GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MARCH 7, 2025

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- **Analysts believe further ECB easing has become less certain following yesterday's cut** (link)
- **EM currencies have appreciated over the past week amid broad dollar weakness** (link)
- **Japanese breakeven inflation rates rose following demands for higher wages** (link)
- **US subprime car delinquencies hit a record high** (link)
- **Revenues for AI firms have surged, but the reported impact on GDP has been modest** (link)

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Risk Sentiment Deteriorated, With Most Global Stock Markets Lower

European and Asian stocks traded lower this morning following the sell off in US markets yesterday. Analysts cited near constant tariff uncertainty as a headwind for markets, while large US tech stocks are also down over 10% over the last month. **US nonfarm payrolls came in at 151k (vs 160k expected), with the unemployment rate ticking higher.** US stock futures and 2y Treasury yields initially rose following the report but the move quickly reversed, with Treasury yields lower on the day. European bond yields were also modestly lower today after an epic move in German bonds earlier this week. The dollar continued to decline this morning and is down over 3% for the week, with the yen and euro trading stronger today. Bitcoin remained under pressure ahead of a White House meeting with industry leaders. Oil prices stabilized around $70/bbl after recent declines.

Key Global Financial Indicators

Last updated: 3/7/25 8:43 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5739	-1.8	-2	-5	11	-2
Eurostoxx 50		5456	-1.2	0	2	10	11
Nikkei 225		36887	-2.2	-1	-5	-7	-8
MSCI EM		44	-0.6	1	2	8	6
Yields and Spreads					bps		
US 10y Yield		4.24	-3.9	3	-25	16	-33
Germany 10y Yield		2.79	-4.6	38	42	48	42
EMBIG Sovereign Spread		331	8	6	16	-36	6
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.8	0.2	2	2	-4	5
Dollar index, (+) = $ appreciation		103.8	-0.3	-4	-4	1	-4
Brent Crude Oil ($/barrel)		70.5	1.4	-4	-6	-15	-6
VIX Index (%, change in pp)		25.0	0.1	5	8	11	8

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

Mature Markets

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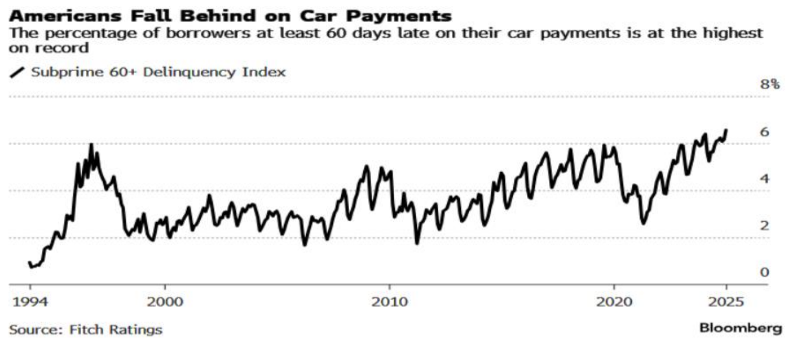
United States

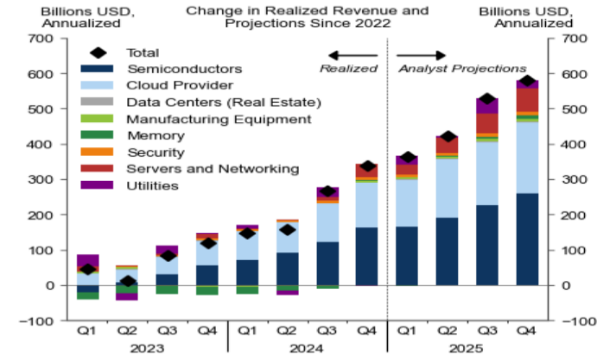
Nonfarm payrolls came in slightly below expectations at 151k. Investors seemed initially relieved by the number, with yields and stock futures rising, though markets quickly unwound the move. Some market contacts believe this could be the last solid print as small signs of weakness in revisions give a hint of the road ahead.

