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The Return of the Bond Vigilantes: Probability-Weighted Scenarios for G7 Sovereign Market Discipline

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The Return of the Bond Vigilantes: Probability-Weighted Scenarios for G7 Sovereign Market Discipline

Executive Summary

Global sovereign bond markets have entered a structural regime shift that creates the most favorable conditions for bond-vigilante discipline since the pre-quantitative-easing era. OECD sovereign bond issuance is projected to reach a record USD 17 trillion in 2025, up from USD 14 trillion in 2023, while central bank holdings of domestic sovereign bonds across OECD countries have fallen from 29% of total outstanding debt in 2021 to 19% in 2024 [1-2]. Foreign investors' share rose from 29% to 34% and households' share from 5% to 11% over the same period [1-2]. This rotation from price-insensitive to price-sensitive holders is the foundational condition for market discipline to reassert itself. The OECD's 2026 report further warns of sustained fiscal deficits, rising interest costs, a structural decline in long-term demand, and growing refinancing risks as the maturity of issuance shortens [1-3].

This report applies a stricter analytical threshold than a simple "yields up equals vigilantes back" framework. The IMF's April 2026 Fiscal Monitor models a comparable market-discipline channel as a decline in the convenience yield on government debt — a reduction in the value investors attach to the safety and liquidity services of sovereign bonds — combined with higher risk premia and impaired monetary-policy transmission [5-1]. Rising yields alone do not constitute a vigilante episode; the episode requires that market pressure meaningfully constrains fiscal or monetary policy. The BIS's March 2026 Quarterly Review documents that advanced-economy sovereign markets have *diverged* rather than moved in a uniform fiscal-crisis pattern: Japanese and Australian long-term yields increased markedly while U.S. and German yields moved sideways [5-4]. Contemporaneous market reporting from May 2026 attributes a broad sovereign selloff to inflation fears — specifically war-related energy shocks — rather than fiscal punishment [5-5][5-6]. These findings demand that any country-by-country assessment distinguish carefully between idiosyncratic fiscal-vigilante pressure, global duration repricing imported from U.S. Treasury supply conditions [5-1], inflation-driven rate moves, and market-microstructure stress.

Japan is the sovereign where market discipline is most concretely visible and where partial capitulation is already observable. The Ministry of Finance has moved to cut

superlong issuance [2-7][2-8], the Bank of Japan has slowed its purchase-reduction pace [2-2], and the traditional domestic buyer base — life insurers, Japan Post Bank, and public pensions — has demonstrably failed to step in as a replacement for BOJ demand in the superlong sector [2-4][2-5][2-6]. Auction microstructure data confirm this assessment: Japan's 20-year bond auction on May 20, 2025 had the weakest demand since 2012 [6-9], and while the May 20, 2026 auction showed improved demand with a bid-to-cover of 4.01, this came only at the highest accepted yield since 1996 [6-10]. The 30-year sector remains fragile, with the January 2026 auction producing a bid-to-cover of 3.14 — below the 12-month average of 3.405 — and a wider tail of 0.15 versus 0.09 at the previous sale [6-12][6-13]. Beyond auctions, the BOJ has been forced to intervene repeatedly in the JGB repo market through its Securities Lending Facility to address "excessive tightening in supply and demand" for certain cheapest-to-deliver issues [7-7], with documented SLF adjustments in February 2024, May 2024, October 2024, January 2025, May 2025, and November 2025 [7-8]. This repo-market stress — driven by collateral scarcity under the BOJ's still-dominant 49% JGB ownership [2-1] — adds a market-plumbing dimension to the superlong auction weakness and confirms that Japan's bond-market dysfunction is multi-layered. The capitulation takes the form of a hybrid of issuance-mix adjustment and BOJ accommodation, not fiscal austerity.

The United Kingdom is the second-most-vulnerable sovereign, with the Bank of England's own analysis confirming that real term premia were the key driver of long-rate moves in 2025 [1-19]. The BoE has explicitly elevated gilt repo resilience to a "central priority" for the Bank and the Financial Policy Committee [7-2], confirming that the UK's first failure mode is market-structure stress rather than straightforward sovereign auction failure. The DMO continues to place sizeable long-duration and index-linked auctions without visible difficulty [6-5][6-6], while the BoE has adjusted APF long-end sales to reflect demand conditions [1-21].

The United States faces escalating fiscal arithmetic — net interest outlays projected above USD 1 trillion in 2026 [1-6] — but retains reserve-currency buffers that delay binding market discipline. The cited 2026 Treasury refunding materials and contemporaneous reporting kept coupon and FRN auction sizes steady [6-14][6-15]. New York Fed research documents that Treasury secondary-market liquidity can deteriorate sharply — as it did in April 2025 after tariff announcements — without triggering a persistent funding crisis [7-3][7-4], adding a liquidity-monitoring layer to the auction and term-premium indicators already tracked.

France's vulnerability is the most under-appreciated. Foreign investors hold approximately 50% of France's overall government debt [3-2], the highest share in the

comparison set, and ECB holdings have been declining while private foreign demand has risen to fill the gap [3-7]. Yet France's June 2026 long-term OAT auction placed €13.998 billion across four lines with bid-to-cover ratios ranging from 2.41 to 3.33 [6-7][6-8], demonstrating that primary-market demand remains solid. France lacks the kind of direct repo-market stress documented for Japan and the UK [7-10][7-11][7-12][7-13][7-14], meaning its vulnerability remains structural and demand-based rather than plumbing-based. The ECB's institutional backstop — including the Transmission Protection Instrument — means that French capitulation, when triggered, is mediated through EU conditionality and forced fiscal consolidation rather than a standalone national monetary response [4-1].

I. Defining a Bond-Vigilante Episode: A Stricter Threshold

Before assessing individual sovereigns, this report establishes a precise analytical framework for what constitutes a bond-vigilante episode, drawing on the IMF's April 2026 Fiscal Monitor.

The IMF models a comparable market-discipline channel as a decline in the convenience yield on government debt — the premium investors pay for the safety, liquidity, and collateral services of sovereign bonds — alongside higher short-term risk premia and impaired monetary-policy transmission [5-1]. A qualifying episode therefore requires more than rising yields: it requires evidence that (a) investors are attaching less value to the sovereign's safe-asset properties, (b) risk premia are rising beyond what growth and inflation fundamentals explain, and (c) the sovereign's policy space is being meaningfully constrained.

This framework implies three important analytical distinctions:

First, global duration repricing is not the same as country-specific fiscal punishment. The IMF specifies an empirical setup in which changes in 10-year sovereign yields across countries are linked to a U.S. Treasury supply shock [5-1]. Some portion of rising yields in the UK, France, or Japan may therefore be imported from global conditions rather than reflecting idiosyncratic fiscal-credibility breakdowns. The BIS confirms this by documenting divergent rather than uniform sovereign-market moves in early 2026 [5-4].

Second, inflation-driven rate moves should be distinguished from fiscal-risk repricing. Reuters reported in May 2026 that investors were increasingly worried about

war-related energy shocks delivering a lasting inflation shock, with sovereign bond yields rising across rich countries [5-5]. A companion Breakingviews column argued explicitly that the aggressive bond selloff was about inflation, not fiscal risk [5-6]. While inflation and fiscal risk can interact — persistent inflation raises debt-service costs and complicates central-bank accommodation — they have different policy implications and different early-warning signatures.

Third, market-structure events differ from funding crises. The Bank of England's official case study of the September 2022 gilt crisis identifies NBFI vulnerabilities, leverage, and liquidity stress as the core problem, not a sustained refusal to fund the sovereign [5-7]. The BoE's continued elevation of gilt repo resilience as a "central priority" in 2025–26 [7-1][7-2] confirms that market-structure fragility is an ongoing concern distinct from sovereign creditworthiness. Market-structure crises can be resolved through targeted intervention without requiring fiscal consolidation, whereas a true funding crisis demands a fiscal or monetary response.

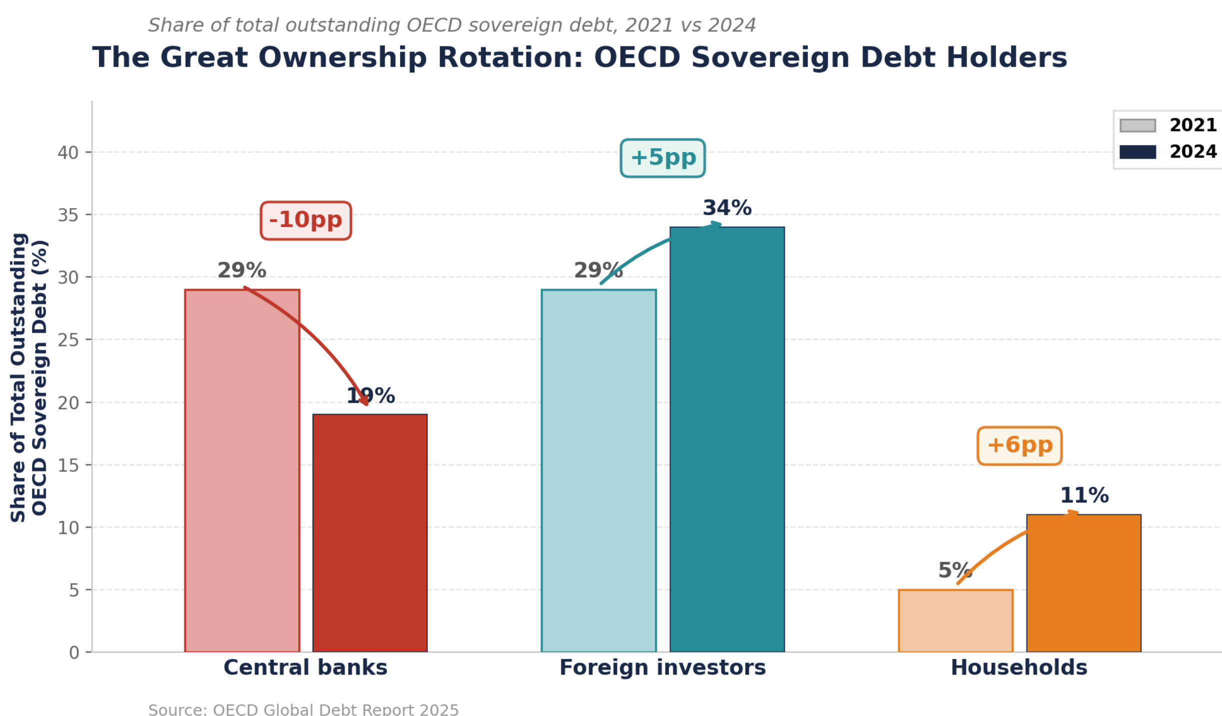
Fourth — a dimension added by repo and liquidity evidence — secondary-market functioning is a separate early-warning layer from primary-market auctions. New York Fed research shows that Treasury market liquidity worsened markedly in April 2025 after tariff-related volatility, visible in wider bid-ask spreads, lower order-book depth, and higher price impact, before recovering later [7-3][7-4]. In Japan, the BOJ's repeated Securities Lending Facility interventions demonstrate that repo-market tightness and collateral scarcity can coexist with — and amplify — primary-market auction stress [7-7][7-8][7-9]. A comprehensive monitoring framework must therefore track both primary-market demand (auctions) and secondary-market functioning (liquidity, repo conditions, collateral availability) as distinct but interacting channels through which bond-vigilante pressure becomes binding.

Applying this four-part framework, Japan is the sovereign that comes closest to the stricter threshold: its stress is concentrated in the specific maturity sectors where the marginal buyer has changed, it has already produced observable policy responses in both auctions and repo markets, and it reflects domestic absorption strain rather than merely imported global duration pressure [5-4][7-7][7-8][7-9]. The U.S. and UK face rising but more ambiguous pressure that does not yet clearly meet the full vigilante definition. France sits in a distinctive position where latent vulnerability is high but has not yet been activated in either primary or secondary markets.

II. The Macro Backdrop: Supply Surge Meets Demand Rotation

The Structural Shift

Three concurrent forces define the current environment. First, sovereign issuance volumes have reached record levels and are projected to remain elevated given sustained fiscal deficits and rising interest costs [1-3]. Second, the retreat of central banks from their role as dominant marginal buyers has been dramatic: a 10-percentage-point decline in central bank ownership share in just three years [1-2]. Third, the replacement buyers — foreign investors and households — are fundamentally price-sensitive, demanding compensation for duration risk in a way that central banks never did [1-2].



The OECD's 2026 report warns that global debt markets face growing refinancing risks as the average maturity of issuance shortens [1-3]. Shorter average maturities mean more frequent refinancing at prevailing market rates, amplifying the transmission of any rise in term premia into fiscal costs. This dynamic is particularly acute for the United States, where the cited JEC debt update indicates that roughly one-third of publicly held marketable debt was maturing within 12 months in the recent fiscal-year data [1-5].

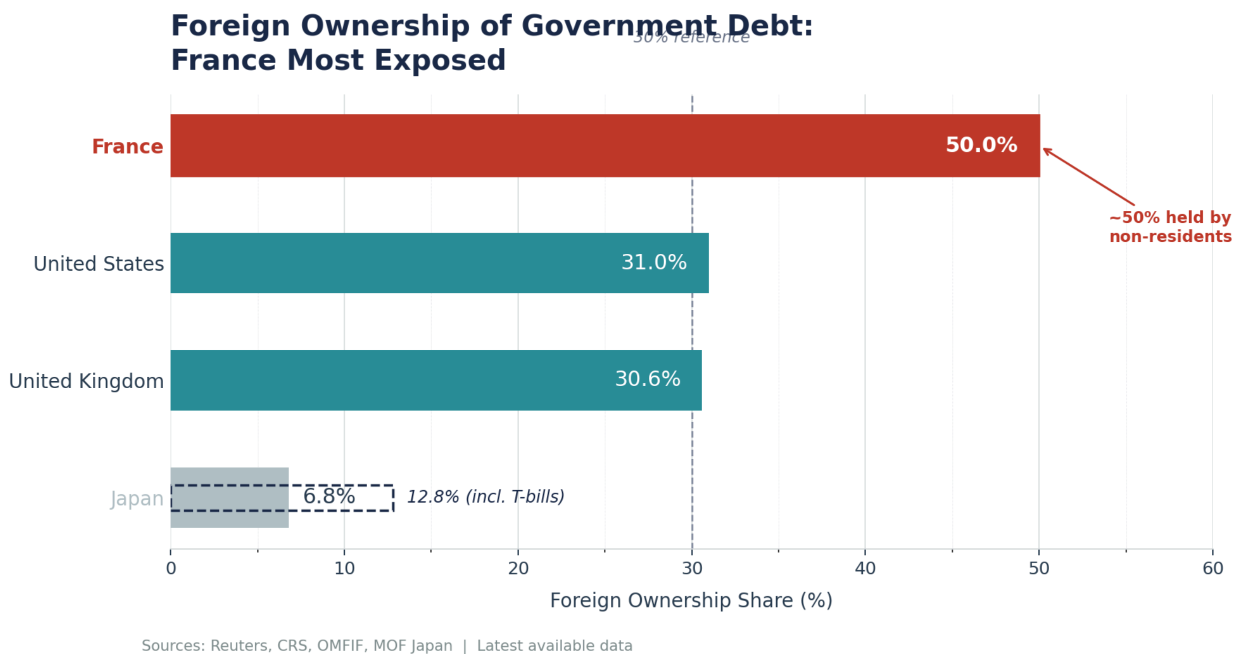
The Safe-Asset Landscape Is Reorganizing, Not Collapsing

ECB research from June 2026 shows that the global safe-asset landscape is changing in ways that redistribute convenience yields across markets rather than simply destroying them [5-3]. The gap between the U.S. Treasury basis and the euro

government basis constructed from German government bonds has narrowed in recent years, and the estimated foreign convenience yield on the euro benchmark safe asset has been rising [5-3]. This implies that some of the pressure on Treasuries reflects a relative erosion of unique U.S. safe-asset privilege — investors rotating within the safe-asset complex — rather than a generalized sovereign-fiscal crisis. For the four sovereigns in this report, the implication is that market pressure is not uniformly distributed: Bund-like assets may benefit from reallocation, while France (which is not the euro area's top safe asset) and the U.S. (whose relative advantage is narrowing) face differentiated pressures [5-3].

The Foreign Ownership Map: A Critical Differentiator

Cross-country evidence on investor-base composition reveals that the four sovereigns face fundamentally different bond-vigilante transmission channels.



Sovereign	Foreign Ownership Share	Primary Vulnerability Channel
France	~50% of government debt [3-2]	Cross-border demand shock; ECB holdings declining from 28% to 24% (2022–Q2 2024) [3-7]
United States	31% of publicly held debt (USD 9.2	Scale of absolute foreign demand; month-to-month TIC flow volatility; convenience-yield

Sovereign	Foreign Ownership Share	Primary Vulnerability Channel
	trillion) [3-3]	erosion [5-1][5-3]
United Kingdom	~30.6% of gilt stock (end-2022) [3-8]	Global duration repricing plus active QT; market-structure/LDI/repo vulnerability [5-7][7-1][7-2]
Japan	6.8% of JGBs; 12.8% including T-bills [2-1][3-6]	Domestic balance-sheet reluctance to absorb long-duration supply after BOJ retrenchment; repo/collateral scarcity [7-7][7-8][7-9]

> **Comparability note:** foreign-ownership figures use different definitions and observation dates across jurisdictions: French overall government debt, U.S. publicly held federal debt, UK gilt stock, and Japanese JGBs or JGBs plus T-bills. The table is best read as an exposure map, not a strict like-for-like statistical ranking.

France is the sovereign most exposed to a sudden shift in cross-border investor sentiment, while Japan's risk is concentrated in the behavior of a small number of large domestic institutions and in the market microstructure of a bond market still dominated by a single holder. The United States and United Kingdom sit between these poles, with the U.S. benefiting from reserve-currency inflows that partially insulate it from foreign reallocation [3-3][3-4], and the UK facing a hybrid of external and domestic absorption challenges compounded by identified repo-market fragility [7-1][7-2].

The Repo and Liquidity Layer: A Distinct Early-Warning Channel

The new evidence on repo-market conditions and secondary-market liquidity adds a critical analytical layer. Central banks are now treating repo and collateral conditions as a key transmission channel through which sovereign bond stress can become policy-constraining:

- **Japan:** The BOJ has intervened in the JGB repo market through its Securities Lending Facility at least six times between February 2024 and November 2025 [7-8], including a May 2025 relaxation specifically to address "excessive tightening in supply and demand of Japanese government securities in the repo market" for

certain cheapest-to-deliver issues [7-7]. A BOJ Review published in 2025 documents that SLF borrowing rose significantly from early 2023 as expectations around YCC changes interacted with the BOJ's large-scale JGB purchases, and that the progress in BOJ purchase reduction is expected to increase JGB free float and improve repo-market supply-demand conditions [7-9]. This means Japan's market dysfunction operates through two simultaneous channels: weak demand for new superlong supply *and* collateral scarcity/poor tradability in existing issues.

- **United Kingdom:** The BoE's September 2025 discussion paper states that government bond repo markets are important to the resilience of government bond markets because they facilitate the flow of cash and gilts and fund leveraged strategies [7-1]. The April 2026 feedback statement confirms that improving gilt repo resilience is a "central priority" for the Bank and the Financial Policy Committee, working with the FCA, HM Treasury, and the DMO [7-2]. Respondents recognized the benefits of reforms but raised concerns that mandatory central clearing or non-risk-sensitive minimum haircuts could create spillovers or harm liquidity [7-2]. UK authorities are therefore balancing insufficient resilience in stress against possible liquidity costs from structural reforms — a live tension that itself constitutes a vulnerability.

- **United States:** New York Fed research shows that Treasury market liquidity worsened markedly in April 2025 after higher-than-expected tariff announcements, with deterioration visible in wider bid-ask spreads, lower order-book depth, and higher price impact [7-3]. A November 2025 post described relatively poor liquidity in April 2025 followed by recovery by late summer [7-4]. These episodes demonstrate that U.S. secondary-market liquidity stress can spike sharply even when Treasury auction financing remains functional, making liquidity metrics a separate and earlier-moving warning layer than auction outcomes.

