GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 2, 2025

LEAD EDITOR: BENJAMIN MOSK

- **European government bond yields rise and curves steepen on global bond selloff** (link)
- **US Citi Economic Surprise Index reaches 2025-high, signaling positive momentum** (link)
- **Japanese bond yields fall and yen weakens after strong auction and BOJ speech** (link)
- **Yuan depreciates for second consecutive session after being strongest since November** (link)
- **Consensus expect National Bank of Poland to deliver 25bp rate cut on Wednesday** (link)

Mature Markets | Emerging Markets | Market Tables

Tariffs on Trial, Markets in Absentia

Last Friday, a US court found that the President did not have the authority to impose broad tariffs, but with enforcement pending Supreme Court review, markets showed little reaction. A court has ruled that invoking the 1977 International Emergency Economic Powers Act to justify broad tariffs exceeded presidential authority; however, because enforcement is pending Supreme Court review, the market reaction to this news has been muted. The decision compounds institutional uncertainty tied to the attempted firing of Fed Governor Lisa Cook last week—a decision that is challenged in court. Gold prices continue to extend record highs; nonetheless, the timing of intraday moves does not clearly correlate with the aforementioned news flows, with fiscal sustainability concerns and the US monetary policy outlook also cited as contributing factors. A September FOMC rate cut remains priced in at 90%, with market participants awaiting employment data and Friday's non-farm payrolls report after last month's much weaker-than-expected print. S&P 500 futures point to a lower open (-0.75%) following equity declines earlier today in Europe. Political uncertainty and French fiscal concerns remain in focus in Europe, with PM Bayrou's confidence vote planned for September 8. The French-German 10-year sovereign spread breached the 80bp level today, as bonds sold off across most jurisdictions, particularly at the longer end of the curve.

Key Global Financial Indicators

Last updated: 9/2/25 8:20 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6460	-0.6	0	4	14	10
Eurostoxx 50		5314	-1.0	-1	3	7	9
Nikkei 225		42310	0.3	0	4	9	6
MSCI EM		50	-0.5	-2	3	15	19
Yields and Spreads					bps		
US 10y Yield		4.29	6.6	3	8	39	-27
Germany 10y Yield		2.80	4.7	7	12	46	43
EMBIG Sovereign Spread		297	1	4	-5	-96	-28
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.6	-0.3	0	0	0	7
Dollar index, (+) = $ appreciation		98.3	0.6	0	-1	-3	-9
Brent Crude Oil ($/barrel)		69.3	1.7	3	-1	-11	-7
VIX Index (%, change in pp)		18.3	2.1	3	-2	3	1

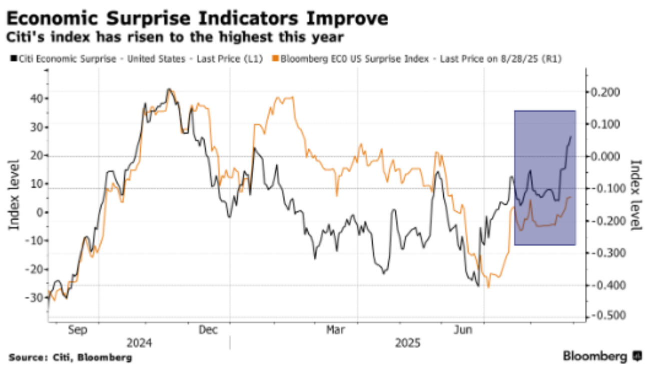
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

This week's US data news flows are relatively light, but markets are eyeing three key datapoints left before the upcoming FOMC meeting: Tuesday's ISM manufacturing index, Thursday's initial jobless claims and in particular Friday's nonfarm payrolls could challenge the current consensus for a 25bps September rate cut. Thereafter, next week's September 11 print of US August CPI inflation will be the ultimate hurdle. The Fed will release its Beige Book survey of economic conditions on Wednesday. Senate hearings for Stephen Miran's confirmation as Federal Reserve Governor will begin on Thursday. Elsewhere, we have a series of PMI reports (including the Euro Area, UK and China), Australia's GDP print, and BOE's key policymakers will appear before the UK parliament. On Wednesday, Türkiye's CPI print for August will come in, and the central bank of Poland will announce its rate decision (25 bps rate cut to 4.75% expected).

