



- Mortgage Backed Security (MBS) spreads tighten on US bond purchase announcement ([link](#))
- Yen stabilized after fresh verbal intervention ([link](#))
- The US Treasury-Futures basis trade has grown by nearly 75% since 2019 ([link](#))
- US bond market volatility is close to historic lows ([link](#))
- Chinese ETF outflows cap market gains ([link](#))
- Naira steady as inflation moderates in Nigeria ([link](#))
- Latin American currencies expected to strengthen due to high local interest rates ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Global Markets Take a Step Back to Consolidate Gains

Many equity markets around the world took a step back after a strong start to the year, although US equity index futures were higher and pointed to a first ever close above 7000 for the S&P 500. Technology stocks were a key driver of the January rally so far, especially in Asia, where the MSCI Asia Pacific IT index hit a new record high yesterday after the key Philadelphia semiconductor index also set a new record. However, the global rally has been quite broad based, with lagging sectors such as small cap stocks and basic material equities also doing well. Stocks in Germany, the UK, and Japan have made multiple new highs already this year, along with the US and Korea, among many others. US Treasury yields held steady this morning, but euro area government bond yields ticked higher. JGB yields continued to rise even as verbal intervention stabilized the yen. Oil prices were slightly higher while gold and silver were slightly lower.

Key Global Financial Indicators

Last updated: 1/16/26 7:49 AM	Level		Change from Market Close					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities								
S&P 500		6944	0.3	0	2	17		1
Eurostoxx 50		6016	-0.4	0	5	18		4
Nikkei 225		53936	-0.3	6	9	40		7
MSCI EM		58	0.6	2	10	39		6
Yields and Spreads								
US 10y Yield		4.19	1.8	2	4	-43		2
Germany 10y Yield		2.84	2.4	-2	0	30		-1
EMBIG Sovereign Spread		250	-5	-3	-3	-72		-3
FX / Commodities / Volatility								
EM FX vs. USD, (+) = appreciation		46.8	0.0	0	1	9		1
Dollar index, (+) = \$ appreciation		99.2	-0.1	0	1	-9		1
Brent Crude Oil (\$/barrel)		64.7	1.4	2	10	-20		6
VIX Index (%, change in pp)		15.7	-0.1	1	-1	-1		1

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

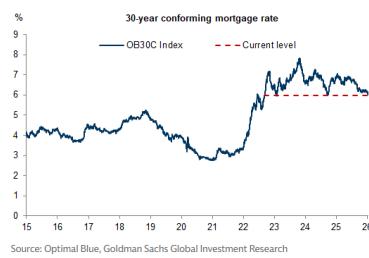
Mature Markets

[back to top](#)

United States

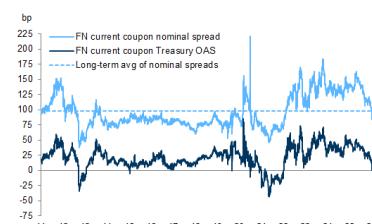
The announcement from the US authorities that the mortgage Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac were to purchase \$200 bn in agency MBS has led to a 15 bps decline in MBS spreads to Treasuries and a reduction in the average 30-year mortgage interest rate. The 30-year conforming mortgage rate is back down at 6%, the lowest since September 2022. Analysts at Goldman think that the 80 bps decline in the mortgage rate since June 2025 could boost confidence going into the all-important spring home buying season, when a large proportion of annual home sales are completed. The analysts estimate that home sales could increase by 5–7% as a result of the announcement. They also estimate that the announcement has been fully priced into the market and that if the announcement is a one-off deal, no further improvement is likely. However, the government could increase the size of the buying program, or direct new Fed leadership to reinvest its MBS proceeds (coupons, prepayments, and maturities) into new MBS purchases. These measures could lead to a further improvement in housing market sentiment.

