GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JULY 10, 2026

LEAD EDITOR: TIMOTHY CHU

- **Japanese yen and JGBs rally after pension funds encouraged to invest more at home** (link)
- **Banxico's June policy meeting minutes suggest a prolonged pause** (link)
- **Peru central bank kept policy rate unchanged as expected** (link)
- **National Bank of Poland also holds the policy rate unchanged** (link)
- **China nears local-debt cleanup milestone and yuan strengthens** (link)
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Markets Fade Geopolitical Risk to Cap Tumultuous Week

Despite the return of meaningful geopolitical risk, global markets have largely faded headline news to end the week. Markets reacted sharply to reported attacks on shipping in the Strait of Hormuz and subsequent US retaliatory strikes on Iran, with Brent briefly reaching $80/bbl, near-term inflation expectations rising, risk assets selling off, advanced-economy sovereign yields climbing up to 15bps intraday, and the dollar extending its monthly gains. As fears of a broader escalation eased, oil fell back to around ~$77/bbl, yields partially retraced, and risk assets broadly rallied. The dollar finishes mostly flat on the week, with the yen outperforming overnight after supportive comments from the Japanese Finance Minister. Overall uncertainty remains nonetheless over whether the June MoU will hold and yields remain somewhat higher. Elsewhere, positive tech news and a light data calendar helped lift equity markets, with the Philly Semiconductor Index and KOSPI both trending higher following new Micron spending plans and SK Hynix's record-breaking US listing. Meanwhile, the FOMC minutes reinforced market perceptions of a hawkish Fed, while the ECB minutes similarly reflected concerns around inflation and second-round effects.

Key Global Financial Indicators

Last updated: 7/10/26 7:51 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		7544	0.8	1	4	20	10
Eurostoxx 50		6269	-0.2	-2	4	15	8
Nikkei 225		68558	1.2	-2	4	73	36
MSCI EM		67	0.8	0	3	38	22
Yields and Spreads					bps		
US 10y Yield		4.54	-0.8	6	-1	19	38
Germany 10y Yield		3.08	-0.8	14	0	37	22
EMBIG Sovereign Spread		236	-1	-2	-1	-74	-17
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.8	-0.1	0	-1	2	0
Dollar index, (+) = $ appreciation		100.9	0.0	0	1	3	3
Brent Crude Oil ($/barrel)		76.8	0.7	7	-17	12	26
VIX Index (%, change in pp)		16.0	0.1	0	-6	0	1

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

Last updated: 7/10/26 7:51 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Oil and Gas					%		%
Brent Crude Oil ($/barrel)		77	0.7	7	-17	12	26
WTI Crude Oil ($/barrel)		72	0.6	6	-19	9	26
Natural Gas (Netherlands TTF)		49	-1	8	-2	39	82
Breakeven Inflation		%			bps		
USD: 2Y		2.4	0.1	6	-40	-51	7
USD: 5Y		2.4	0.5	6	-12	-17	9
USD: 5Y5Y		2.4	0	2	-2	-14	-8
EUR: 2Y		2.2	-1.2	15	-42	47	48
EUR: 5Y		2.1	-1	8	-21	25	30
EUR: 5Y5Y		2.1	0	3	-4	0	5

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

Mature Markets

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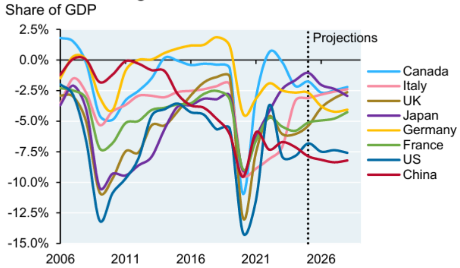
United States

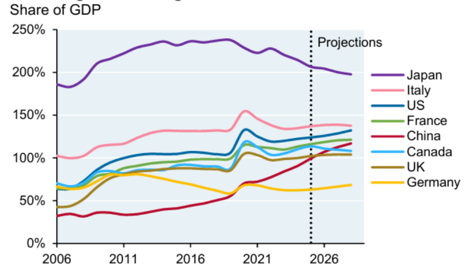
The US dollar's status as a reserve currency remains intact, according to analysis by JP Morgan. Many have cited a rising budget deficit and debt to GDP ratio, and geopolitical considerations such as sanctions, as reasons for other countries to switch away from the dollar. The dollar weakened by 10% on a trade weighted basis after the 2024 US election, but that was from a level where the dollar was its strongest level since the global financial crisis. JP Morgan compares the move to tactical realignment rather than a Plaza Accord level move. However, other potential candidates such China look no better from a gross debt perspective, and the yuan is not fully convertible in the foreign exchange market.