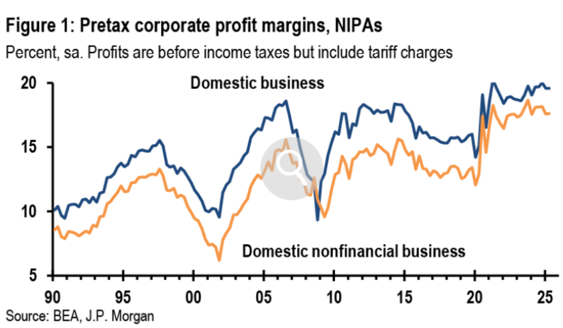
Mature Markets back to top

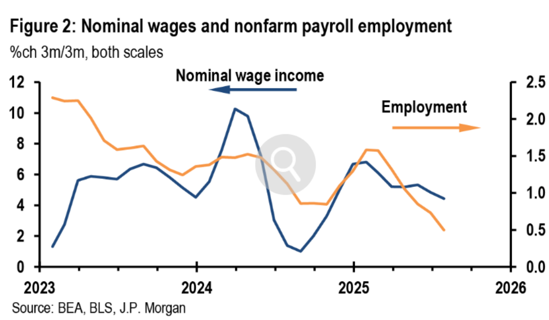
United States

The US Citi Economic Surprise Index reaches its highest level for 2025. Market expectations for a September rate cut could be challenged by stronger than expected economic data, as preliminary August data point to a rebound in economic activity. Global PMIs for manufacturing and services have improved while certain labor data for the US (regional Fed survey, Indeed job posting index) show a more optimistic outlook. Bloomberg analysts expect the Fed will return its focus to inflation if economic growth stays resilient and labor market data steadies. Currently, futures are pricing in an 89% probability of a 25bps September rate cut, and 55bps of cuts before year end.



GDP growth estimates revised upwards for the third quarter. Analysts at JPMorgan revised their US GDP forecast upwards from 1.5% to 2.5% for the third quarter of 2025 as profit margins and real wage growth outperformed compared to their initial forecast. Corporate profits before income taxes have seen 1.7% quarterly growth even after the impact of tariffs, while margins for nonfinancial business have been relatively stable. Furthermore, while employment has slowed down, wage income growth has helped cushion consumption. Despite this, analysts show caution to revise data for the fourth quarter given the high degree of uncertainty that remains around key drivers of the economy.



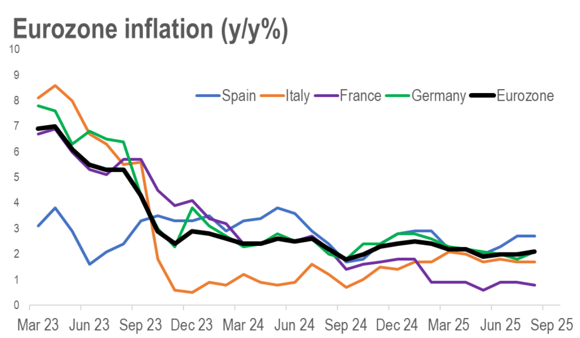


Europe

European equities fell this morning, mirroring US equity-index futures, pressured by rising long-term government bond yields globally and with ongoing political turmoil in France. In addition, the ECB meeting next week keeps investors cautious after Eurozone's August inflation figures came a touch above expectations today. The Stoxx 600 index was down by -0.8% dragged by losses especially in the real estate (-1.6%) and the information technology (-1.1%) sectors, with the latter still affected (-2.4% on the week) by last week's sale-off and the banking sector also continuing to underperform today (-1%). All the main European indices edged lower, except for the CAC40 index which marginally rebounded (+0.1%) today from last week's losses after trading flat yesterday.

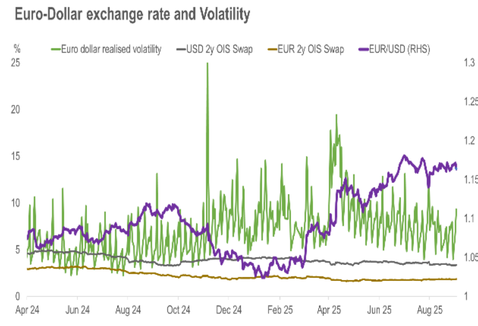
The euro lost ground (-0.6%) **against a globally stronger dollar this morning,** trading at around $1.1635/€. Analysts at ING view the EUR/USD exchange determined primarily by US developments, with the US jobs data released later this week potentially supporting the euro to trade in 1.165–1.175 range in the short term. Looking at the medium-term, Deutsche bank expects the euro to reach $1.20/€ by end-2025, noting however that the appreciation of the currency could deepen and lengthen the inflation undershoot in the Eurozone in 2026, creating scope for another "insurance" rate cut from the ECB.