- **France/Euro area:** Eurex's 2025/2026 repo report indicates that cash funding needs are expected to continue to grow as net issuance of European government debt increases [7-10]. ICMA's January 2026 note describes the overall European secured-funding environment as active [7-11]. However, no comparably direct official French source documents current OAT-specific repo stress or Banque de France/ECB concern focused specifically on OAT collateral dysfunction [7-12][7-13][7-14]. France's vulnerability therefore remains better characterized by foreign-demand dependence and euro-area conditionality than by currently documented repo-market malfunction.

The Auction Microstructure Lens: Where Vigilante Pressure First Becomes Observable

Auction outcomes are the earliest binding signal of whether market pressure is constraining sovereign financing. The official data architecture differs sharply across the four sovereigns, which itself shapes monitoring capacity. The U.S. Treasury publishes the richest official decomposition of who took the paper, with investor-class allotments breaking allocations into primary dealers, direct bidders, and indirect bidders [6-1][6-2]. Japan's Ministry of Finance publishes individual auction result pages by maturity with accepted-yield distribution statistics [6-3][6-4]. The UK DMO publishes prospectuses and post-auction result notices security by security [6-5][6-6]. France's Agence France Trésor publishes latest auction results and downloadable auction history with bid-to-cover ratios by line [6-7][6-8].

As of mid-2026, auction-level evidence supports a clear two-stage interpretation of sovereign bond vigilance. Japan is in stage one, where long-end auctions intermittently weaken and policy adapts around them, with repo-market dysfunction adding a second concurrent stress channel [6-9][6-10][6-12][6-13][7-7][7-8]. The other three sovereigns remain in a pre-stress phase: France's auctions show solid demand despite high structural vulnerability [6-7][6-8]; the UK's adjustment has appeared in the central-bank sales program and repo-reform agenda rather than in primary sovereign issuance [6-5][6-6][7-1][7-2]; and the U.S. has the cleanest official system for detecting future stress but shows no binding primary-market discipline in its mid-2026 refunding decisions [6-14][6-15], though secondary-market liquidity has demonstrated the capacity for sharp deterioration [7-3][7-4].

III. Country-by-Country Vulnerability Assessment

A. Japan — The First Capitulator

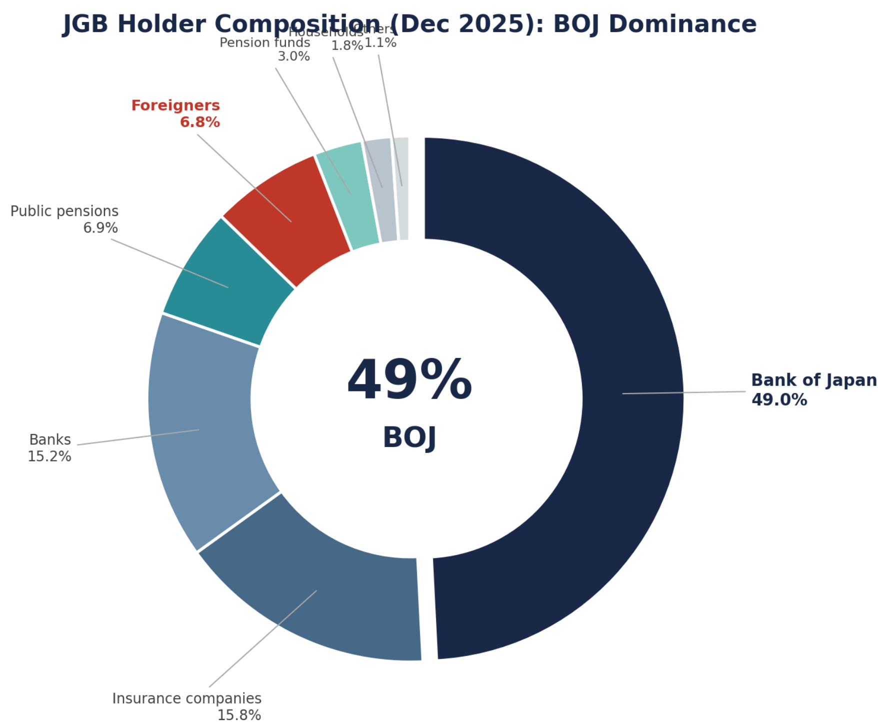
Fiscal and Debt Position

Japan's general government gross debt stood at 248.7% of GDP in the cited 2025 Trading Economics series, the highest in the comparison set by a wide margin [1-15]. The exact level varies by source and forecast vintage, but the ranking is robust: Japan remains far above the other sovereigns on gross debt-to-GDP. The Ministry of Finance's

Debt Management Report 2025 provides the official framework for JGB issuance plans, debt structure, and market liquidity conditions [1-12].

The Investor Base: Domestic Dominance Conceals Multi-Layered Fragility

Ministry of Finance data based on BOJ flow-of-funds show that as of December 2025, JGB holders were: BOJ 49.0%, insurance companies 15.8%, banks 15.2%, public pensions 6.9%, pension funds 3.0%, foreigners 6.8%, households 1.8%, and others 1.1% [2-1]. Foreign ownership of JGBs proper is just 6.8%, rising to 12.8% when T-bills are included [2-1][3-6]. This low foreign share means Japan is structurally protected from the kind of sudden external-funding stop that can afflict more externally dependent sovereigns such as France [3-2]. However, this protection is misleading in the current context because the stress vector is not external flight but **domestic absorption strain in the superlong segment combined with repo-market dysfunction driven by collateral scarcity under the BOJ's dominant ownership**.



The BOJ holds 49% of all JGBs [2-1]. As it withdraws, the private domestic sector must absorb the incremental supply. The evidence across multiple institutional categories is consistently negative:

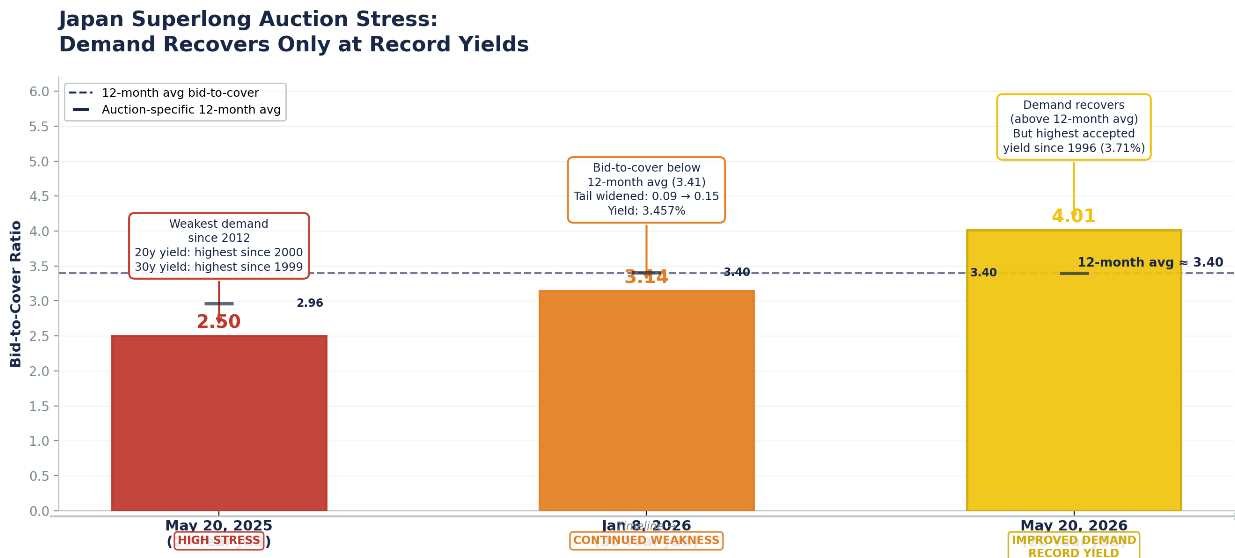
- **Life insurers**, historically the most important buyers of superlong JGBs due to regulatory asset-liability matching requirements, planned to trim yen bond holdings in the October 2025–March 2026 half year. Reuters noted that JGB yields had

surged from late May 2025, especially on the longer end, as demand from life insurers diminished [2-6]. This reflects a structural shift in which insurers, having accumulated large duration positions at lower yields, face mark-to-market risk and are reducing exposure rather than buying the dip.

- **Japan Post Bank**, one of the country's largest domestic financial institutions, entered fiscal 2025 with a smaller securities book (¥143.6 trillion as of March 31, 2025, down from ¥146.5 trillion a year earlier) and explicitly flagged rapid changes in market conditions and sharp rises in interest rates as a top risk [2-5]. The institution's stated intention to manage its portfolio in a risk-averse manner signals that it is not positioned to serve as an incremental JGB absorber.
- **GPIF**, Japan's USD 1.7 trillion public pension fund, kept its portfolio composition unchanged in its March 2025 review rather than increasing domestic bond allocations [2-4]. Market participants had discussed GPIF as a possible stabilizer for JGBs, but the fund's decision not to shift allocations removes a potential policy-driven demand source.
- **Banks** hold 15.2% of JGBs [2-1] but face their own interest-rate risk constraints under Basel regulatory frameworks. Rising yields create unrealized losses on existing holdings, reducing appetite for additional duration.

The cumulative picture is clear: none of the major domestic institutional categories is positioned to replace the BOJ as the marginal buyer of superlong JGBs. Japan's "home bias" is real but should not be treated as unlimited balance-sheet capacity [2-1][2-4][2-5][2-6].

Auction Stress — Already Manifest and Granularly Documented



Japan has exhibited concrete market-pressure symptoms that come closest to the stricter IMF-informed threshold. The auction microstructure data provide a granular, multi-period picture that goes well beyond a single headline event.

On May 20, 2025, the 20-year bond auction recorded the weakest demand since 2012, with the 20-year yield rising to its highest since 2000 and the 30-year yield reaching its highest level since that maturity was first sold in 1999 [1-17][6-9]. The 40-year auction was explicitly flagged by markets as a test of sovereign fiscal credibility [1-16].

The January 2026 30-year auction showed a bid-to-cover ratio of 3.14, below the 12-month average of 3.405, with the tail widening to 0.15 from 0.09 at the previous sale [6-12][6-13]. This demonstrates that superlong demand fragility was not confined to the acute May 2025 episode but persisted across maturities and across time.

By May 20, 2026, the 20-year auction showed improved demand with a bid-to-cover ratio of 4.01, better than the 12-month average, but the average accepted yield was the highest since 1996 [6-10]. This combination — improved demand but only at materially higher yield levels — is the signature of a market that still clears but on less forgiving terms for the issuer. The sovereign can still fund itself, but only by paying substantially more compensation to investors for holding duration risk.

The sequence from the May 2025 weak 20-year sale [6-9], to the weaker-than-average January 2026 30-year demand [6-12], to a stronger May 2026 20-year sale only after yields rose to historically high levels [6-10], describes a market that has repriced the risk premium for Japanese government duration and is unlikely to reverse that repricing absent a fundamental change in the supply-demand balance.

The Repo and Collateral Dimension: A Second Layer of Documented Stress

The auction data tell only part of Japan's story. The BOJ's repeated interventions in the JGB repo market through its Securities Lending Facility reveal a parallel stress channel that complicates the narrative in an analytically important way.

On May 30, 2025, the BOJ announced a relaxation of the terms and conditions for the SLF for certain 10-year cheapest-to-deliver issues "in order to ensure stability in the market by easing excessive tightening in supply and demand of Japanese government securities in the repo market" [7-7]. The BOJ's SLF page shows repeated actions across 2023–2025: February 2024, May 2024, October 2024, January 2025, May 2025, and November 2025 [7-8]. A BOJ Review published in 2025 explains that the SLF provides a temporary and secondary source of JGBs to improve liquidity and maintain smooth market functioning, and that SLF borrowing rose significantly from early 2023 as expectations around YCC changes interacted with the BOJ's large-scale JGB purchases [7-9]. The Review also states that the progress in BOJ purchase reduction is expected to increase JGB free float and improve repo-market supply-demand conditions over time [7-9].

This evidence reveals that Japanese market dysfunction operates through two simultaneous channels: (1) weak demand for new superlong supply at auctions, and (2) collateral scarcity and poor tradability in existing issues due to the BOJ's still-dominant 49% ownership of the outstanding stock. These channels interact: the BOJ's ownership concentration reduces free float, which tightens repo conditions and impairs the ability of dealers and investors to manage positions efficiently, which in turn reduces their willingness to bid aggressively at new auctions. The BOJ's tapering is expected to gradually alleviate the repo-market side of this problem [7-9], but in the interim, the dual-channel nature of Japan's stress makes it more persistent and harder to resolve through any single policy lever.

The repo evidence also provides a useful analytical distinction: not all JGB stress is about weak demand or fiscal fears. Some of it reflects scarcity and collateral distribution problems that are a direct legacy of the BOJ's massive balance sheet [7-7] [7-9]. This means that Japan's bond-vigilante episode is as much about the consequences of exiting unconventional monetary policy as it is about fiscal sustainability per se.

The Nature of Japan's Stress: Market Microstructure Plus Regime Shift

Japan's superlong stress is best understood as a multi-layered market-microstructure and domestic-absorption event — spanning both primary auctions and secondary/repo markets — compounded by a generational regime shift in Japanese inflation and rate expectations, rather than a generalized loss of faith in sovereign solvency. The BIS's description of divergent sovereign markets — with Japanese long-term yields increasing markedly while U.S. and German yields moved sideways [5-4] — supports this narrower interpretation. Reuters' emphasis on inflation and rate expectations as drivers of broader bond selloffs [5-5][5-6] further suggests that part of the Japanese yield move reflects the market's adjustment to a new inflation regime after decades of deflation.

This distinction matters for the form of capitulation. If the stress were primarily about sovereign solvency, the appropriate response would be fiscal consolidation. Because the stress is primarily about absorption capacity at specific maturities during a regime transition, compounded by collateral scarcity from the BOJ's legacy holdings, the appropriate response is debt-management adjustment and central-bank accommodation — which is exactly what has been observed.

Japan's long experience with very high debt and low yields is relevant here in a nuanced way. The debt ratio has been extreme for decades without, by itself, triggering market discipline. What changed is not the debt level itself but the marginal-buyer structure: the BOJ's withdrawal from dominant buyer to tapering buyer has created a specific absorption gap that the private sector has not filled, while the legacy of BOJ ownership simultaneously impairs market functioning through collateral scarcity [7-7][7-8][7-9].

Policy Response — Capitulation Already Underway

Japan's capitulation has already begun, taking the form of incremental accommodation across three dimensions:

1. **BOJ tapering deceleration.** In its June 2025 plan, the BOJ said it would continue reducing monthly JGB purchases by about ¥400 billion per quarter until January–March 2026, but from April–June 2026 to January–March 2027 it would slow the reduction pace to about ¥200 billion per quarter, while preserving "enough flexibility to support stability in the JGB markets" [2-2]. This halving of the tapering pace is objective evidence that the BOJ reacted to market-function concerns before any formal crisis threshold was reached.

2. **MOF superlong issuance cuts.** Reuters reported on May 27, 2025 that Japan would consider trimming superlong bond issuance after sharp rises in yields, and on September 24, 2025 the finance ministry proposed cutting superlong government bond supply in liquidity-enhancement auctions [2-7][2-8]. The MOF's formal investor dialogue framework — its Meeting of JGB Investors, held about twice a year with major institutional investors including banks and life insurance companies [2-3] — provides the institutional channel through which buyer reluctance translates directly into issuance-plan adjustments.
3. **BOJ repo-market interventions.** The repeated SLF adjustments across 2024–2025 [7-8] represent a third form of accommodation: the central bank is actively managing the collateral consequences of its own balance-sheet legacy to prevent market dysfunction from compounding the primary-market absorption problem.

These three actions constitute a **multi-dimensional debt-management and monetary accommodation under market pressure**: the sovereign and its central bank are altering financing strategy, tapering pace, and market-plumbing operations in direct response to market pressure. The fact that this has occurred without a headline crisis — no failed auction, no currency collapse, no political upheaval — is itself informative about the likely future path. Japan's market-discipline episode is proceeding as a slow-motion accommodation rather than a sudden break.

Forward Path

Over the next 12–36 months, the most likely trajectory for Japan is continued incremental capitulation: further reductions in superlong issuance, additional slowing or pausing of BOJ purchase reductions, continued SLF interventions as needed, and a formal shift in the MOF's issuance plan toward shorter maturities. The probability of a return to explicit yield-curve control is lower than the probability of continued informal accommodation, because the BOJ has institutional reasons to avoid re-formalizing a framework it spent years exiting. However, if superlong yields spike sharply — for example, if 20-year yields exceed 3% or 30-year yields exceed 3.5% — the BOJ would likely announce targeted purchases in the affected sectors, effectively reimposing a soft cap without calling it YCC.

The BOJ Review's observation that purchase reduction is expected to increase JGB free float and improve repo conditions over time [7-9] provides a structural pathway to eventual stabilization: as the BOJ's share of outstanding JGBs gradually declines, the collateral-scarcity problem should ease, dealer intermediation should improve, and the market should be able to absorb supply at lower yield concessions. But this process

takes years, and in the interim, the dual-channel stress — weak superlong demand plus repo tightness — will require ongoing policy accommodation.

Outright fiscal austerity is the least likely form of capitulation for Japan. The political economy does not support it: Japan's aging population creates structural spending pressures, and the ruling coalition has historically prioritized growth and social stability over deficit reduction. The capitulation will remain on the monetary and debt-management side.

> ### B. United Kingdom — Second in Line, with Market-Plumbing Vulnerability Now Officially Confirmed

Fiscal and Debt Position

The 2024–25 net financing requirement outturn was GBP 312.2 billion, with gilt sales of GBP 297.9 billion. The issuance split included GBP 62.4 billion in long conventional gilts and GBP 34.8 billion in index-linked gilts [1-18].

Term Premia as the Dominant Signal — With Important Caveats

The Bank of England states that from the start of January to the peak in early September 2025, the 10-year gilt yield rose approximately 20 basis points to 4.8% and the 30-year yield rose approximately 50 basis points to 5.7%. Over 2025 as a whole, real term premia were the key driver of moves in UK long-term interest rates [1-19]. This is a classic warning sign of term-premium repricing: investors demanding more compensation for holding duration risk, not responding to shifts in policy-rate expectations.

However, the adversarial evidence requires a more nuanced interpretation. The IMF's framework shows that some portion of UK long-end moves may reflect global Treasury-supply spillovers rather than UK-specific fiscal punishment [5-1]. The BIS documents that Japanese and Australian yields moved markedly while U.S. and German yields were more stable [5-4], suggesting that the UK's long-end move may partly reflect imported duration pressure from the most stressed markets rather than a purely domestic dynamic. And the May 2026 Reuters reporting attributes a broad sovereign selloff to inflation fears rather than fiscal risk [5-5][5-6].

The 50-basis-point rise in 30-year yields driven by real term premia remains a significant signal, but it should be read as reflecting a combination of domestic

absorption strain (from QT), global duration repricing, and inflation-risk compensation, rather than a pure sovereign-fiscal-credibility breakdown.

The 2022 Gilt Crisis and Its Ongoing Legacy: Market-Structure, Not Fiscal Insolvency

The Bank of England's official case study of the September 2022 gilt crisis identifies vulnerabilities in non-bank financial institutions, leverage, liquidity stress, and market dysfunction as the core problem [5-7]. The BoE's temporary and targeted gilt purchases restored orderly market functioning by breaking adverse feedback loops and buying time for LDI funds to improve resilience [5-7]. This is significant because the UK's main recent bond-market accident was not primarily a foreign buyers' strike or a sustained refusal to fund the sovereign; it was a market-structure crisis in leveraged pension strategies.