Government budget deficits
Share of GDP



Source: IMF, JPMAM, 2025. Includes federal, state and local government

General government gross debt
Share of GDP



Source: IMF, JPMAM, 2025. Includes federal, state and local government

Multiple measures that track the dollar's importance as a reserve currency have remained remarkably stable over the tumultuous decade of the 2020s. IMF data show that the 3 percent decline in dollar FX reserves since December 2020 has been spread across several other currencies, including the Swedish krona, Korean won, Singapore dollar, and Norwegian krone. FX reserve shares for the euro, yen, sterling, and Chinese renminbi have declined much more significantly over the same period.

Reserve currency tracker: US$ share of debt, FX, reserves and trade

Dollar share of:	2020	2021	2022	2023	2024	2025	2026	Latest as of date	Source	Next release date
Cross-border loans	52%	54%	52%	53%	52%	51%	-	Q4 2025	ECB	June 2027
Intl. debt securities	50%	52%	53%	51%	53%	51%	-	Q4 2025	ECB	June 2027
FX transaction volume	-	-	88%	-	-	89%	-	Apr 2025	BIS	April 2028
Official FX reserves	60%	59%	59%	59%	59%	57%	-	Q4 2025	IMF	Q3 2026
Exports invoicing	41%	42%	43%	42%	-	42%	-	Jun 2025	ECB	Unknown
SWIFT payments	39%	41%	42%	48%	49%	49%	51%	Apr 2026	SWIFT	June 2026

Source: BIS, ECB, IMF, SWIFT, JPMAM. 2026

Fed balance sheet reduction could put upward pressure on interest rates. The new Fed Chair has expressed a preference for a smaller Fed balance sheet. Barclays estimates that the Fed's longer-maturity Treasury and mortgage-backed security (MBS) holdings are suppressing the term premium—the premium demanded by investors to own longer-term debt versus short-term debt, or TP—by approximately 60 bps. A reduction in these holdings could increase the term premium and push interest rates higher. The Fed could reduce that impact by reinvesting coupon payments, MBS prepayments, and bond maturities in T-bills, which would shorten the duration, or interest rate sensitivity, of its portfolio holdings. It would also better match the Fed's assets and liabilities. However, in the long run, rising budget deficits and funding needs are likely to result in greater issuance of longer-maturity notes and bonds by the US Treasury, renewing upward pressure on interest rates.

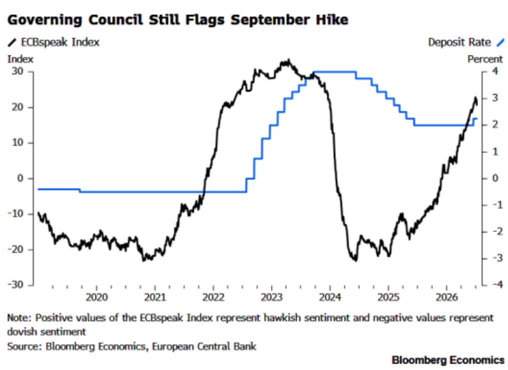
Figure 2. Why is the Fed balance sheet so large?

$bn	Level (07/01/26)		
Total Assets	**6,776**	**Liabilities**	**6,776**
Securities	6,443	Currency in Circulation	2,475
T-Bills	489	Total Reverse Repo	338
Treasury Notes & Bonds	3,612	TGA	807
TIPS	283	Reserves	3,077
MBS	1,948	Other	78
Other	111		
Other	333		

Source: Federal Reserve, Barclays Research

Euro area

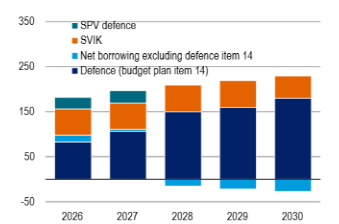
European markets entered Friday in recovery mode after a tumultuous week. While tensions in the Strait of Hormuz remain fundamentally unresolved, Brent traded lower (-0.7%) just below $76/bbl and sovereign yields marginally declined this morning. Risk assets traded sideways. The STOXX Europe 600 index showed a small decline after yesterday's recovery (+0.8% on Thursday). Yesterday's ECB minutes showed policymakers leaning toward another 25bps rate hike, likely in September, Bloomberg writes.