Today's August inflation data for the Eurozone printed slightly above expectations. Headline inflation in the Eurozone inched up to 2.1%y/y (from prior 2%) as expected today, although with a slightly stronger momentum than expected (0.2%m/m, vs. est. 0.1%m/m) with also core inflation steadier than expected (2.3%y/y in August as in July, vs. est. 2.2%y/y). ECB President Lagarde reaffirmed yesterday ECB's commitment to maintaining inflation at 2%, noting currently balanced risks and economic resilience in Europe despite challenges from US tariffs and Ukraine war. ECB Executive Board member Isabel Schnabel, who is sometimes perceived to lean to the hawkish side, suggested today that the ECB should keep its policy rates at current levels with inflation risks tilted to the upside, noting that "tariffs are on net inflationary" and a "highly unlikely" risk of de-anchoring of inflation expectations to the downside after years of high inflation, increasing government spending and aging population.

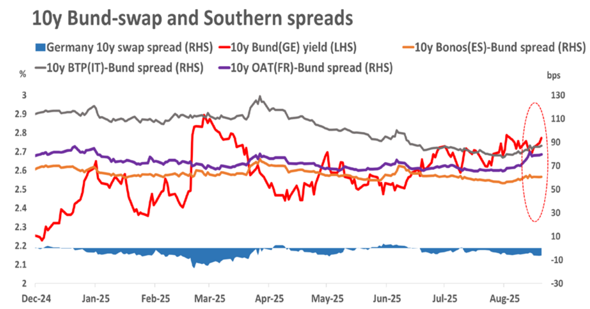


Source: Bloomberg and IMF calculations

European government bond (EGBs) yield curves bear-steepened this morning reflecting selloff in global government bonds. Longer-term Bund yields were up by about +4bps (10y yield at 2.78% and 30y yield at 3.40%), driven by the real component, mirroring moves of US treasuries an UK gilts, with the front-end of the curve also edging higher by +2bps as the 2y Bund yield rose to 1.96% and money markets further eroded bets of ECB rate cuts after today's inflation data, pricing-in only -7 bps (vs. -9bps priced-in a week ago) of easing by December and -15bps (-18bps priced-in a week ago) by July 2026. Other EGBs underperformed their German peers, with the 10y OAT-Bund and BTP-Bund spreads higher at respectively 81bps and 88bps. Analysts at Crédit Agricole believe that the most likely scenarios after the September 8 confidence vote in France is that of either a new PM or elections, both leaving spreads wider around 85bps with limited contagion to other EGBs although correlation effects could still add 5–10bps to Italian BTPs and Spanish Bonos spreads vs Bund; analysts remain however constructive on OATs in the medium-term given carry and positioning factors.



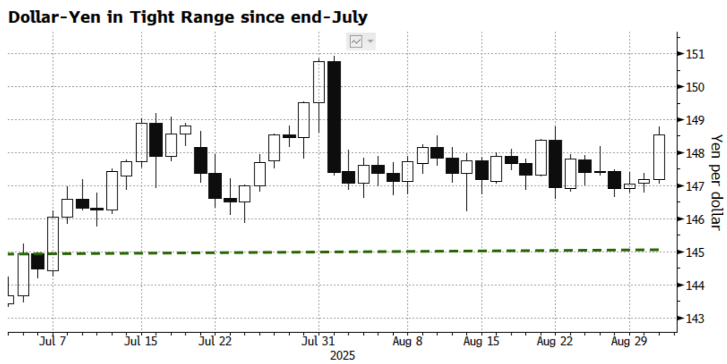
Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Japan

