Global Rates Weekly

Policy paralysis

18 January 2019

The View: cloudy skies

Political paralysis and gridlock across developed markets will likely continue to weigh on near term growth. This has shifted risks to easier monetary policy and a lower trajectory of rates globally.

– M. Cabana

Rates: muddling through

US: Contrary to popular belief, we don't see the structural bull steepener has arrived. 2y-10y curve continued to trade flat in recent months, with realized curve vol significantly underperforming 5y-30y.

EU: At next week's ECB meeting, the balance of risks are likely to be shifted to the downside. Longer-end EGBs may benefit most from dovish ECB as hunt for yield intensifies. Watch for discussion on TLTROs.

UK: The Government's lost Brexit vote has raised the chance of softer Brexit but uncertainty remains very high. We look a the rates impact of Norway and 2nd ref.

JY: The BoJ has little time left, we still expect JGB yields stay within their ranges but we have lowered our rate forecasts following changes in the external environment.

AU: Another step lower for the terminal rate would breathe some life into mid-curve steepeners. The real curve is inconsistent with current RBA market pricing.

– C. Zhang, R. Hourihane, G. Moec, S. Cross, M. Capleton, S. Ohsaki, P. Sam. T. Morriss

Front end: MMF repo and the FICC

US: The FICC repo facility continues to attract quarter/year end MMF inflows. Repo by US GSIB providers increased on year end.

– O. Lima, M. Cabana

Spreads: too late for BTP-Bund tightening

EU: The interplay of a sharp deterioration of the macro picture and the "political fundamentals" skew long BTP returns heavily towards losses – it is too late for a BTP-Bund tightening to 200bp

– E. Satko

Inflation: Lords on RPI – right problem, wrong solution

UK: Disregarding advice to tread carefully, the Lords Inquiry into RPI recommends "correcting" a 2010 change to its calculation, to the detriment of bondholders:

– M. Capleton

Technicals: a resurrected bull, now what?

The resurrection of the bond bull called for US10y to fall to 2.52%, maybe 2.3%. Short term signals favor bounces such as US 10y toward 2.9%.

– P. Ciana

Rates Research
Global

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Our medium-term views

	Rationale
Duration	• US: We see higher rates from current levels as end of cycle risks already priced. However, structural forces may curb the size of rates sell-off. • We remain short duration and expect 10y rates to rise to 3.25% driven by growth momentum and worsening supply/demand dynamic. • EU: We are mildly bearish vs forwards, but comfortably bullish vs consensus. We see the belly of the curve richening further. • UK: we are biased short in Gilts but stay neutral duration for now given the wide range of potential Brexit outcomes currently. • JP: We expect JGB yields stay within their ranges but a yield decline risk is higher because it would be more difficult for the BoJ to control. • AU: We expect duration to move more in line with improving economic conditions, although global uncertainties could temper some of the back-up in yields.
Front end	• US: Front end too pessimistic on Fed, short Dec '19 FF futures. FRA-OIS curve should steepen over 2019, with some easing of funding pressures in Q1 '19. • UK: the market sees increased chance of a no-deal Brexit inhibiting the BoE's ability to hike further. We like hedging Brexit risks in short Sterling options. • EU: Given the macro outlook, the front-end should remain well supported, with a growing proportion of investors expecting the ECB not to hike rates at all in the cycle. Current valuations may appear somewhat stretched, however, until data meaningfully improves, the front-end should remain well anchored • AU: Bank bill futures curve is too flat relative to our expectations for the RBA to look at more normal policy settings in Q1 2020.
Curve	• US: We think curve should invert by mid-2019 and see value adding forward curve steepeners. • EU: We expect any selloff to be driven by the 10y and any significant rally to come with increased expectations of operation twist and thus to ultimately result in a long-end flattening (esp. in semi core curves). The risk to this view is a further sharp JGB bear steepening or the ECB closing the door to operation twist. • UK: we see flattening beyond 10y on reduced long end supply combined with a return of the pension fund bid once the current Brexit uncertainty abates. • AU: We stay constructive on 3s-10s steepening scope in 1H 2019, supported by above-trend growth and higher inflation.
Inflation	• US: With our flattening bias in the nominal US curve, we recommend a forward real curve flattener. • EU: Underlying "lowflation" forces are being masked by base effects lifting inflation temporarily. We would be short 30y OATei breakeven versus 50y OAT. • AU: We expect a modest rise for inflation and we see value at the front-end of the breakevens curve. • UK: we see front end breakevens pricing too high a chance of a no deal and like being short 5y, supported by our economist's bearish inflation forecasts.
Spreads	• US: Treasuries are cheap vs. OIS and LIBOR and Fed QT should help reverse this. Treasury and corp supply are offsetting - but weaker - tightening forces. • EU: Despite the short-term encouraging demand data, the impressive deterioration in Italy's macro picture and the outstanding macro risks imply risk-reward is still skewed towards a widening. We are short 2y Schatz spreads versus the US. We see wider FRA-OIS bases in the near term and flatter 3s6s curve • UK: we see a normalisation of the swap spread curve on reduced duration of issuance and switching out of swaps into long cash on Libor uncertainty. • AU: RBA patience means there is some scope for AU outperformance in cross market spread positions.
Vol	• US: The comeback of data volatility and data dependency will define vol regime in 2019. We like owning vol tactically and calendar spread on receivers. We remain bullish vega. Formosa demand will be below market expectation as both technical, fundamental and regulatory environment become less supportive. • EU: The ECB remains in the business of managing expectations, thereby keeping rates vol very low. We are short 5-7y gamma vs the US (in straddles).

Our key forecasts

(% EOP)	2017	2018	2019	3Q18	4Q18	Q1 19	Q2 19	Q3 19	Q4 19
Fed Funds	1.25-1.5	2.25-2.50	2.75-3.00	2.00-2.25	2.25-2.50	2.50-2.75	2.75-3.00	2.75-3.00	2.75-3.00
10-year treasuries	2.41	3.25	3.00	3.06	2.68	3.00	3.05	3.00	3.00
ECB refi rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10y Bunds	0.43	0.30	0.60	0.47	0.24	0.40	0.50	0.60	0.60
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10y JGBs	0.05	-0.01	0.08	0.12	-0.01	0.04	0.06	0.08	0.08
BoE base rate	0.50	0.75	1.00	0.75	0.75	0.75	1.00	1.00	1.00
10y Gilts	1.19	1.55	1.80	1.57	1.28	1.50	1.70	1.80	1.80
RBA cash rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
10y ACGB	2.63	2.85	2.75	2.67	2.32	2.50	2.60	2.70	2.75

Source: BofA Merrill Lynch Global Research

What we like right now

AMRS	We like 2s-10s nominal curve flattener and higher 10y rates.
EMEA	In EUR, we like 10y-30y flattener in OATs vs Bunds and being short long-end breakevens. In UK, stretched breakevens make real rates look too rich.
APAC	We like steepeners in Japan and Australia.

For a complete list of our open and closed trade ideas, please refer to Alpha trade recommendations

The View

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The week that will be

Political paralysis and gridlock across developed markets will likely continue to weigh on near term growth and interest rate levels. This is particularly true for the UK and US. Prime Minister May is set to announce her next move to a parliament trying to wrestle the process from her; while an extension of A50 looks likely, the reason for the extension remains the bigger question for the market. The US shutdown shows no sign of ending with both sides deeply entrenched and a tenth of US Q1 GDP growth trimmed every two weeks. The rest of the world does not offer a much brighter outlook with simmering public discontent in Europe and trade uncertainties hanging over Asia.

The most optimistic take on this policy paralysis is that the longer the uncertainty persists, the higher the costs, and then the higher the odds of a favorable resolution. The historically lopsided defeat of May's Brexit plan increased the market's odds of a softer separation or second referendum. A protracted and economically punishing US shutdown will apply more pressure for a breakthrough on trade. However, even for those with rose tinted glasses, the risks have shifted to the downside.

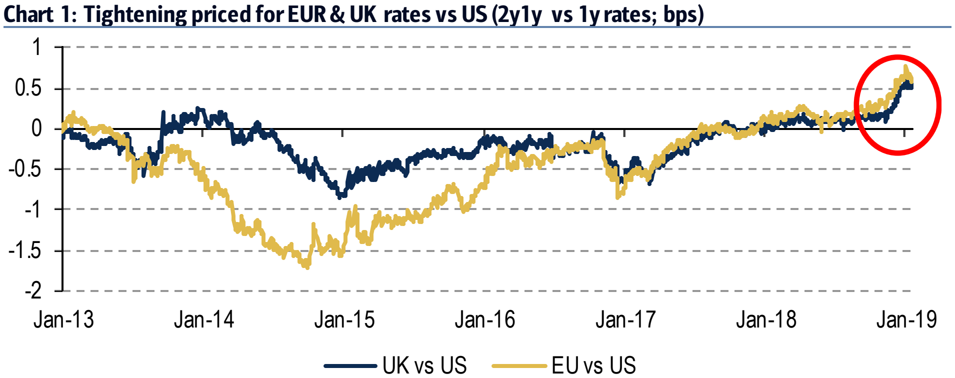
Monetary policy makers may have some of the rosiest shades in terms of how they are viewing the outlook. Fed policy makers have signalled a pause but still believe strong employment will allow for additional hikes and balance sheet reduction. The ECB and BoE have convinced the market they can hike even as the Fed cuts, which we are skeptical of (Chart 1; ECB and BoJ meetings this week will likely be non-events). The PBOC seems to be the most willing to act, but they are constrained by ongoing trade negotiations and a desire to prevent a material CNY depreciation amidst ongoing talks.

Overall, policy paralysis has shifted the risks to easier monetary policy and a lower trajectory of rates globally. This may support risks assets in the near term but raises broader questions about LR potential growth. We find it sobering that the current policy environment has convinced the market that 2.5% terminal fed funds is the most the US economy can sustain despite a decade of ultra-easy global monetary policies and pro-cyclical fiscal stimulus. A policy breakthrough is required to lift these clouds and rates.

The week that was

Global rates markets traded mixed with the most pronounced moves in the UK. Brexit plan defeat raised the prospects for easier separation terms or no separation at all. The limited trickle of US data unaffected by the shutdown showed modest improvement but insufficient to move Fed pricing. Meanwhile, recessionary risks remain high in Europe.

Chart 1: Tightening priced for EUR & UK rates vs US (2y1y vs 1y rates; bps)



Source: BofA Merrill Lynch Global Research, Bloomberg

Rates – US

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- The belly of the Treasury curve is the most sensitive to growth and Fed concerns, making 5y-30y curve highly directional with risk on/off moves
- Contrary to popular belief, we don't believe the structural bull steepener has arrived. 2y-10y curve continued to trade flat in recent months, with realized curve vol significantly underperforming 5y-30y.

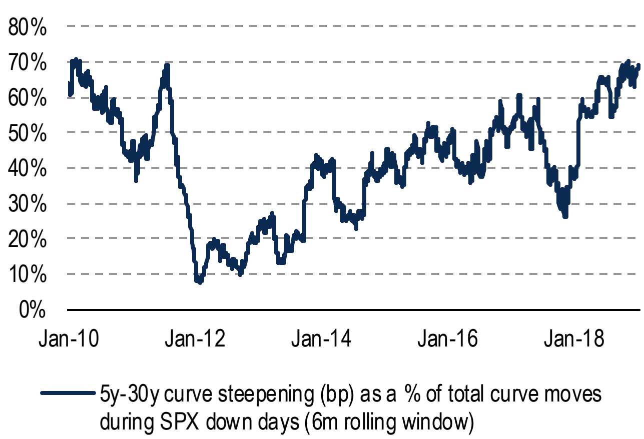
Muddling through

At the mercy of equities

One of the key themes we highlighted in 2018 was the breakdown of bond/equity correlation. Clearly, this dynamic has changed in the last two months. As markets repriced the growth outlook and equity markets sold off, the belly of the curve (5y-7y) led the Treasury market rally, a sharp contrast to the first three quarters of 2018. As a result, 5y-30y curve became increasingly directional with equity markets during risk-off moves (Chart 2).

