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- **Euro area government bonds yields rise on potential increases in defense spending** ([link](#))
- **Asset managers' yen positions turn net long** ([link](#))
- **Chinese leveraged equity positions increase in anticipation of pro-growth policies** ([link](#))
- **Inflation softened in Türkiye reinforcing expectations of a 250 bps rate cut on Thursday** ([link](#))
- **Special Feature: EM Local Currency Bond Holdings Monitor** (attached)

[Mature Markets](#)








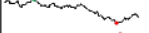



[Emerging Markets](#)

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Markets Rally Despite Imminent Tariff Threat

Global equities gained and sovereign bond yields rose despite the threat of new US tariffs on Canada and Mexico, and additional levies on China, scheduled to take effect tomorrow. German bund yields rose the most amid speculation of more defense spending and following the release of slightly higher-than-expected inflation data in the euro area. US Treasury yields followed the moves higher, pausing last week's rally, with the 10-year yield up 5 bps after dropping 22 bps last week. In currencies, the dollar weakened despite the prospect of tariffs, with the yen also depreciating. The upbeat moves in markets may reflect that some investors are expecting a lower level of levies imposed on Canada and Mexico than originally stated or yet another delay announced at the last minute. This, however, increases the risk of disappointment and could lead to a potential sell-off of risky assets if the tariffs are imposed as planned.

Key Global Financial Indicators

Last updated: 3/3/25 8:15 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5955	1.6	-1	-1	16	1
Eurostoxx 50		5556	1.7	2	6	14	13
Nikkei 225		37785	1.7	-3	-3	-6	-5
MSCI EM		43	-1.4	-4	2	7	3
Yields and Spreads			bps				
US 10y Yield		4.26	5.1	-14	-30	8	-31
Germany 10y Yield		2.51	10.5	3	13	10	14
EMBIG Sovereign Spread		328	3	8	8	-40	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.1	0.2	-1	1	-6	3
Dollar index, (+) = \$ appreciation		106.9	-0.7	0	-2	3	-1
Brent Crude Oil (\$/barrel)		73.3	0.6	-2	-4	-12	-2
VIX Index (% change in pp)		19.5	-0.2	1	1	6	2

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

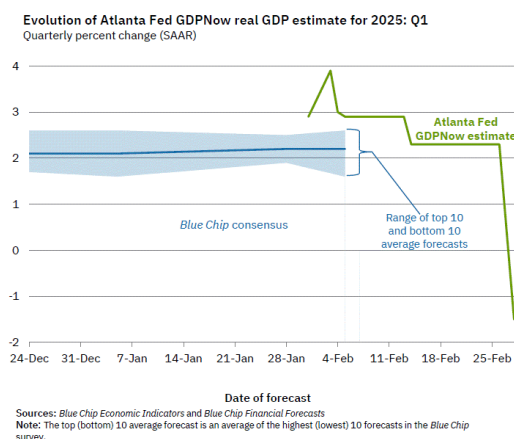
In the week ahead, investor attention will be set on March 4, the target date for the implementation of US tariffs. Weak macro-data for the US could put further pressure on sentiment as high-frequency data points to a potentially weaker payroll report while US factory PMI's might show efforts on inflation reduction stalling. The euro area will publish lower HICP inflation on March 3, leading to a potential cut in rates by the ECB on March 6. In China, the release of PMIs could give support for any improvement in investor sentiment. Elsewhere, Australia and Brazil report Q4 GDP while South Korea, Mexico, Colombia, and Chile have key inflation prints.

