



- **US rate option markets price increasing risks of renewed tightening** ([link](#))
- **MBS convexity may be amplifying pressure on long-end US Treasury yields** ([link](#))
- **UK gilt yields experience their largest weekly drop since 2024** ([link](#))
- **Japanese inflation softens more than expected, supporting JGBs** ([link](#))
- **EM bond issuance rebounds to \$22.6 bn last week as Indonesia and Morocco anchor activity** ([link](#))
- **China cracks down on illegal cross-border security activities** ([link](#))
- **Political developments weigh on local markets in Türkiye** ([link](#))

[Mature Markets](#) | [Emerging Markets](#) | [Market Tables](#)

Markets Close the Week on a Positive Note

The S&P 500 index was heading this morning for its longest streak of weekly wins since 2023 as hopes that the US and Iran are closer to a peace deal and continued optimism for AI pushed equities higher. US equity futures signaled a positive opening this morning, with the S&P 500 index on track for an eight straight week of gains as markets appeared to shrug off concerns that more disruptions of energy supply could stoke inflation. Brent futures rebounded +1.9% but remained lower for the week. US Treasury and euro-area government bond yields ended the week lower, while UK gilt yields experienced their largest weekly drop since 2024 on Labour leadership frontrunner Burnham’s pledge to stick to fiscal rules. The rally has pushed 10-year UK gilt yields -25 bps lower this week to 4.92%. This upbeat tone, however, is not shared by everyone in financial markets. US rate option markets are pricing increasing risks of renewed tightening, with SOFR options implying around a 30% probability of 100 bps hikes by end-2027. Elsewhere, Korea’s finance ministry and the Bank of Korea said in a joint text message that authorities would “take decisive actions if necessary” to stabilize the currency. The Korean won depreciated again this week, underperforming most Asian currencies.

Key Global Financial Indicators

Last updated: 5/22/26 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		7446	0.2	-1	4	27	9
Eurostoxx 50		6009	0.8	3	2	11	4
Nikkei 225		63339	2.7	3	6	70	26
MSCI EM		66	0.9	-2	4	43	21
Yields and Spreads			bps				
US 10y Yield		4.55	-2.0	-4	25	2	38
Germany 10y Yield		3.05	-4.9	-12	4	41	19
EMBIG Sovereign Spread		244	1	10	3	-77	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.5	0.0	1	0	4	2
Dollar index, (+) = \$ appreciation		99.3	0.1	0	1	-1	1
Brent Crude Oil (\$/barrel)		104.6	1.9	-4	3	62	72
VIX Index (% change in pp)		17.0	0.2	-1	-2	-3	2

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

Key Global Inflation and Energy Indicators

Last updated: 5/22/26 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Oil and Gas			%				%
Brent Crude Oil (\$/barrel)		105	1.9	-4	3	62	72
WTI Crude Oil (\$/barrel)		98	1.3	-7	5	60	70
Natural Gas (Netherlands TTF)		49	1	-3	12	33	82
Breakeven Inflation		%	bps				
USD: 2Y		2.9	0.6	-18	3	-2	60
USD: 5Y		2.7	1.0	-12	6	8	33
USD: 5Y5Y		2.4	-1	-4	3	-4	-2
EUR: 2Y		2.9	-3.5	-8	25	138	128
EUR: 5Y		2.4	-2	-8	14	67	65
EUR: 5Y5Y		2.2	0	-3	2	5	9

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

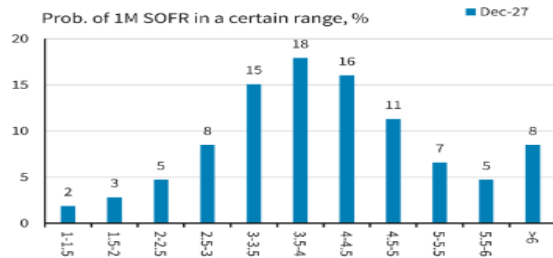
Mature Markets

[back to top](#)

United States

US rate option markets are pricing increasing risks of renewed tightening. SOFR options are implying around a 30% probability of 100 bps hikes by end-2027. Barclays noted that the current hawkish repricing is already sizeable relative to history. The spread between implied volatility in 2y1y (2-year option on 1-year swap) and 2y10y options is declining sharply. This suggests option markets have already embedded a substantial amount of tightening risk, even as most analysts continue to view current pricing as overly aggressive rather than a baseline expectation.