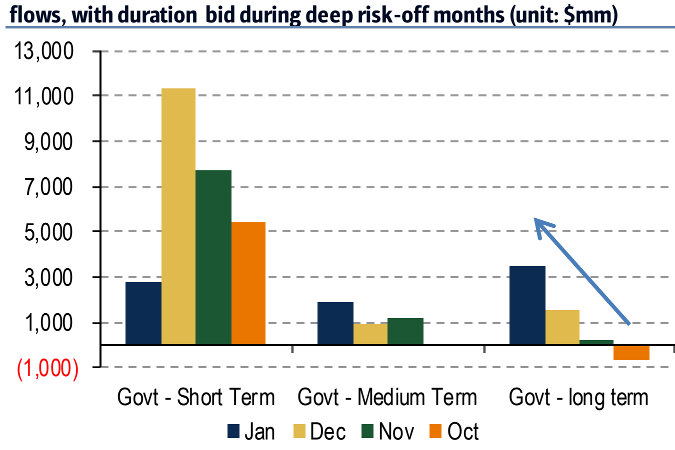
In our view, the heart of the concern is global growth. As a result, headlines on central bank dovishness and trade talk progress only provide temporary relief and are discounted by rates investors. By the same logic, investor risk appetite may only be altered materially when US and China data stand on solid footing. This change in risk appetite has been reflected in flow data we've been tracking (Chart 3). Over the course of the Q4 risk-off move, mutual fund flows shifted from the front-end to the long end, similar to the behavior in January 2016. Until we receive new information on growth outlook, for better or worse, both the Fed and the markets may need to be patient. And this is evident in the flows.

Chart 2: 5y-30y curve moves have been highly directional with the equity market



Source: BofA Merrill Lynch Global Research

Chart 3: Change in risk appetite is evident in government mutual fund flows, with duration bid during deep risk-off months (unit: $mm)



Note: data represent a subset of mutual fund flows reported by EPFR. As of 1/9/2019
Source: BofA Merrill Lynch Global Research, EPFR

Stairs, Escalator, Roller-coaster

The question heading into 2019 has always been "how much" and "how fast" the US economy is going to slow down, as opposed to the "if" question. Unfortunately, we have to be patient to get a clearer sense of the above question and refresh our assessment. The next few weeks can be critical as Q4 earnings are released from corporate America and January data start to come in. We see three paths for the market:

- **The stairs scenario**: while there have been scary prints in global data, there is still a possibility that the US economy is weathering the global slowdown just fine. At least some of the most reliable indicators for predicting a recession are still far from stress levels. If what we've seen so far is a bad dream, the pause that the Fed is currently engineering may be short lived once we are back on track later this year. In this case, supply pressure would have a much bigger impact than in 2018, and a belly led sell-off could reverse the long end steepening we've seen, and the supply pressure could really kick in.

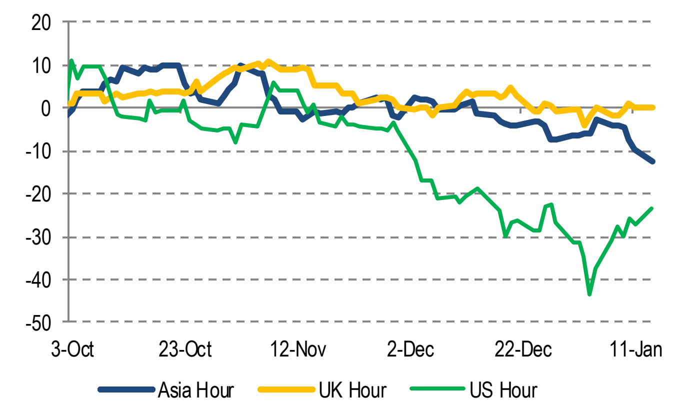
- **The escalator scenario**: it seems increasingly likely that the markets may experience a more volatile H1. As discussed last week, while the rest of the world has been dealing with growth roadblocks all of last year, asset prices in the US only re-priced recently. Time-zone analysis of the Treasury rally since Q4 2018 showed that almost the entire 50bp move in 10y UST was done during US hours (Chart 4), reflecting domestic investors pricing in a weaker growth outlook. While data may continue to be sluggish, markets and sentiment were able to at least push central bankers and politicians to be more accommodative, leaving the outlook for H2 a little brighter.

- **The roller-coaster scenario**: the economy would be a mess in this case. However, this is far from reality based on recent data, though the easiest call as strategists would be to buy bonds.

Without new information on data, earnings, and policies, both rates and curves are likely to stay range-bound. In our view, scenario one could cause the most positioning pain, as investors unwind 5y-30y curve steepeners and short vol positions in the front end (the Fed is not only willing to be patient, they are also willing to be flexible). Scenario two is the most likely to us, where the rates market would continue to follow risky assets, with the belly leading the moves.

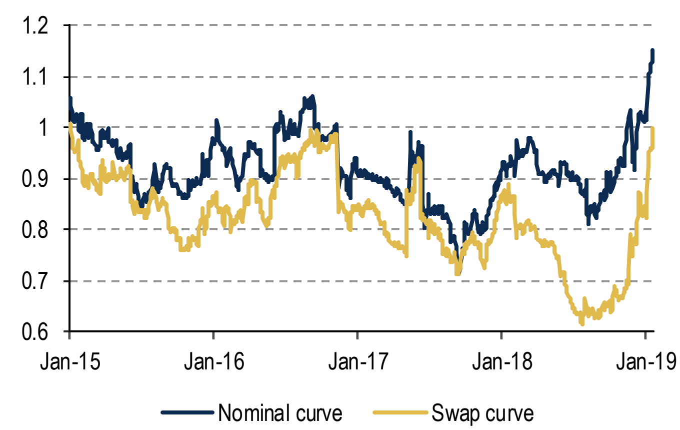
As long as the Fed is on hold, the time for a structural steepener is not ripe. Even though steepeners were the trade in vogue in recent weeks, 2y-10y has remained relatively flat. We think the recent 5y-30y steepening is a reflection of growth concerns and haven bid, rather than the beginning of a cutting cycle. As a result, realized volatility in 5y-30y curve has significantly outperformed 2y-10y in both nominal and swap space (Chart 5) – unsustainable in our view. If the economic climate improves and the hiking cycle resumes, the 5y-30y should continue to flatten, if there is a need for the Fed to cut rates, 2y-10y curve catch up to 5y-30y.

Chart 4: 10y Treasury rally in recent months were almost entirely done during the US trading hours (bp)



Note: For the purpose of this analysis, we define UK hour to be between 2am-7am ET , US hour to be 7am-5pm ET. And Asia hour to be 5pm-2am ET. London and New York trading hours overlap between 7am ET to 12pm ET. Source: BofA Merrill Lync h Global Research

Chart 5: Realized vol ratios between 5y30y vs 2y10y curves are at multi-year highs (6m rolling window)



Source: BoA Merrill Lynch Global Research

Rates – EU

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- At next week's ECB meeting, the balance of risks are likely to be shifted to the downside. This may be priced in the front-end, but remain buyers on dips
- Longer-end EGBs may benefit most from dovish ECB as hunt for yield intensifies. Explicit discussions on TLTROs possible, EUR bases may ultimately be impacted

ECB: Balance of risks likely to have shifted to downside

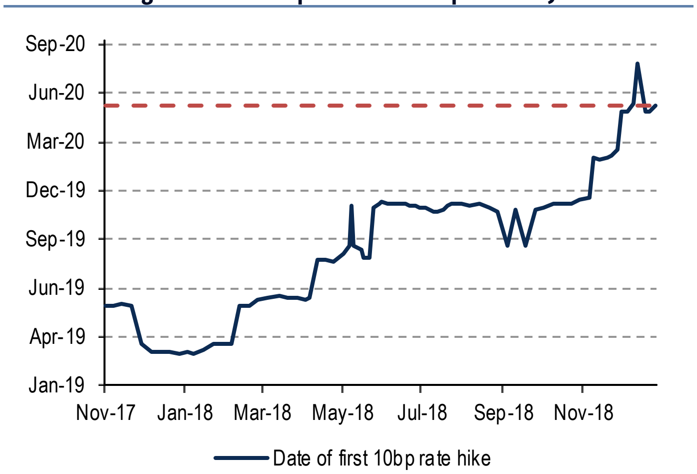
The first ECB meeting after the end of the QE could have come under better auspices. The data-flow, already consistent with the balance of risks "moving to the downside" in December has deteriorated further, so much that some countries of the Euro area may already be in a state of technical recession. While we are not expecting any drastic policy announcements from Mario Draghi next week, we think the ECB are likely to explicitly acknowledge that the balance of risks have shifted to the downside.

If it was already "moving to the downside" in Dec, the dataflow since then would make it very hard for the ECB to maintain the balanced risk assessment and keep a straight-face. We think it is going to come with a lot of qualifiers though: insist on the number of one offs which paint an overly dark picture of the current cyclical position, while the fiscal easing in some key countries, coupled with a solid labour market and oil-driven disinflation, should provide some support to the domestic side of the economy.

Extent of front-end rally uncertain, but buy dips over medium term

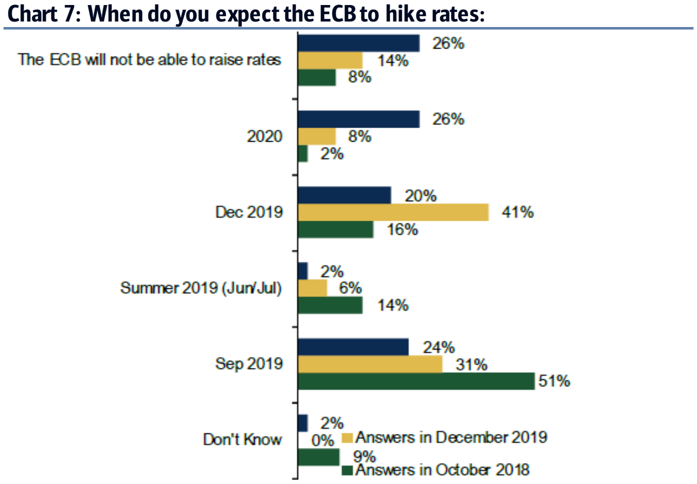
Should the ECB indeed change the balance of risks, the extent of any front-end rally is not entirely clear in the short-run. With the first 10bp hike now pushed to Jun 2020 (Chart 6), one may argue such a move by the ECB is well priced. Furthermore, a growing majority of investors already see the ECB not hiking until 2020, if at all (Chart 7).

Chart 6: Timing of the first 10bp hike has been pushed to Jun 2020



Source: BofA Merrill Lynch Global Research

Chart 7: When do you expect the ECB to hike rates:



Source: BofA Merrill Lynch Global Research

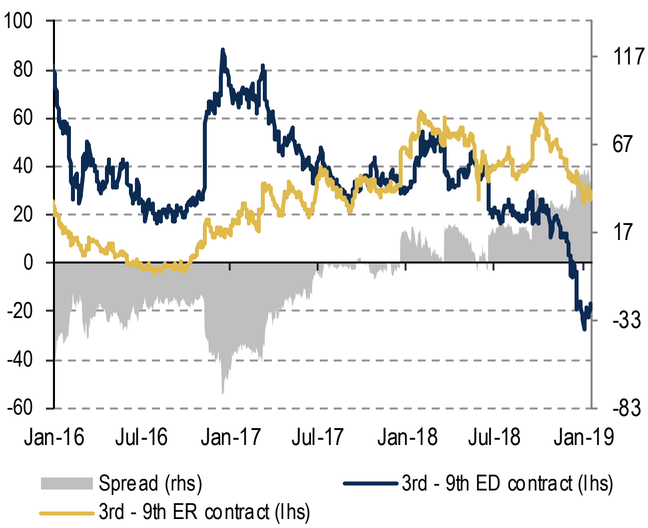
However, over the medium term, we prefer to be buyers of dips in the front-end, given our economists' below consensus growth and inflation forecasts (see here). While the front-end has rallied significantly over recent months, led by the Greens, the Euribor curve still appears quite steep relative to the US (Chart 8). Ultimately, if the Fed is forced to cut rates it seems very unlikely that the ECB would be able to hike - even if for technical reasons. Finally, we note that 50% of investors still see a hike in 2019 (Chart 7), expectations which may need to be reassessed should the weak dataflow continue.

Longer-end EGBs may stand to gain most from ECB dovishness

Where the ECB's growing dovishness can still have a significant impact, however, is further out core and semi-core EGB curves. With the ECB potentially on hold for even longer, we fully expect the hunt for yield environment to intensify. Indeed, the ease with which bond supply has been taken down over recent weeks highlight the growing demand (see here for a more in depth discussion on recent EGB supply). We continue to like French longer-end flatteners and 10y Belgium on a PCA fly vs Germany and Italy (the latter can still trade with a high beta to weak risk assets over coming months).