Exhibit 1: Mortgage rates are close to the lowest levels since September 2022



Source: Optimal Blue, Goldman Sachs Global Investment Research

Exhibit 2: Spreads are currently fair to tight, and any further tightening is unlikely unless new policy announcements are made



Source: Yield Book, Goldman Sachs Global Investment Research

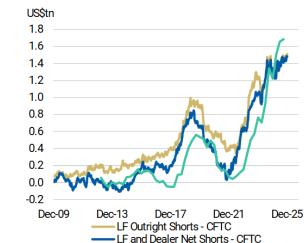
The Treasury-Futures basis trade has grown by nearly 75% since 2019 to size of \$1.5 tn, according to estimates by Morgan Stanley, with the potential to significantly destabilize financial markets in the event of a sudden unwind. The basis is the difference in pricing between the cash bond and the equivalent Treasury futures contract, and the trade involves going long cash Treasury bonds and short the equivalent maturity Treasury futures contract. The trade will make money if the futures are overpriced relative to the cash bonds. The opposite will hold true if the cash bonds are overpriced relative to the futures, in which the trade involves going long futures and going short the cash bonds. Morgan Stanley's estimate of the trade size is based on the net Treasury futures position of levered funds and dealers. In March 2020, the Covid shock sparked a major unwind of the Treasury-Futures basis trade, causing yields to surge as market participants dumped Treasuries to raise cash, forcing the Fed to step in with massive Treasury purchases to stabilize the market. A smaller but still significant episode occurred in 2019 when problems in the repo market disrupted the basis trade (repo markets are a key component of the basis trade because market participants use it to finance Treasury purchases). Hedge funds are the biggest players in the basis trade, and their often highly leveraged positions can pose major risks to financial stability.

Exhibit 1: Estimates at 2019 peak vs. today

	2019 Peak	Current	% Chg
LF Outright Shorts	\$0.97tr	\$1.51tr	+55%
LF and Dealer Net Shorts	\$0.85tr	\$1.48tr	+74%
Net Repo	\$0.56tr	\$1.69tr	+202%

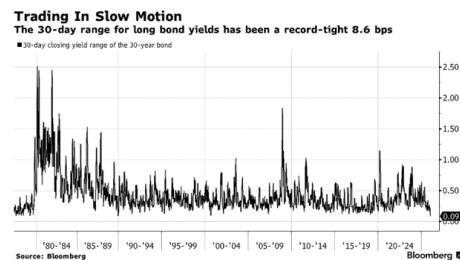
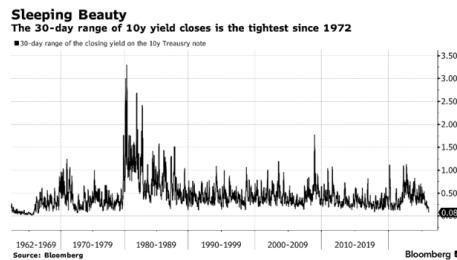
Source: CFTC, OFR, Bloomberg, Morgan Stanley Research

Exhibit 2: Estimates of the size of the basis trade using public data



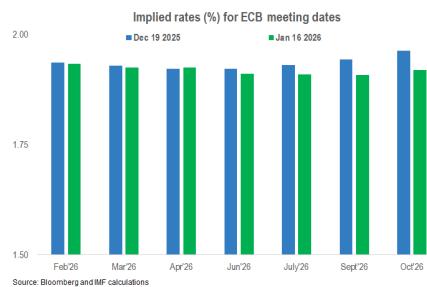
Source: CFTC, OFR, Bloomberg, Morgan Stanley Research

Volatility in the US Treasury market is close to historic lows. The MOVE index of Treasury market volatility is down to its lowest level since October 2021. However, the level of the MOVE index underestimates how low Treasury volatility actually is. According to Bloomberg, the 30-day trading range of the 10-year Treasury note is the tightest since 1972 at just 8 bps (the range is 4.11–4.19% as of yesterday's close). For the long bond, the range is at its tightest ever at just 8.6 bps. This presents a dilemma to market participants because low volatility coexists with an outlook for markets that remains extremely uncertain. From worries about Fed independence to the pace of future rate hikes, and from the outlook on inflation to the potential impact of tariffs, the level of uncertainty seems very extreme, especially when the geopolitical situation also presents major risks. The worry is that low volatility is like a tightly coiled spring, requiring only a small surprise to unleash a highly destabilizing shock for markets.



