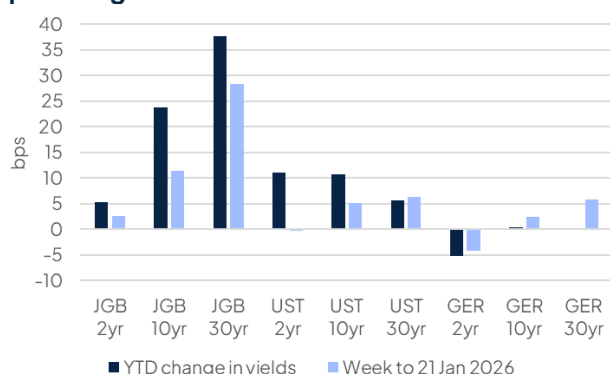


Limited pass through to Middle East from global bond sell off

21 January 2026 – Market Economics

Global bond markets have sunk this week as a rapid sell off in Japanese bonds spurred moves out of fixed income. Japan's prime minister Sanae Takaichi has announced a snap election for next month while her stimulus measures and plans to cut taxes have led to a spike in volatility in Japanese government bonds (JGBs) with yields on the longer-end of the Japanese sovereign curve surging: the 10yr JGB yield has now hit 2.296%, up 11bps in this week alone and almost 25bps since the start of the year while the 30yr JGB yield has risen 28bps since the start of the week and almost 40bps since the start of 2026.

Japanese government bonds lead sell off



Source: Bloomberg, Emirates NBD Research.

US Treasuries have also sold off this week in tandem with JGBs though with an added push from the geopolitical unease hanging on markets as US President Donald Trump continues to threaten European allies with tariffs for their resistance to his efforts to claim Greenland. The 10yr UST yield has risen 5bps this week to 4.276% as of 21 January 2026 and up almost 11bps since the start of the year. European bonds have also sold off though nowhere near the same degree.

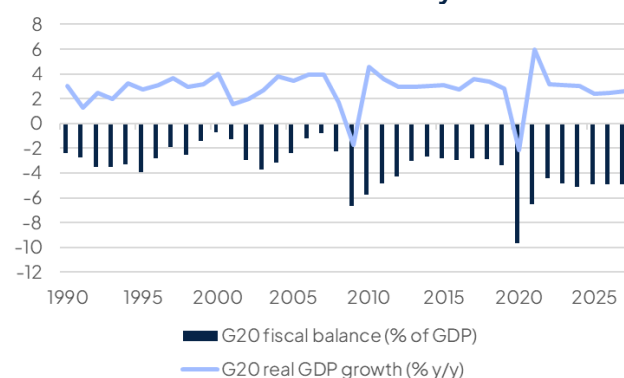
The price action this week highlights the danger of fiscal dominance: large government deficits and debt burdens that frustrate the ability of central banks to take policy actions to match inflation or growth dynamics in their respective economies.

Fiscal strains across major economies

The fiscal position of major economies has been strained for some time as the damage wrought by

the Global Financial Crisis in 2008-09 and the Covid-19 pandemic of 2020 left a lasting impact on government balance sheets. In the immediate aftermath of both of those economic crises, there were slow but positive reversals to wide fiscal gaps. But for 2026 and beyond, G-20 economies are set to run their widest fiscal deficits outside of a crises period with little uplift in growth to show for it.

Wide fiscal deficits in 2026 and beyond



Source: Bloomberg, Emirates NBD Research.

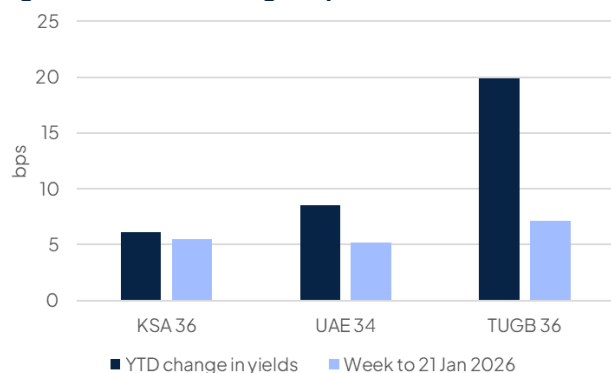
In the US, consensus expectations are for the fiscal deficit to run at more than 6% of GDP and public debt to hold above 100% of GDP for 2026 and move wider in subsequent years. Across nearly all major developed markets fiscal balances are set to deteriorate in 2026 either by moving into a wider deficit or smaller surplus. Emerging economies are due to perform a little better but few countries look to be in objectively good fiscal standing.