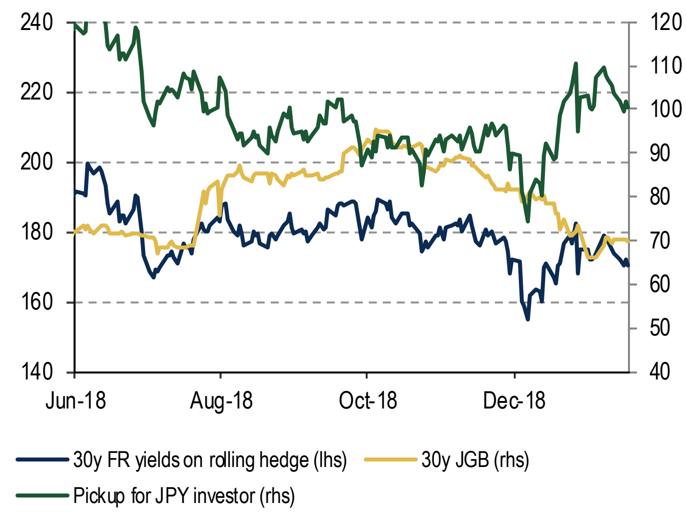
With a significant amount of Jan's longer-end supply now out of the way, and large index extensions on the horizon, medium/long term EGBs can perform well. Furthermore, semi -core bonds now appear attractive to the Japanese investor base once more (Chart 9). Finally, we note that the recent data disappointment and rates rally has come with little mention of 'Operation Twist'. While not our base case, December's meeting appeared to leave the door open to a potential 'reinvestment twist' at some stage. Given the ECB's inability to cut rates, this may be seen as a more realistic option over coming months should the dataflow continue to weaken, thus supporting medium/long-end EGBs.

Chart 8: Euribor curve appears very steep relative to Eurodollars



Source: BofA Merrill Lynch Global Research

Chart 9: Attractiveness of OATs has increased for Japanese investors



Source: BofA Merrill Lynch Global Research

Don't forget the TLTROs

As far as the ECB's next steps are concerned, TLTROs continue to gain traction in the market. (T)LTROs of some kind, announced in March, have been our economists' base case for some time. While next week is likely to be too early for an announcement of new (T)LTROs, it may serve as a platform for Draghi to discuss the issue on a more explicit basis. So far, he has merely spoken generically about the "tools" available to the ECB and, while admitting TLTROs were mentioned at the Dec meeting, he conceded they were "not discussed in any substance".

As mentioned previously, the belly of EUR basis curves have a sizable room to tighten on new TLTROs. TLTROs would be credit supportive and keep excess liquidity higher for longer, while the gradual and low vol policy exit they imply are also supportive of tighter bases. The credit supportive aspect of TLTROs may also weight on front-end ASWs. We entered the year seeing front-end ASW underperformance as a key theme for 2019, as has proven to be the case in the early weeks. More structurally, however, should the weakening macro backdrop and new TLTROs see rates low and liquidity high for a prolonged period, we believe the ECB may have to once again look at the possibility of opening up their balance sheet to non-banks (see here for in depth discussion on topic). This would lead to a significant cheapening of front-end spreads, in our view.

Rates – UK

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- The UK government's lost Brexit vote has raised the chance of softer Brexit but uncertainty remains very high. We look rates impact of Norway and 2nd ref.

Political paralysis leaves rates lacking a direction for now

After suffering the largest Parliamentary defeat since the 1920's, the government consequently won a vote of no confidence tabled by the Labour Party. Focus now is on the Labour party's next move (further no confidence votes or a shift to backing a second referendum) and the Parliamentary votes next week. Gilts have underperformed since, suggesting the market sees an increased chance of a softer Brexit outcome.

The path for rates from here is closely tied to outcome of Brexit and we see both lacking direction for now. While we agree that a delay to the Article 50 process looks increasingly likely, the bigger focus for the market is what drives the delay.

Norway plus = higher rates

Our colleagues discussed the increased chance of 'Norway plus' post- the vote, which would see the UK remain a member of the single market and the customs union. We see this option posing a bearish risk to rates, not only because it is a more favourable outcome in the medium run for the economy, but also as the political implications would likely lead to increased risk of a Corbyn government at the next election. 'Norway plus' would involve continued freedom of movement and continued EU budget contributions, which is inconsistent with the red lines laid out by the current government. This does not rule it out though, given the increased power Parliament has gained in the process. Amendments presented in Parliament next week should offer some baring on whether there is a majority for any alternative to the government's deal such as 'Norway plus' in.

2nd referendum: bearish reaction = hedging opportunity

The Labour party has previously said that if they cannot force another general election, then all options remain on the table including backing a second referendum. The chances of a second referendum would rise considerably if Labour shifted to backing one in our view, although we note that they face little incentive to do so currently.

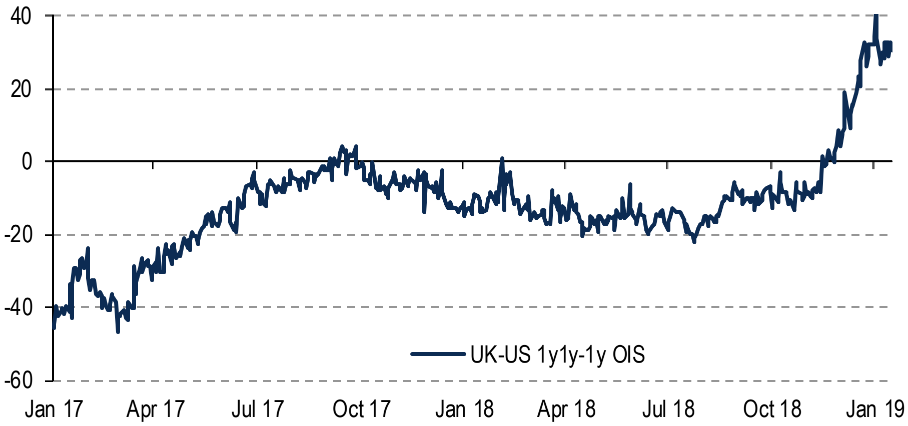
While the potential for a second referendum leading to a vote to remain also poses an upside to yields, we are wary of the belief that holding one would be unequivocally positive for the economy and therefore bearish for rates. Current polls suggest remain is in the lead, but only by as much as it was about six months out from the 2016 referendum. This is before any campaigning for either side has even begun. While the knee jerk reaction to the announcement that a second referendum were being held is likely to be a sell off in Gilts, we would look to use this as an opportunity to hedge the risk of it resulting in a no deal/hard Brexit.

All routes dovish for the BoE near-term

We see the outlook as universally dovish for the BoE in the near term. What we know is that this process probably has at least several weeks and possibly many months left to run, capping the ability of the BoE to hike in the near term. Our economists remain comfortable with their November rate hike call, given uncertainty remains elevated.

Even the softer Brexit's potentially on offer, like Norway+Customs Union, cannot be relied upon since they could take years to negotiate and MPs may eventually baulk at the conditions if they do not do so in the near-term. This situation remains a plan for the worst and hope for the best type for firms. With the global economy on the turn, we struggle to see much more than soft growth through this year. With inflation heading below target too - this low inflation call is the one we have conviction in this year - and the backdrop of the Fed's more dovish recent statements we see the BoE on hold until November. We think the risk is that the BoE skips 2019 entirely.

Chart 10: UK front end now pricing more than one additional BoE hike over the Fed, %



Source: BofA Merrill Lynch Global Research

Where is consensus?

Our latest Rates and FX sentiment survey shows a third of respondents now see a second referendum as the most likely outcome. Our sense from clients is that most see the risks of no deal Brexit as increasingly unlikely, with many looking to get bearish rates at some point in the belief that the outlook for Brexit will improve. Investors see GBP as very undervalued in most recent fund manager survey, suggesting many see current market Brexit pricing as too pessimistic (a view shared by our colleagues in FX). In rates active positioning on Brexit views was gradually reduced towards the end of last year given the political volatility, but consensus seems skewed more bearish to us. We are therefore more wary of further risk off moves on negative headlines, such as upcoming votes in Parliament confirming that no option commands a majority.

Inflation: tentative “balance of risks” trades

Rates markets typically expect real yields to be less volatile than nominal yields most of the time (trading on a “beta” of less than one). With shifting perceptions of the Brexit outcome dominating, the UK market has been in a “beta >1” state for some time. “No deal” fears are perceived as risk-off leading to lower nominal yields, while also being seen as Sterling negative, lifting breakevens and inflation expectations. The last few months have therefore witnessed breakevens rally, in spite of the collapse seen in other markets’ breakeven rates under pressure from oil weakness and macro downside worries. The market response to the meaningful vote suggests it regards this result as tilting the balance slightly towards a softer Brexit, delivering another high-beta real yield move.

Although this high beta narrative makes some sense, one thing that perhaps looks most stretched is 5y5y RPI, implying inflation well above the BoE’s target (after deducting an RPI-CPI wedge) between 5- and 10-years from now (although this has corrected somewhat on the House of Lords report, see UK inflation). We have learnt once again that the Sterling pass-through after pronounced weakness is relatively rapid, while WTO tariffs in the event of no deal should also have passed-through by a 5-year forward starting horizon. The market is therefore pricing something else – the BoE failing to contain inflation at its current target, because it is subordinating the target in pursuit of growth, because its target has been changed or because it makes a policy mistake. If the market is right in judging the balance of risks as having shifted towards a softer outcome, then this 5y5y rate has some way to fall.

Rates – JY

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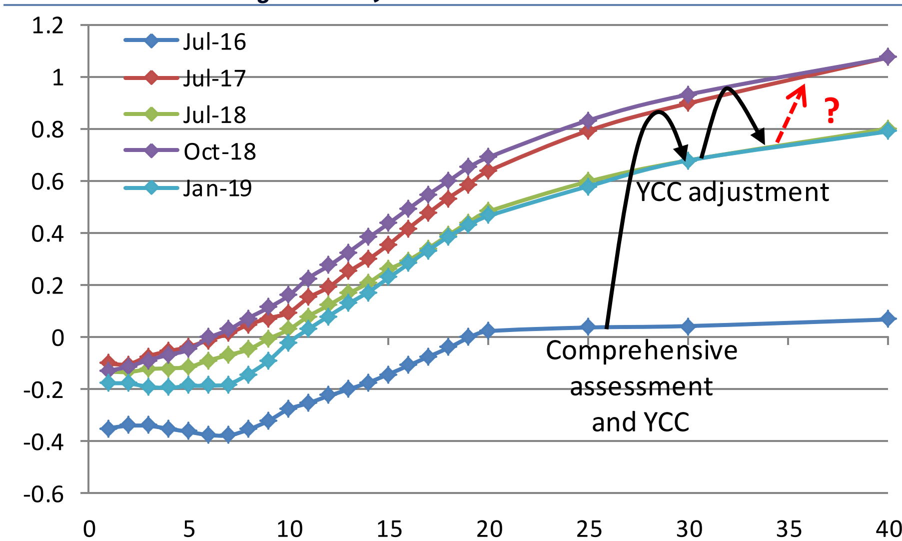
BoJ's intention is unchanged, but the obstacles are even higher

- The BoJ has little time left, we still expect JGB yields stay within their ranges but we have lowered our rate forecasts following changes in the external environment.
- As a risk, a yield decline would have a greater impact because it would be harder for the BoJ to control.

This is an excerpt of the Japan Rates Viewpoint, published Jan 17.

Until now, the BoJ has steadily reduced its JGB purchases even as it has lowered its inflation forecast. Especially since the July Monetary Policy Meeting of last year, where the BoJ widened the acceptable range of the 10yr yield, the target of yield curve control (YCC), the BoJ has shown some willingness to accept higher yields (Chart 11). Even though it bears the contradictory obligations of YCC and improving JGB market functions, the BoJ gave the impression that it was gradually moving towards de facto normalization (Stealth BoJ 2). Since the end of 2018, however, market turmoil and the yen's appreciation have raised the possibility that the BoJ's moves towards normalization will stall. The deadline for US-China trade talks is approaching in March, and the UK's planned withdrawal from the EU is planned for 29 March. The outlook is unclear from now through March, mainly owing to political risk, and expectations of higher yields have trouble gaining any traction in this situation. The yield decline over the year-end and New Year was apparently led by foreign investors, but at the end of the Japanese fiscal year in March, JGB demand from domestic investors—particularly life insurers—can easily rise. In fact, the yield curve shows a seasonal tendency to flatten in March (Seasonal flattener vs. BoJ's real intention).

Chart 11: Yield curve changes: does BoJ have a next move?