The new repo-market evidence confirms that this vulnerability is not just a backward-looking 2022 issue but an active, ongoing policy concern. The BoE's September 2025 discussion paper states that government bond repo markets are important to the resilience of government bond markets because they facilitate the flow of cash and gilts and fund leveraged strategies, and discusses potential reforms including greater central clearing and minimum haircuts or margins on non-centrally cleared gilt repo transactions [7-1]. The April 2026 feedback statement repeats that improving the resilience of the gilt repo market is a "central priority" for the Bank and the Financial Policy Committee, working with the FCA, HM Treasury, and the DMO [7-2]. Respondents broadly recognized the benefits of reforms but raised concerns that market-wide measures such as mandatory central clearing or non-risk-sensitive minimum haircuts could create spillovers or harm liquidity [7-2].

This creates a distinctive vulnerability profile for the UK: the authorities are simultaneously trying to (a) continue QT by selling gilts from the APF, (b) reform gilt repo markets to prevent a repeat of 2022, and (c) avoid liquidity costs from the reforms themselves. These three objectives are in tension. Faster QT increases the supply of gilts that must be absorbed by the market, while repo reforms could reduce the willingness of leveraged investors to intermediate that supply. Any misstep in this balancing act — or any exogenous shock that tests the reformed but still-evolving plumbing — could produce a market-functioning event that forces the BoE to intervene.

Auction-Level Evidence: Primary Issuance Remains Functional

The DMO prospectus for the June 3, 2026 auction set a size of £1.6 billion for the 1⅛% Index-linked Treasury Gilt 2035 [6-5], and the DMO's result notice confirms that the

sale was completed [6-6]. The sovereign debt manager is still running scheduled long-duration linker supply rather than visibly shrinking or cancelling it [6-5][6-6].

This confirms that, in the UK, the market-stress adjustment has shown up more clearly in the central-bank sales program and in the repo-reform agenda than in primary sovereign issuance. The BoE has adjusted APF long-end sales to reflect demand conditions [1-21], while the DMO continues to conduct scheduled auctions across the curve without visible difficulty [6-5][6-6]. The UK's first-line pressure point remains market plumbing and absorption capacity under QT rather than an outright failure of the DMO to place bonds.

The Index-Linked Gilt Channel — A Balanced Assessment

The UK's large stock of index-linked gilts creates a unique vulnerability. ONS data show that interest payable on central government debt was GBP 16.4 billion in June 2025 alone, largely because interest payable on index-linked gilts rises with the Retail Prices Index [1-23]. The OBR explains that UK debt-interest sensitivity reflects conventional gilts, index-linked gilts, NS&I liabilities, and reserve remuneration created by QE/APF operations [1-24].

However, HM Treasury's Debt Management Report 2026–27 presents a countervailing perspective: index-linked gilts have generated approximately £86.9 billion in direct savings in total from issuance of gilts that matured since their introduction in 1981 and before March 2026, if valued at maturity, and have supported the UK's long average debt maturity and diversified the investor base [5-8]. The analytical implication is that the index-linked stock is a vulnerability amplifier during inflation shocks but a structural stabilizer in normal conditions, and that HM Treasury is unlikely to abandon linker issuance absent a severe and sustained inflation surprise.

Quantitative Tightening and the APF Adjustment

The Bank of England's Asset Purchase Facility is actively shrinking. The pace was set at GBP 100 billion over October 2024 to September 2025, then reduced to GBP 70 billion over October 2025 to September 2026 [1-20]. Operationally, the Bank aimed to sell fewer long-maturity gilts than gilts at other maturities to reflect demand conditions [1-21]. This concession to long-end demand weakness is itself an early form of market-driven policy adjustment — a partial capitulation analogous to Japan's BOJ tapering deceleration, though milder in degree.

Forward Path

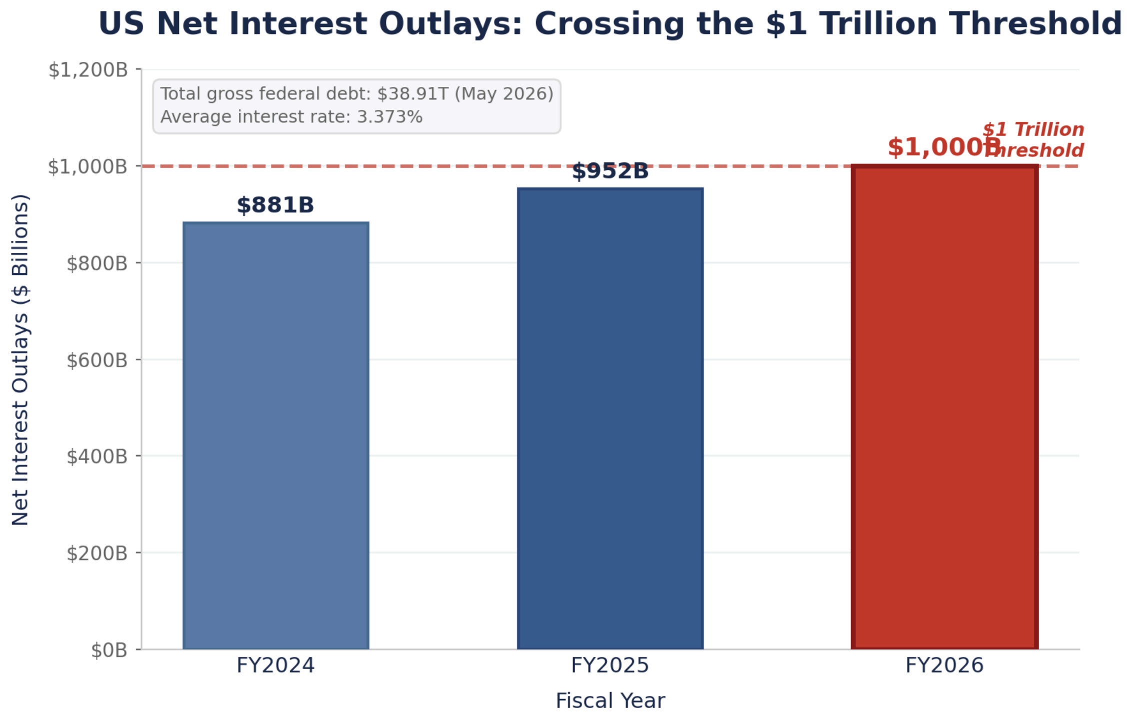
The UK's most likely capitulation path over the next 12–36 months involves further reduction in APF long-dated gilt sales (already underway [1-21]), continued repo-market reforms that may inadvertently tighten gilt-market liquidity in the short term [7-2], a shift in DMO issuance strategy away from long conventional and index-linked gilts toward shorter maturities, and, if pressure intensifies, a formal pause in APF gilt sales. The institutional memory of September 2022 means that both the BoE and the market have a lower threshold for expecting intervention in a market-functioning emergency [5-7]. This provides a credible backstop that likely prevents a full-scale crisis but also means that any sign of BoE hesitation would trigger faster market repricing.

The UK's vulnerability profile is best described as **market-structure fragility under QT, with repo-market plumbing as the identified weak link** [7-1][7-2], not sovereign insolvency. The most probable response remains on the debt-management and QT-adjustment side, with emergency BoE intervention available as a backstop that would be deployed earlier than in most other jurisdictions given the 2022 precedent.

C. United States — Convenience-Yield Erosion and Episodic Liquidity Stress, Not Imminent Auction Failure

Fiscal and Debt Position

As of May 5, 2026, total gross national debt stood at USD 38.91 trillion [1-5]. The same dynamic JEC update reported total public debt outstanding and the average interest rate on total marketable national debt, which was 3.373% as of April 2026 [1-5]. Because that page updates over time, the report uses the debt-stock and interest-rate figures as a dated snapshot rather than relying on the note/bill/bond line-item split as a stable current value. Net interest outlays were USD 881 billion in FY2024, projected at USD 952 billion in FY2025, and expected to surpass USD 1.0 trillion in 2026 [1-6][1-7].



These numbers are striking in absolute terms. But debt size alone has not been a reliable timing device for predicting vigilante events in reserve-currency sovereigns. The more relevant question is when high debt begins to erode the convenience yield and safe-asset status that have historically delayed market discipline.

The Convenience-Yield Framework: A More Precise Risk Description

The most analytically precise description of the U.S. risk comes from combining the IMF's scenario framework with ECB research. The IMF centers its scenario on a lower convenience yield — the premium investors pay for the safety and liquidity services of government debt [5-1]. The ECB documents that the gap between the U.S. Treasury basis and the euro government basis constructed from German government bonds has narrowed in recent years, and that the estimated foreign convenience yield on the euro benchmark safe asset has been rising [5-3].

Together, these sources point to a specific mechanism: the U.S. bond-vigilante risk manifests first as a gradual erosion of Treasury convenience yield — a loss of relative safe-asset privilege — rather than as classic auction failure or sudden foreign stop. This is a slower-moving, harder-to-detect process than what Japan is experiencing, but it is potentially more consequential over a longer horizon because it undermines the structural foundation of U.S. fiscal exceptionalism.

Secondary-Market Liquidity: A Demonstrated Early-Warning Channel

New York Fed research adds a critical dimension to the U.S. monitoring framework. In an April 2026 Liberty Street Economics post, the New York Fed reviewed Treasury market liquidity since April 2025 and stated that liquidity worsened markedly one year earlier as volatility rose after higher-than-expected tariff announcements, with deterioration visible in wider bid-ask spreads, lower order-book depth, and higher price impact [7-3]. A November 2025 post similarly described relatively poor liquidity in April 2025 followed by recovery by late summer, using bid-ask spreads and book depth on on-the-run 2-year, 5-year, and 10-year notes [7-4].

These episodes demonstrate a key analytical point: **U.S. secondary-market liquidity stress can spike sharply even when Treasury auction financing remains functional** [7-3][7-4]. The April 2025 episode was triggered by a policy shock (tariff announcements), not by fiscal concerns, and it resolved without requiring any change to issuance strategy. But it shows that the Treasury market's liquidity infrastructure is vulnerable to sudden deterioration, and that a future stress episode — whether triggered by fiscal, geopolitical, or inflation shocks — could impair market functioning before it shows up as auction failure.

This refines the U.S. vigilance framework: a true Treasury stress episode would likely manifest first as a combination of worse secondary-market liquidity (wider bid-ask spreads, lower depth, higher price impact [7-3][7-4]) and changing primary-market allocation patterns (rising dealer takedown, falling indirect-bidder participation [6-1][6-2]), not auction failure alone. The two channels interact: poor secondary-market liquidity makes dealers less willing to bid aggressively at auctions, which could eventually force Treasury to adjust issuance strategy.

Auction Microstructure: No Binding Stress Yet, but the Monitoring Architecture Is Uniquely Transparent

The U.S. provides the most transparent official auction microstructure of the four sovereigns. TreasuryDirect's auction-results system publishes each note and bond result as an official release, and Treasury's investor-class allotments database separately provides auction allocations by primary dealers, direct bidders, and indirect bidders [6-1][6-2]. This means that for any future U.S. stress episode, one can objectively test whether long-end supply is increasingly being warehoused by dealers rather than absorbed by indirect bidders — including foreign official and private accounts captured in the indirect category [6-1][6-2].

The cited 2026 Treasury refunding materials and contemporaneous reporting kept coupon and FRN auction sizes steady for "at least the next several quarters," with

unchanged sizes of $58 billion for the 3-year, $42 billion for the 10-year, and $25 billion for the 30-year auction [6-14][6-15]. This is the opposite of what would typically accompany sustained auction stress: Treasury is not cutting long-end size or materially reworking coupon issuance in response to weak demand [6-14][6-15]. The refunding decision is itself a data point: it indicates that, as of mid-2026, Treasury's assessment is that the market can absorb current coupon supply without adjustment.

Foreign Demand: Large, Variable, and Shifting Toward Private Holders

As of December 2025, foreign holdings of U.S. federal debt totaled approximately USD 9.2 trillion, equal to 31% of total U.S. publicly held debt of USD 30.1 trillion [3-3]. This share has trended below its earlier peak: it was 34% in December 2021, 30% in December 2022–2024, and 31% in December 2025 [3-3]. Within foreign holdings, 41.9% were held by official investors and 58.1% by private investors in December 2025 [3-3]. The shift toward a larger private foreign component at the margin is significant: private foreign investors are more price-sensitive than official reserve managers.

Monthly TIC data confirm that foreign demand is large but volatile: the TIC release for December 2025 reported a net TIC inflow of USD 44.9 billion [3-4], while the release for October 2025 reported a net TIC outflow of USD 37.3 billion [3-5]. This variability supports using TIC flow direction as a near-term early-warning indicator.

Central Bank Posture

As of December 2025, the Federal Reserve shifted from balance-sheet runoff to purchases of Treasury bills and potentially other Treasury securities with remaining maturities of three years or less, directed at maintaining an ample level of reserves [1-10]. This represents a partial re-entry into the market but is confined to the short end and framed as reserves management rather than fiscal accommodation.

Forward Path

The most likely form of U.S. response to rising market pressure over the next 12–36 months is Treasury issuance strategy adjustment — shifting the composition of new issuance toward shorter maturities and potentially adjusting auction sizes at the long end. The specific early-warning signals would be visible across two channels: (1) in the investor-class allotments data — a rising dealer takedown share and falling indirect-bidder allotment at 10-year and 30-year maturities [6-1][6-2]; and (2) in secondary-market liquidity metrics — sustained deterioration in bid-ask spreads, order-book depth, and price impact beyond the episodic spikes already observed [7-3][7-4]. A refunding

announcement that resizes coupon auctions — a departure from the current "steady for several quarters" stance [6-14] — would confirm that auction-level discipline has become binding.

Fiscal consolidation through legislation faces severe political constraints given partisan gridlock. Expanded Fed purchases beyond the current short-dated reserves-management framework would represent a qualitative shift toward fiscal accommodation and is unlikely absent a market-functioning emergency.

The U.S. faces a **delayed but potentially larger** bond-vigilante episode if global conditions deteriorate. The key leading indicators are the trajectory of term premia and convenience yield, monitored through the New York Fed's ACM model [1-8]; the investor-class allotment data that would reveal any shift in who is absorbing long-end supply [6-1][6-2]; and the secondary-market liquidity metrics that can provide earlier warning than auction outcomes alone [7-3][7-4].

> ## D. France — Institutional Buffer, Latent Foreign-Dependence Fragility, and the Absence of Documented Plumbing Stress

Fiscal and Debt Position

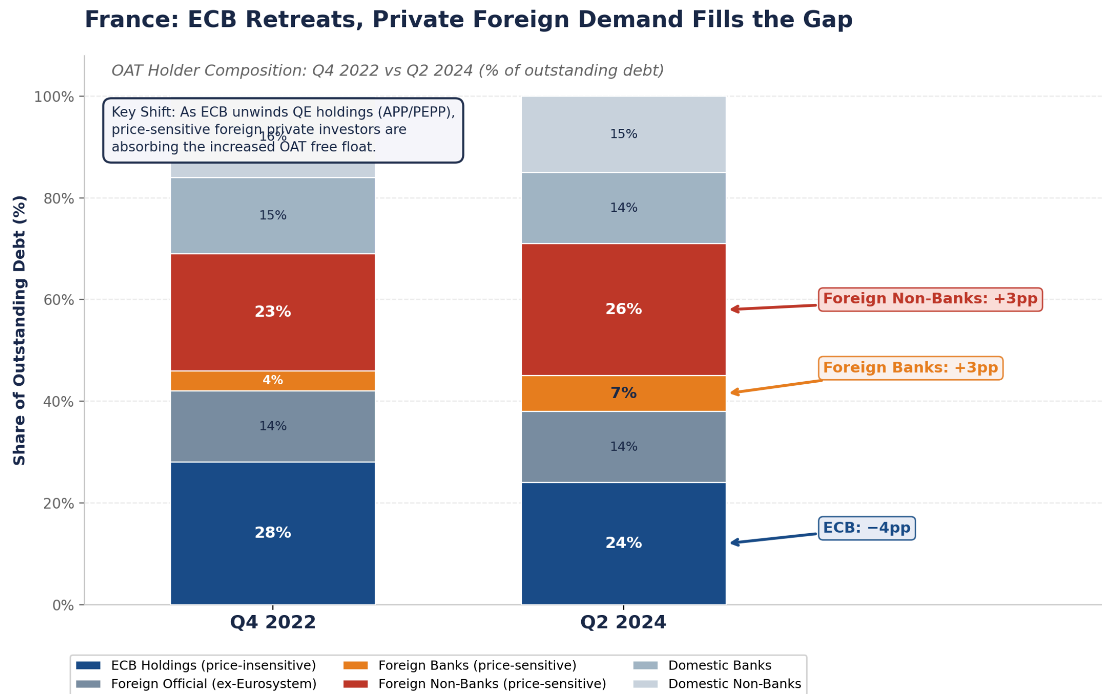
The OECD projected France's fiscal deficit at 5.8% of GDP in 2024 [1-27]. France's 2026 budget aims to cut the fiscal deficit to 5.0% of GDP from an estimated 5.4% the prior year [4-14]. France remains under EU fiscal surveillance [1-26]. Agence France Trésor reported negotiable debt outstanding of approximately €2.613 trillion at 31 May 2026 for medium- and long-term debt alone [4-5]. AFT's February 2026 monthly bulletin showed heavy issuance across the curve, including €10.5 billion in 10-year issuance, €12.7 billion in the 15Y+25Y bucket, and €1.2 billion in the 30Y+50Y bucket by 31 January 2026 [4-6].

Foreign Ownership: The Highest in the Comparison Set

Foreign investors hold approximately 50% of France's overall government debt [3-2], the highest share among the four sovereigns assessed. Agence France Trésor's debt key figures page, citing Banque de France, confirms that non-resident holders of negotiable government debt are a core monitored variable [3-1][4-7].

The composition of this foreign base is shifting in a direction that increases vulnerability. Between 2022 and Q2 2024, ECB holdings of French debt fell from 28% to 24% of

outstanding debt, while foreign bank holdings increased from 4% to 7% and foreign non-bank holdings increased from 23% to 26% [3-7]. As the ECB's backstop presence fades, France is becoming more reliant on private and foreign-bank demand — precisely the categories of investor most likely to reprice risk rapidly.



The Safe-Asset Distinction: France Is Not Germany

The ECB's June 2026 research on rising convenience yields for the euro benchmark safe asset applies to German and highly rated euro-area government bonds [5-3]. France does not occupy the euro area's top safe-asset position. A global reallocation away from Treasuries toward euro safe assets — which the ECB evidence suggests is underway — could strengthen Bund demand without necessarily insulating OATs. If spread differentiation re-emerges within the euro area, France would face widening OAT/Bund spreads even as the euro safe-asset complex as a whole benefits from reallocation. This is an underappreciated asymmetry.

Auction-Level and Plumbing Evidence: Solid Demand, No Documented Repo Stress

The auction microstructure evidence provides a critical qualification to the vulnerability thesis. AFT's official June 2026 long-term OAT auction placed €13.998 billion across four lines with bid-to-cover ratios of 2.41, 2.86, 3.21, and 3.33 [6-7][6-8]. At the May 21, 2026 inflation-linked auction, France allotted EUR 426 million of the July 2034 OAT€i at

a weighted average yield of 1.24% with a bid-to-cover ratio of 2.61, and EUR 303 million of the July 2047 OAT€i at an average yield of 2.03% with a bid-to-cover ratio of 3.26 [1-29].

The repo and plumbing dimension further differentiates France from the other three sovereigns. While broader European repo evidence points to rising demand for high-quality collateral as government debt issuance grows [7-10][7-11], no comparably direct official French source documents current OAT-specific repo stress or Banque de France/ECB concern focused specifically on OAT collateral dysfunction [7-12][7-13][7-14]. This absence is itself analytically informative: France's vulnerability channel is foreign-demand dependence and euro-area institutional conditionality, not the kind of market-plumbing stress documented for Japan (SLF interventions [7-7][7-8]) or the UK (gilt repo reform as a "central priority" [7-1][7-2]).

The precise formulation supported by the evidence is: **France is structurally exposed to a foreign-demand shock, but as of mid-2026 the stress is more latent than manifest in either primary-market auctions or secondary-market plumbing.** This is a fundamentally different state from Japan, where both auction stress and repo-market dysfunction have been documented and have already produced policy responses.