Figure 7. A 31% probability of more than 100bp of Fed hikes by end-2027 is already in the price



Source: Barclays Research

Figure 8. The vol difference between 2y10y and 2y1y is at the low end of historical ranges except for the very aggressive hiking cycle of 2022-2023

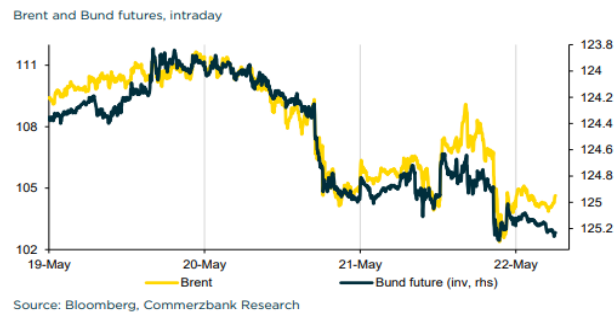
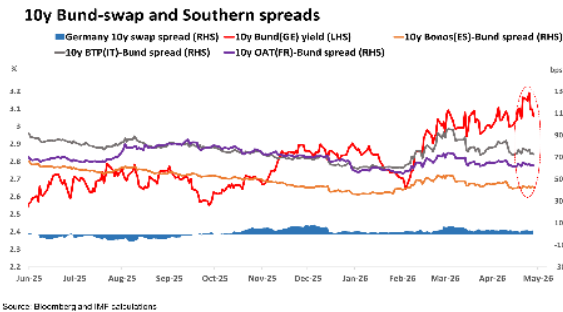


MBS convexity may be reinforcing pressure on longer-dated Treasury yields. As the selloff intensified in recent days, mortgage spreads widened alongside rates volatility, consistent with convexity-related hedging amplifying moves in rates. Barclays argues this channel may be more powerful than in previous selloffs because the mortgage market now contains a larger stock of recently originated higher-coupon mortgages that exhibit greater duration extension as yields rise. The effect may also be amplified by the investor mix, as a larger share of MBS is now held by duration-sensitive asset managers, increasing the likelihood of hedging activity once rates move beyond recent ranges.

Euro area

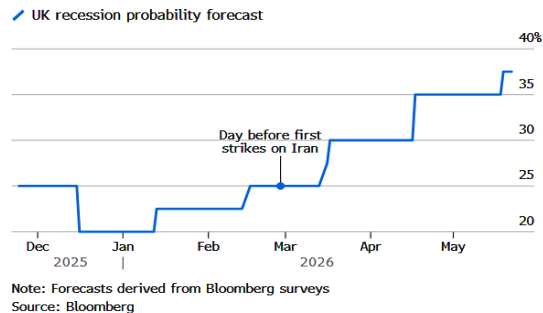
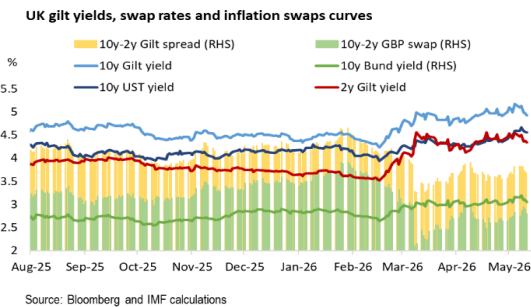
European equities continued to advance this morning and were poised to close the week 3% higher. The Stoxx 600 index was up +0.6%, led by strong gains (+2.5%) in the technology sector, with all regional bourses in the green today. The euro was little changed to the dollar. **European government bonds (EGBs) regained some ground**, with 10-year bund yields 5 bps lower. Analysts at **Commerzbank** argued

