Global Fixed Income Markets Weekly

Carry into summer but with caution

- **Overview:** DM rates traded choppily over the past couple of weeks with a notable bearish repricing post-ECB last Thursday and a sharp rally this Friday after US payrolls. The ECB was a major market moving event last week, as the central bank kept rates unchanged at the July meeting but raised the bar for further cuts. We still see ECB terminal at 1.75% but now expect the next cut in October vs. September previously. The US labour market report on Friday was softer than expected (payrolls at 73k, -258k revisions for the past months and u-rate at 4.2%) and led to a sharp rally at the front-end of the US curve. US trade announcements around the 1 August deadline did not spark large DM rates market reaction. Tariff uncertainty has moderated as trade deals with large US trade partners (incl. Japan and EU) are now in place. The US quarterly refunding announcement did not deliver large surprises with coupon auction sizes unchanged and increased frequency of long-end buybacks.
- **Euro:** Hold tactical long in 10Y Germany with tight stop loss. Hold OW 10Y Spain (100%) vs. Italy (50%) and Germany (50%), OW 10Y EU (100%) vs. France (50%) and Germany (50%) and OW 10Y Belgium (100%) vs. France (50%) and Germany (50%). Hold 3s/10s Italy steepener vs. Germany as a risk-off hedge. Stay received 1Yx1Y €STR and hold 6Mx2Y receiver spread vs OTM payers. Keep 2s/10s conditional bear steepener via 3M OTM payer. Medium term bias for further 10s/30s steepening, but wait for better entry levels to enter outright positions. Favour 2Yx2Y/10Yx10Y swap curve steepener versus 10s/30s on a beta-adjusted basis as an attractive RV and positive carry trade. Hold steepening exposure via 1Yx(10s/30s) A/A+20/A +40 YCSO CMS curve cap fly. Keep Sep25 Schatz €STR swap spread widener. Medium term narrowing bias on Bund spreads; favour Schatz/Bund swap spread curve flattener. Stay short 3Mx2Y gamma outright and 3Mx(1Yx1Y) unhedged straddle.
- **US:** We remain neutral on duration, as today's labor market data did not look uniformly weak and markets are pricing more aggressive easing than our forecast, but downside labor market risks and Governor Kugler's resignation should keep front-end yields anchored. Hold 5s/20s steepeners. We now anticipate Treasury will begin a multi-quarter series of coupon auction size increases in May 2026. We take profits on 2Yx3Y inflation swap shorts and turn neutral on inflation.Policy clarity has increased following Friday's employment report, but we turn neutral on volatility on balance of risks. On a relative basis, buy 6Mx5Y straddles vs selling a theta neutral amount of 6Mx30Y straddles and/or buy 3Yx10Y straddles versus selling a weighted amount of 2Yx30Y straddles. With potential risk for a steeper spread curve, we turn neutral on the swap spread curve. Turn neutral on front-end and belly spreads. Initiate 1Y forward weighted 2s/10s/30s belly cheapening butterflies

Rates Strategy

Francis Diamond AC
(44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Aditya Chordia
(44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Khagendra Gupta
(44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Ben K Jarman
(61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

Takafumi Yamawaki
(81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Jay Barry
(1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC

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See page 86 for analyst certification and important disclosures.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc
Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

which currently have attractive risk-reward. We refresh our projections for the Fed's balance sheet, and continue to expect QT to continue until 1Q26.

- **Japan:** We review the July MPM and explore what's next. We take a look at GPIF results. Keep 10s/30s swap spread flatteners.
- **Australia & New Zealand:** Close the ACGBi-USTi real yield box flattener (2027s/2050s-51s), the AUD 3s/10s EFP curve steepener, and the short in the belly of the ACGB Sep-26/Nov-28/Apr-33 fly.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Overview

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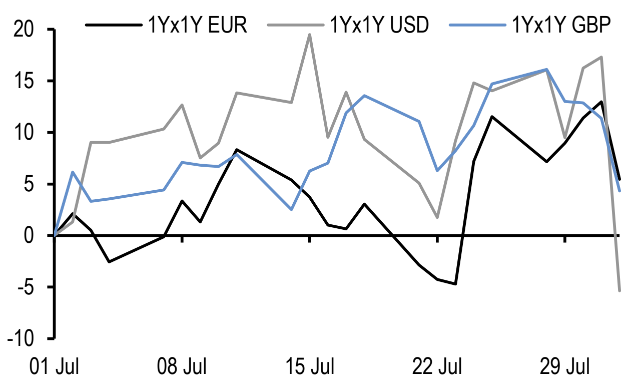
- **DM rates traded choppily over the past couple of weeks with a notable bearish repricing post-ECB last Thursday and a sharp rally this Friday after US payrolls. The ECB was a major market moving event last week as the central bank kept rates unchanged at the July meeting but raised the bar for further cuts. We still see ECB terminal at 1.75% but now expect the next cut in October vs. September previously. The US labour market report on Friday was softer than expected (payrolls at 73k, -258k revisions for the past months and u-rate at 4.2%) and led to sharp rally at the front-end of the US curve. US trade announcements around the 1 August deadline did not spark large DM rates market reaction. Tariff uncertainty has moderated as trade deals with large US trade partners (incl. Japan and EU) are now in place. The US quarterly refunding announcement did not deliver large surprises with coupon auction sizes unchanged and increased frequency of long-end buybacks.**