Japan government bonds gained after a 10-year auction saw its strongest demand since October 2023. The bid-to-cover ratio jumped to 3.92 (last month: 3.06), the best since 2023. 10-year bond yields fell as much as 2.0 basis points to 1.60% before reversing the drop in the afternoon session, and the yield curve steepened (2-yr -1bp to 0.87%; 10-yr unchanged at 1.62%; 30-yr +3bp to 3.23%). The auction was also supported by a less hawkish-than-expected speech by Bank of Japan Deputy Governor Himino, who refrained from making any hints when the benchmark policy rate may be raised. Overnight index swaps are now pricing in a 60% chance of a rate hike by December 2025, down from 74% last Tuesday. Himino's focus on continued tariff uncertainty, combined with reports of the resignation of ruling Liberal Democratic Party Secretary General Moriyama, also led to Yen weakening (-1.0%) to $/148.64 today. Today's weakening is against the background of reports earlier in the week that leveraged investors have been building positions in the options market that would benefit if yen strengthens beyond 145 versus the dollar.



Source: Bloomberg

Emerging Markets

back to top

EMEA equities and currencies traded lower today reflecting broad risk aversion amid rising yields. In CEE, equities in Poland (-1.2%) and Romania (-0.5%) underperformed. CEE currencies were all broadly weaker against the euro, with the Hungarian forint declining by 0.2% against the euro. Elsewhere, Turkish equities were lower and the lira weaker (-0.1%) against a broadly firmer dollar to trade at 41.16/$. Reflecting the risk-off tone, the South African rand was also weaker (-0.6%) against the dollar at ZAR17.72/$. Meanwhile, according to Bloomberg, Saudi Arabia is planning to sell two benchmark-sized 5-year and 10-year maturity sukuk bonds to finance various Vision 2030 projects.

Asian currencies broadly depreciated today (EM Asia: -0.1%), with Indonesian rupiah being the outlier (+0.1%) as Finance Minister Indrawati pledged to stay onboard and improve the government's policies. Asian equities were mixed today (EM Asia: -0.2%), with Korea (KOSPI: +0.9%) and Indonesia (Jakarta Composite: +0.8%) advancing the most.

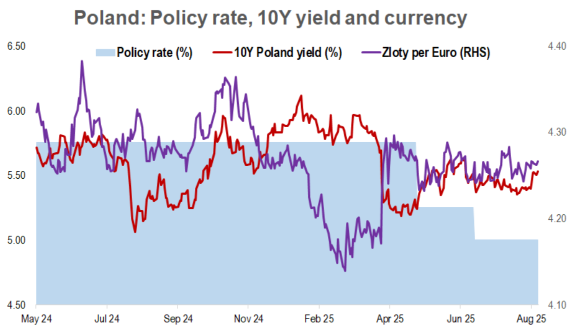
Latin American equities were mixed, with Mexico and Chile posting gains, while Colombi and Brazil slipped. In FX markets, the Mexican and Colombian pesos strengthened whereas the Chilean peso and Brazilian real depreciated. Meanwhile, Chilean economic activity rose by 1% m/m in June, marking its first monthly increase since April.

China

The yuan weakened for two consecutive days for the first time in two weeks. Both onshore CNY and offshore CNH depreciated (-0.1%), after the yuan was fixed at 7.1089, weaker than yesterday's 7.1072. The average analyst estimate stands at 7.1335, 246 pips weaker than the fixing. Yesterday, the Securities Times reported that the yuan could strengthen further against the dollar in the rest of the year, driven in part by increased investor allocation to Chinese assets including bonds and equities. Dollar demand by Chinese corporates for dividend payments to overseas investors is expected to ease after September, which would also reduce selling pressure on the yuan. The stronger yuan has also been seen as a supporting factor to the equity market rally this month; however, both onshore equities (CSI 300: -0.7%) and offshore equities (Hang Seng: -0.5%) led declines among Asian markets today, weighed by Chinese tech firms amid profit-taking. Today, the 7-day repo rate declined 1bp to 1.43%, while 10-yr government bond yield also fell 1bp to 1.78%. Shanghai Securities News reported today that financial markets are expected to remain stable despite mounting liquidity pressures. Between September 1-5, the money market is expected to experience an outflow of CNY 3.2tn ($448 bn) driven by maturing repo contracts. Liquidity conditions may also tighten further towards quarter end as tax payment season begins, and Chinese banks tend to extend more new loans typically in September.