The Euro-Area Institutional Framework: Protection with Conditions

The ECB's Transmission Protection Instrument can be activated to counter "unwarranted, disorderly market dynamics" that seriously threaten euro-area monetary-policy transmission, but activation depends on eligibility criteria including compliance with the EU fiscal framework, absence of severe macroeconomic imbalances, fiscal sustainability, and sound macroeconomic policies [4-1]. The older purchase backstops are no longer adding net demand: net APP purchases were discontinued as of 1 July 2022 [4-2], and net PEPP purchases ended in March 2022 with reinvestments intended to end at end-2024 [4-3][4-4].

The TPI has never been activated. Its conditions — particularly the requirement for compliance with the EU fiscal framework — create a political dependency that could delay or complicate activation at the moment of greatest need. France's fiscal trajectory, with a deficit still at 5.0–5.4% of GDP [4-14], sits uncomfortably against the fiscal-compliance conditions that would govern ECB intervention.

Political Delivery Risk: The Article 49.3 Problem

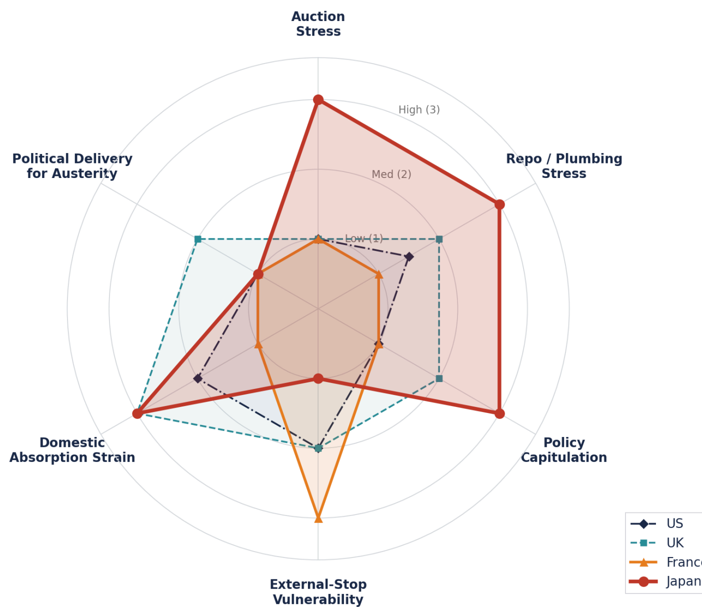
The government used Article 49.3 of the Constitution to force through parts of the 2026 budget without a parliamentary vote after negotiations stalled [4-15]. This constitutional mechanism is associated with minority-government fragility rather than straightforward legislative majorities. For bond-market discipline, this means that any future consolidation demanded by markets or by EU institutions may be politically harder to deliver than the fiscal targets alone suggest [4-14][4-15].

France faces a form of "triple conditionality": markets demand fiscal credibility, the ECB's TPI backstop demands EU fiscal compliance, and the domestic political system struggles to deliver either through ordinary parliamentary means. This triple constraint is unique to France among the four sovereigns.

Forward Path

France's most likely capitulation path runs through the EU surveillance framework: Commission-mandated fiscal consolidation measures, accompanied by ECB activation of TPI if OAT/Bund spreads widen significantly beyond the recent range [1-28][4-1]. The sequence would be: wider OAT/Bund spreads and weaker non-resident demand; pressure for a politically contentious fiscal package to satisfy EU and ECB credibility tests; and, if stress becomes disorderly, potential ECB intervention via TPI rather than a French national QE response [4-1][4-7][4-14][4-15]. This is a fundamentally different mechanism from Japan's debt-management/BOJ accommodation path and from the UK's BoE/APF/repo path. France does not control its own central bank, and the backstop available to it carries conditions that themselves constitute a form of market discipline.

IV. Cross-Country Vulnerability Matrix

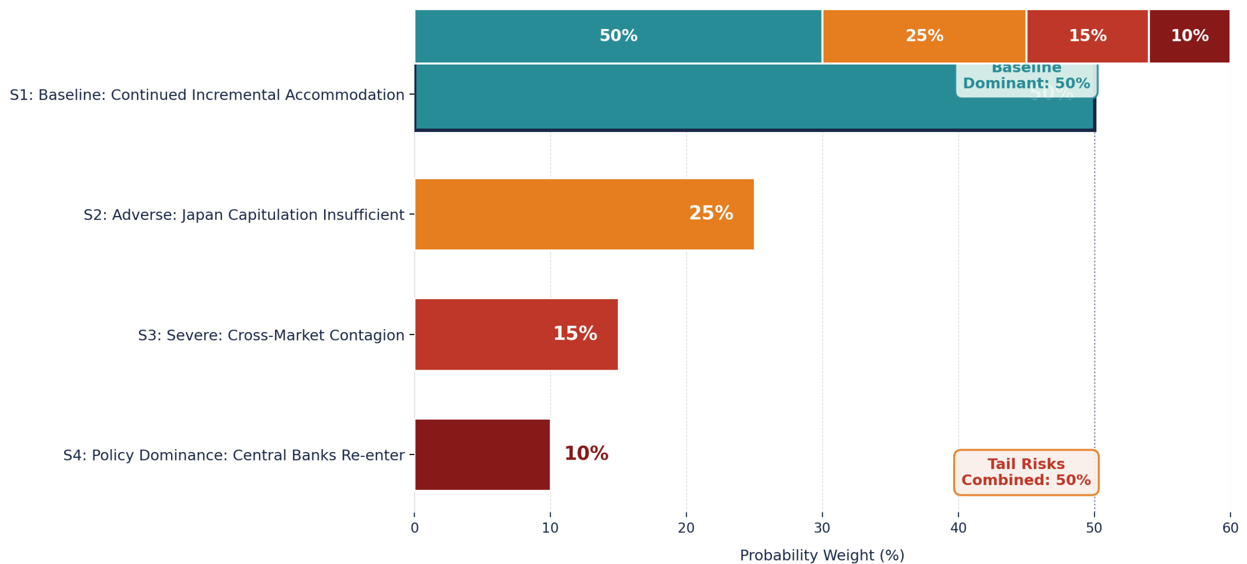


Dimension	Japan	United Kingdom	United States	France
Foreign ownership share	6.8% JGBs [2-1]	~30.6% gilts [3-8]	31% publicly held [3-3]	~50% total [3-2]
Central bank ownership	49.0% JGBs [2-1]	Declining via APF [1-20]	Declining via QT/SOMA [1-10]	ECB share fell 28%→24% [3-7]
External-demand shock vulnerability	Very low	Moderate	Moderate (reserve-currency buffer)	High
Domestic absorpti	Very high (superlong)	High (long-end + QT)	Moderate (refinancing concentration)	Low (no active QT)

Dimension	Japan	United Kingdom	United States	France
on strain				
Auction stress observed?	Yes — documented and recurrent [6-9][6-10][6-12][6-13]	No — DMO auctions completing [6-5][6-6]	No — refunding sizes unchanged [6-14][6-15]	No — solid bid-to-cover [6-7][6-8]
Repo/plumbing stress observed?	Yes — repeated BOJ SLF interventions [7-7][7-8]	Yes — BoE elevated to "central priority" [7-1][7-2]	Episodic — April 2025 liquidity spike [7-3][7-4]	No — no OAT-specific evidence [7-12][7-13][7-14]
Policy capitulation observed?	Yes — BOJ tapering slowed [2-2]; MOF issuance cuts [2-7][2-8]; SLF interventions [7-7][7-8]	Partial — APF long-end sales reduced [1-21]; repo reforms underway [7-1][7-2]	No — issuance strategy unchanged [6-14]	No — budget passed via 49.3 [4-15]
Institutional backstop	BOJ (informal, flexible) [2-2]	BoE (APF + emergency capacity + repo reform) [5-7][7-1][7-2]	Fed (reserve management) [1-10]	ECB TPI (conditional) [4-1]
Political delivery capacity	Low for austerity	Moderate	Low (gridlock)	Low (Article 49.3 fragility) [4-15]
Primary vigilante channel	Domestic auction stress +	Market-structure/term-	Convenience-yield erosion + episodic	Cross-border

Dimension	Japan	United Kingdom	United States	France
	repo/collateral scarcity	premium/repo repricing	liquidity stress [5-1][5-3][7-3]	demand shock
Inflation-linked amplifier	Low	Very high [1-23][1-24] (but long-run savings [5-8])	Low	Moderate [4-10][4-11]
Safe-asset status	Domestic safe asset	G7 safe asset	Global reserve asset (eroding edge [5-3])	Not top euro safe asset [5-3]

V. Scenario Framework



Scenario 1: Baseline — Continued Incremental Accommodation (Probability: ~50%)

Description. Bond markets demand higher compensation for duration and fiscal risk across all four sovereigns, but no full-scale sovereign crisis emerges. Japan continues

its pattern of incremental capitulation through superlong issuance cuts, slower BOJ tapering, and continued SLF repo-market interventions. The UK further adjusts APF sales composition and progresses gilt repo reforms. The U.S. and France experience rising but manageable term premia. Inflation fears [5-5][5-6] and global duration repricing [5-1] contribute to higher yields alongside fiscal risk, blurring the signal.

Trigger Conditions. Global growth remains moderate, inflation stays within central-bank tolerance bands despite energy-price volatility, and no exogenous shock accelerates the timeline.

Market Path. Long-end yields drift higher across all four sovereigns, driven by a combination of term premia, inflation compensation, and global duration repricing rather than pure fiscal punishment [5-1][5-4][5-5][5-6]. Japan's superlong yields stabilize at elevated levels as MOF issuance cuts and slower BOJ tapering [2-2][2-7][2-8] partially offset weakening private demand, while BOJ SLF interventions manage repo-market tightness [7-7][7-8]. Japan's 20-year auctions continue to clear but only at yields near or above the highest-since-1996 levels already observed [6-10]. U.S. 10-year term premia rise by 25–50 basis points from current levels, reflecting gradual convenience-yield erosion [5-3] rather than acute auction stress; the investor-class allotment data [6-1][6-2] show stable indirect-bidder participation; secondary-market liquidity experiences occasional episodes of deterioration but recovers without requiring policy intervention [7-3][7-4]. The OAT/Bund spread remains within or modestly above its recent range [1-28]. France's 2026 budget delivers a modest deficit reduction toward the 5.0% target [4-14], maintaining sufficient EU fiscal compliance to keep TPI eligibility intact [4-1]. France's auction bid-to-cover ratios remain above 2.0 across the curve [6-7][6-8].

Country Closest to the Edge. Japan, where the capitulation process is already observable across auctions, BOJ tapering, and repo-market interventions, and where the gap between BOJ withdrawal and private-sector absorption remains unresolved.

Confirming Indicators. Gradual widening of ACM term premia in the U.S. [1-8]; BOJ purchase-reduction pace holding at the slower ¥200bn/quarter trajectory [2-2]; MOF formally implementing superlong issuance cuts [2-7][2-8]; continued BOJ SLF activity without escalation [7-8]; UK APF long-dated sales continuing at a reduced pace [1-21]; gilt repo reforms progressing without acute liquidity disruption [7-2]; DMO auctions completing without unusual tails [6-5][6-6]; OAT/Bund spread remaining below 85 bps [1-28]; U.S. TIC data showing continued net inflows on average [3-4]; U.S. Treasury refunding sizes unchanged [6-14]; U.S. secondary-market liquidity stable [7-3]; AFT auction bid-to-cover ratios stable [6-7].

Scenario 2: Adverse — Japan's Incremental Capitulation Proves Insufficient (Probability: ~25%)

Description. Japan's current accommodation measures — superlong issuance cuts, slower BOJ tapering, and SLF repo interventions — fail to stabilize the superlong sector. A weak 20-year or 40-year auction triggers a sharp selloff that forces more dramatic intervention.

Trigger Conditions. Life insurers accelerate their retreat from yen bonds [2-6]; a major domestic institution reports significant unrealized losses on JGB holdings; global yields rise simultaneously — potentially driven by the inflation-shock channel identified by Reuters [5-5] — removing the relative-value argument for JGBs; Japan Post Bank's risk-averse posture [2-5] extends into active selling; repo-market tightness worsens beyond the BOJ's capacity to manage through SLF adjustments [7-7][7-8]; or a 30-year auction produces a bid-to-cover below 2.5 with a tail exceeding 0.20 — a deterioration from the already-weak January 2026 metrics of 3.14 cover and 0.15 tail [6-12][6-13].

Market Path. Japan's 20-year yield exceeds 3%, and 30-year yield exceeds 3.5%, breaching levels that trigger institutional risk limits. The BOJ announces an emergency increase in JGB purchases targeted at the superlong sector — effectively a partial return to yield-curve management without formally reinstating YCC. The MOF announces a comprehensive restructuring of the issuance plan, sharply reducing 20-year, 30-year, and 40-year supply and shifting toward 2-year to 10-year maturities. The yen weakens 5–10% against the dollar as markets interpret the intervention as fiscal dominance.

Form of Capitulation. A more aggressive version of the hybrid already underway: larger superlong issuance cuts plus BOJ targeted purchases plus expanded SLF operations. The distinction from the baseline is the speed and scale of the response, not its nature.

Spillover Effects. Japanese institutional investors — among the world's largest holders of foreign bonds — may repatriate capital to cover domestic losses or meet margin calls, triggering a secondary repricing in U.S. Treasuries and European sovereigns. The IMF's framework [5-1] suggests this would operate through a U.S. Treasury supply/demand shock that spills into other sovereign markets. In the U.S., the impact would likely appear first in secondary-market liquidity deterioration — wider bid-ask spreads and lower depth [7-3][7-4] — before showing up in auction allocation patterns [6-1][6-2]. The UK, already experiencing term-premium-driven repricing [1-19] and conducting active QT [1-20], would be particularly vulnerable given its identified repo-market fragilities [7-1][7-2] and the ongoing tension between QT, repo reform, and

market liquidity. France, with its ~50% foreign ownership [3-2] and declining ECB share [3-7], would face spread widening if Japanese and other foreign investors reduce OAT exposure as part of broader de-risking — and France's non-safe-asset status within the euro area [5-3] means it would not benefit from safe-haven inflows that might support Bunds.

Confirming Indicators. BOJ announcing a pause or reversal of purchase reductions [2-2]; BOJ expanding SLF operations beyond current scope [7-7][7-8]; MOF convening an emergency Meeting of JGB Investors [2-3]; GPIF revisiting its allocation policy [2-4]; superlong auction bid-to-cover ratios falling below 2.0; U.S. investor-class allotment data [6-1][6-2] showing a spike in dealer takedown at the 10-year and 30-year; U.S. secondary-market liquidity deteriorating sharply [7-3]; OAT/Bund spread exceeding 85 bps [1-28]; France's auction bid-to-cover ratios falling below 2.0 [6-7].

> ### Scenario 3: Severe — Cross-Market Contagion (Probability: ~15%)

Description. Stress originating in Japan's superlong sector spills into global duration markets through Japanese institutional repatriation, triggering simultaneous term-premium repricing across the U.S., UK, and France. An inflation shock — such as the war-related energy-price scenario identified by Reuters [5-5] — compounds the duration repricing with inflation-risk premia, creating a two-front assault on sovereign bond markets.

Contagion Channels. The OECD documents that foreign investors' share of OECD sovereign debt rose to 34% in 2024 [1-2], creating direct cross-border transmission channels. The IMF's empirical framework links changes in 10-year sovereign yields across countries to U.S. Treasury supply shocks [5-1], confirming that the contagion mechanism operates through global duration pricing. Japanese institutional repatriation would add a demand-withdrawal channel on top of the supply-driven channel. Critically, the contagion would propagate through both primary markets (weaker auction demand) and secondary markets/plumbing (liquidity deterioration, repo stress) simultaneously.

France's Amplified Vulnerability in This Scenario. France's approximately 50% foreign ownership [3-2] makes it the sovereign most exposed to a contagion-driven repricing. The declining ECB share of French debt [3-7] means there is less institutional buffer. The ECB's convenience-yield research [5-3] implies that safe-haven flows within the euro area would benefit Germany, not France, potentially widening the OAT/Bund spread into an illustrative 100–120 bps stress range and triggering ECB TPI activation discussions. This is a scenario marker, not an official ECB activation threshold. But activation would depend on France satisfying eligibility criteria [4-1], and France's

deficit trajectory sits uncomfortably against those conditions. If France's deficit is judged non-compliant, the backstop may be delayed or conditioned on additional fiscal measures — measures that would have to navigate the Article 49.3 political constraint [4-15] — creating a window of vulnerability during which spreads could overshoot. Rising European repo collateral demand [7-10][7-11] could compound the stress if OAT-specific repo conditions deteriorate from their currently stable state.

UK's Compounded Vulnerability. The UK would face a triple challenge: global duration repricing hitting the long end, active QT continuing to add gilt supply, and repo-market plumbing under stress at precisely the moment when the BoE's reform agenda [7-1][7-2] has not yet been fully implemented. The interaction between these three forces could produce a market-functioning event reminiscent of September 2022 [5-7], though the improved LDI-sector resilience since then provides some buffer.

Market Path. Term premia rise 50–100 basis points across major sovereign markets within a compressed timeframe. The U.S. 10-year yield exceeds 5.5%, the 30-year gilt yield exceeds 6.5%, and the OAT/Bund spread widens beyond 100 bps. The BIS's observation that recent moves have been divergent rather than uniform [5-4] suggests that a contagion scenario would represent a qualitative shift from the current pattern — a transition from selective stress to correlated repricing — which is precisely why its probability is lower. Auction-level stress would become visible across jurisdictions, and secondary-market liquidity would deteriorate broadly.

Policy Response Conflict. Central banks face a direct conflict between inflation control and financial stability. If the trigger includes an inflation shock [5-5], this conflict is maximally acute: central banks cannot ease to support bond markets without validating the inflation fears that are partly driving the selloff. The Fed would be pressured to expand purchases beyond short-dated reserves management [1-10], with Treasury secondary-market liquidity likely deteriorating first [7-3][7-4]. The BoE would face pressure to halt APF sales entirely [1-20][1-21], deploy the emergency intervention toolkit tested in 2022 [5-7], and potentially accelerate or pause repo reforms depending on whether they are seen as stabilizing or destabilizing [7-2]. The ECB would face pressure to activate TPI [4-1], but conditionality requirements would complicate rapid deployment for France.

Scenario 4: Policy Dominance — Central Banks Formally Re-enter (Probability: ~10%)

Description. Fiscal stress or market dysfunction forces renewed central-bank intervention across multiple jurisdictions despite incomplete inflation normalization.

Sequence. The BOJ acts first, given that it is closest to the threshold and has the most recent institutional experience with YCC [2-2] and the most active market-plumbing intervention framework through the SLF [7-7][7-8][7-9]. The BoE follows, initially through a halt to APF sales and then potentially through targeted long-end purchases if gilt-market dysfunction threatens LDI-sector stability — deploying the toolkit validated in 2022 [5-7] and leveraging the repo-market monitoring infrastructure it has been building [7-1][7-2]. The Fed expands SOMA purchases beyond short maturities [1-10] if Treasury market functioning deteriorates — the signal for which would be visible in both secondary-market liquidity metrics [7-3][7-4] and the investor-class allotment data [6-1][6-2]. The ECB faces pressure to consider TPI for France if OAT/Bund spreads move into an illustrative 100–120 bps stress range, but activation remains discretionary and conditional on France committing to a credible fiscal consolidation package [4-1][4-15].

Consequences. Central bank re-entry suppresses yields in targeted sectors but weakens currency credibility and raises inflation-risk premia. For France, ECB TPI activation would stabilize OAT spreads but at the cost of explicit fiscal conditionality that constrains future policy autonomy — a form of capitulation that is institutional rather than market-mediated. The IMF's convenience-yield framework [5-1] suggests that repeated central-bank intervention could permanently reduce the convenience yield on government debt by undermining the perception that sovereigns can service their obligations without monetary accommodation, creating a structural increase in the fiscal-risk premium even after the immediate crisis passes.

