Bank Dhofar Morning Market Update

Date: 18/05/26

Global Update

Global markets remain under sustained pressure as the Iran conflict continues to disrupt oil flows through the Strait of Hormuz, driving Brent crude above $110 and triggering a sharp repricing of inflation expectations across asset classes; this has led to a broad-based selloff in global bonds, with yields surging across the curve—particularly in long-dated Treasuries, where rates have climbed to multi-year highs—as investors demand greater compensation for persistent inflation risk rather than seeking traditional safe-haven exposure, marking a notable shift from typical geopolitical reactions; the surge in yields has tightened financial conditions globally, weighing on equity markets which are retreating from recent highs amid concerns that higher borrowing costs and prolonged policy tightening will slow growth, while the US dollar continues to strengthen on safe-haven demand and relative rate support; critically, money markets have rapidly adjusted expectations, moving away from previously anticipated rate cuts and increasingly pricing in the possibility of further tightening by major central banks, especially the Federal Reserve, as policymakers may be forced to respond to energy-driven inflation pressures despite growth risks; with no clear resolution to the geopolitical standoff and oil supply uncertainty persisting, markets are now navigating a stagflationary backdrop where elevated inflation, rising yields, and slowing growth dynamics are all reinforcing each other, making the bond market the central focus for global macro direction in the near term.

EUR/USD remains under sustained pressure, extending its decline toward the 1.1620–1.1615 zone and marking fresh multi-week lows as the pair continues to be weighed down by a combination of strong US dollar demand and cautious market sentiment; the Greenback is being supported by firm US inflation data, which has reinforced expectations that the Federal Reserve will maintain a restrictive policy stance and potentially tighten further, driving US Treasury yields higher and attracting capital flows into the dollar, while geopolitical tensions—particularly the ongoing US-Iran standoff and risks around the Strait of Hormuz—are amplifying safe-haven demand for the USD and adding to downward pressure on the pair; despite this, downside in the euro is being partially cushioned by growing expectations of a more hawkish ECB, with around 85% of economists in a Reuters poll anticipating a 25bp rate hike to 2.25% in June as policymakers respond to persistent inflation pressures driven largely by elevated energy prices, highlighting a narrowing policy divergence dynamic that could limit further losses in EUR/USD; however, in the near term, the dominant drivers remain USD strength and tightening financial conditions, suggesting that rallies in the pair may continue to face selling interest unless there is a meaningful shift in inflation trends, Fed expectations, or a de-escalation in geopolitical risks.

Source: Reuters, Bloomberg

Currencies

	Open	High	Low
EURUSD	1.1622	1.1629	1.1608
GBPUSD	1.3323	1.3327	1.3302
USDJPY	158.62	159.0700	158.54
USDINR	96.17	96.24	96.12
USDCNY	6.8121	6.8193	6.8121
USDCHF	0.7865	0.7878	0.7864
AUDUSD	0.7165	0.7169	0.7119
NZDUSD	0.5849	0.5851	0.5823

The dollar edged higher versus most major peers as rising global yields spurred a deterioration in risk sentiment. USD/JPY rises and nears 159 while AUD/USD falls toward 0.71. GBP/USD declines for a sixth day and approaches 1.33. EUR/USD edges lower but holds above 1.16.

Rates

	Last Price	Previous Day Close
O/N SOFR	3.560	3.560
1 month SOFR	3.613	3.613
3 month SOFR	3.641	3.641
6 months SOFR	3.683	3.683
12 month SOFR	3.786	3.786
3 years IRS	3.955	3.929
5 years IRS	3.999	3.970

The yield on the US Treasury's long-dated bond rose to the highest in almost three years as investor concern over accelerating inflation fueled a selloff in global debt. Japan's government bonds slid, extending a global selloff as rising oil fueled inflation fears and pushed yields to their highest levels in decades before this week's Group of Seven finance chiefs meeting.US 2-year yields are up 3bps to 4.10% while 10-year yields gain 4bps to 4.63%.

	Current Levels
CBO Repo Rate	4.25
O/N OMIBOR	4
***Bank Deposit Rates for 1 years**	4.45
Bank Deposit Rates for 5 years	4.00

*Amount>500k OMR

Global Markets

	Level	1-Day Change (%)	YTD (%)
S&P 500	7409	-1.236	8.22
Euro Stoxx 600	607	-1.482	2.49
ShanghaiComposite Index	4126	-0.219	3.97
MSX-30	7939	-0.265	35.32
NIFTY-50	23326	-1.342	-10.73
Brent Crude ($/bbl)	111.30	1.885	84.86
Gold ($/oz.)	4541	0.027	5.14
DXY	99	0.045	1.02
Silver($/oz.)	75	-0.754	5.24

Calendar

Key Data Watch	Time (GST)	Expected	Prior
New York Fed Services Business Activity	16:30		-14.0
NAHB Housing Market Index	18:00	34	34

For any Treasury related requirement, please contact:
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