Euro Area

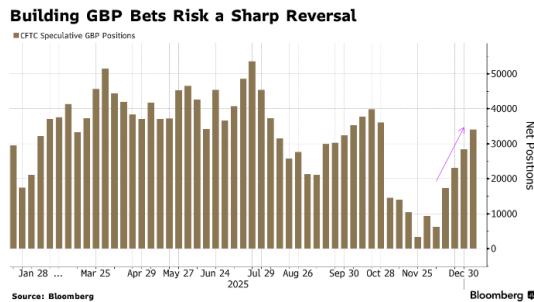
European equities were trading little changed in early morning trade. The Stoxx 600 was (+0.1%) higher while regional bourses were mostly trading lower. France's CAC 40 (-0.3%) and 10Y French OATs were underperforming the German DAX (-0.1%) and bunds on the budget impasse. **Some analysts expect the ECB to begin discussing rate hikes by the end of this year.** Credit Agricole analysts expect the ECB to maintain its policy rate at 2.0% throughout the course of this year but they expect policymakers to start discussing rate hikes by the end of the year when updated ECB projections could show an acceleration in core inflation that would exceed the target rate over the forecast horizon. The analysts forecast the first +25bp rate hike to take place in March 2027 with a second in Q3 2027 followed by a possible cut in 2028. Money market pricing currently expects the ECB to remain on hold for 2026 having priced in small possibilities of rate hikes towards the end of the last year.



United Kingdom

Key UK data releases next week could test stretched investor positioning in pound sterling. According to Bloomberg data, speculative positioning in pound sterling could leave the currency vulnerable should next week's inflation data suggest that the BoE has more room to ease borrowing costs. CTFC data shows speculative investors have built up bullish positions in sterling, which could quickly reverse if data show a continued slowing in price growth which would boost the case for a rate cut and cause the pound to depreciate. As a result, investors are expected to closely scrutinize next week's inflation and labor market data. Bloomberg data shows that in contrast to 2025 UK gilts have started the year outperforming global peers. Should next week's data point to a weaker economy and boost easing expectations, gilts are

expected to extend their outperformance. This morning UK gilt yields were trading slightly higher across the curve with the 10Y yield at 4.39%, although the yield is around 9bp lower YTD. Pound sterling was trading +0.2% firmer against the dollar at 1.3410 while UK equities continue to trade at record highs and are up 3.3% YTD.

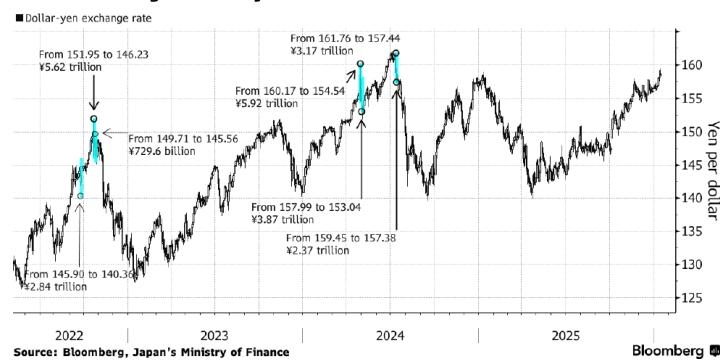


Japan

The yen stabilized following fresh verbal interventions. The yen halted its depreciation and settled at ¥158.20 (+0.3%) following renewed threats of official intervention. FM Katayama reiterated her warning on Friday that “all different measures,” including direct currency intervention are available for addressing yen weakness. Traders noted that her comments are made ahead of a long weekend in the US—a period seemingly preferred by the authorities for market intervention. However, traders also noted that exceptionally low yen volatility suggests limited expectations for actual intervention in the near term. The one-week volatility pricing on USD/JPY is around 7.50%, almost 200 bps below the 5-year average; it thus implies expectations for the yen to settle somewhere between ¥156.54/\$ and ¥159.86/\$, or a swing of no more than about 1% over the period. Meanwhile, **Japan's largest opposition party and a former ruling coalition partner announced a merger**, which could potentially derail PM Takaichi's plan for a snap election and by extension, the “Takaichi Trade.” The Nikkei ended the day 0.3% lower.