that hopes that a deal can be achieved in the Middle East are keeping bunds supported ahead of the weekend, warning that setbacks could be along the way, as constructive comments come only from the US side. Commerzbank continues to believe that the ECB may act less aggressively on rates, as recent bearish bond dynamics are exacerbating the macro headwinds from higher oil prices, which could in turn reduce the bearish flattening bias in the yield curve. Today's **IFO survey for May showed slightly better results than anticipated** in Germany, with the expectations index inching up to 83.8 pts (vs. est. 83.5 pts, from 83.5pts in April). Intra-EMU spreads continued to ease marginally today, with the BTP-bund spread at 73 bps (-5 bps on the week) and OAT-Bund at 62 bps (-3 bps on the week). Rating actions will move into focus tonight with the review of Belgium (Fitch, A+/stable) and Portugal (Moody's, A3/stable). Analysts noted that Portugal might see an upward revision of its rating outlook, after S&P, Fitch and DBRS all raised their outlooks to positive in recent months, and given the overall strong fiscal performance of the country (10-year Portuguese government bonds were trading at a 37 bps spread vs bunds)



United Kingdom

Gilt yields fell this morning, with the 2-year yield at 4.32% (-4 bps) and the 10-year yield -5 bps lower at 4.92%. **UK gilt yields experienced their largest weekly drop since 2024** on Labour leadership frontrunner Burnham's pledge to stick to fiscal rules. The rally has pushed 10-year UK gilt yields -25 bps lower this week. Bank of England MPC member Taylor had a cautious tone when speaking today, as he argued that policy rates hikes are only warranted in the worst-case Iran scenario and that an "extended hold" may suffice if second-round effects remain contained. Also, he flagged elevated UK recession risks, confirmed by yesterday's disappointing PMIs, noting that external models see the probability of a recession in the UK at 40%, from between 20–30% before the conflict. Today's GfK survey showed an improvement of the consumer confidence index in May, which remains however in the negative territory at -23 pts (vs. est. -28pts) from -25 pts in April.

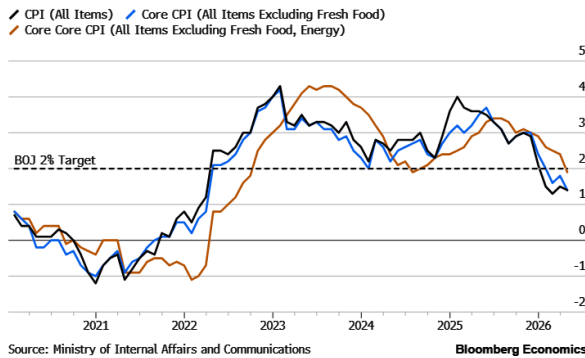


Japan

Japanese inflation softened more than expected in April, supporting JGBs. Both the headline and core (excl. fresh food) nationwide CPIs slowed to +1.4% y/y (consensus: +1.6% and +1.7%), while the core-core measure (excl. fresh food and energy) slowed to +1.9% y/y (consensus: +2.2%), attributable to base effects and policy-driven cost relief, including school lunch fees and fuel measures. While the softer

readings are mildly yen-negative and supportive for JGBs at the margin, underlying inflation momentum is seen as intact, particularly given prospective oil-price pass-through, keeping a June rate hike in play alongside recent hawkish BOJ signals. Today, the yen continued to hover around 159, closing Asian hours (-0.1%) at 159.12/\$, with traders remaining alert to intervention risk in thin holiday liquidity next Monday. Benchmark yields fell (2-year -1 bp to 1.41%; 10-year -1 bp to 2.74%; 30-year -4 bps to 3.97%), supported by comments from FM Katayama who downplayed the fiscal impact of a likely JPY3 tn (\$19 bn) supplementary budget and signaled efforts to limit new issuance. Equities advanced (Nikkei 225: +2.7%) to a new record high as AI-related stocks continued to rally.