Source: BofA Merrill Lynch Global Research

Bank of America Merrill Lynch

Deadline approaches

We believe that the recent yield decline has gone too far and maintain our optimistic view of the economy, but it will probably take some time for sentiment to turn more favorable (Emphasizing the inconsistencies). If sentiment does indeed improve and the Fed does hike interest rates twice in 2019, that will be a tailwind for "the BoJ's intention," but the timing will be important. If the Fed can implement a rate hike in 1H 2019, the BoJ will probably have a chance to make even a slight adjustment to its own monetary policy. However, a consumption tax rate hike is planned for October 2019 in Japan, so if the Fed cannot implement a rate hike until 2H 2019, the BoJ will find it difficult to advance towards normalization. The time and means left to the BoJ are dwindling. Based on these circumstances, we have lowered our rate forecasts (Table 1).

Table 1: Rate forecasts

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
OIS 1M	-0.07	-0.06	-0.07	-0.06	-0.05	-0.03	0.00	0.00	0.00
LIBOR3M	-0.06	-0.06	-0.06	-0.05	-0.04	0.00	0.05	0.05	0.05
2yr	-0.15	-0.15	-0.14	-0.14	-0.10	-0.05	0.00	0.00	0.00
5yr	-0.12	-0.11	-0.10	-0.10	-0.05	0.00	0.05	0.05	0.05
10yr	0.04	0.06	0.08	0.08	0.10	0.15	0.20	0.25	0.25
20yr	0.50	0.53	0.56	0.56	0.58	0.70	0.75	0.85	0.85
30yr	0.70	0.75	0.78	0.78	0.80	0.95	1.00	1.10	1.10
2y10y spread	0.19	0.21	0.22	0.22	0.20	0.20	0.20	0.25	0.25
10y20y spread	0.46	0.47	0.48	0.48	0.48	0.55	0.55	0.60	0.60

Source: BofA Merrill Lynch Global Research
Pink: bearish vs forward rates

The BoJ, which has started to take note of the side effects of its powerful easing policy and to consider improvement of JGB market functions, will probably try to avoid extreme yield declines as long as the external environment does not badly deteriorate. However, if the external environment deteriorates more than we expect and the BoJ cannot move accordingly, yields will probably feel even more downward pressure. Although the BoJ's purchases of JGBs have dropped considerably from their peak, they still exceed net supply. Furthermore, the BoJ already holds nearly half of outstanding JGBs, so there is also a stock effect. Should yields decline and the yen strengthen without an improvement in sentiment, the BoJ will be unable to back away from monetary easing, and the risk that it will be unable to stop yields from declining and the curve from flattening will be a constant presence (The BoJ's YCC policy dilemma). As mentioned above, we take the view that economic fundamentals have not broken down and maintain our optimistic stand, but the recent yield decline and yen appreciation remind us of this risk. If the BoJ's actions are restricted, we basically expect the market to be range-bound, but as a risk factor, the impact of a yield decline would be larger than that of a yield rise, because the former would be more difficult for the BoJ to control. Since the BoJ continues to purchase JGBs, it would be dangerous to lean towards a short position even if yields are low. For the time being, trading in cash bonds while using swaptions as a low-cost hedge against the risk of yield rises appears to be the best approach.

We expect the BoJ to embark on a monetary policy adjustment in 3Q 2020 (Japan 2019 Year Ahead). However, if the Fed refrains from a rate hike in 2020 as we now expect, the BoJ will have only a narrow window of opportunity to make its adjustment. Whatever official reason is given, the real reason for the adjustment will probably be mounting concern about the financial system's stability. As in 2016, when YCC was introduced after a big yield decline (Chart 11), we might have to wait until after concern about the financial system has escalated due to a big yield decline or a prolonged low-yield environment before a policy adjustment is made.

Rates – AU

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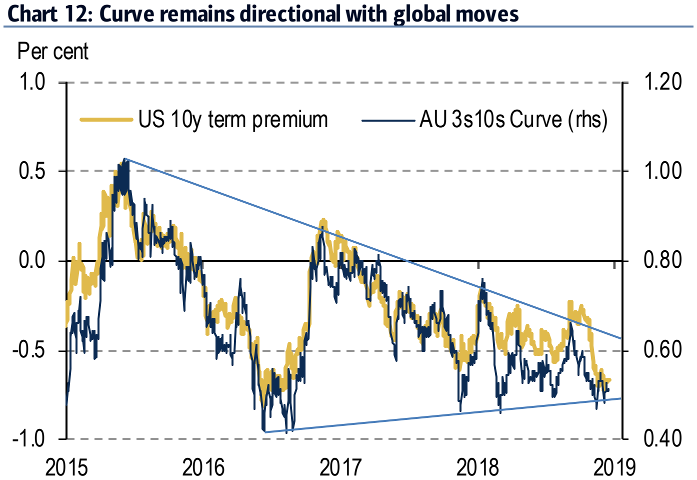
- Another step lower for the terminal rate would breathe some life into mid-curve steepeners. Market reactions to a solid Q4 CPI outcome appear more limited.
- Real rates and inflation breakevens are inconsistent with market pricing of easier monetary conditions. The linker curve should be steeper.

Ahead of the curve

We see asymmetric risks for the upcoming December quarter CPI print later this month. A rebound in the quarterly CPI outcome would improve carry for shorter-dated linkers that are supported by the undervaluation of breakevens. However, the scope to unwind current pricing of RBA rate cuts appears more limited. The annual core and headline inflation rate is poised to remain below the target band after the Q4 release and risk is skewed towards a soft Q1 outcome. Furthermore, there is scope for a more circumspect RBA view on the outlook along with some potential changes to the Bank's forecasts upon returning in February. For the rates market, we expect the curve to remain directional with moves in global duration, and attention focused on AU funding rates.

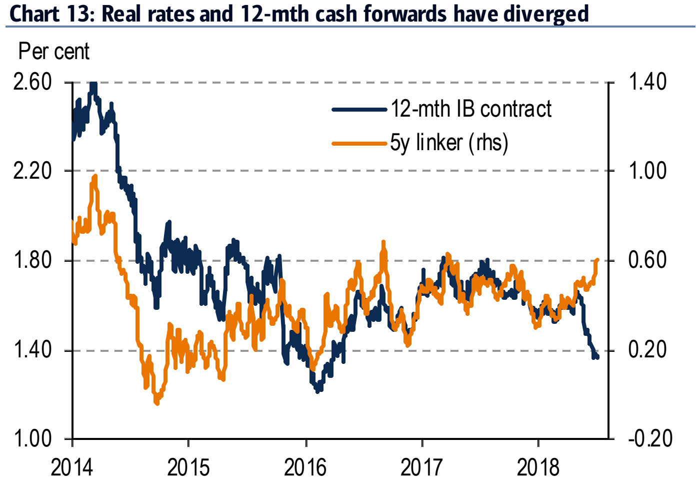
The combination of elevated short-term funding pressures and the weakening of the domestic and global outlook have pushed the 3s-10s futures curve to near multi-year flatness. We see the breakout levels to watch are the recent lows around 45bps and downtrend resistance around 65bps (Chart 12). The easing cycle currently priced into markets is shallow with the terminal rate at the 1y sector with 16bps of cuts. Another step to price in a fuller and more aggressive easing cycle would argue for a steeper curve led by lower belly rates. A correction to unwind rate cuts as front-end curves bear steepens would breathe life into mid-curve steepening strategies as duration risk is re-assessed.

Chart 12: Curve remains directional with global moves



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 13: Real rates and 12-mth cash forwards have diverged



Source: BofA Merrill Lynch Global Research, Bloomberg

Real rates appear at odds with RBA pricing

The market's shift to reflect modest RBA rate cuts did little to lift inflation expectations. In fact, in recent months breakevens have weakened to around all-time lows. Our interpretation is that either the inflation market does not yet see a case for easier policy and the modest cuts priced-in are overdone, or that 16bps of easing over the next year will do little to improve the pulse of inflation and requires a more aggressive easing cycle and much lower terminal rate. Rising mid-curve real rates appear inconsistent with prospects for the RBA to ease monetary conditions but also highlight the impact of elevated repo rates for linkers. Nonetheless, the recent divergence between 5y real rates and 12-month cash forwards (30-day Interbank futures) are now at extremes (Chart 13).

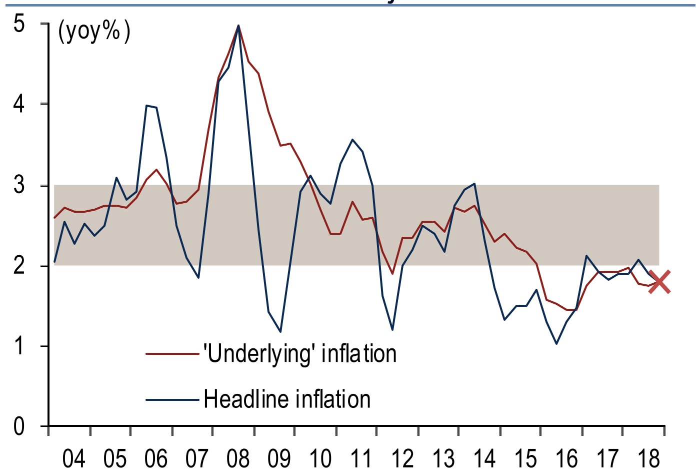
If pricing RBA cuts are premature we would expect a reconnection led by higher 12-month rates as cuts are removed from money markets. Conversely, we think mid-curve real rates have room to play catch-up that would be supported if the market begins to see a more protracted easing cycle, so long as funding conditions show signs of improving. In either scenario, the ACGB (linkers) 2025 vs. 2040 curve should be much steeper (Chart 14).

Chart 14: Linker flattening moves are beginning to look overdone

ACGB 2025 vs ACGB 2040 linkers

Source: BofA Merrill Lynch Global Research

Chart 15: Annual inflation rates are likely to remain below the band



Source: BofA Merrill Lynch Global Research, ABS

An outcome of 0.5%qoq for Q4 CPI would be constructive for the domestic inflation market as carry modestly improves after three consecutive 0.4%qoq prints. However, we also think a strong print of around 0.7% could be required to offset some of the risk of a soft Q1CPI outcome. This leaves us more cautious on any prospects of a sharp rebound higher for front-end breakevens as an initial response based on our forecast for Q4.

We see value in inflation expressions that position for a steeper real curve (that would perform if more rate cuts are priced), breakeven curve flatteners that work in a risk-off environment, or long AU inflation strategies held in cross-market spreads. We like buying AU 5y inflation swaps vs. UK RPI inflation, which is currently at 1.72% (entered at 1.74%) and targets 1.34%. The trade is supported by our expectations of inflation falling in the UK relative to AU tracking gradually higher. Risk is from a downward revision to the RBA's inflation forecast next month.

The RBA is likely to stress patience

The RBA will update forecasts in the Statement on Monetary Policy on 8th February. The Bank already has conservative forecasts for CPI that does not see a move back to the middle of the 2-3% target band. This should buy time at least until after the May Federal election that coincides with the May SMP forecast update. A more comprehensive review of the outlook is likely after this time as long as funding pressures ease.

The outlook for the labour market remains critical and we get Labour Force data next week that should underline ongoing momentum even if the monthly data correct after recent strength. Spare capacity is slowly being absorbed so the Bank can afford to weather any pressure for a policy response for a more extended miss to meet the target. The annual inflation rate is likely to remain below the band in Q4 (Chart 15).

Front End – US

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- The FICC repo facility continues to attract quarter/year end MMF inflows. Repo by US GSIB providers increased on year end.
- Prime funds increased modestly in Dec, but backed away from UK and European issued paper.

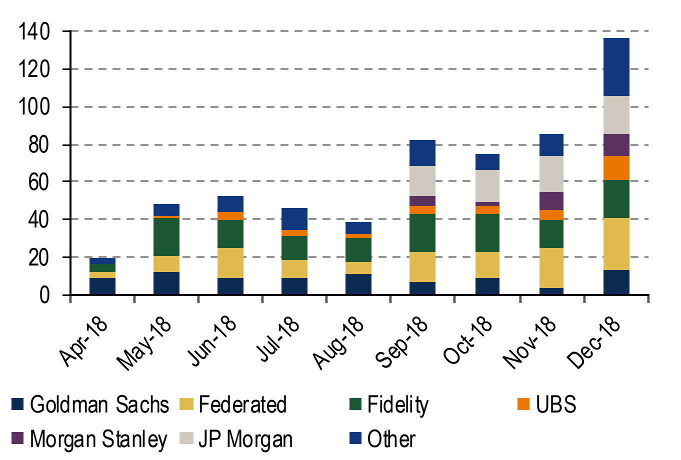
This is an excerpt of a US Rates Watch published January 17.

MMF portfolio update: repo and the FICC

Over December government MMFs increased their holdings by about $40bn, with added volatility on year end. The increase in holdings was mainly via Treasury debt. After a year of substantial growth, prime funds increased just $22bn in December, and all of this increase was from retail funds.

