

Daiwa's View

Current level offers good opportunity to consider probe buying

- Considering probe buying at 10-year Treasury and JGB yields of 1.8% and -0.20%

Fixed Income Research Section
FICC Research Dept.

Chief Strategist
Eiichiro Tani, CFA
(81) 3 5555-8780
eiichiro.tani@daiwa.co.jp



Daiwa Securities Co. Ltd.

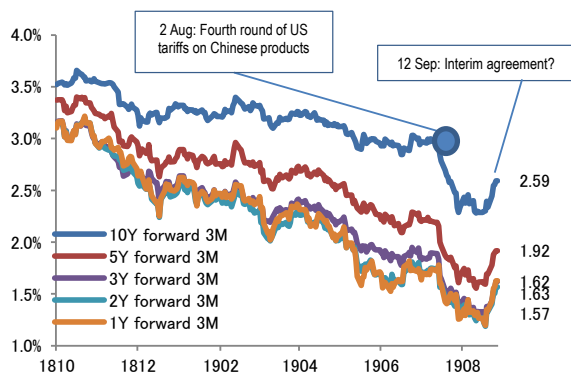
Considering probe buying at 10-year Treasury and JGB yields of 1.8% and -0.20%

Current level offers good opportunity to consider probe buying

The ECB announced a policy package with more emphasis on QE resumption than previously projected, as witnessed by the adoption of "open-ended QE." Meanwhile, the 10bp cut in the interest rate in negative territory was only the minimum level of the market consensus. Immediately after the announcement of the surprise, global yields declined substantially. However, yields eventually continued to rise in the absence of expectations for rate cuts by the Fed as (1) divergence of opinions within the ECB was highlighted and (2) the headline came out that "Trump advisers consider interim China deal to delay tariffs." Moreover, the number of initial jobless claims and important US inflation-related indicators pointed to a solid economy, appearing to have served as factors to diminish expectations for rate cuts.

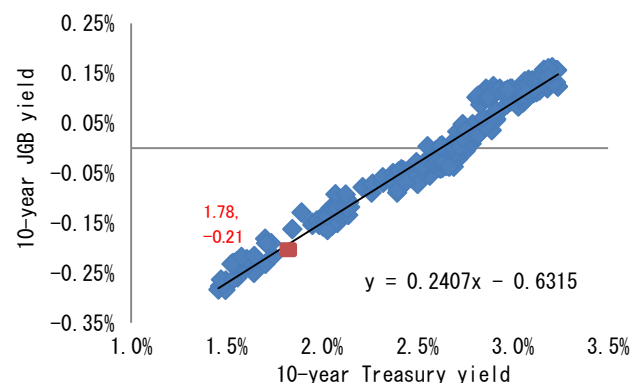
In fact, the US 1-year forward 3-month rate rose to 1.63%, meaning that expectations for rate cuts over a year have declined to two more cuts (quarter-point cut X 3 = 75bp in total). The figure of 75bp is the same as the actual result in the past preventive rate cut stages in 1995 and 1998. Therefore, the assumption that the current rate cut stage will stop at this level may be reliable in the market. If so, the effective federal funds rate and the 10-year US interest rate are estimated at 1.65% and 1.75-1.85%, respectively. Yesterday's 10-year yield level of 1.78% is close to the near-term fair value (this can be converted to 10-year JGB yield of -0.20%). Of course, if yields continue to rise, investors may hesitate to take action ahead of next week's FOMC meeting. With respect to dips going forward, corrections to the current level may enable investors to consider probe buying.

Chart: US Forward Rates



Source: Bloomberg; compiled by Daiwa Securities.

Chart: 10-year US Treasury and JGB Yields



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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 The Financial Futures Association of Japan
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