- **Short term interest rate market positioning for weaker US economy** (link)
- **China announces measures to support economy ahead of trade talks** (link)
- **US investor sentiment remains weak** (link)
- **European investors reportedly increase hedging of US equity positions** (link)
- **Stablecoins expected to play an important role in US Treasury market** (link)
- **Emerging market bond issuance rebounds** (link)

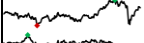Mature Markets | Emerging Markets | Market Tables

Markets take stock ahead of key central bank meetings

News that US-China trade talks will begin in Switzerland this weekend caused US equity index futures to post modest gains after two days of losses. The US 10-year Treasury auction was extremely well received, yesterday, providing some relief to those who feared that trade tensions might suppress foreign demand for US Treasuries. In other news, the People's Bank of China cut rates and the local authorities announced multiple measures to support the economy. Markets in Asia have not been severely affected by the tension between India and Pakistan, on hopes that 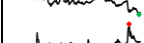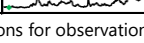the conflict will be resolved. Stocks in India rallied, although Pakistan saw losses and both their countries saw their currencies weaken. Stocks in Europe were down for a second day following the political issues in Germany, which raised fears that the big German fiscal and defence spending packages may be harder to achieve than originally expected. Meanwhile, market participants are looking ahead to multiple central bank meetings, including the FOMC.

Key Global Financial Indicators

Last updated: 5/7/25 7:54 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5607	-0.8	1	11	8	-5
Eurostoxx 50		5250	-0.2	2	13	5	7
Nikkei 225		36780	-0.1	3	11	-4	-8
MSCI EM		45	-0.4	3	16	7	8
Yields and Spreads			bps				
US 10y Yield		4.33	3.1	16	14	-13	-24
Germany 10y Yield		2.51	-2.6	7	-10	9	15
EMBIG Sovereign Spread		358	1	-4	-25	-14	33
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.4	0.0	1	4	-3	6
Dollar index, (+) = $ appreciation		99.4	0.2	0	-4	-6	-8
Brent Crude Oil ($/barrel)		62.5	0.6	-1	-3	-25	-16
VIX Index (%, change in pp)		24.3	-0.4	0	-23	11	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

Short term interest rate markets are positioning for a weaker US economy. Secured Overnight Funding Rate (SOFR) futures for maturing in December 2026 have fallen as survey forecasts for the probability of a recession in prediction markets have shifted higher, suggesting that the market expects multiple rate cuts from the Fed to counter a weakening economy. The rates on the December 2025 and December 2026 SOFR futures have fallen in step with the declining Bloomberg Economic Surprise Index, which falls below zero if actual US data are weaker than expected. Another flashing red signal comes from the overnight index swap (OIS) market, where the one-year OIS swap is expected to decline from 3.87% today to 3.17% one year from now. Contacts remain quite bullish on Treasuries, expecting interest rates to fall as the US economy shows more signs of weakness.

Exhibit 4: '25 recession odds & end '26 SOFR
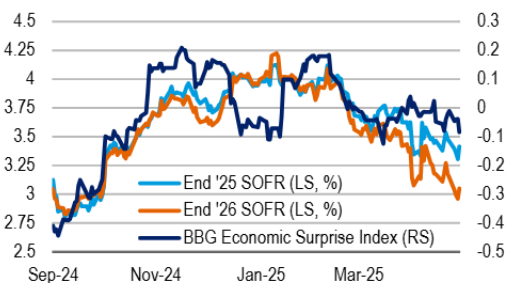Bad news is well priced
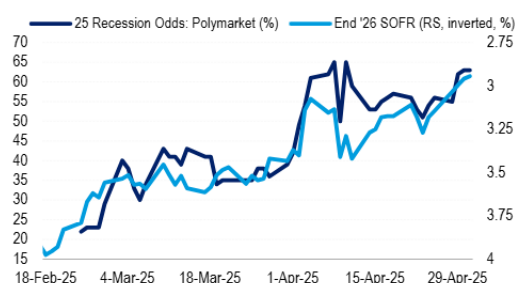
Source: Bloomberg

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Exhibit 5: Bloomberg econ surprise & end '25 / end '26 SOFR
Economic surprises stable but market pricing deeper Fed cuts