	Actual	Survey	Prior	Revised
Nonfarm payrolls	151k	160k	143k	125k
Private payrolls	140k	145k	111k	81k
Unemployment rate	4.1%	4.0%	4.0%	
Average hourly earnings MoM	0.3%	0.3%	0.5%	0.4%
Average hourly earnings YoY	4.0%	4.1%	4.1%	3.9%

Subprime car delinquencies hit a record high. Subprime auto loan delinquencies (60+ days) have reached an all-time high in 2025 at over 6%. Bloomberg analysts believe that inflation has eroded real incomes in some segments and lower growth has made it harder for consumers to meet their monthly payments. However, they also note that the recent increase could be partially driven by seasonal factors, as January and February traditionally see larger repayment delays following the holiday season. While worth monitoring, analysts noted that auto loans performed relatively well during the Global Financial Crisis but deteriorated in the subsequent years even as the economy slowly improved.

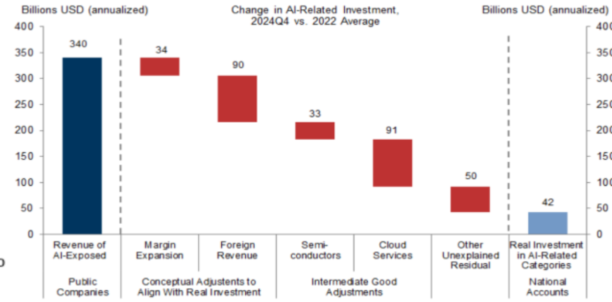


Revenues for AI companies have surged, but the reported impact on GDP has been modest. Revenues for public companies in AI-related industries has increased by $340 billion since 2023; however, US national accounts only show a real increase of $42 billion during the same period for related categories. Goldman Sachs analysts believe that much of the difference can be accounted for by inflation costs and foreign expenditures, none of which show up in real GDP. In addition, semiconductors are classified as an intermediate good, which may indicate they are "undermeasured" from a GDP accounting perspective. Nevertheless, the analysts expect AI investments to broaden out to categories like data centers, servers and networking hardware, and utilities that will likely be captured as real investment and should support future growth. Changes to BEA methodology would be required to properly account for AI investment and its contribution to the economy.



Source: FactSet, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 4: Most of the Gap Between AI-Exposed Company Revenue and AI-Related Investment in the US National Accounts Is Explained by Cost Inflation, Revenue from Other Countries, and Classification of Semiconductors and Cloud Services as Intermediate Inputs



Source: Goldman Sachs Global Investment Research

Europe

European equities were trading lower today, with the STOXX 600 down close to 0.7% as Germany underperformed (-2%). The euro continued to strengthen against the dollar in early morning trading and was on track to to rise nearly 5% on the week. On the data front, German factory orders for January came in significantly below expectations at -7.0% m/m (vs -2.5% exp, 5.9% prior). Final Q4 Euro Area GDP printed at 0.2% q/q, above the earlier flash estimate of 0.1% q/q, driven by consumer spending and business investment. Separately, **the European Union will begin discussions on potential reforms of its fiscal rules to allow member states to spend more on defense**, according to Bloomberg. At yesterday's European Commission (EC) meeting in Brussels, leaders called on the EC to "explore further measures," with a proposal to temporarily suspend restrictions on defense spending.

German Bund yields and asset swap spreads stabilized today. The 10y Bund yield was trading about 2 bps lower at 2.81%, while the 30y was little changed. Swap spreads were relatively stable at -12 bps and -54 bps, respectively. Commerzbank analysts expect further cheapening in swap spreads, citing the expected increase in German debt from proposed defense and infrastructure spending that will have to be absorbed by price-sensitive buyers. However, analysts at Jeffries believe yields may consolidate and move back towards 2.75% given that "fiscal expectations are already in the price." S&P reportedly commented that "the potential effects from the proposed change in the fiscal strategy would not necessarily be negative for the sovereign rating" for Germany.