VI. Which Sovereign Capitulates First — And Why

The Verdict: Japan

Japan is the sovereign that capitulates first, and the capitulation is already in progress. This assessment rests on six reinforcing pillars, each tested against adversarial evidence:

1. Demonstrated auction stress that meets the stricter IMF threshold. Japan is the only sovereign in the comparison set where concrete market-pressure episodes have already occurred and been documented across multiple auctions and maturities: the weakest 20-year demand since 2012 in May 2025 [1-17][6-9]; a below-average 30-year

bid-to-cover with a widening tail in January 2026 [6-12][6-13]; and an improved but historically expensive 20-year auction in May 2026 that cleared only at the highest yield since 1996 [6-10]. No other sovereign in the comparison set shows comparable auction-level stress.

2. Demonstrated repo and collateral stress that adds a second concurrent dysfunction channel. The BOJ's repeated SLF interventions — at least six times between February 2024 and November 2025 [7-8] — including a May 2025 relaxation specifically to address "excessive tightening" in JGB repo supply and demand [7-7], confirm that Japan's market dysfunction extends beyond primary-market auctions into secondary-market plumbing. The BOJ Review's documentation that SLF borrowing rose significantly from early 2023 amid YCC-related expectations and the BOJ's large-scale purchases [7-9] shows this is a sustained, structural issue tied to the BOJ's dominant ownership position, not a transient episode. No other sovereign in the comparison set has comparable documented repo-market stress requiring repeated central-bank intervention. The UK has identified gilt repo resilience as a priority [7-1][7-2], but this is a reform agenda addressing potential future stress, not a response to repeated actual interventions.

3. Extreme debt metrics, though debt alone is not the trigger. At 248.7% of GDP in the cited 2025 series [1-15], Japan's debt ratio is more than double that of any other sovereign in the comparison set. The precise level varies across data vendors and forecast vintages, but not enough to change the ranking. What makes Japan's current episode different is not the debt level itself but the change in the marginal-buyer structure that has activated the latent risk.

4. Domestic buyer-base erosion in the superlong sector. Life insurers are trimming yen bond holdings [2-6], Japan Post Bank is shrinking its securities book and emphasizing rate-risk containment [2-5], GPIF did not increase domestic bond allocations [2-4], and banks face interest-rate risk constraints. The traditional narrative that Japan's domestic home bias provides unlimited absorption capacity is contradicted by the institutional evidence [2-1][2-4][2-5][2-6].

5. Observable policy capitulation across three dimensions. The BOJ has already halved its tapering pace from ¥400 billion to ¥200 billion per quarter from April 2026 [2-2]. The MOF has already moved to consider and propose superlong issuance cuts [2-7][2-8]. The BOJ has conducted repeated SLF interventions to manage repo-market stress [7-7][7-8]. These are documented policy actions taken in direct response to market pressure across primary issuance, monetary policy, and market plumbing — a breadth of accommodation not observed in any other sovereign.

6. The mechanism is market microstructure plus regime shift, which makes it more persistent than a one-off event. The BIS confirms that Japan's stress was unusually acute relative to other advanced economies [5-4]. The stress reflects a generational transition from a deflationary to an inflationary regime that is changing the behavior of all domestic institutional categories simultaneously. The dual-channel nature of the stress — auction weakness plus repo/collateral scarcity — confirms that this is a structural repricing rather than a temporary dislocation.

The Form of Capitulation

Japan's capitulation takes the form of **superlong issuance reduction combined with slower BOJ withdrawal and active repo-market management** — a three-pronged hybrid of debt-management adjustment, monetary accommodation, and market-plumbing intervention. This is the form predicted by the mechanism: because the stress is concentrated in specific maturity sectors where the marginal buyer has changed and where the BOJ's legacy ownership creates collateral scarcity, the response is targeted at those sectors rather than requiring economy-wide fiscal austerity.

Rival Scenarios Considered and Assessed

Rival 1: France capitulates first due to foreign-ownership vulnerability and political fragility.

France has the highest foreign ownership share (~50% [3-2]), declining ECB holdings [3-7], a conditional rather than unconditional backstop [4-1], and a political system that already relies on Article 49.3 to pass budgets [4-15]. The ECB's convenience-yield research [5-3] adds a further vulnerability: a global reallocation toward euro safe assets would benefit Germany, not France, potentially widening the OAT/Bund spread.

Why France is not the most likely first capitulator: The evidence now provides multiple falsifiable tests across primary markets, secondary markets, and plumbing — and France fails to register stress on any of them. France's June 2026 long-term OAT auction placed €13.998 billion with bid-to-cover ratios of 2.41 to 3.33 [6-7][6-8]. The May 2026 linker auction showed bid-to-cover ratios of 2.61 and 3.26 [1-29]. No OAT-specific repo-market stress or Banque de France/ECB concern focused on OAT collateral dysfunction has been documented [7-12][7-13][7-14]. The OAT/Bund spread was around 70 bps in mid-June 2026 [1-28], within its recent range rather than a clear stress signal. France's vulnerability is structural and contingent on an external trigger — most plausibly a contagion event originating in Japan or a domestic political crisis —

whereas Japan's vulnerability is manifest across multiple channels and already producing policy responses. The TPI, while untested and conditional, provides a credible commitment to contain spread widening that Japan lacks entirely [4-1].

Conditions that would elevate this rival: A French government collapse combined with the OAT/Bund spread moving above an illustrative 100 bps stress marker; ECB publicly signaling reluctance to activate TPI due to French fiscal non-compliance [4-1]; AFT/Banque de France data showing a decline in non-resident holdings [4-7][4-8][4-9]; auction bid-to-cover ratios falling below 2.0 across long-dated lines [6-7]; emergence of OAT-specific repo stress; or a global safe-asset reallocation that strengthens Bunds while widening OAT spreads [5-3].

Rival 2: The UK capitulates first due to term-premium dynamics, LDI vulnerability, and repo fragility.

The UK has experienced term-premium-driven repricing [1-19], carries unique index-linked gilt vulnerability [1-23][1-24], and the BoE has identified gilt repo resilience as a "central priority" [7-1][7-2]. The institutional memory of September 2022 [5-7] lowers the threshold for market expectations of intervention.

Why the UK is not the most likely first capitulator: The BoE's official diagnosis of the 2022 crisis as a market-structure event rather than a sovereign-funding crisis [5-7] means the UK's primary vulnerability is in market plumbing, not in the willingness of investors to fund the sovereign. The auction-level evidence confirms this: the DMO continues to place scheduled long-duration and linker auctions without visible difficulty [6-5][6-6], while the BoE has adjusted APF sales composition [1-21]. The UK's repo-market concern is prospective and reform-oriented [7-1][7-2], not a response to repeated actual interventions as in Japan's SLF case [7-7][7-8]. The BoE has a tested emergency intervention toolkit [5-7] and HM Treasury's institutional capacity provides more responsive buffers than are available to France. The UK's term-premium moves may partly reflect imported global duration pressure [5-1][5-4] rather than UK-specific fiscal punishment.

Conditions that would elevate this rival: A sharp gilt market selloff triggered by an inflation surprise that mechanically increases index-linked debt-service costs [1-23]; an LDI-sector liquidity event similar to September 2022 [5-7]; DMO auctions beginning to show large tails or poor cover [6-5][6-6]; gilt repo-market disruption during the transition to new resilience standards [7-2]; or a failure to reduce the APF sales pace further despite deteriorating market conditions.

Rival 3: The US capitulates first due to sheer issuance scale.

The U.S. has the largest nominal debt stock and the most rapidly growing interest-expense trajectory [1-5][1-6]. Net interest exceeding USD 1 trillion in 2026 [1-6] is a fiscal milestone. The April 2025 liquidity episode [7-3][7-4] demonstrates that Treasury market functioning can deteriorate rapidly.

Why the US is not the most likely first capitulator: Reserve-currency status sustains baseline foreign demand at approximately 31% of publicly held debt [3-3]. The Treasury has demonstrated flexibility in issuance composition [1-4]. The Fed has already partially re-entered the market [1-10]. The ECB's evidence of a narrowing U.S. safe-asset advantage [5-3] suggests gradual convenience-yield erosion rather than acute crisis. Historical experience also cautions against treating debt size alone as a timing device for U.S. market discipline. The BIS documents that U.S. long-term yields moved sideways during a period when Japanese yields increased markedly [5-4]. The cited 2026 refunding materials and reporting kept coupon sizes unchanged [6-14][6-15]. The April 2025 liquidity episode resolved without policy intervention [7-3][7-4], suggesting that episodic liquidity stress is manageable within the current framework. The investor-class allotment data [6-1][6-2] provide a transparent monitoring system that has not yet signaled deterioration.

Conditions that would elevate this rival: A sustained series of weak Treasury auctions visible in the investor-class allotment data as rising dealer takedown and falling indirect-bidder participation [6-1][6-2]; persistent (not episodic) secondary-market liquidity deterioration [7-3][7-4]; TIC data showing three or more consecutive months of net outflows [3-4][3-5]; a refunding announcement that resizes coupon auctions downward; a political event that calls into question Federal Reserve independence or the full-faith-and-credit commitment; or a geopolitical acceleration of reserve diversification visible in the official/private holder split [3-3].

Why Japan remains the most likely first capitulator: Japan combines the highest debt ratio, the most concrete and recurrent evidence of auction stress across multiple maturities and time periods [6-9][6-10][6-12][6-13], documented repo-market dysfunction requiring repeated central-bank intervention [7-7][7-8], the most observable policy capitulation already underway across three dimensions [2-2][2-7][2-8][7-7][7-8], the most detailed evidence of domestic buyer-base erosion [2-1][2-4][2-5][2-6], and the absence of any institutional backstop comparable to the ECB's TPI or the Fed's reserve-currency privilege. No other sovereign in the comparison set exhibits all six characteristics simultaneously. The adversarial evidence refines the mechanism — market microstructure plus regime shift rather than pure fiscal discipline [5-4][5-5][5-6] — but does not change the ranking. The BIS's documentation that Japan's stress was uniquely acute among advanced economies [5-4], the auction-level evidence showing

that demand improves only at historically high yield levels [6-10], and the repo-market evidence showing repeated BOJ interventions to manage collateral scarcity [7-7][7-8] collectively strengthen the conclusion that Japan is the sovereign where vigilante dynamics are most concretely visible.

VII. Leading Indicator Dashboard

Tier 1: Highest Priority (0–6 Month Monitoring Window)

Sovereign	Indicator	Source	Current Status
Japan	20y/30y/40y JGB auction bid-to-cover and tails	MOF issuance materials [1-12][1-13][6-3][6-4]	20y: weakest since 2012 (May 2025) [6-9]; improved to 4.01 at highest yield since 1996 (May 2026) [6-10]; 30y: 3.14 cover, 0.15 tail (Jan 2026) [6-12][6-13]
Japan	BOJ purchase-reduction pace vs. plan	BOJ statistics [1-14], June 2025 plan [2-2]	Slowed to ¥200bn/quarter from April 2026 [2-2]
Japan	BOJ SLF usage and rule changes	BOJ SLF page [7-8], BOJ Review [7-9]	Repeated interventions Feb 2024–Nov 2025 [7-8]; May 2025 relaxation for CTD issues [7-7]
Japan	MOF superlong issuance plan changes	MOF [2-7][2-8]	Cuts under consideration/proposed [2-7][2-8]
Japan	Life insurer yen bond positioning	Market reporting [2-6]	Trimming planned for Oct 2025–Mar 2026 [2-6]

Sovereign	Indicator	Source	Current Status
UK	Long-gilt and linker auction metrics	DMO auction results [1-18][6-5][6-6]	£1.6bn linker sale completed June 2026 [6-5][6-6]
UK	APF sales pace and long-end mix	BoE APF data [1-20][1-22]	Fewer long-maturity sales; pace reduced to £70bn/year [1-20][1-21]
UK	Gilt repo market conditions and reform progress	BoE discussion paper [7-1], feedback statement [7-2]	"Central priority"; reforms under consideration; respondents flag liquidity concerns [7-2]
France	Non-resident share of negotiable debt	AFT/Banque de France [3-1][4-7]	~50% foreign ownership [3-2]
France	OAT auction bid-to-cover trends	AFT [6-7][6-8]	2.41–3.33 across long-dated lines (June 2026) [6-7]
France	Political capacity to pass fiscal measures	Parliamentary reporting [4-14][4-15]	Article 49.3 required for 2026 budget [4-15]

Tier 2: Important (0–12 Month Monitoring Window)

Sovereign	Indicator	Source	Current Status
US	Treasury auction investor-class allotments: dealer takedown vs. indirect bidder share	Treasury [6-1][6-2]	Monitoring required — richest official decomposition available
US	Treasury secondary-market liquidity: bid-ask spreads, order-book depth, price impact	NY Fed Liberty Street Economics [7-3][7-4]	April 2025 episode: sharp deterioration then recovery [7-3][7-4]
US	10y and 30y ACM term premia	NY Fed [1-8]	Monitoring required
US	Monthly TIC flow direction and composition	Treasury TIC [3-4][3-5]	Variable: +$44.9bn (Dec 2025), -$37.3bn (Oct 2025)
US	Foreign holdings: official vs. private split	CRS [3-3]	41.9% official, 58.1% private (Dec 2025) [3-3]
US	Refunding announcement: any change to coupon sizes	Treasury [6-14]	Unchanged; steady "for at least the next several quarters" [6-14][6-15]
US	Treasury convenience yield vs. euro safe-asset basis	ECB research [5-3]	Gap narrowing [5-3]

Sovereign	Indicator	Source	Current Status
UK	Real term premia at 10y and 30y	BoE analysis [1-19]	Key driver of 2025 long-rate moves [1-19]
UK	LDI sector resilience indicators	BoE financial stability [5-7]	Improved post-2022 reforms [5-7]
UK	Overseas gilt holdings share	DMO data [3-9][3-10]	~30.6% (end-2022) [3-8]
France	OAT/Bund spread	Market data [1-28]	67.0 bps (range 59–85 bps) [1-28]
France	ECB vs. private foreign holder substitution	AFT bulletin / MNI [3-7]	ECB share declining, private foreign rising [3-7]
France	Resident vs. non-resident absorption trends	Banque de France Webstat [4-8][4-9]	Monitoring required
France	EU fiscal compliance and TPI eligibility	Commission [1-26], ECB [4-1]	Under surveillance; deficit target 5.0% [4-14]
France	European repo/collateral conditions (OAT-specific if available)	Eurex [7-10], ICMA [7-11]	System-level demand growing; no OAT-specific stress documented [7-12][7-13][7-14]

Sovereign	Indicator	Source	Current Status
Japan	Japan Post Bank securities portfolio	Annual report [2-5]	¥143.6tn, declining [2-5]
Japan	GPIF allocation review	Reuters [2-4]	No change in 2025 [2-4]
Japan	JGB free-float conditions and repo-rate behavior	BOJ Review [7-9]	SLF borrowing elevated; expected to improve as BOJ purchases decline [7-9]
Cross-country	Sovereign CDS spreads and cross-currency basis	Market data providers / dealer runs	Supplemental stress indicators; useful for confirming external-demand or funding-market stress, but not used as primary evidence in this report because comparable sourced data were not collected.

Tier 3: Structural (6–36 Month Monitoring Window)

Sovereign	Indicator	Source
US	Net interest outlays trajectory	CBO [1-6]
US	Share of debt maturing within 12 months	Senate JEC [1-5]
US	SOMA holdings trend	NY Fed [1-9], FRED [1-11]
Japan	Debt-to-GDP	Macro data [1-15]
UK	Monthly debt-interest prints; index-linked sensitivity	ONS [1-23], OBR [1-24]
UK	Long-run linker savings vs. short-run cost sensitivity	DMO Report [5-8]

Sovereign	Indicator	Source
France	Deficit path; EU surveillance updates	OECD [1-27], Commission [1-26]
France	OAT and linker auction bid-to-cover trends	AFT [1-29][4-6][6-7]
France	Negotiable debt outstanding	AFT [4-5]
Cross-country	Global safe-asset convenience yield differentials	ECB [5-3], IMF [5-1]
Cross-country	BIS sovereign-market divergence/convergence pattern	BIS [5-4]

VIII. Cross-Country Contagion Architecture

The contagion risk is highest from Japan to the rest of the G7, not the reverse. Japanese institutional investors — life insurers, banks, and pension funds — are among the world's largest holders of foreign bonds. If domestic JGB losses force portfolio rebalancing or if the yen weakens sharply following BOJ re-intervention, the resulting repatriation of foreign bond holdings would reduce demand for U.S. Treasuries, UK gilts, and European sovereigns simultaneously. The IMF's empirical framework [5-1] confirms that U.S. Treasury supply shocks transmit into other sovereign markets, and Japanese repatriation would operate through the same channel in reverse — as a demand-withdrawal shock.

The contagion would propagate through both primary and secondary/plumbing channels simultaneously. In the U.S., the first visible sign would likely be secondary-market liquidity deterioration — wider bid-ask spreads, lower order-book depth, and higher price impact [7-3][7-4] — followed by changes in auction allocation patterns [6-1][6-2]. In the UK, the contagion would interact with the already-identified gilt repo fragility [7-1][7-2] and the ongoing QT program [1-20], creating a risk that the repo-market plumbing fails to absorb the combined stress of increased gilt supply from APF sales and reduced demand from foreign investors. In France, the contagion would primarily manifest through the foreign-demand channel given the ~50% foreign ownership [3-2] and the absence of currently documented OAT-specific repo stress [7-

12][7-13][7-14], though rising European collateral demand [7-10][7-11] could amplify the stress if it materializes.

France is the most vulnerable recipient of contagion in a global duration repricing. France's approximately 50% foreign ownership [3-2] means that a broad reduction in foreign investor appetite for sovereign duration would produce a larger proportional loss of demand for OATs than for gilts (~30.6% foreign [3-8]) or Treasuries (31% foreign [3-3]). The declining ECB share of French debt [3-7], replaced by more price-sensitive private and foreign-bank demand, removes a buffer that was present during earlier stress episodes. The ECB's convenience-yield research [5-3] implies that safe-haven flows within the euro area would benefit Germany, not France, meaning that a contagion event could simultaneously widen OAT/Bund spreads and strengthen Bund demand — the worst combination for France. The conditionality of the TPI backstop [4-1] means that ECB intervention may not be immediate, and France's heavy issuance across the curve [4-6] and its €2.613 trillion debt stock [4-5] mean the absorption challenge would be distributed across multiple maturity sectors.

The UK remains the second-most-vulnerable contagion recipient because it is already experiencing term-premium-driven repricing [1-19], is conducting active QT [1-20], and its gilt repo market — though under active reform [7-1][7-2] — remains a potential amplifier. However, the BoE's tested emergency toolkit [5-7] provides a faster and less conditional response capability than the ECB's TPI, which partially offsets the UK's structural vulnerability.

The U.S. is the most resilient recipient due to reserve-currency demand, but the ECB's evidence of a narrowing safe-asset advantage [5-3] suggests this resilience is gradually eroding. The April 2025 liquidity episode [7-3][7-4] demonstrates that even the deepest sovereign bond market in the world can experience sharp functioning deterioration, which in a contagion scenario could compound the primary-market pressure visible in investor-class allotment data [6-1][6-2].

IX. Conclusion

Bond-vigilante pressure is most visible in Japan — operating through both primary-market auction stress and secondary-market repo/collateral dysfunction — and an emerging dynamic in the UK's long-end gilt market and repo-market plumbing. The structural preconditions are firmly in place across all four sovereigns: record issuance,

declining central-bank absorption, and rising reliance on price-sensitive private and foreign investors [1-2][1-3].

The analytical framework must be precise. Not all rising yields constitute bond-vigilante episodes. The IMF's convenience-yield framework [5-1], the BIS's documentation of divergent rather than uniform sovereign-market moves [5-4], the ECB's evidence of safe-asset reallocation [5-3], and contemporaneous market reporting attributing broad selloffs to inflation rather than fiscal fears [5-5][5-6] all argue for a stricter threshold. A true vigilante episode requires reduced convenience yield, higher risk premia beyond fundamental explanation, and meaningful policy constraint. By this standard, Japan is the only sovereign that clearly approaches the threshold as of mid-2026 — and the repo/collateral evidence [7-7][7-8][7-9] confirms that the dysfunction extends beyond the primary market into the market's fundamental plumbing.