Mature Markets

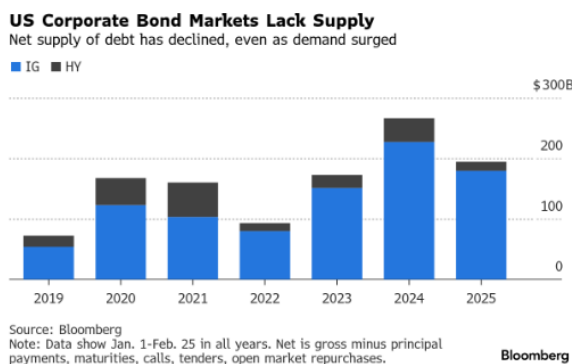
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United States

Atlanta's Fed US GDP nowcast falls to -1.5% for Q1 2025. The Atlanta Fed nowcasting tool for GDP falls to -1.5% on February 28 from 2.3% on February 19 as weakening net exports and falling real personal consumption expenditures bring down the top-line number. Some analysts believe this is “too bad to be true.” For example, a fall in net exports from a negative \$29 bn to a negative \$248 bn would be the second worst contribution in US history. While some decrease in net exports is expected due to the front running of tariffs, consumption and/or inventory growth should at least partially offset the effect. First quarter GDP will not be published until end of April, but analysts are still expecting a solid 2.6% rate of growth. A significantly lower number than what is currently forecasted could further deteriorate market sentiment.



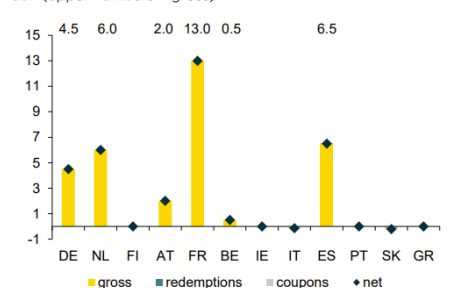
US corporate bond markets are lacking supply. Limited supply in US corporate bond markets has contributed to keep spreads anchored. Falling net supply for US investment-grade and high-yield bonds comes on the back of tepid dealmaking, as funding costs and valuations remain elevated. According to Bloomberg, February's deal count was the lowest in five years for debt capital markets. The supply and demand imbalance is expected to continue, potentially pushing spreads to disconnect from fundamentals.



Euro area

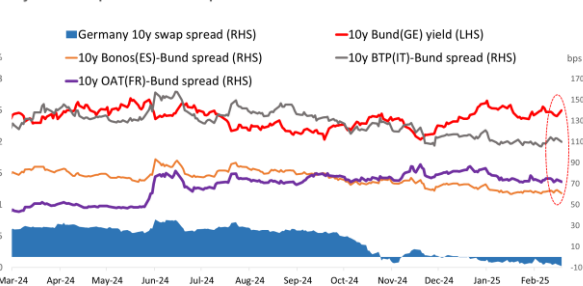
Euro area sovereign bond yields rose today led by longer-dated maturities on the prospects of increasing debt to fund defense spending. The 2-year bund yield rose to 2.08% (+6 bps) while the 10-year yield jumped by 10 bps to 2.50% and the 30-year yield reached 2.81% (+11 bps). The spread between the 10-year French OAT and the Bund declined (-2 bps), but analysts at Commerzbank are expecting a potential reversal in the coming days as the spread is trading at the bottom of its range and after S&P's changed to negative the rating outlook for France on March 1. The 10-year Italian BTP outperformed the Bund today with the yield spread narrowing to 109bps (-4bps).

Expected EGB issuance and backflows this week, by country, in €bn (upper numbers = gross)



Source: DMOs, Bloomberg, Commerzbank Research

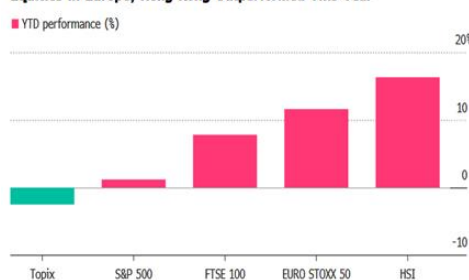
10y Bund-swap and Southern spreads



Source: Bloomberg and IMF calculations

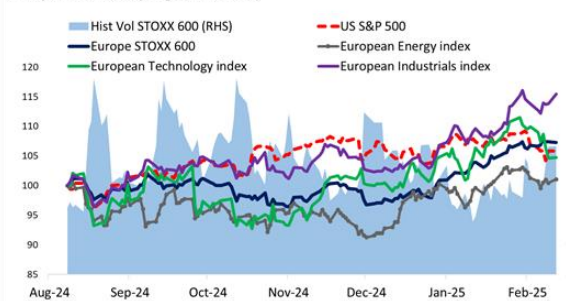
Equities edged higher this morning, with the STOXX 600 index up by +0.5% led by gains in the information technology (+1.4%) and in the industrial (+1.6%) sectors and with defense and aerospace stocks soaring (+7%) on the back of expectations that European leaders' support for Ukraine will fuel military spending in the region. According to Bloomberg, the rally has so far increased the market capitalization of European stocks by \$100 bn YTD, significantly outperforming the US stock market.

