J.P.Morgan

Global Rates Strategy
29 March 2025

Global Fixed Income Markets Weekly

Back to tariff reality

- **Overview:** Rate moves across DM remained choppy this week amid ongoing uncertainty around trade policy and further fiscal announcements (UK, Sweden and Australia). We expect that, in the near term, focus in Europe will shift away from longer term fiscal drivers back towards tariffs; we therefore continue to express a broad bullish view on EUR and GBP duration via low beta proxies in EUR money market space and outright longs (1Yx1Y SONIA). Also, this week, Norges Bank postponed the start of the easing cycle once again as it kept rates on hold at 4.5%; we continue to call for a start of easing in December. Looking at DM bond performance so far this year, we note that bond returns have been negative across DM in 1Q25 with the exception of the US, where concerns over growth stemming from the Trump policy mix have increased.
- **Euro:** Keep 5s/10s/30s belly richening German fly as a carry efficient low-beta OW duration proxy. Stay cautious on intra-EMU/€-SSA spreads tactically via UW 3Y France vs. Germany. Hold 30s/50s France flattener, short 9Y Portugal vs. Spain and 10s/30s Spain flattener vs. Italy. We revise lower our expected range for 1Yx1Y to (1.8 – 2.0%), which essentially brings this back to the range expected prior to the German fiscal announcement. Keep low-beta bullish duration proxies via *1)* 6Mx1Y A-12.5/A-50 receiver spread versus OTM payer, *2)* May25 Bobl call fly (117.5/118.5/119.5), *3)*receiving the belly of the reds/greens/blues €STR fly and *4)* Sep25/Sep27 conditional bull flattener via Sep25 quarterly and 2Y midcurve calls. Take small profit in 3s/20s conditional bear steepener but hold bull flattener via 3M receivers; stay neutral on 10s/30s swap curve. Swap spreads are expected to hover around current levels, with some near term risk of modest widening driven by risk-off sentiment. Bund swap spreads offer a better risk-off hedge relative to Schatz; Keep May25 Bund conditional bull wideners as attractive risk-off hedges. Stay short volatility via shorts in 2Yx5Yx5Y synthetic forward volatility via a triangle of equi-notional swaptions (short 2Yx5Y and 7Yx5Y versus buying 2Yx10Y straddles), short 5Yx2Y volatility, and short 1Yx2Y unhedged straddles; Buy Jun25 Bobl gamma versus swaptions on RV and risk-off considerations.
- **UK:** Keep tactically receiving: 1) Jun25 MPC OIS and 2) 1Yx1Y SONIA. Hold fronts/reds SONIA curve flattener. Keep bullish duration bias in 30Y gilts given outright level of yields and risks the US announces wider and broad-based reciprocal tariffs next week. 5Yx5Y par gilt – 5Yx5Y UST spread is wide vs. 1Yx1Y SONIA – 1Yx1Y SOFR spread. Hold 30s/50s gilt curve steepeners. We turned neutral on both the level of swap spreads and the swap spread curve after the Spring Statement this week.
- **US**: While easier Fed policy expectations justify a steeper curve, the long end has run ahead of this repricing, and now appears 15bp steep after controlling for front-end yields and market-based inflation expectations. Additionally, the belly's underperformance along the curve and a cheapening in Treasuries relative to their fundamental drivers suggest term premium has risen. With significant event risk next week, we recommend taking profits on 64:11 weighted 3s/10s/30s belly-cheapening butterflies. Hold 2s/5s steepeners to

See page 93 for analyst certification and important disclosures.

Rates Strategy

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hedge against the risks of a deeper cutting cycle. We think longs in 5Yx5Y inflation swaps paired with a beta-weighted hedge in nominal swaps offer asymmetric upside ahead of next week. Stay long 2-year inflation swaps paired with a short energy hedge. The Fed is likely stay patient and remain on hold, but inflation expectations will likely be more volatile than before. We recommend yield curve trade packages that mitigate inflation exposure while positioning for relative value - initiate 3s/10s swap curve flatteners paired with 1Y forward 1s/7s steepeners. Buy the belly of a weighted U5/Z5/H6 3M SOFR futures butterfly. Turn neutral on longer maturity swap spreads and the spread curve, as much of the widening move fueled by de-regulatory optimism has now retraced. Maintain exposure to wider swap spreads at the front end. Buy 2Yx10Y swaption volatility hedged for directionality with rates - our exploration of tariff risk and its impact finds that intermediate expiries and intermediate maturity tails are the most sensitive to tariff risk, as are receiver skews.

- **Japan:** JPY rates twist-flattened this week. We explore OIS pricing, duration, curve, and spreads ahead of the reciprocal tariff announcement. Keep 30-year swap spread narrowers.
- **Australia & New Zealand:** Stay paid the AUD 3s/10s swap-EFP box spread, buy ACGB 3Y futures, stay received the AUD-USD 5Yx5Y (IRS-SFR) spread.

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Overview

Back to tariff reality

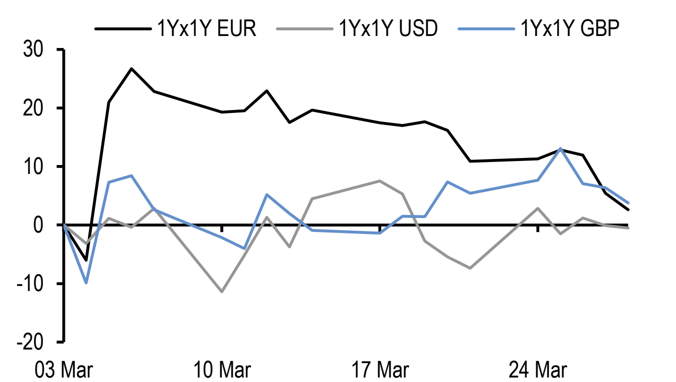
- **Rate market moves across DM remained choppy this week amid ongoing uncertainty around trade policy and further fiscal announcements (UK, Sweden and Australia). We expect that, in the near term, focus in Europe will shift away from longer term fiscal drivers back towards tariffs; we therefore continue to express a broad bullish view on EUR and GBP duration via low beta proxies in EUR money market space and outright longs (1Yx1Y SONIA). Also, this week, Norges bank postponed the start of the easing cycle once again as it kept rates on hold at 4.5%; we continue to call for a start of easing in December. Looking at DM bond performance so far this year, we note that bond returns have been negative across DM in 1Q25 with the exception of the US, where concerns over growth stemming from the Trump policy mix have increased.**

Rate market moves across DM remained choppy this week amid ongoing uncertainty around tariffs and further fiscal announcements in UK, Australia and Sweden (**Figure 1**). On the week, the US curve has bear steepened, Euro rates bull steepened while UK moves were more mixed leading to a mild twist steepening of the curve. Tariff concerns had eased at the beginning of the week given encouraging headlines over the weekend, but markets shifted back to a risk-off tone on as Trump announced 25% tariffs on autos to be implemented on 2 April. Fiscal announcements also remained a key market driver over the past few days as the UK government delivered its Spring update, Australia announced the budget and a fiscal package for defence spending was unveiled in Sweden.

Data releases this week were mixed and had overall a limited market imapct. PMIs delivered a mixed bag on Monday, with encouraging prints in France as well as improvements in German manufacturing component, but a more mixed picture elsewhere. UK inflation printed below our/consensus expectations but in line with BoE forecast (headline CPI at 2.8% and core at 3.5%). In US, February core PCE rose 0.37%m/m (or 2.79%oya), broadly in line with expectations and suggesting continued firming in inflation over the past three months.

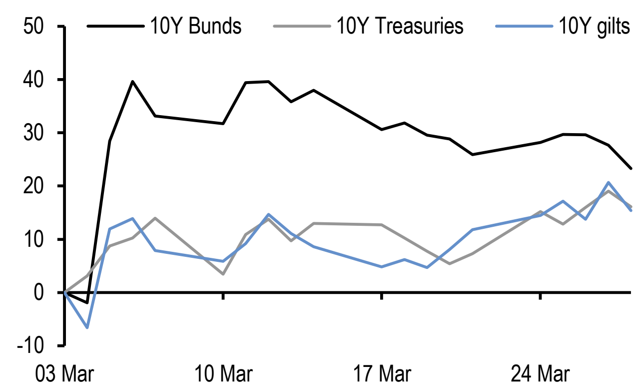
Figure 1: Market moves remained choppy this week across DM amid ongoing uncertainty around tariffs, further fiscal announcements (UK, Sweden and Australia) and mixed data

Cumulative change in 1Yx1Y OIS rate in EUR, USD and GBP; since 1 March 2025; bp



Source: J.P. Morgan.

Cumulative change in 10Y Bund, Treasury, and gilt yields; since 1 March 2025; bp



Source: J.P. Morgan.

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Shifting betas imply diverging drivers of DM rates as further tariff risks loom

DM yields have been buffeted by a range of different macro drivers over the past few weeks with Euro yields impacted by the seismic German fiscal shift, USD yields reflecting weaker data and increased downside growth risks from tariffs whilst front end GBP yields have range-traded on a combination of macro and technical drivers. Given this dynamic, front end DM yields have generally been non-directional with front end USD rate over the past month (**Figure 2**) with the reduced positive directionality of both greens EUR and GBP yields with greens USD particularly notable. We expect this low/non-existent directionality of front-end DM rates with USD rates to persist against a backdrop of ongoing tariff announcements with the 25% tariffs on auto exports to the US this week and the upcoming US reciprocal tariff announcements next week on 2nd April.

Figure 2: Front end DM rates are generally non-directional with front end USD yields

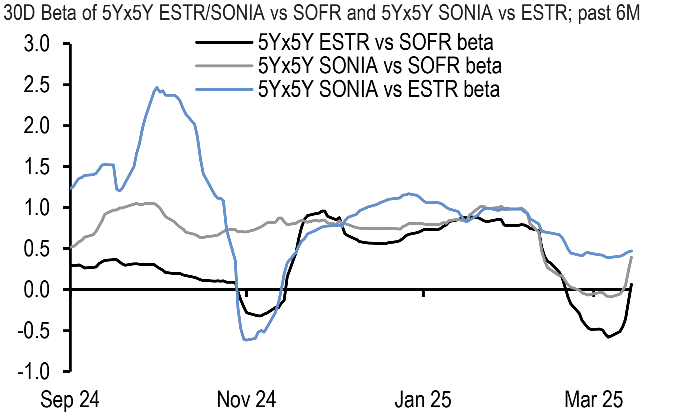
1M betas of fronts/reds/greens across DM to the respective US OIS rates; past 1M vs. 3M prior

	Past 1M		3M prior	
	Beta	R2	Beta	R2
EUR front	-0.56	17%	0.98	25%
EUR reds	0.13	0%	0.84	33%
EUR greens	1.45	22%	0.84	67%
GBP front	0.22	7%	0.85	14%
GBP reds	0.07	0%	1.08	61%
GBP greens	0.48	9%	1.07	80%
SEK front	0.56	7%	-0.23	2%
SEK reds	-0.05	0%	0.39	28%
SEK greens	0.84	6%	0.51	55%
NOK front	0.60	5%	0.48	31%
NOK reds	-0.14	0%	0.22	35%
NOK greens	0.14	0%	0.18	37%
AUD front	-0.09	2%	0.63	34%
AUD reds	0.03	0%	0.62	34%
AUD greens	0.08	1%	0.81	48%
NZD front	0.35	42%	-0.21	2%
NZD reds	0.50	14%	0.04	0%
NZD greens	0.52	21%	0.43	5%

Source: J.P. Morgan.

Figure 3: The beta of 5Yx5Y EUR and GBP rates with 5Yx5Y USD yields has also fallen over recent weeks whilst the beta 5Yx5Y GBP with 5Yx5Y EUR has remained elevated

30D Beta of 5Yx5Y ESTR/SONIA vs SOFR and 5Yx5Y SONIA vs ESTR; past 6M



Source: J.P. Morgan.

A similar dynamic is seen further out the curve in the 5Yx5Y sector as the betas of 5Yx5Y ESTR and 5Yx5Y SONIA yields with 5Yx5Y SOFR declined to around zero (**Figure 3**) as the Euro curve has priced increased term premia following the German fiscal shift and term premia in the GBP curve has remained elevated around this week's Spring Statement from the Chancellor. The market focus on fiscal driven 'term premia' in Europe is a result of the political shift in Europe towards increased defence spending needs over the coming years given an expected reduction in US military focus and support in the region. Given this, it is no surprise that the beta of 5Yx5Y SONIA vs. 5Yx5Y ESTR has remained elevated over recent weeks, although has reduced in the past few days given increased UK market choppiness around the Spring Statement.

We expect increased fiscal spending may take time to be implemented and over the near term we expect the focus for DM rate markets in Europe to shift away from longer term fiscal drivers back towards tariffs. **This will likely keep the beta of intermediate EUR and GBP yields elevated and we continue to express a broad bullish view on EUR and GBP duration via low beta proxies in EUR money market space and outright longs in1Yx1Y**

SONIA as we think the **reciprocal tariff announcement next weekposes downside risks to growth and could trigger a global risk-off move**. For example, in the event of a blanket 20% US tariff on all EU goods we expect Euro area GDP would fall to close to 0% from our current 2025 full year estimate of 1%, which would put downward pressure on our ECB terminal rate forecast of 2%. The front end of the ESTR curve is now pricing terminal just below 1.90% level. Knock on and sentiment effects would likely result in the front end of the GBP curve pricing more than the 50bp of easing priced by the end of this year.

We maintain a cautious stance on intra-EMU/€-SSA spreads given expensive valuations, upcoming tariff event risk and position technicals. Overall, the recent limited reaction or even modest tightening of spreads despite the increasing tariff uncertainty could be either due to a view that bad tariff news is in the price and hence will have limited macro/sentiment effect once implemented or given the amount of conflicting headlines on tariffs so far market is waiting for actual delivery before reacting to it. Either way, we believe the expensive valuations and OW position makes an UW intra-EMU/€-SSA stance into next week quite attractive.

More fiscal announcements in UK, Sweden and Australia

Fiscal announcements remained the key theme for DM rate markets given the budget announcements in UK and Australia as well as the launch of a fiscal package to boost defence in Sweden.

In **UK**, the Spring statement by the Chancellor did not deliver substantial surprises, broadly avoiding immediate credibility concerns, although market moves were choppy around the announcement amid thin liquidity. A small £10bn fiscal tightening was announced to correct the £14 deterioration in the budget headroom and the OBR growth forecasts were revised down for 2025 but up for future fiscal years. We believe that this type of growth revisions remains the concerning point of the Chancellor's announcement given it simply shifts the issues further down the line. The issuance remit instead was more surprising, particularly in terms of the issuance allocation across the curve. The net financing remit and gross gilt sales for FY25/26 were roughly in line with expectations (£304bn and £299bn); however, it was surprising that, due to a large unallocated portion of the remit, there would be a lower-than-expected proportion of long-end issuance (13% or £40bn) (**Figure 4**).

The budget was also announced in **Australia** this week (further details are available here). The deficit for FY2026 was lowered slightly to AUD 42.1bn (vs AUD 46.9bn estimated in December), while the revisions to the longer-run budget estimates were largely offsetting. The surprising element was the announcement of a tax cut as the personal income tax rate was lowered from 16% to 14% over two fiscal years (after July 2026). All in all, the Budget implies an increase in expenditures over the next four years, with bond issuance expected to be around AUD 150bn in FY2026, higher than our original forecast. Greater bond issuance expectations led to some narrowing pressure on swap spreads post announcement with a flattening in 3s/10s EFP box.

Finally, the **Swedish** government announced on Wednesday a large package to increase defence spending to 3.5% of GDP before 2030, given the intention to align to new NATO targets (see here for details). To achieve this, rather than raising tax and/or cutting spending, Sweden announced it plans to borrow SEK 300bn until 2035 (4.8% of 2024 real GDP), thus temporarily deviating from budget rules. After 2035, the assumption is that military spending would not be financed via debt.

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Figure 4: The UK issuance remit for next fiscal year surprised with a lower-than-expected proportion of long-end issuance

Fiscal year financing projection breakdown, OBR forecasts for FY25/26, J.P. Morgan forecasts for FY26/27; £bn

£bn	FY24/25	FY25/26	FY26/27
Total (CGNCR)	173	143	129
Redemptions	140	168	141
Adjustment from prior years	7	7	0
Gross financing requirement	**319**	**318**	**270**
NS&I	11	12	10
Other	2	2	0
Net Financing Requirement	**306.6**	**304.1**	**260.5**
T-Bills change	3	5	5
DMO net cash	-4	2	0
Gross gilt Sales	**297**	**299**	**255**
Net gilt Sales	**159**	**131**	**114**

Source: J.P. Morgan, UK DMO.

FY25/26 gilt issuance by sector and issuance type, sizes in £bn

	Auction	Syndication	Tender	Unallocated	Total	% total
Short	110.9				110.9	37%
Medium	73.7	16.0			89.7	30%
Long	26.7	13.5			40.2	13%
Index-linked	20.4	10.5			30.9	10%
Total	231.7	40	0	27.5	299.2	
% total	77%	13%	0%	9%		

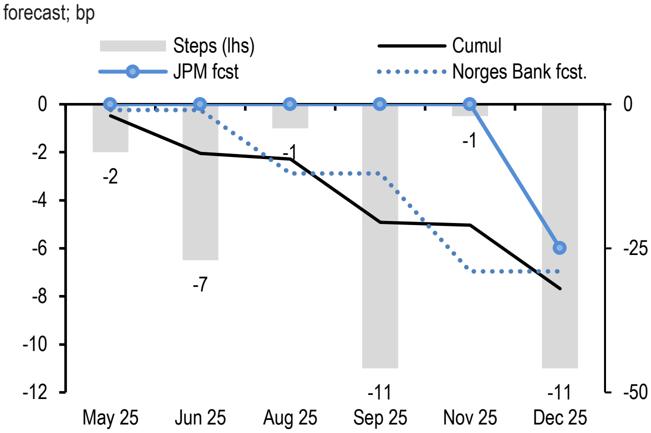
Source: J.P. Morgan, UK DMO.

Central bank updates: Norges Bank

Norges Bank remained on hold at 4.5% this week going against its usually credible forward guidance but in line with our call and broader consensus expectations (~30% probability of a cut was priced by markets ahead of the meeting). The rate path was raised to reflect two cuts in 2H25 (vs. 3 previously), while the economic forecasts were revised in a stagflationary direction with a large upward revision in core inflation (now at 3.2%oya in 1H25 and 3.5%oya in 2H25). Notably, the updated core inflation path is now projected to be higher than our economists' forecasts. We continue to call for a first cut in December rather than in 3Q as we think the board will want to see sustained evidence that inflation is not stuck above 3% and also because more fiscal spending could be announced in 2Q (see *Norges Bank: The easing cycle that keeps getting postponed, 27 March* for details). Market is currently pricing around 32bp cuts by December, close to the Norges Bank rate path forecast which implies around 29bp (**Figure 5**).

Figure 5: We continue to call for a 25bp Norges Bank cut in December

Norges Bank steps (lhs) and cumulative cuts priced in Nibor curve vs. J.p. Morgan forecast and Norges Bank rate bank forecast; bp



Source: J.P. Morgan, Norges Bank.

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1Q25 DM total bond returns

We take stock of total bond returns across DM so far this year. After an uninspiring performance during 2024, DM bonds (ex. US) delivered further disappointing results during the first quarter of the year (**Figure 6**). Total bond returns have indeed been flat to modestly negative across most developed markets so far in 2025, except for the US where bonds have generated around 2.1% return in 1Q25. The US outperformed other DM bond markets as the US exceptionalism narrative gradually faded: the aggressive policy mix being delivered by the Trump administration is revealing to be more aggressive than expected, raising risks for US (and global) growth with the Fed's reaction function that remains dovishly asymmetric. 1Q25 bond performance has been negative in Euro area (-1.5%), with a notable underperformance of Germany (-2.2%), and Sweden (-1.3%) given the announcement of a sharp fiscal easing to boost defence spending in the region. UK bond performance year-to-date is broadly flat (0.1%), similarly to Australia (0.6%) and New Zealand (0.2%). Japan has been the notable underperformer across DM (-3.1%) given the BoJ's hiking path. Looking ahead, we still expect positive bond returns across DM over the rest of the year (**Figure 7**). From now until end-2025, we are projecting returns to be around 3-5% across most DM economies with flat performance for Japanese bonds.

Figure 6: After an uninspiring performance during 2024, DM bonds delivered further disappointing results for rate investors during the first quarter of the year, except for the US...

Quarterly breakdown* of bond returns for the country components of the JP Morgan Global Bond Index and projected return until the end of 2025; %

	United States	EMU ex. Greece	Germany	France	Italy	Spain	United Kingdom	Sweden	Japan	Australia	New Zealand
Forecast return until end of 2025	**5.1%**	**4.7%**	**4.6%**	**4.9%**	**3.8%**	**4.7%**	**7.1%**	**2.7%**	**0.5%**	**4.2%**	**6.3%**
2025 YTD	**2.1%**	**-1.5%**	**-2.2%**	**-1.1%**	**-1.0%**	**-1.3%**	**0.1%**	**-1.3%**	**-3.1%**	**0.6%**	**0.2%**
4Q24	-1.1%	-1.7%	-2.8%	-1.7%	-0.5%	-1.1%	-3.2%	-3.3%	-4.3%	-0.2%	0.5%
3Q24	4.7%	3.9%	3.2%	3.4%	5.1%	4.0%	2.4%	2.3%	1.4%	3.0%	3.9%
2Q24	0.1%	-1.3%	-0.7%	-2.1%	-1.3%	-0.7%	-1.0%	1.8%	-2.9%	-0.9%	0.4%
1Q24	-0.9%	-0.6%	-1.3%	-1.3%	0.8%	-0.3%	-1.7%	-1.5%	-0.4%	0.9%	-0.1%
Min	-5.2%	-7.2%	-6.3%	-7.4%	-7.3%	-6.7%	-13.2%	-6.1%	-4.3%	-6.5%	-4.1%
Max	9.1%	7.0%	8.0%	7.9%	11.4%	6.9%	10.6%	9.9%	4.6%	9.3%	7.5%
Average	0.9%	0.9%	0.7%	0.8%	1.0%	0.9%	0.9%	0.8%	0.4%	1.1%	1.2%

Source: J.P. Morgan. Note: * Min./Max./Average calculated over 105 observations since 1999.

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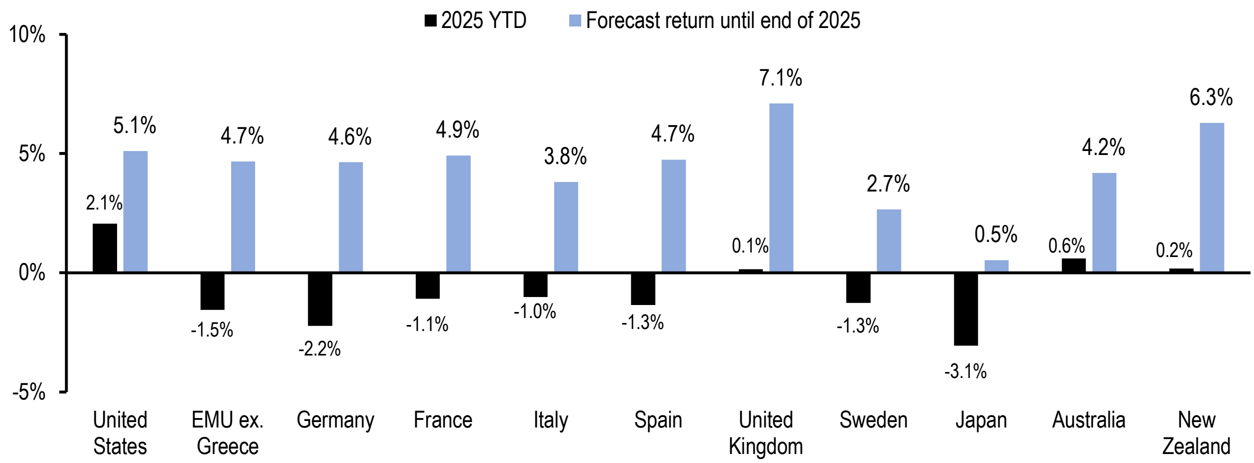
Figure 7: …nonetheless, we still expect positive bond returns across DM over the rest of the year with flat performance for Japan

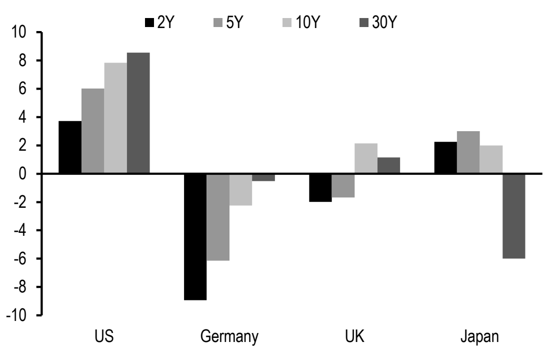
Bond returns delivered in 1Q25 and projected until 2025; %



Source: J.P. Morgan.

Figure 8: On the week, the US curve has bear steepened, Euro rates bull steepened while UK moves were more mixed leading to a mild twist steepening

Change in b/m yield since 24th March 2025 by region, bp



Source: J.P.Morgan.

Figure 9: Data releases were mixed over the past week

Actual print vs. consensus expectations since 24th March 2025

	Surprise		
Region	Upside	In line	Downside
Euro area	PMI Mfg. Germany: PMI Mfg. France: PMIs Spain: Retail Sales	Germany IFO	PMI Serv. & Comp. Economic Confidence Germany: Gfk Cons. Conf. Germany: Unemployment Rate Germany: PMI Serv.&Comp. Italy: Consumer Conf. France: HICP Spain: HICP
US	PMI Serv. & Comp. Core PCE		PMI Mfg. Conf. Board Cons. Confidence Wholesale Inventories
UK	Retail Sales PMI Serv. & Comp.		CPI PMI Mfg.
Norway	Retail Sales	Unemployment Rate	
Japan	Tokyo CPI		

Source: Bloomberg Finance L.P.
Note: Jobless claims are reported as upside (downside) surprises if they are lower (higher) than consensus expectations. Inflation expectations are reported as upside (downside) surprises if they are higher (lower) than consensus.

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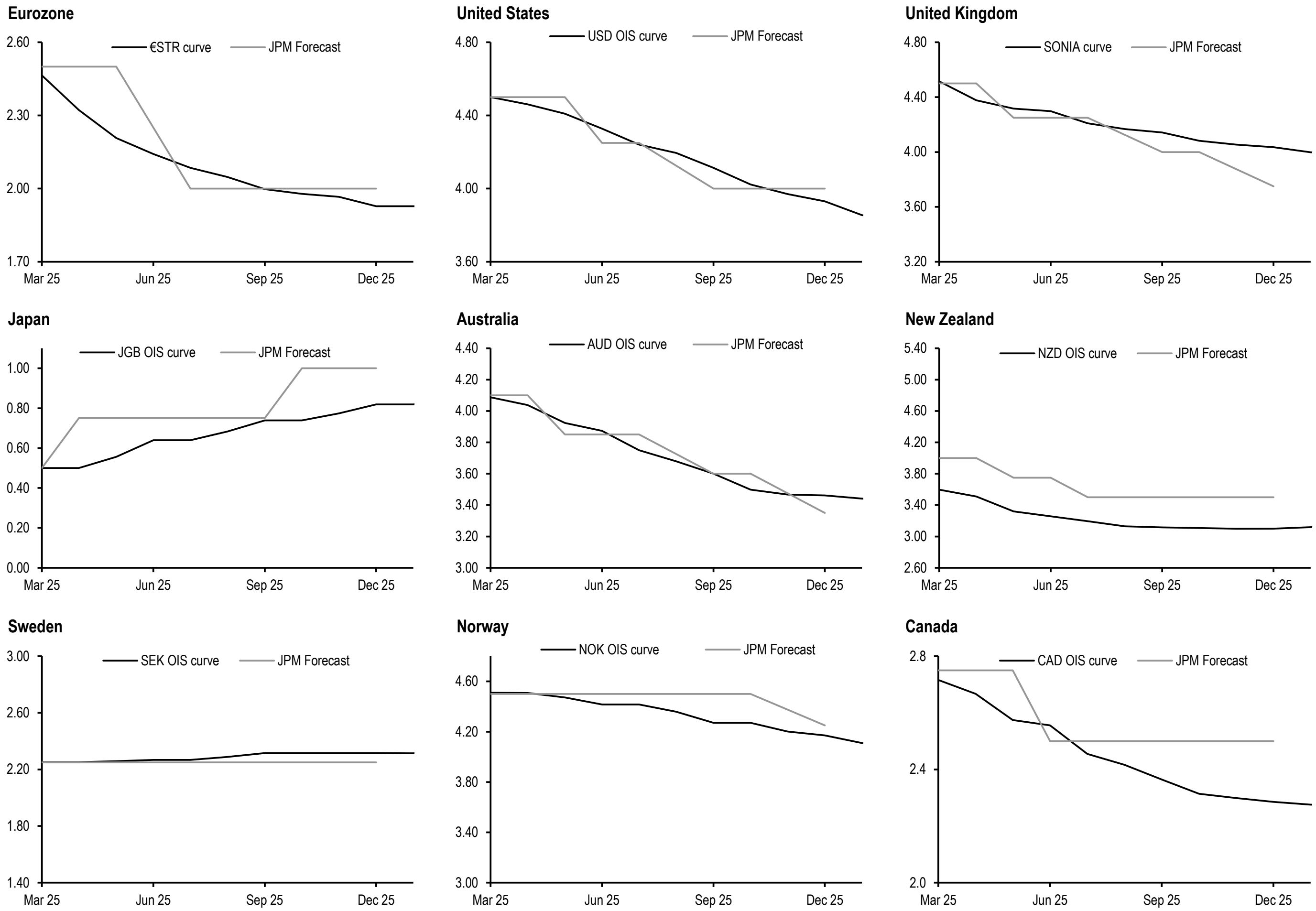
Figure 10: Central bank policy rate expectations inferred from money market rates

Central bank policy rate expectations (1M forward OIS rates starting at month end) and J.P. Morgan policy rates forecasts*, %



Source: J.P. Morgan.
* Adjusted for the differential between policy rates and O/N OIS rates. For USD OIS, adjusted for the differential between the O/N OIS rate and the upper bound of the Fed funds target range.
Levels as of COB 27th March 2025.

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Figure 11: Yield pick-up available via foreign bonds by country and investor currency, on a currency-hedged basis (3M rolling and maturity-matched hedges) and unhedged

Annualised yield pick-up* for euro-, yen-, US dollar- and sterling-based investors from foreign currency bonds vs. domestic bonds (German bonds for euro-based investors) of the same maturity, with no hedge, 3M rolling**and maturity-matched*** currency hedges; shaded regions for rolling and maturity-matched hedges show >1% yield pick-up (darkest shading), between 0.5% and 1%, and between 0% and 0.5% (lightest shading), %

EUR-based	US			Japan			UK			Australia			Sweden			Other Euro area^		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	France	Italy	Spain
2Y	1.96	-0.10	0.08	-1.35	0.73	0.24	2.10	-0.04	-0.07	1.72	-0.10	0.03	0.16	0.27	-0.15	0.18	0.22	0.15
5Y	1.74	-0.31	0.15	-1.31	0.78	0.35	1.94	-0.21	0.04	1.59	-0.23	0.09	0.04	0.14	-0.29	0.40	0.60	0.31
10Y	1.53	-0.52	0.13	-1.27	0.82	0.36	1.97	-0.17	0.25	1.71	-0.10	-0.16	-0.08	0.02	-0.41	0.65	1.03	0.64
30Y	1.62	-0.43	0.33	-0.60	1.48	0.34	2.14	0.00	0.45	1.93	0.12	0.16	-0.23	-0.12	-0.47	0.93	1.39	0.98

^ Pickup relative to Germany

JPY-based	US			Germany			France			Italy			Spain			UK			Australia			Sweden		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	3.16	-0.86	-0.14	1.25	-0.75	-0.22	1.42	-0.58	-0.05	1.46	-0.54	0.00	1.40	-0.61	-0.07	3.30	-0.83	-0.29	2.91	-0.88	-0.30	1.41	-0.46	-0.36
5Y	2.91	-1.12	-0.17	1.21	-0.79	-0.33	1.61	-0.39	0.07	1.81	-0.19	0.28	1.52	-0.48	-0.02	3.07	-1.06	-0.30	2.75	-1.04	-0.47	1.26	-0.61	-0.60
10Y	2.70	-1.32	-0.22	1.22	-0.78	-0.36	1.87	-0.13	0.29	2.25	0.25	0.67	1.86	-0.14	0.28	3.11	-1.02	-0.12	2.89	-0.90	-0.52	1.15	-0.71	-0.75
30Y	2.21	-1.81	0.01	0.64	-1.36	-0.33	1.57	-0.44	0.60	2.03	0.03	1.07	1.63	-0.38	0.66	2.71	-1.43	0.12	2.56	-1.24	-0.16	0.44	-1.43	-0.78

USD-based	Japan			Germany			France			Italy			Spain			UK			Australia			Sweden		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	-3.15	0.91	0.19	-1.96	0.00	-0.08	-1.78	0.27	0.10	-1.74	0.31	0.14	-1.81	0.24	0.07	0.15	0.05	-0.15	-0.24	0.00	-0.16	-1.79	0.36	-0.23
5Y	-2.92	1.16	0.20	-1.74	0.31	-0.15	-1.34	0.71	0.25	-1.14	0.91	0.45	-1.43	0.62	0.16	0.20	0.10	-0.11	-0.15	0.08	-0.29	-1.70	0.46	-0.44
10Y	-2.68	1.39	0.26	-1.53	0.52	-0.13	-0.88	1.18	0.53	-0.50	1.56	0.91	-0.89	1.16	0.51	0.44	0.35	0.12	0.19	0.42	-0.29	-1.61	0.55	-0.54
30Y	-2.11	1.97	0.06	-1.62	0.43	-0.33	-0.70	1.35	0.59	-0.23	1.82	1.06	-0.64	1.41	0.65	0.52	0.42	0.12	0.31	0.54	-0.17	-1.85	0.31	-0.80

GBP-based	US			Germany			France			Italy			Spain			Japan			Australia			Sweden		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	-0.15	-0.05	0.15	-2.10	0.04	0.07	-1.93	0.22	0.25	-1.89	0.26	0.29	-1.95	0.19	0.22	-3.27	-0.90	0.35	-0.39	-0.06	-0.01	-1.94	0.31	-0.08
5Y	-0.20	-0.10	0.11	-1.94	0.21	-0.04	-1.54	0.61	0.36	-1.34	0.81	0.57	-1.63	0.52	0.27	-3.06	1.11	0.31	-0.35	-0.02	-0.17	-1.90	0.35	-0.33
10Y	-0.44	-0.35	-0.12	-1.97	0.17	-0.25	-1.32	0.82	0.40	-0.94	1.20	0.78	-1.34	0.81	0.39	-3.06	1.11	0.12	-0.26	0.07	-0.41	-2.05	0.20	-0.66
30Y	-0.52	-0.42	-0.12	-2.14	0.00	-0.45	-1.21	0.93	0.47	-0.75	1.40	0.94	-1.16	0.98	0.53	-2.63	1.55	-0.12	-0.21	0.12	-0.29	-2.37	-0.12	-0.92

Source: J.P. Morgan. * Yield pick-up defined as foreign currency yield + hedge cost – domestic currency yield, using par govie curves (except Sweden, where we use benchmark bonds).** Cost of 3M rolling hedge defined as 3M FX cross-currency basis + domestic 3M swaprate (3s curve) – foreign-currency swaprate (3s curve).*** Cost of maturity-matched hedge defined as the maturity-matched FX cross-currency basis + domestic swaprate (3s curve) – foreign-currency swap rate (3s curve). Levels as at COB 27th March 2025.

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Figure 12: Yield pick-up available via foreign bonds by country and investor currency, on a currency-hedged basis (3M rolling and maturity-matched hedges) and unhedged (EUR countries and SSA)

Annualised yield pick-up* for euro-, yen-, US dollar- and sterling-based investors from different Euro-based bonds of the same maturity, with no hedge, 3M rolling** and maturity-matched*** currency hedges; shaded regions for rolling and maturity-matched hedges show >1% yield pick-up (darkest shading), between 0.5% and 1%, and between 0% and 0.5% (lightest shading), %

EUR-based	Other Euro area^										
FX hedge:	France	Italy	Spain	Belgium	Netherlands	Austria	Finland	Ireland	EU	EIB	KfW
2Y	0.18	0.22	0.15	0.18	0.09	0.21	0.17	0.10	-0.74	-0.86	-0.87
5Y	0.51	0.60	0.31	0.25	0.13	0.21	0.22	0.20	-0.44	-0.43	-0.46
10Y	0.65	1.03	0.64	0.51	0.17	0.42	0.40	0.30	0.16	0.03	-0.03
30Y	0.93	1.39	0.98	0.85	0.09	0.41	0.42	0.34	0.88	0.16	-

^ Pickup relative to Germany

JPY-based	Germany			Belgium			Netherlands			Austria			Finland			Ireland			EU			EIB			KfW		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	1.19	-0.79	-0.23	1.37	-0.61	-0.06	1.29	-0.69	-0.14	1.40	-0.58	-0.03	1.36	-2.22	-1.67	1.29	-2.29	-1.74	1.51	-0.47	0.09	1.39	-0.59	-0.04	1.38	-0.60	-0.04
5Y	1.17	-0.81	-0.34	1.42	-0.56	-0.09	1.30	-0.68	-0.21	1.38	-0.60	-0.13	1.39	-1.86	-1.40	1.37	-1.89	-1.42	1.49	-0.49	-0.02	1.50	-0.48	-0.01	1.47	-0.51	-0.04
10Y	1.20	-0.78	-0.38	1.71	-0.27	0.13	1.37	-0.61	-0.21	1.62	-0.36	0.04	1.60	-1.26	-0.86	1.50	-1.36	-0.96	1.69	-0.29	0.11	1.56	-0.42	-0.02	1.50	-0.48	-0.07
30Y	0.65	-1.33	-0.35	1.50	-0.48	0.49	0.74	-1.24	-0.26	1.06	-0.92	0.05	1.07	-0.91	0.07	0.99	-0.99	-0.01	1.53	-0.45	0.52	0.81	-1.17	-0.19	-	-	-

USD-based	Germany			Belgium			Netherlands			Austria			Finland			Ireland			EU			EIB			KfW		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	-1.96	0.10	-0.08	-1.78	0.27	0.10	-1.86	0.19	0.02	-1.75	0.30	0.13	-1.78	0.27	0.10	-1.85	0.20	0.03	-1.63	0.42	0.25	-1.76	0.29	0.12	-1.77	0.29	0.11
5Y	-1.74	0.31	-0.15	-1.49	0.56	0.10	-1.61	0.44	-0.02	-1.53	0.52	0.06	-1.52	0.53	0.07	-1.54	0.51	0.04	-1.42	0.63	0.17	-1.41	0.64	0.18	-1.44	0.61	0.15
10Y	-1.53	0.52	-0.13	-1.02	1.03	0.38	-1.36	0.69	0.04	-1.11	0.94	0.30	-1.13	0.92	0.27	-1.23	0.82	0.17	-1.04	1.01	0.36	-1.17	0.88	0.23	-1.22	0.83	0.18
30Y	-1.62	0.43	-0.33	-0.78	1.28	0.51	-1.53	0.52	-0.24	-1.22	0.84	0.07	-1.20	0.85	0.09	-1.28	0.77	0.01	-0.74	1.31	0.54	-1.46	0.59	-0.17	-	-	-

GBP-based	Germany			Belgium			Netherlands			Austria			Finland			Ireland			EU			EIB			KfW		
FX hedge:	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched	None	Rolling	Maturity-matched
2Y	-2.10	0.04	0.07	-1.92	0.22	0.25	-2.01	0.14	0.17	-1.89	0.25	0.28	-1.93	0.21	0.24	-2.00	0.15	0.18	-1.78	0.37	0.40	-1.90	0.24	0.27	-1.91	0.23	0.26
5Y	-1.94	0.21	-0.04	-1.68	0.46	0.22	-1.81	0.34	0.09	-1.73	0.42	0.17	-1.72	0.43	0.18	-1.74	0.40	0.16	-1.62	0.53	0.28	-1.61	0.54	0.29	-1.64	0.51	0.26
10Y	-1.97	0.17	-0.25	-1.46	0.68	0.26	-1.80	0.34	-0.08	-1.55	0.59	0.17	-1.57	0.57	0.15	-1.68	0.47	0.05	-1.49	0.66	0.24	-1.61	0.53	0.11	-1.67	0.48	0.06
30Y	-2.14	0.00	-0.45	-1.29	0.85	0.39	-2.05	0.09	-0.36	-1.73	0.41	-0.05	-1.72	0.43	-0.03	-1.80	0.35	-0.11	-1.26	0.88	0.43	-1.98	0.17	-0.29	0.00	-	-

Source: J.P. Morgan.
* Yield pick-up defined as foreign currency yield + hedge cost – domestic currency yield, using par govie curves (except Sweden, where we use benchmark bonds).
**Cost of 3M rolling hedge defined as 3M FX cross-currency basis + domestic 3M OIS rate – foreign currency OIS rate.
*** Cost of maturity-matched hedge defined as the maturity-matched FX cross-currency basis + domestic OIS rate – foreign-currency OIS rate.
Levels as of COB 27th March 2025.