Japan capitulates first, and the capitulation is already observable across three dimensions: BOJ tapering deceleration [2-2], MOF superlong issuance cuts [2-7][2-8], and repeated BOJ Securities Lending Facility interventions to manage repo-market dysfunction [7-7][7-8]. The mechanism is a multi-layered market-microstructure and domestic-absorption event concentrated in the superlong segment, compounded by collateral scarcity from the BOJ's 49% ownership legacy [2-1][7-9] and a generational regime shift in Japanese inflation and rate expectations [5-4], rather than a generalized loss of faith in sovereign solvency. The traditional narrative that Japan's domestic home bias provides unlimited protection is contradicted by detailed evidence showing that life insurers are trimming yen bond holdings [2-6], Japan Post Bank is shrinking its securities book [2-5], GPIF declined to increase domestic bond allocations [2-4], and no major institutional category is positioned to replace the BOJ as the marginal buyer of superlong duration [2-1].

France's vulnerability is the most under-appreciated among the four sovereigns. With approximately 50% of its government debt held by foreign investors [3-2], ECB holdings declining as a share of outstanding debt [3-7], a conditional rather than unconditional central-bank backstop [4-1], a non-safe-asset position within the euro area [5-3], a debt stock of €2.613 trillion requiring heavy issuance across the curve [4-5][4-6], and a political system that relies on Article 49.3 to pass deficit-reduction budgets [4-15], France faces a form of triple conditionality that is unique in the comparison set. Its currently solid auction metrics [6-7][6-8], calm spread levels [1-28], and absence of documented OAT-specific repo stress [7-12][7-13][7-14] do not price this latent fragility, which would surface rapidly in a contagion scenario.

The United Kingdom faces genuine pressure through term-premium repricing [1-19], QT-driven absorption strain [1-20], and identified gilt repo fragility [7-1][7-2], but the BoE's tested emergency toolkit [5-7], the DMO's continued ability to complete scheduled auctions [6-5][6-6], and HM Treasury's institutional capacity provide more responsive buffers than are available to France. The UK's primary risk is a market-structure event rather than a sovereign-funding crisis, and the form of capitulation — further APF adjustment, issuance-mix changes, and repo-market reforms — is already partially underway [1-21][7-1][7-2].

The United States faces the most slowly building but potentially largest risk: a gradual erosion of Treasury convenience yield [5-1][5-3] that raises borrowing costs without producing the kind of dramatic market event that forces immediate policy response. The reserve-currency buffer remains operational but is narrowing [5-3]. The April 2025 secondary-market liquidity episode [7-3][7-4] demonstrates that sharp functioning deterioration is possible even in the world's deepest sovereign bond market. The most likely U.S. response is Treasury issuance strategy adjustment, with fiscal consolidation and expanded Fed purchases both unlikely absent a severe market-functioning emergency. The investor-class allotment data [6-1][6-2], secondary-market liquidity metrics [7-3][7-4], and refunding announcements [6-14] provide the most transparent and falsifiable monitoring system for detecting when U.S. auction-level discipline begins to bind.

The most likely sequence over the next 12–36 months: Japan continues incremental capitulation through issuance-mix adjustment, BOJ accommodation, and repo-market management; the UK follows with further APF, issuance, and repo-resilience modifications as real term premia continue to drive long-end repricing; France experiences spread widening if a global contagion event materializes, with the EU institutional framework channeling market pressure into forced fiscal consolidation plus conditional ECB support; and the U.S. experiences rising but contained pressure buffered by reserve-currency status, with Treasury issuance strategy adjustment as the primary response. The leading-indicator dashboard — now encompassing auctions, term premia, investor-base composition, secondary-market liquidity, and repo/collateral conditions — provides the monitoring architecture to track this progression in real time, anchored by the principle that binding market discipline manifests across multiple channels simultaneously and produces observable policy responses, not merely higher yields.

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Appendix

Research 1:

Sources are numbered in the order listed below.

1. Cross-country fiscal and debt facts relevant to sovereign-market discipline
2. IMF Fiscal Monitor data provide current comparable public-finance baselines for the four sovereigns and support cross-country monitoring of general government gross debt, fiscal balance, and interest burden metrics [1].
3. OECD’s Global Debt Report 2025 states that sovereign bond issuance in OECD countries is projected to reach a record USD 17 trillion in 2025, up from USD 14 trillion in 2023. It also states that central bank holdings of domestic sovereign bonds in OECD countries fell from 29% of total outstanding debt in 2021 to 19% in 2024, while foreign investors’ share rose from 29% to 34% and households’ share rose from 5% to 11% [2].
4. OECD’s 2026 report summary states that global debt markets face sustained fiscal deficits, rising interest costs, a structural decline in long-term demand, and growing refinancing risks as the maturity of issuance shortens [3].

5. These OECD findings are directly relevant to the requested monitoring framework because they document the macro backdrop for bond-market pressure: larger gross issuance, lower central-bank absorption, and higher reliance on private and foreign investors [2][3].

6. United States: issuance scale, refinancing, term premia, Fed balance sheet, and foreign demand indicators

7. The U.S. Treasury Borrowing Advisory Committee materials are official references for Treasury financing composition, bill-share analysis, SOMA offsets, and issuance strategy discussions [4].
8. A Senate JEC monthly debt update citing Treasury data states that as of May 5, 2026, total gross national debt was USD 38.91 trillion and, as of April 2026, the average interest rate on total marketable national debt was 3.373%. It also indicates a roughly one-third near-term maturity concentration in the cited fiscal-year data; line-item debt composition should be treated as a dated snapshot because the page updates dynamically [5].
9. CBO's Budget and Economic Outlook 2026-2036 states that net interest outlays are projected to rise from USD 970 billion in 2025 to more than USD 1.0 trillion in 2026 [6]. A CBO-based summary states net interest was USD 881 billion in FY2024 and projected at USD 952 billion in FY2025 [7].
10. The New York Fed publishes Treasury term premia estimates using the Adrian-Crump-Moench model for the full Treasury curve, including 10-year and 30-year term premia, which directly matches the requested leading-indicator set [8].
11. New York Fed SOMA data provide the stock and maturity distribution of Treasury securities held outright by the Federal Reserve [9]. The New York Fed states that, based on the December 10, 2025 operating policy statement, the FOMC directed the Desk to increase SOMA holdings to maintain an ample level of reserves through purchases of Treasury bills and, if needed, other Treasury securities with remaining maturities of 3 years or less [10].
12. FRED's TREAST series provides the weekly level of outright Treasury holdings by the Federal Reserve System and is an official time series for tracking whether the Fed is re-entering as a marginal buyer [11].

13. The official sources above imply that the U.S. monitoring set should include: Treasury auction tails and bid-to-cover from Treasury auction releases; 10-year and 30-year ACM term premia from the New York Fed; rollover concentration given the roughly one-third near-term maturity share in the cited fiscal-year data; SOMA holdings trends; and foreign participation from Treasury investor data/TIC-linked monitoring [4][5][8][9][10][11].

14. Japan: debt scale, BOJ footprint, JGB investor structure, and superlong auction stress

15. Japan's Ministry of Finance Debt Management Report 2025 is the official reference for JGB issuance plans, debt structure, inflation-indexed bonds, market liquidity, and government debt statistics [12].

16. The Ministry of Finance JGB newsletter points to official monthly updates on issuance plans, holdings trends, and central government debt statistics [13].
17. Bank of Japan statistics provide current releases for Japanese Government Bonds held by the BOJ, allowing direct monitoring of the central bank's footprint in the JGB market [14].
18. Public macro series referenced in search results report Japan's general government gross debt at 248.7% of GDP in 2025, though the exact level varies by source and forecast vintage [15].
19. Reuters reported that markets were closely watching Japan's 40-year auction in May 2025 for signs of sovereign fiscal stress [16]. Bloomberg reported that Japan's 20-year bond auction on 20 May 2025 had the weakest demand since 2012 and that the 20-year yield rose to the highest since 2000 while the 30-year yield rose to the highest since that maturity was first sold in 1999 [17].

20. These official/statistical and market-fact sources identify Japan's most relevant near-term indicators as: superlong auction demand and tails in the 20-year to 40-year sector; BOJ holdings of JGBs; issuance mix from the MOF plan; and any change in YCC/QE operating framework as published by the BOJ and MOF [12][13][14][16][17].

21. United Kingdom: gilt issuance, debt-interest sensitivity, APF unwind, and long-end term-premium moves

22. The UK Debt Management Office Annual Review 2024-25 states that the 2024-25 net financing requirement outturn was GBP 312.2 billion and gilt sales were GBP 297.9 billion, with the issuance split including GBP 62.4 billion long conventional gilts and GBP 34.8 billion index-linked gilts [18].
23. The Bank of England states that, from the start of January to the peak in early September 2025, the 10-year gilt yield rose around 20 bps to 4.8% and the 30-year around 50 bps to 5.7%; over 2025 as a whole, real term premia were the key driver of moves in UK long-term interest rates [19].
24. The Bank of England APF materials state that at the September 2024 MPC meeting the stock of gilts held in the APF was set to decline by GBP 100 billion over October 2024 to September 2025, and at the September 2025 meeting the MPC voted for a further GBP 70 billion reduction over October 2025 to September 2026 [20].
25. A 2025-2026 APF/HMT letter states that operationally the Bank aimed to sell fewer long-maturity gilts than gilts at other maturities in order to reflect demand conditions [21].

26. The Bank of England market-operations page publishes APF gilt operations and stock-of-holdings data as of 3 June 2026 [22].
27. ONS states that interest payable on central government debt was GBP 16.4 billion in June 2025, largely because interest payable on index-linked gilts rises with the Retail Prices Index [23]. OBR explains that UK debt-interest sensitivity reflects conventional gilts, index-linked gilts, NS&I liabilities, and reserve remuneration created by QE/APF operations [24].

28. These facts make the UK especially monitorable through: long-gilt auction demand and tails from DMO auction notices/results; real term-premium changes at the 10-year and 30-year sectors; APF sales/maturities and any change in pace; and monthly debt-interest sensitivity, especially through index-linked gilts and reserve-remuneration channels [18][19][20][21][22][23][24].

29. France: deficit path, debt-service framework, OAT auctions, and spread indicators

30. Agence France Trésor is the official source for France's debt-management framework, OAT/BTF auction calendars, latest auction results, debt-service cost tables, and OAT stock data [25].
31. The European Commission's France country forecast page is the official source for France's macro-fiscal path within the EU surveillance framework [26].
32. OECD's France outlook states that the fiscal deficit was projected at 5.8% of GDP in 2024 and references the government target path thereafter [27].
33. Market data cited in search results show the 10-year OAT/Bund spread at 67.0 bps on 2 June 2026, with a one-year range of 59.0 to 85.0 bps [28].
34. An AFT-linked auction report states that at the 21 May 2026 auction of inflation-linked OATs, France allotted EUR 426 million of the July 2034 OAT€i at a weighted average yield of 1.24% with bids totaling EUR 1.111 billion and a bid-to-cover ratio of 2.61, and EUR 303 million of the July 2047 OAT€i at an average yield of 2.03% with a bid-to-cover ratio of 3.26 [29].

35. For France, the requested leading indicators map directly to official and market sources: AFT auction bid-to-cover and issuance results; OAT/Bund spread behavior as a euro-area risk premium proxy; the inflation-linked OAT market; and the EU/Commission fiscal surveillance path [25][26][27][28][29].

36. Central-bank reaction-function facts across the four cases

37. Federal Reserve/New York Fed: as of December 2025 the Fed shifted from balance-sheet runoff to purchases of Treasury bills and potentially other short Treasuries up to 3 years to maintain ample reserves [10].

38. Bank of Japan: official BOJ statistics provide a standing weekly/periodic measure of JGB holdings, enabling monitoring of whether the BOJ balance sheet is shrinking or stabilizing [14].
39. Bank of England: the APF stock is actively declining through a published combination of maturities and sales, with the pace reduced from GBP 100 billion to GBP 70 billion in the subsequent 12-month window and with fewer long-maturity gilt sales by design [20][21][22].

40. ECB/euro area: ECB PEPP information confirms PEPP is an established purchase framework; the Central Bank of Ireland summary notes ECB decisions that net PEPP purchases were discontinued from March 2022 and reinvestments under PEPP were intended to end at end-2024 [30][31]. This defines the current euro-area backstop baseline for France: no ongoing net PEPP buying, but an institutional purchase framework exists historically [30][31].

41. Objective monitoring indicators explicitly supported by current sources

42. Auction stress indicators available from official debt managers:
43. United States: Treasury auction results and TBAC financing materials [4].
44. Japan: MOF JGB issuance materials and auction reporting framework [12][13].
45. United Kingdom: DMO auction notices/results and annual review [18].
46. France: AFT latest auctions and historical auction data [25][29].
47. Term-premium indicators:
48. United States: New York Fed ACM Treasury term premia [8].
49. United Kingdom: Bank of England analysis explicitly attributes 2025 long-rate moves to real term premia [19].
50. Foreign ownership / investor-base indicators:
51. OECD documents the cross-OECD rise in foreign-investor share and decline in central-bank share through 2024 [2].
52. U.S. Treasury investor and TIC-style monitoring is referenced in Treasury data architecture and TBAC materials [4].
53. Japan MOF materials include holdings trends by investor type [13].

54. France AFT and euro-area institutional setting provide issuance/ownership context, although the specific foreign share must be drawn from the cited official databases rather than inferred [25].

55. Country ranking facts most relevant to a future “first capitulation” assessment

56. Japan has the largest reported debt ratio in the comparison set, at 248.7% of GDP in 2025 in the cited macro series; the exact level varies by source and forecast

vintage, but the ranking remains robust. Japan has also recorded recent weak superlong-bond auction demand with yields at multi-decade highs in 20-year and record-era highs in 30-year bonds [15][16][17].

57. The United States has the largest nominal debt stock in the comparison set, with USD 38.91 trillion gross debt as of May 2026, a projected net interest bill above USD 1 trillion in 2026, and roughly one-third of publicly held marketable debt in the near-term maturity bucket in the cited fiscal-year data [5][6][7].
58. The United Kingdom combines large gilt financing needs, active central-bank gilt sales/QT, and high sensitivity of debt interest to index-linked gilts and reserve remuneration; the BoE states that real term premia were the key driver of 2025 long-rate moves [18][19][20][21][22][23][24].

59. France remains under EU fiscal surveillance with a deficit projected at 5.8% of GDP in 2024 by OECD, and market pricing monitored through the OAT/Bund spread and AFT auction results [25][26][27][28][29].

60. Factual early-warning dashboard implied by current data availability

61. United States: 10-year and 30-year ACM term premia; auction tails and bid-to-cover; SOMA holdings trend; share of debt maturing within 12 months; net interest outlays [4][5][6][8][9][10][11].
62. Japan: 20-year, 30-year, and 40-year JGB auction demand; BOJ JGB holdings; superlong yields; MOF issuance-plan changes [12][13][14][16][17].
63. United Kingdom: long-gilt and linker auction metrics; 10s/30s move attributed to real term premia; APF sales pace and long-end sales mix; monthly central-government debt-interest prints [18][19][20][21][22][23][24].

64. France: OAT and linker auction bid-to-cover; OAT/Bund spread; AFT debt-service cost tables; Commission/OECD fiscal-path updates [25][26][27][28][29].

65. Explicit limit of the evidence collected

66. The collected material provides current official statistics, debt-management documents, central-bank balance-sheet/backstop facts, and recent auction/yield events. It does not by itself provide probability estimates for future scenarios; it provides the factual base required to construct probability-weighted scenarios externally [1]-[31].

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Research 2:

Additional angle selected: **Deepening research on Japan's investor base and home-bias absorption capacity**. This angle was underdeveloped in the current report even though Japan is ranked as the most likely first capitulator. The new evidence below focuses on who actually holds JGBs, whether domestic institutions still have capacity or willingness to absorb more duration, and how the BOJ/MOF are already adapting supply and demand management.

1. **Japan's JGB market is still dominated by domestic holders, but the composition matters because the BOJ remains the single largest holder and private-sector replacement demand is not evenly distributed across maturities.** Ministry of Finance data based on BOJ flow-of-funds show that as of December 2025, JGB holders were: BOJ 49.0% of JGBs, insurance companies 15.8%, banks 15.2%, public pensions 6.9%, pension funds 3.0%, foreigners 6.8%, households 1.8%, and others 1.1% [1]. On a combined JGB-and-T-bill basis, foreigners' share was higher at 12.8%, but for JGBs alone it remained just 6.8% [1]. This confirms a key structural fact: Japan is protected from an immediate external-funding stop by low foreign ownership, but it is simultaneously vulnerable to **domestic absorption strain** if BOJ demand keeps shrinking and private domestic buyers do not want more superlong duration [1].

2. **The BOJ is still the dominant marginal stabilizer, and its June 2025 decision explicitly slowed the pace of JGB purchase reduction from April 2026 onward.** In its June 2025 plan, the BOJ said it would continue reducing monthly JGB purchases by about ¥400 billion per quarter until January–March 2026, but from April–June 2026 to January–March 2027 it would slow the reduction pace to about ¥200 billion per quarter, while preserving "enough flexibility to support stability in the JGB markets" [2]. This is objective evidence that the BOJ reacted to market-function concerns before any formal crisis threshold was reached [2]. In practical terms, the BOJ did not reverse tapering, but it reduced the speed of withdrawal, which is already a partial accommodation to the market's limited private-sector absorption capacity [2].

3. **The official investor dialogue framework shows the MOF is institutionally focused on direct feedback from major domestic investors such as banks and**

life insurers. The Ministry of Finance states that its Meeting of JGB Investors is held about twice a year and consists of academic experts and major institutional investors including banks and life insurance companies [3]. This matters because, in the Japanese case, the key stress point is not primarily foreign reserve-manager behavior but whether domestic banks, insurers, and pension investors signal reluctance to absorb superlong issuance. The existence of this formal channel means that changes in MOF issuance strategy can be informed quickly by buyer feedback [3].

4. **Japan's largest public pension fund did not provide an immediate new domestic-demand backstop in 2025.** Reuters reported on March 31, 2025 that Japan's Government Pension Investment Fund (GPIF) would keep its portfolio composition unchanged; the fund maintained its target structure rather than increasing domestic bonds [4]. This is important because market participants had discussed GPIF as a possible stabilizer for JGBs, but the 2025 review did not create fresh policy-driven demand for domestic bonds [4]. The absence of a GPIF allocation shift weakens the case that Japan's public pension sector will automatically absorb BOJ withdrawal at the long end [4].

5. **Japan Post Bank's balance-sheet positioning suggests that one of the country's largest domestic financial institutions is not an obvious incremental JGB absorber.** Japan Post Bank's Annual Report 2025 shows total securities fell to ¥143.6 trillion as of March 31, 2025 from ¥146.5 trillion a year earlier [5]. The report also highlights rapid changes in market conditions and sharp rises in interest rates as a top risk, alongside a stated intention to manage the portfolio in a risk-averse manner [5]. These are facts rather than interpretations: one of Japan's largest domestic institutions entered fiscal 2025 with a smaller securities book and explicit sensitivity to rate shocks [5]. That does not prove it will sell JGBs, but it does indicate that "home bias" should not be treated as unlimited balance-sheet capacity.

6. **Recent market reporting indicates that life insurers — historically crucial buyers of superlong JGBs — have become a weaker stabilizing force.** Reuters reported on October 29, 2025 that Japan's major life insurers planned to trim yen bond holdings in the October–March half year, and noted that JGB yields had surged from late May 2025, especially on the longer end, as demand from life insurers diminished [6]. Reuters also noted that life insurers had previously been heavy buyers of superlong JGBs because of regulatory asset requirements tied to the liabilities they sold [6]. This is a highly relevant factual update for the "who capitulates first?" question, because weakening demand from the traditional

superlong buyer base increases the probability that market pressure reappears first in Japan's 20y–40y sector [6].