Some calm after the storm?
Bund future and 30y Bund-ASW vs. €STR (bp), intra-day

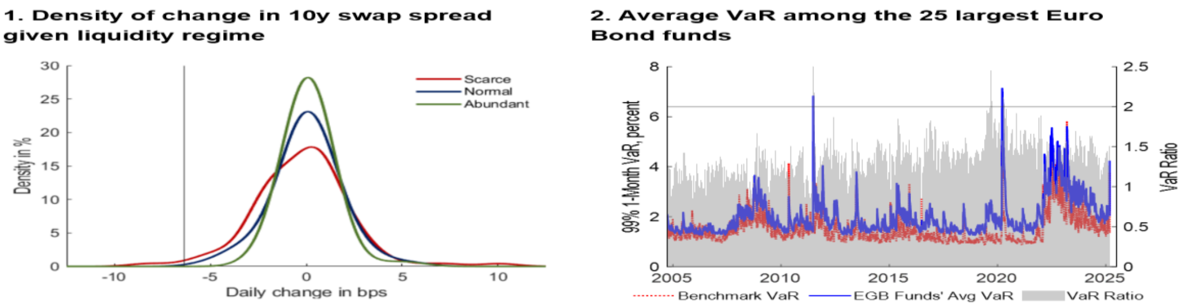
Source: Bloomberg, Commerzbank Research

Europe: Selected 10-yr sovereign bond yields (%)

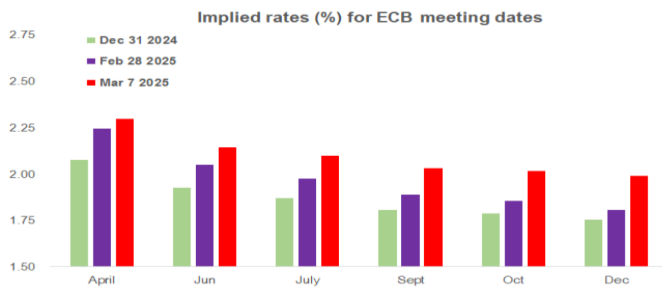
Source: Bloomberg and IMF staff calculations

The large sell off in 10y Bund yields earlier this week likely reflects a shift in fundamentals rather than market dysfunction. The combination of a hawkish speech last Friday by Isabel Schnabel and the prospect of increased bond issuance filtered through to markets, with swaps now pricing in a 1.96% ECB policy rate by year end, up 16 bps in the last week. In addition, longer term interest rate expectations also rose, with 10y SOFR swap rates rising 25 bps to 2.55%, likely reflecting some belief that growth prospects have improved. Given the close to 30 bp increase in bond yields, the Bund swap spread fell 7 bps on Wednesday, which remains within the range of normal liquidity conditions (see left chart). Commerzbank analysts highlighted the significant mark-to-market losses faced by domestic asset managers who hold

10% (€186 bn) of the €1.96 tn in outstanding Bund securities. Among the 25 largest bond funds, which currently have an average duration of 6.5 years, value-at-risk (VaR) has risen notably but remains within the applicable risk budget (right chart) for now.



Sources: Bloomberg, LSEG, IMF staff calculations.
Note: In panel 1, liquidity conditions are categorized based on yield curve fitting errors: 'scarce' refers to the top 5% of highest fitting errors, 'normal' corresponds to the historical average, and 'abundant' covers the lowest 5%. Density estimates are based on daily data since 1996. The vertical line marks the -7bps swap spread decline from March 4 to March 5, 2025. In panel 2, VaR is approximated as a multiple of time-varying volatility, calculated using a modified version of Glosten et al. (1993) to capture systematic factor volatility across the 25 largest Euro bond funds and their benchmarks. The horizontal line represents the risk limit for investment funds domiciled in the European Union, which requires that a fund's VaR does not exceed twice that of its benchmark.



Source: Bloomberg and IMF calculations

Further ECB rate cuts have become less certain following yesterday's meeting. While the ECB delivered a 25 bp rate cut yesterday as expected, analysts note that the path ahead is less certain. In the accompanying statement, the ECB described the stance of monetary policy as "becoming meaningfully less restrictive" and the updated staff projections showed lower growth in 2025-26 and higher inflation in 2025 on the back of higher energy prices. Bank of America (BofA) analysts note that yesterday's decision was the last "easy" cut with President Lagarde emphasizing that future decisions would remain "data dependent" and that the direction for policy was "no longer straightforward." That said, BofA still expect further ECB cuts with a terminal rate of 1.5% by year-end, though they note that the risk of rates being cut below their terminal rate expectations have diminished, absent a large shock. Most analysts noted that the ECB will want to retain policy optionality given significant uncertainty on several fronts. Markets are pricing in around 46 bps of easing by year-end, with the policy rate at 1.96%, compared to 1.8% a week ago.