Equities in Europe, Hong Kong Outperformed This Year



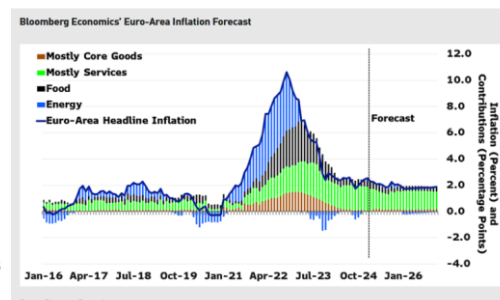
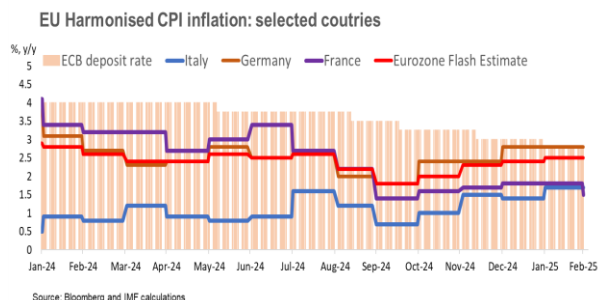
Source: Bloomberg; exchanges
Note: Data retrieved on March 3

European Stocks (Aug 2024= 100)



Source: Bloomberg and IMF calculations

The euro appreciated (+0.9%) today, trading at around \$1.047/€ after European leaders gathered in London during the weekend to coordinate defense spending and assemble a “coalition of the willing” to support Ukraine as tensions rose between Ukraine and the US last Friday. Analysts at Commerzbank see the prospects of more expansive fiscal policies in Europe as positive for the euro as these could dampen the ECB's drive to lower interest rates. According to Bloomberg, investors are turning less bearish on the euro, with hedge funds' net short positions on the euro shrinking. **Today's data showed inflation slightly surprising to the upside in February in the Eurozone**, with headline inflation printing at 2.4%/y (vs. est. 2.3%) from prior 2.5%/y, while core inflation declined by less than expected to 2.6%/y (vs. est. 2.5%) from 2.7%/y in January. Markets marginally scaled down expectations of rate cuts from the ECB through the rest of 2025, pricing-in today -81 bps of easing by December against -85 bps priced-in last Friday.



Japan

Asset managers' yen positions returned to a net long of 68,961 contracts last week, an increase of over 30,000 contracts from the previous week and the highest level since February 2021, according to CFTC data. Analysts attributed higher yen demand to rising risk aversion amid geopolitical uncertainty. Some FX traders believe lower US bond yields, due to a potentially earlier than expected Fed cut, could reverse the yen's weakening against the dollar. In Japan, food inflation may lead the BoJ to consider more rate hikes than currently priced in. Some Japanese households are reportedly experiencing a 25% y/y increase in food budgets. Today, however, the yen weakened to the dollar after appreciating earlier in the trading session. Equities gained strongly (Nikkei 225: +1.7%), led by exporters, particularly carmakers and tech manufacturers. Separately, JX Advanced Metals Corp., a key global supplier of semiconductor materials, could have Japan's largest IPO since 2018, aiming to raise about ¥460 bn (\$3 bn). The company cut the proposed price to ¥810-¥820 per share, 6% lower than initially indicated, citing market weakness, according to a filing today.