7. **The MOF was already considering superlong issuance cuts in response to the 2025 selloff, which is direct evidence of debt-management adaptation under market pressure.** Reuters reported on May 27, 2025 that Japan would consider trimming superlong bond issuance after sharp rises in yields, and later reported on September 24, 2025 that the finance ministry proposed cutting superlong government bond supply in liquidity-enhancement auctions [7][8]. These are important because they move the discussion from abstract scenario design to observed policy behavior: Japan has already shown willingness to alter supply in the maturity sectors under the most stress [7][8]. That supports the report's conclusion that a Japanese "capitulation" is more likely to take the form of **issuance-mix changes plus BOJ accommodation** than classic fiscal austerity [2][7][8].

8. **The investor-base facts refine the early-warning dashboard for Japan.** The most informative early-warning indicators are not only auction tails and superlong yields, but also: (a) whether BOJ purchase-reduction plans are slowed further or paused [2]; (b) whether MOF formally cuts 20y/30y/40y supply or shifts issuance toward shorter maturities [7][8]; (c) whether life insurers continue trimming yen bond exposure rather than absorbing higher yields [6]; and (d) whether large domestic balance-sheet holders such as Japan Post Bank continue to emphasize rate-risk containment over duration accumulation [5]. These indicators are directly grounded in the new sources and deepen the mechanism behind Japan's vulnerability [2][5][6][7][8].

9. **Bottom line from this angle:** Japan's low foreign ownership remains a stabilizer against an external-funding crisis, but the new evidence shows that this protection does not eliminate bond-vigilante risk. Instead, the risk is concentrated in the superlong segment because the BOJ is tapering only gradually, GPIF did not add a new domestic-bond backstop, major domestic institutions remain rate-risk sensitive, and life insurers have become less reliable buyers of long duration [1][2][4][5][6]. That makes Japan's likely first form of capitulation even more specifically identifiable: **superlong issuance reduction and slower BOJ withdrawal**, rather than broad fiscal consolidation [2][7][8].

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> ### Research 3:

Additional angle selected: **Complementary research — cross-country investor-base fragility and foreign ownership dependence**. Existing research covered issuance, term premia, central-bank balance sheets, and Japan’s domestic absorption problem, but it did not build a comparable cross-country factual map of who owns the debt and how dependent each sovereign is on foreign demand. This angle matters because a bond-vigilante episode becomes more likely when the marginal buyer is price-sensitive, foreign, or both.

1. **France appears to be the most foreign-dependent of the four sovereigns in the comparison set.** Agence France Trésor’s debt key figures page, citing Banque de France, provides current holder data for negotiable government debt in Q2 2025 and explicitly reports non-resident holders as a key category [1]. Reuters, using French debt-holder data, reported that foreign investors own around 50% of France’s overall government debt [2]. This is materially higher than the foreign share identified for the U.S. and Japan in the sources below [2][3][4]. The factual implication is that France is more exposed than the current report emphasizes to any retreat by cross-border investors, reserve managers, or foreign real-money accounts [1][2].

2. **The United States still has a large foreign investor base, but the foreign share is lower than France's and has trended below earlier peaks.** The April 2026 CRS report states that as of December 2025, foreign holdings of U.S. federal debt totaled about USD 9.2 trillion, equal to 31% of total U.S. publicly held debt of USD 30.1 trillion [3]. The same source shows that this share was 34% in December 2021, 30% in December 2022, 30% in December 2023, 30% in December 2024, and 31% in December 2025 [3]. CRS also states that 41.9% of foreign holdings were held by official investors and 58.1% by private investors in December 2025 [3]. This means the U.S. remains highly reliant on foreign demand in absolute size, but less so than France in share terms, and with a larger private rather than official foreign component at the margin [3].
3. **The U.S. foreign-demand picture remains mixed rather than collapsing.** Treasury's official TIC release for December 2025 reported a net TIC inflow of USD 44.9 billion [4], indicating that foreign cross-border flows into U.S. securities and banking instruments were still positive at that point. Treasury's October 2025 TIC release, however, reported a net TIC outflow of USD 37.3 billion [5]. These official releases show that foreign demand for U.S. assets is still large but variable month to month, which supports using TIC flow direction as a near-term early-warning indicator rather than assuming a straight-line retreat [4][5].
4. **Japan remains the least foreign-owned of the four and therefore the least exposed to a classic external buyers' strike.** Ministry of Finance holder data for December 2025 show foreigners held 6.8% of JGBs and 12.8% of JGBs plus T-bills combined [6]. The BOJ remained the dominant holder with 49.0% of JGBs, while insurers held 15.8% and banks 15.2% [6]. Relative to France and the U.S., Japan's vulnerability is therefore not foreign retreat but domestic balance-sheet reluctance to absorb long-duration supply after BOJ retrenchment [6]. This complements, rather than duplicates, the prior Japan deep dive by situating Japan in direct cross-country perspective [6].
5. **France's foreign-ownership structure is also changing as ECB holdings decline.** An MNI analysis citing AFT's November 2024 bulletin reported that, between 2022 and Q2 2024, ECB holdings of French debt fell from 28% to 24% of outstanding debt, while foreign bank holdings increased from 4% to 7% and foreign non-bank holdings increased from 23% to 26% [7]. Even though this is not itself an official AFT page, it attributes the figures directly to AFT's bulletin and gives a more detailed decomposition of the foreign base than the current report contains [7]. Factually, this suggests that as ECB support fades, France is becoming more reliant on private and foreign-bank demand, not less [7].

6. **The UK also has a significant foreign investor base, though the current official-search results are less direct than for France, the U.S., and Japan.** OMFIF reported that overseas holdings of gilts represented around 30.6% of the total gilt stock at end-2022, the highest since end-2012 [8]. The DMO's gilt market data section and quarterly review confirm that the DMO publishes holdings information and market-value statistics for the gilt market [9][10]. Based on the collected evidence, the UK belongs closer to the U.S. than to Japan in foreign-ownership dependence, though the exact most-current official percentage was not recovered in this search round [8][9][10].

7. **Cross-country comparison from the collected sources implies very different "vigilante" transmission channels across the four sovereigns.**

8. Japan: low foreign ownership means stress is more likely to emerge through weak domestic absorption at auctions and a forced debt-management/BOJ response, especially in superlongs [6].
9. United States: foreign participation is still large in absolute terms, but the reserve-currency role and diversified investor base make the warning signs more likely to appear first in term premia, auction concessions, and TIC-flow volatility rather than a sudden foreign-stop event [3][4][5].
10. United Kingdom: meaningful foreign ownership plus active QT and long-end supply imply sensitivity to both global duration repricing and shifts in overseas demand, even if the exact latest official share still needs confirming from a holdings table [8][9][10].

11. France: the combination of roughly half the debt reportedly held by foreign investors and the decline in ECB holdings means France may be the sovereign most exposed to a **cross-border demand shock**, even if it is not the most likely first standalone capitulator because of the ECB/TPI institutional backstop [1][2][7].

12. **This complementary angle refines the early-warning dashboard in a way not developed in the current report.** For the U.S., the relevant foreign-demand indicators are monthly TIC flow direction, the major foreign holders table, and the split between official and private foreign holdings [3][4][5]. For France, the key indicators are the non-resident share of negotiable debt published through AFT/Banque de France and any further substitution of ECB holdings by foreign private investors [1][7]. For Japan, the low foreign share means foreign-ownership metrics are less informative than domestic holder shifts, confirming that auction and domestic-institution behavior should dominate monitoring [6]. For the UK, the

evidence gathered supports monitoring overseas gilt holdings alongside DMO auction results and BoE/APF changes [8][9][10].

13. **Bottom line from this angle:** the existing report's ranking of Japan as most likely to capitulate first is not contradicted by the new evidence, but the new evidence materially strengthens the case that **France is more vulnerable in a contagion or foreign-demand shock scenario than its relatively calm current spread levels alone suggest** [1][2][7]. It also sharpens the U.S. distinction: the U.S. remains reliant on large foreign demand in dollar terms, but its foreign share is materially below France's and its reserve-currency system still supports intermittent inflows even amid fiscal concerns [3][4][5].

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> ## Research 4:

Additional angle selected: **Deepening research — France's euro-area institutional backstop and debt-management structure as constraints on bond-vigilante discipline.** This angle was not fully developed in the existing research. It matters because France's probability of "capitulation" depends not only on market stress and foreign ownership, but also on the mechanics and conditions of ECB support, the composition of France's debt stock, and the domestic political process needed to deliver consolidation.[1][2][3]

1. **France's market vulnerability is filtered through a conditional ECB backstop, not a purely national reaction function.** The ECB's official TPI announcement states that the instrument can be activated to counter "unwarranted, disorderly market dynamics" that seriously threaten euro-area monetary-policy transmission, and that activation depends on a Governing Council assessment of market indicators, eligibility criteria, and proportionality.[1] The ECB also lists four broad eligibility areas for TPI decisions: compliance with the EU fiscal framework, absence of severe macroeconomic imbalances, fiscal sustainability, and sound and sustainable macroeconomic policies.[1] This means that, for France, a bond-vigilante event is less likely to force immediate standalone monetary capitulation than in Japan or the UK; instead, market pressure would interact with EU conditionality and ECB discretion.[1]

2. **The ECB's older purchase backstops are no longer adding net demand, which raises the importance of conditional tools like TPI.** The ECB's APP page states that net asset purchases under APP were discontinued as of 1 July 2022, although reinvestments continued in full thereafter.[2] The ECB's PEPP page and the Central Bank of Ireland summary state that net PEPP purchases ended in March 2022 and reinvestments were intended to end at the end of 2024.[3][4] Factually, this means France no longer benefits from ongoing net ECB demand through the broad crisis-era purchase frameworks that previously absorbed sovereign supply.[2][3][4] The remaining backstop is more conditional and discretionary.[1]

3. **France's debt stock remains very large in absolute terms, and the issuance burden stays heavy across the curve.** Agence France Trésor reported negotiable debt outstanding of about €2.613 trillion at 31 May 2026 for medium- and long-term debt alone.[5] AFT's February 2026 monthly bulletin showed heavy issuance across the curve early in the year, including €10.5 billion in 10-year issuance, €12.7 billion in the 15Y+25Y bucket, and €1.2 billion in the 30Y+50Y bucket by 31 January 2026.[6] This matters because a vigilante episode in France would have to be absorbed in a market with persistent benchmark issuance across multiple maturity sectors, not just at the front end.[5][6]

4. **France's foreign-ownership dependence is explicitly confirmed in official debt-manager data and remains a central transmission channel.** AFT's debt key figures page identifies non-resident holders of negotiable government debt as a key metric and reports the figure on a market-value basis for Q2 2025.[7] Existing Reuters-based evidence in the prior research placed this around 50% of France's government debt, and the official AFT/Banque de France framework confirms that non-resident ownership is a core monitored variable rather than a secondary estimate.[7] This means that France's main early-warning signs should include not only spreads and auction metrics, but also any deterioration in non-resident holding trends.[7]

5. **Official Banque de France securities data provide a direct way to track resident versus non-resident absorption of French debt.** Banque de France Webstat publishes debt-securities datasets covering debt securities issued by residents and holdings by residents or non-residents, including government-related sectors.[8][9] This expands the monitoring toolkit beyond auction outcomes: a France stress episode could emerge gradually through weaker non-resident absorption in holdings data before becoming visible as outright auction failure.[8][9]

6. **France's debt-management structure includes a meaningful inflation-linked component, which can mechanically transmit inflation shocks into debt-service costs.** AFT maintains separate official outstanding-debt pages for OATi and OAT€i securities.[10][11] AFT-linked reporting on the May 2026 linker auction showed continued issuance into long-dated inflation-linked lines, including the July 2034 OAT€i and July 2047 OAT€i.[12] Reuters background material on French inflation-linked bonds notes that France has long maintained a material indexed-bond programme.[13] The factual implication is that, while the UK is more exposed to index-linked debt-service volatility, France also has a live inflation-linked channel that should be monitored in any scenario where inflation-risk premia rise.[10][11][12][13]

7. **France's budget process itself is a vulnerability because fiscal adjustment may require politically fragile procedural tools.** Reuters reported on 2 February 2026 that France's 2026 budget aims to cut the fiscal deficit to 5.0% of GDP from an estimated 5.4% the prior year.[14] Reporting from Le Monde and other outlets states that the government used Article 49.3 of the Constitution to force through parts of the 2026 budget without a parliamentary vote after negotiations stalled.[15] These are objective political-process facts: France did pass a budget with deficit-reduction intent, but the passage relied on a constitutional mechanism associated with minority-government fragility rather than straightforward

legislative majorities.[14][15] For bond-market discipline, this means that any future consolidation demanded by markets or by EU institutions may be politically harder to deliver than the fiscal targets alone suggest.[14][15]

8. **The new evidence sharpens the form that French "capitulation" would most likely take.** Because France does not control its own central bank and because ECB support is conditional, the most plausible market-driven response sequence is: wider OAT/Bund spreads and weaker non-resident demand; pressure for a politically contentious fiscal package to satisfy EU and ECB credibility tests; and, if stress becomes disorderly, potential ECB intervention via a transmission-protection mechanism rather than a French national QE response.[1][2][3][4][7][14][15] This is a different mechanism from Japan's debt-management/BOJ accommodation path and from the UK's BoE/APF path.[1][14]

9. **The most informative additional early-warning indicators for France are therefore institutional as well as market-based.** New high-value indicators supported by these sources are: (a) whether the government can pass fiscal measures without repeated Article 49.3 reliance or no-confidence crises; (b) whether EU fiscal compliance and debt-sustainability assessments remain supportive of TPI eligibility; (c) whether AFT/Banque de France data show slippage in non-resident holdings; (d) whether linker auctions and long-end OAT issuance require larger concessions; and (e) whether the OAT/Bund spread widens in a way that looks "disorderly" rather than simply reflecting macro fundamentals.[1][7][8][9][10][11][12][14][15]

10. **Bottom line from this angle:** this evidence does not overturn the current report's conclusion that Japan is the most likely first capitulator. But it materially refines the French case. France is not just vulnerable because foreign investors own a large share of the debt; it is vulnerable because any credible backstop is conditional on fiscal and policy judgments made at the euro-area level, while domestic politics already show difficulty in delivering consolidation through ordinary parliamentary means.[1][7][14][15] That makes France less likely to "capitulate" via immediate monetary action, but more likely to face a euro-area mediated capitulation in the form of forced fiscal adjustment plus conditional ECB support if market discipline becomes binding.[1][14][15]

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> **Research 5:**

Additional angle selected: **Adversarial research — evidence that pushes back against the report's core framing that higher long-end yields necessarily imply imminent sovereign "capitulation," especially for the United States and United Kingdom, and that tests whether recent market stress is better explained by inflation, market structure, or safe-asset repricing than by pure fiscal discipline.**

1. **The IMF's 2026 Fiscal Monitor explicitly models a "bond vigilante" channel as a decline in the convenience yield on government debt, but this is presented as a scenario, not as an established current baseline.** The IMF's Chapter 1 online annex describes a stress scenario in which investors attach less value to the safety and liquidity services of government debt, operationalized as a lower convenience yield, alongside higher short-term risk premia and impaired monetary-policy transmission [1]. This matters because it provides an official framework for interpreting rising sovereign yields: a vigilante episode is not simply "yields up," but a combination of (a) reduced safe-asset valuation, (b) higher risk premia, and (c) weaker policy traction [1]. Adversarially, this weakens any automatic inference that current yield increases alone prove that markets are already imposing binding fiscal discipline.

2. **The IMF also treats spillovers from U.S. Treasury supply as globally important, implying that sovereign-stress signals may reflect system-wide duration pressure rather than idiosyncratic fiscal punishment of a single sovereign.** In the same online annex, the IMF specifies an empirical setup in which changes in 10-year sovereign yields across countries are linked to a U.S. Treasury supply shock [1]. This is important because it supports an alternative interpretation of rising yields in the UK, France, or Japan: some portion may be imported from global Treasury-supply and duration conditions rather than country-specific fiscal credibility breakdowns [1]. That is an adversarial check on country-ranking conclusions based too directly on local yield moves.

3. **Historical experience still cautions that low rates can persist much longer than debt arithmetic alone would imply, especially in the United States and Japan.** That point should be kept separate from the April 2026 IMF source, which focuses on renewed sensitivity through convenience-yield and risk-premium channels rather than relying on older low-rate framing [2]. This does not refute current risks, but it is a reminder that debt size alone has not been a reliable timing device for predicting vigilante events in reserve-currency or home-biased sovereigns.

4. **Official ECB research from June 2026 shows that the global safe-asset landscape is changing in ways that can redistribute convenience yields across**

markets, rather than simply destroy them. The ECB states that the gap between the U.S. Treasury basis and the euro government basis constructed from German government bonds has narrowed in recent years, and that the estimated foreign convenience yield on the euro benchmark safe asset has been rising [3]. It also says this pattern holds not only for U.S. Treasuries and German government bonds but also for highly rated euro-area government bonds [3]. Adversarially, this means part of the pressure on Treasuries may reflect a relative erosion of unique U.S. safe-asset privilege rather than a generalized sovereign-fiscal crisis. It also implies that some investors may be rotating within the safe-asset complex rather than abandoning sovereign duration altogether [3].

5. **That ECB evidence also argues against treating France and Germany's market environment as identical.** The ECB source discusses rising convenience yield on the euro benchmark safe asset, specifically in relation to German and highly rated euro-area government bonds [3]. Since France does not occupy the euro area's top safe-asset position, the finding is adversarial to any simple claim that all euro sovereigns will uniformly benefit from rising euro safe-asset demand [3]. In other words, a shift away from Treasuries toward euro safe assets could strengthen Bund demand without necessarily insulating OATs if spread differentiation re-emerges.

6. **The BIS's March 2026 Quarterly Review describes advanced-economy sovereign markets as having "diverged," not moved in a uniform fiscal-crisis pattern.** The BIS says long-term yields on Japanese and Australian government bonds increased markedly, while they moved sideways in the United States and Germany over the period discussed [4]. This matters because it is an official cross-market description inconsistent with a simple generalized "bond vigilantes are back everywhere" thesis [4]. It supports a more selective interpretation: Japan's market stress was unusually acute, while U.S. and German long-end performance was more stable over that BIS observation window [4].

7. **Reuters reporting from May 2026 provides a competing real-time market explanation: inflation fears, not fiscal fears, were the immediate driver of a broad sovereign selloff.** Reuters reported that investors were increasingly worried that war-related energy shocks could deliver a lasting inflation shock, with sovereign bond yields rising across rich countries [5]. In a companion Breakingviews column, Reuters argued that the aggressive bond selloff was about inflation rather than fiscal risk [6]. These are not official determinations, but they are relevant contemporaneous factual accounts of market narrative and price

action [5][6]. Adversarially, they caution against labeling every synchronized yield rise as a bond-vigilante episode.

8. **For the United Kingdom, the strongest official historical analogue points to financial-stability plumbing, not sovereign insolvency or classic vigilante discipline, as the mechanism behind the 2022 gilt crisis.** The Bank of England's official case study says its temporary and targeted gilt purchases in 2022 restored orderly market functioning by breaking adverse feedback loops and buying time for LDI funds to improve resilience [7]. The BoE explicitly identifies vulnerabilities in non-bank financial institutions, leverage, liquidity stress, and market dysfunction as the core problem [7]. Adversarially, this is significant because the UK's main recent bond-market "accident" was not primarily a foreign buyers' strike or a sustained refusal to fund the sovereign; it was a market-structure crisis in leveraged pension strategies [7]. That challenges any analysis that reads the UK's vulnerability mainly through fiscal arithmetic.

9. **The UK's own post-crisis debt-management stance also contains evidence against an imminent forced austerity narrative.** The UK Debt Management Report 2026–27 says index-linked gilts generated around £86.9 billion in direct savings in total from issuance of gilts that matured since their introduction in 1981 and before March 2026, if valued at maturity; it also says index-linked issuance supported the UK's long average debt maturity and diversified the investor base [8]. This official framing does not deny current linker sensitivity, but it shows HM Treasury still presents linker issuance as a resilience-enhancing feature over the long run [8]. Adversarially, that complicates a one-sided reading of the UK's linker stock as purely a bond-vigilante amplifier.