Japan Inflation Gauges

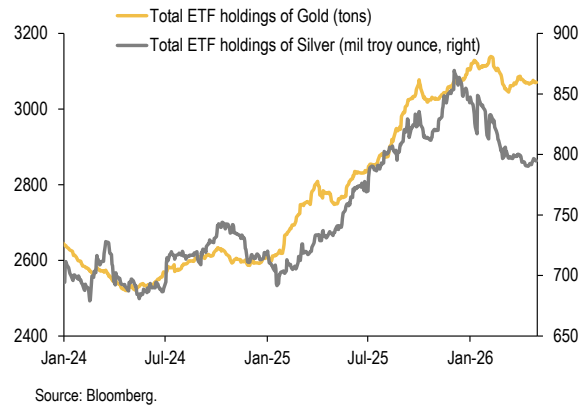
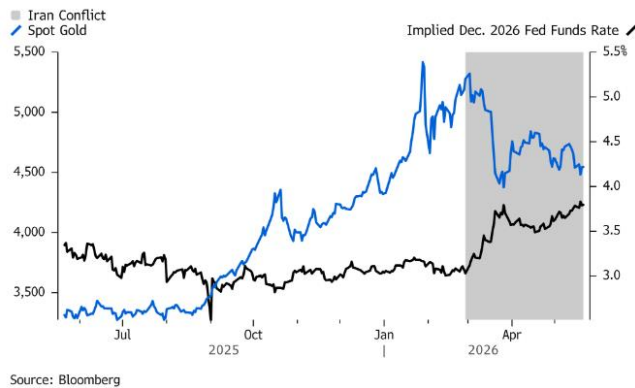


Sharp Rallies in the Yen



Commodities

Gold and broader precious metals have underperformed despite continued geopolitical uncertainty, as rising real yields and renewed dollar strength increasingly outweigh safe-haven demand. The weakness has extended beyond gold, with silver, platinum, and palladium also underperforming. Flow dynamics suggest investor participation remains subdued, with ETF holdings largely flat throughout the Iran conflict, though official sector demand for gold remains intact.



Emerging Markets

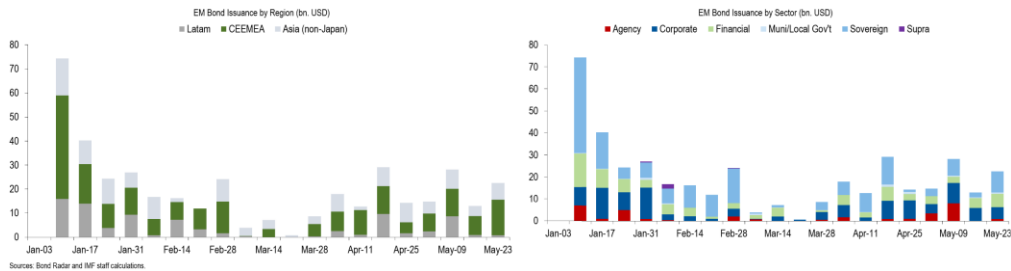
[back to top](#)

In **Asia**, currencies were mixed, with the Indian rupee continuing to strengthen (+0.5%) and Indonesian rupiah (-0.3%) underperforming. Asian equities rose, led by Taiwan POC (TAIEX: 2.2%) and China (CSI 300: +1.3%). In **EMEA**, equities were mostly trading higher while currencies were mixed. Equities in Poland were outperforming (+0.7%) while CEE currencies were mostly weaker to the euro. In **South Africa**, the rand was trading a touch weaker against the dollar at 16.48/\$ ahead of Moody's scheduled ratings review of the country. Absa analysts expect Moody's to leave South Africa's rating at Ba2 with a stable outlook. Elsewhere, according to Bloomberg, **Russia** announced that it plans to sell 10-year maturity Chinese yuan

denominated bonds. In **Latam**, equities were mixed yesterday, with Colombia (+0.6%) outperforming while Mexico fell (-0.7%). In FX, the Colombian peso (+1%) outperformed, while the Mexican peso, Chilean peso, and Brazilian real were little changed. **Banxico's** minutes flagged domestic demand deterioration and a cooling labor market in Mexico with two members dissenting in favor of a hold on inflation concerns. In **Argentina**, economic activity surged 3.5% m/m in March, vs 0.8% consensus. The index is now at a record high, posting a 5.5% y/y gain against a 2.1% median forecast. Markets reacted positively: local equities rose +3.2%, the peso appreciated, and 5-year sovereign CDS tightened 4 bps to 594 bps.