Germany

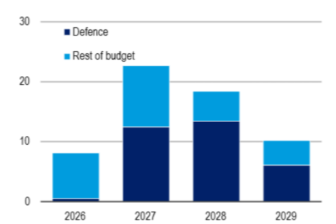
Revised German budget plans point to persistent fiscal slippage, Bank of America writes. Borrowing is increasingly being shifted through off-budget special funds for infrastructure and defense, while weaker cyclical growth mechanically creates more borrowing room under Germany's debt-brake rules. Even so, the core budget position has worsened relative to earlier plans, a €22 billion gap remains for 2028, and corrective measures have largely been pushed into later years. Net borrowing across the federal budget and off-budget funds is set to rise to €204 billion in 2027. Borrowing needs for 2027–29 are now cumulatively €51 billion higher than projected a year ago. SVIK is Germany's €500 billion off-budget infrastructure and climate investment fund, whose borrowing is exempt from the regular debt-brake limits.

Exhibit 6: Germany's net borrowing needs are a function of defence and infrastructure ramp up (although the definitions are very broad)
Draft 2027 and medium term budget plan - net borrowing needs (EURbn)



Source: BofA Global Research, Federal Finance Ministry
BofA GLOBAL RESEARCH

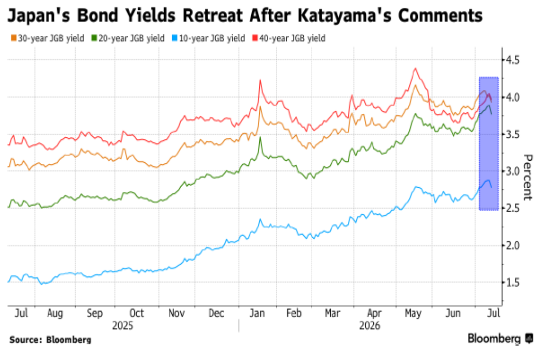
Exhibit 7: The deterioration in net borrowing needs for 2026-29 vs last summer's plans are due to defence spending, but also cyclical slippage
Increase in net borrowing needs vs the 2026 and mediuim term budget plan released last year (EURbn)

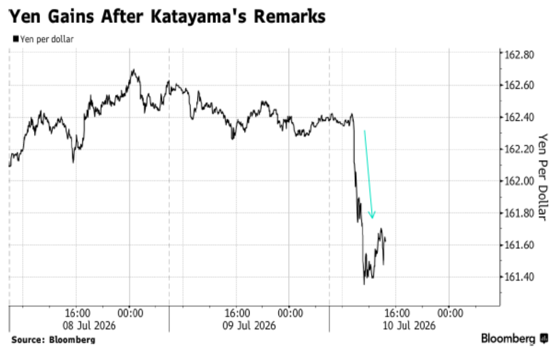


Source: BofA Global Research, Federal Finance Ministry
BofA GLOBAL RESEARCH

Japan

Japan's yen and government bonds rallied after Finance Minister Satsuki Katayama said the government would encourage households and pension funds, including the GPIF, to increase investment in domestic financial assets. The comments surprised markets and were interpreted as supportive of domestic assets, as a larger home bias by pension funds could increase demand for JGBs and reduce structural selling pressure on the yen. However, market analysts cautioned that sustained yen gains would likely require clearer policy follow-through, and any GPIF allocation changes would take time under the fund's established review process. JGB yields fell sharply across the curve, with the 10-year yield down 10.2 bps to 2.76% and super-long yields also lower, including the 30yr yield, which fell 9.1 bps to 3.9%. The yen strengthened by 0.5% against the US dollar. Japanese equities also rose, with the Nikkei up 1.3% and the Topix up 0.5%, supported by the broader regional technology-led rally and the prospect of stronger domestic-asset demand. Separately, producer-price inflation rose to 7.1% y/y in June, the fastest pace since early 2023, reinforcing market expectations that the BOJ will continue gradual rate hikes. Katayama also reiterated that monetary policy should be handled by the Bank of Japan, helping address recent market concerns over central bank independence.





Emerging Markets

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EMEA equity markets were broadly trading in the green in early morning trade, with Poland (+1.2%) and Türkiye (+1.7%) outperforming. CEE currencies were mixed against the euro; the forint outperformed (+0.2%) while the Polish zloty weakened (-0.4%). Markets in the Gulf region were largely closed (Friday) but UAE stocks advanced by 0.4%. On the monetary policy front, the Central Bank of Egypt kept its policy rate unchanged at 19.0%.