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Figure 13: Current Global Rates trade recommendations

Changes are in bold and underlined

	Duration	Curve & Fly	Swap spreads	Swap spread curve	Gamma	Vega	Inflation	Cross-market
Euro area	6Mx1Y A-12/A-50 rec spread vs A+30 payer May25 Bobl call fly	5s/10s/30s Germany belly richener Sep25/Sep27 Euribor bull flattener 3s/20s bull flattener (3M)	May25 Bund bull widener May25 Bund bear narrower	Neutral	Sell 1Yx2Y unhedged straddle Sell 2Yx5Yx5Y synthetic forward vol	Sell 5Yx2Y	Bearish bias on 1Yx1Y HICP Widening bias on 15Y+ OATei IOTA	Short 9Y Portugal vs. Spain Short 3Y France vs. Germany 10s/30s Spain flattener vs. Italy 30s/50s France flattener
UK	Tactically receive 1Yx1Y SONIA Bullish bias on 30Y gilt Tactically rec Jun25 MPC OIS	30s/50s gilt curve steepener (UKT Jul54/Oct73) 3Mx1Y/15Mx1Y SONIA flattener	**<u>Neutral</u>**	**<u>Neutral</u>**	Buy A/A-50 receiver spread vs OTM payer		5Yx5Y/15Yx15Y UK RPI swap flattener Tactical long in 1Yx1Y UK RPI 10s/30s UK RY steepening bias	
US	Maintain 2s/5s steepeners. Maintain 1s/2s/5s belly richening butterflies. Maintain 20s/30s flatteners. Take profits on weighted 3s/10s/30s belly cheapening	Initiate 3s/10s swap curve flatteners paired with 1Y forward 1s/7s steepeners. Buy the belly of a weighted U5/Z5/H6 3M SOFR futures butterfly.	Maintain exposure to wider swap spreads at the front end. Turn neutral on longer maturity swap spreads	Turn neutral on the spread curve		Buy 2Yx10Y swaption volatility hedged for directionality with rate	Go long 5Yx5Y inflation swaps paired with a beta-weighted hedge in nominal swaps. Stay long 2-year inflation swaps paired with a short energy hedge.	
Japan		2s/10s JGB curve flattener 1y1y vs. 2y1y steepener	10Y swap spread narrower 30Y swap spread narrower					
Australia / New Zealand	**<u>Buy ACGB 3Y futures</u>**	Underweight the belly of the ACGB Sep-26/Nov-28/Apr-33 fly	Hold NZGB Apr-33 on MMS	Pay the AUD 3s/10s EFP box curve spread				Hold NZ-US 2s/10s swap box flattener Receive AUD-USD 5Yx5Y (IRS-
Scandinavia	Rec Dec25 SEK FRA	Neutral	Neutral	Neutral			Neutral	Pay 5Yx5Y SEK vs EUR

Source: J.P. Morgan.

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Figure 14: 2025 trade performance summary

Hit rate* and average P/L** for all trades closed in 2025; bp of yield

		2025					
Region	Sector	#	pos	neg	flat	Hit rate	Avg. P/L
Euro Cash	Overall	9	6	3	-	67%	-1
	Duration	1	-	1	-	0%	-20
	Curve	-	-	-	-	-	-
	Country selection / RV	4	3	1	-	75%	1
	SSA	3	3	-	-	100%	6
	Miscellaneous***	-	-	-	-	-	-
	Inflation	1	-	1	-	0%	-9
Euro Derivatives (swaps and spreads)	Overall	22	15	4	3	79%	2
	Duration	4	4	-	-	100%	6
	Curve	2	2	-	-	100%	7
	Conditional curve / flies	10	6	1	3	86%	1
	Swap Spreads	3	1	2	-	33%	-3
	Miscellaneous	3	2	1	-	67%	3
Euro Derivatives (options)	Overall	4	4	-	-	100%	73
	Options (outright)	4	4	-	-	100%	73
	Options (relative)	-	-	-	-	-	-
	Options (money market)	-	-	-	-	-	-
UK	Overall (ex. options)	4	4	-	-	100%	6
	Duration	1	1	-	-	100%	6
	Curve	2	2	-	-	100%	5
	Swap spreads	1	1	-	-	100%	9
	RV	-	-	-	-	-	-
	Conditional curve / flies	-	-	-	-	-	-
	SSA	-	-	-	-	-	-
	Inflation	-	-	-	-	-	-
	Miscellaneous	-	-	-	-	-	-
	Options	-	-	-	-	-	-
Scandinavia	Overall	4	2	2	-	50%	-1
	Duration	2	-	2	-	0%	-28
	Curve / Swap Spreads	1	1	-	-	100%	22
	Country selection / RV	1	1	-	-	100%	30
	Inflation	-	-	-	-	-	-
Japan	Overall (ex. options)	-	-	-	-	-	-
	Duration	-	-	-	-	-	-
	Curve	-	-	-	-	-	-
	Country selection / RV	-	-	-	-	-	-
	Swap Spreads	-	-	-	-	-	-
	FX Basis	-	-	-	-	-	-
	Inflation	-	-	-	-	-	-
	Miscellaneous	-	-	-	-	-	-
	Options	-	-	-	-	-	-
Australia and New Zealand	Overall (ex. options)	6	4	2	-	67%	-2
	Duration	2	1	1	-	50%	-4
	Curve	-	-	-	-	-	-
	Country selection / RV	4	3	1	-	75%	-1
	CDS	-	-	-	-	-	-
	Inflation	-	-	-	-	-	-
	Options	-	-	-	-	-	-

Source: J.P. Morgan.
* Hit rate defined as # positive trades / (total # trades - trades closed at flat).
** Avg. P/L across total # trades. Options trades are shown in bp of notional, except for money market trades which are shown in bp of yield and not included in avg P/L calculation.
***Until 2013, category was called CDS
Note: For individual trade performance data, please see Global Fixed Income Markets Weekly: Trade Statistics, Francis Diamond et al.

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Table 1: Highlights from recent publications with hyperlinks

	Recent publications	Date
Previous GFIMs	Global Fixed Income Markets Weekly: Shifting focus: from fiscal policies to tariff uncertainties	22-Mar
	Global Fixed Income Markets Weekly: Macro uncertainty remains elevated, keep outright EUR duration exposure light	14-Mar
Global	Global SSA Jan25 Outlook	20-Jan
	2025 Global government issuance outlook	16-Jan
Europe	UK:No spring statement surprise, more interesting gilt remit	26-Mar
	European Client Survey - Multi-ccy investors increased longs	27-Mar
	Global SSA Mar25 Outlook: Cautious €-SSA, OW $-SSA and range-bound £-SSA	25-Mar
	Scandinavian rates update: Uncertainty abounds: Keep receiving Dec25 SEK FRA and paying 5Yx5Y Stibor versus Euribor but take profit in 1Yx1Y/5Yx5Y Nibor steepener	20-Mar
	BoE: More 'uncertainty' but no policy shift: Keep: 1) received Jun25 MPC OIS, 2) received 1Yx1Y SONIA	20-Mar
	European Client Survey - Scaled down longs in EGBs	13-Mar
	ECB eases but fiscal remains in focus	06-Mar
	A sea-change in German fiscal policy: Remove Euro area rates downside risk bias: stop out of long 10Y Bunds and 10Y EUR real yields	05-Mar
	ECB PEPP & APP: All the numbers	06-Mar
	Euro area government issuance Mar25 preview	27-Feb
	European bond futures rollover outlook: Mar/Jun25	20-Feb
	BoE: Gradual and careful: Unwind received Feb25 MPC OIS, close Aug25/Dec25 MPC OIS flatteners, enter tactical H5/U5 SONIA curve steepeners	06-Feb
	Scandinavia monthly interest rate outlook: Role reversal	06-Feb
	Cross currency basis 1Q25 Outlook: Stable bases with modest narrowing from technicals	23-Jan
	Term premia, European curves and UK rates: Stay long 1Yx1Y ESTR and long 10Y bunds, receive Feb25 MPC OIS	10-Jan
	Scandinavia monthly interest rate outlook: Long duration bias but selective cross market longs	09-Jan
	European rates update: Turn bullish on EUR duration but more cautious on GBP duration	07-Jan
	Euro area government issuance update 2025: higher QT flow to more than offset lower net issuance	06-Jan
	2025 Euro area rating analysis	06-Jan
	Global government bond activity chart pack	06-Nov
	European rates post US election	06-Nov
	European Client Survey	06-Nov
	UK budget: Larger tax rises, more investment, more borrowing	30-Oct
	Scandi monthly: External Risks	25-Oct
	2025 Euro area government issuance preview: Supply vs. ECB flow dynamics to modestly deteriorate vs. 2024 due to PEPP QT	07-Oct
	Going green in Europe: A green market dashboard for Euro area sovereigns, the UK and the EU	30-Sep
	Euro area government bonds demand update: Taking stock of early 2024 flows in EGBs	03-Sep
US	2025 Treasury supply outlook: Several means three	15-Nov
	US Rates Strategy post-election update	08-Nov
	Time flies: Reviewing the tenth annual Treasury market conference	26-Sep
	Highlighted Research: US Election Cross-Asset Views	04-Sep
	U.S. Bond Futures Rollover Outlook: September 2024 / December 2024	13-Aug
	Highlighted Research: US Elections Update	24-Jul
	Interest Rate Derivatives: Trading Principal Factor Volatility	10-Jul
Inflation	Inflation Markets Bitesize Series: SDR inflation swap flows 2H24 update	26-Mar
	Monthly Inflation Outlook: Tactically trade valuations in front end UK RPI and US CPI	27-Feb
	Monthly Inflation Outlook: Bearish on front end EUR and intermediate US breakevens	30-Jan
Japan	Japan Rates Topics: Reviewing the March MPM & Our Thoughts on the Pricing of Political Developments	19-Mar
	Japan Rates Topics: Japan Flows in Pictures: February 2025	10-Mar
Australia & New Zealand	The Antipodean Strategist: Fiscal maneuverability	27-Mar
	The Antipodean Strategist: Steely Resolve	13-Mar
2025 Outlooks	Global Fixed Income Markets 2025 Outlook: Exceptionalism and uncertainty driving cross-market divergences	26-Nov
	Global Inflation Outlook 2025: Cross-market divergence in breakevens	29-Nov

Source: J.P. Morgan.

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Euro Cash

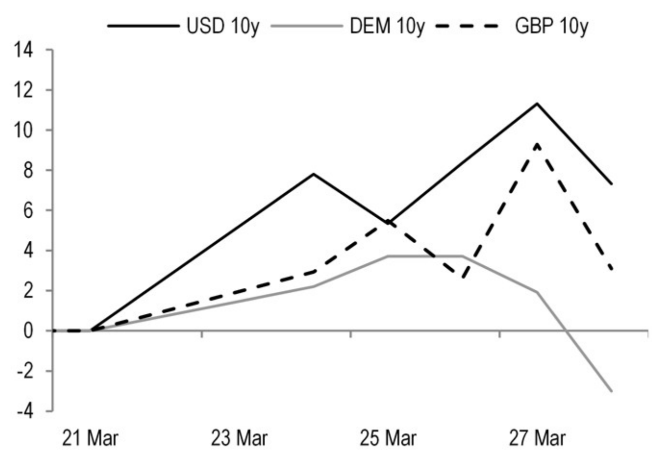
Unnerving calmness: stay UW intra-EMU spreads

- **German yields had another choppy week and are ending lower across the curve as tariff optimism from earlier part of the week quickly eroded**
- **We continue to expect 10Y German yields to decline gradually over 2025 and settle around 2.40-2.50% and find current levels attractive for strategic long-term buyers**
- **Keep 5s/10s/30s belly richening German fly as a carry efficient low-beta OW duration proxy**
- **German curve: 7Y sector cheap on expected supply pressure; 2s/10s still pricing decent term premia**
- **Stay cautious on intra-EMU/€-SSA spreads tactically given still expensive valuations, OW positioning and upcoming tariff event risk; hold UW 3Y France vs. Germany**
- **On RV, hold 30s/50s France flattener, short 9Y Portugal vs. Spain and 10s/30s Spain flattener vs. Italy; 7Y sector cheap on France/Italy credit curves**
- **Supply: around €27bn of conventionals via auctions next week in France, Germany, and Spain**

Another choppy week for DM rates. German yields followed US yields higher earlier in the week on easing tariff concerns which then eroded later in the week leading to sharp rally in Euro rates (**Figure 15**). Cross-market, German yields sharply outperformed vs. US across the curve over the week.

Figure 15: Another choppy week for DM rates

Evolution of 10Y Germany, US and UK benchmark yields since 21 March; bp



Source: J.P.Morgan

As we have been stressing in our recent publications, increased fiscal spending may take time to be implemented in Germany and over the near term we expect the focus for Euro rate markets to shift away from longer term fiscal drivers back towards tariffs. Indeed, the sharp rally in German yields post the US announcement of auto tariffs earlier this week supports this thinking. **We remain comfortable with our strategic bullish duration bias and con-**

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tinue to expect 10Y German yields to decline gradually over 2025 and settle around 2.40-2.50%. We, therefore, still find current Euro rate levels quite attractive for investors with long-term horizons.

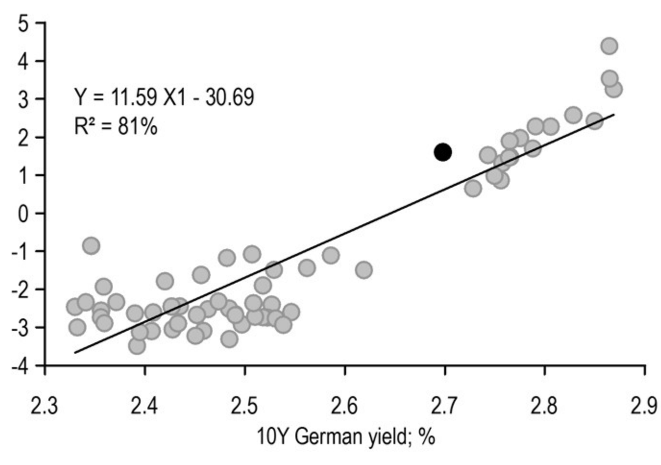
On tactical basis, we express our OW duration stance via low-beta OW proxies and conditional trades (see *European Derivatives*). **Hold5s/10s/30s belly richening German fly as a carry efficient (3M carry: +0.6bp) low-beta (10-12%) OW duration proxy**. Thefly moved broadly sideways over the week and is now trading around 1bp cheap vs. level of 10Y yield (**Figure 16**).

On the German curve, 2s/10s twist/bear steepened in early part of the week and the directionality during the yield rally from Thursday onwards was mixed (started with bull steepening and eventually bull flattened). **We expect the 2s/10s curve to gradually flatten** on expectations of the market pricing out a large part of the term premia currently priced in intermediate yields (~10-15bp). Further out, we still find the 10s/30s curve around 5bp too steep after adjusting for monetary policy expectations and ECB balance sheet.

Also on German curve, the 7Y sector was the relative underperformer over the week as on the 2Q25 investor call Finanzagentur mentioned their plan to reactivate 7Y issuance in 2H25. The 7Y sector is now screening around 1bp cheap vs. 5Y and 10Y on a curve and level adjusted fly (**Figure 17**). We expect this relative cheapness on back of expected supply pressure to only fade gradually over time.

Figure 16: The 5s/10s/30s German fly is trading around 1bp cheap vs. level of yields: hold belly richener as a low-beta OW duration proxy

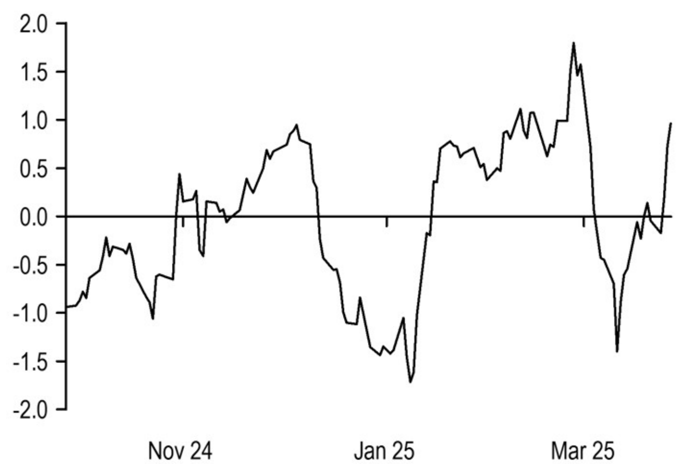
5s/10s/30s 50:50 German fly regressed against 10Y German yield; bond specific; past 3M bp



Source: J.P.Morgan

Figure 17: The 7Y sector on the German curve was the relative underperformer over the week as on the 2Q25 investor call Finanzagentur mentioned their plan to reactivate 7Y issuance in 2H25

Bobl Oct29/Bund Feb32/Bund Aug34 50:50 fly regressed against Bund Feb32 yield and Bobl Oct29/Bund Aug34 curve*; past 6M; bp



* 5s/7s/10s = 2.5*7Y + 0.18*5s/10s – 15.2; R-squared: 83%
Source: J.P.Morgan

Intra-EMU spreads

Intra-EMU spreads modestly tightened in the early part of the week on global risk-on moves reflecting reducing US tariff concerns but stabilised or even modestly widened from late Wednesday as tariff optimism started to erode following the US auto tariffs announcement (**Figure 18**).

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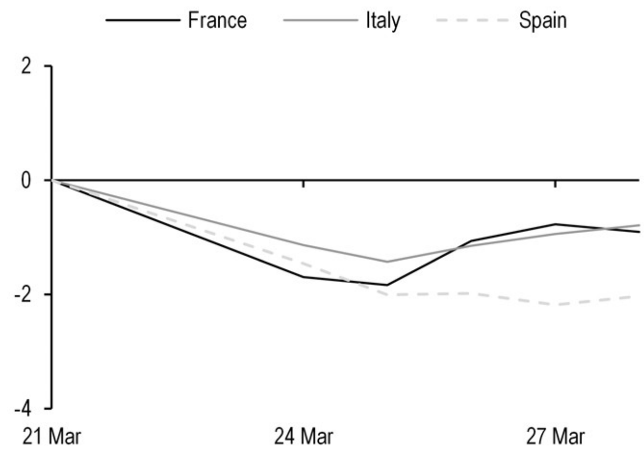
Figure 18: Tariff-off/tariff-on: risk-on/risk-off

Evolution of 10Y France, Italy and Spain spread vs. Germany since 21 March 2025; bp



Source: J.P.Morgan

We maintain a cautious stance on intra-EMU/€-SSA spreads given expensive valuations (Figure 19), upcoming tariff event risk and position technicals. Overall, the recent limited reaction or even modest tightening of spreads despite the increasing tariff uncertainty could be either due to a view that bad tariff news is in the price and hence will have limited macro/sentiment effect once implemented or given the amount of conflicting headlines on tariffs so far market is waiting for actual delivery before reacting. Either way, we believe that expensive valuations and OW position makes UW intra-EMU/€-SSA stance into next week quite attractive.

On *positioning*, as per our latest client *survey*, 27 March, European real money investors modestly increased their OW peripheral exposure over past two weeks (**Figure 20**). The current modest OW positioning could expose intra-EMU spreads to near-term widening pressure on carry exposure liquidations in the event of any risk-off shock.

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Figure 19: Periphery spreads continue to screen too tight on our fair value model

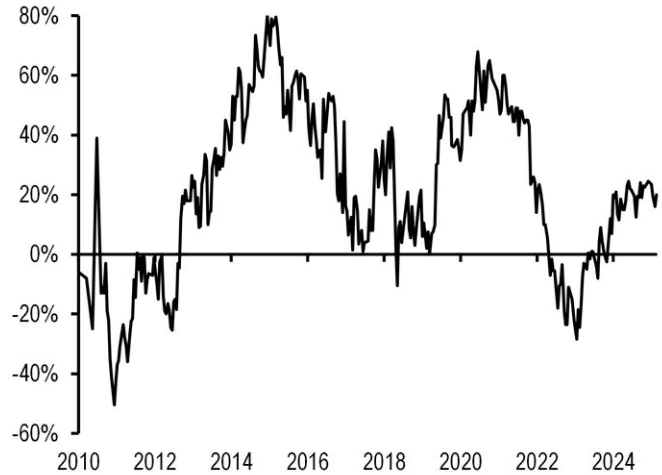
Decomposition of 10Y wtd. peripheral spread based on J.P. Morgan fair value framework; bp unless specified

Factor	Beta	27-Mar-25
3M MA Core-Periphery PMI (index)	15.9	-3.5
Euro area composite PMI (index)**	-8.0	50.4
3Mx10Y volatility (bp/day)	29.2	4.9
APP+PEPP outstanding (%GDP)	-169.2	27%
PEPP+NGEU safety net dummy***	-43.5	1.5
Intercept	527.6	-
Residual		-12
10Y wtd. periphery spread level*		89

* 10Y weighted peripheral spreads computed against Germany for Ireland, Portugal, Italy and Spain (weighted by the size of their outstanding bond market). ** We floor the Euro area composite PMI at 45 (the lows in the series since 2011 excluding the lows during early COVID-19 period), to clean for the excessively noisy and sharp declines during peak of COVID-19 period of Mar-May 2020. *** PEPP+NGEU safety-net dummy is defined as 1 since March 2020 and 0 previously. PEPP was announced in March 2020 and NGEU was announced soon after around summer 2020.**** TPI safety net dummy is defined as 1 since June 2022 and 0 previously. TPI was announced in June 2022.
Source: S&P Global, J.P. Morgan

Figure 20: The current modest OW positioning could expose intra-EMU spreads to near-term widening pressure on carry exposure liquidations in the event of any tariff related risk-off shock

Net exposure of Euro area investors to peripherals vs. core, %



Source: J.P. Morgan European Client *Survey*, 27 March

Intra-EMU trading themes

We hold UW 3Y France vs. Germany as UW intra-EMU proxy. On RV, we hold 30s/50s France flattener, short 9Y Portugal vs. Spain and 10s/30s Spain flattener vs. Italy.

In France, we hold shorts in 3Y vs. Germany as a tactical UW expression. Given the credit curve steepness and anecdotal evidence of OW carry exposures concentrated in short-intermediate sectors, we find 3-5Y sectors attractive for investors looking to express risk-off views. Also on the French credit curve, the 7Y is sector is now screening expensive after this week's German 7Y underperformance (**Figure 21**). We believe that the expensiveness of 7Y sectors on French (similar on Italian) credit curves created due to German supply pressure driven relative cheapening should correct going forward as expensive valuations would push investors to surrounding sectors.

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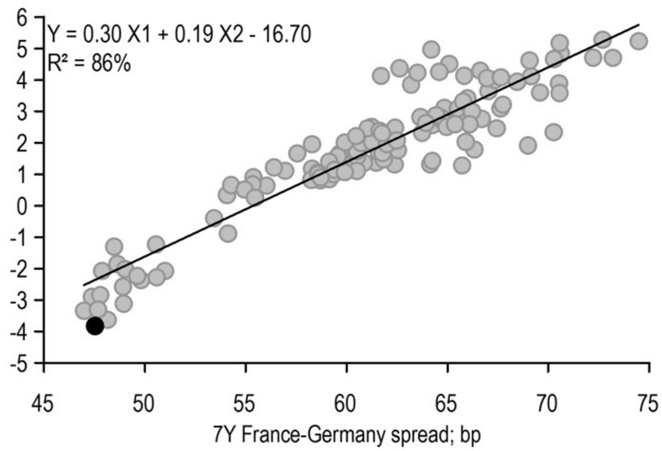
Figure 21: The 7Y is sector on the French credit curve is now screening expensive after this week's German 7Y underperformance

3s/7s/10s France-Germany fly regressed against 7Y France-Germany spread and 3s/10s France-Germany box; bond specific; past 6M; bp

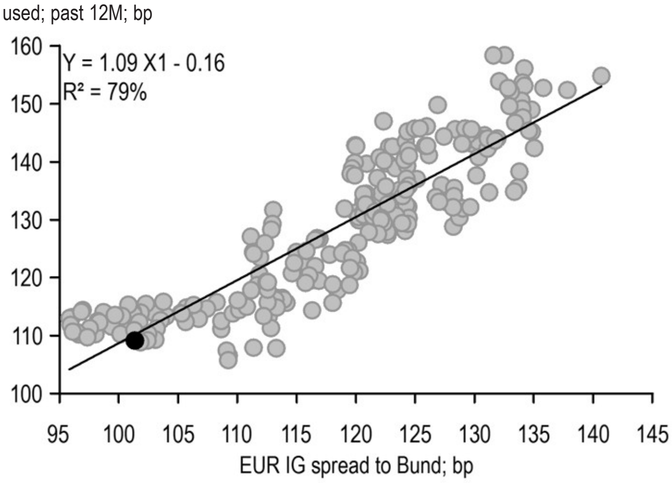


Source: J.P.Morgan

Italian spreads continue to screen broadly fair vs. other Euro credit spreads (**Figure 22**). Any risk-off widening in EUR credit spreads would now also push Italian spreads wider in our view. On Italian credit curve, the 3s/10s box vs. Germany continues to screen excessively steep (**Figure 23**), thus making 3-5Y sectors attractive for UW. Further out, 10s/30s box vs. Germany is trading broadly fair vs. level of spreads. Also on Friday 4 April, Fitch will review Italy's rating (BBB with positive outlook). Fitch had moved Italy outlook to positive at their last review only, 18 October 2024. Hence we believe it might be too early for them to already take positive action and hence our base case is no action at this review.

Figure 22: Italian spreads continue to screen broadly fair vs. other Euro credit spreads

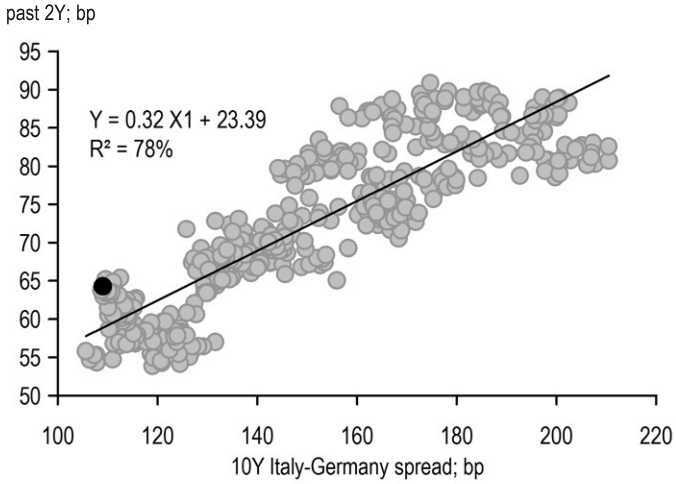
10Y Italy-Germany spread regressed against EUR IG spreads to Germany; par rates used; past 12M; bp



Source: J.P.Morgan

Figure 23: The 3s/10s Italian credit curve continues to screen excessively steep

3s/10s Italy-Germany box regressed against 10Y Italy-Germany spread; par rates used; past 2Y; bp



Source: J.P.Morgan

Irish bonds have been broadly the relative underperformer in core space over the past few weeks, likely on increasing noise around Trump administration tax and tariff policy announcements. We see risks of knee-jerk widening of Irish bond spreads if there are any

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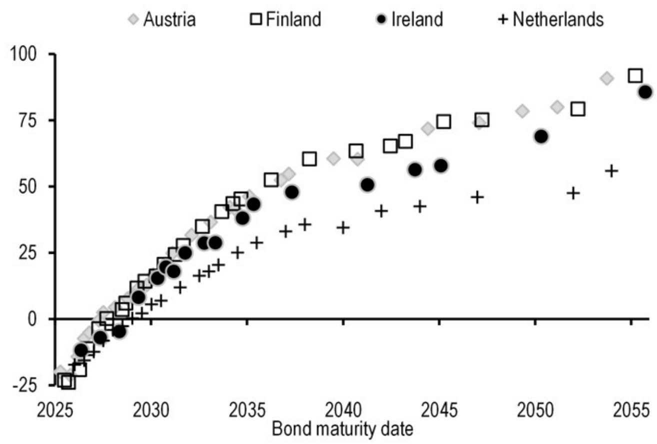
Ireland specific tariffs announced, which in our view could provide attractive entry points for Ireland OW if it pushes Ireland above Austria/Finland. Despite the ongoing tariff/tax policy uncertainty, we still believe Irish bonds should trade through or at best flat to Austria/Finland given relative fundamentals and strong Irish fiscal picture for 2025 (primary balances, debt/GNI below 70% and cash balance of around €30bn) (**Figure 24**).

Figure 24: Despite ongoing tariff/tax policy uncertainty, we still believe Irish bonds should trade through or at best flat to Austria/Finland

Austria, Dutch, Finnish and Irish z-spread curves; bps



Source: J.P.Morgan

Among other sovereigns, Spain and Greece still remain our favorite OW picks for medium-term carry plays. We **keep 10s/30s Spain flattener vs. Italy** on expectation of medium-term carry extension trades. We also hold **UW 9Y Portugal vs. Spain** given potential Portuguese political noise over near term, stretched OT valuations and increasing OT supply pressures in 2025.

We have also published our latest *SSA Outlook* on 25 March. Key highlights are:

- In €-SSA space, **we maintain a cautious stance over the near term, while retaining a medium-term constructive outlook**, mainly vs. swaps. EU and German regions in intermediate sectors are our favorite picks for OW. We are also cautious on French agencies given valuations expensive
- We see the **potential new programmes adding funding post-2026 as a positive development for EU**. We stay constructive on EU and expect it to gradually move towards Austria/Finland and eventually settle somewhere between Austria/Finland and Netherlands, especially in sectors up to 10Y
- On SSAs €-supply, we expect record issuance, modestly higher than 2024, mainly due to ongoing heavy EU issuance, with the risks of seeing modestly higher 2025 issuance on higher defense/Ukraine spending
- On EU supply, we are still comfortable with ~€150bn-160bn target for 2025 (**Figure 25**), and expect €90bn in 1H25 and €60bn-70bn in 2H25. We see **limited risk of higher 2025 EU issuance from either SAFE or Ukraine aid and expect EU issuance WAM to likely stay around current levels**, with no strong case for 30Y+ EU issuance

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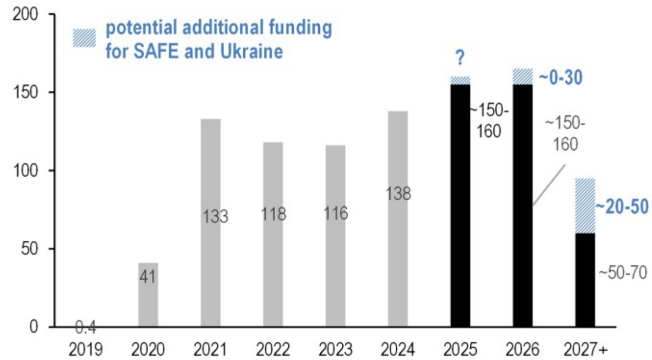
Figure 25: EU funding impact from European defence plans and Ukraine reconstruction/support is likely limited through 2026; expect ~20-50bn per year from 2027, not materially increasing EU issuance level

EU gross bond issuance and J.P. Morgan estimates from 2025 onwards; €bn;



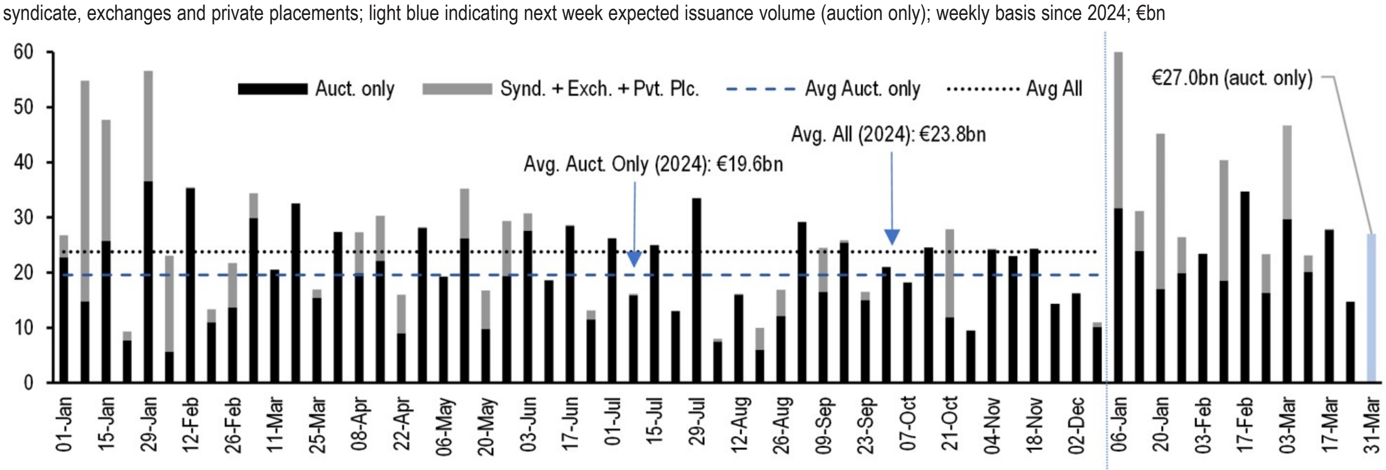
Source: European Commission, J.P. Morgan

Issuance

We expect around €27bn of conventional bond supply next week (Figure 26), plus potential syndicates. Conventional auctions are scheduled in Germany, Spain and France (**Figure 27**). Finland has an ORI window scheduled for 3 April and will announce on 1 April if it is planning to use the window or not.

Figure 26: We expect around €27bn of conventional bond supply next week, plus potential syndicates

Total Euro area conventional bond issuance weekly volume on trade date basis; black indicating total conventionals issued only via auctions; grey indicating conventionals issued via syndicate, exchanges and private placements; light blue indicating next week expected issuance volume (auction only); weekly basis since 2024; €bn



Source: J.P.Morgan

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Figure 27: Conventional auctions next week are scheduled in Germany, Spain and France

Euro area conventional bond issuance calendar until end of April; official announcements and J.P. Morgan forecast; peripheral supply highlighted in grey, green bonds are marked in green; €bn

		Issuer	Short	Medium	Long	Ultralong
	Apr	Finland		TBC (auction)		
	Apr	Ireland		TBC (auction)		
Tue	01-Apr	Germany	Mar27 4.5			
Wed	02-Apr	Germany			Feb35 4.5	
Thu	03-Apr	Finland		TBC (ORI)		
Thu	03-Apr	Spain	May28 2.0	Jul31 2.0		Jul39 1.5
Thu	03-Apr	France			Nov33, May35 8.5	May 56 3.5
Tue	08-Apr	Germany		TBC 1.5		
Tue	08-Apr	Austria			1.0	1.0
Tue	08-Apr	Netherlands		TBC 2.0		
Wed	09-Apr	Portugal		TBC		
Thu	10-Apr	Spain	2.0		2.0	1.5
Fri	11-Apr	Italy	3.5	4.5		1.0
Tue	15-Apr	Germany		Apr30 4.5		
Wed	16-Apr	Germany				Aug56 1.5
Wed	16-Apr	Germany				1.0
Wed	16-Apr	Greece		TBC 0.3		
Thu	17-Apr	France	5.5	7.0		
Tue	22-Apr	Germany	Jun27 5.0			
Wed	23-Apr	Portugal		TBC		
Wed	23-Apr	Germany			Feb35 4.0	
Mon	28-Apr	Belgium			1.5	1.5
Tue	29-Apr	Italy		3.5	4.0	
Wed	30-Apr	Germany				May 41 1.5
Wed	30-Apr	Germany				0.5

Source: Debt Management Offices, J.P. Morgan

Schatz Mar27: cheap

The 2Y German benchmark is currently trading with a benchmark discount of around 5.3bp relative to surrounding bonds, in line with the average benchmark discount observed since early 2023 (~5.3bp), but still above the long run average benchmark discount (~2.9bp since early Jan 2015) (**Figure 28**), and looks cheap in our view.

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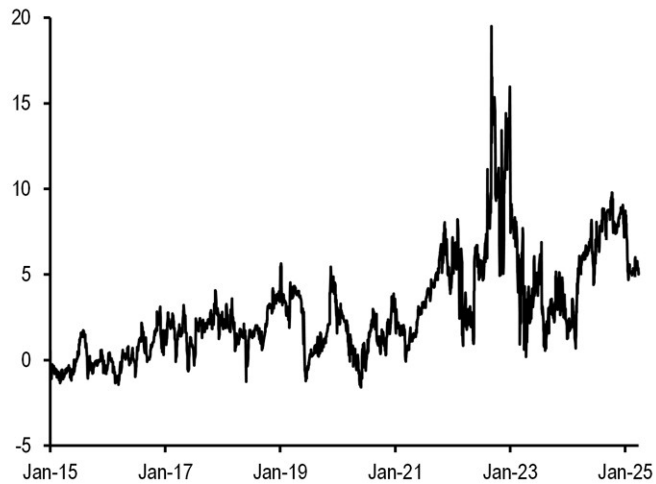
Figure 28: The 2Y German benchmark is currently trading with a benchmark discount of around 5.3bp relative to surrounding old bunds

Benchmark discount* on 2Y Schatz; bp



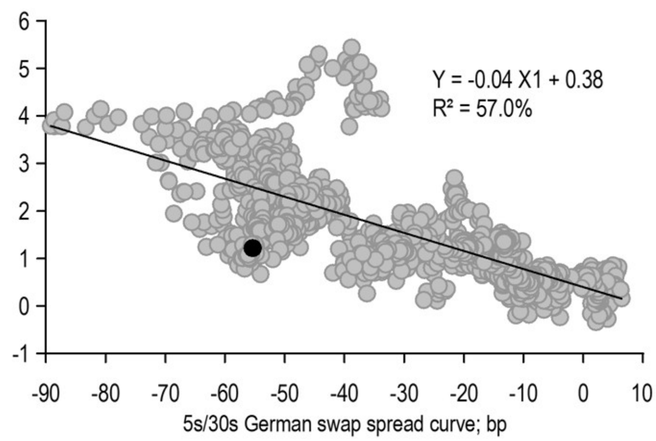
* Benchmark discount is calculated as the difference between 2Y benchmark (Schatz) yield and interpolated yield calculated using surrounding Bunds
Source: J.P.Morgan

Bund Feb35: dear

The 10Y German benchmark is currently trading with a benchmark roll (z-spread pick-up over the off-the-run Bund Aug34) of around 1.2bp, at the lower end of the benchmark roll range since early 2023. The 10Y German benchmark roll continues to show some modest negative directionality to 5s/30s German swap spread curve over its long run history and the Bund Feb35 benchmark roll appears dear based on that relationship (**Figure 29**).

Figure 29: The 10Y German benchmark roll continues to show some modest negative directionality to 5s/30s German swap curve over its long history and is trading dear based on that relationship

10Y German benchmark roll (z-spread pick-up over off-the-run) regressed against 5s/30s Germany swap spread curve; since 01 Jan 2019, bp



Source: J.P.Morgan

OAT Nov33: fair

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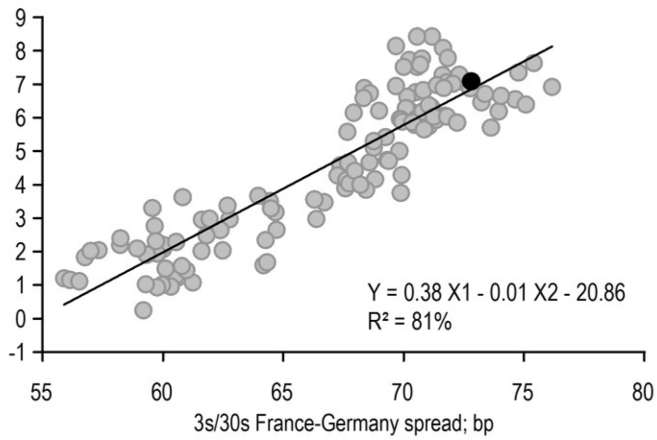
The OAT Nov33 is currently trading broadly fair on the French curve based on our par curve fair value model.

OAT May35: modestly cheap

The 10Y sector in France is trading broadly fair vs. 3Y and 30Y on the French credit curve (**Figure 30**). Within the sector, the 10Y benchmark is currently trading with a benchmark roll (z-spread pick-up over the off-the-run OAT Nov34) of around 4.0bp, above the average 10Y benchmark roll (~3bp) observed over the past 12M, modestly cheap in our view.

Figure 30: The 10Y French sector is trading broadly fair regressed vs. 3Y and 30Y

50:50 3s/10s/30s France-Germany fly regressed against 3s/30s France-Germany curve (X1) and 10Y France-Germany spread (X2); bond specific used; past 6M



Source: J.P.Morgan

OAT May56: modestly dear

This will be the first tap of the recently issued 30Y French benchmark, which is trading with a benchmark roll (z-spread pick-up over the off-the-run May55) of around 2.4bp, below the average benchmark roll observed over the past 12M (~3.4bp), modestly dear in our view.

