

Bloomberg Intelligence

Rates Volatility and Long Road to Liftoff

BI Interest Rates, North America Dashboard



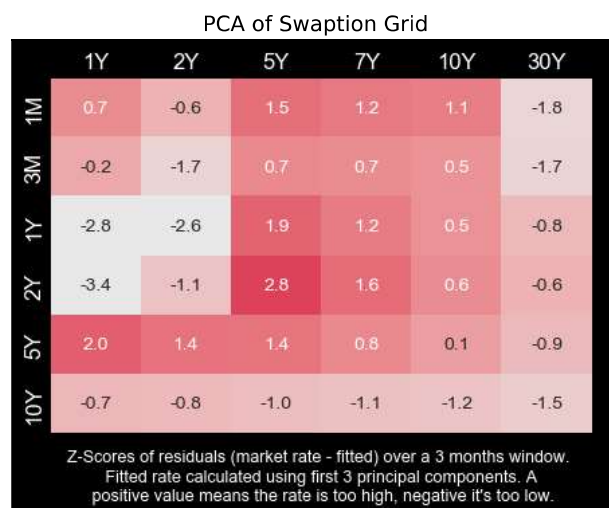
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Reflation Narrative Seeing Volatility Related to Hikes Perform

(Bloomberg Intelligence) -- The swaption volatility surface has seen the belly of the curve outperform on the fiscal/inflation theme and the sector may see the highest sensitivity on any shifts in policy-path pricing. (01/20/21)

1. Vol Implications of Shifts in Policy-Rate Pricing

A principal component analysis of the swaption surface highlights how the 5y tenor implied vols are trading relatively high on the grid, particularly 2y5y. Shifts in pricing around the policy rate path may see this sector have the most sensitivity rather than front-end vol as any potential hike cycle is far enough in the future, with forward guidance indicating rates will be stable until at least through 2023. This should continue to anchor front-end vols, given the narrow distribution range, which may pick up over time. (01/20/21)

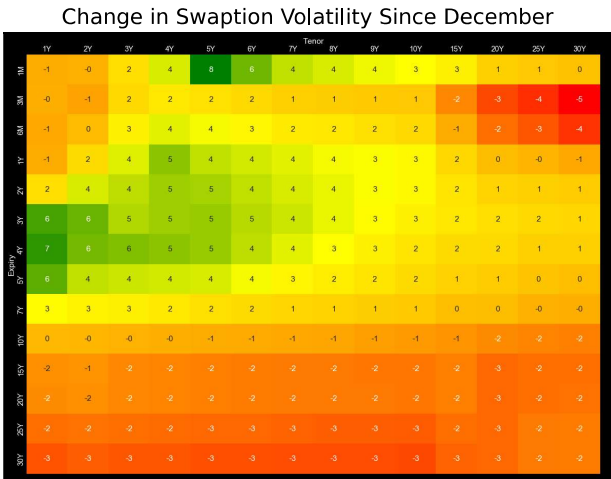


Source: BQuant, Bloomberg Intelligence

2. Rate Hike Pricing Dragged Forward Sees Volatility in the Belly

(01/20/21)

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