Source: Bloomberg

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Investor confidence has improved but remains at very weak levels in historical terms, according to Morgan Stanley. The bank's proprietary Market Sentiment Indicator (MSI) is at the 16th percentile, and a combination of other risk variables equates to a composite at the 20th percentile. A Bloomberg survey of professional investors fund that the level of pessimism is at its worst level in 2 ½ years. The S&P 500 is almost back to the April 2 level when tariffs were announced, but this understates the continued underlying weakness of the market. Much of the recovery has been led by the big US technology

Exhibit 5: Sentiment has improved, but remains below average

15yr %-Tile: Higher = More Confidence
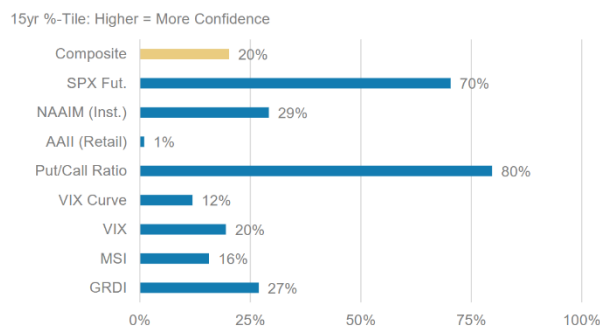
Source: Bloomberg, AAII, NAAIM, Morgan Stanley Research; Note: Bars are aligned so that a higher number equates to more optimism, a lower number corresponds to more negativity/fear. GRDI = Global Risk Demand Index – US Pat. No. 7,617,143.

giants. The S&P 500 is outperforming the SPW equal weight index by 400 bps so far in 2025. The S&P 500 overall is less than 9% below its record close on February 19, but the median drawdown of stocks in the index is 13%.

Stablecoins are expected to play a growing role in the US Treasury market. In the most recent Treasury refunding questionnaire, dealers were asked about the "potential demand for Treasuries as a reserve asset for stablecoins." The US Congress is expected to pass new legislation on stablecoins this year and this is expected to generate more demand for these crypto assets, with a significant downstream impact on the US Treasury market. Stablecoins are crypto assets that are designed to hold a fixed 1:1 value versus the dollar or other reference currency, similar to money market funds. Their volumes outstanding

have risen significantly in recent years. They hold a large proportion of their reserves in the form of T-Bills, so rising volumes of stablecoins could result in much stronger demand for them. This could in turn enable the US Treasury to shorten the weighted average maturity (WAM) of its debt issuance and lower its funding costs.

Exhibit 1: USD-related average stablecoin supply over recent years ($bn)
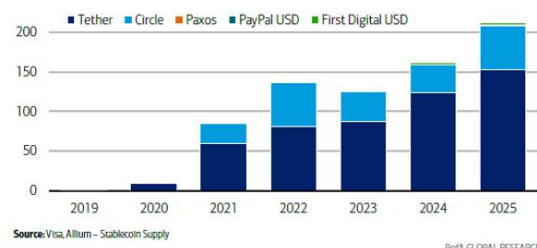USD-related stablecoins dominated by Tether & Circle; total size has grown 17% over past 3Y

Source: Visa, Allium – Stablecoin Supply

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Exhibit 2: USD stablecoin size & reserve composition
USD stablecoin reserves are largely held in bills, repo, deposits, & MMF

Coin	Size ($bn)	Bills	Repo	Deposits & MMF	Other
				Reserve Composition	
Tether	147.2	66%	12%	5%	18%
Circle	56.3	38%	50%	12%	0%
First Digital USD	2.4	72%	3%	25%	0%
PayPal USD	0.7		No Detail Available		
Paxos	0.1	0%	7%	93%	0%

Source: Stablecoin issuer websites; Tether "other" reserves = secured loans (5.7%), bitcoins (5.5%), metals (3.7%), & other (2.8%)

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Euro Area

European equities were mostly lower with the Stoxx 600 index trading in the red (-0.4%) while sovereign yields edged lower and the euro was marginally weaker ahead of the Fed policy meeting. German equities were marginally lower this morning (-0.2%) after Friedrich Merz yesterday secured a majority in the second ballot of the vote on the chancellor. Rabobank analysts attribute the relatively muted market reaction to the initial failed parliamentary vote yesterday to either limited investor expectations for imminent fiscal expansion or a view that the failed vote will have only marginal implications. The euro was slightly weaker against the dollar this morning (-0.2% at 1.1348), with the currency little changed after data released this morning showed eurozone retail sales data for March coming in below expectations (+1.5%y/y versus expected +1.6%y/y). Sovereign yields edged lower with the 10yr bund (-3bps) trading at around 2.51% while southern spreads were marginally lower.