Bono May28: fair

The 3Y Spanish benchmark is currently trading on the Spanish curve with a benchmark discount of around 3.1bp relative to surrounding bonds, broadly in line with the average 3Y Spanish benchmark discount observed over the past 12M (~3.2bp), and looks fair in our view.

Bono Jul31: modestly dear

The 7Y sector is trading broadly fair regressed vs. 3Y and 10Y sector on the Spanish curve (**Figure 31**). Within the sector, the Bono Jul31 is currently trading with a benchmark discount of around 2.0bp relative to surrounding bonds, below the average benchmark discount observed over the past 6M (~2.6bp), modestly dear in our view.

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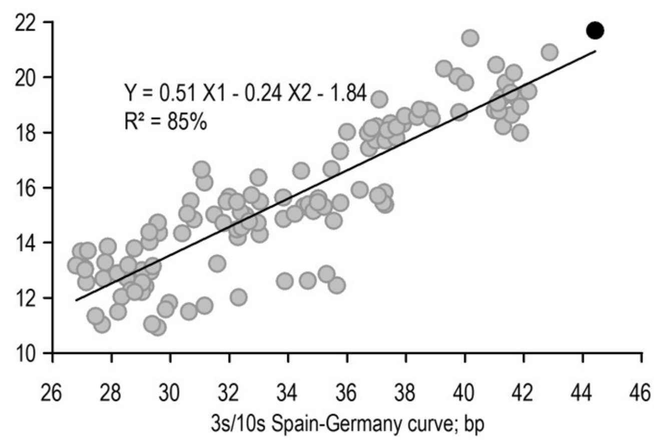
Figure 31: The 7Y sector is trading broadly fair regressed vs. 3Y and 10Y sectors

50:50 3s/7s/10s Spain-Germany fly regressed against 3s/10s Spain-Germany curve (X1) and 7Y Spain-Germany spread (X2); bond specific used; past 6M; bp



Source: J.P.Morgan

Bono Jul39: modestly cheap

The off-the-run 15Y Spanish benchmark Bono Jul39 is currently trading modestly cheap based on our yield vs. modified duration framework.

Trade recommendations*

German trades

- **Keep 5s/10s/30s Germany belly richener**
  Keep long €50.0mn Bund Feb35 vs. short €44.7mn OBL Apr30 and short €11.9mn Bund Aug54 @ 2.0bp. 3M carry: 0.6bp and 3M slide: 0.4bp; P&L since inception (21 Mar 2025): -0.8bp.

Country selection & RV trades

- **Keep short 3Y France vs. Germany**
  Keep short €25.0mn OAT Sep28 vs. long €25.8mn OBL Oct28 @ 31.3bp. 3M carry: -2.4bp and 3M slide: -2.6bp. P&L since inception (14 Mar 2025): -1.1bp.
- **Keep short 9Y Portugal vs. Spain**
  Keep short €50.0mn OT Oct34 vs. long €49.7mn Bono Oct34 @ -15.9bp. 3M carry: 0.7bp and 3M slide: -0.6bp; P&L since inception (15 Nov 2024): 10.4bp.
- **Keep 10s/30s Spain flattener vs. Italy**
  Keep long €25.0mn Bono Oct54 vs. short €53.1mn Bono Oct34 and short €27.1mn BTP Oct54 vs. long €54.0mn BTP Feb35 @ 1.3bp. 3M carry: 0.7bp and 3M slide: 0bp. P&L since inception (24 Jan 2025): -0.3bp.
- **Keep 30s/50s France flattener**
  Keep long €25.0mn OAT May72 vs. short €16.8mn OAT May55 @ -42.4bp. 3M carry: -1.3bp and 3M slide: -1.6bp. P&L since inception (07 Mar 2025): -1.9bp.

*Unless specified, all trades are priced as of 1PM on non-payroll Fridays and 2PM on payroll Fridays.

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Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
DURATION			
Long 5Y Germany	21-Jul-23	19-Apr-24	-14.0
Long 5Y Germany	31-May-24	06-Jun-24	12.5
Long 5Y Germany	01-Jul-24	01-Aug-24	31.3
Long 2Y Germany	04-Oct-24	12-Dec-24	5.2
Long 10Y Germany	07-Jan-25	05-Mar-25	-20.0
CURVE			
10s/15s Germany curve steepener	01-Mar-24	12-Jul-24	0.3
COUNTRY SELECTION/RELATIVE VALUE			
Long 5Y Netherlands vs. France	22-Mar-24	05-Apr-24	3.0
Short 5Y Portugal vs. Spain	09-Feb-24	05-Apr-24	9.5
10s/30s France steepener vs. Germany	23-Feb-24	05-Apr-24	0.3
Long 10Y Ireland vs. France	15-Mar-24	05-Apr-24	0.0
10s/30s weighted Italy-Germany steepener (100'	15-Mar-24	10-May-24	4.2
30s/50s France steepener	02-Feb-24	31-May-24	-9.0
Long 10Y Ireland vs. Germany	05-Apr-24	31-May-24	7.3
Long 10Y Greece vs. Italy	03-Nov-23	16-Aug-24	-23.9
10s/30s Italy flattener vs. Germany	06-Sep-24	27-Sep-24	0.8
Long 10Y Spain vs. Germany	06-Sep-24	25-Oct-24	12.5
Short 10Y Portugal vs. the Netherlands	01-Nov-24	07-Nov-24	9.5
5s/10s France steepener vs. Germany	27-Sep-24	06-Jan-25	4.5
Long 10Y Spain vs. Germany	06-Jan-25	21-Feb-25	2.2
30Y Belgium vs. France	07-Feb-25	21-Feb-25	-3.0
Short 3Y France vs. Spain	24-Jan-25	14-Mar-25	0.5

TRADE	ENTRY	EXIT	P&L
SSA			
Long 10Y EU vs. Germany	07-Feb-24	21-Mar-24	13.0
Long 5Y EU vs. swap	21-Mar-24	02-May-24	4.0
Long 7Y NRW vs. Germany	02-May-24	14-Jun-24	-10.0
Long 10Y EU vs. swap	02-May-24	10-Oct-24	-15.0
Long 5Y KfW vs. Germany	17-Jul-24	20-Jan-25	10.0
Long 7Y EU vs. Germany	20-Jan-25	20-Feb-25	3.0
Long 5Y NRW vs. Germany	20-Jan-25	20-Feb-25	4.0
MISCELLANEOUS			
Long 5Y Italy CDS basis	19-Jan-24	27-Sep-24	3.5

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European Derivatives

The day after April Fool's

- **Risk-off sentiment has increased significantly ahead of April 2nd when President Trump is expected to announce further tariffs, in addition to the 25% auto tariffs announced this week. This increases the risk of further deterioration in activity/ sentiment which would push the ECB to deliver more front-loaded cuts and a potential deeper easing cycle**
- **€STR curve is now pricing around 21bp, 38bp, and 59bp of cumulative cuts by April, June, and December with the terminal depo rate priced around 1.92%**
- **We revise lower our expected near-term range for 1Yx1Y to (1.8 – 2.0%) but acknowledge that this range could be wider on adverse tariff outcomes. With 1Yx1Y €STR at 1.92%, we avoid outright long duration exposures in the money market sector and instead hold low-beta bullish duration proxies via 1) 6Mx1Y A-12.5/A-50 receiver spread versus OTM payer, 2) May25 Bobl call fly (117.5/118.5/119.5), 3) receiving the belly of the reds/greens/blues €STR fly and 4) Sep25/Sep27 conditional bull flattener via Sep25 quarterly and 2Y midcurve calls**
- **The swap curve has steepened this week; take small profit in 3s/20s conditional bear steepener but hold bull flattener via 3M receivers**
- **Stay neutral on 10s/30s swap curve**
- **Our views on swap spreads are unchanged and we expect them to hover around current levels, with some near term risk of modest widening driven by risk-off sentiment. In our view, Bund swap spreads offer a better risk-off hedge relative to Schatz given cheap valuations, strong negative directionality to yields, and historical seasonality around small reduction in swapped issuance in April**
- **Schatz €STR swap spread is likely to remain in a (-7p, -12bp) range**
- **Keep May25 Bund conditional bull wideners as attractive risk-off hedges**
- **Stay bearish volatility via shorts in 2Yx5Yx5Y synthetic forward volatility via a triangle of equi-notional swaptions (short 2Yx5Y and 7Yx5Y versus buying 2Yx10Y straddles). Stay short 5Yx2Y volatility and unhedged 1Yx2Y straddles;**
- **Buy Jun25 Bobl gamma versus swaptions on RV and risk-off considerations**

€STR forward yield exhibited decent volatility over the week with an overall steepening of the curve (**Figure 32**). The rally at the front-end was primarily driven by rising risk-off sentiment as the US imposed a 25% auto tariff this week with more broad based tariffs potentially being announced next week. Anecdotal evidence of paying flows at the long-end from bank ALM around quarter-end and in anticipation of eventual Dutch pension fund transition led to an overall steepening of the curve. The 2s/10s and 10s/30s swap curve steepened around 5bp and 2bp, respectively over the week.

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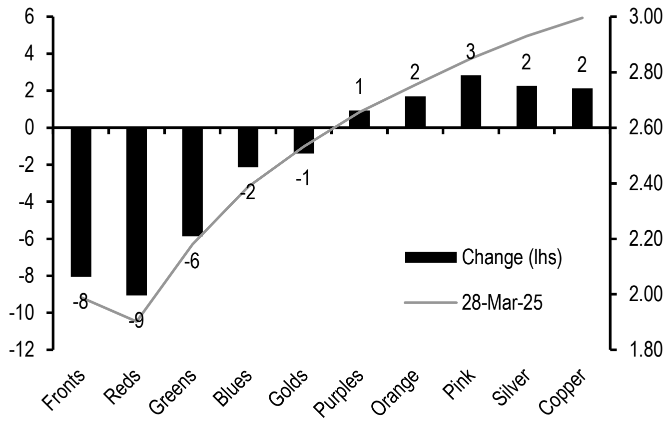
Figure 32: STR forward yield curve exhibited decent volatility over the week with an overall steepening of the curve

Change in various 1Y forward €STR yield; since 21st March 2025; bp



Source: J.P. Morgan.

President Trump has earmarked 2nd April as the day to announce significant further reciprocal tariffs on countries across the globe. There remains significant uncertainty on the magnitude and scope of these tariffs and this has kept market participants jittery over the last few days with a likely negative impact on Euro area GDP if these tariffs are enforced. Indeed, ECB board members also remain concerned on tariff/trade impacts as has been highlighted in recent commentary (**Figure 33**). We estimate that Euro area GDP could stall in 2025 if there is a 20% blanket tariff on all EU goods versus our current forecast of around 1%. A recent IMF study showed an estimate of around 0.6-0.7% negative impact on Euro area GDP due to a 10% increase in US tariffs also reflecting an impact through business sentiment channel (see here).

Figure 33: ECB board members remain somewhat worried about tariffs and the impact on growth

Selected excerpts from ECB board members;

Source	Date	Comment
De Guindos	27-Mar	"[Tariffs create] a very difficult environment to navigate because if it's pushing inflation up and growth down. This is going to be a difficult balancing act." "In the medium term, the reduction in activity, the reduction in growth, could offset the initial increase in inflation produced by the introduction of tariffs."
Villeroy	26-Mar	"I believe there is still scope for further easing. However, the pace and extent remain open."
Centeno	26-Mar	"The most recent forecasts do not tell us to pause in April. We may need new projections to pause."
Kazmir	25-Mar	"I won't tell you today which option I prefer — we need to wait for the data. Everyone is eagerly anticipating the numbers for the first quarter, for March, especially on inflation and its composition. What will matter most to us is services inflation."
Muller	25-Mar	"When we think of in which direction for example the tariffs or counter-tariffs imposed by the EU on American goods might have an impact on the economy, it would weaken the economy both in Europe and the US, but also it would probably drive logically prices a bit higher, so there's a bit of upside risk for inflation"
Villeroy	25-Mar	"The easing cycle is neither finished nor automatic." "The German program is a historical game-changer for Germany and for Europe, [...] However, in order for the program to be a complete success, the supply, the capacity to produce, must increase as much as the funding."
Kazmir	24-Mar	"The April meeting will be very interesting. [...] I have to say that I'm open to discussing either further interest-rate cuts or holding steady."
Escriva	24-Mar	"There are some upside risks, like fiscal policy. But downside risks are more obvious than the upside risks."
Makhlouf	24-Mar	"We need to be pretty prudent [...] when we're not yet at target and when quite exceptional events are happening around the world, which could have a direct effect on inflation."

Source: J.P. Morgan & ECB.

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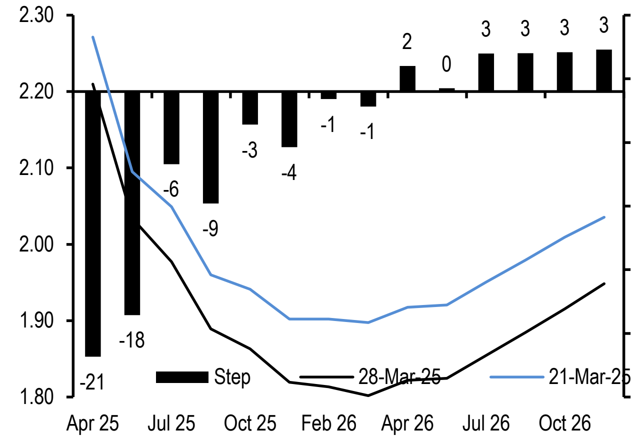
The €STR curve is currently pricing around 21bp, 38bp, and 59bp of cumulative cuts by April, June, and December meetings with the terminal rate priced around 1.92% (**Figure 34**). We would expect the ECB to cut below our current forecast for terminal rate at 2% in the event of worsening macro backdrop driven by the tariff announcement. On recent developments, we revise down our expected near term range for 1Yx1Y €STR by around 20bp to (1.8 – 2.0%) to incorporate risks surrounding the tariffs. However, we acknowledge that this range could be wider on adverse tariff outcomes. With 1Yx1Y €STR around 1.92%, we do not chase outright long duration moves as we do not find risk-reward to be attractive given recent volatility.

Figure 34: The €STR curve is pricing around 21bp, 38bp, and 59bp of cumulative cuts by April, June, and December

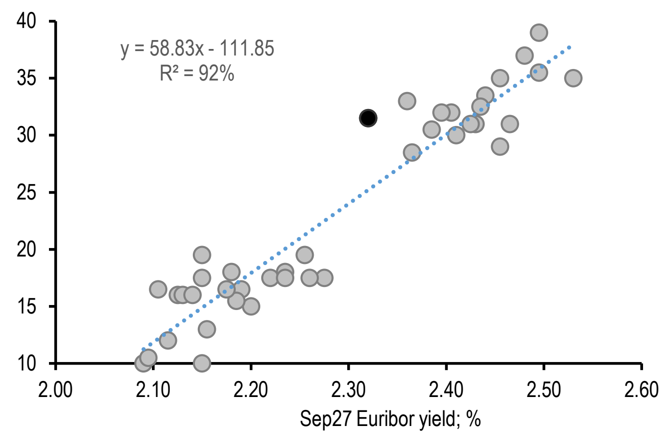
ECB meeting steps for the €STR curve (rhs, bp) and current €STR curve (lhs, %);



Source: J.P. Morgan.

Figure 35: Hold Sep25/Sep27 conditional Euribor bull flattener

Sep25/Sep27 Euribor curve regressed against Sep27 Euribor yield; past 2M; bp



Source: J.P. Morgan.

We continue to see risks biased to the downside for front-end rates and hold the low-beta proxies that we have been recommending over the past few weeks: *1)* May25 Bobl call fly (117.5/118.5/119.5 versus Jun25 Bobl futures at 117.75), *2)* 6Mx1Y A-12.5/A-50bp receiver spread versus short OTM payer, *3)* Sep25/Sep27 Euribor conditional bull flattener via Sep25 quarterly and 2Y midcurve calls (**Figure 35**), and *4)*receive the belly of the reds/greens/blues €STR fly (**Figure 36**).

We have been highlighting that the swap curve has been broadly exhibiting a strong positive directionality versus yields – bull flattening/bear steepening over the past few months. We also now find the swap curve to be too steep versus yields. For instance, the 3s/20s swap curve appears around 10bp too steep versus yields on a 6M regression basis (**Figure 37**). We have been recommending conditional exposure on the curve to benefit from this positive directionality which is not fully priced in the options market. Given the steepness, we take profit in 3s/20s conditional bear-steepener on RV considerations but hold bull-flatteners implemented via 3M receivers (see *Trade Recommendations*).

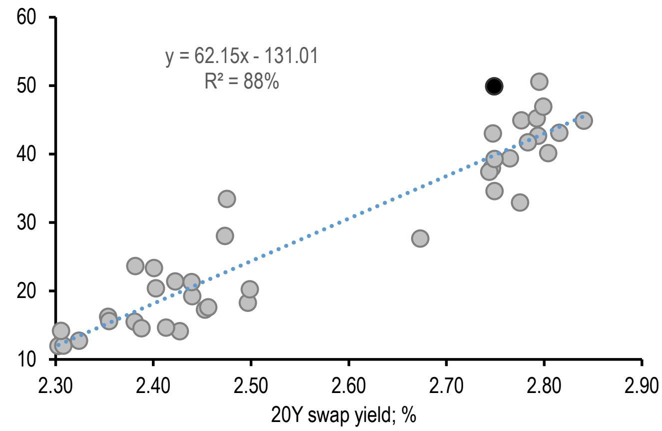
Figure 36: Keep receiving the belly of the 1Yx1Y/2Yx1Y/3Yx1Y €STR fly

1Yx1Y/2Yx1Y/3Yx1Y €STR 50:50 swap fly; past 2M; bp

Source: J.P. Morgan.

Figure 37: The 3s/20s curve is too steep versus yields; take profit in 3s/20s conditional bear steepener but hold bull flattener

3s/20s swap curve regressed against 20Y swap yield; past 6M; bp



Source: J.P. Morgan.

The 10s/30s swap curve has steepened around 2bp over the week in continuation of the steepening trend seen since the beginning of the year (**Figure 38**). As we have discussed previously, the 10s/30s swap curve now appears too steep versus fundamental drivers in our long-term model and we stay tactically neutral on the curve. To be sure, we have a medium term steepening bias on the curve but are wary of any near term retracement given that anecdotally this has become a crowded position. Our medium term view of further steepening of the curve primarily reflects expected Dutch pension fund transition related flows. However, as we have been highlighting, the large Dutch pension funds are unlikely to start transition this year. Also, their interest rate hedges are around 55-60% of the total risk and we see limited potential for pension funds to actually unwinding these hedges. In contrast, we see non-trivial risk of some receiving flows from these large funds to lock in their current elevated funding ratios which remain vulnerable to any large move in lower interest rates and equities (**Figure 39**).

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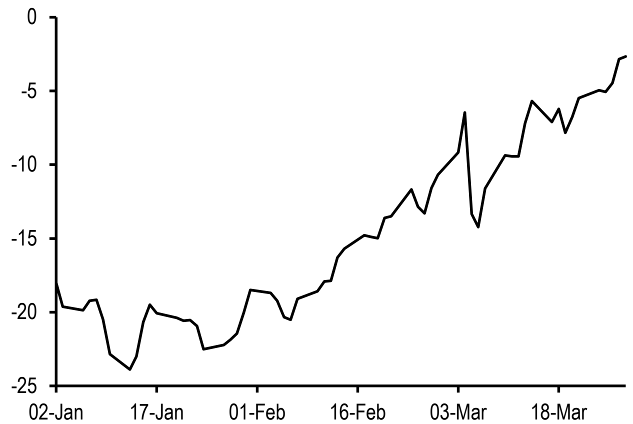
Figure 38: The 10s/30s swap curve has steepened almost monotonically this year

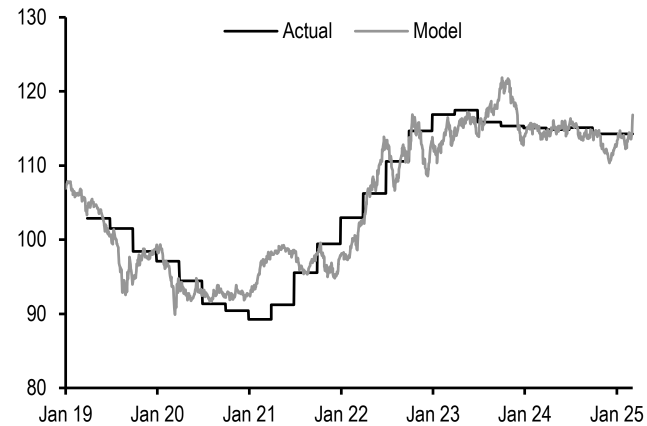
10s/30s swap curve; since 1 Jan 2025; bp



Source: J.P. Morgan.

Figure 39: Lower interest rates and equity valuations are a risk to the Dutch funding ratios. We see non-trivial risk of some long-end receiving flows from the large Dutch pension funds and thus avoid 10s/30s steepening exposure despite our medium term bias towards a steeper curve

Actual versus model* estimate of the Dutch funding ratio; since Jan 2019; %



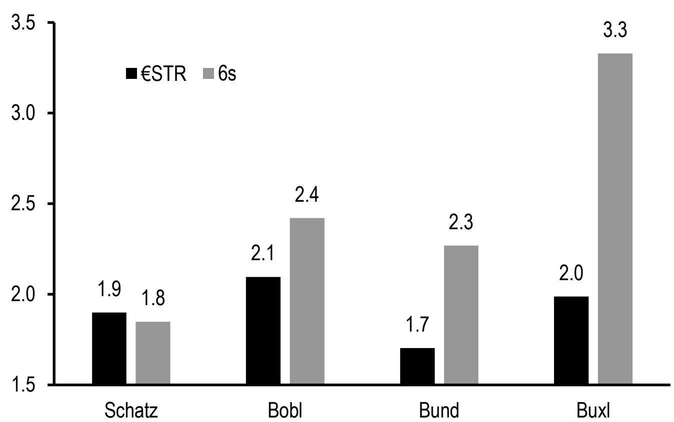
Source: DNB & J.P.Morgan.
Y = 9.3*(10Yx10Y rates) + 0.0003*(S&P) + 88.8; R2 = 89%; SE = 3.2%.

Swap spreads

Over the past week, German futures swap spreads widened across the curve with a modest outperformance of Buxl spreads on 6s (**Figure 40**). Anecdotal evidence suggests quarter-end related bank paying flows helped with some spread widening even though fast money took profit on spread widening positions.

Figure 40: Swap spreads widened marginally across the curve

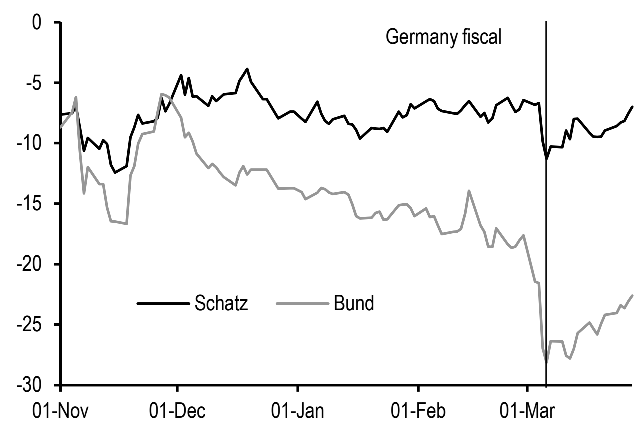
Change in €STR and 6s Mar25 swap spread since 21st March 2025; bp



Source: J.P. Morgan.

Figure 41: Schatz swap spreads have moved in narrow ranges over the past few months; Bund spreads have reversed a large proportion of the narrowing seen post the German fiscal announcement

Front Schatz and Bund swap spreads; since 1st Nov 2024; bp



Source: J.P. Morgan.

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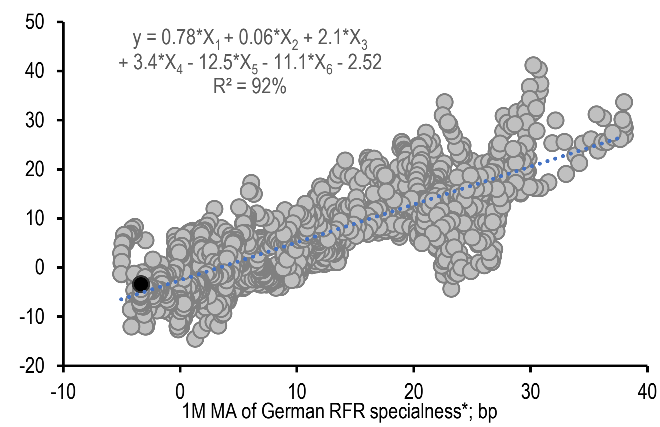
Overall, Schatz swap spreads have been remarkably stable over the past few months moving in narrow ranges – the knee-jerk narrowing on German fiscal announcement had faded relatively quickly and spreads are now close to the wide end of the ranges seen since early November. In contrast, Bund spreads are significantly narrower compared to 6M ago levels. However, we highlight that Bund spreads have now reversed a large proportion of the narrowing seen on the back of EU/Germany fiscal announcement in March (**Figure 41**).

The recent widening of spreads potentially reflects risk-off concerns around the impact of US tariffs on global and Euro area economy. Admittedly, the recent relationships between German swap spreads and various risk-off metric has been poor (as discussed last week), but we cannot discount an increase in the beta on any large risk-off move. Thus, we are reluctant to fade the recent widening of spreads, even though Schatz swap spreads are now trading close to the wider end of our expected trading range of (-7bp, -12bp) for Schatz swap spread versus €STR. However, we envision limited further scope for Schatz swap spread widening from here. **First**, Schatz swap spread appear broadly fair versus fundamental drivers in our long-term model (**Figure 42**). **Second**, expectations for more aggressive ECB easing and consequently lower terminal rates could act as a dampener for Schatz swap spread wideners. **Finally**, upcoming increase in Germany's fiscal issuance will likely come into focus and would encourage spread narrowing positions on any significant widening from current levels. For now, we remain tactically neutral on Schatz swap spreads and await for more details on US tariffs next week (2nd April).

Figure 42: Schatz swap spreads are fair against fundamental drivers. We stay tactically neutral

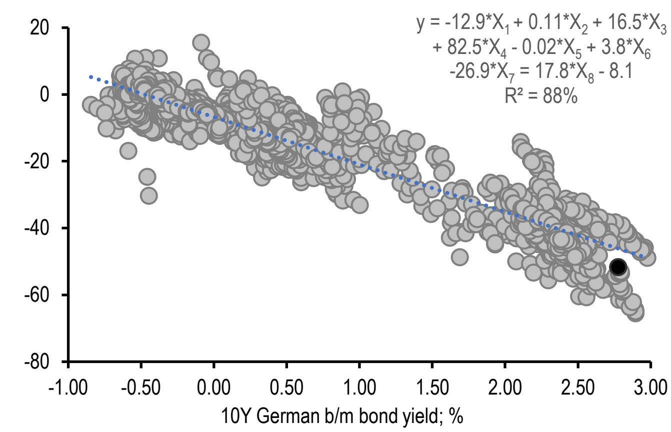
Schatz swap spread regressed against *1)* German RFR richness to €STR (X_1), *2)* 1Yx1Y swap rate (X_2),*3)* 10Y BTP/Bund spread (X_3), *4)* rolling front Schatz implied volatility (X_4), *5)* Dummy for ECB Oct23 and TLTRO-III Sep24 repayment (X_5 and X_6); since 1 Jan 2015; bp



Source: J.P. Morgan.

Figure 43: Bund spreads still appear around 5bp too narrow in our fair value model

Front Bund invoice swap spreads vs 6s regressed against *1)* German b/m yield (X_1), *2)* 10Y wtd peripheral spread (X_2), *3)* 1M OIS rate 2Y forward (X_3),*4)* ECB balance sheet as a % of GDP (X_4), *5)* Net issuance in Germany (X_5), *6)* Bund implied volatility (X_6),*7)* PEPP announcement dummy (X_7), and *8)* Sep24 TLTRO maturity dummy (X_8); since 1 Jan 2015; bp



Source: J.P. Morgan.

Bund swap spreads have widened around 8bp since the narrowest level seen just after the German fiscal announcement earlier this month. However, we see some room for further few bps of widening of Bund spreads, especially in a risk-off move. **First**, Bund €STR spreads appear marginally too narrow (around 5bp) versus fundamental drivers in our long-term model. Current residual is close to the lows seen over the past few weeks but could continue to correct further if risk-off sentiment escalates (**Figure 43**). **Second**, Bund swap

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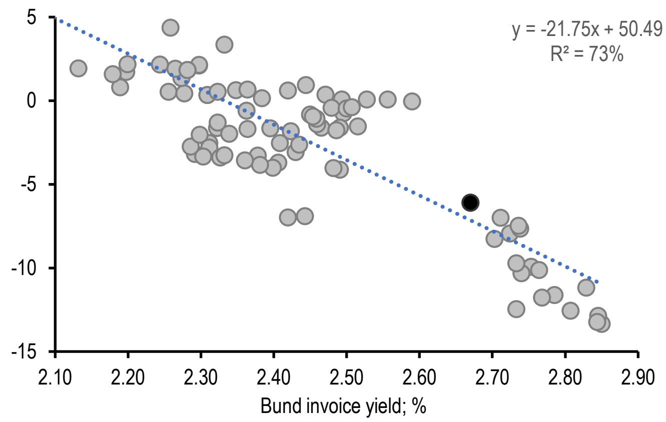
spreads continue to exhibit a strong negative directionality versus yields on a short-term regression basis (**Figure 44**). We would expect this dynamic to continue over the near term with potential of further acceleration of the beta in the event of an escalation of risk-off. **Finally**, historical analysis of swapped issuance shows that this activity tends to decline, on average, during April (**Figure 45**). An expected repeat of this seasonality could exert around 0.5-1bp of widening pressure on Bund spreads, all else equal.

Figure 44: Bund spreads continue to exhibit a strong positive directionality versus yields and are likely to act as an attractive risk-off hedge over the near term

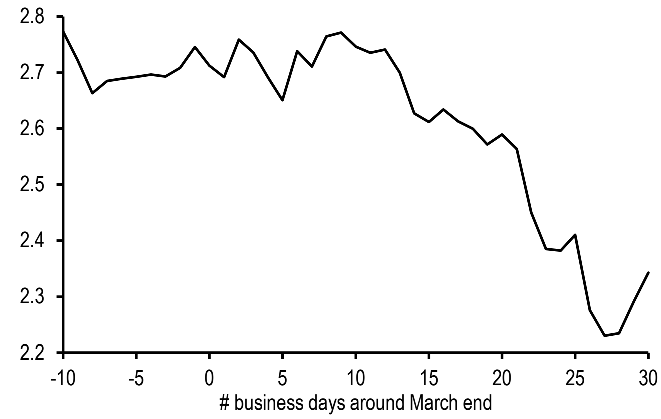
Front Bund swap spread (vs 6s) regressed against Bund invoice yield; since 1 Nov 2024; bp



Source: J.P. Morgan.

Figure 45: An expected decline in swapped issuance, in line with historical seasonality, could support some near-term widening of spreads

Average 1M MA of swapped issuance activity around March-end; since 1 Jan 2010; €bn/day

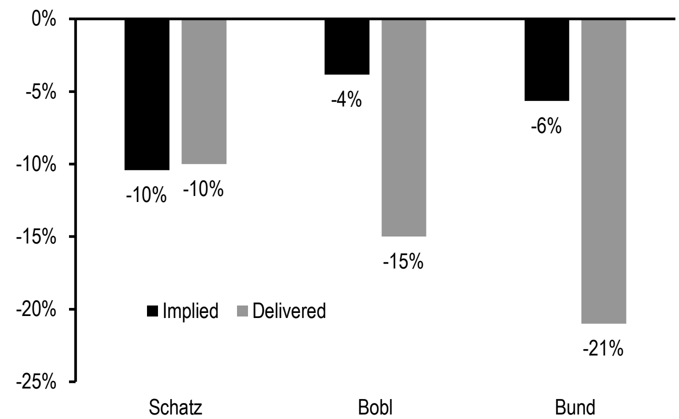


Source: Dealogic and J.P.Morgan.

Given the strong directionality of Bund swap spreads versus yields, we continue to hold conditional Bund bull widener and bear narrower that we have been recommending over the past few weeks. Amongst German futures, conditional exposures appear most attractive on Bund spreads when we compare current implied directionality versus delivered directionality. As seen in **Figure 46**, the difference is largest for Bund swap spreads currently.

Figure 46: Hold conditional exposures in Bund on attractive implied/ delivered difference

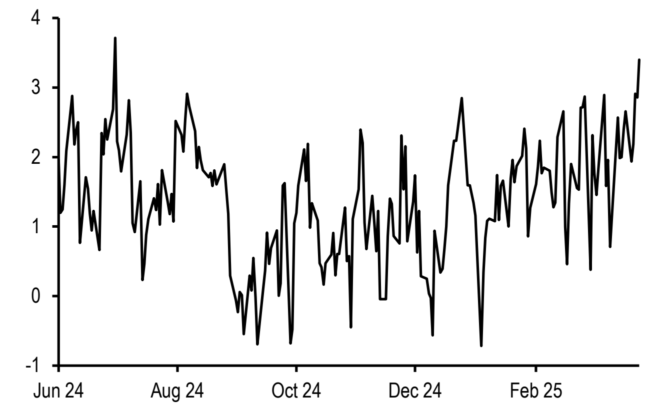
Current implied and delivered directionality (since 1 Nov 2024) for various German futures; %



Source: J.P. Morgan.

Figure 47: Bobl spreads appear too wide versus Schatz and Bund on a historical basis

Schatz/Bobl/Bund €STR swap spread fly; since 1 June 2024; bp



Source: J.P. Morgan.

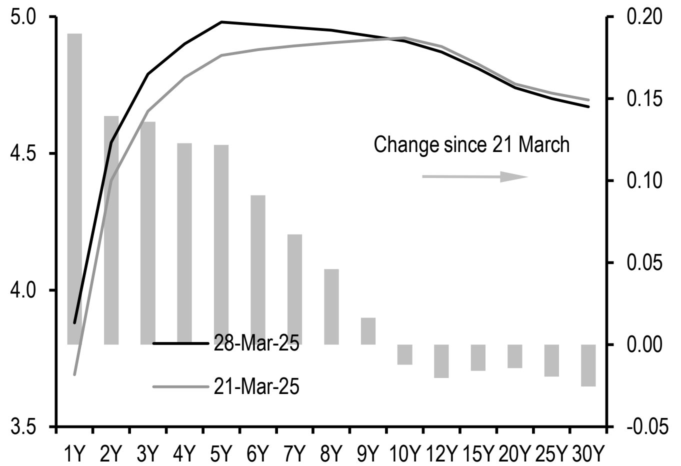
For investors who wish to fade the recent widening in swap spreads, we find Bobl narrowers relatively attractive. The Schatz/Bobl/Bund €STR swap spread fly is highly mean reverting and is currently close to the widest level seen since the ECB started its easing cycle last year (**Figure 47**).

Volatility

Implied volatility was mixed over the past week with the curve twist-flattening around the 8Y point across tails; the 2s/10s volatility curve flattened around 0.2bp/day over the week (**Figure 48**). Interestingly, the volatility curve has flattened as the swap curve has steepened over the week; 2s/10s swap curve is around 6bp steep over the week. Concerns around tariffs and trade uncertainty has resulted in the market pricing more ECB easing over the coming months which has in turn pushed implieds on top-left higher. Anecdotal evidence suggests some interest to sell volatility on longer tails. 1M delivered volatility has also declined across tails over the past week. While delivered volatility still looks high versus implieds on a 1M lookback, which includes the large move on German fiscal announcement, it is well below implieds when measured on shorter period. For instance, 10D delivered volatility on 2Y and 10Y tails is around 1.8bp/day and 2.6bp/day versus implied volatility of 4.5bp/day and 4.9bp/day, respectively. Market liquidity, as proxied by Bund market depth, has rebounded higher from the lows seen a couple of weeks ago. However, trading volume is towards the lower end of the recent ranges (**Figure 49**).

Figure 48: Implied volatility curve twist flattened around the 8Y point as concerns around US tariff led to market adding more ECB cuts and thus higher front-end volatility

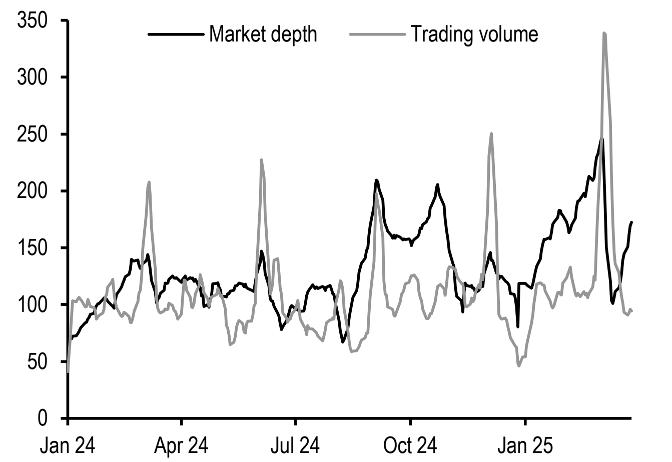
3M expiry implied volatility on various tails, current and 1W ago (lhs) versus 1W change in implieds (rhs); bp/day



Source: J.P. Morgan.

Figure 49: Bund market depth has recovered from recent lows; daily trading volume, however, is towards the lower end of its recent ranges

Rolling 1W MA of Bund market depth (€mn equivalent) versus 1W MA of Bund daily trading volume (€bn equivalent)



Source: J.P. Morgan & Eurex.

We continue to stay short volatility *1)*short 5Yx2Y vega, *2)* short 2Yx5Yx5Y synthetic forward volatility implemented via a triangle of swaptions, and *3)* short 1Yx2Y unhedged straddles. Our baseline is for implied volatility to decline further over the medium term but we remain wary of upcoming event risks; next week we have Euro area CPI and US payrolls on data front and US tariff announcement on 2^{nd} April as highlighted by President Trump. These events, especially the expected tariff announcement, could result in large movement in yields and thus we avoid structures with high gamma exposure. However, we highlight that the EUR swaptions market are currently not pricing any significant volatility premium for the $2^{nd}$of April (**Figure 50**). For instance, on 2Y tails, the average volatility for 2^{nd} April is only around 2% higher compared to the volatility before that day. Our baseline scenario calls for front-end yields to remain in a range (see above) over the near term with medium term biased lower. This, in our view, should be overall supportive of short volatility positions over the medium term.

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Figure 50: The EUR swaptions market is pricing minimum event risk for the announcement of 2nd April

Estimate of average volatility on 2nd April using EUR swaptions; bp/day

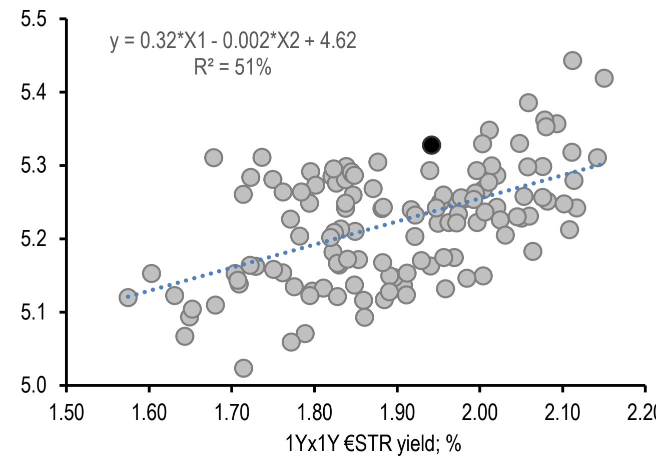
	EUR implied vol; bp/day			(C)/ (A)
	Pre-2nd April (A)	Post-2nd-April*	Avg volatility (C)*	EUR
1Y	3.3	3.3	3.4	102%
2Y	4.2	4.2	4.3	102%
5Y	4.8	4.8	4.9	102%
10Y	4.9	4.9	5.0	102%
20Y	4.7	4.7	4.8	102%
30Y	4.6	4.7	4.7	102%

Source: J.P. Morgan.

5Yx2Y implied volatility has declined only modestly (around 0.05bp/day) since our recommendation a few weeks ago (7th March). 5Yx2Y implied volatility exhibits a decent directionality versus yields and our medium bullish duration bias supports lower implieds. Additionally, 5Yx2Y implieds appear too rich versus yields, after adjusting for market liquidity (proxied by Bund market depth) (**Figure 51**). We also find 5Yx2Y implieds to be marginally too rich versus gamma implieds (3Mx2Y) (**Figure 52**). Overall, we stay short 5Yx2Y gamma.