DM rates traded choppily over the past couple of weeks with a notable bearish repricing post-ECB last Thursday and a sharp rally this Friday after US payrolls (**Figure 1**). The past fortnight was overall particularly eventful for DM rate markets given the flurry of US trade announcements ahead of the 1 August deadline, the US Treasury quarterly refunding announcement, several central bank meetings (ECB, Fed, BoJ) as well as key data releases.

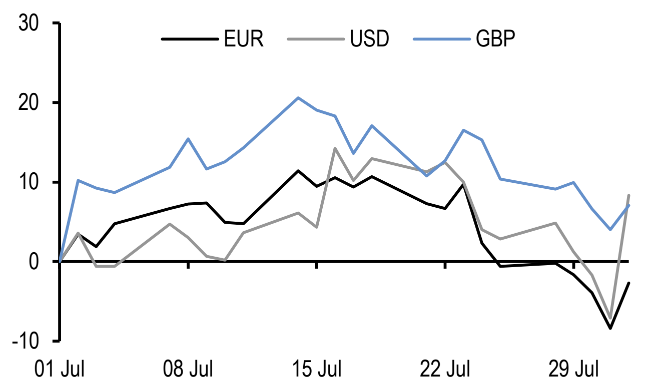
Figure 1: DM rates traded choppily over the past couple of weeks with a notable bearish repricing post-ECB last Thursday and a sharp rally this Friday after payrolls

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



Source: J.P. Morgan.

Cumulative change in 1Yx1Y/5Yx5Y OIS curve in EUR, USD and GBP; since 1 July 2025; bp



Source: J.P. Morgan.

US tariff announcements remained in focus as the 1 August deadline approached, although with limited DM rate market reaction. Several trade deals were reached with large US trading partners including Japan and the EU. The 10% universal tariff rate was re-confirmed and some country-specific tariffs were also updated. We discuss details on tariffs below.

The US quarterly refunding announcement did not deliver large surprises. Coupon auction sizes were left unchanged for 3Q while the frequency of buybacks at the long-end was dou-

Francis Diamond [AC] (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

bled. We now forecast that a multi-quarter series of coupon auction size increases will begin in May 2026 (vs. February previously) given that there was no change in forward guidance this week and February is now only two quarters away.

On the central bank side, the ECB was a major market moving event last week as the central bank kept rates unchanged at the July meeting but raised the bar for further cuts, leading to a sharp bearish repricing. The Fed remained on hold this week with two dovish dissents. No clear indication was provided on further cuts, which read hawkish vs. expectations although market reaction was modest and soon overshadowed by the labour market report out on Friday. In Japan, the BoJ also remained cautiously on hold without providing indication on the next hike, which we continue to expect in October.

Finally, the past week was particularly heavy in terms of data. 2Q GDP prints were better than expected in the US and Euro area. Given the upward Euro area surprise and the positive signal from the recent July PMI print, our economists have revised growth forecasts for 3Q higher from 0.5%q/q to 0.7%q/q while keeping the rest of the forecast profile unchanged. Euro area sentiment data also showed signs of improvement in July and Euro area HICP stabilized with headline at 2%oya and core at 2.3%oya. The largest surprise, however, came at the end of the week given the soft US labour market report. Nonfarm payrolls increased 73k (vs. consensus ~100k) with previous months being revised lower by a huge 258k while unemployment increased from 4.1% to 4.2%. This led to a large bullish repricing in Fed easing expectations, which was further reinforced by the weak ISM Manufacturing and US sentiments prints published later in the day.

In terms of strategy, we keep 1Yx1Y €STR receiver and long 10Y Germany with a tight stop loss. In intra-EMU, we continue to hold a light portfolio and still prefer OW intra-EMU/€-SSA trades with at least partial hedge vs. UW France or UW Italy to reduce beta to broader risk markets. In the UK, we keep fronts/reds SONIA curve flatteners (3Mx1Y/15Mx1Y) but remain neutral duration. In the US, we continue to highlight 5s/20s steepeners.

