

## Daiwa's View

## Yields reaching lower end of estimated range

- Time to gradually start profit taking

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Daiwa Securities Co. Ltd.

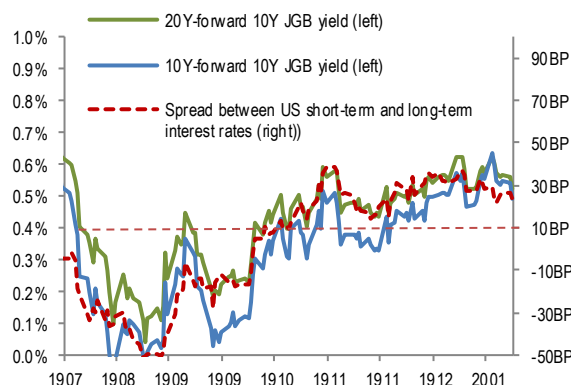
### Time to gradually start profit taking

### Yields reaching lower end of estimated range

Amid the continued decline in US yields (bull flattening), the long-term yield fell to 1.73% yesterday. [As we said before, we expect the 10-year US Treasury yield to move range-bound between 1.60% and 2.00% \(core range of 1.75-1.85%\) in 2020.](#) Yesterday, the yield dipped slightly below this core range. Our estimated range assumes that neither inversion of the US yield curve nor sharp steepening will occur during 2020. Although current risk-off mode and [deteriorating sentiment](#) (Fear & Greed Index dropped to 68) are worrisome factors, the timing when market falls below the estimated range is always a risk-off phase. If we assume no major change in the picture that "US economic fundamentals are bottoming out," we do not need to change the range at the moment. We recommend gradually starting profit taking from the US 10-year yield level below 1.75%. In the further yield downtrend to the 1.6% level due to stronger risk-off mode, it would be better to intensify the selling tone. A range-trade will be an important strategy (earnings source) [in 2020 when our main scenario is suspended rate cuts at the Fed.](#)

Yesterday, the JGB market also continued to post bull flattening—the 10-year, 20-year, and 30-year yields fell to -0.025% (down 2.0bp), 0.275% (down 2.5bp), and 0.41% (down 3.0bp), respectively. This week, the 10-year and 20-year yields declined by 3bp and 5bp, respectively, on an accumulated basis. Due to the global correlation of the neutral rate, the 10-year forward 10-year JGB yield and the 20-year forward 10-year JGB yield, both of which are components of superlong yields, tend to move closely in line with the differential between US short-term and long-term interest rates. This correlation is being fully maintained in the current downtrend. Given this characteristic, we think that gradually starting profit taking would be an effective option also for superlong JGBs, similar to US Treasuries. If the 20-year JGB yield faces downward pressure toward 0.20% in line with a decline in the US yield to the 1.6% level, we recommend strengthening the selling tone of superlong JGBs as well.

**Chart: 10Y- and 20Y-forward JGB Yields, Differential Between US Short-term and Long-term Interest Rates**



Source: Bloomberg; compiled by Daiwa Securities.

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As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.
- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
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- 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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Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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