EM Asia currencies strengthened (EM Asia: +0.2%), supported by a softer US dollar and improved regional risk sentiment. Regional equities also rose in most markets (EM Asia: +1.0%), led by Korea (KOSPI: +2.5%). The gains were supported by renewed optimism over AI-driven semiconductor demand and stabilization in technology shares following SK Hynix's successful US listing, while lower oil prices from recent highs also helped restore investor confidence. In rates, 10yr government bond yields decreased broadly across EM Asia.

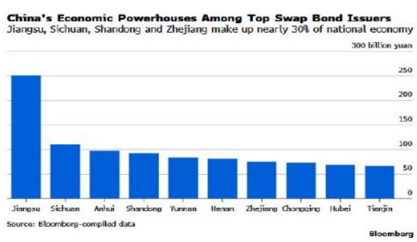
Regional LATAM markets rebounded as investors reassessed the geopolitical situation in the Middle East. Currencies mostly gained, led by a rebound in the Colombian Peso (+1.48%). Local equities were mix, with Brazil's BOVESPA index posting gains +1.22% while Colombia's COLCAP index and Mexico's MEXBOL index declined -1.38% and -0.75% respectively. Local bond yields declined marginally, led by 10yr Brazil and Mexico yields falling -7 bps and -6 bps, respectively.

China

One policy focus in China remains managing local-government debt risks while preserving room

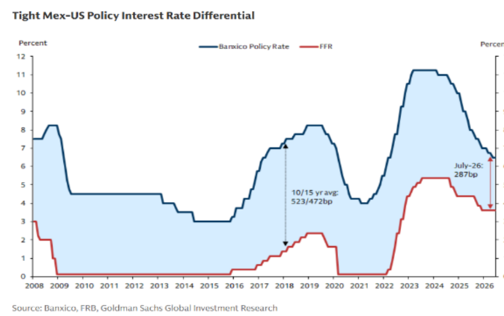
for growth-supportive fiscal spending. Bloomberg reported that provinces, led by the economic powerhouses, had issued about 94% of the RMB 6 trillion ($885 billion) hidden-debt swap quota by end-June, after raising more than RMB 1.62 trillion ($239 billion) in the first half of 2026, suggesting that the debt-cleanup phase is nearing completion and could allow local governments to redirect more attention to growth-supportive infrastructure issuance. However, tighter scrutiny of projects, heavy underlying fiscal burdens, and weak land-sale revenue are likely to constrain any renewed debt-fueled spending. Separately, regulators reportedly asked bankers to avoid underwriting new LGFV bonds with maturities below two years, a step aimed at curbing short-term refinancing by weaker issuers.

Separately, **the yuan strengthened** (CNY: +0.2%) to 6.78/$ alongside broader dollar weakness after the PBOC set the daily fixing below 6.80/$ for the first time since 2023, with market participants viewing the fixing as a signal that policymakers are comfortable with gradual currency strength.



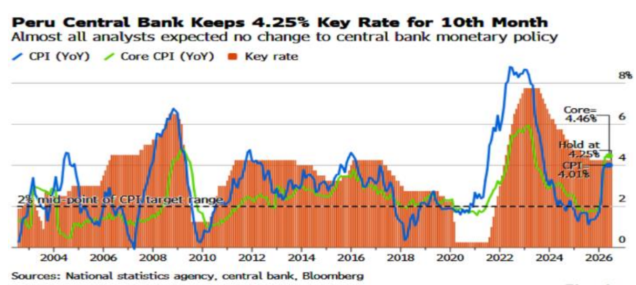
Mexico

Banxico's June policy meeting minutes suggest a prolonged pause. Banxico's June meeting minutes revealed that most board members remained concerned about persistent services inflation and upside inflation risks stemming from developments in the Middle East. The emphasis on inflation suggests that additional near-term rate cuts are unlikely. Bloomberg analysts argued that the minutes' cautious tone supports the peso's carry appeal by reinforcing expectations that its attractive real yield advantage will be preserved. Meanwhile, Goldman Sachs analysts observed a "slight" dovish tilt, suggesting that the bar for resuming policy easing may not be high, particularly if economic growth continues to weaken, although the firm still expects Banxico to keep rates unchanged through year-end. The analysts also noted that narrower interest rate differentials with the US could complicate policy in the event of renewed Fed tightening but do not expect Banxico to shadow the Fed absent significant FX pressures.