According to OFR data, MMF Treasury repo activity with the FICC increased by $52bn (60%) at year end, to its highest level of $137bn (Chart 16). This increase was spread across multiple funds, including medium sized funds. For the top three funds using the FICC facility, we compare the weighted average Treasury repo rate offered by the FICC to MMFs versus that offered by dealers. These rates are typically close in line (Table 2) but on December 31 the rate offered by the FICC was about 20bps higher than the rate offered by dealers. This suggests that dealers were willing to pay up to source cash from the FICC as opposed to the tri-party market on year end.

Chart 16: Treasury repo activity with the FICC ($bn)



Source: OFR, BofA Merrill Lynch Global Research

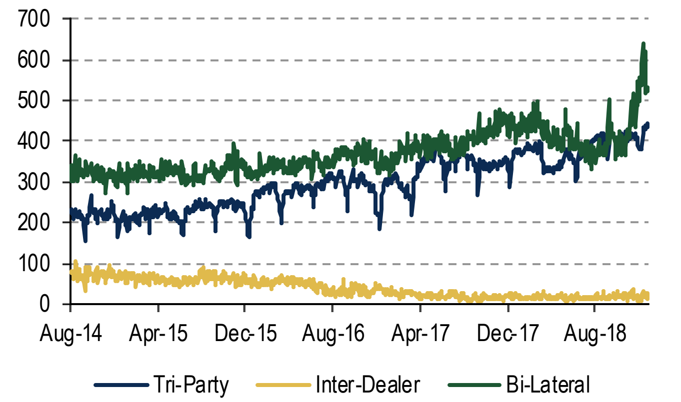
Table 2: Treasury repo activity of top funds facing the FICC

	Sep-18	Oct-18	Nov-18	Dec-18
FICC Avg (bps)	223	220	228	292
Dealer Avg (bps)	220	221	228	272
GCF Repo (bps)	235	231	236	515
FICC Activity ($bn)	50	49	52	64
Dealer Activity ($bn)	160	184	190	155
Ratio	31%	27%	27%	41%

Source: FICC and dealer Treasury repo rate are weighted averages of Fidelity, Federated, and JP Morgan funds; Source: Crane, BofA Merrill Lynch Global Research

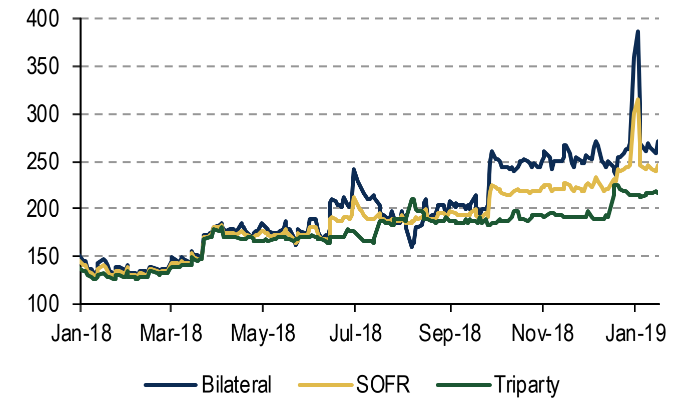
These changes were reflected in the broader repo market, where we saw bilateral repo volumes and rates increase. SOFR includes bilateral repo transactions that are centrally cleared by the FICC's delivery versus payment service. At year end, bilateral repo volumes increased about $56bn and increased another $50bn on January 2, which may be due to increased usage of FICC sponsored repo for balance sheet netting benefits (Chart 17). Our estimate of the bilateral repo rate, backed out from the components of SOFR, shows that bilateral repo increased 90bps on December 31 and was the primary driver of the year end repo spike (Chart 18).

Chart 17: SOFR repo volume by component ($bn)



Source: BofA Merrill Lynch Global Research, Federal Reserve

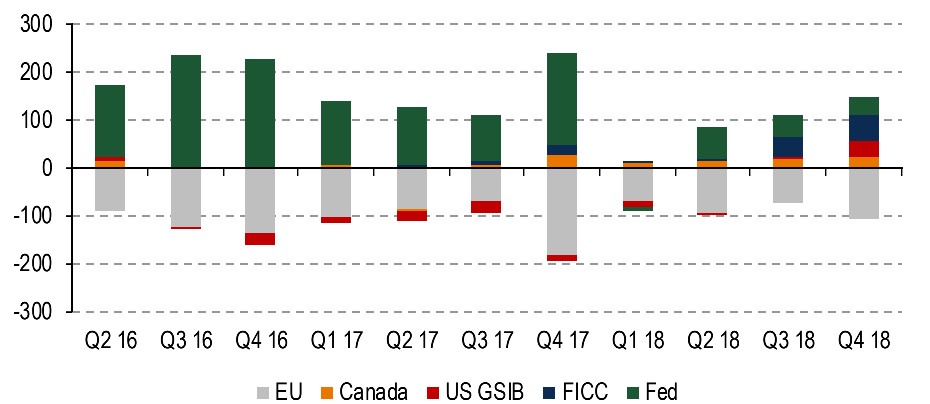
Chart 18: Estimate of bilateral repo rate from SOFR components (bps)



Source: BofA Merrill Lynch Global Research, Federal Reserve

As we have noted previously, FICC repo now appears to be attracting some of the quarter-end inflows that used to be directed to the Fed's O/N RRP facility, when other counterparties pare back repo balances for regulatory reporting. In December, repo by EU providers contracted by $105bn and repo by the Fed and FICC increased by a total $93bn (Chart 19). Although the Fed & FICC seemed to balance out the contraction from the EU, we also saw repo by US GSIB providers increase when we have historically seen a contraction from US GSIBs on quarter ends.

Chart 19: Change in repo provided to MMFs on quarter end ($bn)



Source: OFR, BofA Merrill Lynch Global Research

Prime funds move away from UK and European paper

Prime funds increased modestly in December, but backed away from UK and Euro area time deposits (TDs), CP and CDs. The move away from UK paper may have been linked to sustained Brexit uncertainties given the extent and timing of the decline. We also saw prime funds decrease holdings of French TDs and German financial CP. At the same time, we saw prime holdings of Canadian paper increase, possibly making up some of the contraction.

Offshore USD funds see little impact of EU MMF reform

Offshore USD funds do not appear to be materially impacted by European MMF reform. The final date for existing money funds to comply with new reforms is January 21st, though many funds announced they would make the transition in late 2018. Prime funds in particular saw a decline in assets and shortening of WAM into the end of December, but levels returned by the start of January.

Spreads – EU

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- The government U-turn on budget, January bids and the lower risk of credit rating downgrades has supported the tightening in BTP-Bund spread so far…
- …but the interplay of a sharp deterioration of the macro picture and the "political fundamentals" skew long BTP returns heavily towards losses

BTP-Bund: it is too late for 200bp

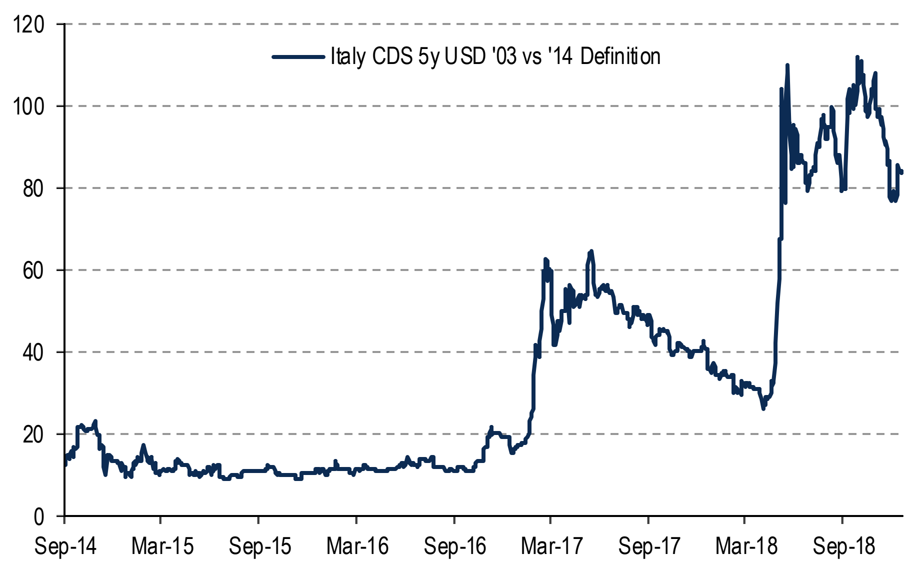
Assuming an unchanged economic and political picture, the 10y BTP-Bund spread may tighten temporarily from 250bp and anyway not below 200bp. Without this assumption, the probability mass is still centred on the upper half of the 200-300bp range, with a significant >300bp tail persisting.

The tightening in the BTP-Bund spread since late November is mainly the result of: 1) a lower debt/GDP increase; 2) the realisation that market-negative government policies are not being pursued beyond uncovered auctions/syndications; and 3) the reduced likelihood of a further batch of credit rating downgrades.

This said, the domestic confidence shock and deterioration of global growth expectations have already taken their toll on the Italian economy and domestic polls still favour the populist coalition, while the threat of US tariffs on the EU remains. As suggested in Chart 20, the proxy of redenomination risk – evident from Italian 5y CDS price differentials – remains stubbornly large. Currently, at 84bp, the spread is almost double what it was during peak "Frexit" pricing.

The market reserves doubts over the sustainability of Italy's permanence within the current Eurozone set-up in the medium term.

Chart 20: The market still sees high risk of debt redenomination within the next five years



Source: BofA Merrill Lynch Global Research. Bloomberg.

The longer the pause in negative political noise, the more the market should normalise risk pricing and therefore pull the 10y BTP-Bund spread tighter. However, the experience post the French elections suggests these are slow-moving forces and may need a year to normalise.

A year is a long time for a market that is so intensely buffeted by uncertainties both macro and political. One negative surprise among the aforementioned risks may be enough to undermine what market confidence is left in a country with such limited fiscal and monetary policy space.

Therefore, from a risk-reward perspective, a medium-long term buyer of BTPs faces a very unattractive risk-reward.

Positive news on BTP demand, for now

The main short-term question for the market is whether 250bp of yield pick-up vs Bunds is enough to attract the necessary investor demand to cover the higher financing needs. (The end of ECB QE as well as the budget deficit widening requires a private investor balance sheet worth €55bn.)

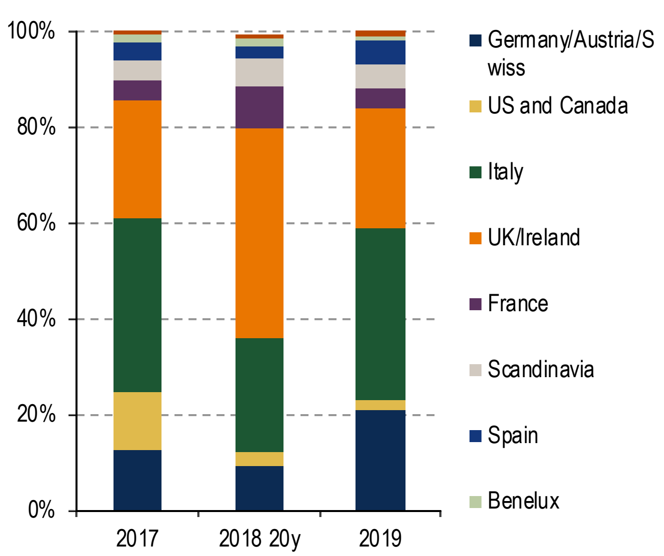
So far, the evidence from auctions in and out of the periphery is encouraging. The close-to-record demand for January's syndications for Belgium, Ireland, Portugal and Italy suggests there is a large amount of pent-up cash waiting to be invested by Eurozone real money.

For Italy specifically, the 15y syndication announced this week attracted a healthy €35.6bn in bids. More importantly, when compared to similar-tenor January syndications in 2017 and 2018, allocations were of particular interest to the real money (asset managers) and Eurozone residents, in line with the evidence of the other syndications.

All in all, thanks to the budget deficit target "U-turn", Italian demand data has improved markedly from October/November. This said, the macro arguments to increase exposure to Italian sovereign debt are weak and the overall size of investor interest (beyond the limited non-retail domestic one) at the following auctions remains an unknown (remember Italian net supply is concentrated during the first half of the year).