10. **For the United States, the new evidence points to a more nuanced risk: the key threat may be erosion of Treasury convenience yield rather than immediate failure of auction demand or compulsory fiscal retrenchment.** The IMF's scenario framework centers on a lower convenience yield as a mechanism through which fiscal risk and uncertainty can raise borrowing costs [1], while the ECB documents a narrowing U.S. safe-asset advantage relative to euro benchmark assets [3]. Together, these sources imply that a U.S. "vigilante" episode may appear first as loss of relative safe-asset privilege and higher term premium rather than as classic auction failure or sudden foreign stop [1][3]. This is partly consistent with the current report, but it pushes against any claim that the United States is close to the same form of capitulation as Japan.

11. **For Japan, the adversarial evidence does not overturn the report's ranking, but it reframes the mechanism: current stress can be read as a superlong market-structure event as much as a fiscal-discipline event.** The BIS description of divergent sovereign markets with especially marked increases in Japanese long-term yields [4], together with Reuters' emphasis on inflation and rate expectations as drivers of broader bond selloffs [5][6], supports a narrower interpretation of Japan's episode: domestic duration absorption problems and changing BOJ market structure may be more important than a generalized loss of faith in sovereign solvency. This still fits the report's conclusion that Japan is vulnerable first, but it argues for describing the trigger as market microstructure plus inflation/regime shift, not simply "bond markets disciplining fiscal excess" [4][5][6].

12. **Bottom line from this adversarial angle:** the current report's core ranking — especially Japan as the earliest pressure point — is not directly disproven by the new evidence. However, the new sources materially qualify the mechanism and timing. Official IMF analysis says a true vigilante episode requires more than rising yields; it involves reduced convenience yield and impaired policy traction [1]. ECB evidence shows safe-asset demand may be reallocating across sovereigns rather than collapsing outright [3]. BIS evidence shows the recent move has been uneven across advanced economies, not universally crisis-like [4]. And the UK's main recent bond shock was officially diagnosed by the BoE as an NBFI/LDI market-function crisis, not a pure sovereign-funding revolt [7]. Taken together, these findings argue for a stricter threshold in the main report before labeling U.S. or UK yield increases as binding bond-vigilante discipline, while reinforcing that Japan remains the cleanest near-term test case because its stress is already concentrated in the specific maturity sectors where the marginal buyer has changed [4][7].

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> ### Research 6:

Additional angle selected: **Deepening research — cross-country auction microstructure as the earliest binding signal of sovereign-market discipline.** Existing research discussed auctions conceptually, but did not build a comparable fact set on actual auction-demand metrics across the United States, Japan, the United Kingdom, and France. This angle matters because the request explicitly identifies auction stress — tails, bid-to-cover, dealer takedown, indirect/foreign participation, maturity concentration, and concession — as the first place where bond-vigilante pressure should become observable.

1. **The official data architecture differs sharply across the four sovereigns, which matters for monitoring.** The U.S. Treasury publishes auction results and a separate official investor-class allotments dataset that breaks allotments into primary dealers, direct bidders, and indirect bidders [1][2]. Japan's Ministry of Finance publishes individual auction result pages by maturity, including accepted-yield distribution statistics, and maintains a running "What's New JGBs" page linking each auction result [3][4]. The UK DMO publishes prospectuses and post-auction result notices security by security [5][6]. France's Agence France Trésor publishes latest auction results and downloadable auction history with bid-to-cover ratios by line [7][8]. Factually, the U.S. offers the richest official decomposition of who took the paper, while France and the UK offer strong line-by-line demand metrics but less public real-time buyer-class detail [1][2][5][7].

2. **Japan remains the clearest current case where auction stress has already appeared in the long end and then partially eased, which is exactly what a live early-warning indicator should do.** Bloomberg reported that Japan's 20-year bond auction on 20 May 2025 had the weakest demand since 2012 [9]. By contrast, Bloomberg reported that the 20-year auction on 20 May 2026 showed a bid-to-cover ratio of 4.01, better than the average over the prior 12 months, even though the average accepted yield was the highest since 1996 [10]. This combination matters: demand improved versus the stressed 2025 episode, but only at much higher yield levels [10]. That is consistent with a market that still clears, but at materially higher compensation.

3. **Japan's 30-year official auction data still show fragile superlong demand even after the worst 2025 stress.** The Ministry of Finance's official result page for the 30-year JGB auction on 7 April 2026 confirms the security was issued and provides the auction result framework [11]. Bloomberg's reporting on Japan's January 2026 30-year sale states the bid-to-cover ratio was 3.14, below the 12-month average of 3.405 [12]. The same auction was described in market coverage as having a wider tail than the previous sale, with the tail widening to 0.15 from 0.09 [13]. Even allowing for source differences between official publication and market interpretation, the factual pattern is consistent across sources: Japan's superlong sector remains the maturity bucket where investor demand is least robust [11][12][13].

4. **The Japanese signal is therefore not a one-off failed auction, but repeated sensitivity of 20-year and 30-year sectors to the price/yield concession required.** The sequence from the May 2025 weak 20-year sale [9], to the weaker-than-average January 2026 30-year demand [12], to a stronger May 2026 20-year sale only after yields rose to historically high levels [10], indicates that the market is still functioning but on less forgiving terms for the issuer. This reinforces the current report's conclusion that Japan's likely capitulation channel is issuance-mix change plus BOJ accommodation rather than outright funding failure [3][4][9][10][11][12].

5. **For the United States, the key deepening fact is that the official system directly exposes dealer dependence and indirect-bidder behavior, making auction stress more falsifiable than in the other cases.** TreasuryDirect's auction-results system publishes each note and bond result as an official release, and Treasury's investor-class allotments database separately provides auction allocations by primary dealers, direct bidders, and indirect bidders [1][2]. This means that for any future U.S. stress episode, one can objectively test whether long-end supply is

increasingly being warehoused by dealers rather than absorbed by indirect bidders, including foreign official and private accounts captured in the indirect category [1][2]. Existing research had already identified TIC flow volatility and term premia as warning signs; the new fact here is that the U.S. also has an unusually transparent official auction microstructure that can verify whether stress is becoming binding rather than merely narrative-driven [1][2].

6. **The U.S. refunding framework also shows that Treasury is not yet behaving as if auction stress is binding in mid-2026.** Contemporaneous Treasury refunding reporting said coupon and floating-rate-note auction sizes would be kept steady for at least the "next several quarters," while bills would be used more flexibly to meet short-term cash needs [14]. Reuters' contemporaneous coverage of that refunding also reported unchanged sizes of $58 billion for the 3-year, $42 billion for the 10-year, and $25 billion for the 30-year auction [15]. Factually, that is the opposite of what would typically accompany sustained auction stress: Treasury is not cutting long-end size or materially reworking coupon issuance in response to weak demand [14][15].

7. **This does not disprove U.S. vulnerability; it shows that, so far, auction-level discipline is less advanced than in Japan.** Because the Treasury has not yet changed coupon sizes and because official investor-class allotment data remain available for continuous monitoring [1][2][14], the U.S. case still looks more like a term-premium/convenience-yield story than a confirmed auction-stress story. In other words, the auction lens supports the existing report's ranking that Japan is ahead of the United States in the sequence from "higher yields" to "policy-constraining market discipline" [9][10][12][14].

8. **For the United Kingdom, current official auction notices and result notices show ongoing long-end and linker supply, but the most concrete new fact is that the DMO continues to place sizeable long-duration and index-linked auctions without a visible issuance retreat at the debt-manager level.** The DMO prospectus for the 3 June 2026 auction set a size of £1.6 billion for the 1⅛% Index-linked Treasury Gilt 2035 [5]. The DMO's result notice for that auction confirms that the sale was completed [6]. Existing research had already shown that the Bank of England aimed to sell fewer long-maturity gilts from the APF because of demand conditions; the additional auction-level fact is that the sovereign debt manager itself is still running scheduled long-duration linker supply rather than visibly shrinking or cancelling it [5][6].

9. **This suggests that, in the UK, the market-stress adjustment has shown up more clearly in the central-bank sales program than in primary sovereign issuance.** That aligns with the existing report's distinction between a market-structure/QT problem and a sovereign-funding problem. The debt manager's ability to keep conducting scheduled auctions [5][6], together with the BoE's earlier adjustment to APF long-end sales, supports the view that the UK's first-line pressure point remains market plumbing and absorption capacity under QT rather than an outright failure of the DMO to place bonds [5][6].

10. **France's official auction data show that primary-market demand has remained solid across long maturities even though the broader structural vulnerability remains high.** AFT's official June 2026 long-term OAT auction release reports issuance of €13.998 billion across four lines: the 25 November 2036 OAT, 25 October 2038 OAT, 25 May 2042 OAT, and 25 May 2057 OAT [8]. AFT's latest-auctions page shows bid-to-cover ratios of 2.41, 2.86, 3.21, and 3.33 for those lines [7]. These are objective auction facts showing that, at least in early June 2026, France was still able to place large long-end supply with multiple-cover demand [7][8].

11. **France's auction lens therefore qualifies, rather than weakens, the vulnerability thesis.** Existing research established that France has the highest foreign-ownership dependence in the comparison set and a conditional ECB backstop [16][17]. The new auction evidence shows that this vulnerability has not yet migrated into visible primary-market dysfunction [7][8]. That supports a more precise formulation: France is structurally exposed to a foreign-demand shock, but as of mid-2026 the stress is more latent than manifest in auction outcomes.

12. **Cross-country comparison from the new auction lens points to different "first failure modes."** Japan's warning signal is repeated softness in 20-year to 30-year auctions unless yields rise enough to clear supply [9][10][12][13]. The U.S. warning signal would be a rise in dealer takedown share and a drop in indirect allotment at long maturities, visible in the official Treasury investor-class data, combined with any future refunding decision to resize coupon auctions [1][2][14]. The UK warning signal would be deterioration in linker and long-gilt result metrics accompanied by further BoE/APF adjustments rather than immediate DMO retrenchment [5][6]. France's warning signal would be a move from currently solid bid-to-cover ratios [7][8] to weaker cover and larger concessions, especially in long OAT and linker supply, alongside worsening non-resident holdings data already identified in prior research [16][17].

13. **The new evidence strengthens the existing country ranking rather than overturning it.** Japan is still the only sovereign in the group with clearly documented recent long-end auction weakness severe enough to trigger policy adaptation elsewhere in the framework [9][12][13]. The U.S. has better transparency but not yet comparable auction deterioration [1][2][14]. The UK still shows more adjustment through the BoE balance-sheet channel than through failed sovereign auctions [5][6]. France still shows robust current auction demand despite high structural fragility [7][8][16][17].

14. **Bottom line from this additional angle:** auction microstructure currently supports a two-stage interpretation of sovereign bond vigilance. Japan is already in stage one, where long-end auctions intermittently weaken and policy adapts around them [9][10][12][13]. France is not yet there in primary issuance despite being structurally vulnerable [7][8][16][17]. The UK's pressure remains more visible through QT-market interaction than auction failure [5][6]. The U.S. has the cleanest official system for detecting future auction stress, but the available mid-2026 refunding facts do not yet show binding primary-market discipline [1][2][14][15].

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Research 7:

Additional angle selected: **Deepening research — repo-market plumbing and secondary-market liquidity as early-warning indicators of sovereign bond stress**.

This angle adds a market-microstructure layer that was largely missing from the existing research. The prior work focused on auctions, term premia, investor base, and central-bank reaction functions. The new evidence shows that repo and liquidity conditions are now being treated by central banks as a key transmission channel through which sovereign bond stress can become policy-constraining — especially in the UK and Japan, and as a monitoring tool in the U.S. and euro area.[1][2][3][4]

1. **United Kingdom: the Bank of England has explicitly elevated gilt repo resilience to a financial-stability priority, which is direct official evidence that repo-market plumbing is a key vulnerability channel for gilt stress.** In its September 2025 discussion paper, the BoE said government bond repo markets are important to the resilience of government bond markets because they facilitate the flow of cash and gilts and fund leveraged strategies.[1] The BoE discussed potential reforms including greater central clearing and minimum haircuts or margins on non-centrally cleared gilt repo transactions.[1] In its April 2026 feedback statement, the BoE repeated that improving the resilience of the gilt repo market is a "central priority" for the Bank and the Financial Policy Committee, working with the FCA, HM Treasury, and the DMO.[2] These are official facts that strengthen the report's existing conclusion that the UK's first failure mode is more likely to be **market-structure stress** than straightforward sovereign auction failure.[1][2]

2. **The UK evidence also suggests that repo fragility is not just a backward-looking 2022 issue; it remains an active policy workstream in 2025–26.** The BoE's 2025 discussion paper states that reforms are being considered partly in light of broader FSB work on leverage in non-bank financial intermediation, including government bond markets.[1] The 2026 feedback statement says respondents broadly recognized the benefits of reforms, but also raised concerns that market-wide measures such as mandatory central clearing or non-risk-sensitive minimum haircuts could create spillovers or harm liquidity.[2] Factually, this means UK authorities are still balancing two risks at once: insufficient resilience in stress and possible liquidity costs from the cure itself.[2] For early warning, this implies that **repo-market conditions and any BoE/DMO/FCA follow-up reforms are leading indicators alongside auctions and term premia**.[1][2]

3. **United States: New York Fed analysis shows that Treasury liquidity can deteriorate sharply without turning into a persistent funding crisis, which supports using liquidity indicators as a separate warning layer from auction metrics.** In an April 2026 Liberty Street Economics post, the New York Fed reviewed Treasury market liquidity since April 2025 and stated that liquidity worsened markedly one year earlier as volatility rose after higher-than-expected tariff announcements, with deterioration visible in wider bid-ask spreads, lower order-book depth, and higher price impact.[3] The same source indicates that liquidity later recovered.[3] A November 2025 New York Fed post similarly described relatively poor liquidity in April 2025 followed by recovery by late summer, using bid-ask spreads and book depth on on-the-run 2-year, 5-year, and 10-year notes.[4] These official research facts matter because they show that, in

the U.S., **secondary-market liquidity stress can spike sharply even when Treasury auction financing remains functional**.[3][4]

4. **The U.S. evidence therefore refines the vigilance framework: a true Treasury stress episode would likely show up first as a combination of worse secondary-market liquidity and changing primary-market allocation patterns, not auction failure alone.** The prior research already established that the U.S. has unusually transparent investor-class auction allotment data and unchanged coupon sizes in the cited 2026 refunding materials.[5][6] The new Fed liquidity evidence adds that monitoring should include bid-ask spreads, interdealer order-book depth, and price impact because these can deteriorate quickly during macro shocks even before the Treasury changes issuance strategy.[3][4][5][6] This does not contradict the current report's ranking; it deepens it by showing that **for the U.S., market discipline may become binding through impaired market functioning and rising liquidity premia before it forces overt fiscal or issuance changes**.[3][4]

5. **Japan: official BOJ material shows repo-market tightness has been serious enough to trigger repeated securities-lending adjustments, making repo conditions a concrete part of the JGB stress story.** On 30 May 2025, the BOJ announced a relaxation of the terms and conditions for its Securities Lending Facility (SLF) for certain 10-year cheapest-to-deliver issues "in order to ensure stability in the market by easing excessive tightening in supply and demand of Japanese government securities in the repo market."[7] The BOJ's SLF page shows repeated actions on this front across 2023–2025, including February 2024, May 2024, October 2024, January 2025, May 2025, and November 2025.[8] These are objective official interventions in market plumbing, not just interpretation.[7][8]

6. **A separate BOJ Review published in 2025 provides a factual mechanism linking JGB market functioning to repo and securities-lending conditions.** The BOJ states that the SLF provides a temporary and secondary source of JGBs to improve liquidity and maintain smooth market functioning.[9] The Review says borrowing from the SLF rose significantly from early 2023 as expectations around YCC changes interacted with the BOJ's large-scale JGB purchases, and that later declines in SLF usage reflected gradual improvement in the functioning of the cash, futures, and repo markets as BOJ purchases were reduced and repo rates stabilized.[9] It also states that the progress in purchase reduction is expected to increase JGB free float and improve repo-market supply-demand conditions.[9] This is important because it shows Japan's sovereign stress should be monitored

not only through superlong auctions and BOJ taper pace, but also through **repo tightness, free-float conditions, and SLF usage**.[7][8][9]

7. **The Japanese repo evidence slightly complicates the current report's narrative in a useful way: not all JGB stress is about weak demand; some of it is also about scarcity and collateral distribution.** The BOJ's May 2025 announcement referred specifically to "excessive tightening" in supply and demand in the repo market for certain CTD issues.[7] The BOJ Review likewise frames SLF usage as a window into the functioning of the cash, futures, and repo markets, not merely investor risk appetite.[9] Factually, this means that Japanese market dysfunction can coexist with high BOJ ownership and low free float: some sectors can suffer from **poor tradability and collateral scarcity at the same time that superlong auctions require higher yields to clear**.[7][8][9] That makes repo indicators especially valuable for distinguishing between solvency fears and market-structure stress.

8. **Euro area / France: broader European repo evidence points to rising demand for high-quality collateral and financing as issuance grows, but the currently available source base is more system-level than France-specific.** Eurex's 2025/2026 repo report says cash funding needs are expected to continue to grow as net issuance of European government debt increases, driving demand across single-ISIN, GC, and triparty repo markets.[10] ICMA's January 2026 note on the European repo market at 2025 year-end describes the overall secured-funding environment as active and reports on repo conditions across USD and JPY segments; it also provides a broad European market context for collateral demand and turnover.[11] These are market-structure facts rather than France-specific stress signals, but they support the idea that **rising sovereign issuance mechanically increases the importance of collateral and financing channels in Europe too**.[10][11]

9. **For France specifically, the repo/plumbing evidence remains less direct than for the UK, U.S., or Japan, which is itself informative.** The existing research already showed strong OAT auction metrics, high foreign ownership, and a conditional ECB backstop.[12][13][14] The new search did not recover a comparably direct official French source documenting current OAT repo stress or Banque de France/ECB concern focused specifically on OAT collateral dysfunction. That absence means the France case remains better characterized, on current evidence, by **foreign-demand dependence and euro-area conditionality** than by currently documented repo-market malfunction.[12][13][14] In other words, repo plumbing is an important

European background condition, but not yet a demonstrated France-specific pressure point from the sources gathered here.[10][11][12][13][14]

10. **Cross-country implication for the early-warning dashboard:** repo and liquidity indicators deserve a dedicated place beside auctions, term premia, and ownership data. Based on the new evidence, the most relevant additions are: UK — BoE/FCA/HMT/DMO actions on gilt repo resilience, signs of higher haircuts or clearing shifts, and any official warning about leveraged gilt financing.[1][2] U.S. — Treasury bid-ask spreads, interdealer book depth, and price impact as tracked by New York Fed research, alongside investor-class allotments.[3][4][5] Japan — BOJ SLF usage, repeated SLF rule changes, and any official references to repo-market tightening or free-float problems.[7][8][9] France — euro-area collateral and repo conditions as a background variable, but with primary emphasis still on spreads, auctions, and non-resident holdings until direct OAT-specific repo stress is documented.[10][11][12][13][14]

11. **Bottom line from this angle:** the added evidence reinforces, rather than overturns, the current report's country ranking. Japan still looks like the sovereign where market discipline is most concretely visible, but repo and collateral scarcity show that the mechanism is broader than auction weakness alone.[7][8][9] The UK's vulnerability is further confirmed as a repo/LDI/market-plumbing problem rather than a classic funding strike, and the BoE is treating gilt repo reform as a live priority in 2025–26.[1][2] The U.S. remains buffered at the primary-market level, but New York Fed liquidity evidence shows that sharp Treasury-market deterioration can occur quickly and should be monitored as an independent early-warning channel.[3][4][5][6] France, by contrast, still lacks equivalent direct evidence of repo-market dysfunction from the sources gathered, so its vulnerability remains more structural and demand-based than plumbing-based on current facts.[10][11][12][13][14]

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