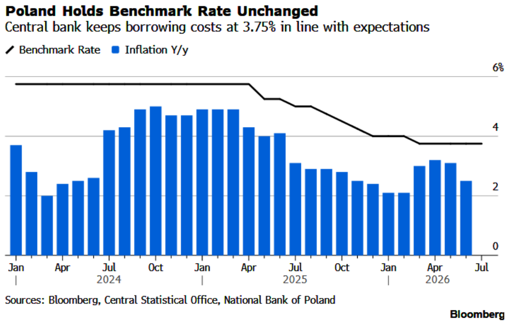
Peru

The Peruvian central bank maintained the policy rate at 4.25% as expected by all 12 analysts surveyed by Bloomberg. Policymakers acknowledged that headline inflation has remained above the upper end of the 1 to 3% target range since March, rising to 4.01% y/y in June on higher food prices and recent global energy shocks, while core inflation also edged up to +4.41% y/y, reaching the highest levels since 2023. However, the central bank continues to view the increase as temporary and expects inflation to gradually converge towards its target as transitory pressures ease. Authorities are also monitoring upside risks from a potentially strong El Niño weather event in the coming months, which could disrupt agricultural production and consequently food prices.



Poland

The National Bank of Poland held rates unchanged but guided toward a cut in September. At yesterday's press conference following Wednesday's policy decision, JPMorgan analysts described Governor Glapinski as striking a dovish tone, suggesting that the MPC could move toward a rate cut as early as September. Updated projections point to a pickup in inflation over the coming quarters, although within the central bank's tolerance band, with the Governor remarking that he may put forward a motion for a 25bps cut after the summer break and expects a cut before mid-2027. Despite these remarks, JPMorgan analysts expect the National Bank of Poland (NBP) to remain on hold, citing still-elevated core inflation, which averaged 3.0% y/y in 2Q26. Next week's publication of the July inflation report, alongside the full June CPI data, will be an important input for the market's assessment of the policy rate path.



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Global Financial Indicators

Last updated: 7/10/26 7:50 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		7,544	0.8	0.8	3.8	20.1	10
Europe		6,269	-0.2	-2.2	4.3	15.3	8
Japan		68,558	1.2	-1.7	3.8	73.3	36
China		4,781	-2.0	-1.3	0.1	19.1	3
Asia Ex Japan		116	0.9	0.4	3.6	40.3	25
Emerging Markets		67	0.8	0.5	3.3	37.9	22
Interest Rates				basis points			
US 10y Yield		4.5	-1	6	-1	19	38
Germany 10y Yield		3.1	-1	14	0	37	22
Japan 10y Yield		2.7	-13	-4	5	124	68
UK 10y Yield		4.9	-1	11	-4	30	41
Credit Spreads				basis points			
US Investment Grade		115	0	1	7	-13	7
US High Yield		302	1	-5	-15	-34	-34
Exchange Rates				%			
USD/Majors		100.9	0.0	0.0	0.9	3.3	3
EUR/USD		1.14	0.0	-0.1	-0.9	-2.3	-3
USD/JPY		161.9	-0.3	0.3	0.8	10.7	3
EM/USD		46.8	-0.1	0.1	-0.7	1.5	0
Commodities				%			
Brent Crude Oil ($/barrel)		76.9	0.7	6.6	-16.0	16.9	28
Industrials Metals (index)		172.9	-0.5	1.9	-3.3	11.7	6
Agriculture (index)		57.5	-1.3	3.8	5.8	5.9	8
Gold ($/ounce)		4106.4	-0.4	-1.7	0.8	23.5	-5
Bitcoin ($/coin)		64414.6	1.8	2.8	4.3	-43.3	-27
Implied Volatility				%			
VIX Index (%, change in pp)		16.0	0.1	-0.2	-6.3	0.2	1.0
Global FX Volatility		6.3	0.0	-0.1	-0.5	-1.9	-0.6
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		66	0	-2	-7	-3	7
Italy		75	-1	-3	-3	-11	5
France		77	0	-2	0	8	6
Spain		45	0	-4	0	-17	1