Figure 51: 5Yx2Y implied volatility appear marginally too rich versus yields and market depth on a short term regression basis…

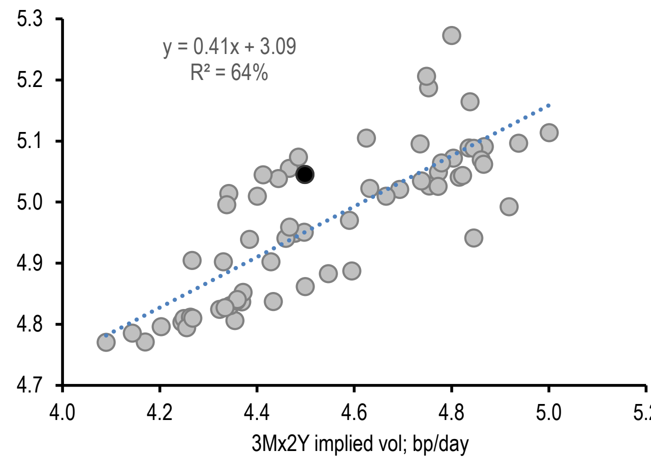
5Yx2Y implied volatility regressed against *1)* 1Yx1Y €STR yield and *2)* 1W MA of Bund market depth; past 6M; bp/day



Source: J.P. Morgan.

Figure 52: …and also versus 3Mx2Y implieds. Stay short 5Yx2Y with a medium term horizon

5Yx2Y implied volatility regressed against 3Mx2Y implied volatility; past 3M; bp/day



Source: J.P. Morgan.

Similarly, we stay short 2Yx5Yx5Y synthetic forward implied volatility implemented via equi-notional amount of a triangle of swaptions – short 2Yx5Y and 7Yx5Y versus long 2Yx10Y delta-hedged swaptions. The implied volatility is broadly unchanged over the past two weeks.

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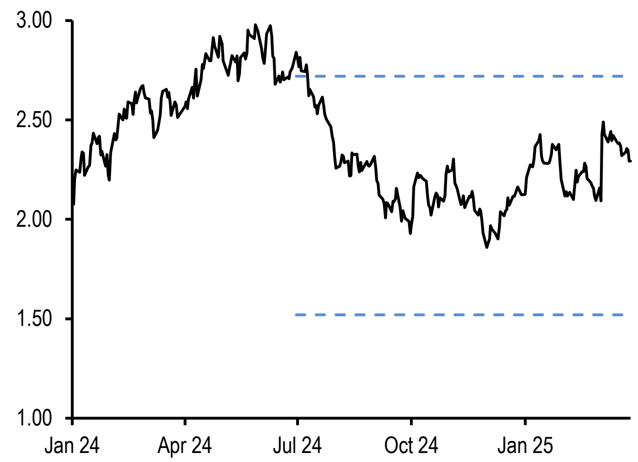
We also stay short 1Yx2Y unhedged straddles. Admittedly, we have now revised lower our expected trading range for 1Yx1Y €STR but that does not pose any risk to this trade given wide breakeven ranges at expiry (**Figure 53**). As we have discussed previously, it will require a significant repricing of ECB rate path expectations for spot 2Y yield to breach the upper/lower breakevens.

Figure 53: Stay short 1Yx2Y unhedged straddles which has wide breakevens at expiry

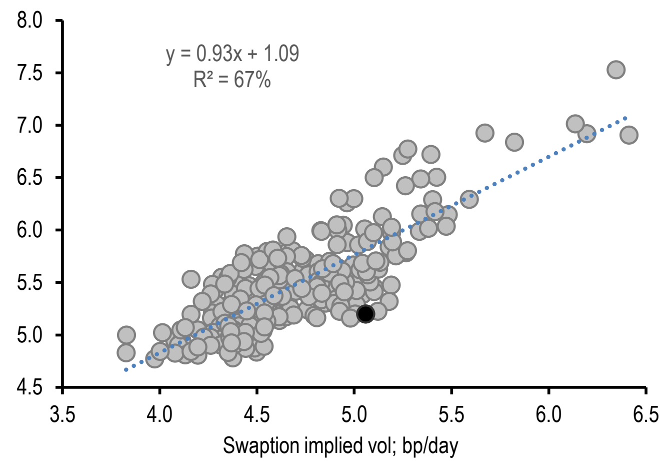
1Yx2Y swap yield versus breakeven levels for short 1Yx2Y unhedged straddles; since Jan 2024; %



Source: J.P. Morgan.

Figure 54: We recommend buying Bobl gamma versus swaption on risk-off and RV considerations

Bobl implied volatility regressed against swaption gamma; past 1Y; bp/day



Source: J.P. Morgan.

On relative value considerations, we recommend buying Bobl gamma versus swaption (see *Trade Recommendations*). Bobl implieds are trading around 0.7bp/day cheap versus swaption on a regression basis; the level of residual is the largest seen over on a 1Y regression basis (**Figure 54**). Bobl implieds are priced only 0.1bp/day above maturity matched swaptions but Bobl futures are delivering around 0.8bp/day more relative to underlying swaps. In the event of further escalation of risk-off, we would expect Bobl gamma to outperform swaptions, in line with our expectation of continuation of swap spread negative directionality (see above).

Trade Recommendations

Swap curve

- **Take profit in 3s/20s conditional bear steepener via 1M payers**
  Close longs in Buy €100mn 2.87% 1Mx20Y payers(ATMF strike 2.855%, notification date 14 Apr 2025, maturity date 16 Apr 2028) versus short €530mn 2.40% 1Mx3Y payers (ATMF strike 2.40%, notification date 14 Apr 2025, maturity date 16 Apr 2028) to take small profit in a bear steepener at 47bp versus forward curve at 50.7bp; P&L since inception (14th March 2025): +14 bp of notional;
- **Keep 116.5/117.5/118.5 May25 Bobl call fly**
  Stay long 117.5/118.5/119.5 (1000:-2000:1000) May25 Bobl call fly at 22cents (Jun25 Bobl futures at 117.54); P&L since inception (21st March 2025): +0.5cents;
- **Stay in 3s/20s conditional bull flattener via 3M receivers**

Hold longs in €100mn 2.84% 3Mx20Y receivers (ATMF strike 2.855%, notification date 16 Jun 2025, maturity date 18 Jun 2045) versus short €530mn 2.40% 3Mx3Y receivers (ATMF strike 2.40%, notification date 16 Jun 2025, maturity date 18 Jun 2028) to remain in a conditional bull flattener at 44bp versus forward curve at 50.7bp; P&L since inception (14th March 2025): -68 bp of notional:

- **Hold Sep25/Sep27 Euribor conditional bull flattener via Sep25 quarterly and 2Y midcurve calls**
  Stay long 1000 97.5625 Sep25 2Y Euribor midcurve calls versus short 1000 97.875 Sep25 3M Euribor calls to enter into a conditional bull flattener at 31bp versus forward curve at 33bp; P&L since inception (7th March 2024): -1.5 cents;
- **Stay received 2Yx1Y in 1Yx1Y/2Yx1Y/3Yx1Y €STR fly**
  Keep receiving €100mn 2Yx1Y (swap start date 10 Mar 2027, swap maturity date 10 Mar 2028) versus paying €49mn 1Yx1Y (swap start date 10 Mar 2026, swap maturity date 10 Mar 2027) and €51.1m €3Yx1Y (swap start date 10 Mar 2028, swap maturity date 12 Mar 2029) to remain in the fly at 9.2bp (6th March 2025) versus current level of 5.8bp;P&L since inception (6th March 2024): +1.7 bp of yield;
- **Hold 5s/10s/30s conditional bull belly richener via 3M receivers**
  Hold longs in €100mn 3Mx10Y 2.33% receivers (100% risk, ATMF strike 2.33%, notification date 28 May 2025, maturity date 30 May 2035) versus selling €94.6mn 3Mx5Y 2.19% receivers (50% risk, ATMF strike 2.19%, notification date 28 May 2025, maturity date 30 May 2030) and €20.7mn 3Mx30Y 2.21% receivers (50% risk, ATMF strike 2.21%, notification date 28 May 2025, maturity date 30 May 2055) to remain in a conditional bull-belly richener at 26bp versus forward and spot spread of 30.1bp and 29bp, respectively; P&L since inception (28th Feb 2025):-3bp of notional;
- **Keep 6Mx1Y receiver spread versus short OTM payer**
  Keep long €100mn 1.77%/1.39% 6Mx1Y receiver spread (notification date 12 Jun 2025, maturity date 16 Jun 2026) versus short €100mn 2.19% 6Mx1Y payer (ATMF+30bp); P&L since inception (12th Dec 2024): -4bp of notional;

Swap spreads

- **Hold May25 conditional Bund swap spread bear narrower**
  Stay long 1000 127 May25 Bund puts (ATM strike 127.5) versus selling €132.4mn 2.73% maturity matched receivers (notification date 25 April 2025, maturity date 15 Feb 2035) to remain in a Bund bear narrower at -14bp versus forward at -7.5bp; P&L since inception (14th March 2025): -14bp of notional
- **Keep May25 conditional Bund swap spread bull widener**
  Stay long 1000 128.5 May25 Bund calls (ATM strike 128) versus selling €132.4mn 2.63% maturity matched receivers (notification date 25 April 2025, maturity date 15 Feb 2035) to remain in a conditional Bund bull widener at -7bp versus forward at -7.5bp; P&L since inception (7th March 2025): +14bp of notional:
- **Hold Jun25 conditional Bund swap spread bull widener**
  Stay long 1000 132 Jun25 Bund calls (ATM strike 131.5) versus selling €132.4mn 2.354% maturity matched receivers (notification date 23 May 2025, maturity date 15 Feb 2035) to remain in a conditional Bund bull widener at -0.6bp versus forward at -7.5bp; P&L since inception (21st Feb 2025): -6bp of notional;

Volatility

- **Buy Jun25 Bobl gamma versus swaption**

Buy 1000 117.75 Bobl straddles versus selling €138.5mn 2.40% straddles (notification date 23 May 2025, maturity date 18 Apr 2030) at an implied vol spread of 0.15bp/day. This trade is structured to be gamma-neutral at inception and requires active delta hedging;

- **Hold shorts in 2Yx5Yx5Y synthetic forward volatility**
  Stay short €100mn 2.77% 2Yx5Y delta-hedged straddles (notification date 15 Mar 2027, maturity date 17 Mar 2032) and €100mn 3.11% 7Yx5Y delta-hedged straddles (notification date 15 Mar 2032, maturity date 17 Mar 2037) versus long €100mn 2.93% 2Yx10Y delta-hedged straddles (notification date 15 Mar 2027, maturity date 17 Mar 2037) to remain short 2Yx5Yx5Y synthetic forward volatility at 4.8bp/day versus entry level of 4.8bp/day; P&L since inception (14th March 2025): -11 bp of notional;
- **Stay short 5Yx2Y vega**
  Stay short €100mn 2.78% 5Yx2Y straddles (notification date 7 Mar 2030, maturity date 11 Mar 2032) at 5.05bp/day. This trade requires active delta hedging; P&L since inception(7th March 2025): -1bp of notional;
- **Keep short 1Yx2Y unhedged straddle**
  Stay short €100mn 2.10% straddle (notification date 2 May 2026, maturity date 4 Mar 2028) at 120bp of notional versus 115bp of notional at inception; P&L since inception (28th Feb 2025): -5bp of notional;

* P/L for open trades calculated using Thursday's closes. New and closing trades are priced as of 1PM on non-payroll Fridays and 2PM on payroll Fridays.

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Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
DURATION			
Apr24 Euribor put spread	23-Feb-24	11-Apr-24	5.0
Jul24 Euribor put spread	11-Apr-24	31-May-24	4.0
Receive 1Yx1Y €STR	31-May-24	06-Jun-24	11.0
Receive 1Yx1Y €STR	07-Jun-24	13-Jun-24	17.0
Jun24 Euribor call ladder	07-Mar-24	14-Jun-24	-3.0
Receive 1Yx1Y €STR	01-Jul-24	12-Jul-24	19.0
Sep24 Euribor call ladder	14-Jun-24	01-Aug-24	6.5
1Yx5Y A/A-50 receiver spread vs A+50 payer	02-Feb-24	02-Aug-24	11.8
3Mx1Y A/A+15 payer spread	06-Jun-24	01-Jul-24	2.1
Aug24 1x2 Bund put spread	14-Jun-24	01-Jul-24	1.9
1Yx1Y A/A-50 receiver spread vs A+40 payer	16-Aug-24	06-Sep-24	10.0
Dec24 1Y Euribor midcurve call ladder	01-Aug-24	06-Sep-24	2.0
3Mx(1Yx1Y) 1x2 payer spread	02-Aug-24	12-Sep-24	2.0
1Yx1Y A/A-50 receiver spread vs A+40 payer	06-Sep-24	27-Sep-24	13.5
3Mx(1Yx1Y) 1x2 payer spread	12-Sep-24	08-Nov-24	3.0
Receive 1Yx1Y €STR	04-Oct-24	12-Dec-24	19.0
1Yx1Y A/A-50 receiver spread vs A+40 payer	27-Sep-24	12-Dec-24	5.0
3Mx(1Yx1Y) A/A+21 1x2 payer spread	08-Nov-24	10-Jan-25	4.5
Receive 1Yx1Y €STR yield	07-Jan-25	06-Feb-25	8.5
Receive 1Yx1Y €STR yield	21-Feb-25	28-Feb-25	11.0
May25 Bobl call fly	06-Mar-25	21-Mar-25	1.8
CURVE			
1Y/1Yx1Y €STR flattener	12-Apr-24	14-Jun-24	1.5
Dec24/Dec25 Euribor curve flattener	12-Jul-24	01-Aug-24	14.0
2Yx2Y/10Yx10Y swap curve steepener	09-Feb-24	02-Aug-24	8.7
2Yx2Y/15Yx15Y swap curve steepener	02-Aug-24	12-Sep-24	9.0
3Mx(10s/30s) flattener hedged with long reds	20-Sep-24	04-Oct-24	2.5
1Yx1Y/5Yx5Y USD steepener vs EUR	20-Sep-24	04-Oct-24	-14.7
2Yx2Y/10Yx10Y steepener	08-Nov-25	21-Feb-25	12.0
Pay belly of Mar25/Apr25/Jun25 ECB €STR fly	07-Feb-25	06-Mar-25	2.0
CONDITIONAL CURVE AND FLIES			
3Mx(2s/10s) YCSO 1x2 floor spread	23-Feb-24	05-Apr-24	3.5
1Mx(5s/30s) conditional bear flattener	15-Mar-24	11-Apr-24	2.5
3Mx(3s/10s) conditional bear flattener	01-Mar-24	11-Apr-24	1.0
1Mx(5s/30s) conditional bear flattener	11-Apr-24	13-May-24	0.0
1Mx(5s/30s) conditional bear flattener	17-May-24	31-May-24	2.6
2s/5s/10s conditional bear belly cheapener	26-Apr-24	31-May-24	0.0
Jun25/Jun26 conditional bull steepener	01-Mar-24	14-Jun-24	0.0
10s/30s conditional bull steepener	14-Dec-24	14-Jun-24	0.0
2s/5s/10s conditional bull belly richener	22-Mar-24	22-Jun-24	0.0
1Mx(5s/30s) conditional bear flattener	31-May-24	01-Jul-24	0.0
Dec25/Dec26 conditional bull steepener	21-Jun-24	02-Aug-24	8.5
10s/30s conditional bull steepener	17-May-24	02-Aug-24	1.2

TRADE	ENTRY	EXIT	P&L
CONDITIONAL CURVE AND FLIES			
3Mx(2s/10s) YCSO 1x2 floor spread	19-Apr-24	02-Aug-24	-3.5
5s/30s conditional bull steepener	12-Sep-24	20-Sep-24	2.4
1Yx1Y/5Yx5Y bear flattener via 3M midcurves	21-Jun-24	20-Sep-24	0.0
2s/5s conditional bull steepener	12-Sep-24	27-Sep-24	1.5
2s/5s/10s conditional bull belly cheapener	02-Aug-24	27-Sep-24	1.9
Mar25/Mar26 conditional bull steepener	16-Aug-24	25-Oct-24	7.0
Jun25/Jun27 conditional bull steepener	04-Oct-24	25-Oct-24	6.0
10s/30s conditional bull steepener	04-Oct-24	03-Jan-25	0.0
5s/10s/30s conditional bull belly richener	01-Nov-24	24-Jan-25	0.0
10s/30s conditional bull steepener	10-Jan-25	31-Jan-25	2.8
2s/10s conditional bull flattener	24-Jan-25	07-Feb-25	0.0
3s/20s conditional bear steepener	21-Feb-25	28-Feb-25	1.1
10s/30s conditional bull steepener	31-Jan-25	28-Feb-25	2.2
5s/10s/30s conditional bull belly richener	24-Jan-25	28-Feb-25	2.2
Jun25/Jun27 Euribor conditional bull flattener	25-Oct-24	07-Mar-25	-4.0
10s/30s conditional bull steepener	28-Feb-25	14-Mar-25	0.6
3s/20s conditional bear steepener	14-Mar-25	28-Mar-25	0.9
SWAP SPREADS			
Jun24 Schatz €STR swap spread widener	23-Feb-24	12-Apr-24	4.1
Jun24 Schatz call spread	12-Apr-24	21-May-24	-5.0
Jun24 Bund bull widener	12-Apr-24	21-May-24	0.0
10Yx20Y swap spread widener (Jun24)	08-Mar-24	31-May-24	-17.0
Jun24 Schatz swap spread widener	17-May-24	31-May-24	0.3
Sep24 Schatz swap spread widener	31-May-24	13-Jun-24	6.6
Buy Sep24 Schatz call spread	13-Jun-24	14-Jun-24	1.0
10Yx20Y swap spread widener	31-May-24	14-Jun-24	7.0
Buy Sep24 Schatz call spread	14-Jun-24	01-Aug-24	1.2
Sep24 Schatz swap spread widener	12-Jul-24	02-Aug-24	2.2
Sep24 Bund bull widener	14-Jun-24	16-Aug-24	-10.0
Sep24 Schatz/Bund swap spread curve flattener	02-Aug-24	30-Aug-24	-1.0
Dec24 Schatz swap spread widener	30-Aug-24	18-Oct-24	-12.3
Dec24 Schatz/Bund swap spread curve flattener	27-Sep-24	18-Oct-24	0.2
Dec24 Schatz/Bund swap spread curve flattener	01-Nov-24	07-Nov-24	3.0
Bund/Buxl swap spread curve steepener	13-Dec-24	21-Feb-25	1.8
Mar25 Bund bull widener	24-Jan-25	21-Feb-25	-2.0
Mar25 Schatz/Bund swap spread curve steepener	07-Feb-25	05-Mar-25	-7.3
OPTIONS (OUTRIGHT)			
Sell 6Mx30Y unhedged straddle	11-Apr-24	13-Jun-24	185.0
Sell 6Mx10Y unhedged straddle	02-Feb-24	14-Jun-24	185.0
Sell 3Mx2Y gamma - infrequent hedging	07-Jun-24	14-Jun-24	-7.0
Sell 3Mx30Y unhedged straddle	28-Jun-24	02-Aug-24	20.0
Sell 6Mx10Y unhedged straddle	30-Aug-24	04-Oct-24	35.0
Sell 3Mx30Y gamma - infrequent hedging	27-Sep-24	25-Oct-24	50.0

Source: J.P. Morgan.

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Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
OPTIONS (OUTRIGHT)			
Sell 3Mx10Y GBP unhedged straddle	06-Sep-24	01-Nov-24	-147.0
Sell 3Mx30Y with infrequent delta hedging	06-Nov-24	24-Jan-25	180.0
Sell 1Yx1Y unhedged straddles	10-Jan-25	06-Feb-25	3.0
Sell 3Mx2Y gamma	24-Jan-25	21-Feb-25	2.0
Long 1Yx10Y gamma	21-Feb-25	06-Mar-25	105.0
OPTIONS (RELATIVE)			
1Yx1Y/1Yx10Y vol curve flatteners	12-Apr-24	31-May-24	0.0
3Mx2Y/3Mx10Y vol curve steepener	21-Jun-24	30-Aug-24	-2.0
3Mx10Y/3Mx30Y vol curve flattener	17-May-24	30-Aug-24	-2.0
OPTIONS (MONEY MARKET)			
MISCELLANEOUS			
Buy 3Mx(1Yx1Y) ITM EUR receiver vs USD	15-Mar-24	05-Apr-24	7.4
Buy 3Mx10Y JPY payer spread vs EUR	15-Mar-24	12-Apr-24	2.9
Buy 3Mx(1Yx1Y) ITM EUR payer vs GBP	26-Apr-24	10-May-24	14.0
Buy 3Mx(5Yx5Y) OTM EUR receiver vs USD	17-Oct-24	01-Nov-24	4.9
Buy 1Yx10Y OTM GBP receiver vs USD	17-Oct-24	01-Nov-24	-3.5
Sell ITM Jun25 SONIA puts versus Euribor	10-Jan-25	24-Jan-25	15.0
Buy Dec25 Euribor call vs SOFR	30-Jan-25	06-Feb-25	9.5
Buy 3Mx(1Yx1Y) SOFR payer vs Euribor	28-Feb-25	14-Mar-25	-15.0

Source: J.P. Morgan.

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Into the fourth dimension

- **Front-end gilt rallied modestly on the week with 10Y gilt yields marginally higher as the curve steepened, with USTs underperforming both gilts and Bunds cross-market. The Spring Statement delivered no major surprises with £10bn fiscal tightening announced. However, bigger picture fiscal issues remain and there is still a lingering can-kicking approach to the medium-term fiscal dynamics**
- **We continue to receive Jun25 MPC OIS with 21bp of easing priced and the May25/ Jun25 MPC OIS curve pricing limited inversion at -3bp. We tactically receive 1Yx1Y SONIA, which looks modestly cheap on a cross-market basis vs. 1Yx1Y SOFR. We keep fronts/reds SONIA curve flatteners (3Mx1Y/15Mx1Y SONIA) as a positive carry bullish proxy**
- **The relative cheapness of 10Y gilts on a cross-market seen-a-month-ago basis has now corrected, reflecting the underperformance of front-end SONIA vs. SOFR yields. However, we keep a medium-term bullish duration bias in 30Y gilts given the outright level of yields. In addition, if the US announces wider and broad-based reciprocal tariffs next week (2 April) this would pose downside risks bias to growth and could trigger a global risk-off move**
- **The 1Yx1Y/5Yx5Y SONIA curve now looks close to 60bp too steep relative to the level of 1Yx1Y SONIA. This 'term premia' is also evident in intermediate gilt yields with the 5Yx5Y par gilt – 5Yx5Y UST spread close to 35bp too wide vs. 1Yx1Y SONIA – 1Yx1Y SOFR spread**
- **At the long end, the 15Yx15Y gilt – 15Yx15Y UST spread looks 20bp too narrow vs. 5Yx5Y gilt – 5Yx5Y UST spread although this likely reflects the larger-than-expected reduction in long gilts in the DMO's remit for the next fiscal year**
- **The implied forward gilt between gilts Jul52 and Oct53 is optically attractive above 5.70% and buying Oct53 vs. Jul53 on a notional vs. notional basis is an attractive proxy for a long position in 30Y gilts**
- **We removed our tactical narrowing bias on 10Y swap spreads and turned neutral on both the level of swap spreads and the swap spread curve after the Spring Statement this week**

Front-end gilt rallied modestly on the week with 10Y gilt yields marginally higher as the curve steepened, with USTs underperforming both gilts and Bunds cross-market (**Figure 55**). The undershoot in February CPI drove the outperformance at the front end of the curve whilst 10Y and 30Y gilt yields have been choppy over the week. Overall, the combination of fiscal tightening measures and forecast revisions delivered in the Spring Statement appeared to be relatively credible from a market term premia standpoint, in our view. However, **bigger picture fiscal issues remain and there is a still a lingering can-kicking approach to the medium-term fiscal dynamics** with the OBR revising down 2025 GDP by more than expected but revising up growth for future fiscal years with even higher and overly optimistic forecasts than previous (around 1.7-1.8% from 2027 onwards)**.**

In our UK strategy portfolio, we continue to **tactically receive both Jun25 MPC OIS** and **1Yx1Y SONIA** and at the front end of the curve **we hold fronts/reds SONIA curve flatteners** (3Mx1Y/15Mx1Y). The relative cheapness in intermediate gilts cross-market has corrected, but we **keep a medium-term bullish duration bias in 30Y gilts given the outright**

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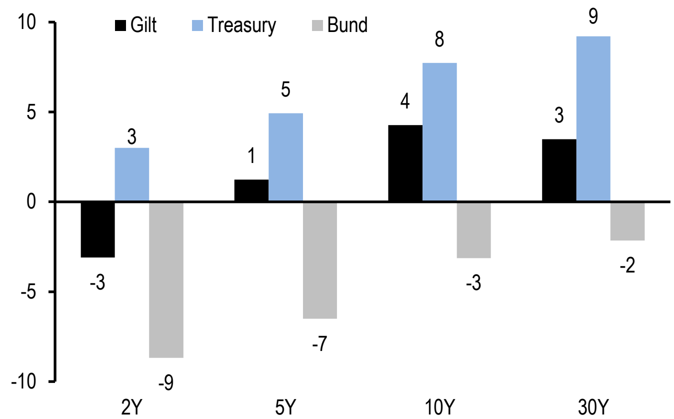
level of yields. In addition, if the US announces wider and broad-based reciprocal tariffs next week (2 April) this would pose downside risks bias to growth and could trigger a global risk-off move. We **hold 30s/50s gilt curve steepeners** with the 50Y sector still rich on the curve. **We turned neutral on both the level of 10Y swap spreads** and the swap spread curve after the Spring Statement this week.

Figure 55: 10Y gilt yields are modestly higher on the week with USTs underperforming

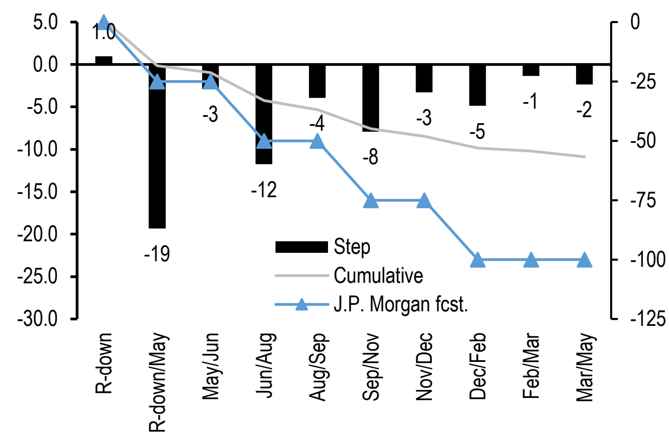
Change in benchmark yields since 21 Mar; bp



Source: J.P. Morgan.

Figure 56: We keep receiving Jun25 MPC OIS with less than 20bp of easing currently priced and the May25/Jun25 curve at -3bp

MPC OIS meeting date steps and cumulative easing priced (RHS); bp



Source: J.P. Morgan.

At the very front end of the curve, Jun25 and Dec25 MPC OIS yields are a couple of bp lower on the week with 18bp of easing priced for the May MPC meeting, a cumulative 21bp of easing by June and a cumulative 47bp of easing priced by the end of this year (**Figure 56**). Headline CPI in February surprised to the downside at 2.8%oya vs. 3.0%oya consensus reflecting a sharp correction in the recent strength in goods prices. Services inflation remains firm at 5.0%oya but the downside surprise in headline inflation and falling gas prices should contain the expected overshoot in headline CPI later this year and we now see a peak in CPI of 3.4%oya in September, around three-tenths lower than the BoE's forecast. This dynamic should give the MPC some more confidence around the broad disinflation dynamic despite sticky wages and still elevated non-energy intensive services inflation. **The US announced 25% tariffs on auto imports this week and if the US announces wider and broad-based reciprocal tariffs next week we see downside risks to growth in Europe over the coming quarters**. Any further expansion of tariffs is likely a more direct negative for Euro area growth, but we see risks spill-over and sentiment effects could weigh on UK growth.

Given this, and our view of the MPC easing 25bp in May, we continue to receive Jun25 MPC OIS with 21bp of easing priced and the May25/Jun25 MPC OIS curve pricing limited inversion at -3bp with Aug25/Sep25 MPC OIS at -4bp and Nov25/Dec25 MPC OIS at -3bp (**Figure 56**). 1Yx1Y SONIA is around 3.95%, having risen to 4.05% earlier in the week and **we continue to tactically receive 1Yx1Y SONIA** which looks modestly cheap on a cross-market basis vs. 1Yx1Y SOFR (**Figure 57**).

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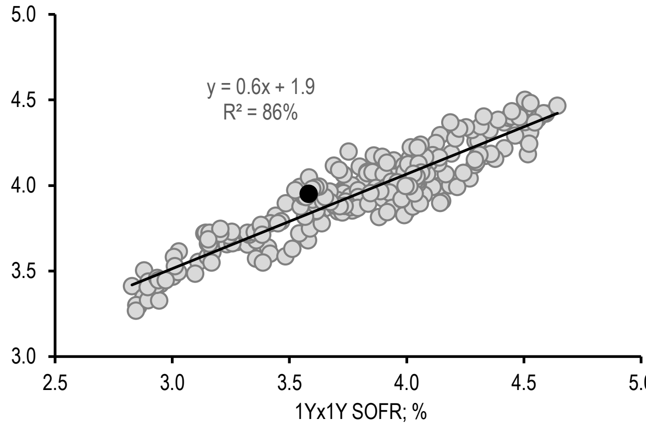
Figure 57: We stay received 1Yx1Y SONIA at around 4% with 1Yx1Y SONIA modestly cheap vs. 1Yx1Y SOFR

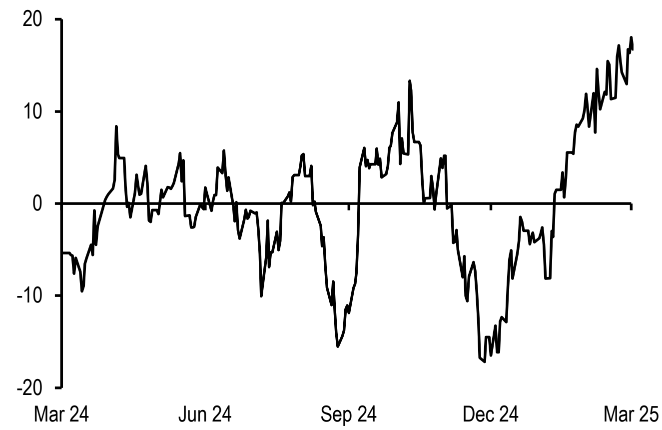
1Yx1Y SONIA regressed against 1Yx1Y SOFR; past 12M; bp



Source: J.P. Morgan.

Figure 58: We also hold 3Mx1Y/15Mx1Y SONIA curve flatteners with the curve almost 20bp too steep on a relative basis vs. the SOFR curve

Residual from regressing 3Mx1Y/15Mx1Y SONIA regressed vs. 3Mx1Y/15Mx1Y SOFR; past 12M; bp



*3Mx1Y/15Mx1Y SONIA = 0.8 *3Mx1Y/15Mx1Y SOFR – 0.07. R-squ: 90%, std error: 7bp
Source: J.P. Morgan.

We keep fronts/reds SONIA curve flatteners (3Mx1Y/15Mx1Y SONIA) as a positive carry bullish proxy. The fronts/reds SONIA curve has steepened a very small 1bp over the week and remains almost 20bp too steep on a relative basis (**Figure 58**) vs. 3Mx1Y/15Mx1Y SOFR curve. In a global tariff-driven downside growth shock scenario we think the fronts/reds SONIA curve is likely to flatten as markets price a longer BoE easing cycle and lower terminal rate than currently priced of around 3.85% by Aug26.

The Chancellor's Spring Statement this week did not contain any major surprises, **with a slightly smaller £10bn fiscal tightening announced** than we expected, designed to correct a £14bn deterioration in the public finances, with the net result that the fiscal headroom was restored to around £10bn over the forecast horizon. The £14bn adjustment broadly comprises £4.8bn in welfare cuts/reforms, £3.5bn of cuts to department spending, around a £1bn additional contribution from tax avoidance measures, and with some modest forecast fiscal tightening over future years and a boost to growth from planning reforms accounting for the remainder. 10Y and 30Y gilt yields were lower on the day of the Spring Statement but have been choppy over into the end of the week, reflecting anecdotal paying flow at the long end of the curve and then a risk-off driven rally in yields on Friday.

10Y gilt yields at around 4.70% (Mar35) are at their highest levels since mid-January, although we note that from a relative valuation perspective the relative cheapness in 10Y gilts vs. 10Y USTs and 2Yx1Y SONIA – 2Yx1Y SOFR spread has now corrected (**Figure 59**), **leaving 10Y gilts close to fair value on this relative regression framework.** The correction in the model residual reflects the 66bp widening in 2Yx1Y SONIA – 2Yx1Y SOFR spread over the past month given the sizeable rally in 2Yx1Y SOFR and more range-bound dynamic of 2Yx1Y SONIA. We **keep a medium-term bullish duration bias in 30Y gilts given the outright level of yields. In addition, if the US announces wider and broad-based reciprocal tariffs next week (2 April) this would pose downside risks bias to growth and could trigger a global risk-off move.**

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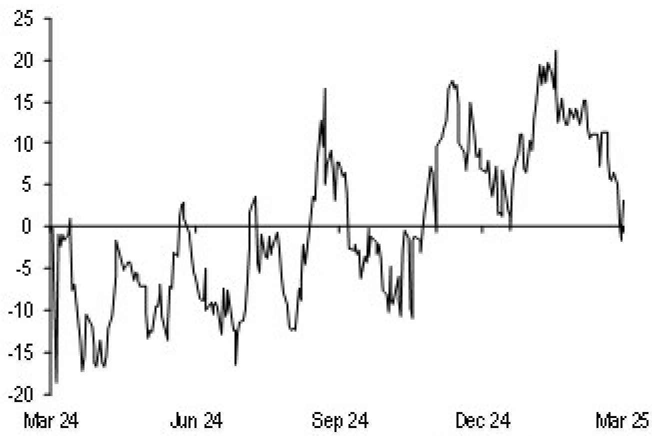
Figure 59: The relative cheapness of 10Y gilts on a cross-market basis seen-a-month-ago has now corrected, reflecting the underperformance of front-end SONIA vs. SOFR yields

Residual from regressing 10Y gilt vs. 10Y UST and 2Yx1Y SONIA – 2Yx1Y SOFR spread; past 12M; bp and decomposition of changes in 10Y gilt and model drivers since 12 Feb; bp

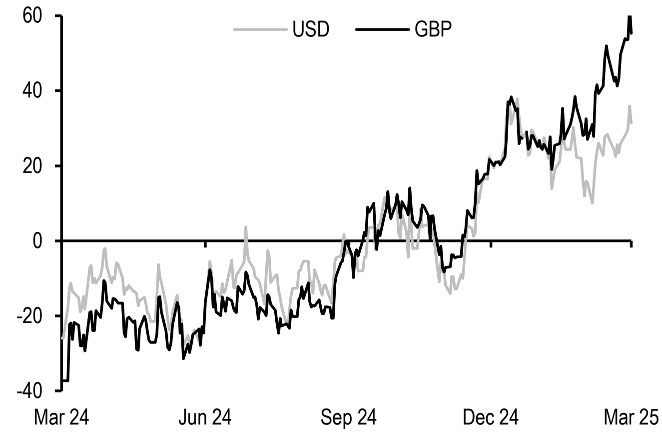


	10Y UST	2Yx1Y SONIA - 2Yx1Y SOFR
Beta	1.36	1.07
Change 12 Feb - 26 Mar	-26.4	66.0
Implied 10Y gilt chg.	34.9	
Model residual chg.	-18.0	
Actual 10Y gilt chg.	16.8	

* 10Y gilt = 1.08 * (2Yx1Y SONIA – 2Yx1Y SOFR) + 1.4 * 10Y UST – 1.7. R-squ: 86%, std. error: 9bp
Source: J.P. Morgan.

Figure 60: The 1Yx1Y/5Yx5Y SONIA curve now looks close to 60bp too steep relative to the level of 1Yx1Y with this 'term premia' 25bp larger than seen on the USD curve

Residuals from regressing* 1Yx1Y/5Yx5Y USD and GBP and OIS curves vs. their respective 1Yx1Y OIS rate; past 12M; bp



*1Yx1Y/5Yx5Y SOFR = - 0.54 * 1Yx1Y SOFR + 2.02. R-squ: 73%,
1Yx1Y/5Yx5Y SONIA = - 0.65 * 1Yx1Y SONIA + 2.4. R-squ: 34%
Source: J.P. Morgan.

The 2s/10s and 1Yx1Y/5Yx5Y SONIA curves have steepened 5bp and 3bp, respectively, over the week with the 1Yx1Y/5Yx5Y curve at its steepest levels for the past few years since October 2021. The 1Yx1Y/5Yx5Y SONIA curve now looks close to 60bp too steep vs. the level of 1Yx1Y SONIA with **this simple 'term premia' 25bp larger than the equivalent 'term premia' seen on the 1Yx1Y/5Yx5Y SOFR curve** (**Figure 60**). We note that given the relative steepness, the strength of the negative directionality of the 1Yx1Y/5Yx5Y curve with 1Yx1Y SONIA has steadily declined and over the past month the 1Yx1Y/5Yx5Y SONIA curve has exhibited increased positive directionality with 5Yx5Y SONIA.

In the gilt space, we can also observe this 'term premia' by looking on a cross-market basis and we note that the 5Y par gilt – 5Y UST and 5Yx5Y par gilt – 5Yx5Y UST spreads have widened over the past month (**Figure 61**), albeit are not yet at the wide levels seen in July 2023. On an adjusted basis, the 5Yx5Y par gilt – 5Yx5Y UST spread now looks close to 35bp too wide vs. the relative 1Yx1Y SONIA – 1Yx1Y SOFR spread, the largest relative dislocation for the past couple of years (**Figure 62**).

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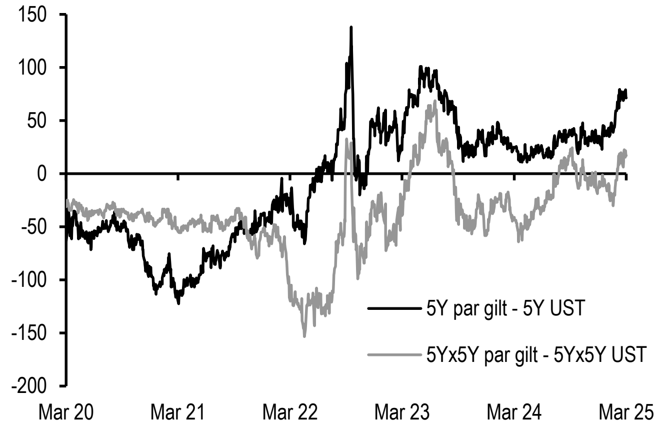
Figure 61: On a cross-market basis 5Y and 5Yx5Y par gilt – UST spreads have widened…

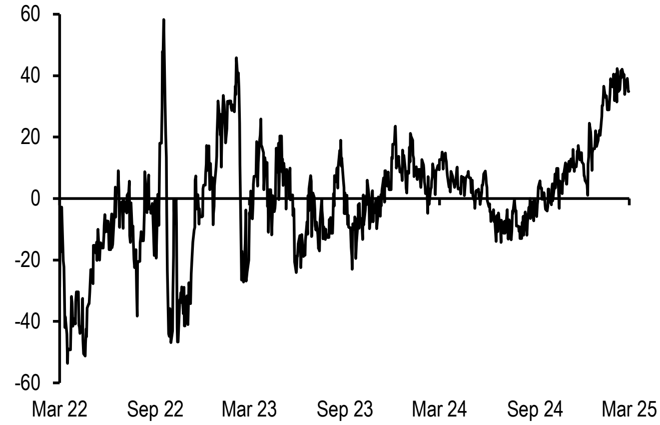
5Y and 5Yx5Y par gilt vs UST spreads; bp



Source: J.P. Morgan.

Figure 62: …with the 5Yx5Y par gilt – 5Yx5Y UST spread close to 35bp too wide vs. GBP-USD money market spread

Residual from regressing 5Yx5Y par gilt – 5Yx5Y UST spread vs. 1Yx1Y SONIA – 1Yx1Y SOFR spread; past 3Y; bp



*5Yx5Y par gilt – 5Yx5Y UST spread = 0.5 * 1Yx1Y SONIA – 1Yx1Y SOFR + 0.17. R-squ: 67%, std .erorr: 18bp
Source: J.P. Morgan.

We think this 'term premia' observed in the 5Yx5Y area of the SONIA and gilt curve can remain elevated given the medium-term challenges to the UK's fiscal dynamics and given OBR growth forecasts for the coming years look overly optimistic. In our view, this could keep 10Y gilt yields relatively elevated vs. front-end money market expectations as the BoE continues to deliver 'gradual and cautious' easing. We think the 5Yx5Y sector of the gilt curve should reflect the peak in 'term premia' uncertainty given the par curve and gilt forward curves are downward sloping post the 15Y sector. Given this, we note on a cross market basis that the **15Yx15Y par gilt – 15Yx15Y UST spread has narrowed 12bp over the week and now actually looks 20bp too narrow vs. the 5Yx5Y par gilt – 5Yx5Y UST spread on an 12M regression basis** (**Figure 63**). This likely reflects the DMO's remit announcement and the larger-than-expected reduction in long-end gilt issuance (see below). This relative richness in long-end gilt forwards cross-market could likely persist in the short term.