Japan Has Previously Tried to Limit Weakness in Yen

Yen's low and high on the day and intervention amount



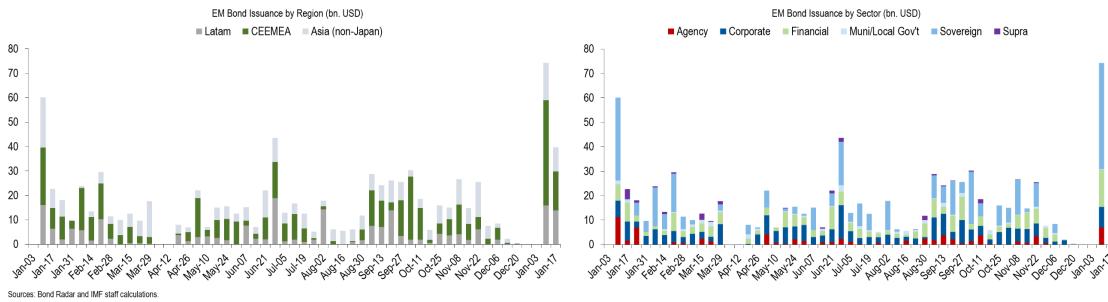
Emerging Markets

[back to top](#)

EMEA equities were mixed, while currencies traded mostly lower after yesterday's US jobless claims surprised to the upside. **Asian equities were mostly higher, boosted by Taiwan Semiconductor Manufacturing's positive earnings that revived investor optimism in the AI sector.** Taiwan (+1.9%) and Korean (+1.0) bourses reached their record highs. **Latin American markets were mixed**, with Colombia (+1%) outperforming as equities rose, while Chile (-1%) and Mexico (-1%) both slipped and Brazil notching modest gains. In FX, price action was more constructive, led by a firmer Mexican peso (+0.8%) and small gains in the Brazilian real, while the Colombian and Chilean pesos eased slightly.

EM Bond Issuance

EM bond issuance reached \$39.69 bn in the week of January 16, up 75% from the same week last year and lifting YTD supply to \$114 bn. Sovereigns led volumes at \$14.28 bn, with new sales from five countries: Mexico (+\$5.5 bn), Colombia (+\$4.9 bn), Indonesia (+\$2.7 bn), and North Macedonia (+1.1 bn). Remaining issuance came in from corporates and financials. Regionally, CEEMEA accounted for the largest share, followed by LatAm and Asia (ex-Japan).



Latin American Currencies

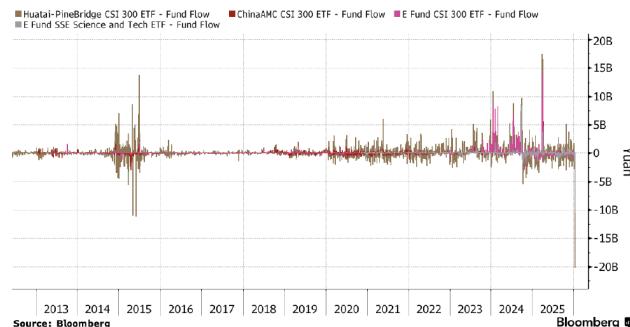
The Brazilian real and Chilean peso are expected to be supported in the first half of 2026 as still-hawkish policymakers keep carry demand attractive through wide rate differentials, according to analysts at Standard Chartered. This builds on a strong 2025 performance, with the real up 13% and the peso gaining 11%, and early 2026 leadership remains concentrated in the region with four of the five best performing EM currencies coming from LatAm. Gains may be less broad-based, however, if resilient US growth keeps the dollar supported. In Chile, relatively cheap valuations and cautious positioning leave room for further upside if domestic investors rebuild exposure.



China

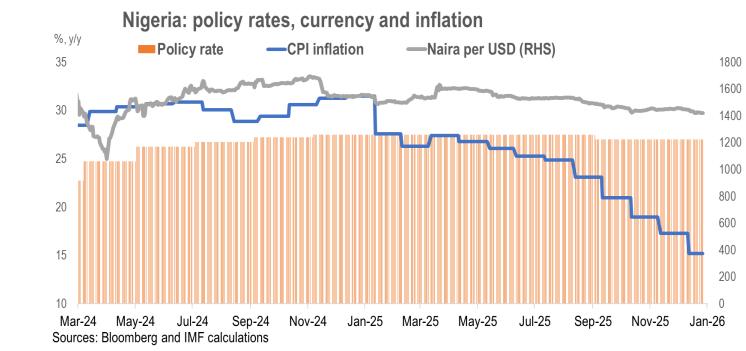
Chinese equities weakened amid record outflows from ETFs. Several ETFs rumored to be heavily owned by the “national team”—a group of state-backed institutional investors—saw record outflows on Thursday, suggesting official efforts to dampen equity market rallies and leverage. The Huatai-Pinebridge CSI 300 ETF saw a record outflow of RMB 20.2 bn (\$2.9 bn) on Thursday, the most since the fund’s inception in 2012, according to Bloomberg. Outflows in other funds, such as the E Fund CSI 300 ETF and ChinaAMC CSI 300 ETF, also reached record highs. In total, by Bloomberg’s estimate, the national team sold about \$10 bn worth of ETFs on Thursday. Earlier in the week, equity market turnover had reached a record high while margin loans rose sizably, boosted by market gains. The authorities had subsequently raised margin requirements for the major bourses from 80% to 100% to dampen excessive leverage. The CSI 300 ended the day modestly weaker (-0.4%) though it remains near its highest level in 4 years.