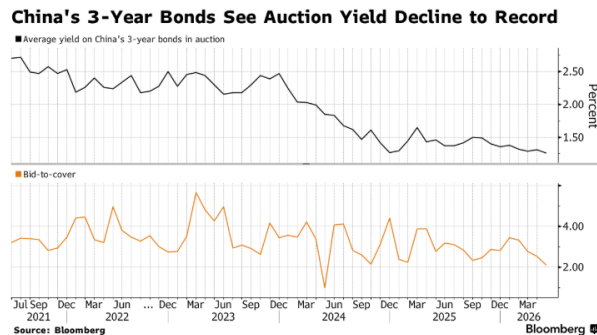
EM Weekly Issuance

EM bond issuance jumped to \$22.6 bn in the week ending May 22, above the prior week's \$12.9 bn and lifting supply to \$407.6 bn year-to-date. Sovereigns led issuance at \$9.5 bn. Indonesia raised the most, pricing \$3.4 bn across four tranches in dollar and euro markets spanning 2031–2038 maturities, with 5-year dollar yields at 5.1% and 10-year at 5.7%. Morocco added \$2.6 bn in two-euro tranches due 2034 and 2038. African high-yield sovereigns were also active, with Angola pricing \$1.5 bn across 2031 and 2037 maturities at 8.3–9.5%, while Congo raised \$828 mn due 2036 near 10%. Geographically, CEEMEA dominated at \$14.8 bn while LatAm was quiet at \$0.8 bn.



China

Money-market funding costs edged higher into month-end despite a sizable net injection by the People's Bank of China. Despite a net CNY 152.5 bn via open market operations on Friday, most since April 27, repo rates rose (overnight +3 bps to 1.32%; 7-day +3 bps to 1.36%) to levels above short government bond yields, reflecting month-end funding pressures. Today's 3-year sovereign bond auction was priced at a yield of 1.26% amid soft investor demand (bid-to-cover 2.1, lowest since May 2024). Onshore CNY strengthened (+0.1%) while offshore CNH was little changed, after yuan was fixed at 6.8349/\$, strongest level since Feb-2023.



Equities advanced today (CSI 300: +1.3%), but US-listed Chinese stocks declined in premarket trading after an announcement on regulatory crackdown on brokers. Bloomberg reported earlier today that the Shanghai and Shenzhen stock exchanges have intensified scrutiny of AI-linked rallies—pressing firms and funds on disclosures and valuation discipline. Later on Friday, the China Securities Regulatory Commission (CSRC) and seven other government bodies jointly issued a 2-year plan against illicit cross-

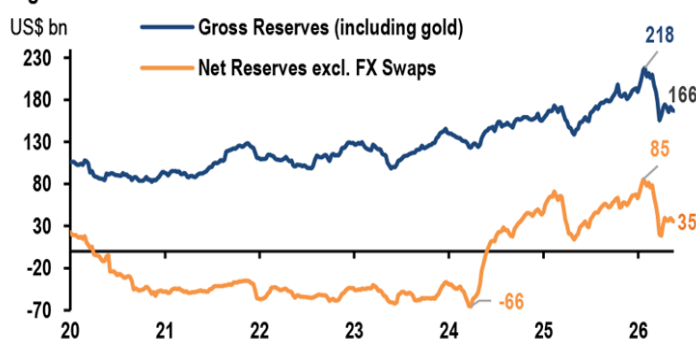
border securities, futures and fund trading, banning overseas institutions' marketing and account/trade facilitation for mainland clients and tightening checks on domestic intermediaries, platforms and banks that assist such operations—an escalation aimed at steering investors into regulated channels and limiting unauthorized capital outflows. The CSRC also issued a separate statement that it will penalize Futu, Up Fintech's Tiger Brokers and Longbridge Securities for operating on the mainland without a license. The move represents China's most forceful enforcement action against Chinese online brokerage in years.