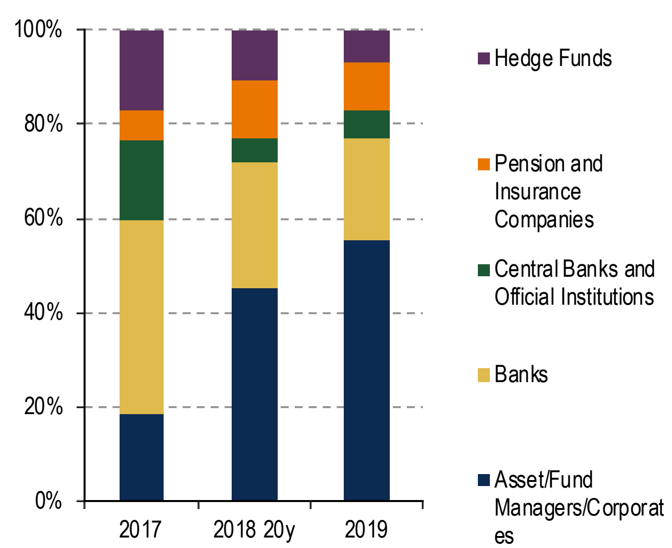
If data does not deteriorate any further and politics do not add to the list of market-negative events, then the story of the H1 supply-demand imbalance may turn out to be less challenging than what was initially thought before the budget saga.

Chart 21: January Italian syndications – allocation breakdown by geography



Source: BofA Merrill Lynch Global Research, Treasury

Chart 22: January Italian syndications – allocation breakdown by investor type



Source: BofA Merrill Lynch Global Research, Treasury

Inflation – UK

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Lords on RPI – right problem, wrong solution

- Disregarding advice to tread carefully, the Lords Inquiry into RPI recommends "correcting" a 2010 change to its calculation, to the detriment of bondholders.

This piece was originally published as a Global Rates Watch, January 17.

House of Lords releases conclusions of its RPI Inquiry

The House of Lords has released its "Measuring Inflation" report, containing its analysis and recommendations on the flawed, troubled, Retail Price Index. Having received testimonies and taken evidence from many public and private sources, it appears to have disregarded the serious concerns presented by several witnesses (most notably the National Statistician) about the risks of material value transfer in the huge inflation-linked bond and derivatives markets in trying to address the so-called "formula effect".

Instead, appearing to be heavily influenced by the opinions of FT Economics editor Chris Giles (who also testified), the Lords recommend correcting what it describes as "an error" made in 2010 – a change to the sampling methodology for clothing items that resulted in an increase in the "formula effect" of about 0.3% per annum to the RPI inflation rate

What the Lords have said

The report recommends that the UK Statistics Authority makes a request to the Chancellor of the Exchequer to correct the 2010 "error". The Lords do not appear to be recommending a complete replacement of the Carli formula used for a quarter of the RPI (which would remove the full formula bias of about 80bp), although they do suggest that the Government consider whether to "set out a programme of adjustments so that RPI converges on the single general measure in the longterm.

There is much that the Lords say and recommend in addition to this that is worth discussing. We will leave that for another time, since this proposed RPI "haircut" is the significant element for the market.

What happens now?

We would expect the Chancellor to reject such a change. Our interpretation of the National Statistician's testimony to the Lords was that the ONS, the BoE and the Treasury have anyway been working together on how best to reform or decommission RPI. And we have drawn the obvious parallels with Libor – there's a need to move away from a benchmark, while minimising the risk of market disruption and value transfer.

But the market will worry anyway

There is the nevertheless "daylight risk", in terms of the market reaction, between now and when the government responds to the Lords recommendations. In protocol terms, the government has two months to present its full reaction. However, given the market consequences of such an index "fix", we would expect a quicker partial response on this specific issue.

We have been here before. The Lords Inquiry has been described as "CPAC 2", after the 2012 Consumer Price Advisory Committee investigation of RPI which cast a cloud over the asset class (and breakevens) until it concluded with a decision not to change the index.

For more details on how we would deal with the RPI problem and how to the Government can fast track the launch of a CPI linker market (overcoming the CPI/CPIH obstacle) see "Decommissioning UK RPI: wasn't this can of worms sealed? Assume a can opener" (Liquid Insight, 19 July 2018).

Technicals

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- The resurrection of the bond bull called for US10y to fall to 2.52%, maybe 2.3%. After a Dec low of 2.54% ST signals favor bounces such as US 10y toward 2.9%.
- But, the 50d SMA crossed below a negatively sloped 200d SMA on US 5y and 10y yield. In the past, yield is lower 15/19 times +/-50 days later. This means new YTD lows in March-April, even if yields bounce now.

US 10y: Short term sell off and then another rally

On November 7th we flagged a technical risk of a short term double bottom (yield double top) forming in the bond market. Shortly thereafter price action validated this risk (November 26). By December 18 we knew for certain the bond bull was back and there was even more room left to rally (yields to fall) to 2.52%, possibly 2.3%. Since then, US 10y yield fell to a low of 2.54% and is attempting to establish a base at the levels that mattered most in 1Q2017. Whether this is the middle or end of the rally, we favor trading around a core long by catching a short term countertrend move to the upper 2.80s (note 50wk SMA at 2.92%) and then adding to longs for a retest of December lows. A completion of the mean reversion to the 200wk SMA at about 2.32% as favored by the aforementioned cross is still possible.

Chart 23:: US 10 year yield – weekly chart (G692)

Source: BofA Merrill Lynch Global Research, Bloomberg

Bullish SMA crosses favor lower yields

On January 3rd the 50d SMA crossed below the 200d SMA on the chart of US 5y yield. On January 7th, the 50d SMA crossed below the 200d SMA on the chart of US 10y yield. As part of a technical strategy, these signals suggest yield will decline.

We reviewed the history of these signals and found some significance. US 5y and 10y yield have had a tendency to be lower than the day of the signal's close about 50 trading days later. Table 3 and 2 suggest yield is down 62% of the time (% up 38% of the time).

However, during both signals, the 50d SMA crossed below a 200d SMA that had a negative slope. We added this condition as a filter to prior signals and found stronger results. Initially, yields rise for up to 10 days. Then they fall 40-80 trading days later. This suggests US 5y yield will be lower than 2.3579% at some point between March 4 – April 30 and US 10y yield will be lower than 2.6960% between March 6 – May 2.

Table 3: US 5 year yield trend after the 50 day SMA cross below the 200 day SMA

Ticker:	USGG5YR		Start Year:1962		# Signals: 40			# < 80 days: 0					
Days after	3 Day	4 Day	5 Day	6 Day	7 Day	10 Day	20 Day	30 Day	40 Day	50 Day	60 Day	70 Day	80 Day
% Up	49%	53%	56%	46%	49%	50%	53%	50%	40%	**38%**	48%	43%	48%
Up	19	21	22	18	19	20	21	20	16	**15**	19	17	19
Down	20	19	17	21	20	20	19	20	24	**25**	21	23	21
Average	0.01	0.01	0.01	0.00	-0.01	-0.02	0.00	-0.03	-0.10	**-0.17**	-0.17	-0.12	-0.04
Median	0.00	0.01	0.01	-0.01	0.00	0.00	0.01	0.00	-0.12	**-0.17**	-0.10	-0.16	-0.05
Min	-0.21	-0.32	-0.38	-0.38	-0.39	-0.40	-0.72	-0.69	-1.87	**-2.11**	-2.03	-2.22	-2.08
Max	0.30	0.30	0.55	0.36	0.38	0.38	0.93	1.02	1.09	**1.74**	2.20	2.44	2.63

Source: BofA Merrill Lynch Global Research

Table 4: US 10y yield trend after the 50 day SMA cross below the 200 day SMA

Ticker:	usgg10yr		Start Year: 1962		# Signals: 42			# < 80 days:0					
Days after	3 Day	4 Day	5 Day	6 Day	7 Day	10 Day	20 Day	30 Day	40 Day	50 Day	60 Day	70 Day	80 Day
% Up	46%	38%	46%	52%	52%	44%	50%	48%	41%	**38%**	40%	43%	48%
Up	19	16	19	22	22	18	21	19	17	**16**	17	18	20
Down	22	26	22	20	20	23	21	21	24	**26**	25	24	22
Average	0.00	0.01	0.02	0.03	0.03	0.00	0.00	-0.04	-0.09	**-0.15**	-0.14	-0.08	-0.07
Median	-0.01	-0.02	-0.01	0.01	0.01	-0.02	0.00	-0.01	-0.11	**-0.12**	-0.08	-0.12	-0.08
Min	-0.32	-0.36	-0.34	-0.38	-0.39	-0.51	-0.80	-1.03	-1.68	**-1.78**	-1.78	-1.77	-1.60
Max	0.33	0.49	0.61	0.62	0.57	0.51	1.29	0.71	1.00	**1.39**	1.33	1.77	2.00

Source: BofA Merrill Lynch Global Research

Table 5: US 5 year yield after the 50 day SMA cross below the 200 day SMA and the 200 day SMA has a negative slope

Ticker:	USGG5YR		Start Year:1962		# Signals: 18		# < 80 days:		0				
Days after	3 Day	4 Day	5 Day	6 Day	7 Day	10 Day	20 Day	30 Day	40 Day	50 Day	60 Day	70 Day	80 Day
% Up	67%	72%	78%	61%	65%	61%	56%	44%	28%	**22%**	39%	**22%**	28%
Up	12	13	14	11	11	11	10	8	5	**4**	7	**4**	5
Down	6	5	4	7	6	7	8	10	13	**14**	11	**14**	13
Average	0.03	0.05	0.08	0.06	0.06	0.03	-0.04	-0.11	-0.29	**-0.40**	-0.37	**-0.40**	-0.33
Median	0.07	0.06	0.08	0.07	0.05	0.06	0.02	-0.03	-0.21	**-0.31**	-0.35	**-0.26**	-0.20
Min	-0.21	-0.27	-0.20	-0.17	-0.12	-0.26	-0.55	-0.69	-1.87	**-2.11**	-2.03	**-2.22**	-2.08
Max	0.30	0.30	0.55	0.36	0.38	0.27	0.36	0.36	0.35	**0.26**	0.42	**0.26**	0.51

Source: BofA Merrill Lynch Global Research

Table 6: US 10y yield trend after the 50 day SMA cross below the 200 day SMA and the 200 day SMA has a negative slope

Ticker: usgg10yr			Start Year: 1962		# Signals: 19		# < 80 days:		0				
Days after	3 Day	4 Day	5 Day	6 Day	7 Day	10 Day	20 Day	30 Day	40 Day	50 Day	60 Day	70 Day	80 Day
% Up	39%	26%	28%	42%	42%	39%	42%	39%	28%	**21%**	26%	26%	37%
Up	7	5	5	8	8	7	8	7	5	**4**	5	5	7
Down	11	14	13	11	11	11	11	11	13	**15**	14	14	12
Average	0.00	0.00	0.00	0.00	0.00	-0.05	-0.06	-0.13	-0.26	**-0.35**	-0.38	-0.32	-0.30
Median	-0.01	-0.03	-0.04	-0.02	-0.05	-0.08	-0.09	-0.05	-0.26	**-0.31**	-0.42	-0.19	-0.11
Min	-0.20	-0.26	-0.28	-0.38	-0.39	-0.36	-0.54	-0.64	-1.68	**-1.78**	-1.78	-1.77	-1.60
Max	0.33	0.42	0.53	0.62	0.57	0.39	0.46	0.28	0.43	**0.31**	0.22	0.30	0.38