Japan

Breakeven inflation rates rose as high as 1.7% after Japan's largest union requested a 6.09% wage increase. Japan's 10y bond yield rose to a 16-year high of 1.52%. Analysts highlighted that higher wages would increase the likelihood of additional and earlier Bank of Japan rate hikes. Others also raised the prospect of additional bond issuance for increased military spending. While surveys expect a rate hold in March, markets are pricing in almost 35 bps of easing through the end of the year (up from 28 bps a week ago). **The yen appreciated (+0.4%)** against the dollar as FX traders noted overseas investors were surprised by the high wage demands. The stock market declined (Nikkei 225: -2.2%), led by video game stocks due to worries that tariffs will drive up US console prices.

Emerging Markets

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EMEA markets were mixed, with CEE equities slightly higher and currencies little changed. Hungarian equities underperformed (-1.2%). In South Africa, equities fell (-0.2%) and the rand was marginally stronger against the dollar (+0.3%). **The central bank of Kazakhstan surprised consensus**

and hiked its policy rate to 16.5%, with the central bank noting that further acceleration of Russian inflation has led to increased price pressures on the external sector. On the ratings front, contacts see a lower probability of Moody's upgrading Serbia today given recent political developments

Asian stocks broadly declined (EM Asia: -0.5%), with Malaysia (-0.8%) and Hong Kong SAR (-0.6%) underperforming. Analysts highlighted the continued uncertainty around US trade policy as a headwind for markets, particularly ahead of the weekend when new measures could be announced. Asian currencies appreciated slightly amid broad dollar weakness, but sentiment remains tepid.

In LATAM, regional markets mostly gained yesterday following the deferral of tariffs on some goods for one month. The Mexican peso outperforming (+0.6%) though most currency moves were modest. Equities edged higher across the region, though Argentina (-1%) and Peru (-0.4%) underperformed. Fitch lower its sovereign rating outlook on Colombia to negative from stable citing concerns over the fiscal outlook, though both currency and equity markets were up. CDS spreads have moving higher in recent weeks and were marginally higher on the day.

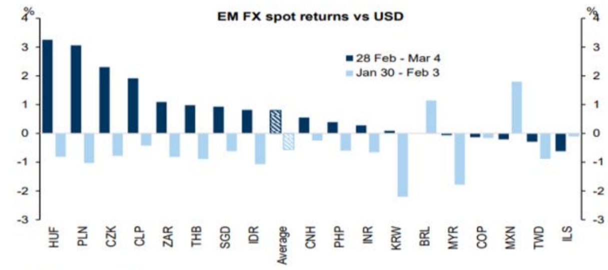
China

Government bond yields resumed their sell off, with yields up 6 bps, as some analysts expressed uncertainty about further rate cuts following central bank comments. The 1y yield increased 8 bps to 1.56%, the biggest one day rise in four years. The move also spilled over into onshore corporate bond yields, which rose by a similar amount. While PBOC Governor Pan Gongsheng stated rate cuts were possibility, analysts interpreted his comments as hawkish given the lack of a clear timeline. Nevertheless, most analysts still expect the PBOC to provide more liquidity support in the coming months. On the data front, exports rose 2.3% y/y (vs 5.9% expected) to a record $540 bn in the first two months, while imports fell 8.4% (vs 1% expected). Economists attributed the data to sluggish domestic demand on one side, and the frontloading of export shipments ahead of US tariffs. The RMB appreciated against the dollar (+0.2%), while onshore stocks edged lower (CSI 300: -0.3%).

EM Currencies

Emerging market currencies have appreciated over the past week amid broad dollar weakness. Despite elevated tariff uncertainty, EM currencies have strengthened over the last week, reversing the losses seen in the fourth quarter and early this year. Analysts have given varied explanations for the dollar's recent weakness (broad index down 2.5% this week), including softening growth, a more dovish Federal Reserve, European fiscal stimulus, and some fading of the US exceptionalism narrative. Opinions on the impact of tariffs differ, with some noting that the worst-case outcomes have yet to be realized even as uncertainty remains high. Weaker US growth prospects could benefit EM currencies in the short term, but market analysts noted that too severe of a slowdown or outright recession would weigh on risk sentiment more generally.