European asset managers and pension funds are reportedly increasing currency hedging of their US equity exposures amid recent declines in both US equity markets and the US dollar. Market participants argue that the strong correlation between real money flows and the EUR/USD spot rate indicates a shift in the hedging strategies of European asset managers, according to Risk.net. The article also quotes Citi analysts' projection that average hedge ratios for US exposures would rise to around 70%, up from 39% at the beginning of the year. BNP analysts note upside risks for the EUR/USD, highlighting that eurozone investors' US dollar exposure is both overweight and underhedged, with estimates that Dutch and Danish pension funds have roughly 500bn of unhedged USD exposure. The analysts think that higher hedging ratios would support the euro against the dollar, and also anticipate that FX would be more reactive than in the past to any rotation out of US equities, given the large US equity holdings of eurozone investors.

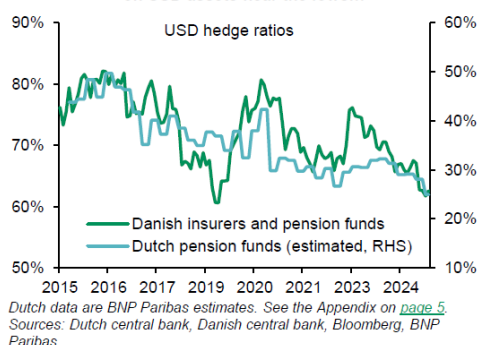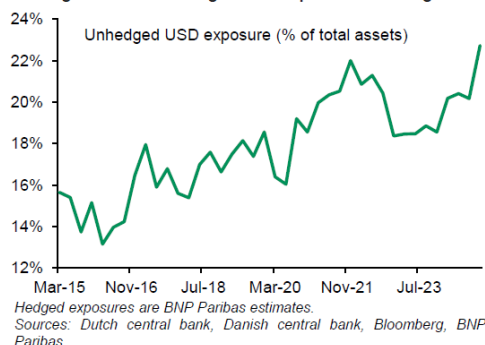Fig. 1: Dutch and Danish pension fund FX hedge ratios on USD assets near the lows…

USD hedge ratios

Danish insurers and pension funds
Dutch pension funds (estimated, RHS)

Dutch data are BNP Paribas estimates. See the Appendix on page 5.
Sources: Dutch central bank, Danish central bank, Bloomberg, BNP Paribas

Fig. 2: … with unhedged USD exposure at the highs

Unhedged USD exposure (% of total assets)

Hedged exposures are BNP Paribas estimates.
Sources: Dutch central bank, Danish central bank, Bloomberg, BNP Paribas

United Kingdom

Some analysts anticipate that the BoE could stop active bond sales in October. Ahead of the BoE policy meeting later this week, where the central bank is expected to cut it policy rate by 25bps to 4.25%, Bloomberg reports that investors will be looking for guidance on the quantitative tightening (QT) program. Bank of America analysts suggest that the BoE may be increasingly recognizing the more pronounced effects of QT on market conditions. Meanwhile, BNP Paribas analysts observe that both the

Long Gilt Yields Remain Higher Than Major Peers
A sell-off last month caused BOE to delay a planned bond sale
Yield on 30-year gilts / Yield on 30-year US Treasuries / Yield on 30-year German bonds