Emerging Markets

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EM Asian currencies showed divergent performance today, with the Indonesian rupiah appreciating noticeably (+0.7%) while the Vietnamese dong weakened slightly (-0.2%). In Asian equities, **Indonesia** outperformed the region (+4%) after JPMorgan upgraded the nation's banks. The Jakarta Composite Index surged by the most in almost five years as banking stocks rallied. However, fund managers described the rebound as a technical bounce rather than a sustainable recovery. The banking sector still faces tight liquidity conditions and potentially narrower margins due to rate cuts. **In EMEA, equity markets were mixed while currencies were mostly stronger this morning.** In CEE, equities gained in Czechia (+0.7%) and Hungary (+0.2%) but fell (-0.5%) in Poland, while CEE currencies were mostly stronger to the euro with the Polish zloty advancing (+0.2%) to trade at PLN 4.18/€. In South Africa, equities were up by 1.2% while the rand edged slightly higher (+0.3%). In **Latam**, currencies depreciated across the board on Friday on heightened uncertainties around geopolitics and international trade, underperforming compared to other

EM counterparts. While the Chilean peso (-1.1%) and the Brazilian real (-0.9%) weakened the most on the day, the Mexican peso saw relatively smaller declines (-0.3%). In equity markets, Brazil's benchmark equity index saw the largest correction (-1.6%), partly due to concerns over the appointment of Gleisi Hoffmann as Minister of Institutional Relations, who has been critical of fiscal austerity. Elsewhere in the region, Peru reported a deceleration in inflation as the February print came in at 1.48% y/y, in line with the market expectations.

EM fund flows

EM Fund flows remain positive at \$678 mn due to sustained demand for hard-currency bonds.

During the week ending on February 28, hard-currency bond fund flows managed to accelerate a bit to \$613 mn (up \$77 mn w/w) as Asia ex-Japan funds garnered inflows of \$165 mn vs. outflows of \$30 mn, in the week before. However, local currency bonds saw withdrawals (\$319 mn) across regions. The net weekly flows into bond funds came in at \$294 mn. Equity fund flows slowed during the week to \$384 mn, as demand for ETFs declined. Overall, the YTD flows into EM funds stand at -\$9.9 bn.

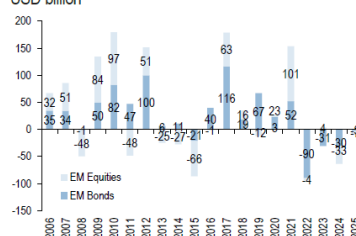
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	0.7	-9.9	
EM Bonds	0.3	-2.7	
Hard Ccy	0.6	-1.0	
Local Ccy*	-0.3	-1.7	
o.w. EM ex-China	-0.2	-0.9	
o.w. China	-0.1	-0.8	
EM Equities	0.4	-7.2	
US HG	4.3	27.1	
US HY	1.8	8.1	
Global Equities	24.2	35.5	
EM Bond and Equity ETFs	1.7	2.4	
EM Bond ETFs	0.0	-0.7	
EM Equity ETFs	1.7	3.1	
Non-resident EM flows*	-5.1	-15.6	

Figure 2: EM bond and equity fund flows

USD billion



*High-frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

Leveraged equity positions reached a 10-year high (RMB 1.9tn, or about \$261 bn), reflecting bullish sentiment from the recent AI rally and anticipated pro-growth policies after this week's annual legislative meeting. Analysts predict that maintaining 5% growth amid US tariffs will require increased fiscal expenditure, with the government expected to raise the budget deficit target to around 4% of GDP and issue sovereign bonds—doubling last year's volume—and up to RMB 4 tn in special local government bonds. Bloomberg economists suggested that while the trade war will be a key topic at the NPC, immediate budget shifts are unlikely, though external pressures may accelerate stimulus delivery. Separately, the chief economist of China Merchants Fund proposed measures to bolster capital markets and technological innovation, including encouraging private capital to fund future industries, improving refinancing for unprofitable tech companies, supporting tech firms in spinning off innovative units for listing, and raising ownership limits for pension and insurance funds in tech companies. Today, the RMB depreciated (-0.2%), with the fixing at 7.1745, slightly weaker (+7 pips) than the previous session. Stocks declined slightly as investors remain cautious ahead of the additional 10% US tariffs on China to be imposed tomorrow.

