



- Global markets rally on hopes of trade talks between the US and China ([link](#))
- US jobs report stronger than expected ([link](#))
- Euro area inflation is higher than expected ([link](#))
- Earnings expectations in US revised lower ([link](#))
- US dollar funding conditions remain stable despite recent market volatility ([link](#))
- Raw sugar futures prices fell to the lowest level since July 2021([link](#))

[Mature Markets](#)


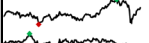







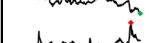
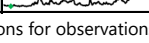
| [Emerging Markets](#)

| [Market Tables](#)

Deal or No Deal?

Global markets rallied on hopes of trade talks between the US and China. In China, the authorities exempted certain US goods such as pharmaceuticals from tariffs, in a move seen as a gesture of goodwill. There is speculation that the US and China are closer to discussions than previously believed. US equity index futures are up again today after the S&P 500 posted its eighth consecutive day of gains. Yesterday, the index was up 11% from the April 8 low. Stocks in Europe are also posting solid gains in early morning trading. Meanwhile, the yen has been weaker following the dovish hold on Wednesday from the Bank of Japan, which indicated that its inflation target might take longer to reach than originally expected. In other news, market sentiment has been boosted by strong earnings from US technology companies, with results that handily beat analyst forecasts. Euro area inflation came in higher than expected, tempering hopes of a dovish ECB. The better than expected US jobs report was a positive for market participants.

Key Global Financial Indicators

Last updated: 5/2/25 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5604	0.6	2	-1	11	-5
Eurostoxx 50		5233	1.4	2	-1	7	7
Nikkei 225		36831	1.0	5	18	-5	-8
MSCI EM		44	0.0	1	0	4	5
Yields and Spreads			bps				
US 10y Yield		4.22	0.2	-2	9	-36	-35
Germany 10y Yield		2.48	3.8	1	-24	-6	12
EMBIG Sovereign Spread		363	-5	6	16	-16	38
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.3	0.0	0	2	-3	6
Dollar index, (+) = \$ appreciation		99.7	-0.5	0	-4	-5	-8
Brent Crude Oil (\$/barrel)		61.6	-0.8	-8	-18	-26	-17
VIX Index (% change in pp)		24.2	-0.4	-1	3	10	7

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

Mature Markets

[back to top](#)

United States

The US jobs report was stronger than expected. However, the February data were revised down to 185K from 228K. Treasury yields were slightly higher in response, and the dollar appreciated.

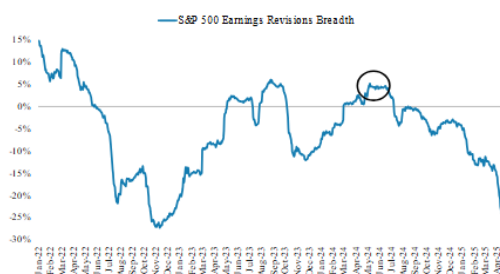
US Jobs Report

Source: Bloomberg

Variable	Consensus Forecast	Actual Outcome
Non-Farm Payrolls	138K	177K
Unemployment Rate	4.2%	4.2%
Average Hourly Earnings mom	0.3%	0.2%
Average Hourly Earnings yoy	3.9%	3.8%

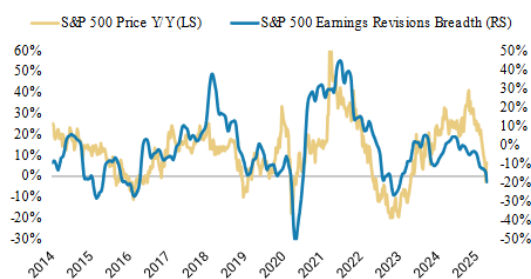
Expectations for US corporate earnings are being steadily marked lower. The environment of economic uncertainty has led corporate executives to lower their forecasts for earnings for the rest of the year. Many companies actually declined to provide any guidance at all, citing the lack of clarity about the economic situation. The extent of downward revisions is nearing extreme levels, according to Morgan Stanley. The news earlier this week that the US economy shrank by 0.3% in Q1 underlined the risk that a recession could be ahead. Even worse, inflation remains a challenge, raising the prospect of a period of stagflation, a worst case scenario for financial markets. Treasury yields have fallen over the past few days, giving some relief to risk assets, but any sign that inflation could push yields higher would be very negative for the outlook.