Source: Bloomberg

BoE and the UK Debt Management Office have been adjusting their approach in response to recent market volatility, aiming to mitigate undue external pressure on the gilt market.
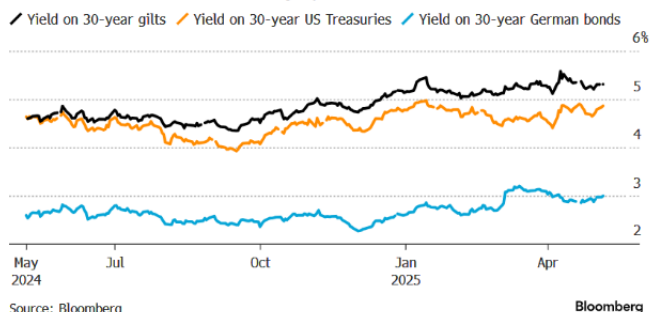
Japan

The yield curve steepened further, with the yield gap between 10- and 30-year JGBs widening to a record 155bps. The yield on 30-year bonds rose 12.6bps to 2.883%, following a BOJ operation that signaled strong investor demand to offload longer-maturity debt, with offers to sell being 3.93 times the amount bought by the BOJ, the highest in two years. Strategists suggested that yields for shorter notes are declining due to receding expectations of BOJ rate hikes, while long-term yields are

Japan's Curve Steepens Sharply as 30-Year Yields Climb

Source: Bloomberg

soaring due to poor demand, potentially rising to 3% soon. Today, the carmaker index lost 2% as US-Japan trade talks showed little progress. Shares of drugmakers declined (-2.73%) after reports that a decision on US pharmaceutical tariffs will be announced within the next two weeks. Overall, the stock market was little changed (NIKKEI 225: -0.1%), supported by Berkshire's commitment to hold investments in Japan for 50 years or more. Meanwhile, the yen depreciated against the dollar (-0.6%) as haven demand eased on optimism over US-China trade talks.

## Emerging Markets   back to top

EMEA equities and currencies were trading higher on reports that the US and China would begin trade talks later this week. Equities in CEE were trading in the green while CEE currencies were trading mixed against the euro. **Asian markets mostly gained on optimism over upcoming US-China trade talks.** However, strategists expressed concerns that a deal might not be reached soon, suggesting that gains from headlines may not be sustained. Asian currencies mostly weakened against the dollar (EM Asia: -0.3%), led by the Korean won (-1%)**. Latin American markets mostly traded higher.** All major benchmark equity indices gained, with Mexican equities experiencing the largest gains (2.7%) on the possibility of USMCA trade deal remaining effective without a major overhaul. The Mexican peso also appreciated against the US dollar.

EM bond issuance

After several sluggish weeks, EMs saw a rebound in weekly bond issuance volumes. For the week ending on May 3, $22.1 bn were raised via bonds, of which $7.9 bn were raised by non-financial corporates

and $7.1 bn by sovereigns, with the latter being almost entirely driven by issuers from the CEEMEA region. Financial sector bond issuances also picked up ($3 bn) although it remained below the weekly average for the year. In regional terms, the issuance was dominated by CEEMEA ($15 bn), with EM Asia ex-China ($2.9 bn), and LATAM ($3 bn) seeing much smaller volumes. Overall, the cumulative issuance for the year stands at $295 bn, which is higher by about 18% y/y.

Figure 1. EM bond issuance, by sector (bn. USD)

Figure 2. EM bond issuance, by region (bn. USD)
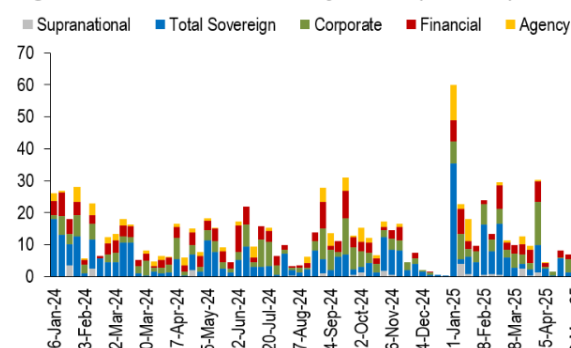
Sources: Bond Radar, and IMF staff calculations.
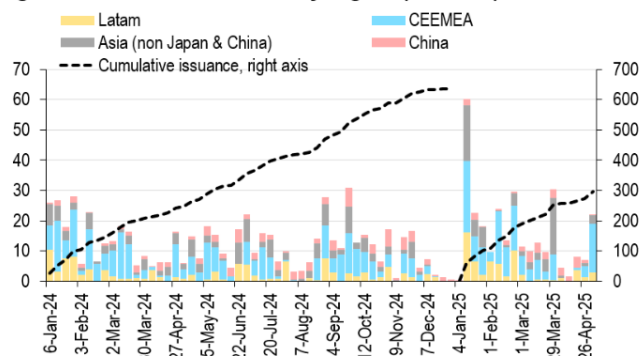
China