Leveraged Equity Positions Rise in China

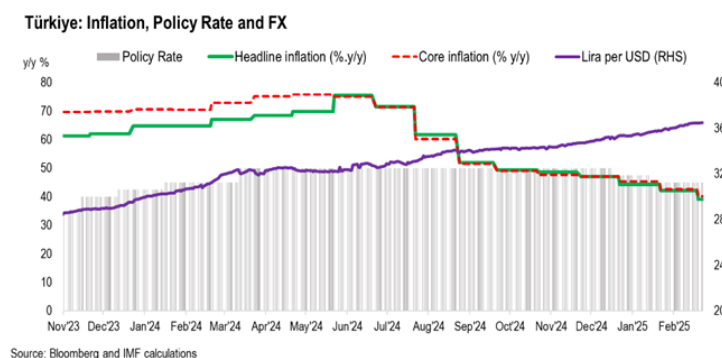


Source: Bloomberg

Bloomberg

Türkiye













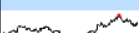



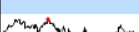
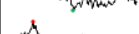

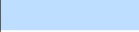


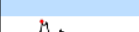


Analysts expect a 250 bps rate cut from the Central Bank of Türkiye on Thursday. According to Bloomberg estimates, consensus expectations are for the policy rate to be cut by a further 250 bps to 42.50%. Headline inflation surprised to the downside today, printing at 39.05% y/y in February (vs est. 39.90%) from 42.12% in January, the lowest figure in almost two years. Core inflation also declined in February to 40.21%/y/y (vs. est. 41.10%) from 42.65% prior. Analysts at Goldman Sach noted that while dollarization increased in February with FX deposits rising by \$10 bn in a month and putting pressure on the lira, “the bar for the Turkish central bank to pause its cutting cycle remains high.” Furthermore, the analysts noted that the central bank of Türkiye has sufficient reserves to ensure stability in the currency and allow the bank to continue with monetary policy easing. This morning the lira was little changed to the dollar.



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), 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

3/3/25 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,965	1.6	-0.3	-0.5	16.1	1
Europe		5,556	1.7	1.9	6.5	13.5	13
Japan		37,785	1.7	-2.6	-2.6	-5.8	-5
China		3,888	0.0	-2.0	1.9	9.8	-1
Asia Ex Japan		74	-1.3	-3.8	2.3	10.4	2
Emerging Markets		43	-1.4	-3.8	1.9	6.7	3
Interest Rates			basis points				
US 10y Yield		4.3	5	-14	-30	8	-31
Germany 10y Yield		2.5	11	3	13	10	14
Japan 10y Yield		1.4	4	-2	16	70	31
UK 10y Yield		4.6	12	3	11	48	3
Credit Spreads			basis points				
US Investment Grade		120	-1	6	3	-9	0
US High Yield		327	-6	6	24	-40	-1
Exchange Rates			%				
USD/Majors		106.9	-0.7	0.3	-1.9	2.9	-1
EUR/USD		1.05	0.9	0.0	1.2	-3.6	1
USD/JPY		151.2	0.4	1.0	-2.3	0.5	-4
EM/USD		44.1	0.2	-0.8	1.4	-5.7	3
Commodities			%				
Brent Crude Oil (\$/barrel)		73.3	0.6	-1.4	-2.5	-4.2	-1
Industrials Metals (index)		146.9	1.2	0.3	2.8	6.6	5
Agriculture (index)		58.1	0.2	-3.7	-3.4	0.3	2
Implied Volatility			%				
VIX Index (% change in pp)		19.5	-0.2	0.5	0.9	6.4	2.1
Global FX Volatility		8.3	0.1	0.2	-0.5	1.8	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		81	-4	-3	-7	-27	-5
Italy		110	-4	-5	-2	-38	-6
France		73	-1	-2	0	24	-10
Spain		61	-3	-2	-1	-29	-8