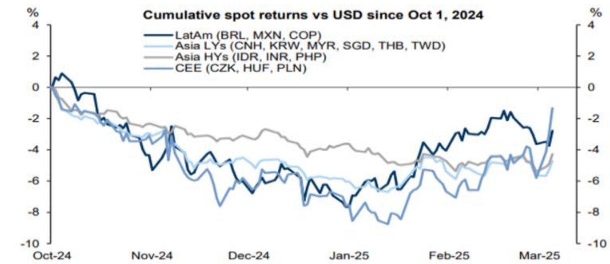
The average EM currency has appreciated over the last few trading sessons, whereas it had depreciated in early February



BRL market closed in early March

Source: Bloomberg, Goldman Sachs Global Investment Research

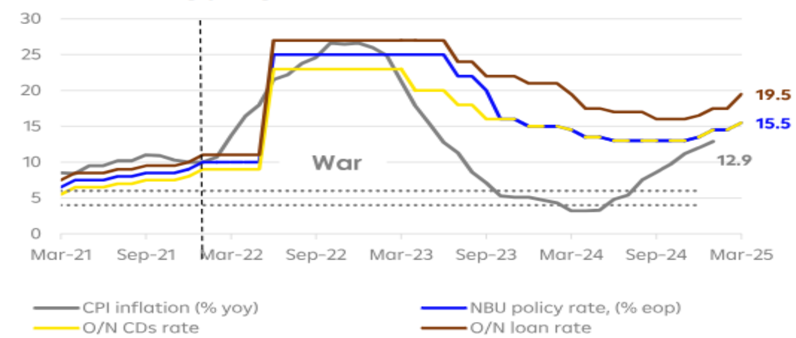
EM currencies have recouped part of their losses from the October-January Dollar appreciation trend, especially CEE and LatAm FX



Ukraine

The National Bank of Ukraine (NBU) hiked its policy rate by 100 bps to 15.5% yesterday as expected. The hike was the third increase since December and in line with the central bank's forecast in January. While inflation rose in January, Raiffeisen analysts highlighted that in contrast to the previous two policy meetings, where inflationary dynamics exceeded NBU forecasts, the latest dynamics were more closely aligned with the central bank's forecast. The analysts expect inflation to stabilize in the second quarter, with a rate cut in the second half of the year, bringing the policy rate back to 12.5% by year end. The NBU also announced measures aimed at encouraging banks to increase the volume of their hryvnia retail term deposits savings, which included widening the spread between the key rate and the 3-month deposit certificates to 350 bps from 250 bps.

Inflation and key policy rate



Source: Ukrstat, NBU, RBI/Raiffeisen Research

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Global Financial Indicators

3/7/25 7:59 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,739	-1.8	-2.1	-4.8	11.3	-2
Europe		5,456	-1.2	-0.1	2.5	9.7	11
Japan		36,887	-2.2	-0.7	-4.9	-7.1	-8
China		3,944	-0.3	1.4	1.1	11.3	0
Asia Ex Japan		76	-0.5	1.4	3.2	12.0	5
Emerging Markets		44	-0.6	0.9	2.3	8.2	6
Interest Rates					basis points		
US 10y Yield		4.3	-3	4	-24	17	-32
Germany 10y Yield		2.8	-3	40	43	50	44
Japan 10y Yield		1.5	-2	14	22	79	42
UK 10y Yield		4.7	0	18	18	66	9
Credit Spreads					basis points		
US Investment Grade		123	3	3	7	-6	3
US High Yield		346	12	16	44	-20	18
Exchange Rates					%		
USD/Majors		103.7	-0.3	-3.6	-4.0	0.9	-4
EUR/USD		1.09	0.6	4.6	5.1	-0.9	5
USD/JPY		147.7	-0.2	-1.9	-2.4	-0.2	-6
EM/USD		44.7	0.1	1.7	2.3	-4.6	4
Commodities					%		
Brent Crude Oil ($/barrel)		70.5	1.4	-3.2	-5.1	-7.9	-5
Industrials Metals (index)		150.6	-0.9	3.8	2.1	7.3	7
Agriculture (index)		57.7	-0.3	-0.5	-4.7	-2.1	1
Implied Volatility					%		
VIX Index (%, change in pp)		25.0	0.2	5.4	8.5	10.6	7.7
Global FX Volatility		8.6	0.0	0.4	0.0	1.9	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		82	-3	-3	-5	-20	-4
Italy		112	0	-1	3	-20	-3
France		72	1	-2	-1	27	-11
Spain		66	5	2	4	-15	-3