Exhibit 2: S&P 500 Earnings Revisions Breadth
Peaked A Year Ago...



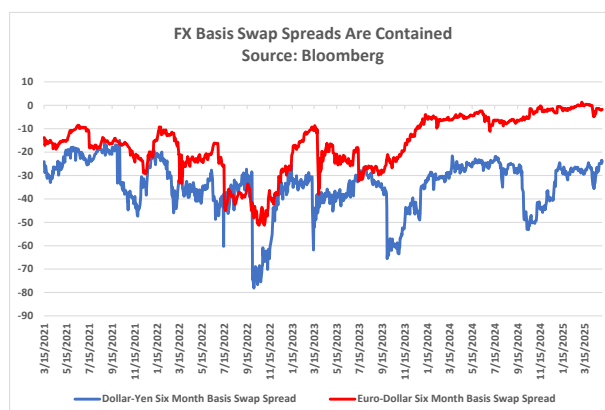
Source: FactSet, Morgan Stanley Research. Shown as daily, unsmoothed.

Exhibit 3: ...And Is Fast Approaching Historical Extremes IF Recession Is Avoided



Source: FactSet, Morgan Stanley Research. Shown as weekly, smoothed.

US dollar funding conditions for non-dollar based investors remain stable despite the recent market volatility. Spreads in the dollar-yen and euro dollar foreign exchange basis swap markets have held steady despite the recent surge in the VIX US equity volatility index and the MOVE US interest rate volatility index. Funding remains ample and relatively cheap for investors seeking to borrow dollars and invest in US assets. Funding costs increased significantly during the market selloffs of 2022 and 2023, but the current episode has been much more orderly. The rapid recovery from the April equity selloff has been spurred by hopes that trade tensions will dissipate and that the impact of the tariffs will not be as large as originally feared because the US authorities are actively negotiating with their international counterparts.



Europe

European equity markets were trading higher on positive corporate earnings news and hopes that US-China trade talks could ease trade tensions. The Stoxx 600 was up +0.9% and has advanced over 2% on the week. Regional bourses were also trading higher. Elsewhere, the European banking sector was trading in the green led by ING's shares advancing 5% after the bank reported better-than-expected Q1 2025 earnings and confirmed €2bn of share buybacks.

Eurozone preliminary inflation data for April surprises to the upside. Preliminary April readings for both core and headline inflation printed slightly ahead of expectations at 2.7% y/y (2.5% exp, 2.4% prior) and 2.2% y/y (2.1% exp, 2.2% prior) respectively. Today's data follows regional data released earlier in the week which showed inflation decelerating but printing slightly ahead of expectations in Germany and France while headline inflation held steady in both Spain and Italy. According to Bloomberg analysts, today's data may "dampen some of the optimism" from ECB officials suggesting that they are "nearing completion" in their objective of bringing inflation back to target. While the impact of US trade tariffs remains uncertain, it is expected to weigh mostly on inflation as a stronger euro and falling energy costs push down on price pressures. Trade diversion of goods from China may also add to deflationary pressures, with Bloomberg economists estimating that a rerouting of Chinese goods could lower consumer prices in the EU by 0.5–1.5%. European government bond yields were trading higher this morning, led by the front-end with the German curve bear flattening. The 10-year bund yield was around 3bps higher at 2.47%, while the 2Y bund yield was almost 5bps higher at 1.73%. Meanwhile, intra-EMU government bond spreads remain relatively rangebound with the 10Y BTP-Bund spread at 112bps and the 10Y OAT-Bund spread at 72bps. In FX markets, the euro was firmer (+0.5%) against the dollar to trade at 1.1351, with the common currency almost 10% stronger against the greenback YTD.