Tariffs: trade deals reduce uncertainty

On Thursday, just ahead of the 1 August deadline, Trump confirmed the 10% universal levy and updated tariff rates for countries with large trade deficits, to be effective on 7 August, also adding a 40% tariff penalty on transshipped goods. Deals with some of the largest US trading partners had nonetheless been reached already before 1 August. Notably, an agreement on a 15% tariff rate was announced with Japan last week. This was soon followed by a deal with the EU, including a 15% tariff rate on EU goods (incl. cars, semiconductors and, possibly, pharmaceuticals), zero-for-zero tariffs on specific goods (incl. aircrafts, some chemical/agricultural products…), $750bn of EU energy purchases from US, $600bn of investments in the US and an unspecified amount of purchases of US military equipment, while steel/aluminium tariffs remain at 50%. Although the tariff rate agreed with the EU is higher than our previously expected 10% baseline, we do not think this prompts a significant reassessment of our macro views on Europe given that the EU has not been singled out relative to other US trading partners, Euro growth has held up fairly well so far and there is uncertainty on how higher tariff rates will be effectively passed through.

Taking the recent developments into account, our economists estimate that the US effective tariff rate should settle at around 18-20% (from the current 13.4%). Even though this is a similar level to that seen after the 2 April announcement (**Figure 2**), uncertainty around

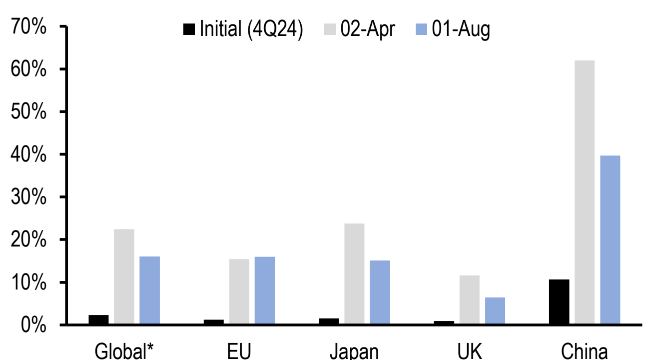
Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

tariffs is now lower given that deals with large US trading partners have been reached. **Figure 3** summarises the tariff rates that will be in place on 1 August. Key uncertainties remain regarding Canada/Mexico agreements and sectoral tariffs, in particular on pharmaceuticals and electronics. It has been mentioned that pharmaceutical tariffs could begin at modest levels, potentially rising to 200% by mid to late 2026, whereas details on tech tariffs are still unspecified.

The recent announcements imply a structural shift to a higher US tariff regime, which will likely lead to a deceleration in US growth over 2H25 in our view, due to front-loading unwind, rising US inflation and sluggish US consumer spending/jobs gains. Nonetheless, we do not think that such a tariff drag will be material enough to derail the US expansion and we still see odds of a US/global recession at around 40%. We note that global downside from tariffs now look less acute than we had expected given the staggered application of tariffs has smoothed the shock, widespread retaliation has been avoided and the sentiment drag is not being reflected in financing conditions (see *Dispatches from an evolving trade war, B. Kasman, 31 July*).

Figure 2: We estimate US tariff rates would settle around 18-20%, a level similar to 2 April announcements…

US effective tariff rates on selected trading partners; %, static estimates (2024 basket)



Note: *Global assumes 2 April announcement for countries that do not yet have a trade deal.
Source: J.P. Morgan.

Figure 3: …although now uncertainty around tariffs has reduced as deals with large US trading partners have been reached (incl. 15% tariff agreements with EU and Japan). Key uncertainties still remain around Canada/Mexico and sectoral tariffs

US tariff rates in effect on 7 August as per latest trade announcements;

		Tariff rates in effect on 7 Aug
All US trade partners		10%
Tariffs for selected countries with trade surpluses vs. US	China	30%
	Japan	15%
	EU	15%
	UK	10%
Sectoral tariffs	Autos	25% (15% Japan and EU, 10% UK)
	Steel and aluminium	50% (ex. UK)
	Copper	50% (with exemptions)
	Pharma	possibly rising to 200% (EU possibly 15% TBD)

Source: J.P. Morgan.

Market reaction to the newly signed trade deals remained marginal. On Monday, following the announcement of the US-EU trade deal over the past weekend, Euro rates modestly rallied only modestly reversing the sharp post-ECB sell-off, while curves mildly steepened. With trade uncertainty now reduced, we expect that market reaction to further trade announcements will remain contained.