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

Emerging Market Financial Indicators

	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		3,944	-0.3	1.4	1.1	11.3	0.2		97	-2	3	-57	1
Indonesia		6,636	0.3	5.8	-0.2	-10.1	-6.3		104	0	9	-11	13
India		74,333	0.0	1.5	-3.9	0.3	-4.9		100	2	3	-11	14
Philippines		6,298	1.3	5.0	4.3	-9.3	-3.5		97	1	7	-1	18
Thailand		1,202	1.0	-0.1	-5.4	-13.3	-14.2						
Malaysia		1,547	-0.7	-1.7	-2.7	0.5	-5.8		79	1	6	-8	9
Argentina		2,270,181	-0.9	-0.6	-6.1	128.2	-10.4		718	-60	64	-909	81
Brazil		123,358	0.3	-2.1	-1.0	-3.9	2.6		233	0	9	14	-14
Chile		7,370	0.5	0.5	1.2	15.9	9.8		123	-3	-1	-9	10
Colombia		1,603	0.9	-0.3	5.7	22.0	16.2		330	0	1	24	4
Mexico		52,816	0.2	0.4	0.0	-4.1	6.7		317	4	8	-9	5
Peru		28,776	-0.4	0.8	-2.6	-0.5	-0.6		144	-1	1	0	3
Hungary		88,292	-1.1	1.3	1.8	33.4	11.3		154	5	-4	-10	-1
Poland		93,328	-0.1	1.4	4.7	16.8	17.3		119	2	5	15	7
Romania		17,604	0.9	0.5	3.2	8.5	5.3		256	9	10	51	21
South Africa		88,192	-0.1	2.6	0.8	19.8	4.9		320	11	8	-35	27
Türkiye		10,441	-0.2	8.1	4.9	15.3	6.2		284	5	22	-57	25
EM total		44	0.0	0.9	2.3	8.2	5.7		375	0	21	56	11

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

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
3/7/2025	Level		Change (in %)					Level		Change (in basis points)				
7:38 AM	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		7.24	0.1	0.6	0.8	-0.6	0.9		1.8	3	-2	18	-52	12
Indonesia		16295	0.2	1.7	-0.1	-3.9	-1.2		6.8	2	-5	-5	16	-21
India		87	0.3	0.7	0.6	-4.7	-1.5		6.8	1	-15	-37	-35	-54
Philippines		57	0.2	1.4	1.4	-2.4	1.1		5.1	0	0	5	-38	26
Thailand		34	0.3	1.6	0.0	5.7	1.3		2.3	2	4	-8	-31	-5
Malaysia		4.41	0.3	1.1	0.6	6.6	1.4		3.8	2	1	-1	-4	-2
Argentina		1064	0.0	-0.2	-0.9	-20.5	-3.1		29.8	45	130	317	-3870	67
Brazil		5.77	-0.1	2.0	0.7	-14.4	7.1		15.1	3	8	7	486	-82
Chile		928	0.0	3.8	3.8	5.7	7.2		5.7	1	-3	-6	29	6
Colombia		4103	0.2	0.7	0.8	-4.4	7.4		11.5	2	1	5	160	-37
Mexico		20.28	0.1	1.3	1.4	-16.8	2.7		9.6	2	0	-23	30	-79
Peru		3.7	-0.1	0.6	1.7	2.2	2.4		6.5	0	9	#######	-46	-16
Uruguay		42	0.2	0.0	2.3	-8.3	3.6		9.7	-2	-1	-5	68	2
Hungary		368	0.7	5.5	6.7	-1.8	8.0		6.7	11	24	38	59	26
Poland		3.85	0.6	5.0	5.5	2.1	7.4		5.7	7	15	15	55	7
Romania		4.6	0.6	4.6	5.0	-1.0	4.7		7.4	5	20	15	105	11
Russia		88.9	0.2	0.7	9.2	2.0	27.8							
South Africa		18.1	0.0	3.1	1.5	3.0	3.9		10.6	6	1	5	-96	16
Türkiye		36.44	-0.1	0.1	-1.2	-12.5	-3.0		28.2	5	3	6	-243	-151
US (DXY; 5y UST)		104	-0.2	-3.5	-3.9	1.0	-4.3		4.03	-2	1	-32	-4	-35

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