China's National Team ETFs See Record Outflows



Nigeria

Yesterday's data showed **inflation in December at 15.15% y/y in Nigeria after a change of the methodology for its computation**, from 14.5% in November under the old one. The naira edged higher (0.1%) this morning, to trade at around NGN1419.95/\$ (0.2% on the dollar since Wednesday), with domestic government bond yields marginally higher on the front-end (the 2y yield added 2bps at 17.33% while 5y and 10y yields were little changed at 17.34% and 16.78%). **Bloomberg** sees the revised methodology closer to economic fundamentals and notes that the central bank (CBN) continues to target 13% inflation in 2026 after the change. **JP Morgan estimates that under the new series inflation fell in December from a higher 17.3% figure in November** and expects it to temporarily rebound to 20% in January on base effects before gradually returning toward 15% by end-2026. JP Morgan point to strong carry as the 1y yield on CNB's Open Market Operations (OMO) bills hovers at around 22% implying real rates above 5%, that supports the naira despite oil price volatility; it expects modest appreciation of the currency toward 1400/\$ and the CBN to further cut by 50bps its policy rate (currently at 27%) in May with cumulative easing of about 300bps in 2026.



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Global Financial Indicators

1/16/26 7:50 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
United States	6,944	0.3	0.3	2.1	17.0	1	
Europe	6,016	-0.4	0.3	5.2	17.8	4	
Japan	53,936	-0.3	5.5	8.9	40.3	7	
China	4,732	-0.4	-0.6	3.6	24.1	2	
Asia Ex Japan	99	0.7	2.1	10.3	39.2	7	
Emerging Markets	58	0.6	2.1	9.6	39.1	6	
Interest Rates							
basis points							
US 10y Yield	4.2	2	2	4	-43	2	
Germany 10y Yield	2.8	2	-2	0	30	-1	
Japan 10y Yield	2.2	3	9	23	98	12	
UK 10y Yield	4.4	2	3	-11	-27	-7	
Credit Spreads							
basis points							
US Investment Grade	104	-1	-5	-9	-15	-4	
US High Yield	317	-6	-9	-27	12	-19	
Exchange Rates							
%							
USD/Majors	99.2	-0.1	0.1	1.1	-8.9	1	
EUR/USD	1.16	0.1	-0.2	-1.1	12.8	-1	
USD/JPY	158.2	-0.3	0.2	2.2	1.9	1	
EM/USD	46.8	0.0	0.4	1.2	9.2	1	
Commodities							
%							
Brent Crude Oil (\$/barrel)	64.7	1.4	2.1	10.2	-11.3	6	
Industrials Metals (index)	170.7	-1.8	0.5	11.0	16.4	4	
Agriculture (index)	53.5	0.5	-1.3	-0.4	-6.7	0	
Gold (\$/ounce)	4603.7	-0.3	2.1	7.0	69.6	7	
Bitcoin (\$/coin)	95386.6	-0.2	5.3	8.7	-4.7	9	
Implied Volatility							
%							
VIX Index (%), change in pp	15.7	-0.1	1.2	-0.8	-0.9	0.8	
Global FX Volatility	6.7	0.0	0.2	0.0	-2.3	-0.2	
EA Sovereign Spreads							
10-Year spread vs. Germany (bps)							
Greece	50	-1	1	-8	-27	-9	
Italy	63	0	-1	-7	48	-7	
France	68	1	2	-2	-11	-3	
Spain	39	0	0	-5	-25	-4	