The People's Bank of China (PBOC) cut the seven-day reverse repurchase rate by 10bps to 1.4% and lowered the reserve requirement ratio (RRR) for major banks by 50bps to 9%, as part of 10 measures announced by Governor Pan at a briefing today. Additionally, there will be 25bps cuts for re-lending interest rates (from 1.75% to 1.5%), pledged supplementary lending rate (from 2.25% to 2%), and home provident fund mortgage rate (e.g., from 2.85% to 2.6% for 5-year loans). Analysts estimate that the PBOC will increase system liquidity by RMB 2.1tn, including RMB 1tn via the RRR cut, RMB 500bn for a new relending facility to support service consumption and elderly care, RMB 300bn for technological innovation, and RMB 300bn for agriculture and small businesses. Economists anticipated the monetary easing, but the scale was larger than expected, signaling policymakers' commitment to boosting sentiment and growth. For the banking sector, market contacts indicated that lower relending rates may marginally reduce banks' liability costs, but increased liquidity support for small businesses could lead to higher NPL formation pressure.

Financial regulators NFRA and CSRC also joined the press conference and introduced measures to stabilize the property market, ease regulations on insurers' stock investments, enhance risk sharing through insurance and compensation by securities issuance for the technology sector, and provide liquidity and insurance support to exporters and SMEs affected by the trade war. The market expects more fiscal
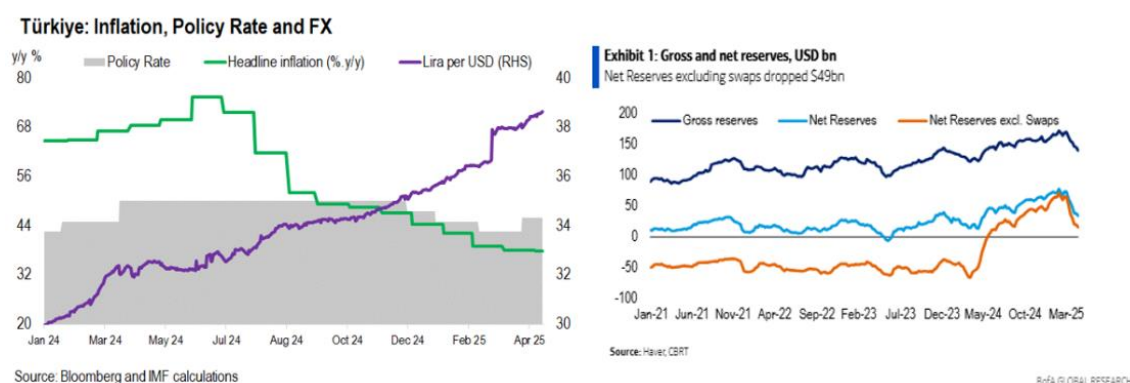
China Policy rate and RRR
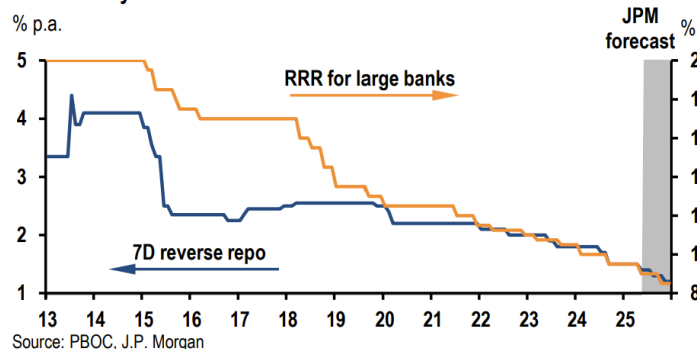
Source: PBOC, J.P. Morgan

spending and consumption-boosting measures around the July politburo meeting. The easing announcements came after the confirmation of the first official US-China trade talks this weekend, potentially de-escalating tariff tensions. The stock market opened 1.4% higher but closed with a modest gain (CSI: +0.6%), as analysts expect the trade talks to take a long time. Meanwhile, the yuan was little changed (-0.1%) after the PBOC set a stable reference rate at 7.2005 per dollar.