Türkiye

Domestic political developments are weighing on local markets with analysts expecting further FX intervention. Reports yesterday that a Turkish appeals court has removed the main opposition leader Özgür Özel from office weighed on local markets. Although local equities rebounded +2.7% today, yesterday's ruling saw Turkish equities decline sharply with the Borsa Istanbul down 6%, triggering a market-wide circuit breaker. Turkish

government bond yields also rose sharply across the curve, with the 10-year local currency bond yield up a further +51 bps to 33.55% this morning. Türkiye's 5-year CDS also spiked higher by 20 bps to around 261 bps while the lira was around 0.3% weaker this morning. This morning Bloomberg reported that FM Simsek will convene the Financial Stability Committee with the aim of ensuring the "efficient, healthy and seamless function" of Turkish markets. On the back of the latest developments, JP Morgan analysts now expect the central bank to increase FX interventions to stem capital outflows and to hike rates. The central bank is expected to increase its one-week repo rate to 40% from 37% at the June 11 MPC meeting, or potentially earlier. According to JP Morgan, the central bank has already intervened heavily in FX markets to support the lira since the onset of the conflict in the Middle East with FX reserves declining by around \$50 bn from their peak.

Figure 2: CBRT's FX reserves



Source: CBRT, J.P. Morgan

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Global Financial Indicators

Last updated: 5/22/26 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		7,454	0.2	0.6	4.4	27.6	9
Europe		6,009	0.8	3.1	1.7	10.8	4
Japan		63,339	2.7	3.1	6.1	70.4	26
China		4,845	1.3	-0.3	1.6	24.8	5
Asia Ex Japan		114	0.9	-2.4	5.4	45.8	23
Emerging Markets		66	0.9	-2.0	4.2	43.4	21
Interest Rates			basis points				
US 10y Yield		4.6	-2	-4	25	2	38
Germany 10y Yield		3.0	-5	-12	4	41	19
Japan 10y Yield		2.8	-1	5	36	119	70
UK 10y Yield		4.9	-5	-25	1	17	44
Credit Spreads			basis points				
US Investment Grade		107	0	-2	-8	-29	0
US High Yield		319	2	-3	-9	-58	-18
Exchange Rates			%				
USD/Majors		99.3	0.1	0.1	0.8	-0.6	1
EUR/USD		1.16	-0.2	-0.3	-0.9	2.8	-1
USD/JPY		159.2	0.1	0.3	-0.2	10.5	2
EM/USD		47.5	0.0	0.6	0.0	4.3	2
Commodities			%				
Brent Crude Oil (\$/barrel)		104.6	1.9	-4.3	8.7	64.6	74
Industrials Metals (index)		184.4	0.4	1.3	1.8	29.6	13
Agriculture (index)		58.2	0.0	0.3	2.7	1.1	9
Gold (\$/ounce)		4521.6	-0.5	-0.4	-4.6	37.2	5
Bitcoin (\$/coin)		77360.4	-0.4	-1.1	-1.4	-30.4	-12
Implied Volatility			%				
VIX Index (% change in pp)		17.0	0.2	-1.5	-2.0	-3.3	2.0
Global FX Volatility		6.8	0.0	-0.1	-0.2	-2.1	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		68	-1	-5	-7	-8	9
Italy		73	-1	-5	-4	-28	3
France		62	-1	-3	-3	-6	-9
Spain		42	-1	-1	-3	-19	-1