Eurozone inflation



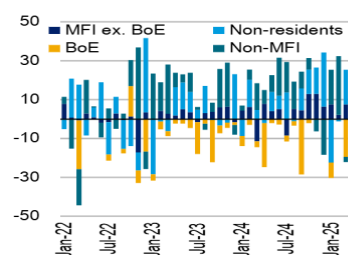
Yield curves: 10yr - 2yr curve



United Kingdom

Foreign investors resumed buying gilts in March. Bank of England data released yesterday showed that foreign investors increased their gilt holdings by £17.9bn in March, having decreased their holdings by £23.5bn in the first two months of the year. Analysts at Bank of America (BoFA) note that on a twelve-month moving average basis, non-residents' buying of gilts in March was back to historical highs seen in 2021. Meanwhile, domestic banks increased their holdings of gilts by £7.5bn, broadly in line with the average pace seen since last August. Bank of America analysts believe that there is potential for foreigners to further increase their gilt holdings in Q2 as the analysts expect Sterling to strengthen into the end of the year given their belief that the UK's services sector dominated economy will insulate it from the first order effects from trade tariffs. In addition, the analysts believe there is the possibility of some positive surprises at the 19 May Brexit Reset Summit, which together with the stronger currency could add to the appeal of UK gilts to foreign investors. Separately, Bloomberg reports that the UK DMO announced that the first syndication deal of the 2025–26 syndication program will be a new conventional gilt maturing in 2056. The transaction is expected to take place in the week commencing May 19, subject to demand and financial market conditions. This morning, gilts were trading 2–6bps lower across the curve, outperforming European peers with the 10Y gilt yield at 4.42%, while sterling was stronger against the dollar (+0.3%) to trade at 1.3291 and is over 6% stronger YTD.

Exhibit 1: Monthly net holding of Gilts changes by investor type, £bn
 Foreigners' Gilt holdings back on the rise

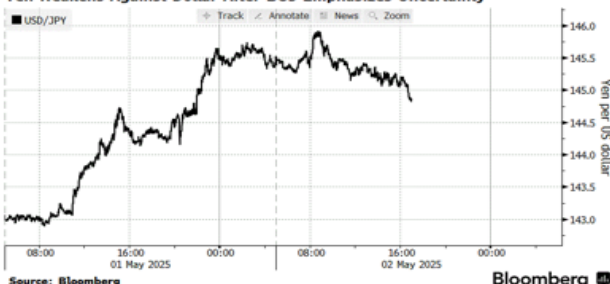


Source: BoE, BoFA Global Research
 BoFA GLOBAL RESEARCH

Japan

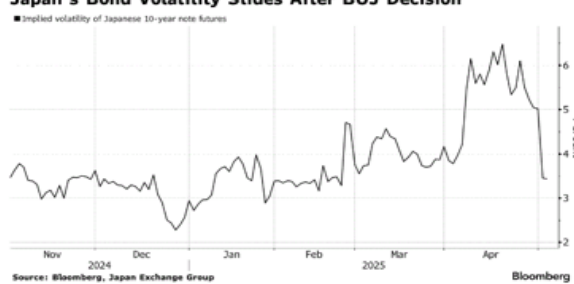
The Japanese yen approached the \$/146 level, extending yesterday's weakening after the Bank of Japan poured cold water on rate hikes. \$/¥ reached an intraday high of 145.92 today, before closing the Asian session at 144.80. The BOJ said in its latest outlook that rising uncertainties over the global trade war have clouded Japan's growth outlook and pushed back the timing for when its inflation reaches the central bank target, despite the labor market remaining tight. Although Governor Ueda said that the delay in the price target timing does not mean that there will be a delay in hikes, overnight index swaps now show only about a 33% chance of a rate hike by end-2025, down from near certainty in early April. Japan's chief trade negotiator Akazawa said, after concluding the latest round of talks in Washington, that he hopes President Trump and Japanese Prime Minister Ishiba will reach an agreement by June.