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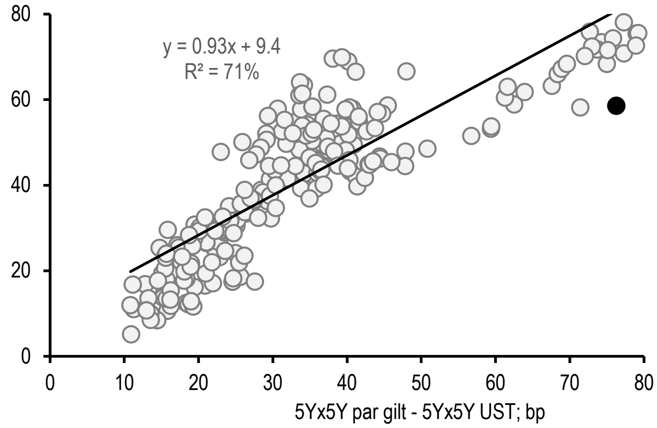
Figure 63: At the long end, the 15Yx15Y gilt – 15Yx15Y UST spread looks 20bp too narrow vs. 5Yx5Y gilt – 5Yx5Y UST spread

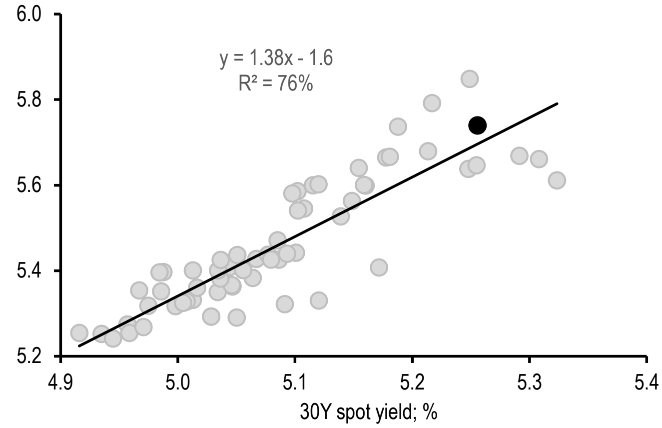
15Yx15Y par gilt – 15Yx15Y UST spread vs. 5Yx5Y par gilt – 5Yx5Y UST spread; past 12M; bp



Source: J.P. Morgan.

Figure 64: The implied forward gilt between gilts Jul52 and Oct53 is above 5.70% and buying Oct53 vs. Jul53 on a notional vs. notional basis is an attractive proxy for a long position in 30Y gilts

Implied forward yield between gilts 3.75% Jul52 and 3.75% Oct53 regressed against 30Y par yield; past 3M; %



Source: J.P. Morgan.

In the RV space, we note that the implied forward yields between selected gilts in the long end of the curve look optically attractive. For example, the implied forward between gilts 3.75% Jul52 and 3.75% Oct53 is above 5.70% and buying Oct53 vs. Jul53 on a notional vs. notional basis is an attractive proxy for a long position in 30Y gilts (**Figure 64**).

FY25/26 DMO remit announcement

The **DMO issuance remit for the next fiscal year was more interesting than expected**. The total net financing remit and gross gilt sales were close to expectations at £304bn and £299bn, respectively (**Figure 65**). We tentatively forecast gilt issuance for FY26/27 at just over £250bn. However, the splits across the curve were more surprising with the DMO allocating a large £27.5bn (9%) of the remit to the unallocated portion of the remit, resulting in much lower longs then we and consensus had expected at £40bn, or 13%, comprising £26.7bn via auctions and £13.5bn via three syndications (**Figure 66**).

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Figure 65: The DMO financing remit for FY25/26 is £304bn comprising £299bn gilt sales and £5bn T-Bill change

Fiscal year financing projection breakdown, OBR forecasts for FY25/26, J.P. Morgan forecasts for FY26/27; £bn

£bn	FY24/25	FY25/26	FY26/27
Total (CGNCR)	173	143	129
Redemptions	140	168	141
Adjustment from prior years	7	7	0
Gross financing requirement	**319**	**318**	**270**
NS&I	11	12	10
Other	2	2	0
Net Financing Requirement	**306.6**	**304.1**	**260.5**
T-Bills change	3	5	5
DMO net cash	-4	2	0
Gross gilt Sales	**297**	**299**	**255**
Net gilt Sales	**159**	**131**	**114**

Source: J.P. Morgan., DMO

Figure 66: Unallocated issuance for FY25/26 is large at £27.5bn

FY25/26 gilt issuance by sector and issuance type, sizes in £bn

	Auction	Syndication	Tender	Unallocated	Total	% total
Short	110.9				110.9	37%
Medium	73.7	16.0			89.7	30%
Long	26.7	13.5			40.2	13%
Index-linked	20.4	10.5			30.9	10%
Total	231.7	40	0	27.5	299.2	
% total	77%	13%	0%	9%		

Source: J.P. Morgan., DMO

The DMO also announced new programmatic gilt tenders which will be conducted as planned gilt tender operations per quarter with the gilts selected based on market feedback, although the DMO states that it envisages these operations will typically involve the sale of "off-the-run" gilts, i.e. any gilt that is not currently being built up to benchmark size. This could imply more focus on low-coupon gilts in these programmatic tenders although this might not necessarily be clear if the DMO wants to use these tenders to raise as much cash as possible. Proceeds from these programmatic gilt tenders will come from the unallocated portion of issuance. In addition to these programmatic gilt tenders the unallocated portion can be used to issue any maturity of conventional (ex-green) or index-linked gilt via any issuance method.

Figure 67 shows a more detailed breakdown of the issuance splits by bucket for FY25/26 compared to both the planning assumption for FY24/25 as per the Spring Statement and the actual FY24/25 gilt sales. The optical fall in long-end gilt issuance by 6.5% vs. planned FY24/25 to 13.4% looks significant, although current long-end gilt sales for this fiscal year are a few bn higher than planned. For illustrative purposes, we also show a potential issuance split by the *end of FY25/26,* assuming all the unallocated is used up. For the long end, we assume that some of the unallocated £27.5bn will be used for a combination of topping up gilt syndications and as part of the programmatic tenders that could push long end issuance closer to £50bn and around 16% of total issuance, although this would still be a low proportion historically.

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Figure 67: Optically, the proportion of long-end gilt issuance looks significantly lower in FY25/26 but some contribution from unallocated will likely boost this

Gilt issuance splits across the curve for 1) actual FY24/25, 2) planned FY24/25 and 3) planned FY25/26 as per the March 2025 Spring Statement. We also shown an illustrative sector split for FY25/26 assuming no unallocated

	Actual sales		Spring Statement				Chg. 25/26 vs. 24/25		w/o unallocated	
	FY24/25 (£bn)	FY24/25 (%)	FY24/25 (£bn)	FY24/25 (%)	FY25/26 (£bn)	FY25/26 (%)	£bn	%	£bn	%
Short conventional	104.9	35.3%	103.8	35.0%	110.9	37.1%	7.1	2.1%	115.9	*38.7%*
Medium conventional	94.8	31.9%	92.0	31.0%	89.7	30.0%	-2.3	-1.0%	101.7	*34.0%*
Long conventional	62.4	21.0%	59.2	19.9%	40.2	13.4%	-19.0	-6.5%	48.7	*16.3%*
Index-linked	34.8	11.7%	33.4	11.2%	30.9	10.3%	-2.5	-0.9%	32.9	*11.0%*
Unallocated	0.0	0.0%	8.5	2.9%	27.5	9.2%	19.0	6.3%	0.0	*0.0%*
Total	**296.9**	**100%**	**296.9**	**100%**	**299.2**	**100%**	**2.3**	**0%**	**299.2**	**100%**
Green*	10	*3.4%*	10	*3.4%*	10	*3.3%*	0	*0.0%*		

Source: J.P. Morgan., DMO

Trade recommendations

Existing Trades

- **Hold 3Mx1Y/15Mx1Y SONIA flattener**
  Receive £100mn 15Mx1Y SONIA and pay £95.2mn 3Mx1Y SONIA @-14.8bp. 3M C+S is +5bp. P/L since inception is -2bp (recommended 21 Mar)
- **Keep receiving 1Yx1Y SONIA**
  Receive £100mn 1Yx1Y SONIA @3398.1bp. 3M C+S is 0bp. P/L since inception is -3.1bp (recommended 7 Mar)
- **Keep tactically receiving Jun25 MPC OIS**
  Receive £100mn Jun25 MPC OIS @424.4bp. P/L since inception is -5.4bp (recommended 21 Feb)
- **Keep 30s/50s gilt steepeners (Jul54/Oct73)**
  Buy £16.3mn of UKT Jul54 and sell £25mn of UKT Oct73 @-76.1bp. 3M C+S is 0.4bp. P/L since inception is -5.9bp (recommended 24 Jan)
- **Stay long gilt Mar27 on ASW basis**
  Buy £50mn gilt 3.75% Mar27 on ASW basis @16bp. P/L since inception is -7bp (recommended 12 Jul)
- **Hold long 1Yx1Y UK RPI swap**
  Hold long 1Yx1Y UK RPI swap @382.7bp. P/L since inception is 7.7bp (recommended 27 Feb)
- **Hold 5Yx5Y/15Yx15Y UK RPI swap flattener**
  Hold long 5Yx5Y UK RPI swap and short 15Yx15Y UK RPI swap @-17bp. P/L since inception is 0.3bp (recommended 19 Mar)
- **Keep long 1Yx5Y A/A-50bp receiver spread versus short OTM payer**
  Keep long £100mn 3.35%/2.85% 1Yx5Y receiver spread (notification date 22 Sep 2025, maturity date 22 Sep 2030) versus short£100mn 3.865% 1Yx5Y payer at -120bp of notional with ATMF 1Yx5Y rate at 3.88% versus entry level at close to flat premium. P/L since inception is -120bp of notional (recommended 20 Sep).

*All existing trades priced as of 3pm UK time on 28 Mar 2025.

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Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
DURATION			
Pay May24 MPC OIS	22-Mar-24	05-Apr-24	3
Long 10Y gilt	31-May-24	06-Jun-24	19
long 1Q51 vs short gilt 0FE50 (equinotional)	31-May-24	14-Jun-24	5
Rec Sep24 MPC OIS	19-Jul-24	01-Aug-24	9
Long 5Y gilt	27-Sep-24	30-Oct-24	-43
Rec Feb25 MPC OIS	10-Jan-25	06-Feb-25	6
CURVE			
10s20s gilt curve flattener	08-Mar-24	05-Apr-24	7
Aug24/Nov24 MPC OIS curve flatteners	23-Feb-24	26-Apr-24	-11
10s/30s gilt steepener (UKT Jan34 vs UKT Oct53)	12-Apr-24	17-May-24	-2
1Yx1Yx1Y SONIA flattener	05-Apr-24	14-Jun-24	2
10s30s gilt flattener	14-Jun-24	19-Jul-24	-2
ronts/reds (3Mx1Y/15Mx1Y)SONIA curve flattener	12-Jul-24	16-Aug-24	5
5s30s SONIA steepener	16-Aug-24	19-Sep-24	7
H5/H7 3M SONIA futures flattener	06-Nov-24	08-Nov-24	13
Aug25/Dec25 MPC OIS curve flatteners	07-Jan-25	06-Feb-25	1
H5/U5 SONIA steepener	06-Feb-25	21-Feb-25	9
SWAP SPREADS			
UKT Sep34 swap spread narrower	13-Sep-24	04-Oct-24	3
10Y gilit swap spread widener	31-Jan-25	14-Feb-25	9

TRADE	ENTRY	EXIT	P&L
RELATIVE VALUE			
Long belly Jan34/Mar36/Sep39 cash&duration ntrl fly	15-Mar-24	10-May-24	1
short Jan32/Jan38/Oct41 gilt fly (Cash and dur neutral)	01-Mar-24	16-Aug-24	-5
Receive belly 2s5s10s SONIA fly (50:50)	30-Aug-24	13-Sep-24	2
Buy belly 10s/30s/50s gilt fly (50:50)	27-Sep-24	25-Oct-24	2
Pay belly Mar25/May25/Jun25 fly 50:50	13-Sep-24	13-Dec-24	2
Short belly 4Q36/4Q40/3H45 (cash-and-duration neutral)	11-Oct-24	13-Dec-24	-1
MISCELLANEOUS			
Receive 5Yx5Y SONIA vs. 5Yx5Y SOFR	05-Jul-24	16-Aug-24	-14
Long 10Y gilt vs 10Y Bund	18-Oct-24	30-Oct-24	-8
SSA			
CONDITIONAL CURVE AND FLIES			
OPTIONS			
Buy 3Mx5Y GBP vs USD	21-Mar-24	12-Apr-24	20.0
BuyJun24 SONIA call ladder	26-Jan-24	17-May-24	0.5
Sell 1Yx30Y A-50 delta hedged straddle	26-Apr-24	17-May-24	45.0
Buy Sep24 SONIA call ladder	17-May-24	07-Jun-24	1.0
Sell 6Mx30Y unhedged straddles	17-May-24	07-Jun-24	55.0
Sell 3Mx10Y GBP vs USD	17-May-24	21-Jun-24	20.0
Sell 6Mx10Y unhedged straddle	17-May-24	21-Jun-24	145.0
Buy Sep24 SONIA call ladder	07-Jun-24	30-Aug-24	3.0
Short 3Mx2Y gamma	21-Jun-24	30-Aug-24	16.0

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Treasuries

We overflow in a hurricane

- Front-end yields remain near their local lows, supported by weak real consumption and weakness in risk assets. The curve has moved to its steepest levels since early 2022. We believe trade policy uncertainty, through higher inflation and long positioning, has kept long-end yields anchored at elevated levels...
- ...While easier Fed policy expectations justify a steeper curve, the long end has run ahead of this repricing, and now appears 15bp steep after controlling for front-end yields and market-based inflation expectations...
- ...Additionally, the belly's underperformance along the curve and a cheapening in Treasuries relative to their fundamental drivers suggest term premium has risen. With significant event risk next week, we recommend taking profits on 64:11 weighted 3s/10s/30s belly-cheapening butterflies
- We remain patient before adding duration exposure, as downside risks to growth and labor markets are likely to materialize later than the rise in inflation. Hold 2s/5s steepeners to hedge against the risks of a deeper cutting cycle
- With the Washington Post reporting that upcoming tax payments could fall significantly below 2024 levels, we update our debt ceiling analysis. Were tax revenue to fall 10% relative to last year, we forecast the x-date could shift to mid-July from August 1

Market views

Yields rose for most of the week, supported by optimism over the burgeoning trade war, as media reported the White House would narrow the scope of its April 2nd tariff announcements, shifting focus away from broad tariffs to reciprocal tariffs applied to countries with elevated trade imbalances. The move was exaggerated by weaker demand, as two of this week's three Treasury auctions tailed, and the share of end-user demand declined to multi-month lows (**Figure 68**). The moves unwound partially on Friday, as real consumption rose just 0.1% in February, with downward revisions to prior months: we have lowered our 1Q25 consumption forecast from 1% to 0.3%, and risk assets responded negatively to this data (see *US: Soft spending, firm prices in Feb; cut 1Q consumption*, Abiel Reinhart, 3/28/25). Over the week, 2-and 5-year yields declined 4bp and 3bp, respectively, while 10- and 30-year yields rose 1bp and 4bp, respectively, underperforming its DM peers (**Figure 69**).

Figure 68: End-user demand weakened at this week's auctions...

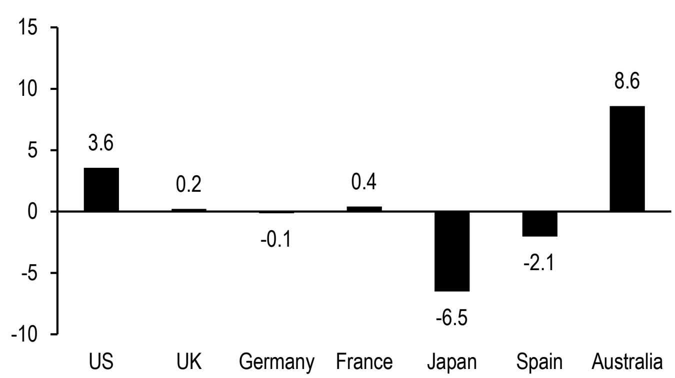
Statistics for this week's Treasury coupon auctions; units as indicated

		2s	5s	7s
Auction tail (bp)	Mar	0.0	0.7	0.6
	Feb	-0.8	-0.9	-0.9
	Prev 3M avg	-0.1	-0.5	-1.2
End-user demand (%)	Mar	89.4	86.8	87.3
	Feb	93.1	89.4	91.2
	Prev 3M avg	89.4	88.6	90.7
Bid-to-cover ratio	Mar	2.66	2.33	2.53
	Feb	2.56	2.42	2.64
	Prev 3M avg	2.65	2.41	2.68

Source: US Treasury, J.P. Morgan

Figure 69: ...and the long-end underperformed globally

Change in various 30-year government bond yields, 3/21/25-3/28/25; bp



Source: J.P. Morgan

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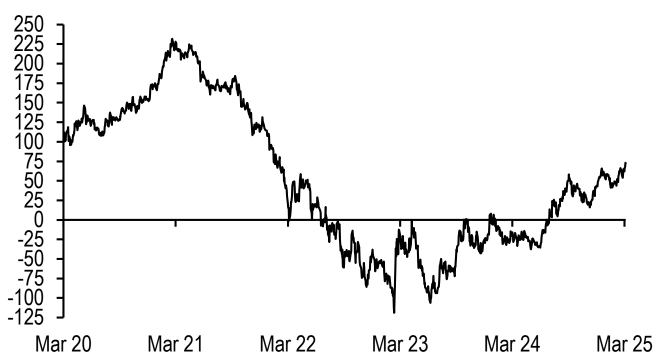
Against this backdrop, the broad US curve has moved to its steepest levels since before the Fed began its tightening campaign in early 2022 (**Figure 70**). At its root, it indicates the moves this week were more US specific, and we think a few factors are at play. **First**, uncertainty abounds ahead of next week's self-proclaimed "liberation day." While uncertainty and increased tariffs should lower US growth, and we lowered our 2026 real GDP forecast from 1.6% to 1.3% to accommodate this change, we also raised our 2025 core PCE forecast from 2.8% to 3.0%, further derailing progress toward the Fed's 2% target (see *Auto tariffs set to hit consumers soon*, Michael Feroli, 3/27/25). One would think uncertainty should actually result in lower yields, but with higher inflation likely to precede any real weakening in labor markets, this could tie the Fed's hands for easing. **Second**, market participants have been positioned for this uncertainty: earlier this month our *Treasury Client Survey* had extended to its longest levels in 15 years, but positions have been pared back since yields hit their YTD lows, and our survey has come off its longest levels, but remains extended from an historical perspective (**Figure 71**). **We think the added inflation pressure, amid still long-positioning, has helped anchor Treasury yields at higher yields locally.**

Figure 70: The broad curve is trading at its steepest levels since early-2022, just before the Fed began its tightening campaign

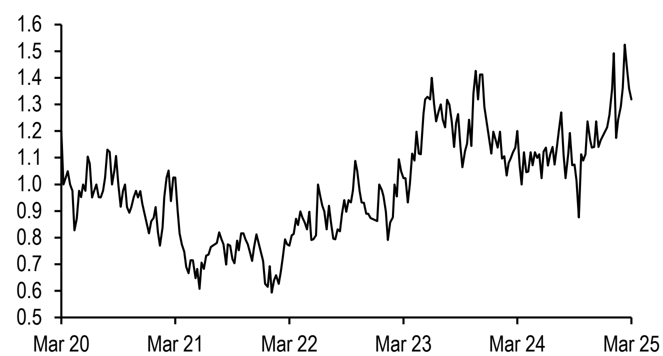
2s/30s Treasury curve; bp



Source: J.P. Morgan

Figure 71: Our Treasury Client Survey indicates that duration overweights have been pared down from their peak early in March, but remain considerably above medium-term average levels

J.P. Morgan Treasury Client Survey Index*;



(Longs + Neutrals)/(Shorts + Neutrals)
Source: J.P. Morgan

With these factors in place, there has been a sharp divergence in the Treasury market, as front-end yields have retraced to their local lows: 1y1y OIS is now pricing 88bp of easing over the period, with most of this easing priced by mid-2026 (**Figure 72**). Naturally, as markets have priced in greater odds of a deep easing cycle, the curve has steepened, but more aggressively than would be expected: **Figure 73** shows that 2-year Treasury yields (as a proxy for Fed policy expectations) and 5y5y TIPS breakevens can explain about 88% of the variation in the slope of the 5s/30s curve over the last year, but the curve now appears about 16bp steep on this basis, a divergence of close to 3 standard deviations on this basis. Furthermore, the figure shows this whole divergence has occurred over the month of March. We think this is influenced by two factors. **First**, the German fiscal expansion earlier this month will result in higher issuance there and term premium has risen in Europe as a result. With yields rising elsewhere in the DM, Treasuries are unattractive for locally-funded foreign investors and US yields are getting anchored at higher levels as a result (see Treasuries, *US Fixed Income Markets Weekly*, 3/14/25). **Second**, and this is more speculative, this steepening could reflect higher term premium being demanded by end users in the context of high policy uncertainty in the US.

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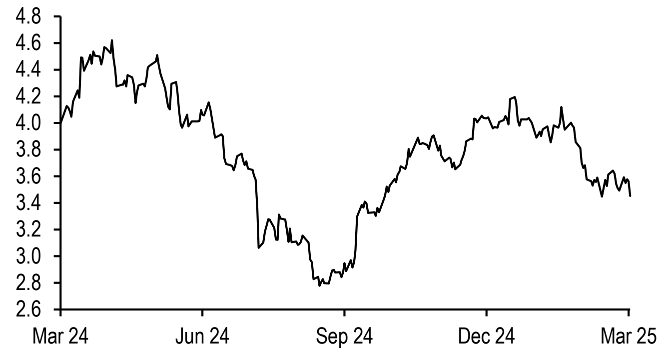
Figure 72: Front-end yields have retraced to their lowest levels since the fall...

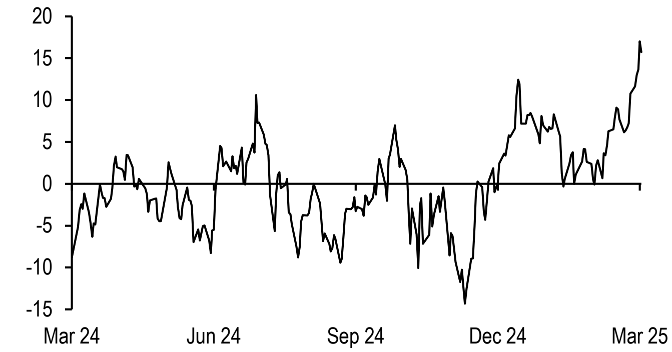
1y1y OIS; %



Source: J.P. Morgan

Figure 73: ...and this supports a steeper curve, but 5s/30s now appears 15bp too steep, even after adjusting for this shift

Residual of 5s/30s Treasury curve regressed on 2-year Treasury yields (%) and 5y5y TIPS breakevens (%)*; bp

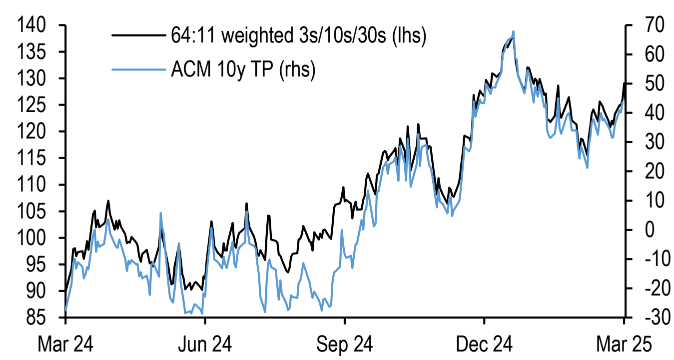


R-squared = 88.3%, SE = 5.3bp

Indeed, we find that both academic and empirical measures of term premium have increased considerably over the month. **Figure 74**shows that ACM 10-year Treasury term premium has risen considerably this month and has retraced toward the highest levels observed over January, and that weighted belly-cheapening butterflies, which largely track academic measures of term premium, have also risen considerably over March (see *In it for the long term: How to position for rising term premium*, 10/2/23). Similarly, intermediate Treasuries have once again decoupled from their drivers, with 10-year yields now trading approximately 25bp too high after controlling for medium-term Fed policy, inflation, and growth expectations, as well as the Fed's balance sheet as a share of GDP (**Figure 75**).

Figure 74: The belly has underperformed the wings of the curve, tracking rising ACM term premium...

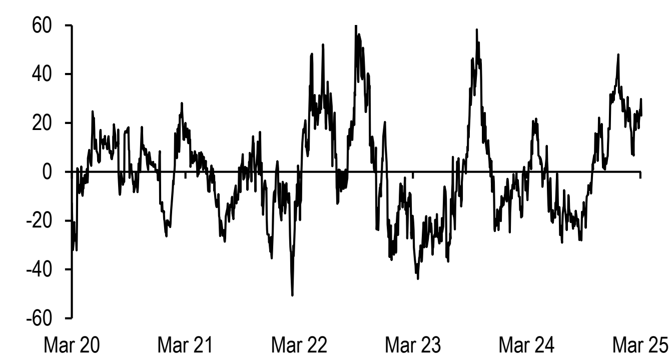
64:11 weighted 3s/10s/30s Treasury butterfly (lhs; bp) versus ACM 10-year Term premium (rhs; bp)



Source: Federal Reserve Bank of New York, J.P. Morgan

Figure 75: ...similarly, 10-year Treasuries have diverged further from their fundamental drivers

Residual of J.P. Morgan 10-year Treasury Fair Value Model*; bp



*10-year Treasury yields regressed on 3m3m OIS rates (%), 5y5y seasonally-adjusted TIPS breakevens (%), J.P. Morgan U.S. Forecast Revision Index (%), Fed forward guidance (months), and Fed B/S as share of the US economy (%). Regression over the last 5 years: R-squared = 98.1%, SE = 19.4bp
Source: J.P. Morgan, Federal Reserve

Against this backdrop, next week is littered with event risk, with the Trump administration expected to impose another round of tariffs on April 2nd, including reciprocal tariffs to match those placed on exported US goods and services by other countries, as well as broader tariffs on imported goods from Canada and Mexico. While we cannot forecast exactly what will be announced, coupled with the auto tariffs announced this week, it could take the average US tariff rates from 7% to potentially 14% (see *US tariffs redux: Objectives widen, targets*

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broaden, Jahangir Aziz et al., 3/7/25). Later in the week, the March employment report will also be key for determining the path of Treasury yields: we forecast nonfarm payrolls increased 150k over the month, while the unemployment rate held steady at 4.1% (see *Economics*). **Given the room for volatility around next week's events, we recommend reducing risk, and taking profits on 64:11 weighted 3s/10s/30s belly-cheapening butterflies (see Trade recommendations).**

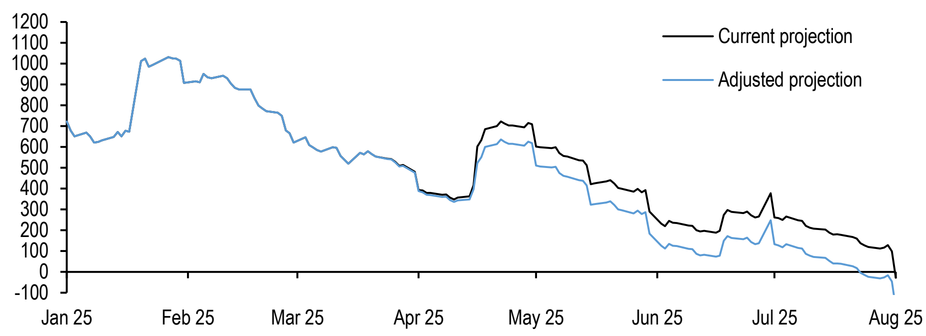
Turning to outright duration, given the risk that weakening in sentiment from trade policy uncertainty could result in weakening growth and labor markets, and that the Fed's risk bias here is asymmetrically dovish, we prefer to be structurally overweight duration. **However, we think the sequencing around tariffs indicates firming inflation will be evident before any real loosening in labor markets, and we prefer to be patient before adding outright duration exposure. That being said, given the medium-term risk of more loosening in labor markets and a deeper cutting cycle, and the behavior of the front end in such cycles, we recommend holding 2s/5s steepeners.**

April tax revenue and the debt ceiling

Early in the week, the Washington Post reported that senior tax officials at Treasury and the IRS are predicting a more than 10% reduction in tax receipts by the April 15th deadline compared to last year, citing budgetary cuts and staffing layoffs as well as the concomitant rise in tax avoidance and certain extreme weather effects[1]. A lower level of tax receipts risks an earlier x-date, but Treasury has recently extended the DISP to June 27th and it is typically conservative in its approach to communicating debt ceiling deadlines. We think the combination of above trend growth and strength in financial assets last year are likely to lead to healthy tax payments this spring (see *Treasuries 2025 Outlook*, 11/26/24). Nevertheless, if we take the article's warning at face value and adjust our expectations for tax receipts to 10% lower than last year, our projected x-date would move marginally sooner from early August to mid-July (**Figure 76**). We still think this provides Congress time to resolve the debt ceiling debate by passing new legislation in 2Q25.

Figure 76: If tax payments run 10% below last year's pace, our projection of the debt ceiling x-date would move sooner from early August to mid-July

Projected estimates of Treasury's available resources under current projections as well as under adjusted projections, where tax receipts are 10% lower than 2024; $bn



Source: J.P. Morgan

1. https://www.washingtonpost.com/business/2025/03/22/irs-tax-revenue-loss-federal-budget/

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Trade recommendations

- **Unwind 64%/11% weighted 3s/10s/30s belly-cheapening butterflies**

  - Unwind long 64% risk, or $58mn notional of T 4.25% Feb-28s
  - Unwind short 100% risk, or $30.8mn notional of T 4.625% Feb-35s
  - Unwind long 11% risk, or $1.7mn notional of T 4.625% Feb-55s
  (*US Treasury Market Daily*, 2/25/25: P/L since inception: 5.9bp)

- **Maintain 2s/5s steepeners**

- Stay short 100% risk, or $112mn notional of T 4% Feb-30s
- Stay long 100% risk, or $268mn notional of T 4.125% Feb-27s
(*US Treasury Market Daily*, 3/20/25: P/L since inception: -1.3bp)

- **Maintain 1s/2s/5s belly-richening butterflies**

- Stay short 50% risk, or $134mn notional of B 19-Mar-26s
- Stay long 100% risk, or $134.2mn notional of T 4.125% Feb-27s
- Stay short 50% risk, or $28mn notional of T 4% Feb-30s
(*US Treasury Market Daily*, 3/20/25: P/L since inception: -0.9bp)

- **Maintain 20s/30s flatteners**

- Stay short 100% risk, or $20mn notional of T 4.625% Nov-44s
- Stay long 100% risk, or $16.1mn notional of T 4.5% Nov-54s
(*US Fixed Income Markets Weekly*, 2/7/25: P/L since inception: -4.7bp)

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Figure 77: Closed trades in last 12 months
P/L reported in bp of yield unless otherwise indicated

TRADE	ENTRY	EXIT	P/L
Duration			
Equi-notional 2s/5s flatteners	05/31/24	06/06/24	16.0
5-year duration shorts	06/14/24	07/01/24	21.9
30% 2-year duration short	07/12/24	07/31/24	-1.8
2-year duration longs	11/15/24	12/02/24	7.1
2-year duration longs	12/20/24	01/27/25	11.1
2-year duration longs	02/12/25	02/14/25	10.4
2-year duration shorts	02/28/25	03/07/25	0.7
Curve			
2s/5s flatteners	12/08/23	05/17/24	6.0
5s/30s steepener	11/22/23	09/06/24	26.4
3s/5s steepener	09/04/24	09/06/24	3.1
3s/30s steepener	09/06/24	09/18/24	0.2
3s/20s steepener	09/27/24	10/04/24	-18.3
10s/30s steepeners	11/15/24	12/18/24	-1.2
5s/10s flatteners	01/10/25	02/06/25	1.4
10s/30s flatteners	02/28/25	03/07/25	-1.7
Relative value			
20s/ old 30s flatteners	02/15/24	05/10/24	-2.6
100:97 weighted 3.75% Apr-26/ 4.625% Sep-26 flatteners	04/12/24	05/17/24	2.2
100:95 weighted 4% Feb-28 / 4% Feb-30 steepeners	02/23/24	05/31/24	-6.6
50:50 weighted 3s/5s/7s belly-richening butterflies	03/15/24	06/14/24	2.1
100:98 weighted 4.75% Feb 37s / 4.5% Aug 39s steepeners	06/14/24	07/12/24	2.6
100:95 weighted 0.625% Jul-26s / 1.25% Dec-26s steepeners	07/12/24	08/14/24	1.5
2.375% May-51s / 4.25% Feb-54s steepener	11/15/24	01/06/25	1.6
Term premium			
75:6 weighted 5s/10s/30s belly-cheapening butterfly	09/29/23	11/06/24	8.5
64:11 weighted 3s/10s/30s belly-cheapening butterfly	11/26/24	12/20/24	8.3
64:11 weighted 3s/10s/30s belly-cheapening butterfly	02/25/25	03/28/25	5.9
Number of positive trades			19
Number of negative trades			6
Hit rate			76%
Aggregate P/L			104.8

Source: J.P. Morgan

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Interest Rate Derivatives

Signal and Noise

- Risks surrounding tariffs and inflation impacts are front and center for Fed members. Recent Fed-speak reaffirms the notion of a patient Fed that will likely stay on hold for some time as a result
- Inflation expectations have the potential to exhibit increased volatility going forward. We revisit our empirical model for the swap yield curve, and discuss how our framework lends itself to constructing swap curve trades that mitigate inflation exposure when desired …
- … initiate 3M forward 3s/10s swap curve flatteners paired with 75% of the risk in 1Y forward 1s/7s steepeners, as a way to position for relative value on the swap yield curve while mitigating exposure to shifts in inflation as well as Fed expectations
- Buy the belly of a U5 / Z5 / H6 SOFR futures butterfly (45:60 weighted), which appears mispriced and offers modestly positive carry
- We define a proxy measure of tariff risk based on the realized volatility of USD/CAD, based on the premise that USD/CAD has been most impacted by tariff talk in the new year. Using such a measure of tariff risk, we find that intermediate expiry swaption volatility in the belly appear to be most sensitive to tariff-related exogenous risk, while the sensitivity fades for shorter expiries and short tails, as well as much longer expiries...
- … and the apparent richness of receiver skews is likely also a reflection of heightened tariff risk. We recommend maintaining a long volatility bias in intermediate expiries and tails, hedge for vol-rate directionality, and we don't recommend fading the richness of receiver skews - buy 2Yx10Y straddles, paired with a risk-weighted receive-fix swap to hedge directional exposure with rates
- With this week's narrowing, swap spreads have erased most of the post-February widening fueled by de-regulatory optimism, causing us to turn neutral on long end spreads and the swap spread curve
- We maintain our widening bias in front end spreads as this quarter-end is expected to be more benign than previous quarters, and upcoming negative net T-bill issuance is supportive of wider spreads

Signal and Noise

This week had a quite a bit of back and forth action in the Rates markets on the back of continued uncertainty around tariffs as some mixed signals from the data. The week originally started with the idea that tariffs would be more targeted and less pervasive than previously thought, leading to a rise in rates and rotation into risky assets. But this eventually shifted as new announcements related to pushing up the timeline and scope of auto tariffs weighed on the markets. These developments likely represent upside risk in the near term, as our economists expect tariff-related inflation impacts to be front-loaded in 2Q (see Auto tariffs set to hit consumers soon, M. Feroli, 3/27/2025). Friday core PCE inflation came in slightly firmer than our own forecast and did little to attenuate inflation concerns. Rather, continuing inflation pressures will likely keep the Fed on hold for some time (see US: Soft spending, firm prices in Feb; cut 1Q consumption, A. Reinhart, 3/28/2025).

Recent Fed-speak also reaffirms the notion of a patient Fed, as Fed members acknowledge the risk to inflation from tariffs and indicate a desire to stay on hold in the near term (**Figure**

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1). Market moves also reflected this somewhat as yields were up until Friday, but concerns around consumer data led the yields lower on Friday. All in all, front end ended the week 4bp lower and long end modestly higher (**Figure 2**).

Figure 1: Recent Fed-speak acknowledges the potential upside risks to inflation while broadly indicating a desire to hold rates steady in the near term

Selected Fed-speak excerpts, 3/24 - 3/26

Date	Fed Speakers	Comments
3/26/2025	Musalem, v	Seems like economic growth moderated in first quarter, Indirect tariff effects may have persistent inflation Impact, Expect economic expansion to continue at moderate pace, If secondary tariff impacts, may hold rates for longer, Should pursue patient, vigilant approach to policy, See job mkt remaining healthy around full employment, Net effect of Trump policies still uncertain, Rise in med-term infl. expectations would be challenge, Fed must prioritize inflation if expectations unanchor
3/26/2025	Kashkari, nv	More work to do on lowering inflation, Tariffs creating a dramatic shift in confidence, The U.S. is relatively insulated to trade dynamics, In the next year or two, we ought to be able to reduce interest rates further, I'm uncertain about the effects of tariffs
3/25/2025	Kugler, v	Recent data on economic activity show some softness, Watching pickup in price growth and infl. expectations, Fed can hold rates steady for some time, Labor market appears to be stable through February, It's estimated PCE price index was 2.5% in February
3/24/2025	Bostic, nv	Won't get back to 2% inflation until early 2027, Businesses expect to pass tariff costs to consumers, I was at two rate cuts this year, now only see one, Appropriate path for policy has to be pushed back, Unclear if tariffs will be one-time hit to prices, Fed actions may have to be larger once direction clear, Prefer to stay at this QT rate for awhile until we stop

Source: J.P. Morgan., Bloomberg Finance L.P.

Figure 2: Swap yields are mostly lower over the week led by the front end

Selected statistics for SOFR swap yields (%), and swap yield curves (bp), 3/21-3/28

	Start	Change	End	Min	Mean	Max
2Y	3.77	-0.04	3.73	3.73	3.81	3.85
3Y	3.71	-0.04	3.66	3.66	3.74	3.79
5Y	3.71	-0.04	3.67	3.67	3.75	3.80
7Y	3.75	-0.03	3.72	3.72	3.80	3.85
10Y	3.82	-0.02	3.80	3.80	3.87	3.92
20Y	3.94	0.00	3.94	3.94	3.99	4.05
30Y	3.82	0.01	3.84	3.82	3.87	3.94
2s/5s	-6	0	-6	-6	-6	-4
2s/10s	5	2	7	4	6	9
2s/30s	5	5	10	3	7	10
5s/10s	10	2	13	10	11	13
5s/30s	11	5	17	9	12	17
10s/30s	1	3	4	-1	1	4

Source: J.P. Morgan.

Going forward, there is no escaping the fact that inflation expectations will likely rise in significance as a driver of the yield curve. To be sure, short term as well as long term inflation expectations have always been important long term driver of the curve, and are included as factors in our empirical swap curve fair value model. But in the past two years or so, inflation expectations have been relatively stable and rangebound, and have had less of a numerically significant impact in driving curve moves (despite their statistical and conceptual significance). While too soon to know with conviction, that could change as tariffs introduce an exogenous element of uncertainty into the inflation outlook, making it prudent to assess the influence of inflation expectations on swap yield curve trades.

How might investors mitigate exposure to inflation expectations? **One way to mitigate this exposure is by pairing swap yield curve trades with inflation swap hedges. Alternatively, investors can choose to pair curve steepeners in one sector with flatteners in another, carefully weighted in a way that reduces this risk to inflation expectations**. For instance, an investor who desires to be in steepeners (premised upon a potential rise in easing expectations) might choose to initiate a steepener that is more sensitive to Fed expectations (but less sensitive to inflation expectations). At the same time, hedging the inflation risk using a small weighted amount of a flattener in a different sector that offers increased sensitivity to inflation expectations is a way to hedge out some of that exposure in the combined position. Obtaining these more nuanced factor exposures in swap yield curve trades requires an effective empirical approach to calculating such partial sensitivities to inflation expectations.

To facilitate this, we refresh the coefficients of our swap yield curve fair value model (details can be found in our Interest Rate Derivatives 2025 Outlook), and also allow for a shift in the intercept since 4Q24 in order to account for recent shifts in the trading regime. Details

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of our refreshed model are shown in **Figure 3**. To illustrate how one might use this, we can compare (for instance) the 2s/10s spot curve with the 2Y forward 2s/10s curve. As can be seen, the forward curve has twice the partial sensitivity to Fed expectations (proxied by the fronts/reds curve), but only about half of the inflation risk. This means that an investor who seeks to initiate a steepener premised upon a rise in Fed easing expectations, but who does not wish to retain exposure to inflation expectations, would be better off initiating a 2Y forward 2s/10s swap curve steepener, paired with half the risk in a spot curve flattener. Such a package would retain exposure to rising easing expectations, while mitigating inflation exposure.