Source: BofA Merrill Lynch Global Research

Rates Alpha trade recommendations

Table 7: Global Rates Trade Book - open trades

	Open trades	Entry date	Entry level	Target	Stop	Latest level	Trade rationale/Time horizon	Risk
Euro zone	Long BE on a PCA fly vs IT & GE	10-Jan-19	42.8	35	48	40.9	Semi core to recover as supply pressure drops	Idiosyncratic event in Belgium
	Long 7y PGB vs IRISH	10-Jan-19	78	40	100	74	PGB to outperform on net ECB buying	Widening in peripheral spreads
	2s30s EZ-US inflation box, 2yrs fwd	10-Jan-19	69	45	85	56	Expect curve convergence; roll-down/6m	Increased pension inflation hedging
	Short 6m10y 1x2 receiver spread	07-Dec-18	-125K	1.38mln	-875K	-243K	We see higher rates, but hedge extreme rally/6m	10y rates trade in range from here
	10s30s OAT-Bund flattener	28-Nov-18	27.2	21	33	29.6	Positive supply/demand dynamics / 3m	Increased long-end OAT supply
	Short 5y BGB vs OAT	18-Nob-18	7.2	40	-10	8.2	BGBs more exposed to QE-end, trade war, slowing global growth / 6m	Significant risk-on shift
	Short 30y EUR inflation	18-Nov-18	1.95	1.70	2.07	1.8	Entrenched lowflation, long-term carry	Increased pension inflation hedging
	Mar19 FRA-OIS basis widener	21-Sep-18	6.3	10	4.1	6.1	Risk-off, Money market fund reform	Benign Italian budget deficit
	3y 1y 3s1s basis tightener	21-Sep-18	7.5	4.5	9	8.1	Euribor reform should see spot bases tighter	Fixings under hybrid Euribor little changed
	Short belly of OATei 2022-24-27 barbell	29-Jun-18	13.0	6.0	17.0	14	July coupon & index-related rebalancing/3m	Heavy 10y supply
	13y 20y 1.90%/2.50% payer spread	21-Jun-18	1.64mn	2mln	1.46mln	1.53mln	Greek debt relief bearish for very long end/ 1y	Long-end rally
	Mar19-Jul19 ECB Steepener	19-Jun-18	1.5	6.5	-1	0.5	Underpriced 2H19 hike likelihood / 6m	More fwd guidance efnorcement
	2y inflation cap/floor risk reversal	10-May-18	-0.7	40.0	-20.0	23	Short inflation, protected for moderate oil rally /6m	Further sharp oil price rise
	Short OATei breakeven	21-Sep-17	192	165	208	181	B/E curve too steep and convexity attractive / 3m	Heavy 50y supply
UK	UKTi 2022-27-47 barbell	22-Nov-18	21.5	0.0	32.0	19	Pension demand, index rebalancing	Year-end RV dislocations
	Short 5y breakevens	28-Sep-18	3.48	3.00	3.75	3.43	Favourable index extensions and BoE buying of nominals/6m	Sharp fall in the currency
	UKT0.75% 23/UKT2% 25 curve steepener	09-Apr-18	7.8	16	4	9	7y richness should fade as this round of BoE reinvestments ends / 6m	Overseas sellers weakening 5y
	Short UKTI 2034 v UKT 2034 on z spread	12-Feb-18	-1	15	-8	9	Fade richness of 20y linkers / 6m	Reduced linker issuance
US/Canada	Sell 10yr ZC floor with 2.0% strike, buy 3yr ZC floor with a 2.5% strike	10-Jan-19	0	40	-20	-8.7	Decrease in LT inflation vol, undershoot of inflation and slightly higher vol in near term	Shift in Fed to allow lower inflation or sudden increase in ST inflation
	6m5y payer spread (ATM/ATM+25bp)	07-Jan-19	50	100	25	59	Fade the extreme rally and cheap payer skew	Much worse economic data resulting in early Fed cuts
	EDH9EDZ0 steepene	07-Jan-19	-27	10	-50	-9	Fade extreme bearish Fed pricing	Pricing of delayed Fed cuts on sluggish economic data
	6m 5y30y conditional flattener financed with 6m atm+55bp payer	07-Jan-19	27	12	10	-1	Fade steepening of 5s30s curve	Further pricing of Fed cuts. Bear steepening scenario.
	Long forward CAD breakeven	18-Dec-18	149	189	129	153	Market structure issues, as well as oil and global macro uncertainties.	Heightened concerns of global slowdown and position unwinding
	T 2.0 06/30/2024 vs OIS	14-Dec-18	26	5	36	25	Normalization of unsecured and secured funding rates as the Fed shrinks their balance sheet	Reductions in repo availability, heavy reserve manager selling
	Buy 6m2y payer sprd (atm+5bp/atm+25bp)	14-Dec-18	9.5	25	-15	-5	Position for a moderate hawkish repricing of expectations	Limited to upfront premium on position
	Long 6m5y payer vs 6m2y receiver	07-Dec-18	0	25	-15	-14	Position for belly underperformance relative fwds	Meaningful dovish repricing of Fed
	Long 21m2y receiver vs 6m2y receiver	07-Dec-18	0	50	-20	-10	Position for turn in cycle at 18-24m horizon	Dovish near-term Fed repricing
	FRA-OIS Mar '19-March '20 steepener	07-Dec-18	-1.6	6	-5.5	0.9	Fed unwind pressuring LIBOR higher	OIS repricing, Brexit downside
	July TII 2023-2025-2028 barbell	07-Dec-18	3.7	-1	6	2.5	Flattening bias in nominals, looks steep vs. history	Fed slowdown, worsening in data
	2y ASW tightener vs EUR (vs OIS)	07-Dec-18	65	35	80	202.1	Higher fed funds, end of ECB QE	Rising US/China trade tensions
	21m fwd 2s10s bull steepener	29-Nov-18	0	30	-15	3.6	Bull steepening beyond the forecast horizon as market starts to price Fed cuts	Persistent inversion of the curve with the Fed on hold for longer
	1y fwd 2s10s bearish flattener	29-Nov-18	0	15	-10	-2	Flattening bias on the curve for 2019	Dovish repricing leaves curve steep
	Buy 6m2y costless receiver ladder	29-Nov-18	0	16.5	-15	-1.2	Attractive carry and a slightly dovish Fed scenario	Dovish repricing drives 2y rate
	Buy 6m5y payer spread w/ 6m5y receiver	29-Nov-18	0	25	-20	-19	Position for slight underperformance of belly relative to the forwards	Dovish repricing of Fed path, exposing short receiver to downside
	Long 6m7y USD vol vs 6m5y EUR vol, DH	18-Nov-18	956K	1.5mn	500K	1.09mn	Dovish ECB to keep EUR rates vol low vs US/3m	policy mistake by ECB, dovish Fed
	1y 5y 25bp OTM payers	18-Nov-18	77	200	0	21	Historically cheap high rate protection while R* and inflation are rising	Soft patch material enough to put the Fed on hold
	2s10s nominal curve flattener	07-Nov-18	27	0	41	18.5	Continued Fed hiking, downside risks to growth	A shift in the Fed's reaction function or unexpected fiscal policy easing.
	1y 7y receiver ladder (ATM/ATM-23/ATM-46)	10-Aug-18	0k	1.4mn	-700k	200k	An re-escalation of trade rhetoric resulting in episodic risk-off moves.	A immediate spike in vol
	Long $10mn ATMF 5y30y straddle, 2.88%	30-Jan-18	2.1mn	4mn	1mn	1.8mn	Regulation and seasonals may tame callable issuance.	A surprise comeback in Formosa issuance.
Asiapac	AU 5y inflation swap vs. short UK 5y	07-Dec-18	1.74	1.34	1.94	1.66	AU inflation is underpriced/9m	Weaker wages growth/9m
	JP 1y 20y payer spread	19-Nov-18	0.70%	0.90%	0.50%	0.524%	Zero-cost hedge against BoJ's early action	Sharp yield rise
	TCV Nov-26 vs. WATC Jul-25	17-Oct-17	10	25	-5	-2.21	Relative supply and fiscal dynamics/ 6m	Earlier boost to GST revenues

Source: BofA Merrill Lynch Global Research. Bid/offer spreads are not accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Trade initiation and termination prices are determined at the time we publish the initiation and termination of the trade. Prices used to mark current levels of open trades in our model portfolio are taken at the time the day prior to the publication of the Global Rates and FX Weekly. Trade levels are expressed in basis points when not specified in the table.

Table 8: Global Rates Trade Book - closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
Eurozone	Long 3m30y pay in EUR vs rec in USD	07-Dec-18	0k	1.5mln	-850k	24-Dec-18	-1.1mln
	Sept19-Mar21 Euribor Steepener	30-Nov-18	42.5	58.5	34.5	24-Dec-18	33
	Long 6m7y 1% payer	21-Jun-18	160K	500K	0	21-Dec-18	0
	Long ERZ9C 100.25	19-Jun-18	1	3.5	0	21-Dec-18	0
	Short 2y Schatz vs 1y1y Euribor	30-Oct-18	63	51	69	11-Dec-18	54
	Long 3m30y payer in EUR vs USD	09-Nov-18	-220k	580k	-620k	07-Dec-18	80K
	Long Oct22 SPGB vs Oct22 OBL	06-Nov-18	64	44	74	15-Nov-18	74
	Long Sep20 BKO	12-Sep-18	-55	-64.5	-49.5	24-Oct-18	-61
	Buy 50y BTPs vs 30y BTPS	16-Nov-16	30	-8	55	19-Oct-18	-8
	Short OBL vs 5y USTs outright	04-Jul-18	302	262	322	19-Oct-18	322
	Long US-EZ 2y inflation spread	15-Jun-18	63	85	50	19-Oct-18	50
	Long 1y1y Eonia vs ERH9	21-Sep-18	17	5	23	11-Oct-18	16
	Long BTPei 2032 on iota	03-Aug-18	36.2	20	43	03-Oct-18	43
	Short OBL vs 5y UST, on ASW, FX hedged	04-Jul-18	21	-8	36	27-Sep-18	8
	Long 4.4% Jun19 Irish bonds	26-Jul-18	-39	-55	-31	13-Sep-18	-55
	Long Schatz ASW	2-Aug-18	41	51	36	14-Aug-18	49
	Short Mar19 Euribors	2-Aug-18	100.285	100.235	100.31	13-Aug-18	100.25
	6m3m vs 1y1y Euribor-OIS curve flatteners	19-Jun-18	4	2	5	13-Aug-18	2
	Long OATi 2028 on iota	01-Jun-18	14	5	20	02-Aug-18	9.6
	6m5y payer ladder ATM/ATM+12.5/ATM+25	01-Jun-18	0	400k	-200K	21-Jun-18	60K
	Long Mar19 Euribor	05-Jun-18	100.255	100.325	100.22	14-Jun-18	100.285
	Short 10y OAT	29-May-18	64.2	95	50	14-Jun-18	73
	1y1y vs 4y1y 6s-OIS steepener	20-Mar-18	10.5	14	8.75	30-May-18	8.75
	Short May25 OAT vs Aug25 DBR	18-May-18	12.8	20.0	9.0	29-May-18	20.0
	BTPei 2023-2026 real yield flattener	13-Sep-17	67	50	75	25-May-18	67
	Short belly of BTPei 2019-21-26 barbell	12-Mar-18	72	50	85	25-May-18	72
	Short Dec19 euribor vs Mar19 BGB	08-Dec-17	64	80	56	21-May-18	56
	10y BTP-Bund tightener	26-Jan-17	141	80	175	21-May-18	175
	Short Dec19 Euribor	13-Apr-18	99.975	99.875	100.025	17-May-18	99.97
	3m7y EUR ATM/ATM-15bp receiver spread	23-Feb-18	400	1,000	1,000	9-May-18	960
	5y fwd 2s10s inflation flattener	07-Sep-16	38	18	48	26-Apr-18	22.4
	Long US-EZ 10y10y inflation spread	27-Jun-17	18.0	60.0	-5.0	26-Apr-18	44
	DBRi 2020/2030 real curve flattener	13-Mar-17	85.1	50.1	105.1	20-Apr-18	96.4
	Pay USD 5y5y vs EUR 5y5y	07-Aug-17	100	140	85	23-Apr-18	140
	Long Portugal vs Italy	08-Dec-17	10	-35	40	04-Apr-18	-21
	Pay Jan18 ECB	26-May-17	-33.2	-21.5	-36.5	13-Mar-18	-36.4
	Short belly of OATei 2022-24-27 barbell	12-Jun-17	16.1	8.0	20.0	12-Mar-18	10
	Pay EUR Eonia 2y1y	07-Mar-18	29	39	24	08-Mar-18	32
	Short Dec19 Euribor	07-Mar-18	99.87	99.79	99.91	08-Mar-18	99.85
	Dec18-4y1y FRA-OIS curve flattener	08-Dec-17	21	15	24	22-Feb-18	17.4
	6m30y OTM payer (1.77%)	05-Jan-18	900K	1.7mln	500K	13-Feb-18	1.8mln
	Long SPGBei 24 breakeven vs. 7y infl swap	16-Aug-17	34.1	15	45	05-Feb-18	15
	SPGBei 2019-21-24 barbell	12-May-17	53.5	33	65	01-Feb-18	33
	Rec 2y1y Eonia vs Mar19 ECB	19-Jan-17	46	36	51	29-Jan-18	55
	Long ESM 2y (Oct19) vs swaps	31-Oct-17	-34	-40	-31	29-Jan-18	-31
	Pay 5y5y EUR 3s6s basis	10-Aug-16	11.3	13.3	10.3	18-Jan-18	10.3
	Short the belly of the 5s-10s-30s BTP fly	16-Jun-17	-35	-10	-50	12-Jan-18	-33.7
	Short DBR Aug26 vs 1y1y at flat carry	02-Nov-17	21	35	14	06-Dec-17	14
	3m 10s30s bear steepener	06-Oct-17	0k	400k	-200k	16-Nov-17	110k
	2y5y payer ladder ATM/ATM+25/ATM+50	28-Jul-17	-200k	200k	-400k	01-Nov-17	-60k
	5y swap spread widener	02-Aug-17	49	60	43	31-Oct-17	54
	Long 10y France vs Spain	09-Feb-17	63	120	30	05-Oct-17	81
	Rec 3m Dec18, pay 12m Jun20 (Eonia)	25-Aug-17	39	50	33	25-Sep-17	44
	Dec18-Jun20 steepener	25-Aug-17	32	42	27	25-Sep-17	39
	1y1y vs 10y10y basis steepener	13-Jun-17	-7	1	-10.5	12-Sep-17	-1.9
	Long 3m2y ATM payer	12-May-17	87K	180K	0	10-Aug-17	Expired
	Long Mar19 Euribors	19-Jul-17	100.035	100.135	99.985	08-Aug-17	100.105
	10y German ASW widener	29-Jun-17	42	56	35	02-Aug-17	47
	Long Sep18 BKO vs Jul18 DBR	05-Jul-17	3	-2	6	17-Jul-17	-2
	4m10y 50-wide strangle	16-Mar-17	500K	1.5mln	0	14-Jul-17	Expired
	Long 3m30y vol vs 3m10y (values in ratios)	06-Apr-17	1.14	1.25	1.09	06-Jul-17	Expired
	Receive 4s on the 2s4s7s PCA-weighted fly	16-Mar-17	-12.9	-14.3	-12.1	05-Jul-17	-15.1
	Sell 10y20y EUR inflation	05-Jan-17	217	170	240	28-Jun-17	202
	Long 5y Dutch CDS	09-Feb-17	25	50	15	01-Jun-17	21