Yen Weakens Against Dollar After BOJ Emphasizes Uncertainty



Source: Bloomberg

Japan's Bond Volatility Slides After BOJ Decision



Source: Bloomberg, Japan Exchange Group

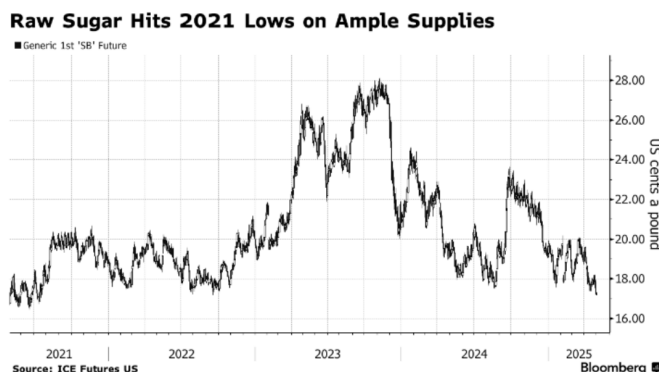
Emerging Markets

[back to top](#)

EMEA equities were mostly trading higher and currencies were stronger. The South African rand was outperforming against the dollar with analysts pointing to optimism that US-China trade negotiations would ease tariff tensions. **Asian currencies broadly appreciated (EM Asia: +0.8%), led by Taiwanese dollar (+4.1%) and Korean won (+1.9%).** Local equities rallied on hopes of trade talks between the US and China. **Latin American markets were closed in observance of the Labor Day holiday.**

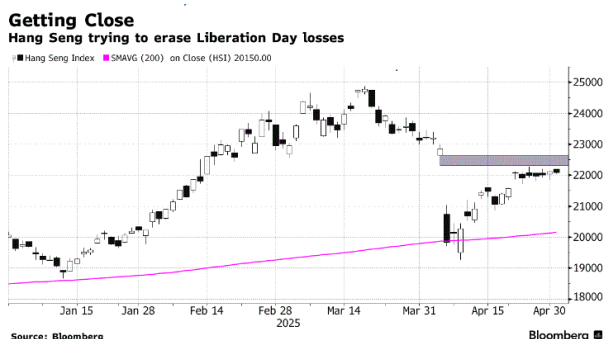
Brazil

Raw sugar futures fell to 17.16 cents per pound, the lowest level since July 2021. The most active contract dropped 0.5% on the day and is down about 10% in 2024 due to expectations of a global surplus. Brazil, the top exporter, has had a strong start to its cane crushing season, with nearly 45% of sugarcane in the Center-South region used for sugar production in the first half of April, a record for that period. India, the world's second-largest producer, now expects to export up to 800,000 tons of sugar in the season-ending September 30, after previously allowing exports of up to 1 million tons in January. Meanwhile, only one trader took delivery of raw sugar to settle the May futures contract on the New York exchange, a sign of limited buyer interest amid plentiful supply.



China

Equities rose after China said it is evaluating trade talks with the US, boosting optimism that tariff tensions will soften. Coming back from Thursday's holiday, offshore Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng Tech Index rose 1.5%, 1.9% and 3.1% respectively, after China's Commerce Ministry said in a statement Beijing is evaluating overtures from the U.S. regarding President Donald Trump's tariffs. Advances were led by exporters and tech stocks. Electric vehicle stocks also rose, as BYD posted its best monthly sales for 2025, paving way for the carmaker to hit its full-year target of 5.5 million deliveries. Onshore markets are closed until Tuesday for the Labor Day Golden Week holiday. Bloomberg analysts view that if the rally in Hong Kong equities is extended into next week when onshore markets resume trading, it could become a bullish tailwind for the month ahead. The offshore CNH appreciated (+0.5%) on Friday, from \$/7.2710 to 7.2374.