Figure 3: Our empirical fair value model uses a handful of market factors to explain a variety of different spot and forward yield curves

Statistics from regressing* various spot and forward curves against 7 drivers**, model T-stats, R-squared, Standard error, current yield curve level (%), and current fair value (%)/residual (%); current value as of 3/27/2025

	Coefficients								T-stats								Model stats		Curve actuals / FV		
Curve	Intercept	Guidance	3Mx3M OIS	Fed Expec. Crv	Fed B/S	5Yx5Y Infl. swap	2Y Infl. swap	Intercept shift	Tstat - Const	Tstat - Guidance	Tstat - 3Mx3M OIS	Tstat - Fed Expec. Crv	Tstat - Fed B/S	Tstat - 5Yx5Y Infl. swap	Tstat - 2Y Infl. swap	Tstat - Intercept shift	Rsq	Std. Err.	Cur. Curve	Fair Value	Residual
2s/5s	-1.07	-0.04	-0.27	0.00	-0.03	0.91	-0.11	0.32	-30.4	-13.8	-74.4	0.1	-16.2	46.8	-17.9	30.8	94%	0.11	-0.06	-0.17	0.11
2s/10s	-1.67	-0.08	-0.50	-0.21	-0.04	1.54	-0.20	0.50	-28.5	-14.5	-82.0	-14.5	-12.1	47.9	-20.3	28.6	93%	0.18	0.07	-0.17	0.23
2s/30s	-1.55	-0.12	-0.73	-0.47	-0.07	1.84	-0.22	0.62	-21.0	-17.1	-94.0	-26.3	-17.4	45.3	-17.7	28.1	94%	0.22	0.08	-0.25	0.32
5s/10s	-0.60	-0.03	-0.23	-0.21	-0.01	0.64	-0.09	0.18	-21.2	-12.9	-77.4	-30.1	-4.9	41.1	-19.8	20.9	89%	0.08	0.12	0.00	0.12
5s/30s	-0.48	-0.07	-0.45	-0.47	-0.04	0.94	-0.12	0.30	-10.0	-16.1	-89.4	-40.2	-14.8	35.2	-14.0	20.5	92%	0.15	0.13	-0.08	0.21
10s/30s	0.11	-0.04	-0.23	-0.27	-0.03	0.30	-0.02	0.12	4.8	-17.9	-92.5	-47.2	-25.0	23.4	-5.3	17.5	93%	0.07	0.01	-0.08	0.09
2Y fwd 2s/5s	-0.54	-0.02	-0.17	-0.23	0.00	0.51	-0.09	0.10	-21.1	-9.3	-62.2	-37.5	2.3	36.0	-20.0	13.2	77%	0.08	0.14	0.03	0.11
2Y fwd 2s/10s	-0.54	-0.04	-0.27	-0.42	0.00	0.70	-0.12	0.15	-12.8	-10.5	-61.7	-40.1	1.9	29.8	-16.2	11.5	77%	0.13	0.29	0.12	0.17
2Y fwd 2s/30s	-0.16	-0.06	-0.41	-0.62	-0.03	0.73	-0.10	0.17	-3.0	-12.7	-73.4	-47.8	-9.9	24.9	-11.3	10.6	86%	0.16	0.20	-0.02	0.22
2Y fwd 5s/10s	0.00	-0.02	-0.11	-0.18	0.00	0.19	-0.03	0.05	0.0	-11.1	-54.8	-39.5	1.1	18.2	-9.4	8.1	74%	0.06	0.15	0.09	0.06
2Y fwd 5s/30s	0.38	-0.04	-0.24	-0.39	-0.03	0.22	-0.02	0.07	11.4	-13.3	-70.2	-48.0	-17.7	12.2	-2.7	6.9	87%	0.10	0.06	-0.05	0.11
2Y fwd 10s/30s	0.38	-0.02	-0.14	-0.21	-0.03	0.04	0.01	0.02	22.2	-13.6	-76.8	-50.2	-35.8	3.8	5.0	4.7	92%	0.05	-0.09	-0.14	0.05

* Regression from 3/26/2015 to 3/26/2025
** Underlying drivers are: Forward Guidance (number of years of forward policy commitment by the Fed), 3Mx3M OIS rate (%), Fed expectations curve (15Mx3M - 3Mx3M OIS curve as a proxy), size of the Fed balance sheet ($tn), 5Yx5Y inflation swap yield (%), 2Y inflation swap yield (%), intercept shift (which has a value of 0 before 10/1/2024 and a value of 1 after)
Source: J.P. Morgan., Federal Reserve H.4

We can also use our empirical framework to find attractive relative value opportunities. **One currently interesting trade is to pair 3M forward 3s/10s flatteners with 75% of the risk in 1Y fwd 1s/7s steepeners**. For the two curves in this trade, a 75% risk weighting helps to neutralize most of the inflation exposure as well as exposure to Fed expectations. Thus, this yield curve box trade is likely to be much less impacted by Fed policy expectations as well as swings in inflation expectations in the near term. Moreover, the weighted spread has been reasonably mean-reverting until recently, but is now considerably steep (**Figure 4**). Given this, as well as the fact that the our empirical fair value model also suggests that this yield curve box spread is mispriced to the tune of ~3bp, we recommend this trade (see Trade recommendations).

We also continue to favor carry and relative value trades, premised upon the Fed staying on hold in the near term. One such trade is to buy the belly of a U5 / Z5 / H6 SOFR futures fly (45:60 weighted). As seen in **Figure 5**, the weighted spread corresponding to this trade has been fairly mean reverting, and currently looks to be near the cheaper end of its 12M range. Additionally, this trade offers about 1bp of positive carry. Therefore, we recommend this trade (see Trade recommendations).

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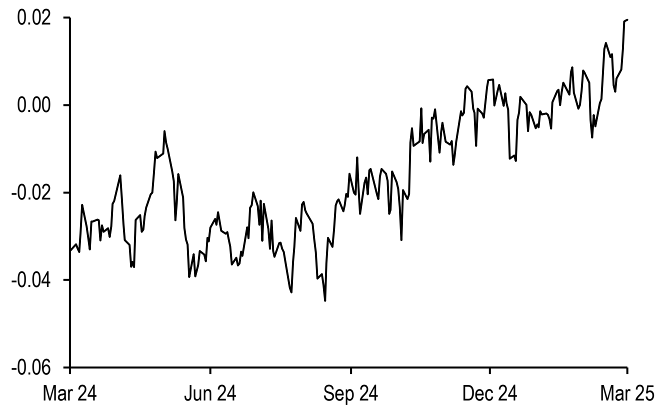
Figure 4: The weighted spread corresponding to 3M forward 3s/10s flatteners and 75% risk in 1Y forward 1s/7s steepeners is at its most elevated level in the past year

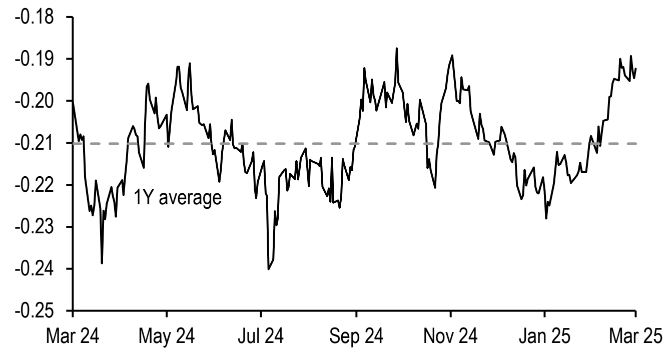
(3Mx10Y - 3Mx3Y) - 0.75*(1Yx7Y - 1Yx1Y) swap yields, past 1Y; %



Source: J.P. Morgan.

Figure 5: The weighted spread corresponding to a weighted U5/Z5/H6 SOFR futures butterfly has been fairly mean reverting and looks mispriced

9Mx3M swap yields – 0.45*6Mx3M swap yields – 0.6*12Mx3M swap yields, past 1Y; %



Source: J.P. Morgan.

Swap spreads

Front end spreads narrowed by 1-2bp and long end spreads narrower by about 2-3bp over the week. Viewed through the lens of term structure of swap spreads, term funding premium (TFP) is slightly higher over the week, and zero duration spreads (ZDS) are narrower by 1bp (**Figure 6**). (As a reminder, on any given day, we can regress maturity matched swap spreads in all the benchmark tenors versus modified duration of the corresponding bonds. We define zero-duration-spreads as the intercept from this regression, and we define term funding premium as the negative of the slope. Viewing swap spreads through the lens of these two summary metrics of the term structure offers many advantages. For more details, see Term Funding Premium and the Term Structure of SOFR Swap Spreads.)

Ever since a burst of de-regulatory optimism pushed swap spreads sharply wider in early February, we have maintained a narrowing bias on swap spreads across most of the curve, and a spread curve flattening bias. This was because we saw the move in swap spreads (and the associated decline in term funding premium) as exaggerated as well as premature, given that leverage constraints are likely not particularly binding for large domestic banks in the US (see And the MVP goes to…). Following the narrowing moves in long end spreads this week, this has mostly reversed course (**Figure 7**), and term funding premium is now close to our estimate of fair value for mid-year 2025 (see Figure 8 from Better late than never). **Given the recent correction in term funding premium and the near total reversal of the widening moves from earlier this year, we now turn neutral on long end swap spreads as well as the swap spread curve, and recommend unwinding narrowing / swap spread curve flattening exposure**.

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Figure 6: Swap spreads are narrower on the week and the spread curve is flatter

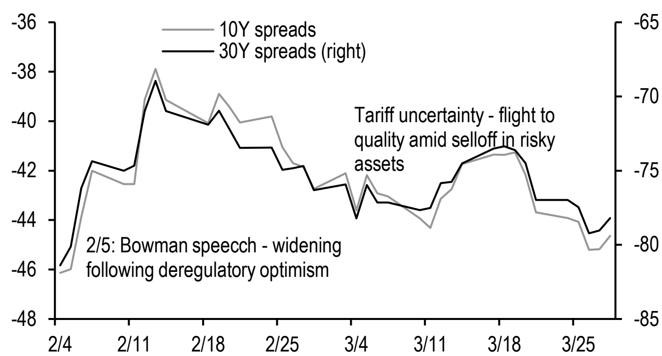
Selected statistics for maturity matched swap spreads (bp). Term funding premium* (bp/year), and zero-duration spreads** (bp), 3/21-3/28

	Start	Change	End	Min	Mean	Max
2Y	-16.9	-1.5	-18.3	-18.3	-17.6	-16.9
3Y	-21.9	-1.3	-23.2	-23.2	-22.5	-21.9
5Y	-29.7	-0.4	-30.1	-30.6	-30.0	-29.7
7Y	-38.0	-1.1	-39.1	-39.1	-38.5	-38.0
10Y	-43.7	-2.0	-45.7	-45.7	-44.6	-43.7
20Y	-67.7	-2.9	-70.6	-70.6	-69.2	-67.7
30Y	-77.0	-2.2	-79.2	-79.2	-78.2	-77.0
TFP	4.3	0.1	4.4	4.3	4.4	4.5
ZDS	-10.5	-1.0	-11.5	-11.0	-10.4	-9.9

* Term Funding Premium (TFP) is defined as the negative of the slope of a regression of maturity matched swap spreads versus modified duration in benchmark sectors (2Y, 3Y, 5Y, 7Y, 10Y, 20Y and 30Y) on any given day
* Zero-duration swap spread is defined as the intercept from a regression of maturity matched swap spreads versus modified duration in benchmark sectors (2Y, 3Y, 5Y, 7Y, 10Y, 20Y and 30Y) on any given day.
Source: J.P. Morgan.

Figure 7: Most of the widening in spreads on the back of de-regulatory optimism has now retraced

10Y (left, bp) and 30Y (right, bp) maturity matched swap spreads, 2/4 – 3/27; bp



Source: J.P. Morgan.

However, **at the front end we maintain our widening bias**. As our Short-Term Fixed Income colleagues noted, this quarter-end could potentially be more benign than recent quarter-ends (i.e. 3Q24) given the amount of liquidity in the system and the early morning SRF operations scheduled to occur around quarter-end (see Tis the tax season, T. Ho, 3/26/2025). Also, net T-bill supply is likely to decline in the weeks approaching April tax day, as it has historically (see **Figure 8**). Our UST colleagues forecast that the above-trend growth and strength in financial assets seen last year will likely lead to healthy tax payments (see US Treasury Market Daily, J. Barry et al., 3/24/2025). **We therefore expect net T-bill issuance to stay negative as we approach April tax day, which should contribute to softer funding conditions**. Thus, such a swing towards negative T-bill issuance will likely serve as a tailwind to pressure front end spreads wider in coming weeks.

How significant might the impact of negative Tbill issuance be? To answer this question, we turn to our empirical model for front end spreads, which is based on (i) first modeling the parameters of the entire spread curve using macro drivers, and then (ii) also accounting for tactical factors that can cause front end swap spreads to deviate from the term structure, using a secondary empirical model for such deviations (For more details, see Interest Rate Derivatives 2025 Outlook). **This model for deviations of 2-year spreads from the base-line term structure** is shown in **Figure 9**. As this figure shows, T-bill issuance is one of the major factors that can impact front end spreads and cause it to deviate from levels consistent with the broader term structure. As seen from the negative coefficient in this model, a decrease in T-bill supply is likely to bias front end spreads wider, all else equal. Our Short Term Fixed Income colleagues project net T-bill supply to decline by $113bn in April, which, in the context of of our 2Y deviation model implies a 1bp widening in 2Y spreads. In addition, as we noted earlier, funding conditions are likely to be softer in the upcoming weeks, and thus SOFR-GC is likely to be more stable compared to previous quarter ends. Finally, the TGA is likely to decline further thanks to the debt ceiling, which would (all else equal) bias RRP balances higher - this too would imply a widening bias on front end spreads specifically. **Last but not least**, the fact that 2Y deviations appear narrow to fair value right now (as also seen in Figure 9) **keeps us biased towards wider front end swap spreads.**

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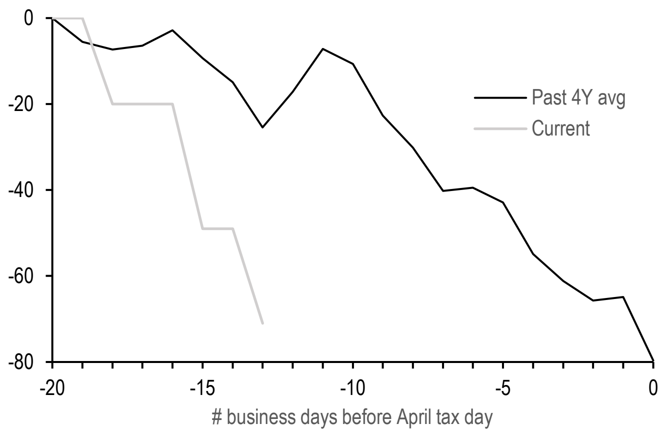
We continue to recommend expressing this view in the 3-year sector as we highlighted last week (see Better late than never).

Figure 8: T-bill supply tends to decline heading into the mid-April tax day

Cumulative change in total T-bills outstanding, in days leading up to April tax day, 2021-2024 average; $bn



Source: J.P. Morgan.

Figure 9: Our empirical model for 2Y swap spread deviations from the term structure

Statistics from regressing* 2Y swap spread deviations (bp) relative to the term structure of swap spreads** versus its drivers (units as indicated), Current (3/27) Actual and FV

Factor	Coeff	T-stat	Cur.
1Yx1Y swap yield (%)	2.2	23.3	3.6
RRP balance ($Tn)	2.9	21.6	0.6
Tbill Outstanding (3M pct chg)	-0.2	-18.4	-2.8
SOFR - GC (1M avg, bp)	0.8	18.2	-3.5
Intercept	-3.7	-13.7	
R-sq	73.3%		
Std. error	2.3		
2Y swap spread deviation - fair value			3.7
2Y swap spread deviation - actual			2.1

* Regression period from May 2021 - Nov 2024
** 2Y swap spread deviation relative to the term structure of swap spreads is calculated for any given day as the actual 2Y maturity matched swap spread minus the fitted value as of that day. The fitted value is calculated from a cross sectional regression of maturity matched swap spreads at benchmark tenors (2s, 3s, 5s, 7s, 10s, 20s, 30s) versus their modified durations, and evaluated at the OTR 2Y note's modified duration.
Source: J.P. Morgan., Federal Reserve H.4.

Tariff risk and option volatility

Swaption markets were relatively quiet throughout the whole week until Friday, when upper left implied volatility spiked significantly (**Figure 10**). For the first four days of the week, implieds were flat to modestly higher across the surface, but 6Mx2Y ended the week about 0.3 bp/day higher after Friday's moves, while 3Yx10Y implied volatility was modestly higher by about 0.1 bp/day.

Looking ahead, it appears likely that the Fed will keep policy steady for the foreseeable future, as it exercises patience in assessing the evolution of inflation before easing rates further. Friday's stronger PCE data only strengthens that view further. But while this would normally be supportive of a bearish view on gamma and vega, **the outlook for volatility in the Rates markets must now incorporate tariff-related risks as a significant exogenous component**. To understand and quantify the impact of this exogenous component, we must first construct a suitable gauge of tariff risks. Our preferred proxy for tariff risk relies on the fact that Canada is significantly impacted by tariffs, and tariff policy is the main "new" factor impacting USD/CAD in recent months. Thus, **we can use the rolling 3M annualized percent realized volatility of USD/CAD** (minus its 2Y historical average) **as a proxy measure of tariff related risks**. As can be seen **Figure 11**, this proxy has risen sharply in recent months as tariff concerns have come to the fore.

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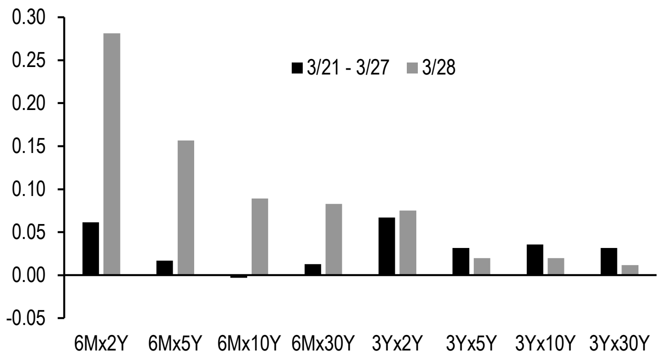
Figure 10: Implied volatility in the upper left increased significantly on Friday and ended the week higher

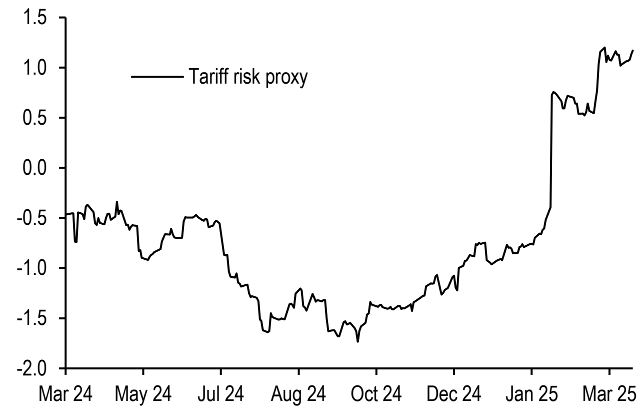
Change in swaption implied volatility in select structures, 3/21 - 3/27 and 3/27 to 3/28; bp/day



Source: J.P. Morgan.

Figure 11: Our tariff risk proxy has risen sharply in recent months

Tariff risk proxy*, past 1Y; mean adjusted annualized % vol



* Tariff risk proxy is defined as the rolling 3M annualized percent realized volatility of USD/CAD (minus its 2Y historical average)
Source: J.P. Morgan.

Armed with this metric, we can now ask how this increased exogenous risk has impacted swaption implied volatility. To do this, we first postulate that tariff concerns have only become relevant for the Rates markets in the past 3 months or so. Thus, we can examine the residual from our empirical fair value model for swaption implied volatility (which incorporates all the other significant drivers) versus this tariff risk proxy metric. As **Figure 12** shows, in the nine months prior to YE24, 1Yx10Y (as an example) swaption implied volatility adjusted for other drivers has only been weakly correlated with our metric for tariff risk, but this has become a strong positive correlation in the past three months. Inspired by this observation, we repeat this exercise for several different benchmark swaption structures, and calculate both the beta and the R-squared of the residual of each structure versus our tariff proxy measure. This is shown in **Figure 13**. As can be seen, intermediate expiry swaption volatility in the belly (5- and 10-year tails) appear to be most sensitive to tariff-related exogenous risk, while the sensitivity fades for shorter expiries and short tails, as well as much longer expiries. **One might also expect that increased exogenous risk from tariff policy would also cause increased demand for downside protection in rates and thus a bid for receiver skews**. This indeed appears to be the case, as seen in **Figure 14**.

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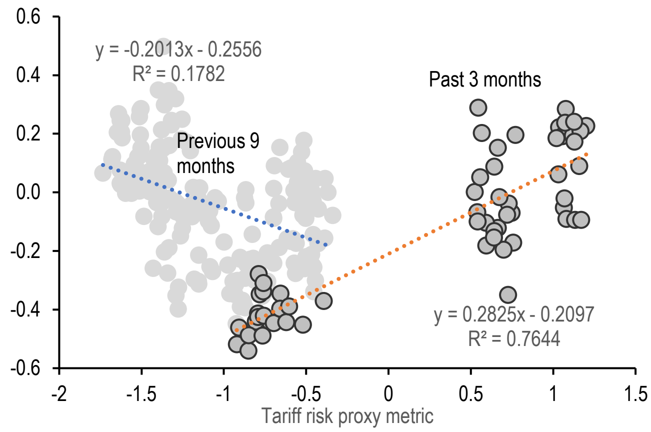
Figure 12: Swaption implied volatility adjusted for its drivers has become strongly correlated with our metric for tariff risk

Residual* from our fair value model for 1Yx10Y swaption implied volatility, regressed against tariff risk proxy**, past 3 month and previous 9 months



* For details on our fair value framework for swaption implied volatility, see Interest Rate Derivatives 2025 Outlook.
** Tariff risk proxy is defined in the previous figure.
Source: J.P. Morgan.

Figure 13: Intermediate expiry swaption volatility in the belly appear to be most sensitive to tariff-related exogenous risk

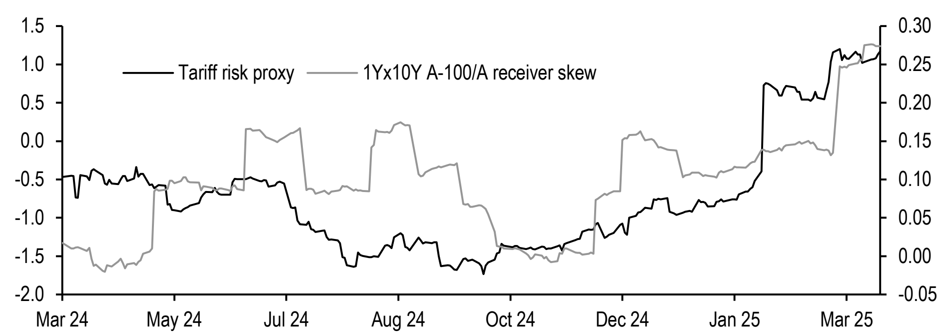
Beta and R-squared of regression of the residual* from our fair value model for swaption implied volatility in various structures vs our tariff risk proxy**, regression over past 3 months

	Beta	R-squared
6Mx2Y	0.22	31%
6Mx5Y	0.33	61%
6Mx10Y	0.37	75%
6Mx30Y	0.26	61%
2Yx2Y	0.34	66%
2Yx5Y	0.31	76%
2Yx10Y	0.20	79%
2Yx30Y	0.12	66%
5Yx2Y	0.15	57%
5Yx5Y	0.09	48%
5Yx10Y	0.05	38%
5Yx30Y	-0.01	3%

* For details on our fair value framework for swaption implied volatility, see Interest Rate Derivatives 2025 Outlook.
** Tariff risk proxy is defined in Figure 11.
Source: J.P. Morgan.

Figure 14: The increased exogenous risk from tariff policy has likely caused increased demand for downside protection in rates, and thus a bid for receiver skews

Tariff risk proxy* (left, annualized % vol) and 1Yx10Y A-100/A receiver skew* (right; bp/day), past 1Y



* Tariff risk proxy is defined in Figure 11.
** A-100/A receiver skew is defined as the ATMF - 100bp receiver swaption implied volatility minus the ATMF implied vol
Source: J.P. Morgan.

But what does all this mean for our views on the volatility markets going forward? While the course of tariff policy has proven impossible to predict, **our best guess is that tariff risks are unlikely to disappear in quick fashion**. This is partly because macro consequences will likely take some time to manifest themselves in the data, but also because tariffs appear to be an instrument of geopolitics at this point, which makes it less likely that a quick resolution will be forthcoming. Therefore, **we would prefer to trade swaption volatility from the long side in intermediate expiries and tails, hedged for the directional exposure with rates**. **We also do not recommend fading the apparent richness of receiver skews - although they appear rich relative to vol-rate correlations** (which have been the dominant driver of skews in recent years)**, they are now a reflection of a tariff risk premium that appears unlikely to dissipate quickly**. In this vein, **we recommend switching longs from 5Yx5Y sector to 2Yx10Y sector, paired with a risk-weighted receive-fix swap to hedge directional exposure with rates** (see Trade recommendations).

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Trading Recommendations

- **Initiate 3M forward 3s/10s flatteners paired with 75% of the risk in 1Y fwd 1s/7s steepeners**
  Tariffs have raised exogenous risks around the inflation outlook, making it prudent to asses the influence of inflation expectations on swap yield curve trades. One way to mitigate exposure to inflation risk is to pair flatteners, with a weighted amount of steepeners to neutral exposure to inflation. The 75% risk weighting of the 1Y fwd 1s/7s steepener leg in this trade helps to neutralize most of the inflation exposure as well as exposure to Fed expectations, helping to isolate relative value. Indeed, the weighted spread corresponding to this trade has been fairly mean reverting, and appears near the steepest levels in the past year, in addition to offering favorable mispricing of about ~3bp from our fair value model framework.
  -Pay-fixed in $284.3mn notional of a 06/28/25x3Y SOFR swap at a yield of 3.60% (PVBP: $288.8/bp per mn notional). Receive-fixed in $100mn notional of a 06/28/25x10Y SOFR swap at a yield of 3.789% (PVBP: $821.0/bp per mn notional).
  -Receive-fixed in $636.4mn notional of a 03/28/26x1Y SOFR swap at a yield of 3.48% (PVBP: $96.8/bp per mn notional). Pay-fixed in $104.8mn notional of a 03/28/26x7Y SOFR swap at a yield of 3.712% (PVBP: $587.4/bp per mn notional).
  -This trade uses risk weights of -1.0/1.0/0.75/-0.75 on the 3Mx3Y/3Mx10Y/1Yx1Y/1Yx7Y swaps respectively. This trade is being initiated at a yield spread of -1.5bp.
- **Buy the belly of a U5/Z5/H6 3M SOFR futures butterfly (-0.45:1:-0.60 risk weighted)**
  We continue to favor carry and relative value trades on the curve, premised that the Fed is likely to stay on hold in the near term. The weighted spread corresponding to this SOFR futures butterfly has been fairly mean reverting and currently sitting near its cheapest levels of the past year. In addition, it offers modest carry of about 1bp.
  -Sell 450 SFRU5 contracts at 96.195. Buy 1000 SFRZ5 contracts at 96.38. Sell 600 SFRH6 contracts at 96.495.
- **Initiate 2Yx10Y swaption straddle longs, paired with a receive fixed swap overlay to hedge directional exposure with rates**
  The outlook for volatility in the Rates markets is likely to depend on tariff-related risks as a significant exogenous component and we use our tariff related risk metric (detailed in Figure 11) to quantify the impacts. Given that tariff risks are unlikely to fade in the near term, we prefer to trade swaption vol from the long side in intermediate expiries and tails, hedged for rates, given that the impact to such structures are most prevalent to tariff related risks.
  -Buy $100mn notional 2Yx10Y ATMF swaption straddles. (Notification date: 2027-03-29, swap tenor: 10Y, ATMF: 3.881%, strike: 3.881%, spot premium: 852.8bp per notional, forward premium: 918.2bp per notional, bpvol at inception: 6.24bp/day).
  -Receive-fixed in $5.4mn notional of a 03/28/27x10Y SOFR swap at a yield of 3.878% (PVBP: $765.0/bp per mn notional).
  -Swap notional is calculated assuming a beta of 0.3bp/day per 100bp move in the forward. This trade assumes active delta hedging every business day on the option leg.
- **Unwind longs in 5Yx5Y swaption straddles, paired with a receive fixed swap to hedge directional exposure**
  We maintain our long vol bias on the back of continued tariff uncertainty, and continue to favor hedging directional exposure with rates, but we now prefer expressing this view in the 2Yx10Y sector and recommend unwinding this trade at a profit of 0.8abp. For

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original trade write up, see Fixed Income Markets Weekly 2025-03-21.

- **Unwind longs in A+100bp payer swaptions versus shorts in A-100bp receiver swaptions, delta-hedged daily, to position for a correction in skew**
  Although receiver skew looks rich by traditional metrics, we now think it is a reflection of tariff risk premium, and no longer recommend fading it. We recommend unwinding this trade at a loss of 1.7abp. For original trade write up, see Fixed Income Markets Weekly 2025-03-21.
- **Unwind 3M fwd 10s/30s flatteners paired with a 15% risk weighted in long in 3Mx2Y swaps**
  This trade has underperformed our expectations and we stop out at a loss of 7.8bp. For original trade write up, see Fixed Income Markets Weekly 2025-02-28.
- **Unwind 2s/20s maturity matched swap spread curve flatteners**
  We recommend unwinding outright narrowing and swap spread curve flattening exposure as term funding premium appears near our 1H25 forecasts, and because the widening following the bouts of de-regulatory optimism in February has mostly retraced. We recommend unwinding this trade at a modest profit of 0.3bp. For original trade write up, see Fixed Income Markets Weekly 2025-02-28.
- **Unwind 7s/10s maturity matched swap spread flatteners**
  For similar reasons as above, we recommend unwinding this trade at a profit of 1.9bp. For original trade write up, see Fixed Income Markets Weekly 2025-02-21.
- **Unwind 5Y maturity matched swap spread narrowers**
  For similar reasons as above, we recommend unwinding this trade at a loss of 2.8bp. For original trade write up, see Fixed Income Markets Weekly 2025-01-31.
- **Unwind 2s/5s maturity matched swap spread flatteners**
  For similar reasons as above, we recommend unwinding this trade at a loss of 1.6bp. For original trade write up, see Fixed Income Markets Weekly 2025-01-31.
- **Unwind longs in 1.625% Aug ‘29 maturity matched swap spreads versus shorts in 3.125% Aug ’29 maturity matched swap spreads**
  This trade has underperformed expectations, and we recommend unwinding at a loss of 2.9bp. For original trade write up, see Fixed Income Markets Weekly 2025-01-31.
- **Maintain 5M fwd 2s/5s conditional bull steepeners**
  P/L on this trade is currently 1.1bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-21.
- **Maintain 3Yx2Y / 2Yx15Y flatteners, paired with 40% risk in a 6Mx3M / 1Yx1Y flattener**
  P/L on this trade is currently -0.9bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-21.
- **Maintain 3Y maturity matched swap spread wideners using the Jan ‘28 issue**
  P/L on this trade is currently -1.1bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-21.
- **Stay long 3% May 2042 maturity matched swap spreads versus short 1.75% Aug 2041 maturity matched swap spreads**
  P/L on this trade is currently -0.1bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-21.
- **Maintain 1s/7s/30s (0.6 :-1:0.6 weighted) conditional belly cheapening butterfly in a selloff to position for a conditional rise in term premium**
  P/L on this trade is currently -1.9bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-14.

- **Stay short 6Mx10Y straddles versus a vega neutral amount of 6Mx30Y straddles**
  P/L on this trade is currently -0.3abp. For original trade write up, see Fixed Income Markets Weekly 2025-03-14.
- **Continue to pay in the belly of a 1Y forward 3s/7s/30s swap yield curve butterfly (0.5:-1.0:0.5 weighted)**
  P/L on this trade is currently -2.1bp. For original trade write up, see Fixed Income Markets Weekly 2025-03-07.
- **Stay long 1Y forward 1Yx2Y volatility versus 1Y forward 1Yx10Y volatility by synthetically constructed via vega-weighted vanilla swaptions**
  P/L on this trade is currently -0.4abp. For original trade write up, see Fixed Income Markets Weekly 2025-03-07.
- **Stay long 1Y forward 1Yx10Y forward volatility, synthetically constructed via 50% vega-weighted shorts in 1Yx10Y and longs 2Yx10Y swaption straddles**
  P/L on this trade is currently 0.1abp. For original trade write up, see Fixed Income Markets Weekly 2025-02-28.
- **Continue to overweight 6Mx5Y swaption straddles versus a vega-neutral amount of 6Mx7Y swaption straddles**
  P/L on this trade is currently -0.1abp. For original trade write up, see Fixed Income Markets Weekly 2025-02-21.
- **Maintain 3s/10s/20s (0.525:-1.0:0.525 weighted) conditional belly cheapening butterfly in a selloff to conditionally position for a rise in term premium**
  P/L on this trade is currently 0.5bp. For original trade write up, see Fixed Income Markets Weekly 2025-01-31.
- **Maintain 2s/7s/30s (0.50:-1.0:0.65 weighted) belly cheapening butterfly in a selloff to conditionally position for a rise in term premium**
  P/L on this trade is currently -0.8bp. For original trade write up, see Fixed Income Markets Weekly 2025-01-24.

Closed trades over the past 12 months

P/L reported in bp of yield for swap spread, yield curve and misc. trades, and in annualized bp of volatility for option trades, unless otherwise specified

Note: trades reflect Thursday COB levels, and unwinds reflect Friday COB levels

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Trade	Entry	Exit	P/L
Spreads and basis			
Pay-fixed in 1.875% Jul '26 maturity matched swap spreads	3/22/2024	4/5/2024	3.4
Initiate 20s/30s 1.33:1 wtd maturity matched spread curve steepeners hedged with a 30% risk weighted 20s/30s steepener, but use an equi-notional blend of the Nov 53s and Aug 53s to create a synthetic approximate par bond in the 30Y leg	2/23/2024	4/12/2024	(2.5)
Initiate 30Y swap spread wideners	3/15/2024	4/12/2024	(0.1)
Pay in 4% Jan '27 maturity matched swap spreads	4/5/2024	4/26/2024	2.2
Initiate 10Y swap spread wideners using the Nov '33 issue	3/8/2024	5/17/2024	0.9
Initiate exposure to a steeper 7s/10s 1:0.75 weighted swap spread curve, and we recommend implementing the 7Y narrower leg with TYM4 invoice spreads	5/10/2024	5/28/2024	0.3
Initiate 1:0.9 risk weighted 20s/30s maturity matched swap spread curve steepeners	5/31/2024	6/14/2024	3.9
Initiate 5s/10s off-the-run swap spread curve steepeners (100:60 weighted)	3/8/2024	7/12/2024	(4.7)
Initiate 7s/10s swap spread curve steepeners paired with 25% risk in a 7s/10s UST curve steepener	3/22/2024	7/12/2024	(0.2)
Pay in Feb 2037 maturity matched swap spreads versus receiving in USU4 invoice spreads	6/14/2024	7/12/2024	0.8
Buy Feb 37s versus selling USU4 Futures	6/14/2024	7/12/2024	2.7
Pay-fixed in 1.875 Feb 2027 maturity matched swap spreads	4/26/2024	7/26/2024	(5.9)
Initiate 5s/30s spread curve flatteners	5/3/2024	7/26/2024	5.1
Pay-fixed in 4% Feb 2034 maturity matched swap spreads	5/17/2024	7/26/2024	(6.7)
Initiate 10s/30s swap spread curve flatteners	7/26/2024	8/2/2024	(0.8)
Initiate TU/TY invoice spread curve flatteners (1:0.35 weighted)	6/7/2024	8/23/2024	(6.3)
Pay-fixed in 4.625% Feb '26 maturity matched swap spreads	5/31/2024	9/6/2024	0.3
Pay-fixed in 4.375% Aug '28 maturity matched swap spreads	5/31/2024	9/6/2024	(1.8)
Initiate 10Y swap spread narrowers	8/16/2024	9/6/2024	2.5
Initiate 3s/7s swap spread curve flatteners	8/16/2024	9/6/2024	1.4
Initiate 0.875% June 2026 / 0.875% September 2026 swap spread curve flatteners	8/16/2024	9/6/2024	1.3
Initiate 5s/30s swap spread curve flatteners	8/23/2024	9/6/2024	(0.3)
Initiate 7s/20s weighted swap spread curve steepeners	8/23/2024	9/20/2024	3.8
Initiate 100:80 weighted 20s/30s maturity matched swap spread curve flatteners	9/6/2024	9/20/2024	2.3
Initiate 7s/10s maturity matched swap spread curve steepeners	9/27/2024	10/4/2024	0.0
Initiate 1:0.75 risk weighted 7s/10s maturity matched swap spread curve steepeners	5/31/2024	10/18/2024	0.8
Initiate 2s/3s maturity matched swap spread curve flatteners	9/20/2024	11/1/2024	0.0
Initiate 3s/30s maturity matched swap spread curve flatteners	10/4/2024	11/1/2024	(2.1)
Initiate 2s/30s maturity matched swap spread curve flatteners	11/7/2024	11/15/2024	1.7
Initiate 5Y maturity matched swap spread narrowers	1/10/2025	1/24/2025	(2.4)
Initiate 5s/10s maturity matched swap spread curve steepeners	1/10/2025	2/7/2025	2.4
Initiate 7s/30s swap spread curve steepeners	1/24/2025	2/7/2025	2.9
Initiate 3s/20s maturity matched swap spread curve flatteners	2/7/2025	2/21/2025	4.5
Initiate FVH5 invoice spread narrowers in the 5Y sector by selling FVH5 versus receiving fixed in a forward starting swap	1/31/2025	2/28/2025	(3.0)
Initiate 3s/20s maturity matched swap spread curve flatteners	2/7/2025	2/28/2025	6.6
Initiate 5s/7s maturity matched swap spread flatteners	2/21/2025	2/28/2025	0.8
Sell 4% Feb 2030 maturity matched swap spreads versus 1.5% Feb 2030 spreads	3/7/2025	3/21/2025	2.4
Receive in 1.625% Aug '29 maturity matched swap spreads versus paying in 3.125% Aug '29 maturity matched swap spreads	1/31/2025	3/28/2025	(2.9)
Initiate 5Y maturity matched swap spread narrowers	1/31/2025	3/28/2025	(2.8)
Initiate 2s/5s maturity matched swap spread curve flatteners	1/31/2025	3/28/2025	(1.6)
Initiate 7s/10s maturity matched swap spread flatteners	2/21/2025	3/28/2025	1.9
Initiate 2s/20s maturity matched swap spread curve flatteners	2/28/2025	3/28/2025	0.3