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

Emerging Market Financial Indicators

1/16/2026 7:51 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	6.97	0.0	0.1	1.1	5.2	0.3		1.9	0	-3	0	27	0		
Indonesia	16887	0.1	-0.4	-1.2	-3.0	-1.2		6.1	0	8	1	-109	8		
India	91	-0.6	-0.8	0.2	-4.8	-1.1		7.3	4	14	10	2	22		
Philippines	59	0.2	-0.2	-1.0	-1.3	-0.7		4.8	4	4	10	-34	9		
Thailand	31	-0.2	-0.3	-0.1	9.8	0.1		1.9	-1	3	6	-59	13		
Malaysia	4.06	0.0	0.4	0.7	11.0	0.0		3.5	-3	-1	-6	-31	1		
Argentina	1442	0.8	1.5	-0.3	-27.8	0.6		33.2	45	-5	360	945	84		
Brazil	5.38	-0.1	-0.2	1.7	12.6	2.2		13.5	2	5	6	-162	-11		
Chile	886	-0.3	0.9	3.2	14.3	1.7		5.2	0	0	-5	-61	-10		
Colombia	3685	0.0	1.2	3.9	16.8	2.4		12.1	-22	-59	-29	54	-74		
Mexico	17.68	-0.1	1.7	1.7	17.9	1.9		8.9	3	9	-16	-137	-9		
Peru	3.4	0.0	0.1	0.3	12.0	0.1		6.0	0	4	21	-68	17		
Uruguay	39	0.2	1.0	1.3	14.2	1.5		7.3	-1	-8	-36	-234	-18		
Hungary	332	0.0	-0.1	-1.1	20.7	-1.4		6.5	2	1	-23	-20	-8		
Poland	3.64	-0.3	-0.5	-1.5	13.8	-1.4		4.5	-1	-4	-22	-120	-9		
Romania	4.4	0.0	-0.2	-1.1	10.2	-1.1		6.5	0	-1	-27	-120	-15		
Russia	77.8	0.3	1.5	1.7	33.3	1.3									
South Africa	16.4	-0.3	0.6	2.3	14.9	1.1		8.7	-3	-10	-14	-199	5		
Türkiye	43.28	-0.1	-0.5	-1.3	-18.1	-0.7		30.0	-18	30	-126	119	36		
US (DXY; 5y UST)	99	-0.1	0.1	1.1	-8.9	0.9		3.78	2	3	9	-61	6		
	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	4,732	-0.4	-0.6	3.6	24.1	2.2		73	-3	-4	-20	-2			
Indonesia	9,075	0.0	1.7	5.4	26.8	5.0		91	3	6	-10	5			
India	83,570	0.2	-0.7	-1.6	9.1	-1.9		77	-15	-14	-12	-13			
Philippines	6,465	-0.4	1.8	9.2	1.8	6.8		77	-2	4	-16	2			
Thailand	1,276	1.1	1.7	1.9	-4.9	1.3									
Malaysia	1,713	-0.1	1.6	2.8	9.3	1.9		61	2	4	-13	2			
Argentina	2,926,727	-0.8	-4.8	-3.5	11.3	-4.1		577	-5	-21	-27	8			
Brazil	165,568	0.3	1.6	4.4	36.6	2.8		198	-6	-1	-32	-5			
Chile	11,049	-1.2	1.1	8.4	58.8	5.4		95	-1	7	-24	4			
Colombia	2,287	1.1	4.6	10.4	64.0	10.6		264	-15	-13	-49	-13			
Mexico	66,649	-1.1	1.7	5.4	33.4	3.6		221	2	9	-85	4			
Peru	3,096	1.4	9.6	21.7	72.6	19.8		112	1	18	-28	3			
Hungary	121,636	0.8	4.4	10.8	44.6	9.6		141	-1	-2	-19	2			
Poland	121,897	-0.4	0.3	6.7	47.4	4.0		93	-1	5	-22	2			
Romania	27,305	0.8	6.1	13.2	60.5	11.7		178	-7	-4	-78	2			
South Africa	120,526	-0.3	2.0	6.8	44.1	4.1		232	1	13	-61	14			
Türkiye	12,592	1.1	3.2	11.0	27.6	11.8		246	-4	8	-22	12			
EM total	58	-0.4	2.1	9.6	39.1	6.2		265	-2	-2	-95	-7			

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

[back to top](#)