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

Emerging Market Financial Indicators

7/10/2026 7:50 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		6.78	0.2	0.0	0.0	5.9	3.1		1.8	0	-1	-1	11	-13
Korea*		1505	0.2	1.7	1.1	-8.8	-4.3		4.4	0	8	10	162	107
Indonesia		18055	0.2	-0.6	-0.6	-10.2	-7.6		7.2	-2	8	-3	69	121
India		95	0.1	-0.1	-0.1	-10.2	-5.7		7.7	-1	-1	8	94	62
Philippines		62	0.2	-0.1	-0.1	-8.2	-4.4		6.0	1	4	-10	120	136
Thailand		33	0.3	-0.6	-1.3	-1.9	-5.4		2.1	2	-3	-23	47	38
Malaysia		4.07	0.1	0.0	-0.1	4.3	-0.3		3.6	0	1	2	20	12
Argentina		1488	0.3	0.1	-2.8	-15.7	-2.4		0.0	0	0	0	-3269	-3237
Brazil		5.12	0.7	1.7	1.1	8.9	7.0		14.5	0	-3	-39	66	93
Chile		928	0.5	-0.2	-1.2	2.4	-3.0		5.4	0	5	-10	-4	7
Colombia		3291	1.5	2.2	8.5	21.8	14.8		12.0	-6	17	-74	0	-90
Mexico		17.52	0.2	-0.3	-0.5	6.2	2.8		9.0	-7	-2	-10	-28	-3
Peru		3.4	0.3	0.1	-0.2	4.5	-1.0		6.1	-2	4	10	-29	34
Uruguay		40	0.2	0.0	0.8	0.6	-3.2		7.4	-1	-6	-6	-126	-10
Hungary		312	0.3	-0.8	-0.8	9.4	5.0		5.2	0	14	-24	-150	-137
Poland		3.80	-0.4	-1.4	-3.1	-4.4	-5.6		4.7	-10	6	-51	-18	14
Romania		4.6	0.0	-0.2	-0.9	-5.3	-5.4		6.6	1	5	-11	-52	-5
Russia		76.6	-0.4	0.7	-6.2	-3.2	2.9							
South Africa		16.3	0.1	-0.5	1.6	8.8	1.5		8.7	3	10	-24	-154	9
Türkiye		46.99	-0.2	-0.4	-1.8	-14.7	-8.6		34.8	-2	111	-94	306	517
US (DXY; 5y UST)		101	0.0	0.0	0.9	3.3	2.6		4.28	-1	5	0	34	55

	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		4,781	-2.0	-1.3	0.1	19.1	3.3		87	-1	6	-20	12
Korea*		7,476	2.5	-7.6	-8.0	135.4	77.4		22	0	-1	-3	0
Indonesia		5,924	0.2	0.8	-1.4	-15.9	-31.5		106	-2	-1	13	20
India		77,569	0.2	-0.3	2.7	-6.0	-9.0		69	-25	-15	-29	-21
Philippines		6,287	1.0	1.6	6.4	-2.7	3.9		87	-4	-2	6	12
Thailand		1,622	0.8	0.6	1.8	44.6	28.7						
Malaysia		1,691	0.8	0.7	0.5	10.1	0.7		52	-2	3	-22	-7
Argentina		3,202,490	-0.7	2.6	-4.5	59.5	4.9		412	-10	-93	-288	-157
Brazil		172,742	1.2	0.0	2.4	26.3	7.2		183	-1	-3	-27	-20
Chile		11,025	0.7	2.1	5.5	32.1	5.2		85	-2	-6	-26	-6
Colombia		2,293	-0.9	-0.1	1.3	36.2	10.9		201	-1	-10	-120	-76
Mexico		66,107	-0.8	-1.4	2.0	16.5	2.8		202	1	2	-61	-15
Peru		3,309	3.3	0.4	5.8	69.3	28.1		88	-3	-1	-31	-21
Hungary		142,520	-0.1	-0.4	7.8	42.5	28.4		106	-1	-3	-48	-33
Poland		141,772	1.7	1.9	5.6	35.1	20.9		91	2	-1	-12	0
Romania		34,093	0.2	0.0	13.7	80.5	39.5		178	-4	-1	-38	2
South Africa		109,839	0.3	-1.5	0.2	12.8	-5.2		198	-7	-7	-104	-20
Türkiye		14,219	0.8	-1.4	3.5	37.6	26.3		251	-2	-10	-43	17
EM total		67	0.1	0.5	3.3	37.9	22.1		265	-1	5	-96	-6

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

*Not an EM Under IMF Classification.

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