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Duration and curve	Entry	Exit	P/L
Initiate 3M forward 3s/20s swap curve steepeners, paired with 85% of the risk in a SFRM5 / 3Mx10Y curve flattener	03/08/24	04/05/24	3.2
Initiate 2Y forward 2s/5s swap curve steepeners paired with 40% risk in 3M forward 2s/5s flatteners	01/26/24	04/12/24	(11.4)
Initiate conditional exposure to a flatter 2s/5s swap yield curve in a selloff using 3M expiry payer swaptions	03/22/24	04/12/24	5.2
Initiate conditional exposure to a flatter 18M/5Y swap yield curve in a selloff using 6M expiry payer swaptions	04/05/24	04/12/24	3.1
Initiate conditional exposure to a flatter 1s/5s swap yield curve in a selloff using 3M expiry payer swaptions	02/23/24	04/26/24	(9.4)
Initiate 1Y forward 2s/5s swap curve flatteners, paired with weighted longs in H5 and H6 3M SOFR futures (20% and 10% respectively)	03/22/24	04/26/24	(9.5)
Initiate SFRM5 / 3Mx5Y flattener, hedged with a 20% risk weighted long in Reds	04/05/24	04/26/24	(5.0)
Initiate 5th/9th SOFR futures curve flatteners hedged with a risk weighted amount 2Y forward 2s/5s swap curve steepeners	04/12/24	05/03/24	3.0
Receive in the belly of a 0.625/1.0/0.375 weighted 3M forward 2s/7s/20s swap butterfly, with an additional 15% risk weighted long in June 2024 3M SOFR futures	02/23/24	05/17/24	2.7
Initiate 3M forward 2s/3s swap curve flatteners hedged with a 14% risk weighted long in the M4 3M SOFR futures	02/23/24	05/17/24	0.4
Initiate 3M forward 5s/15s swap curve flatteners paired with 70% risk in a 2Y forward 2s/20s swap curve steepener	03/22/24	05/17/24	2.8
Buy the belly of a 2s/5s/15s weighted swap butterfly (50:50 weighted)	04/12/24	05/17/24	2.4
Initiate 3M forward 1s/3s swap curve flatteners, hedged with a 65% risk weighted long in the 3Mx3M sector and a 25% risk weighted short in the 15Mx3M sector	05/03/24	05/17/24	2.1
Buy the belly of a U5/M6/H7 SOFR Futures butterfly (-0.37:1:-0.63 risk weighted)	03/01/24	05/31/24	(0.7)
Initiate a Greens/Blues steepener paired with 55% of the risk in a SFRM5 / 3Mx5Y swap curve flattener	03/15/24	05/31/24	2.2
Buy the belly of a Z5/U6/H7 3M SOFR futures butterfly (-0.33:1.0:-0.67 risk weighted)	04/19/24	05/31/24	1.8
Initiate 12Mx3M / 3Mx10Y flatteners, paired with 33% risk in a 3Mx2Y receive fixed swap	05/17/24	06/06/24	5.7
Initiate 3M fwd 3s/15s flatteners paired with 85% risk in 2Y fwd 3s/30s steepeners	05/17/24	06/06/24	4.5
Initiate 3Mx1Y / 2Yx1Y forward swap curve flatteners as a bullish proxy	05/31/24	06/06/24	11.5
Initiate 3Mx1Y / 2Yx1Y swap curve flatteners paired with 45% risk-weighted pay-fixed positions in 3Mx5Y swaps	05/31/24	06/06/24	0.0
Initiate conditional exposure to a flatter 1s/2s swap yield curve in a rally using 1Y expiry receiver swaptions	04/05/24	06/14/24	4.0
Initiate Z5/U6 SOFR futures flatteners paired with H6/Z6 SOFR futures steepeners (0.85:1 risk weighted)	03/01/24	07/12/24	1.8
Initiate conditional exposure to a steeper 10s/20s swap yield curve in a selloff using 9M expiry payer swaptions	03/15/24	07/12/24	4.0
Initiate 3M forward 10s/15s swap curve steepeners paired with 25% risk in 3M forward 3s/7s flatteners	04/26/24	07/12/24	3.5
Initiate 3M forward 10s/30s steepeners (1:1.5 risk weighted) paired with M5/Z5 3M SOFR futures flatteners	06/07/24	07/12/24	2.9
Initiate 15Mx3M / 1YX1Y forward swap curve flatteners, paired with 20% of the risk in a long in 18Mx3M and a 24% risk weighted short in 3Mx5Y forward swaps	05/03/24	08/02/24	(1.3)
Receive in 3Mx3Y and 3Mx5Y swaps versus paying in 3Yx1Y and 12Mx3M swaps	06/14/24	08/02/24	(8.8)
Initiate a synthetic 6M forward 2s/10s swap curve steepener, constructed by replacing the 2Y leg with a 6Mx3M / 18Mx3M flattener	07/12/24	08/02/24	(28.9)
Initiate a synthetic 3M forward 5s/30s swap curve steepener, constructed by replacing the 5Y leg with a 3Mx3M / 3Mx2Y flattener	07/26/24	08/02/24	(18.1)
Initiate conditional exposure to a flatter 1s/2s swap yield curve in a rally using 6M expiry receiver swaptions	07/26/24	08/02/24	(8.8)
Initiate conditional exposure to a flatter 1s/7s swap yield curve in a selloff using 6M expiry payer swaptions	07/12/24	10/04/24	(6.6)
Initiate conditional exposure to a flatter 1s/3s swap yield curve in a selloff using 3M expiry payer swaptions	09/13/24	10/04/24	0.4
Initiate Greens / 3Mx15Y flatteners (0.9:1.0 weighted)	09/20/24	10/04/24	6.1
Initiate conditional exposure to a flatter 1s/5s swap yield curve (100:102 weighted) in a selloff using 3M expiry payer swaptions	09/20/24	10/04/24	11.0
Initiate conditional exposure to a steeper 2s/10s curve in a rally using 3M expiry receiver swaptions, financed by selling 24% risk-weighted receiver swaptions on 7-year tails	09/13/24	12/13/24	(0.9)
Initiate 2Y forward 5s/30s swap yield curve steepeners, paired with a 25% risk weighted short in 3Mx7Y swaps	11/15/24	12/13/24	1.0
Initiate 1s/10s conditional bear flatteners using 3M expiry payer swaptions	12/13/24	01/10/25	(14.9)
Initiate 10s/30s swap curve steepeners paired with a 16% weighted shorts in 2s	12/13/24	01/10/25	0.8
Initiate 10s/30s conditional bull steepeners financed by selling 9% of the risk in 6Mx2Y receiver swaptions	12/20/24	01/10/25	0.7
Buy the belly of a 6M forward 5s/10s/30s swap yield curve butterfly (-0.5:1.0:-0.5 weighted)	12/20/24	02/07/25	0.6
Initiate 2Y forward 5s10s curve flatteners paired with a 10% short in SOFR H5 futures and a 20% long in SOFR H6 futures	01/10/25	02/07/25	(0.2)
Initiate 3Y forward 1s/5s swap curve steepeners paired with 110% of the risk in 2Y forward 1s/3s swap curve flatteners	01/10/25	02/07/25	2.6
Initiate 3M fwd 2s/7s/15s belly cheapening flies (45:45 weighted on the wings)	02/28/25	03/07/25	3.7
Initiate TUM5/TYM5/USM5 belly cheapening flies (45:45 weighted on the wings)	02/28/25	03/07/25	4.8/32
Receive in Blues and 5s (70% and 40% risk weights respectively) versus paying in Greens	02/07/25	03/14/25	(4.4)
Pay fixed in 2Yx1Y swaps vs receiving in 2Yx3Y and 6Mx10Y swaps (40:80 weighted)	02/07/25	03/14/25	(6.7)
Initiate 78:100 risk weighted 3Y forward 2s/15s swap curve flatteners	02/21/25	03/14/25	(6.9)
Receive fixed in 6Mx15Y forward swaps, versus paying in a 30:55 risk weighted blend of 3Mx5Y and 3Yx2Y forward starting swaps	02/21/25	03/14/25	(4.8)
Initiate 9Mx3M / 15Mx3M swap curve flatteners paired with 2Yx2Y / 3Mx10Y swap curve flatteners	03/07/25	03/21/25	1.1
Initiate 3M fwd 10s/30s flatteners paired with a 15% risk weighted in long in 3Mx2Y swaps	02/28/25	03/28/25	(7.8)

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Options	Entry	Exit	P/L
Overweight 6Mx2Y swaption straddles versus a theta-neutral amount of 6Mx5Y swaption straddles	01/19/24	04/12/24	(8.8)
Sell 2Yx30Y swaption volatility versus buying 50% of the vega risk in 2Yx2Y swaption volatility , and pay fixed in 2Yx 10Y swaps to neutralize the bullish bias in this trade	02/23/24	04/12/24	1.5
Buy 6Mx10Y volatility versus 6M forward 6Mx10Y volatility, synthetically constructed via suitably weighted 1Yx10Y and 6Mx10Y swaptions	04/05/24	04/12/24	3.2
Buy 2Yx5Y swaption straddles on a delta hedged basis	04/12/24	04/19/24	1.0
Sell 6Mx10Y straddles on a delta hedged basis	04/26/24	05/03/24	3.1
Sell 6Mx15Y straddles on a delta hedged basis	05/03/24	05/10/24	(1.6)
Sell 1Yx2Y volatility versus buying a theta neutral amount of 1Yx5Y volatility	05/17/24	06/06/24	0.6
Initiate Fronts/Green curve flatteners, paired with delta hedged long volatility positions in the 1Yx10Y swaption sector	05/31/24	06/06/24	5.6
Initiate exposure to long curve volatility by buying 6Mx2Y and 6Mx10Y straddles (41:60 vega weighted) versus selling 6Mx5Y straddles	12/08/23	06/07/24	1.1
Buy 2Yx5Y swaption straddles on a delta hedged basis, versus 6Mx1Y / 18Mx1Y flatteners	06/07/24	06/14/24	3.6
Initiate outright shorts in 3Yx30Y swaption implied volatility, but delta hedge monthly or if rates move by over 25bp in either direction since the last delta hedge	03/08/24	07/12/24	(5.0)
Buy 1Yx30Y volatility versus 1Y forward 1Yx30Y volatility, synthetically constructed via suitably weighted 2Yx30Y and 1Yx30Y swaptions	03/15/24	07/12/24	(2.5)
Buy 65% risk weighted 1Yx10Y swaption volatility versus selling 1Y forward 2Yx10Y swaption volatility, synthetically constructed via suitably weighted 1Yx10Y and 3Yx10Y swaptions	04/12/24	07/12/24	(4.4)
Sell 6Mx10Y swaption straddles on a delta hedged basis, paired with a short position in Greens	06/14/24	07/12/24	2.2
Buy 1Yx5Y straddles versus selling vega-neutral amount of 5Yx5Y straddles	07/12/24	08/02/24	4.7
Buy A+100 1Yx5Y payer swaptions and sell A-100 1Yx5Y receiver swaptions, delta-hedged daily, to position for a correction in skew	04/19/24	08/23/24	(8.5)
Buy 6Mx5Y swaption straddles versus selling 150% of the vega risk in 6Mx30Y straddles	07/12/24	09/13/24	2.2
Initiate longs in 6Mx5Y swaption implied volatility on an outright basis, delta hedged daily	08/02/24	09/13/24	(8.5)
Overweight 6Mx5Y and 6Mx30Y swaption volatility (vega weights of 0.32 and 0.76, respectively) versus selling 6Mx10Y swaption volatility	04/05/24	10/04/24	(1.2)
Buy 3Yx3Y versus selling 10Yx10Y swaption straddles	09/06/24	10/04/24	(5.6)
Buy 1Yx10Y swaption straddles on a delta hedged basis coupled with a weighted long in S&P 500 futures	09/13/24	10/04/24	1.2
Overweight 1Yx10Y straddles versus a gamma-neutral amount of 1Yx15Y straddles	05/03/24	10/18/24	(2.1)
Buy 1Yx3Y versus selling 105% of the vega risk in 1Yx10Y swaption straddles	09/20/24	10/18/24	(0.2)
Sell 6Mx10Y straddles versus buying 130% of the vega weight in 6Mx30Y straddles	09/27/24	10/18/24	(0.3)
Buy 6Mx2Y swaption volatility versus selling a carry-neutral amount of 6Mx5Y swaption volatility	09/27/24	10/18/24	0.7
Sell 6Mx10Y straddles on a delta-hedged basis	10/04/24	10/18/24	(1.5)
Buy 6Mx2Y straddles on a delta-hedged basis	10/04/24	11/01/24	2.5
Buy 3Mx10Y straddles on a delta-hedged basis	11/01/24	11/15/24	(13.8)
Buy 65% risk weighted 1Yx10Y swaption volatility versus selling 1Y forward 2Yx10Y swaption volatility, synthetically constructed via suitably weighted 1Yx10Y and 3Yx10Y swaptions	10/18/24	01/10/25	(4.8)
Sell 1Yx5Y swaption straddles versus buying a theta-neutral amount of 1Yx30Y swaption straddles	12/13/24	01/10/25	(1.5)
Initiate longs in 1Yx5Y swaption straddles	01/10/25	01/31/25	(5.8)
Buy 1Yx10Y swaption straddles paired with a receive-fixed swap overlay to hedge against a decrease in implieds due to lower yields	01/24/25	01/31/25	(2.9)
Sell 3Mx5Y swaption straddles, delta-hedged bi-weekly	02/07/25	02/21/25	12.0
Overweight 1Yx5Y straddles versus a gamma-neutral amount of 1Yx10Y straddles	01/10/25	03/07/25	0.2
Buy 1Yx10Y straddles versus 10Yx10Y straddles, hedged with a 65% vega weighted short in 2Yx2Y swaption straddles, and add a short duration overlay by paying a suitable amount in 2Yx2Y forward swaps	01/24/25	03/07/25	0.0
Buy 1Yx30Y straddles versus selling a vega-neutral amount of 2Yx30Y straddles	02/07/25	03/07/25	0.6
Initiate longs in 3Yx10Y swaption straddles, paired with a receive-fixed swap to hedge directional exposure	02/21/25	03/14/25	1.1
Initiate longs in 5Yx5Y swaption straddles, paired with a receive fixed swap to hedge directional exposure	03/21/25	03/28/25	0.8
Buy A+100bp payer swaptions and sell A-100bp receiver swaptions, delta-hedged daily, to position for a correction in skew	03/21/25	03/28/25	(1.7)
Treasury Futures	**Entry**	**Exit**	**P/L**
Sell the 4.75% Nov 2053 WNM4 basis, versus buying payer swaptions	3/8/2024	4/12/2024	1.0
Initiate calendar spread wideners in US Futures	5/17/2024	5/28/2024	(3.0)
Initiate calendar spread narrowers in UXY Futures	5/17/2024	5/28/2024	0.4
Initiate calendar spread narrowers in FV futures	5/17/2024	5/28/2024	1.0
Initiate calendar spread wideners in US Futures	8/16/2024	8/23/2024	(0.8)
Initiate calendar spread narrowers in FV Futures	8/16/2024	8/23/2024	(0.1)
Buy the USZ4 factor-weighted CTD basis	9/13/2024	9/20/2024	2.4
Buy the WNZ4 factor-weighted CTD basis	9/13/2024	9/20/2024	1.0
Initiate calendar spread narrowers in FV futures	11/15/2024	11/25/2024	0.0
Initiate calendar spread wideners in US futures	11/15/2024	11/25/2024	0.0
Buy the FVH5 factor weighted CTD basis with repo termed out to 3/3/2025	11/15/2024	12/13/2024	2.8
Buy the USH5 factor weighted CTD basis with repo termed out to 3/3/2025	11/15/2024	1/10/2025	0.7
Total number of trades			**143**
Number of winners			**86**
Hit rate			**60%**

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Recent Weeklies	
21-Mar-25	Better late than never
14-Mar-25	Loonie Tunes
07-Mar-25	Schrodinger's Tariffs
28-Feb-25	Extraterrestrial Inflation
21-Feb-25	Extraterrestrial Tail Risk
07-Feb-25	And the MVP goes to ...
31-Jan-25	DeepFreeze
24-Jan-25	DISP-play time
10-Jan-25	Strong Jobs Report, Mike Drop
20-Dec-24	It's beginning to look a lot like a pause
13-Dec-24	Twelve voters voting
15-Nov-24	It's an easing cycle, not an easy cycle
08-Nov-24	Elephant spirits
01-Nov-24	Purple rain
25-Oct-24	Déjà vu awaits in funding markets
18-Oct-24	Counting down to November
04-Oct-24	Strong data, tighter liquidity conditions and rising geopolitical risk
27-Sep-24	Waiting Game
20-Sep-24	From Dovish Pause to Hawkish Easing
13-Sep-24	Schrodinger's Cut
06-Sep-24	Rates, unlike the economy, are not yet in "equipoise"
23-Aug-24	False Fall
16-Aug-24	Hopscotch
2-Aug-24	Powell sees the data, markets see one data point
26-Jul-24	Joie de Louvre
12-Jul-24	The Evitable Conflict
14-Jun-24	Pardon my French
07-Jun-24	The BOC and ECB begin a game of BOCCE-Ball, likely without the Fed for now
31-May-24	The planets, if not the stars, are aligning
17-May-24	Another brick in the vol
10-May-24	The election enters the hearts and minds of options traders
3-May-24	R2-P2
26-Apr-24	Perfectly priced to patience
19-Apr-24	Should I stay or should I go?
12-Apr-24	A hairpin bend on the road to easing
5-Apr-24	Shaken, not stirred

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Outlooks	
26-Nov-24	Interest Rate Derivatives 2025 Outlook: Nobody said it was easy
28-Jun-24	Interest Rate Derivatives 2024 Mid-Year Outlook: Waiting for someone or something to show you the way
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08-Nov-24	US bond futures rollover outlook: December 2024 / March 2025
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10-Jul-24	Trading Principal Factor Volatility
15-May-24	US bond futures rollover outlook: June 2024 / September 2024
29-Apr-24	Term Funding Premium and the Term Structure of SOFR Swap Spreads

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Japan

Strap In

- **The JGB and JPY swap curves twist-flattened this week as the 40-year JGB auction on Thursday was remarkably strong. We review this week's BoJ's communication, recent political/fiscal developments, and trends in the regional banking sector.**
- **On OIS pricing, attention will be centered on the anticipated announcement of US reciprocal tariffs, scheduled for Wednesday. For Japan, the framework employed by the US to determine tariffs for each country will be crucial, in our view. If a country's FX policy is factored into this framework, it could have an asymmetrical impact on Japan. Additionally, if the reciprocal tariffs turn out to be less stringent than anticipated, it could eliminate a major barrier, potentially paving the way for the BoJ to make policy adjustments sooner than expected. Our economics team believes that the BoJ has not ruled out the possibility of a rate hike in May.**
- **On duration, with a significant tariff event on the horizon, the beta of JPY rates to overseas rates is expected to be a key factor in the near term. We anticipate that there will continue to be asymmetrical responses to cross-market developments, largely due to the decoupling of monetary policy between Japan and other DMs.**
- **As the new fiscal year begins next week in Japan, there is some interest among clients on whether domestics would return to the market as buyers. In our view, domestic investor activity is likely to start slowly. In contrast, the MoF's weekly transactions data indicate that non-residents have shown strong demand for domestic bonds lately. The exact drivers behind this robust foreign demand remain unclear, but given recent market developments, we do not believe the net buying is primarily due to new long positions or short covering.**
- **Regarding the curve, we think that the long end of the JGB curve is beginning to appear flat again. However, given many event risks in the coming days and the lack of strong consensus around each of them, we prefer to hold off on adding a steepener for the time being.**
- **If the announcement of US reciprocal tariffs triggers a global risk-off move, we anticipate a higher likelihood of outperformance in the belly as the market is likely to lower its terminal rate expectations and adjust term premium pricing. GPIF is set to announce its new target portfolio. The announcement of the Rinban plan for April to June could be a market-mover, with a bias towards a steepening risk.**
- **On spreads, as we transition into FY2025, there may be an uptick in demand from domestics. However, while major buyers of spreads, such as regional and agricultural financial institutions, have been building positions in the super-long sector, the recent spread cheapening suggests a potential shift in demand towards the long-term sector.**

Market view

The JGB and JPY swap curves twist-flattened this week (Figure 78). The liquidity-enhancement auction (5-15.5Y) on Tuesday fell short of market expectations. Conversely, the 40-year JGB auction on Thursday was remarkably strong, though this robustness did not seem to be fueled by end-user demand, in our view.

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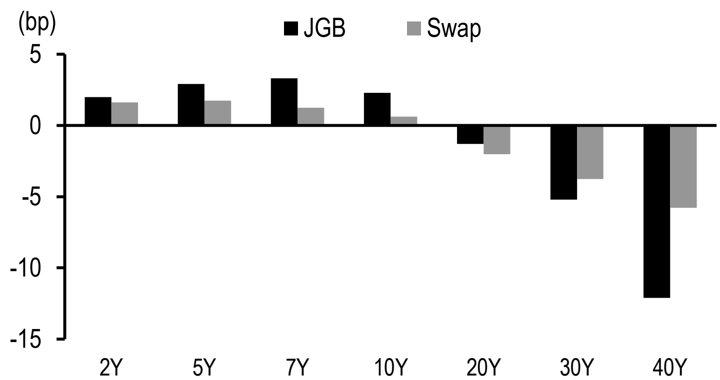
Figure 78: JGB and JPY swap curves twist-flattened this week

Change in yields between March 21 and 28 (bp)

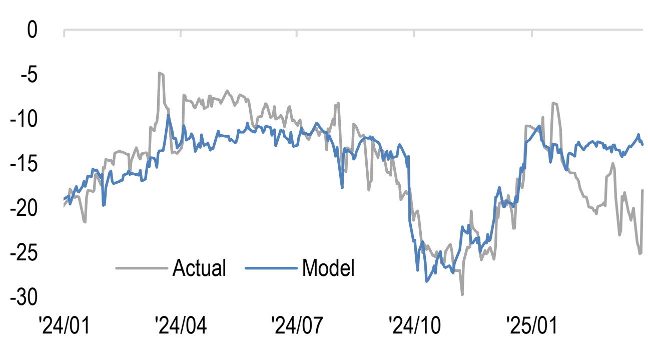


Source: J.P. Morgan.

At the front end, the 3-month T-bill auction on Friday was weak, and within our analytical framework, 3-month T-bills now appear closer to fair, after adjusting for their key drivers (Figure 79). The MoF's transaction data up to March 21 indicates sluggish demand from international investors, with a decline of around JPY1.9tn in their holdings (Figure 80). There seems to be some substitution between T-bills and net repo exposures (i.e., bids minus offers) among foreigners. Indeed, the JSDA repo data for February shows an increase in net repo exposures by around JPY5tn month-over-month. This trend is not surprising, given that T-bills generally trade at a premium compared to GC. In this context, we believe that price-inelastic demand has contributed to the recent richening trend of T-bills. This does not align well with Money Reserve Funds' (MRFs) investment behavior. As a result, similar to last month, in our view, there has likely been robust demand from domestic banks.

Figure 79: After a weak auction on Friday, 3-month T-bills now appear closer to fair in our framework

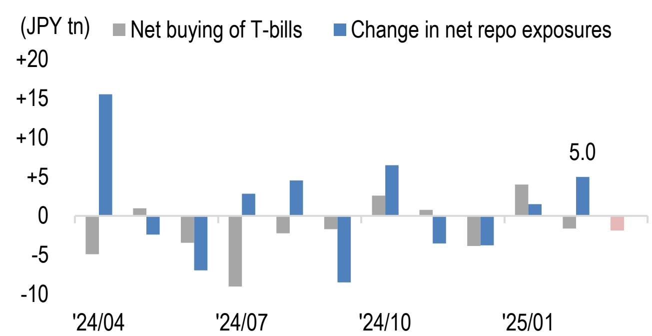
3-month T-bill ASW: Model* vs. Actual (bp)



Source: Bloomberg Finance L.P., MoF, J.P. Morgan estimates.* 3M T-bill ASW regressed on 3M USD/JPY x-ccy basis (bp), monthly T-bill net issuance (JPY tn), and 3M GC/OIS (bp); regression over the last 12 months. R-squared = 66.5%, S.E. = 3.5bp.

Figure 80: MoF's transaction data up to March 21 indicates sluggish demand from international investors

Monthly net buying of short-term bonds by foreign investors vs. MoM change in foreigners' net repo exposures (JPY tn)



Source: MoF, JSDA, J.P. Morgan. * For March, it is based on the data available to date.

Turning our attention to the BoJ, the Summary of Opinions from the March Monetary Policy Meeting (MPM) was released on Friday. Our economics team highlights that all opinions regarding prices reflect a growing confidence in achieving the 2% inflation target, with about half indicating upside risks to inflation. Indeed, the March Tokyo CPI report, released on the same day, was stronger than consensus expectations (see here).

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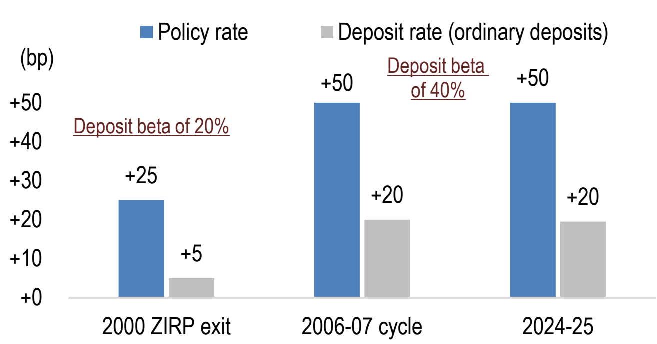
Separately, BoJ officials had multiple opportunities to engage in public communication, with Governor Ueda and Deputy Governor Uchida participating in sessions at the Diet. Additionally, newly appointed Board Member Koeda held a press conference on Wednesday evening, but her remarks were largely neutral, offering no clear insights into her perspective on the current policy settings. Of note, Governor Ueda said that if food inflation begins to spread to a wider range of items, the BoJ must consider taking action. We have been arguing that inflation expectations are likely becoming increasingly important. Therefore, the BoJ's quarterly Opinion Survey on the General Public's Views and Behavior, set to be released on April 11, should be closely monitored, as this is a key component of the principal component-based composite index of inflation expectations.

In the political sphere, on Tuesday, Chief Representative of the *Komeito* party Saito said that Prime Minister Ishiba plans to implement strong measures against rising prices. He mentioned that "the abolition of the provisional gasoline tax rate [JPY 25.1 per litter] was also discussed as one of the items." However, PM Ishiba and Chief Cabinet Secretary Hayashi clarified that the administration does not intend to introduce new budget measures. Regarding the abolition of the provisional gasoline tax rate, Chief Cabinet Secretary Hayashi stated that discussions are ongoing between political parties, and the government will refrain from commenting. It has been a long-standing issue, with the Democratic Party for the People (DPP) urging the LDP to eliminate the tax. Major media outlets have previously reported that abolishing the tax could reduce national and tax revenues by approximately JPY1.5tn annually.

In the equity sector, rates investors have been closely following developments in the regional banking sector, as highlighted in our bank equity team's notes (see here, here, and here). To take a step back, the Suga administration, in late 2020, pledged to consolidate regional banks, with former PM Suga expressing concerns that "there are too many regional banks". The BoJ introduced the Special Deposit Facility to Enhance the Resilience of the Regional Financial System in November 2020, which concluded in March 2023 (see here). Additionally, the FSA established a grant system in July 2021 to subsidize part of the costs associated with business integrations and mergers of regional financial institutions. More recently, a January 9 *Nikkei* article reported that the FSA would begin conducting interviews with regional banks starting in January to discuss their sustainable management plans in light of decreasing populations.

Figure 81: We will keep a close watch on developments in the deposit competition landscape and...

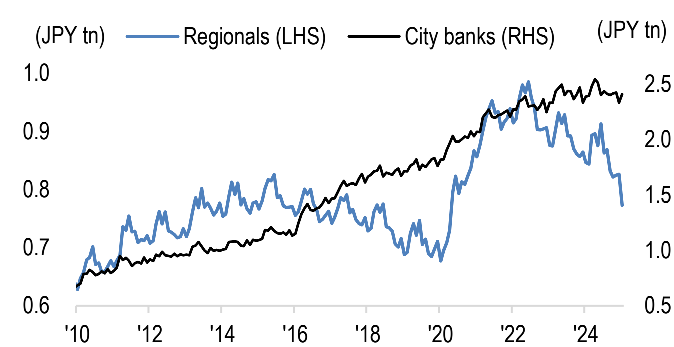
Deposit betas of ordinary deposits (bp; %)



Source: BoJ, J.P. Morgan.

Figure 82: ... trends in the loan-deposit gap within the banking sector

Gap between deposits and loans (JPY tn)



Source: BoJ, J.P. Morgan. * "Regionals" include both Regional Bank I and II.

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We do not anticipate a direct impact of potential consolidation among regional financial institutions on the Japanese fixed income markets (Figure 81). However, we will keep a close watch on developments in the deposit competition landscape and trends in the loan-deposit gap within the banking sector, as we noted before (Figure 82).

Moving on to the market implications, OIS pricing was mostly unchanged over the week, implying around a 25% probability of a May hike and a 60% probability of a hike by the June MPM (Figure 83). Medium-term policy expectations were steady this week, as indicated by 2y1y vs. 1y1y (Figure 84). Next week could be pivotal for the market's expectations of BoJ normalization journey. Attention will be centered on the anticipated announcement of US reciprocal tariffs, scheduled for Wednesday. This week has been marked by a series of headlines, including President Trump's remark on Wednesday, "I'll probably be more lenient than reciprocal, because if I was reciprocal, that would be very tough for people." While this comment has somewhat alleviated market caution, the details of the tariffs remain uncertain.

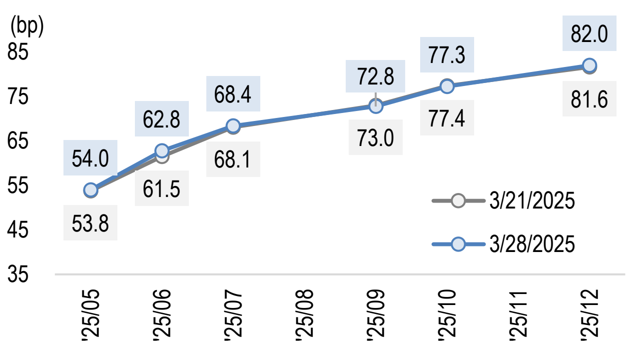
For Japan, the framework employed by the US to determine tariffs for each country will be crucial, in our view. If a country's FX policy is factored into this framework, it could have an asymmetrical impact on Japan. Additionally, if the reciprocal tariffs turn out to be less stringent than anticipated, it could eliminate a major barrier, potentially paving the way for the BoJ to make policy adjustments sooner than expected.

Our economics team believes that the BoJ has not ruled out the possibility of a rate hike in May. While they are currently maintaining their forecast for a June hike, the upcoming announcement on US tariffs could influence this timeline. If the announcement does not result in a major economic or market shock, they think that there is a reasonable possibility that the BoJ might opt to raise rates at the May MPM.

Separately, the BoJ is scheduled to release the results of the March *Tankan* survey on Tuesday. Although this survey typically garners limited attention from investors, we believe that firms' inflation expectations within the survey warrant close monitoring. Furthermore, on Thursday, the Japanese Trade Union Confederation (*Rengo*) is set to announce the third tally of the *Shunto* spring wage negotiations.

Figure 83: OIS pricing implies around a 25% probability of a May hike and a 60% probability of a hike by the June MPM

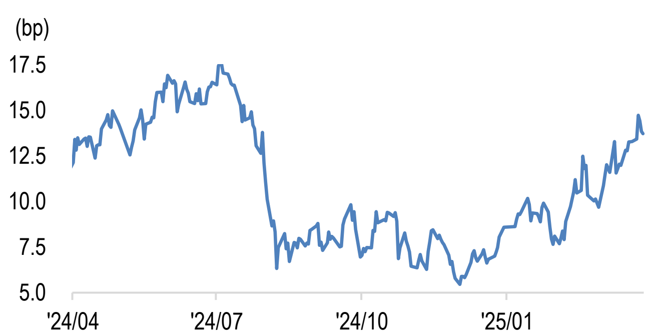
BoJ policy rate outlook based on OIS market expectations (TONAR)



Source: J.P. Morgan.

Figure 84: Medium-term policy expectations were steady this week

2y1y vs. 1y1y OIS (bp)



Source: J.P. Morgan.

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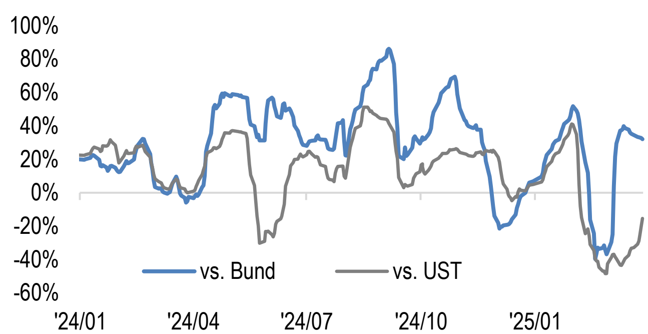
On duration, with a significant tariff event on the horizon, the beta of JPY rates to overseas rates is expected to be a key factor in the near term. We anticipate that there will continue to be asymmetrical responses to cross-market developments, largely due to the decoupling of monetary policy between Japan and other DMs (Figure 85). That said, as a risk scenario, we are cautious about a potential large shift in the market's reaction function, as investors still seem to have largely discounted concerns about the global economy.

Separately, **as the new fiscal year begins next week in Japan**, there is some interest among clients on whether domestics would return to the market as buyers. While some argue that the valuation of JPY rates appears attractive, we believe that a large portion of residuals in many fair-value frameworks reflects a rising term premium (Figure 86). **In our view, domestic investor activity is likely to start slowly**.

Figure 85: With a significant tariff event on the horizon, the beta of JPY rates to overseas rates is expected to be a key factor in the near term

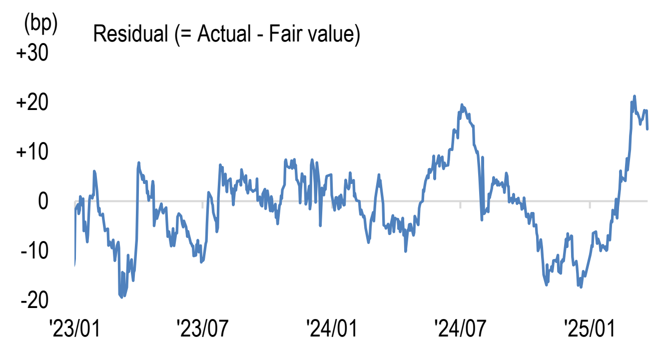
Rolling 30-day beta between 10-year JGB vs. Bund (blue) and vs. Treasury (grey) (%)



Source: J.P. Morgan.

Figure 86: While some argue that the valuation of JPY rates appears attractive, we believe that a large portion of residuals in many fair-value frameworks reflects a rising term premium

Residual of our 10-year JGB model* (bp)



Source: BoJ, MoF, Bloomberg Finance L.P., J.P. Morgan estimates. *10-year JGB yields regressed on 3Mx3M JPY OIS (%), 10-year Treasury yields (%), and BoJ share of the three most recently issued 10-year JGBs outstanding (%); regression over the last 2 years. R-squared = 91.9%, S.E. = 7.9bp.

On foreigners, the MoF's weekly transactions data indicate that non-residents have shown strong demand for domestic bonds lately, with approximately JPY2.3tn in net buying month-to-date. By analyzing the historical relationship between MoF and JSDA transactions data, we can broadly estimate foreigners' purchases in the long and super-long sectors, after adjusting for large quarterly redemptions (Figure 87). Of note, seasonality does not appear to have played a role.

The exact drivers behind this robust foreign demand remain unclear. Given recent market developments, we do not believe the net buying is primarily due to new long positions or short covering. Therefore, the delta impact has probably been limited. On the RV front, swap spreads narrowed significantly earlier this month, influenced by the German defense spending headline, which may have prompted some profit-taking or fading activity, both of which would show up as cash buying. Additionally, the net cash-future basis is negative, potentially encouraging an increase in long basis positions. According to data from the JPX, foreign investors have been net sellers of futures lately (Figure 88). However, it remains unclear whether this activity is primarily driven by CTAs or RV accounts. We will continue to monitor foreigners' activity closely.

Next week, the auction cycle will continue, with the 2-year auction scheduled for Monday, followed by the 10-year auction on Thursday. The timing of the 10-year auction presents a

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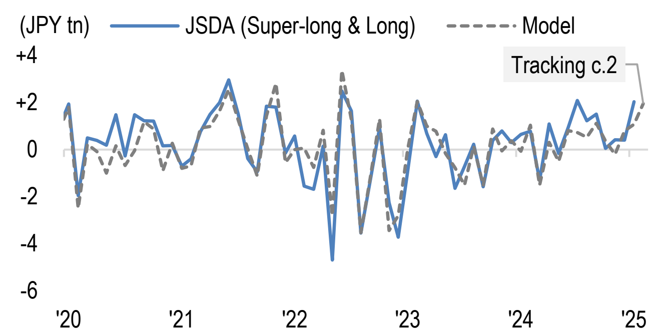
challenge, as it may not allow sufficient time for market participants to fully evaluate the implications of the US tariff announcements.

Figure 87: MoF's weekly transactions data indicate that non-residents have shown strong demand for domestic bonds lately

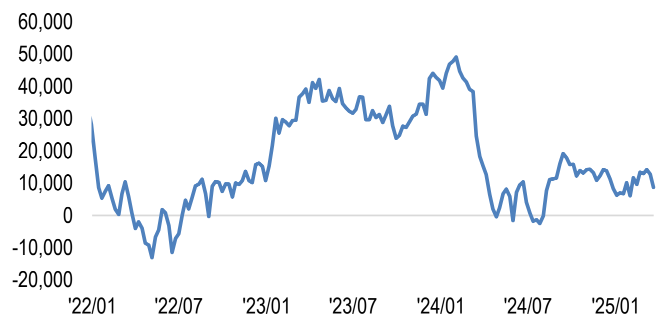
Foreigners' net buying of super-long and long-term JGBs (JPY tn; blue) vs. Foreigners' net buying implied by the MoF's data* (JPY tn; grey)



Source: MoF, JSDA, J.P. Morgan estimates. *Foreigners' net buying of super-long and long-term JGBs from the JSDA data regressed on foreigners' net buying of long-term domestic bonds from the MoF data and a dummy variable (1=quarter-end) to account for large redemptions; regression over the last 4 years. R-squared = 81.0%, S.E. = JPY 0.72tn.

Figure 88: Foreign investors have been net sellers of futures lately

J.P. Morgan estimates: Foreign investors' net position (number of contracts)

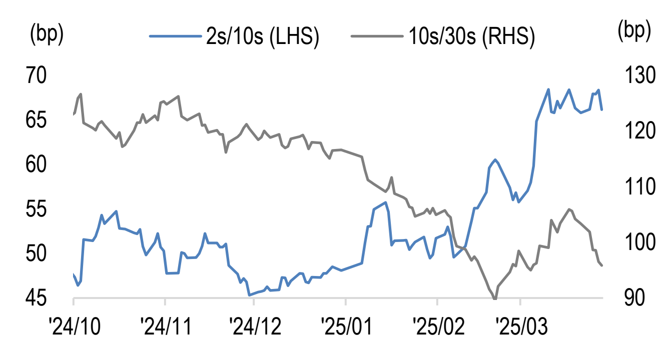


Source: JPX, J.P. Morgan estimates. * We set August 2017 as the base point.

Regarding the curve, we think that the long end of the JGB curve is beginning to appear flat again (Figure 89). However, given many event risks in the coming days and the lack of strong consensus around each of them, **we prefer to hold off on adding a steepener for the time being**.

Figure 89: We think that the long end of the JGB curve is beginning to appear flat again

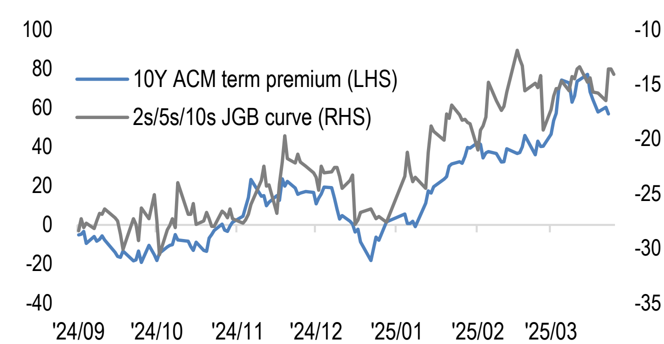
2s/10s and 10s/30s JGB curves (bp)



Source: J.P. Morgan.

Figure 90: If the announcement of US reciprocal tariffs triggers a global risk-off move, we anticipate a higher likelihood of outperformance in the belly

10-year ACM term premium (LHS) (bp) vs. 2s/5s/10s JGB curve (RHS) (bp)



Source: Bloomberg Finance L.P., J.P. Morgan.

If the announcement of US reciprocal tariffs triggers a global risk-off move, we anticipate a higher likelihood of outperformance in the belly as the market is likely to lower its terminal rate expectations and adjust term premium pricing (Figure 90). However, there is also a clear risk of bull flattening.

Second, GPIF is set to announce its new target portfolio next week. A March 11 *Nikkei* article has effectively ended speculation about increasing domestic asset weights, but there

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remains a possibility that GPIF might adopt a different benchmark index for domestic bonds, which could potentially have a longer duration than the current Nomura BPI ex. ABS index, as previously discussed.

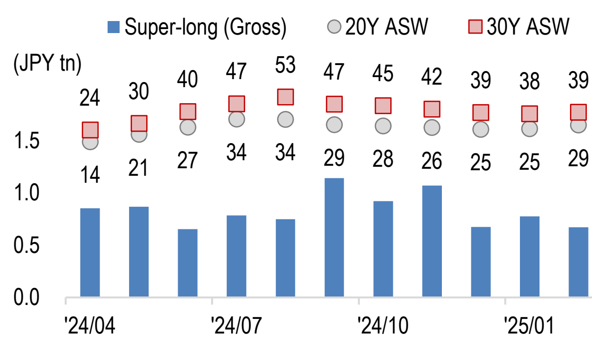
Third, the BoJ is expected to announce the Rinban plan for April to June on Monday. There are mixed views regarding the sectoral allocation, with no strong consensus on the amount for the super-long end. We believe the Rinban announcement could be a market-mover, with a bias towards a steepening risk.

Lastly, on spreads, as we transition into FY2025, there may be an uptick in demand from domestics. However, while major buyers of spreads, such as regional and agricultural financial institutions, have been building positions in the super-long sector, the recent spread cheapening suggests a potential shift in demand towards the long-term sector (Figure 91). If this occurs, it could pose a downside risk to our 10-year swap spread narrowers recommendation.

Additionally, US Defense Secretary Hegseth is scheduled to meet with Japan's Minister of Defense Nakatani on Sunday. Earlier this month, President Trump made remarks concerning the Japan-U.S. alliance, and CNN reported last week that the Trump administration might halt a planned expansion of US forces based in Japan. As we have analyzed, the German defense spending story has had a larger impact on Japanese fixed income markets, particularly in spreads, due to the significant role the US plays in Japan's national security. We will closely monitor any developments regarding Japan's defense spending.

Figure 91: While major buyers have been building positions in the super-long sector, the recent spread cheapening suggests a potential shift in demand towards the long-term sector, in our view

Gross buying of super-long JGBs by regional and agricultural financial institutions (JPY tn) vs. monthly average levels of 20-year and 30-year ASW (bp)



Source: JSDA, J.P. Morgan.

