

Daiwa's View

Change in market trends

- Pause in “easing domino” would also be positive for Japanese market, which has limited room for additional easing

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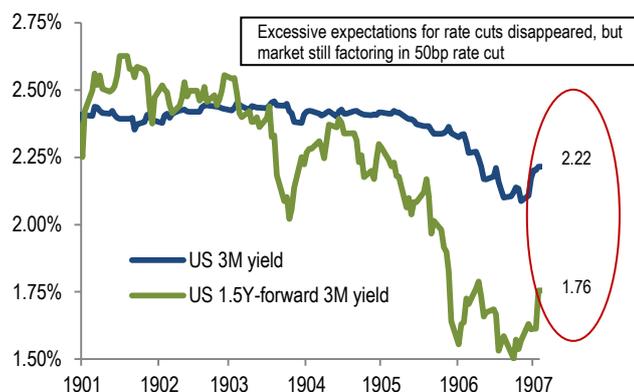
Change in market trends

According to our senior adviser Tadao Sakashima, “US jobs data has a special power to change market trends, rather than one statistic. This is because US consumption is huge. From a long-term viewpoint, the market moves in line with jobs data in many cases.”

Pessimism about the US economy has recently been mounting, reflecting weak related data (ADP, ISM). Therefore, the strong gains in June US jobs data (+224K m/m) had a strong impact. As the figure eased near-term concerns about a recession, the entire US yield curve shifted upward by around 10bp in the absence of expectations for one rate hike in the short-term zone. Even if we assume that a preemptive rate cut itself will be implemented (left-hand chart below). It, the probability of an excessive response by the Fed, such as a 50bp rate cut in July, appears to have declined to virtually zero. From a larger perspective, there is a possibility that the June jobs data has changed market trends since May 2019.

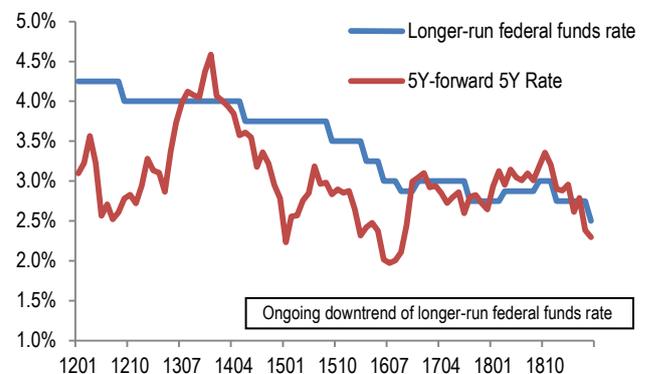
Expectations for US rate cuts served as one driver for the global easing domino and the flattening of the JGB yields. If the easing domino let up, it would also be positive for the Japanese market, which has limited room for additional easing. It is thus highly possible that (1) pressure for additional easing by the ECB will diminish slightly and (2) the flattening pace of the JGB yield curve will slow, although the 20-year JGB yield recently tested the level below 0.2% again. However, this is not a strong move to reverse the long-term global yield downtrend (right-hand chart below). It is just a pause in the cycle on a several-month basis. As it is difficult to expect a full-fledged yield uptrend alongside inflation, we recommend calmly preparing for buying on dips at the threshold levels of 0.25% or 0.3% for the 20-year JGB yield.

Chart: US Treasury 3M Yield and 1.5Y-forward 3M Yield



Source: Bloomberg; compiled by Daiwa Securities.

Chart: Longer-run Federal Funds Rate and 5Y-forward 5Y Rate



Source: Bloomberg; compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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