Türkiye
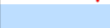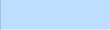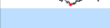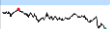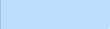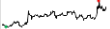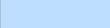
Macroprudential measures were announced in Türkiye to support the currency. Last Friday, the Turkish Central Bank (TCMB) introduced several macroprudential measures which analysts at Goldman Sachs believe are aimed at supporting the lira by shifting local demand away from FX forwards. The analysts note that the measures, which included raising reserve requirement ratios by 200bps for FX deposits across all maturities and by 400bps for funds sourced from FX repo transactions up to one year maturity aim to incentivize banks to raise FX loan rates and thereby reduce FX loan demand. Meanwhile, analysts at Bank of America (BofA) note that the macroprudential measures implemented "are not a sustainable way of building reserves." Furthermore, the analysts note that if the central bank keeps rates higher for longer, there is a risk that "the Turkish economy heads towards a hard landing" given real rates are high and the monetary policy stance is tight. They expect the TCMB to keep rates unchanged in June and to resume cutting in July, although uncertainty remains high. This morning, the lira was broadly steady against the dollar at 38.64/$ although it is around 8.5% weaker YTD.

Türkiye: Inflation, Policy Rate and FX

Source: Bloomberg and IMF calculations

Exhibit 1: Gross and net reserves, USD bn
Net Reserves excluding swaps dropped $49bn

Source: Havel, CBRT

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Global Financial Indicators

5/6/25 4:17 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,609	-0.4	0.9	10.5	8.3	-5
Europe		5,263	-0.4	2.0	7.9	6.2	8
Japan		36,831	1.0	5.1	18.3	-5.2	-8
China		3,809	1.0	0.6	6.1	4.1	-3
Asia Ex Japan		77	-0.5	4.4	11.3	8.3	6
Emerging Markets		45	-0.3	3.5	11.3	6.2	8
Interest Rates					basis points		
US 10y Yield		4.3	-4	13	31	-18	-26
Germany 10y Yield		2.5	2	4	-4	7	17
Japan 10y Yield		1.3	0	-6	5	36	16
UK 10y Yield		4.5	1	3	7	29	-5
Credit Spreads					basis points		
US Investment Grade		149	1	0	-1	33	30
US High Yield		412	7	-10	-57	76	83
Exchange Rates					%		
USD/Majors		99.2	-0.6	0.0	-3.7	-5.6	-9
EUR/USD		1.14	0.6	-0.1	4.3	5.7	10
USD/JPY		142.4	-0.9	0.1	-3.7	-7.5	-9
EM/USD		45.5	0.1	0.4	3.1	-2.9	6
Commodities					%		
Brent Crude Oil ($/barrel)		62.2	3.2	-1.8	-4.3	-20.4	-15
Industrials Metals (index)		142.6	0.9	-1.4	4.0	-9.8	2
Agriculture (index)		57.4	-0.1	-1.2	1.3	-5.9	1
Gold ($/ounce)		3422.0	2.6	3.2	14.7	47.2	30
Bitcoin ($/coin)		94973.8	0.8	-1.5	20.5	50.0	1
Implied Volatility					%		
VIX Index (%, change in pp)		24.7	1.1	0.6	-20.6	11.2	7.4
Global FX Volatility		9.9	0.0	0.3	-0.1	2.7	0.7
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		84	1	0	-5	-15	-1
Italy		109	0	-2	-10	-25	-7
France		72	0	0	-4	24	-11
Spain		65	0	-1	-4	-13	-4