Regional bonds caught up in sell off

Regional bonds from the Middle East have also been caught up in the rout across sovereigns. Yields on USD 10yr Saudi government bonds (2036) rose almost 6bps overnight to 5.026%, 2034 UAE USD yields added 5bps to 4.385% while the 2036 Türkiye USD yields were up 7bps to 6.872%. A Bloomberg-compiled index of regional debt has sold off this week by about 0.5% and is down by around 0.7% since the start of the year.



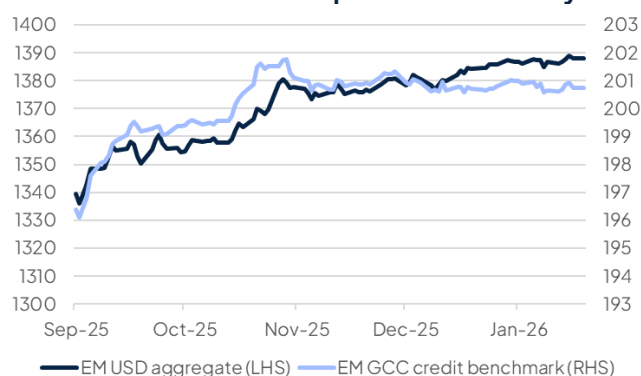
Regional markets caught up in bond rout



Source: Bloomberg, Emirates NBD Research.

Regional credit has underperformed so far in 2026 with a GCC-wide index down 0.4% year-to-date compared with a drop of 0.3% in the wider emerging market universe. At specific country levels the drop in bond prices has been worse: an index of Bahraini bonds (including sovereign, GRE and corporates) is down more than 0.5% since the start of the year.

GCC bonds relative underperformer recently



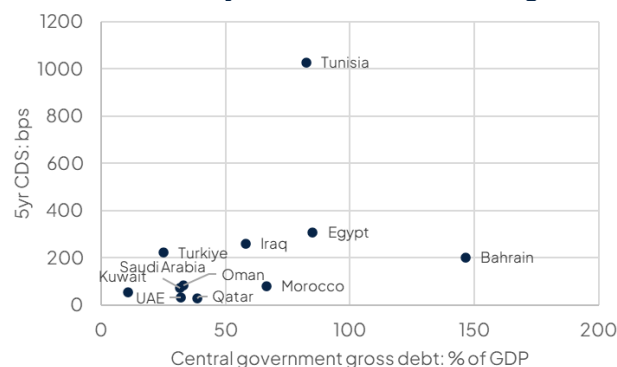
Source: Bloomberg, Emirates NBD Research.

Much of the drop in regional bonds this year is likely due to availability of supply thanks to a large issuance calendar in January so far. As of 21 January 2026, the GCC has issued a total of USD 28.4bn, 15% of the total issuance in 2025 and up from USD 21bn issued in the first three weeks of 2025.

But dip likely to be limited

However, we do not expect that the sell off in global government bonds will take hold materially across the large economies of the GCC or wider Middle East. Regional government debt levels in general are moderate: Saudi Arabia estimates its total debt to GDP at 33% as of 2025 while for Türkiye total government debt to GDP is roughly 25%.

Credit health in major economies remains good



Source: IMF Fiscal Monitor, Bloomberg, Emirates NBD Research.

There are some standouts in the region with high debt to GDP ratios such as Bahrain (c 150% of GDP according to IMF data). Global selling pressure on bonds will weigh more acutely on these markets but the economies with relatively high debt burdens are taking proactive measures to improve their fiscal position. Egypt is fulfilling its obligations under an IMF programme while Bahrain at the end of 2025 introduced measures to cut energy subsidies, implemented corporate income tax and will increase dividends from GREs.

For large GCC markets, as global market conditions normalize we would expect investors to seek out the relatively high yields on offer with strong credit ratings, helping to keep spreads near record lows.

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