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

Emerging Market Financial Indicators

Last updated: 3/3/2025 8:18 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		7.29	-0.2	-0.6	-0.6	-1.3	0.1		1.8	-2	2	14	-57	11
Indonesia		16480	0.6	-1.2	-0.3	-4.5	-2.3		6.9	3	17	-10	29	-13
India		87	0.2	-0.7	-0.2	-5.1	-2.0		7.0	1	-10	-14	-23	-38
Philippines		58	0.1	-0.1	1.3	-3.3	-0.1		5.1	0	0	4	-31	26
Thailand		34	0.0	-1.9	-0.4	4.8	-0.2		2.3	2	-9	-9	-34	-8
Malaysia		4.47	-0.1	-1.2	0.2	5.8	0.2		3.8	-1	-1	-3	-7	-4
Argentina		1064	-0.2	-0.5	-1.2	-20.8	-3.1		29.0	48	138	340	-4542	-15
Brazil		5.88	-0.9	-2.6	-0.7	-15.5	5.0		15.3	28	69	-3	495	-61
Chile		954	1.0	-1.1	3.6	2.2	4.3		5.8	0	-5	1	26	9
Colombia		4134	0.5	-0.4	0.7	-4.6	6.6		11.4	-2	-11	3	149	-40
Mexico		20.53	0.1	-0.2	-0.8	-17.4	1.5		9.5	-2	-26	-49	15	-80
Peru		3.7	-0.5	-0.1	1.0	2.4	1.3		6.4	4	-1	-27	-43	-20
Uruguay		43	-0.6	0.3	1.3	-8.5	3.0		9.7	1	-1	1	69	4
Hungary		383	1.4	0.2	3.2	-4.7	3.9		6.4	-3	-2	-5	27	-1
Poland		3.99	1.4	-0.7	2.5	-0.1	3.6		5.5	-4	-12	-15	32	-11
Romania		4.8	0.8	-0.1	1.1	-3.7	1.0		7.2	2	-16	-33	81	-7
Russia		90.1	-0.7	-2.6	10.8	1.6	26.1							
South Africa		18.6	0.3	-1.4	0.6	2.1	1.1		10.7	6	-1	15	-92	20
Türkiye		36.45	0.1	0.0	-1.3	-13.4	-3.0		28.3	9	-66	94	-71	-144
US (DXY; 5y UST)		107	-0.7	0.3	-1.9	2.9	-1.5		4.07	5	-17	-29	-9	-31

	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		3,888	0.0	-2.0	1.9	9.8	-1.2		98	5	3	-51	2
Indonesia		6,520	4.0	-3.4	-7.8	-10.4	-7.9		107	9	12	0	16
India		73,086	-0.2	-3.0	-7.0	-1.1	-6.5		100	10	7	-1	14
Philippines		6,037	0.7	-1.0	-0.9	-13.2	-7.5		100	8	10	11	21
Thailand		1,188	-1.3	-3.8	-8.7	-12.8	-15.1						
Malaysia		1,571	-0.2	-0.8	0.4	2.1	-4.3		79	6	7	-3	9
Argentina		2,205,801	0.6	-6.7	-11.0	122.2	-12.9		787	67	159	-968	150
Brazil		122,799	-1.6	-3.4	-2.2	-4.1	2.1		238	15	11	24	-9
Chile		7,368	-0.8	0.8	2.3	13.7	9.8		128	4	9	-1	15
Colombia		1,608	-1.3	-2.7	6.8	25.0	16.5		333	9	14	33	7
Mexico		52,326	-0.5	-2.6	2.2	-5.8	5.7		315	9	-2	-10	3
Peru		28,547	0.0	-0.7	-1.0	0.8	-1.4		148	4	7	7	7
Hungary		88,054	1.0	1.6	3.9	33.1	11.0		151	-1	-2	-9	-4
Poland		92,433	0.5	1.2	7.5	12.5	16.2		116	0	2	21	4
Romania		17,469	-0.3	0.1	3.0	9.1	4.5		252	4	1	54	17
South Africa		87,622	2.0	0.2	2.5	20.4	4.2		315	10	16	-35	22
Türkiye		9,992	3.4	4.4	2.2	9.8	1.6		283	14	19	-28	24
EM total		43	1.0	-3.8	1.9	6.7	3.3		374	5	18	47	10

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

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