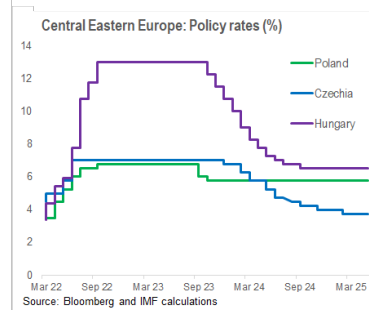


Czechia

The Czech central bank is expected to deliver a 25bps rate cut next week, according to Bloomberg consensus forecasts. Morgan Stanley analysts think that the expected 25bps rate cut, which would take the key rate to 3.5%, could be accompanied by a signal that the central bank would remain on hold for the remainder of 2025. The analysts also caution that an upside surprise in April's inflation print (due to be

published the day prior to the policy meeting) could result in rates remaining on hold in May. While both GDP and inflation data have been above the central bank's expectations, the analysts note that trade tariffs have increased downside risks to the growth outlook while lower commodity prices and a somewhat stronger Czech koruna are creating downside risks to inflation. With the euro weakening somewhat against the dollar over the past two weeks, the Czech koruna has retraced all of its losses against the euro since the start of April—outperforming the Hungarian forint and the Polish zloty. Bloomberg analysts partly attribute the koruna's performance to Czechia's monetary policy caution. Data released this morning showed manufacturing PMI in Czechia surprising on the upside in April but remaining in contractionary territory (48.9 versus expected 48.0 from 48.3), while Poland's PMI data was slightly weaker than expected in April, declining to 50.2 (versus expected 50.3 from 50.7).

Central Eastern Europe: currencies



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

5/1/25 4:15 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,593	0.6	2.0	-0.7	11.5	-5
Europe		5,160	0.0	0.9	-3.0	4.9	5
Japan		36,452	1.1	4.5	2.0	-4.7	-9
China		3,771	-0.1	-0.4	-2.4	3.1	-4
Asia Ex Japan		74	0.1	0.7	-0.6	8.4	2
Emerging Markets		44	-0.1	0.5	-0.3	6.6	5
Interest Rates			basis points				
US 10y Yield		4.2	5	-11	4	-42	-36
Germany 10y Yield		2.4	-5	-5	-28	-14	8
Japan 10y Yield		1.3	-6	-7	-24	37	16
UK 10y Yield		4.5	4	-2	-15	12	-9
Credit Spreads			basis points				
US Investment Grade		152	-1	4	20	34	32
US High Yield		420	-13	5	33	72	92
Exchange Rates			%				
USD/Majors		100.2	0.7	0.8	-3.9	-5.3	-8
EUR/USD		1.13	-0.3	-0.9	4.6	5.4	9
USD/JPY		145.4	1.6	1.9	-2.8	-6.0	-8
EM/USD		45.2	0.1	0.2	1.3	-2.4	6
Commodities			%				
Brent Crude Oil (\$/barrel)		61.9	1.3	-5.8	-16.1	-20.0	-16
Industrials Metals (index)		139.9	0.1	-3.8	-6.9	-10.9	0
Agriculture (index)		57.7	-0.5	-2.3	-1.6	-1.9	1
Gold (\$/ounce)		3235.6	-1.6	-3.4	3.9	39.5	23
Bitcoin (\$/coin)		96782.5	2.3	2.8	13.5	68.9	3
Implied Volatility			%				
VIX Index (%, change in pp)		24.2	-0.5	-2.2	2.5	8.8	6.9
Global FX Volatility		9.5	-0.1	0.0	1.0	1.9	0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		86	0	2	6	-14	0
Italy		112	0	2	2	-21	-3
France		72	0	1	1	25	-11
Spain		67	0	3	4	-10	-2