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

Emerging Market Financial Indicators

Last updated: 5/7/2025 8:00 AM	Exchange Rates (vs. USD)							Local Currency Bond Yields (GBI EM) (% p.a.)						
	Level		Change (in %) (+) = EM appreciation				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	
China		7.23	-0.1	0.6	1.3	-0.1	1.0		1.7	0	0	-7	-61	2
Indonesia		16536	-0.5	0.4	1.7	-3.0	-2.4		6.8	-1	-2	-16	-10	-22
India		85	-0.5	-0.4	1.2	-1.6	0.9		6.7	-3	0	-7	-76	-65
Philippines		55	0.4	0.8	3.7	3.3	4.6		4.9	-5	-5	-9	-72	5
Thailand		33	-0.2	2.1	6.0	12.7	5.0		2.0	-2	0	3	-84	-34
Malaysia		4.24	-0.2	1.8	5.7	11.8	5.5		3.7	1	2	3	-23	-14
Argentina		1196	0.5	-2.6	-10.1	-26.4	-13.8		33.5	16	-19	-345	-540	439
Brazil		5.71	-0.5	-1.6	3.5	-11.2	8.0		14.1	-9	-13	-52	301	-186
Chile		940	0.1	0.7	5.2	-1.0	6.0		5.5	-2	4	16	-33	-14
Colombia		4305	-0.1	-2.7	1.9	-9.5	2.3		12.0	-3	-3	11	140	19
Mexico		19.63	0.2	-0.1	5.4	-13.9	6.1		9.3	-6	3	16	-40	-100
Peru		3.7	0.3	0.3	1.7	2.0	2.8		6.6	0	5	13	-46	-4
Uruguay		42	0.2	0.5	2.1	-8.6	4.4		9.6	-2	-7	5	42	-9
Hungary		356	0.0	0.4	5.1	1.8	11.7		6.6	6	8	-5	-20	20
Poland		3.77	-0.2	0.3	4.5	6.4	9.7		4.8	-5	5	-12	-63	-78
Romania		4.5	-0.4	-2.3	1.5	2.9	6.8		7.9	16	61	79	128	65
Russia		81.1	0.5	1.2	6.5	12.9	40.0							
South Africa		18.3	-0.4	1.7	7.5	1.3	3.0		10.9	7	13	-31	-104	46
Türkiye		38.65	-0.1	-0.4	-1.7	-16.5	-8.5		34.8	34	-71	178	548	504
US (DXY; 5y UST)		99	0.2	0.0	-3.7	-5.7	-8.3		3.93	3	20	6	-55	-46

	Equity Markets							Bond Spreads on USD Debt (EMBIG) (basis points)					
	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	
China		3,832	0.6	1.2	5.0	5.5	-2.6		125	0	11	-16	29
Indonesia		6,926	0.4	2.6	15.5	-2.3	-2.2		123	-1	-15	20	32
India		80,747	0.1	0.6	8.8	9.9	3.3		130	2	4	31	44
Philippines		6,465	0.7	3.4	7.6	-2.9	-1.0		101	0	-8	12	22
Thailand		1,220	2.7	5.2	13.6	-11.1	-12.9						
Malaysia		1,550	0.9	2.3	7.4	-3.4	-5.6		97	4	-4	16	27
Argentina		2,129,995	3.4	-4.3	5.1	45.5	-15.9		704	-10	-219	-530	67
Brazil		133,516	0.0	-1.1	6.3	3.3	11.0		232	4	-26	29	-15
Chile		8,070	0.6	0.1	11.3	22.3	20.3		124	-7	-18	3	11
Colombia		1,649	0.4	1.7	2.4	19.4	19.5		376	-4	-5	92	50
Mexico		57,350	2.7	0.6	13.7	0.4	15.8		335	-2	-11	31	23
Peru		30,524	0.1	0.6	9.6	4.6	5.4		142	-10	-22	-2	1
Hungary		92,572	0.7	-0.4	12.3	34.4	16.7		172	-15	-18	18	17
Poland		100,125	0.9	-0.7	14.1	15.8	25.8		112	-8	-12	14	0
Romania		16,676	0.6	-4.4	1.2	-3.3	-0.3		313	21	24	128	78
South Africa		91,848	-0.2	0.6	11.8	19.4	9.2		348	-5	-37	18	55
Türkiye		9,163	0.3	-0.7	-2.6	-11.4	-6.8		333	-19	-12	56	74
EM total		45	-0.9	3.5	15.6	6.8	8.0		406	10	-19	80	42

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

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