Poland

The National Bank of Poland is expected to deliver 25bp rate cut on Wednesday. The MPC is widely expected to cut the policy rate by 25bp to 4.75% on Wednesday as inflationary pressures ease. Analysts at Goldman Sachs note that the flash August headline inflation print declined by 0.3pp to 2.8%y/y, surprising slightly to the downside relative to their and consensus expectations of 2.9%y/y. The analysts believe the latest downside inflation surprise, alongside weak underlying inflation dynamics, supports their expectation of a rate cut this week although they think that risks may be skewed towards a larger, 50bp rate cut rather than unchanged rates. This morning, the Polish zloty was trading relatively rangebound against the euro at 4.27/€ and is slightly firmer (+0.3%) against the common currency YTD.



Source: Bloomberg and IMF calculations

EM Fund Flows

Weekly inflows into EM bond funds slowed to +\$680mn (from +\$1.8bn), while equity inflows fell sharply to +\$85mn (from +\$2.0bn) for the week ending August 29th. Hard currency funds drew +\$280mn, their sixth straight week of inflows, though well below the prior +\$1.3bn. Local currency funds added +\$400mn, also their sixth consecutive week. EM equity ETFs brought in +\$367mn, offset by -\$281mn from non-ETFs. Regionally, Asia ex-Japan saw -\$92mn of outflows (from +\$1.6bn). YTD, EM bond and equity flows total +\$6.9bn and -\$5.4bn, respectively.

Figure 1: Weekly cross-asset flows

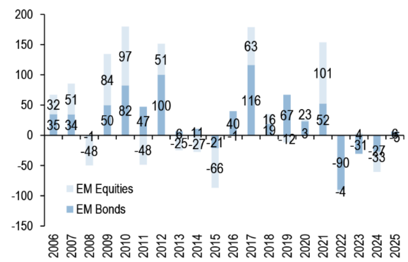
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		0.8	0.7
EM Bonds		0.7	6.0
Hard Ccy		0.3	-0.7
Local Ccy^		0.4	6.7
o.w. EM ex-China		0.4	4.9
o.w. China		0.0	-1.7
EM Equities		0.1	-5.4
US HG		7.4	126.6
US HY		-0.7	18.5
Global Equities		10.5	11.1
EM Bond and Equity ETFs		0.5	38.9
EM Bond ETFs		0.1	-0.3
EM Equity ETFs		0.4	39.2
Non-resident EM flows*		-0.5	-14.3

Fund Flows

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.

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Global Financial Indicators

9/2/25 8:20 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		6,416	-0.6	-0.4	2.9	13.6	9
Europe		5,314	-1.0	-1.3	2.9	6.9	9
Japan		42,310	0.3	-0.2	3.7	9.4	6
China		4,490	-0.7	0.9	10.7	37.2	14
Asia Ex Japan		86	-0.5	-1.5	3.6	17.6	19
Emerging Markets		50	-0.5	-1.5	3.4	15.0	19
Interest Rates					basis points		
US 10y Yield		4.3	7	3	8	39	-27
Germany 10y Yield		2.8	5	7	12	46	43
Japan 10y Yield		1.6	-1	-1	6	71	52
UK 10y Yield		4.8	7	8	29	76	25
Credit Spreads					basis points		
US Investment Grade		123	1	4	-1	-10	3
US High Yield		337	-1	4	-19	-27	9
Exchange Rates					%		
USD/Majors		98.3	0.6	-0.1	-0.8	-3.3	-9
EUR/USD		1.16	-0.7	-0.1	0.5	5.1	12
USD/JPY		148.9	1.1	1.0	1.2	1.3	-5
EM/USD		45.6	-0.3	-0.4	0.3	-0.4	7
Commodities					%		
Brent Crude Oil ($/barrel)		69.3	1.7	3.9	0.8	-6.0	-4
Industrials Metals (index)		142.3	-0.2	0.3	2.0	-1.6	1
Agriculture (index)		55.1	-1.1	-1.2	3.6	1.2	-3
Gold ($/ounce)		3483.6	0.2	2.7	3.3	39.4	33
Bitcoin ($/coin)		109400.2	0.5	-2.3	-3.0	85.4	17
Implied Volatility					%		
VIX Index (%, change in pp)		18.3	2.1	3.5	-2.1	2.7	0.9
Global FX Volatility		7.7	0.0	0.1	-0.3	-0.8	-1.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		71	2	3	3	-31	-14
Italy		89	3	5	5	-55	-27
France		81	2	3	14	10	-2
Spain		62	1	2	3	-19	-8

