0.2	-0.2	0.2	6.8	0.8		3.8	0	0	-4	-12	-6
Argentina		1069	0.0	-0.2	-0.9	-20.2	-3.5		34.5	351	348	692	-2744	536
Brazil		5.68	-0.2	2.1	0.7	-11.5	8.7		14.6	-13	-23	-6	406	-134
Chile		919	-0.2	2.1	3.5	5.1	8.3		5.7	2	4	-27	0	-1
Colombia		4132	-0.3	-0.6	-0.7	-6.1	6.6		11.9	21	32	22	174	4
Mexico		19.93	-0.1	1.2	2.6	-15.7	4.5		9.5	-5	-15	-43	0	-89
Peru		3.6	0.5	1.1	1.6	2.2	3.2		6.4	0	-9	-9	-59	-24
Uruguay		42	-0.1	0.5	2.2	-9.2	3.9		9.6	-6	-9	-13	61	-6
Hungary		365	-0.5	0.4	5.8	-0.6	8.8		6.8	0	8	39	33	43
Poland		3.84	-0.5	0.2	4.3	3.3	7.5		5.5	1	-10	-3	18	-7
Romania		4.6	-0.4	0.1	4.6	0.3	5.2		7.3	3	-2	-3	81	1
Russia		83.6	-2.2	4.2	7.2	10.6	35.8							
South Africa		18.1	0.2	1.3	2.3	4.4	4.0		10.7	-3	12	9	-126	26
Türkiye		38.00	-3.4	-3.7	-4.5	-14.8	-7.0		28.7	-1	43	14	-194	-97
US (DXY; 5y UST)		104	0.4	0.0	-3.3	-0.2	-4.5		4.09	2	2	-27	-21	-29

	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		4,010	0.1	2.1	2.1	11.8	1.9		102	2	11	-46	6
Indonesia		6,312	1.4	-5.3	-7.0	-13.9	-10.9		116	12	29	16	25
India		75,449	0.2	1.8	-0.4	4.6	-3.4		107	-3	21	1	21
Philippines		6,313	0.5	1.9	4.1	-7.9	-3.3		101	6	20	16	22
Thailand		1,190	1.1	2.6	-4.5	-13.4	-15.0						
Malaysia		1,518	-0.7	-0.2	-3.8	-1.2	-7.6		81	-1	12	-3	11
Argentina		2,288,538	-2.5	6.0	-4.7	102.5	-9.7		793	70	96	-793	156
Brazil		131,475	0.5	6.1	3.3	3.1	9.3		232	1	18	21	-15
Chile		7,600	-0.2	2.8	4.4	18.4	13.3		127	4	10	2	14
Colombia		1,623	-0.7	1.4	1.5	24.2	17.7		336	5	25	42	10
Mexico		52,773	0.6	2.0	-2.4	-5.0	6.6		314	-6	17	-7	2
Peru		29,929	0.2	4.6	2.5	2.2	3.3		151	7	14	11	10
Hungary		89,953	0.3	3.3	1.5	36.4	13.4		160	7	19	6	5
Poland		98,473	-0.3	5.4	5.4	23.6	23.7		117	4	12	20	5
Romania		17,363	0.4	-0.4	-2.8	6.1	3.8		253	4	23	64	18
South Africa		90,064	1.3	3.7	1.9	25.3	7.1		319	1	25	-29	26
Türkiye		9,923	-8.1	-6.2	1.6	11.1	0.9		275	-5	23	-51	16
EM total		45	0.1	3.2	1.1	11.0	7.9		376	1	17	67	12

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

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