Central bank updates: hawkish ECB signal, while soft US labour market data overshadow the Fed delivery

Last week, the ECB kept rates on hold with depo at 2% after seven consecutive cuts. The meeting delivery was decidedly hawkish as the ECB raised the bar for a further rate cut. President Lagarde indeed downplayed their inflation forecast (below target at 1.9% in 2026)

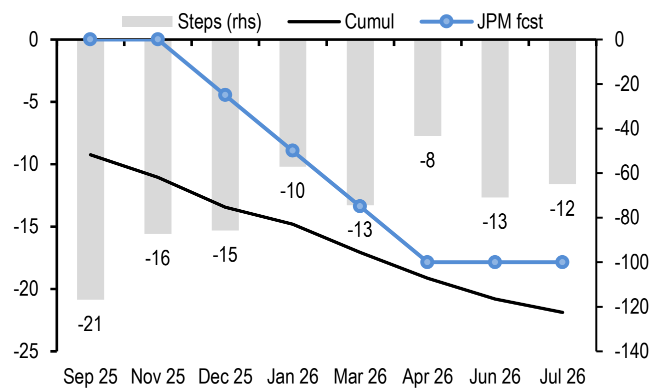
Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

to focus on the recent resilience in the data. We still see the ECB delivering an additional cut (terminal rate at 1.75%) but we now expect this in October rather than September previously. OIS pricing is more hawkish relative to this call with only 4bp priced for September, 8bp by October and terminal pricing ~1.80%; we keep our medium-term bullish stance.

In the *US*, the Fed remained on hold at 4.25-4.5% at the July meeting as expected (see *Two job applications attached to FOMC statement, M. Feroli, 31 July*). Bowman and Waller dissented for a 25bp cut, the first "double dissent" since 1993, although we suspect that this was more of a political move rather than any signal on policy. During the press conference, Chair Powell mentioned that the labour market remains solid and inflation is running above target therefore restrictive policy remains appropriate. Powell gave no clear indication on a September cut, with the Fed remaining data dependent and markets interpreting this as being hawkish. The FOMC meeting was soon overshadowed by the downside surprise in the labour market report on Friday which led to a marked rally at the front-end of the US curve. After the sharp repricing this week, OIS market pricing reflects ~80% probability of a September Fed cut. Around 50bp cuts are priced in by the end of the year (**Figure 4**). We continue to look for the next cut at the December meeting.

Figure 4: After the sharp repricing this week, OIS market pricing reflects ~80% probability of a September Fed cut. Around 50bp cuts are priced in by the end of the year.

Fed meeting steps for the OIS curve and J.P. Morgan forecasts; bp



Source: J.P. Morgan.

In *Japan*, the BoJ kept policy rate on hold at 0.5% on Thursday. Inflation projections were revised higher and the risks to inflation were described as now being balanced (vs. skewed to the downside previously) as widely expected. Ueda noted that the inflation outlook has improved although he did not provide any indication on the next hike. Overall, the BoJ tone remained cautious and market participants seemed to interpret it as being more dovish than expected. We believe that this week's delivery still supports our call for an October cut. We think that market pricing at the front-end will likely remain range bound with market thinking remaining stuck once again in the tug of war between global developments and domestic fundamentals amid ongoing uncertainty over political developments.

In the *UK*, the *BoE* is meeting next week. We expect the BoE will cut 25bps (as widely expected) in a three-way vote split. We expect growth forecast downgrades (at least from 2H25) due to weaker labour demand and increasing slack and we see a good case for a more data-dependent approach to guidance on the future easing pace. We expect quarterly cuts to continue as the BoE has to balance downside risks from a weakening labour market with inflation stickiness. However, we see risks of an acceleration due to rising concerns over

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

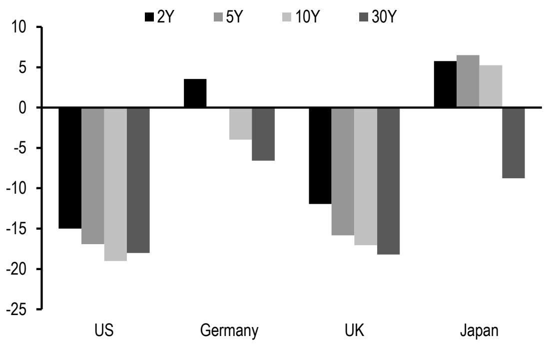
about labour market developments. We see a good case for a more data-dependent approach to guidance on the future easing pace.