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

Emerging Market Financial Indicators

5/22/2026 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (In %)					YTD	Level		Change (In basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M	YTD	
	vs. USD		(+)= EM appreciation						% p.a.						
China		6.80	0.1	0.2	0.5	6.0	2.8		1.8	0	-2	1	7	-11	
Korea*		1517	-0.6	-1.3	-2.4	-8.9	-4.8		4.2	0	15	59	152	86	
Indonesia		17717	-0.3	-0.7	-3.0	-7.8	-5.9		6.8	-3	13	30	7	77	
India		96	0.5	0.3	-2.0	-10.1	-6.1		8.1	-6	7	43	127	102	
Philippines		62	-0.2	0.0	-2.5	-9.9	-4.4		6.1	-3	9	69	113	142	
Thailand		33	-0.2	-0.1	-1.4	0.5	-3.6		2.4	-3	19	23	43	71	
Malaysia		3.97	-0.2	-0.3	-0.4	7.7	2.3		3.6	-5	-2	0	-3	5	
Argentina		1390	0.5	0.1	-1.1	-17.6	4.4		0.0	0	0	0	-3022	-3237	
Brazil		5.02	-0.2	0.8	-1.1	13.8	9.5		14.1	-5	-6	72	-7	54	
Chile		899	0.0	-0.5	-0.5	5.0	0.2		5.5	0	7	24	-6	21	
Colombia		3687	1.0	2.7	-2.9	13.3	2.4		14.3	-13	16	127	222	139	
Mexico		17.34	-0.2	0.0	0.0	11.4	3.9		9.3	4	14	37	-17	29	
Peru		3.4	0.1	0.4	0.8	7.9	-1.4		6.8	-1	-3	15	20	97	
Uruguay		40	0.2	0.4	-0.9	4.2	-2.0		7.5	0	3	6	-196	-6	
Hungary		310	-0.3	0.5	0.6	15.4	5.7		5.6	6	12	-31	-113	-96	
Poland		3.66	-0.2	-0.2	-0.9	3.0	-1.9		5.3	-2	6	40	28	78	
Romania		4.5	-0.3	-1.8	-3.9	-1.0	-4.3		6.8	1	14	-15	-66	15	
Russia		71.3	-0.1	2.4	5.3	12.1	10.5								
South Africa		16.5	-0.1	1.3	0.0	9.3	0.5		9.1	4	13	40	-163	52	
Türkiye		45.74	-0.3	-0.5	-1.8	-14.9	-6.1		36.3	25	162	334	285	670	
US (DXY; 5y UST)		99	0.1	0.1	0.8	-0.6	1.0		4.23	-2	-3	30	14	50	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
									basis points						
China		4,845	1.3	-0.3	1.6	24.8	4.6		85	-3	-9	-30	10		
Korea*		7,848	0.4	4.7	21.2	196.8	86.2		22	-2	-7	-8	0		
Indonesia		6,162	1.1	-8.3	-13.6	-14.6	-28.7		98	5	0	4	12		
India		75,415	1.1	0.2	-1.6	-7.7	-11.5		80	1	-12	-33	-10		
Philippines		5,961	0.7	-0.3	0.3	-7.0	-1.5		90	6	8	15	15		
Thailand		1,539	0.4	1.4	5.7	30.8	22.1								
Malaysia		1,713	0.3	-1.6	-0.4	11.5	1.9		44	0	-12	-35	-15		
Argentina		2,877,439	3.2	4.7	-0.7	24.3	-5.7		523	-12	-18	-145	-46		
Brazil		177,650	0.2	-0.4	-7.9	29.4	10.3		186	5	-3	-27	-17		
Chile		10,600	2.4	1.1	-3.7	26.7	1.1		91	4	3	-20	0		
Colombia		2,101	0.6	-1.0	-8.0	28.0	1.6		259	-1	28	-77	-18		
Mexico		68,384	-0.7	-1.2	-0.7	18.1	6.3		209	12	5	-78	-8		
Peru		3,227	2.6	-1.7	0.1	78.2	24.9		95	8	-5	-29	-14		
Hungary		129,977	-0.5	-1.3	-4.6	36.2	17.1		114	10	4	-36	-25		
Poland		134,668	1.0	2.5	1.5	33.6	14.9		96	11	7	-5	5		
Romania		30,708	-0.3	0.7	7.4	74.9	25.7		187	10	-1	-60	11		
South Africa		113,557	-0.4	-0.9	-3.8	21.9	-2.0		230	4	1	-73	12		
Türkiye		13,525	2.7	-7.6	-5.7	42.7	20.1		289	28	27	-2	55		
EM total		66	0.6	-2.0	4.2	43.4	20.7		259	13	5	-114	-12		

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

*Not an EM Under IMF Classification.

[back to top](#)