Table 8: Global Rates Trade Book - closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
UK	UKTI 2050/55 flattener	12-Aug-16	1.3	-4	3.5	27-Dec-18	3.5
	GBP 5s30s 5yrs fwd inflation steepener	27-Mar-18	-4	25	-18	13-Dec-18	-19
	Pay 5y5y real GBP vs EUR	19-Apr-18	151	90	180	13-Dec-18	185
	3m fwd 5s30s bear flattener	09-Nov-18	0k	300k	-150k	04-Dec-18	-50k
	Long UKT 2034/37/39 fly	19-Nov-18	13.3	8	16	06-Dec-18	16
	10s30s ASW curve steepener	27-Jun-18	-33	-10	-45	15-Nov-18	-46
	UKTI 2040-2058 flattener	15-May-18	7.2	0.0	11.0	15-Nov-18	11.5
	UKT 2% 2025 v 4.5% 2034 flattener	16-Mar-18	48.9	30	60	15-Nov-18	65
	Receive August MPC-dated OIS	01-Aug-18	61	50	67	27-Apr-18	67
	10s30s cash flattener vs. USTs	18-May-18	25	0	38	27-Jun-18	31.2
	Short UKT 2024 vs. Libor	13-Apr-18	-23	-10	-30	27-Jun-18	-29
	10y10y 6s-OIS widener	07-Dec-17	21	34	13	22-Mar-18	34
	Long UKT 1.75 22 vs short 10y swaps	02-Feb-18	58	70	52	21-Mar-18	52
	Short 10y real yield vs long 30y nominal	08-Dec-17	370	310	400	13-Mar-18	351
	Long UKT 2068 v short 10y20y swap	08-Dec-16	16.1	-30	40	01-Feb-18	-9
	5s20s flattener	08-Dec-17	102	60	120	01-Feb-18	91
	Short UKT 4% 2022 vs. OIS	09-Nov-17	-21	5	-34	18-Jan-18	-15
	Short UKT 2.27% '24 vs. UKT 0.75% '23	21-Jul-17	1.1	7	-3	12-Jan-18	1.3
	10s50s real yield curve flattener	12-Oct-17	17.2	0	25	08-Dec-17	19.2
	2y1y vs 10y10y basis steepener	13-Jun-17	-8.5	12	-19	07-Dec-17	3.6
	GBP 2s10s 2y fwd inflation steepener	12-Aug-16	3	23	-10	30-Nov-17	-4
	Long RPI 3y 3.5% ZC inflation cap	21-Oct-15	26	-	-	30-Nov-17	7
US	Buy 6m5y payer spread w/ 6m5y receiver	29-Nov-18	0	25	-20	07-Jan-19	-20
	Buy T1.75 11/15/2020 vs OIS	30-May-18	18	0	25	14-Dec-18	25
	Short FFZ9	30-Nov-18	270	300	255	14-Dec-18	255
	Long 30y CAD breakevens	08-Dec-17	164	195	150	13-Dec-18	147
	Long US$100mn 2y1y payer, 2.50%	16-Nov-16	17	48	0	16-Nov-2018	42
	RRB 2021/26 real curve steepener	12-July-18	10.1	30	0	08-Nov-2018	0
	Long TII 7/28 vs. short TII 7/20	25-Oct-18	21	60	0	07-Nov-2018	16
	Long TII 7/15/2023 v short UST 8/15/2023	12-Mar-18	222	250	210	01-Nov-2018	215
	UST 2y-10y flattener	04-July-18	30	5	43	25-Oct-2018	26
	Short FFZ9 vs FFQ8	23-Feb-18	59	90	45	31-Aug-18	73
	6m10y payer ladder (ATM/ATM+15/ATM+30)	23-Feb-18	-150k	800k	-500k	16-Aug-18	Expired
	Long UST 3% 2/48 vs UST 2.625% 2/23	23-Feb-18	55	15	75	04-July-18	25
	Short UST 2 1/20 vs OIS	27-Sep-17	-3.5	20	3	24-May-18	15
	Sell 2s-3s-5s swap butterfly	01-Mar-17	-6	5	-12	26-Apr-18	6.5
	5s10s TIPS OATei box	19-Nov-17	31	0	48	20-Apr-18	58
	6m 2s5s conditional bull steepener	21-Sep-17	0k	+400k	-200k	20-Mar-18	32K
	5s30s Libor/Funds basis flattener	27-Jul-17	10	0	15	01-Mar-18	5
	2y-10y steepener swap curve steepener	19-Nov-17	44.5	85	25	22-Feb-18	47
	6m10y 25bp OTM strangle	19-Nov-17	1.23mn	2.5mn	0k	15-Feb-18	3.1mn
	Long 3y 5s30s bear steepener & 1y2y payer	25-Apr-17	0	2mn	-900k	15-Feb-18	-1mn
	1y1y US-UK OIS widener	19-Nov-17	101	150	75	15-Feb-18	125
	Buy 30y treasuries vs matched Libor swap	16-Nov-16	-56	0	-75	30-Jan-18	-14
	Long 3m5y OTM payer at 2.38%	19-Nov-17	165k	850k	0	22-Jan-18	850k
	Long 5y breakeven	02-Aug-17	1.68%	2%	1.5%	18-Jan-18	2%
	6m5y payer ladder	12-Jul-17	-100k	700k	-100k	18-Jan-18	700k
	Receive CAD 2y	19-Nov-17	180	160	190	11-Jan-18	190
Asiapac	Sell ED Dec19, BAB Dec19 vs. BAB Sep20 steepener	03-Dec-18	3.2	3.7	2.9	11-Jan-19	2.9
	ACBG Nov-27 vs. Sep-30 real steepener	15-Aug-18	3	9	-1	28-Nov-18	6
	Long ACGB 2y breakeven	25-Jul-18	170	188	155	28-Nov-18	155
	QTC Jun-21 vs. ACGB Nov-27	29-Sep-17	43	60	22	28-Nov-18	32
	JP 1y20y payer spread	20-Nov-17	0.64%	0.85%	0.50%	11-Oct-18	0.76%
	ACGB 5y vs. 20y breakeven flattener	04-Dec-17	44	14	65	25-Jul-18	30
	BAB Dec18 vs. BAB Sep19 steepener	09-Feb-18	31	55	16	20-Jun-18	16
	NZ 1y vs. 5y swap steepener	19-Oct-17	68	95	54	30-May-18	54
	Pay AUD 2y vs. GBP 2y swap	04-Dec-17	105	145	70	09-Feb-18	107
	BAB Jun18 vs. BAB Jun19 steepener	04-Dec-17	25	50	12	09-Feb-18	38
	AUD OIS 5m vs. 12m steepener	11-Jul-17	6	25	2	09-Feb-18	7
	Long ACGB 5y breakeven	13-Mar-17	171	195	155	25-Oct-17	168
	QTC Jun-21 vs. ACGB Apr-26	23-Jan-17	23	45	12	29-Sep-17	34
	Receive Feb18-OIS/3y/10y swaps butterfly	11-Jul-17	-12	-20	-6	18-Sep-17	-5
	NZ 1y vs. 5y swap steepener	30-Jan-17	92	130	72	18-May-17	72

Note: Bid/offer spreads not accounted for in entry and closing levels. Does not reflect tax, withholdings or any investment advisory fees. Past performance is no guarantee of future results.
A complete performance record is available on request. Inception date – 31-Jul-14. For additional discussion on baseline views, valuation and risks to closed trades, please see links to the relevant reports.
Trade recommendations are highlighted green when the closing value is greater than the entry value and red when the closing value is less than or equal to the entry value. Source: BofA Merrill Lynch Global Research

Global rates forecasts

		Latest	Q1 19	Q2 19	Q3 19	Q4 19
USA	3m Libor	2.78	2.88	3.00	3.05	3.00
	2y T-Note	2.57	2.90	3.05	3.00	2.90
	5y T-Note	2.57	2.95	3.05	3.00	2.95
	10y T-Note	**2.75**	**3.00**	**3.05**	**3.00**	**3.00**
	30y T-Bond	3.07	3.10	3.15	3.05	3.05
	2y Swap	2.73	3.13	3.30	3.25	3.15
	5y Swap	2.66	3.12	3.25	3.25	3.20
	10y Swap	**2.78**	**3.12**	**3.20**	**3.15**	**3.20**
Germany	3m Euribor	-0.31	-0.30	-0.32	-0.34	-0.13
	2y BKO	-0.59	-0.55	-0.45	-0.35	-0.35
	5y OBL	-0.35	-0.20	-0.10	0.00	0.05
	10y DBR	**0.24**	**0.40**	**0.50**	**0.60**	**0.60**
	30y DBR	0.85	1.00	1.00	1.00	1.00
	2y Swap	-0.16	-0.10	-0.02	0.05	0.05
	5y Swap	0.19	0.30	0.38	0.46	0.51
	10y Swap	**0.79**	**0.92**	**1.00**	**1.09**	**1.08**
Japan	3m Libor	-0.08	-0.06	-0.06	-0.06	-0.05
	2y JGB	-0.16	-0.15	-0.15	-0.14	-0.14
	5y JGB	-0.15	-0.12	-0.11	-0.10	-0.10
	10y JGB	**0.02**	**0.04**	**0.06**	**0.08**	**0.08**
	30y JGB	0.71	0.70	0.75	0.78	0.78
	2y Swap	-0.01	0.01	0.01	0.02	0.02
	5y Swap	0.01	0.04	0.05	0.06	0.06
	10y Swap	**0.17**	**0.20**	**0.23**	**0.25**	**0.27**
U.K.	3m Libor	0.92	0.87	0.96	1.01	1.11
	2y UKT	0.82	0.85	0.95	1.00	1.05
	5y UKT	0.98	1.10	1.30	1.35	1.40
	10y UKT	**1.34**	**1.50**	**1.70**	**1.80**	**1.80**
	30y UKT	1.85	1.85	1.95	2.00	2.00
	2y Swap	1.16	1.20	1.25	1.25	1.25
	5y Swap	1.35	1.40	1.45	1.45	1.50
	10y Swap	**1.51**	**1.60**	**1.75**	**1.80**	**1.80**
Australia	3m BBSW	2.06	2.00	2.00	2.10	2.15
	2y ACGB	1.83	2.15	2.20	2.25	2.45
	5y ACGB	1.96	2.40	2.45	2.50	2.65
	10y ACGB	**2.31**	**2.85**	**2.95**	**3.00**	**3.10**
	3y Swap	1.95	2.30	2.35	2.35	2.55
	10y Swap	2.58	**3.05**	**3.15**	**3.15**	**3.25**
Canada	2y Govt	1.90	2.15	2.30	2.25	2.15
	5y Govt	1.92	2.20	2.30	2.25	2.20
	10y Govt	1.99	**2.30**	**2.35**	**2.30**	**2.30**
	2y Swap	2.29	2.55	2.70	2.65	2.55
	5y Swap	2.35	3.60	2.70	2.65	2.60
	10y Swap	2.52	**2.80**	**2.85**	**2.80**	**2.80**

Source: BofA Merrill Lynch Global Research

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