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

Emerging Market Financial Indicators

Last updated: 9/2/2025 8:21 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		7.15	-0.1	0.1	0.5	-0.4	2.2		1.8	-1	1	7	-26	15
Indonesia		16400	0.1	-0.6	-0.1	-5.3	-1.8		6.3	4	3	-21	-32	-70
India		88	0.0	-0.5	-0.6	-4.8	-2.9		6.9	1	4	24	-17	-43
Philippines		58	-0.5	-0.8	-0.3	-2.0	0.6		4.7	0	1	-2	-30	-13
Thailand		32	-0.2	0.3	0.2	5.6	5.3		1.4	-2	-1	-22	-120	-93
Malaysia		4.23	-0.1	-0.3	0.2	3.0	5.7		3.4	0	1	-1	-38	-43
Argentina		1376	-2.3	-1.4	-0.9	-30.8	-25.1		45.0	-166	-306	914	328	1581
Brazil		5.47	-0.5	-0.7	0.6	2.7	13.0		13.8	-1	-5	-18	166	-211
Chile		969	-0.2	-0.4	0.0	-5.3	2.7		5.4	0	2	2	-3	-25
Colombia		4017	0.0	0.2	2.8	3.7	9.7		11.6	6	9	-20	153	-19
Mexico		18.79	-0.8	-0.7	0.6	5.5	10.8		8.9	-2	-7	-29	-91	-144
Peru		3.5	-0.1	0.0	1.3	6.6	5.8		6.2	######	-6	-25	#VALUE!	-40
Uruguay		40	0.1	-0.1	0.4	0.7	9.9		8.0	0	12	-35	-158	-166
Hungary		340	-0.8	0.0	1.4	4.3	16.9		6.8	1	7	2	67	34
Poland		3.67	-0.7	-0.2	0.8	5.2	12.7		4.9	-2	9	5	-18	-66
Romania		4.4	-0.8	-0.5	0.4	2.9	10.0		7.4	2	4	19	93	14
Russia		81.0	-0.3	-0.6	-1.5	10.8	40.2							
South Africa		17.7	-0.6	-0.6	1.1	0.6	6.3		10.0	-3	2	0	-65	-52
Türkiye		41.16	-0.1	-0.3	-1.2	-17.7	-14.1		31.6	13	-14	-19	263	185
US (DXY; 5y UST)		98	0.6	-0.1	-0.8	-3.3	-9.3		3.76	6	2	0	6	-62

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4,490	-0.7	0.9	10.7	37.2	14.1		113	4	8	-38	17
Indonesia		7,802	0.8	-1.3	3.5	2.4	10.2		85	1	-6	-17	-6
India		80,158	-0.3	-1.8	-0.5	-2.9	2.6		92	3	-1	-21	6
Philippines		6,129	-0.2	-0.3	-2.8	-11.0	-6.1		70	-2	-8	-20	-9
Thailand		1,249	0.3	-0.2	2.5	-8.5	-10.8						
Malaysia		1,577	0.1	-1.6	2.8	-6.0	-4.0		65	2	-5	-24	-5
Argentina		1,939,743	-2.3	-4.1	-14.9	10.5	-23.4		838	62	103	-612	201
Brazil		141,283	-0.1	2.4	6.7	4.7	17.5		201	-3	-12	-20	-46
Chile		8,922	0.3	1.1	9.3	38.2	33.0		103	-1	-4	-18	-10
Colombia		1,843	-0.2	-0.7	5.2	36.0	33.6		280	-5	-25	-37	-46
Mexico		58,865	0.3	0.6	3.5	12.1	18.9		239	-1	-17	-84	-73
Peru		34,938	0.3	1.9	5.3	21.6	20.6		103	-1	-16	-41	-38
Hungary		103,614	-0.1	-1.5	3.1	42.3	30.6		140	2	-12	-13	-15
Poland		103,216	-0.7	-4.9	-2.3	19.7	29.7		99	2	-1	-8	-13
Romania		20,277	-0.3	-1.7	0.7	12.0	21.3		213	4	3	13	-22
South Africa		101,037	-0.8	-1.4	3.4	21.0	20.1		288	1	-5	-10	-5
Türkiye		11,291	0.1	-2.1	5.1	11.7	14.9		277	3	-7	-23	18
EM total		50	-0.7	-1.5	3.4	15.0	19.2		354	9	-3	-53	-10

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

back to top