Trade recommendations

- **1y1y vs. 2y1y steepener**
  Pay 2Y1Y swap @0.826% vs. Receive 1Y1Y swap @ 0.750%. P/L since inception is +6.1bp (recommended: 22 November 2024)
- **30Y swap spread narrower**
  Receive 30Y swap (JSCC) @ 1.848% vs. Short 30Y JX84 (maturity: 20 September 2054) @ 2.251%. P/L since inception is +6.4bp (recommended: 22 November 2024)
- **10Y swap spread narrower**
  Receive 10Y swap (JSCC) @ 0.940% vs. Short 10Y JB375 (maturity: 20 June 2034) @

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0.960%. P/L since inception is +12.8bp (recommended: 2 August 2024)

- **2s/10s JGB curve flattener**
  Long JPY10.0bn of 10Y JB374 (maturity: 20 March 2034) @ 0.860% vs. Short JPY48.5bn of 2Y JN459 (maturity: 1 April 2026) @ 0.275%. P/L since inception is -22.7bp (recommended: 12 April 2024)

Figure 92: Closed trades in the last 12 months

P/L reported in bp of yield unless otherwise indicated

TRADE	ENTRY	EXIT	P&L
DURATION			
Pay 1M OIS	15-Mar-24	19-Mar-24	4
Tactically long 30Y JGB	12-Apr-24	10-May-24	-6
Pay 1Yx1Y swap (JSCC)	9-Aug-24	30-Aug-24	6
CURVE			
10s/30s JGB curve steepeners	30-May-24	2-Aug-24	15
SWAP SPREADS			
10Y swap spread narrower	19-Jan-24	15-Mar-24	12
2Y swap spread narrower	19-Mar-24	6-Sep-24	4
FX BASIS			
OPTIONS			
INFLATION			

Source: J.P. Morgan.

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Australia & New Zealand

Fiscal maneuverability

- **Australia's Commonwealth Budget for FY2026 revealed a deficit forecast of A$42.1 billion, a modest upgrade from December's MYEFO estimate**
- **The Budget included surprise personal income tax cuts, but these will not take effect until 1 July 2026 meaning there are no near-term economic or monetary policy implications**
- **Based on the Budget measures, the AOFM expects bond issuance to total A$150 billion in the coming fiscal year**
- **The EFP box narrowed on the heels of a larger borrowing requirement, though we think this is temporary and maintain a steepening bias on the 3s/10s EFP box**
- **The decision to extend electricity subsidies by a further six months means the unwind will now be captured in the CPI data from early 2026, rather than 2H25**
- **Accordingly, we have lowered our 2H25 inflation trajectory, while lifting the 1H26 profile to account for the later expiry**
- **The 3Y sector appears cheap versus the shape of the OIS curve and recent data flow; we recommend buying ACGB 3Y futures**
- **Inflation breakevens were little changed following the budget and continue to screen cheap, particularly on a cross market basis to the US**
- **One interesting dynamic has been the breakdown of the FX - equity correlation, with AUD/USD exhibiting zero beta to equity sell-offs and a negative beta to rallies**
- **Similarly, rate spreads have seemingly become less important for near-term FX directionality, with the cross undershooting rate spread implied fair value estimates for the past month**
- **At face value, this implies AUD has been trading more in line with the waning US exceptionalism dynamic rather than global cyclical/risk beta**
- **Trade portfolio: Pay the AUD 3s/10s swap-EFP box spread, buy ACGB 3Y futures**

AUD Strategy Update: Opening the purse strings

Australia's Commonwealth Budget presented a deficit forecast of A$42.1 billion for FY2026, a marginal improvement from the the prior forecast of A$46.9 billion (Figure 93). Revisions to the longer-run budget estimates were largely offsetting, meaning the accumulated underlying cash balance across the forecast horizon was little changed from the mid-year update. The only significant surprise was the inclusion of personal income tax cuts, which proposed reducing the tax rate for the lowest income threshold from 16% to 14% over two fiscal years. Other policy measures of any significance were flagged well in advance of the Budget, including the decision to extend the current electricity subsidy for a further six months.

In aggregate, policy decisions made since December's MYEFO have increased expenditure over the next four years by ~A$35 billion, half of which relates to the tax cut. Based on the Budget forecasts, bond issuance is expected to be about A$150 billion in FY2026 (Figure 94) above our forecast but not materially different from consensus expectations, which crept higher in the past few weeks, as the government announced pre-election spending measures.

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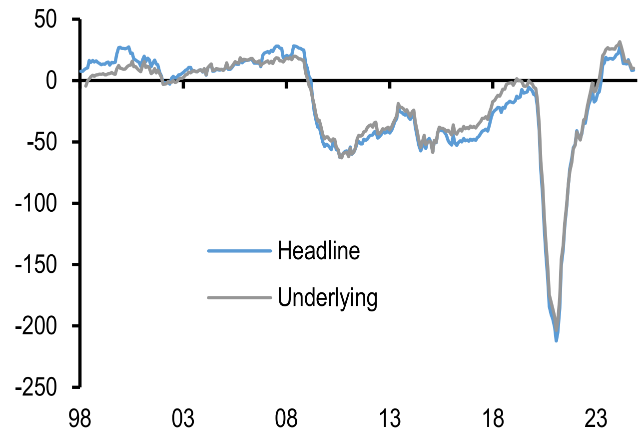
Figure 93: Following consecutive surpluses, the Budget is forecast to return to deficit from FY2025

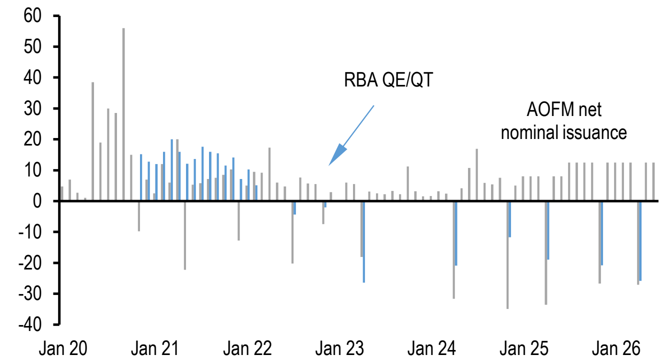
A$bn, 12 month rolling



Source: Treasury, J.P. Morgan.

Figure 94: Net issuance will step-up in FY2026 following the increase in government spending

ACGB issuance and RBA QE/QT flows, AUD bn/month

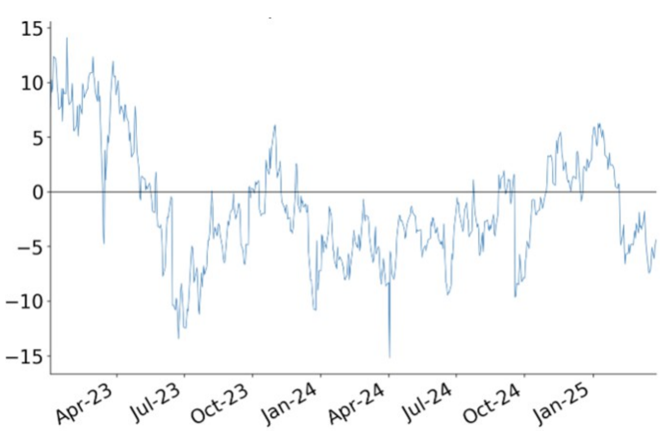


Note: Grey is net AOFM nominal issuance including JPM forecast, positive/negative on blue indicates RBA purchase/maturity of RBA holdings, respectively.
Source: AOFM, RBA, J.P. Morgan.

Greater bond issuance exerted further narrowing pressure on swap spreads this week, with the 3s/10s EFP box flattening modestly. While this makes sense given the incremental news flow, swap spreads are now very low in the long-term range and at levels where both 3Y and 10Y EFP have empirically shown a strong negative beta to 3s/10s ACGB curve shape. With the box already too flat versus model-based estimates (Figure 95) the implications are: 1) even a moderate cash curve flattening should push EFPs broadly wider at these range extremes, and 2) this increases the probability of the 3s/10s EFP box steepening, as the negative beta of 10Y EFP gets dialled-up more significantly vis-a-vis the 3Y. Stay paid the AUD 3s/10s swap EFP box spread.

Figure 95: 3s/10s EFP box appears too flat versus estimates of fair value

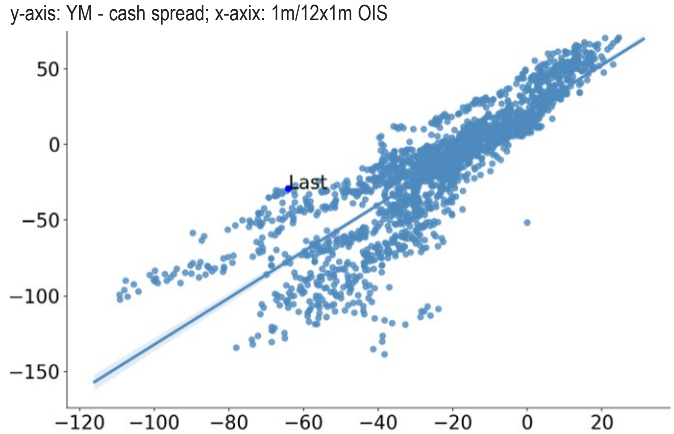
bp, residual



Note: Model estimates 3s/10s EFP as a function of RMSE, 3s/10s cash curve, OIS, itraxx and US swap spreads.
Source: Bloomberg Finance L.P., J.P. Morgan

Figure 96: YMs screen cheap relative to the number of cuts priced in the OIS curve

y-axis: YM - cash spread; x-axix: 1m/12x1m OIS



Source: Bloomberg Finance L.P., J.P. Morgan

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We expect fiscal policy will contribute 0.4%-pts to GDP growth in calendar year 2026, about a tenth higher than our forecast derived from the prior budget. Given larger global cross-currents (for example, tariff policies and increased global recession risk), we view this tweak as a rounding error and leave our standing 2025/2026 GDP tracking estimate unchanged. Given the forward starting date of the proposed income tax cuts, which help lift the fiscal contribution to growth more significantly in the outer years of the forecasts, this policy should not have any material bearing on the near-term monetary policy outlook and we continue to forecast a rate cut in May.

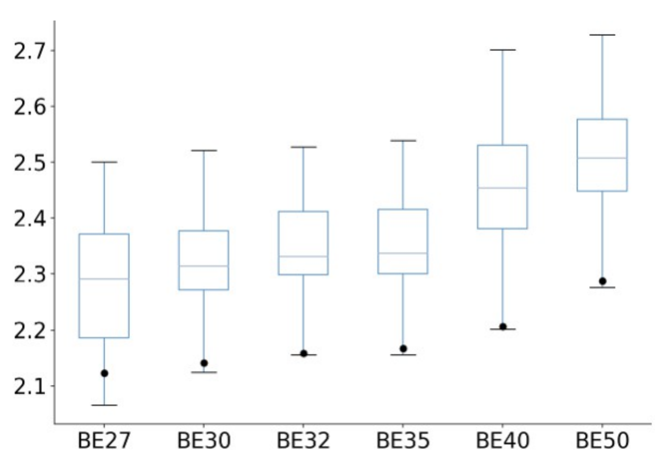
Interestingly, YMs sold off this week as market participants reevaluate this cycle's terminal rate. Given 3Y yields are already cheap relative to the shape of the OIS curve (Figure 96) and the incremental data have underwhelmed, we see value in being long YMs ahead of next week's RBA meeting. While we expect the central bank to remain on hold, the softer-than-forecast February CPI print should increase the Bank's confidence that core inflation will ease further in 1Q25, leaving our forecast for a May rate cut on track. The April 2 tariff announcement is a clear risk, but with the inflation shock mostly a US story and global recession risks edging higher, we see the risk/reward skew as favorable. Buy ACGB 3Y futures.

Delaying the inevitable

The decision to extend current electricity subsidies for a further six months means the unwind of this policy will now be captured in the CPI data from early 2026, rather than 2H25. The combination of federal and state-level government subsidies makes it difficult to ascertain the exact timing/magnitude of the subsidy unwind, though we expect the expiration of this policy to lift headline inflation by about 0.5%-pts. Accordingly, we have tweaked our inflation profile, lowering the 2H25 CPI numbers, while lifting the 1H26 inflation outlook .

Figure 97: Breakevens remain low in the 12-month range

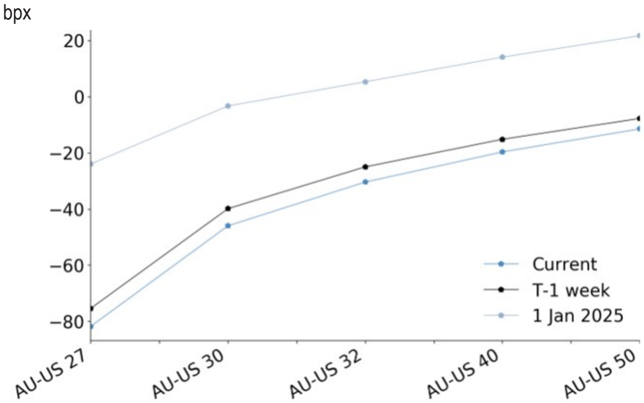
%



Note: The black dot is the most recent observation.
Source: Bloomberg Finance L.P., J.P. Morgan

Figure 98: Australian breakevens continue to underperform US counterparts

bpx



Source: Bloomberg Finance L.P., J.P. Morgan

Breakevens were little changed following the budget release, though interestingly the 2027 maturity, which by definition has the greatest sensitivity to spot inflation, pushed widener despite the clear disinflationary impulse (Figure 97). Even after the most recent move, breakevens continue to trade toward the lower end of the 12-month range and we see value

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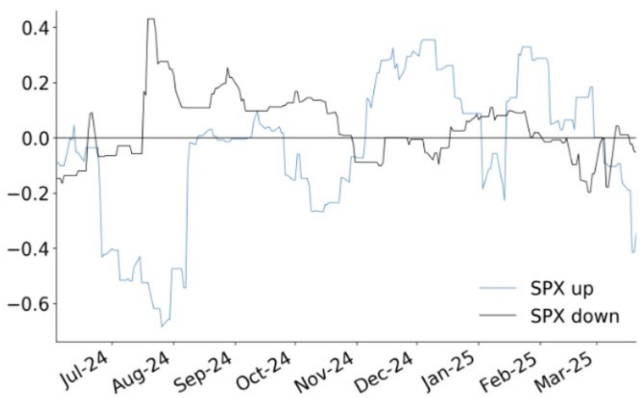
in owning the belly to longer-dated lines, which are less sensitive to government policy shifts, both subsidy- and tariff-related. In particular, we think the AU-US 2050 breakeven spread screens cheap in the sense that term premium in the AUD nominal curve is better justified on supply curve risk and spreads are narrow relative to the mid-point of the respective central bank's inflation targets (Figure 98).

FX: Unusual suspects

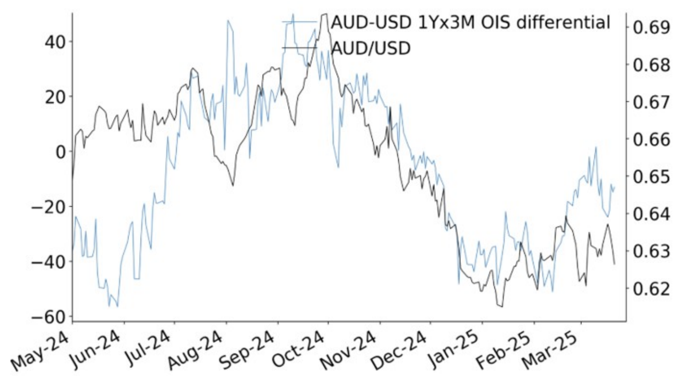
This week our [FX colleagues reduced some USD exposure](#) ahead of the upcoming April 2 tariff announcements. While we maintain a bullish bias for AUD/USD this year, the currency has remained range-bound and continues to track toward the lower end of the 12-month range. One interesting dynamic of late has been the breakdown of the FX-equity correlation, with AUD/USD exhibiting zero beta to equity sell-offs and a negative beta to rallies (Figure 99). Similarly, rate spreads have seemingly become less important for near-term FX directionality with the cross undershooting rate spread implied fair value for the past month (Figure 100).

Figure 99: AUD/USD has remained range-bound despite equity volatility, exhibiting a zero beta to equity sell-offs and negative beta to rallies
Rolling 1m regression, AUD/USD daily returns for SPX up/down



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 100: Rate spreads are supportive for AUD/USD, though this relationship has been less influential for FX directionality in the past month
LHS: rate spreads (bps), RHS: AUD/USD



Source: Bloomberg Finance L.P., J.P. Morgan

At face value, this implies AUD has been trading more in line with the waning US exceptionalism dynamic than global cyclical/risk beta. As the trade conflict broadens and recession risks potentially rise, there may be periods where it's harder to see AUD shrugging off weakness in equities. Similarly, the Australian economy won't be immune in the event of a global recession (to which our global team now assigns a 40% probability), meaning the upward bias from rate differentials has the potential to unwind quickly. We still look for the currency to approach 0.65 by mid-year and 0.67 at year-end, but with uncertainty elevated, it's likely the exchange rate stays range-bound in the very near term.

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Summary of main views

Duration	Curve	Swap spreads	Swap spread curve	Inflation	Cross-market
Buyer of dips in the AUD front-end	AUD 3s/10s curve to realize flatter than forwards	Hold NZGB Apr-33 on MMS	Fade narrowing in AUD 10Y EFP	Long bias front-end ACGBi BEI vs US	Lower NZD terminal vs US
Long YMs		Steeper AUD 3s/10s swap EFP box		Hold NZ-US 2s/10s swap box flattener	
					Receive AUD-USD 5Yx5Y (IRS-SFR)
					NZD-AUD 2s/5s biased flatter

Trade recommendations

- **Buy ACGB 3Y futures**
  Buy 25K DV01 YMM5 at 96.19.
- **Pay the AUD 3s/10s EFP box curve spread**
  Pay 25K DV01 AUD 10Y EFP (M5 fut) at -10.88bp, receive 25K AUD 3Y EFP (M5 fut, swap Q-Q) at -6.13bp, a box spread of -4.75bp. P/L since inception (20 Mar): -1bp
- **Receive the AUD-USD 5Yx5Y (IRS-SFR) spread**
  Receive 25K DV01 AUD 5Yx5Y IRS at 4.862%, pay 25K DV01 USD 5Yx5Y swap (SFR) at 3.981%, a spread of +88.25bp. P/L since inception (6 Mar): +10.0bp
- **Underweight the belly of the ACGB Sep-26/Nov-28/Apr-33 fly**
  Sell 50K DV01 ACGB Nov-28 at 3.73%, buy 25K DV01 ACGB Sep-26 at 3.75%, buy 25K DV01 Apr-33 at 4.20%, a curve spread of -49.1bp. P/L since inception (6 Feb): -3.6bp
- **Hold an NZD-USD 2s/10s swap box flattener**
  Receive 25K DV01 NZD 2s/10s IRS curve at +42.3 bp, pay 25K DV01 USD 2s/10s swap (SFR) curve at -14.0bp, a box spread of +59.2bp. P/L since inception (14 Nov): -10.7bp
- **Be long NZGB Apr-33s vs MMS**
  Buy 25K DV01 NZGB Apr-33 MMS at a spread of +32.0bp. P/L since inception (14 Nov): -9.0bp

Note: One star (*): high-conviction trade and no star: moderate-conviction trade. Closed trades marked as at submission, existing trades marked as of the close of business (Sydney) on 27 March 2025.

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Forecasts

	Current	Jun-25	Sep-25	Dec-25	Mar-26
United States					
Fed Funds	4.50	4.25	4.00	4.00	4.00
2-year note	4.00	3.80	3.70	3.65	3.65
10-year note	4.35	4.20	4.15	4.15	4.15
2s10s curve (bps)	34	40	45	50	50
Australia					
RBA cash rate	4.10	3.85	3.60	3.35	3.35
90-day rate	4.11	3.70	3.53	3.45	3.45
3-year yield	3.82	3.70	3.60	3.60	3.60
10-year yield	4.51	4.30	4.15	4.15	4.15
3-year swap spread (bps)	-9	-5	-5	-5	-5
10-year swap spread (bps)	-15	-5	0	0	0
3s10s curve (bps)	69	60	55	55	55
AUS-US 10-year spread (bps)	16	10	0	0	0
New Zealand					
RBNZ OCR	3.75	3.25	3.25	3.25	3.00
90-day rate	3.62	3.40	3.40	3.23	2.90
2-year bond	3.63	3.60	3.40	3.30	3.30
10-year bond	4.60	4.30	4.10	4.00	4.00
2s10s swap curve	75	80	80	80	80
NZ-US 10-year spread	25	10	-5	-15	-15
Foreign Exchange					
AUD/USD	0.63	0.65	0.67	0.68	0.68
NZD/USD	0.57	0.58	0.59	0.60	0.60
EUR/USD	1.08	1.11	1.12	1.14	1.16
USD/JPY	150	151	149	148	147
AUD/JPY	94.8	98.2	99.8	100.6	100.0
NZD/JPY	86.2	87.6	87.9	88.8	88.2
AUD/NZD	1.10	1.12	1.14	1.13	1.13

Source: J.P. Morgan. Current values are from Bloomberg Finance L.P.

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Trades closed last 12M

TRADE	ENTRY	EXIT	P&L
DURATION			
Receive Aug '24 RBNZ OIS	08-Nov-23	14-Dec-23	42.4
Receive Aug '24 RBNZ OIS	29-Feb-24	11-Jul-24	-2.2
Receive NZD 2Yx1Y IRS	21-Mar-24	18-Jul-24	36.1
Receive AUD 1Yx1Y IRS	18-Jul-24	01-Aug-24	31.0
Receive August '24 RBNZ OIS	01-Aug-24	15-Aug-24	11.4
Pay 2Y NZD IRS	26-Sep-24	17-Oct-24	2.3
Pay Feb 2025 RBNZ OIS	17-Oct-24	24-Oct-24	0.0
Receive AUD 6Mx6M OIS	24-Oct-24	12-Dec-24	24.4
Receive NZD 1Yx1Y IRS	19-Dec-24	12-Feb-25	-15.7
Receive AUD 3Yx1Y IRS	23-Jan-25	06-Mar-25	8.1
CURVE			
Receive belly of AUD 3s/5s/10s IRS fly	22-Feb-24	26-Apr-24	-4.2
AUD IRU4/U5 bill flattener	13-Jun-24	18-Jul-24	10.0
Pay NZD 2s/5s IRS curve	18-Jul-24	01-Aug-24	4.2
Paid belly of NZD 2s/5s/10s IRS fly	01-Aug-24	12-Sep-24	11.4
Paid AUD 1s/2s IRS spread	29-Aug-24	17-Oct-24	6.9
Paid Nov '24/Feb '25 RBNZ OIS spread	15-Aug-24	16-Oct-24	5.0
Received Feb '25 RBNZ OIS/NZD 2Y IRS spread	24-Oct-24	12-Dec-24	13.0
COUNTRY SELECTION/RELATIVE VALUE			
Sell ACGB Sep-26 vs receiving 3Y OIS	12-Oct-23	18-Jan-24	4.3
Paid 1s/5s BBSW-SOFR basis	20-Jul-23	22-Feb-24	-7.6
Paid 1s/2s BKBM-SOFR basis	08-Nov-23	22-Feb-24	-2.0
Long IRU4 vs SFRU4	25-Oct-23	22-Feb-24	42.0
Paid AUD 1Yx1Y IRS, received 1Yx1Y SFR	21-Mar-24	11-Apr-24	-36.0
Paid May '24 RBA OIS, received Apr '24 RBNZ OIS	18-Jan-24	11-Apr-24	-1.6
NZD-AUD 2s/5s IRS box steepener	22-Jun-23	11-Apr-24	6.6
Own TCV Nov-2034s on ASW	07-Mar-24	18-Apr-24	0.0
Pay AUD 10Y EFP	04-Apr-24	26-Apr-24	1.0
Pay the belly of AUD 1s/2s/3s IRS	14-Dec-23	09-May-24	5.1
Pay the AUD-USD 2s/5s/10s spread (IRS-SFR)	07-May-24	13-Jun-24	4.4
Receive the NZD-AUD 1Yx1Y IRS spread	09-May-24	27-Jun-24	15.6
Own NZGB Apr-2033s on ASW	18-Jan-24	29-Aug-24	-4.8
Long TCV Nov 2034 vs ACGB May 2034	09-May-24	24-Oct-24	7.6
Receive AUD-USD 5Yx5Y (IRS-SFR) spread	15-Aug-24	24-Oct-24	-7.9
Sell ACGB Apr-26s on ASW	05-Sep-24	25-Jan-25	13.5
Paid 5s/10s BBSW-SOFR basis	26-Sep-24	25-Jan-25	0.7
Receive Apr '25 RBA-RBNZ OIS spread	14-Nov-24	23-Jan-25	2.7
Receive NZD-AUD 1Yx1Y IRS spread	12-Feb-25	20-Mar-25	-19.7
INFLATION			
Long 2025 ACGBi BEI	14-Sep-23	26-Oct-23	11.3
Long 2025 ACGBi BEI	06-Dec-23	25-Sep-24	-52.0

Source: J.P. Morgan.

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Interest rate forecasts

		28-Mar	Jun-25	Sep-25	Dec-25	Mar-26	YTD chg. (bp)
US	Fed funds	4.25-4.50	4.00-4.25	3.75-4.00	3.75-4.00	3.75-4.00	-
	SOFR	4.30	4.10	3.85	3.85	3.85	-
	2Y bmk yield	3.97	3.80	3.70	3.65	3.65	-28
	5Y bmk yield	4.05	3.95	3.90	3.85	3.85	-32
	10Y bmk yield	4.31	4.20	4.15	4.15	4.15	-24
	30Y bmk yield	4.66	4.50	4.50	4.50	4.50	-10
	2s/10s bmk curve	33	40	45	50	50	4
	10s/30s bmk curve	36	30	35	35	35	14
	2s/30s bmk curve	69	70	80	85	85	18
Euro area	Refi rate	2.65	2.40	2.15	2.15	2.15	-
	Depo rate	2.50	2.25	2.00	2.00	2.00	-
	3M Euribor	2.33	2.25	2.00	2.00	2.00	-35
	2Y bmk yield	2.03	2.00	1.90	1.95	2.00	-4
	5Y bmk yield	2.33	2.15	2.05	2.15	2.25	20
	10Y bmk yield	2.73	2.40	2.30	2.40	2.50	38
	30Y bmk yield	3.10	2.70	2.65	2.75	2.85	53
	2s/10s bmk curve	70	40	40	45	50	42
	10s/30s bmk curve	37	30	35	35	35	15
	2s/30s bmk curve	107	70	75	80	85	57
vs. 6s	2Y swap spread	15	17	20	21	22	3
	5Y swap spread	7	11	10	9	8	-2
	10Y swap spread	-8	-6	-7	-8	-9	-7
	30Y swap spread	-48	-41	-37	-34	-30	-5
10Y spread	Austria	38	35	35	35	35	-4
to Germany	Belgium	55	55	55	55	55	-6
(curve adj.)	Finland	35	35	35	35	35	-11
	France	71	75	70	70	70	-12
	Greece	83	85	85	80	80	-4
	Ireland	28	30	30	30	30	1
	Italy	112	115	115	115	115	-4
	Netherlands	22	20	20	20	20	-1
	Portugal	51	55	55	55	55	3
	Spain	63	65	65	65	65	-7
	Wtd. peri. spread	91	93	93	93	93	-4
	EU	53	50	45	45	45	-1

		28-Mar	Jun-25	Sep-25	Dec-25	Mar-26	YTD chg. (bp)
UK	Base rate	4.50	4.25	4.00	3.75	3.50	-
	2Y bmk yield	4.22	4.05	3.90	3.80	3.75	-20
	5Y bmk yield	4.25	4.10	3.95	3.90	3.85	-12
	10Y bmk yield	4.71	4.45	4.35	4.30	4.30	15
	30Y bmk yield	5.30	5.05	4.95	4.90	4.95	15
	2s/10s bmk curve	48	40	45	50	55	35
	10s/30s bmk curve	59	60	60	60	65	0
	2s/30s bmk curve	107	100	105	110	120	35
vs. SONIA	2Y swap spread	-16	-15	-15	-15	-15	0
	5Y swap spread	-23	-27	-31	-33	-33	4
	10Y swap spread	-52	-55	-57	-60	-60	3
	30Y swap spread	-85	-90	-92	-95	-95	5
Japan	Policy rate	0.50	0.75	0.75	1.00	1.00	-
	2Y bmk yield	0.87	0.90	0.95	1.15	1.15	27
	5Y bmk yield	1.15	1.15	1.20	1.40	1.40	42
	10Y bmk yield	1.54	1.50	1.55	1.70	1.70	45
	20Y bmk yield	2.25	2.20	2.25	2.35	2.35	37
	30Y bmk yield	2.53	2.50	2.55	2.65	2.65	25
	2s/10s bmk curve	67	60	60	55	55	18
	10s/30s bmk curve	99	100	100	95	95	-20
	2s/30s bmk curve	166	160	160	150	150	-2
Australia	Cash rate	4.10	3.85	3.60	3.35	3.35	-
	3Y bmk yield	3.79	3.70	3.60	3.60	3.60	-11
	10Y bmk yield	4.50	4.30	4.15	4.15	4.15	5
New Zealand	Cash rate	3.75	3.25	3.25	3.25	3.00	-
	2Y bmk yield	3.61	3.60	3.40	3.30	3.30	1
	10Y bmk yield	4.66	4.30	4.10	4.00	4.00	11
Sweden	Repo rate	2.25	2.25	2.25	2.25	2.25	-
	2-year govt	2.20	2.10	2.10	2.20	2.30	15
	10-year govt	2.58	2.40	2.40	2.55	2.75	20
Norway	Depo rate	4.50	4.50	4.50	4.25	4.00	-
	2-year govt	3.83	3.70	3.50	3.40	3.30	-7
	10-year govt	3.74	3.80	3.65	3.60	3.55	-9

* Levels as of 1:00pm London time.
**Newly issued benchmark change is from inception up to COB

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Fact sheet / Sovereign ratings

	GDP* (bn) 2025	GDP growth (oya, %) 2025	Inflation** (oya, %) 2025	Budget balance*** (% of GDP) 2025	Prim. Balance (% of GDP) 2025	Gross debt (% of GDP) 2025	Curr. acc. bal. (% of GDP) 2025	GDPpc (EU15=100) 2025	Unempl. Rate (%) Latest
Austria	506	1.0	2.1	-3.7	-2.2	81	1.5	118	5.5
Belgium	642	1.2	2.9	-4.9	-2.6	105	0.3	116	5.8
Cyprus	35	2.8	2.1	2.7	3.8	61	-8.4	80	5.0
Finland	287	1.5	2.0	-3.0	-1.5	85	-0.9	109	9.2
France	2,990	0.8	1.9	-5.3	-2.7	115	-0.3	93	7.1
Germany	4,437	0.7	2.1	-2.0	-0.9	63	6.8	112	6.2
Greece	250	2.3	2.4	-0.1	2.9	147	-7.5	51	9.5
Ireland	556	4.0	1.9	1.4	2.0	38	9.7	218	3.9
Italy	2,241	1.0	1.9	-3.4	0.5	138	1.2	81	6.2
Netherlands	1,183	1.6	2.4	-1.9	-1.1	44	11.1	140	3.8
Portugal	295	1.9	2.1	0.4	2.5	93	0.6	59	6.2
Slovenia	71	2.5	3.2	-2.1	-0.7	64	2.9	71	10.8
Spain	1,667	2.3	2.2	-2.6	-0.1	101	4.5	72	10.4
Euro area	15,669	1.3	2.1	-2.9	-0.9	90	3.6	95	6.2
US	30,397	2.1	2.0	-7.4	-2.6	124	-3.3	176	4.1
UK	2,917	1.4	2.4	-4.4	-2.3	104	-3.0	108	4.4
Japan	658	1.1	2.0	-3.0	-2.9	249	3.6	67	2.5
Australia	2,803	2.3	3.1	-1.3	-	35	-1.4	-	4.1
New Zealand	440	1.7	2.2	-3.1	-	43	-4.7	-	5.1
Norway	5,510	1.1	3.2	11.0	8.3	43	12.5	178	2.1
Sweden	6,576	1.9	1.6	-1.4	-0.3	35	7.9	116	9.4

*In billions of local currency except for Japan which is in ¥trillions
**HICP; National index if not available
*** Net lending (+) or net borrowing (-)
Source: EC European Economic Forecast Autumn 2024, Ameco, CBO, OBR, IMF, National Treasury Offices and National Statistics Offices.

Sovereign rating

	S&P		Moody's		Fitch		DBRS	
Austria	AA+		Aa1		AA+	NEG	AAA	
Belgium	AA		Aa3	NEG	AA-	NEG	AA	
Cyprus	A-		A3		A-		A low	POS
Finland	AA+		Aa1		AA+	NEG	AA high	
France	AA-	NEG	Aa3		AA-	NEG	AA high	NEG
Germany	AAA		Aaa		AAA		AAA	
Greece	BBB-	POS	Baa3		BBB-		BBB	
Ireland	AA	POS	Aa3	POS	AA		AA	
Italy	BBB		Baa3		BBB	POS	BBB high	POS
Netherlands	AAA		Aaa		AAA		AAA	
Portugal	A	POS	A3		A-	POS	A high	
Slovenia	AA-	POS	A3	POS	A		A high	POS
Spain	A		Baa1	POS	A-	POS	A high	
US	AA+		Aaa	NEG	AA+		AAA	
UK	AA		Aa3		AA-		AA	
Japan	A+		A1		A		A high	
Australia	AAA		Aaa		AAA		AAA	
New Zealand	AAA		Aaa		AA+		-	
Sweden	AAA		Aaa		AAA		AAA	
Norway	AAA		Aaa		AAA		AAA	
Switzerland	AAA		Aaa		AAA		AAA	

Source: S&P, Moody's, Fitch, DBRS and Bloomberg Notes: Grey highlight represents below IG; "*" represents under watch. NEG - negative outlook, POS – positive outlook, DEV - developing outlook, blank represents stable outlook. Rules for a country to be excluded from an IG index are as follows: 1) J.P. Morgan's EMU IG index requires any 1 of 3 credit ratings (S&P's, Moody's, Fitch) to be below IG. 2) Bloomberg AGG requires 2 of the above 3 credit ratings to be below IG. 3) FTSE WGBI requires both S&P and Moody's rating to be below IG.

Eurozone rating action calendar

	AT	BE	CY	FI	FR	GE	GR	IE	IT	NL	PO	SL	SP	UK
28-Mar-25													M↑	
04-Apr-25									F↑			F		
11-Apr-25		M↓			M				S			M↑	F↑	S
18-Apr-25							S↑		D↑	S				
25-Apr-25		S		S										
02-May-25														
09-May-25						M		F						
16-May-25			S				F				M			D
23-May-25			M, F						M			D↑		M
30-May-25					S↓	D							D	
06-Jun-25	F↓, D											S↑		
13-Jun-25		F↓		M		S								
20-Jun-25														
27-Jun-25														
04-Jul-25														
11-Jul-25						F								
18-Jul-25										F	D			
25-Jul-25		D		F↓										
01-Aug-25														
08-Aug-25	S													
15-Aug-25								M↑						
22-Aug-25	M													F
29-Aug-25										M, D	S↑			
05-Sep-25							D							
12-Sep-25					F↓			D			F↑		S	
19-Sep-25			D↑	D	D↓		M	S↑	F↑					
26-Sep-25													M↑, F↑	

Source: S&P , Moody's, Fitch, DBR
Legend: "S": S&P, "M": Moody's, "F": Fitch, "D": DBRS, "↓" - negative outlook, "↑" – positive outlook; "*" – under watch.

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Global Market Movers

31 March	01 April	02 April	03 April	04 April
Germany HICP & CPI flash (2:00pm) Mar **Italy** HICP & CPI flash (11:00am) Mar **United Kingdom** Lloyds business barometer (12:01am) Mar M4 & M4 lending final (9:30am) Feb Net lending to individuals (9:30am) Feb **United States** Dallas Fed manufacturing (10:30am) Mar **Japan** IP prelim (8:50am) Feb -2.0 %m/m, sa Total retail sales (8:50am) Feb -0.3 %m/m, sa Housing starts (2:00pm) Feb -0.5 %m/m, sa **Australia** Pvt. sector credit (11:30am) Feb **New Zealand** NBNZ business confidence (1:00pm) Mar **China** PMI mfg. (NBS) (9:30am) Feb	**Euro area** PMI Mfg final (10:00am) Mar HICP flash prelim (11:00am) Mar Unemployment rate (11:00am) Feb **Germany** PMI Mfg final (9:55am) Mar **France** PMI Mfg final (9:50am) Mar **Italy** PMI Mfg final (9:45am) Mar **Spain** PMI Mfg final (9:15am) Mar **United Kingdom** PMI Mfg final (9:30am) Mar **United States** Manufacturing PMI (9:45am) Mar final 50.0 Construction spending(10:00am) Feb 0.6% ISM manufacturing(10:00am) Mar 48.0 JOLTS(10:00am) Feb 7.5mm Light vehicle sales Mar 16.5mm **Japan** Job offers to applicants ratio (8:30am) Feb 1.26 Unemployment rate (8:30am) Feb 2.5% BoJ Tankan (8:50am) 1Q Large mfg DI 9 Large non-mfg DI 30 PMI manufacturing final (9:30am) Feb **Sweden** PMI (8:30am) Mar **Norway** PMI Mfg (10:00am) Mar **Australia** Retail sales (11:30am) Feb RBA official rate announcement **China** PMI Mfg. (9:45am) Apr	**Euro area** MFI interest rates (10:00am) Feb **France** Monthly budget situation (8:45am) Feb **United States** ADP employment (8:15am) Mar Factory orders (10:00am) Mar **New Zealand** Building permits (10:45am) Mar **Australia** Building approvals (11:30am) Feb	**Euro area** PMI Serv. & Cmp final (10:00am) Mar PPI (11:00am) Feb ECB monetary policy account (1:30pm) Feb **Germany** PMI Serv. & Cmp final (9:55am) Mar **France** PMI Ser,v. & Cmp final (9:50am) **Italy** PMI Serv. & Cmp final (9:45am) **Spain** PMI Serv. & Cmp final (9:15am) **United Kingdom** PMI Services final (9:30am) Mar Decision maker panel survey (9:30am) Mar **United States** Initial claims (8:30am) w/e Mar 29 225,000 International trade(8:30am) Feb -$124bn Services PMI(9:45am) Mar final 54.0 ISM services(10:00am) Mar 54.0 **Sweden** Services PMI (8:30am) Mar **New Zealand** ANZ commodity price (1:00pm) Mar **Australia** Trade balance (11:30am) Feb	**Germany** Mfg orders (8:00am) Feb **France** Industrial production (8:45am) Feb **United Kingdom** PMI Construction final (9:30am) Mar New car regs (9:30am) Mar **United States** Employment (8:30am) Mar 150,000 Unemployment rate 4.1% Average weekly hours 34.2 **Average hourly earnings 0.3%Japan** All household spending (8:30am) Feb **Sweden** CPI flash (8:00am) Mar *Holiday: China*

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07 April	08 April	09 April	10 April	11 April
Euro area Retail sales (11:00am) Feb **Germany** Industrial production (8:00am) Feb Foreign trade (8:00am) Feb **United Kingdom** Halifax HPI (7:00am) Mar **United States** Consumer credit (3:00pm) Feb **Japan** Employers' survey (8:30am) Feb Coincident CI prelim (2:00pm) Feb **Sweden** Budget Balance (8:00am) Mar **Norway** IP Mfg (8:00am) Feb	**France** Foreign trade (8:45am) Feb **Netherlands** CPI (6:30am) Mar **United States** NFIB survey (6:00am) Mar **Japan** Current account (8:50am) Feb Economy watchers' survey (2:00pm) Mar	**United Kingdom** FPC statement (9:30am) **United States** Wholesale trade (10:00am) Feb **Japan** Consumer sentiment (2:00pm) Mar **Norway** PPI (8:00am) Mar	**Italy** Industrial production (10:00am) Feb **United Kingdom** RICS HPI (12:01am) Mar S&P/REC jobs report (12:01am) Apr **United States** CPI (8:30am) Mar Initial claims (8:30am) w/e Apr 5 Federal budget (2:00pm) Mar **Japan** Bank lending (8:50am) Mar Corporate goods prices (8:50am) Mar **Sweden** GDP monthly indicator (8:00am) Feb Industrial production & orders (8:00am) Feb Household consumption (9:30am) Feb **Norway** CPI (8:00am) Mar	**Germany** HICP & CPI final (8:00am) Mar **Spain** HICP & CPI final (9:00am) Mar **United Kingdom** Construction output (7:00am) Feb Monthly GDP (7:00am) Feb Industrial production (7:00am) Feb Index of services (7:00am) Feb Trade balance (7:00am) Feb **United States** PPI (8:30am) Mar Consumer sentiment (10:00am) Apr preliminary **Japan** M2 (8:50am) Mar **Sweden** CPI final (8:00am) Mar **Norway** Building statistics (10:00am) Mar

Selective list as of 28 March 2025. Forecasts are m/m, nsa, unless stated & times are local. Telephone your J.P. Morgan representative for an update/more details.
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