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

Emerging Market Financial Indicators

Last updated: 5/2/2025 8:00 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		7.27	0.0	0.2	-0.2	-0.4	0.4		1.7	0	-5	-17	-62	1
Indonesia		16438	0.8	2.4	1.7	-1.5	-1.9		6.8	0	-9	-17	-34	-23
India		85	-0.1	1.1	1.1	-1.3	1.3		6.7	2	1	-9	-80	-63
Philippines		56	0.5	1.2	2.9	3.5	4.3		5.0	6	2	-13	-76	13
Thailand		33	1.4	1.5	3.7	11.4	3.9		2.0	0	-3	-8	-88	-34
Malaysia		4.26	1.4	2.7	4.6	11.7	5.1		3.6	-7	-8	-18	-38	-23
Argentina		1171	-0.6	-0.7	-8.4	-25.1	-12.0		32.9	0	-55	-297	-734	376
Brazil		5.67	-0.9	0.6	0.6	-8.5	8.8		14.1	0	-4	-93	275	-186
Chile		947	0.1	-1.4	-0.1	1.4	5.2		5.5	0	0	-11	-44	-17
Colombia		4226	-0.9	1.9	-1.0	-7.2	4.3		12.0	0	20	3	148	23
Mexico		19.69	-0.4	-0.9	2.6	-13.7	5.8		9.4	0	1	6	-74	-99
Peru		3.7	0.0	0.3	0.3	2.8	2.5		6.5	-4	-11	-11	-67	-8
Uruguay		42	0.1	-0.4	0.3	-8.9	4.0		9.6	0	-3	12	50	-3
Hungary		356	0.6	0.2	3.6	1.9	11.6		6.5	0	-11	-37	-63	9
Poland		3.77	0.7	-0.2	2.0	7.2	9.6		4.8	0	-8	-58	-78	-82
Romania		4.4	0.5	-0.2	4.5	5.8	9.5		7.3	0	6	12	68	7
Russia		83.3	-1.5	-0.8	1.3	11.9	36.3							
South Africa		18.4	1.0	1.7	2.7	0.9	2.5		10.8	0	-4	2	-123	33
Türkiye		38.57	-0.3	-0.4	-1.6	-16.0	-8.3		35.0	0	36	87	625	532
US (DXY; 5y UST)		100	-0.5	0.3	-3.9	-5.3	-8.1		3.81	1	-5	-7	-76	-57

	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		3,771	0.0	-0.4	-2.4	3.1	-4.2		121	-1	13	-19	25	
Indonesia		6,816	0.7	3.1	4.7	-4.5	-3.7		120	-3	-7	18	29	
India		80,502	0.3	0.9	6.8	9.0	3.0		131	4	15	31	45	
Philippines		6,412	0.9	4.1	5.4	-3.1	-1.8		96	-6	-6	7	17	
Thailand		1,199	0.1	4.5	6.6	-12.5	-14.4							
Malaysia		1,542	0.1	2.4	2.5	-3.0	-6.1		95	6	4	10	25	
Argentina		2,100,844	-2.7	-6.2	-0.3	44.7	-17.1		724	33	-102	-505	87	
Brazil		135,067	0.0	2.2	3.0	6.2	12.3		235	3	-1	25	-12	
Chile		8,041	-0.2	0.5	4.4	23.8	19.8		127	-4	-1	6	14	
Colombia		1,637	1.0	0.1	-1.0	18.7	18.6		384	3	37	79	58	
Mexico		56,259	1.2	0.9	4.6	-0.7	13.6		338	5	23	28	26	
Peru		30,107	-0.8	-0.8	-0.4	3.7	4.0		147	-1	-2	-3	6	
Hungary		92,196	0.0	1.6	11.0	35.6	16.2		182	2	9	27	27	
Poland		100,364	1.7	0.2	2.4	18.9	26.1		115	-1	-4	19	3	
Romania		17,214	0.3	-0.9	-2.0	0.0	3.0		291	12	27	102	56	
South Africa		91,988	0.4	2.4	3.2	21.0	9.4		359	5	21	15	66	
Türkiye		9,165	1.0	-3.4	-3.8	-10.2	-6.8		353	26	33	70	94	
EM total		44	2.1	0.5	-0.3	3.9	4.6		413	23	19	79	49	

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

[back to top](#)