In *Australia*, this week core inflation printed at 2.7%oya in the June quarter, below consensus/our forecast but above RBA forecast. We think this shouldn't prohibit a cut at the upcoming meeting (12 August), which is currently fully priced. However, we believe that the gradual moderation in underlying inflation remains consistent with our view of a shallow easing cycle. We expect the next week's RBA guidance to remain cautious, which could lead to a repricing higher in the terminal rate in our view.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 5: Over tha past two weeks, German curve twist flattened given the hawkish ECB delivery while US rates have bullishly flattened with similar moves in UK

Change in b/m yield since 18th July 2025 COB by region, bp



Source: J.P.Morgan.

Figure 6: US and Euro area 2Q GDP prints surprised to the upside. However, the US labour market report was below expectations on Friday, leading to a sharp bullish repricing

Actual print vs. consensus expectations since 21st July 2025

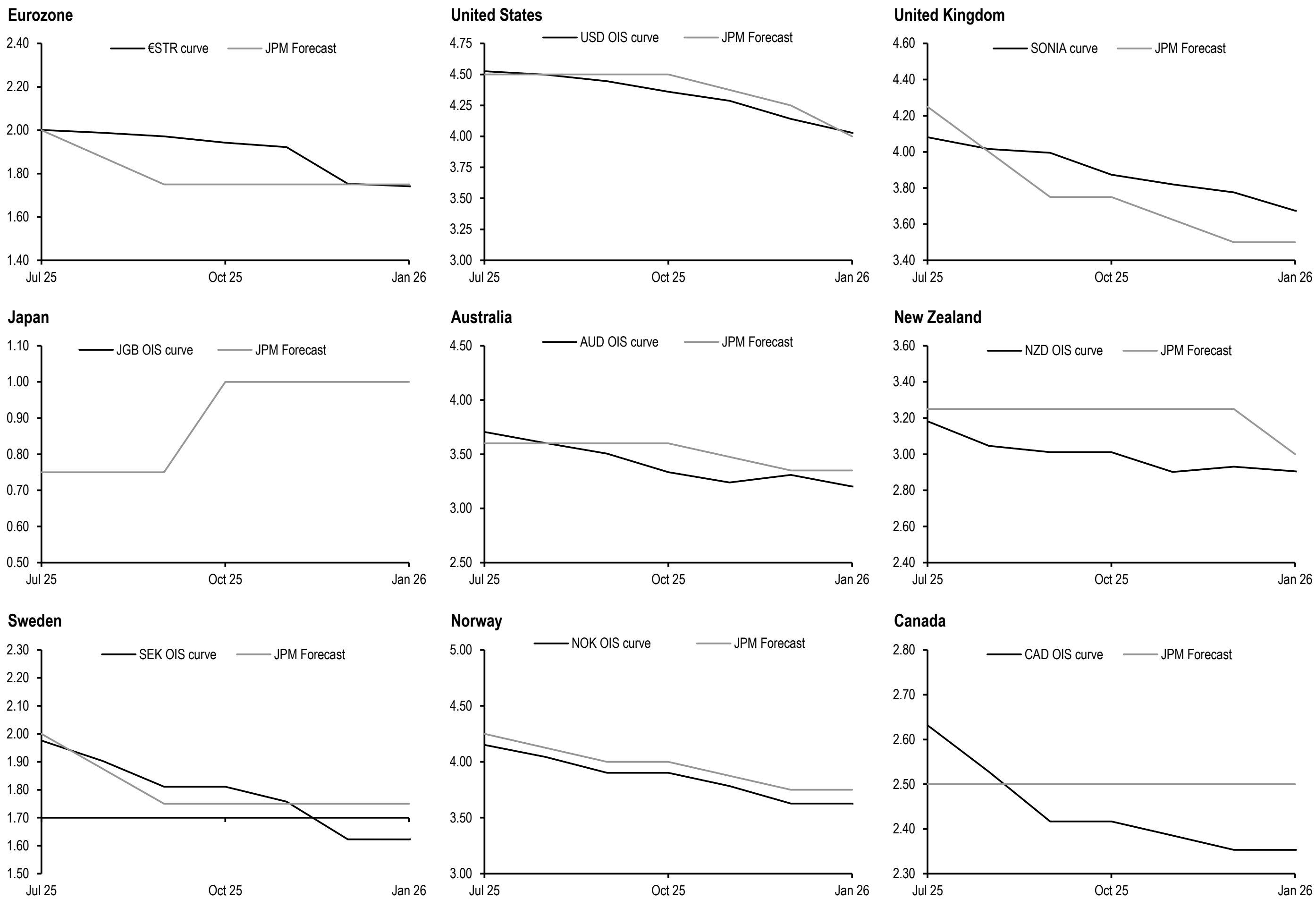
	Surprise		
Region	**Upside**	**In line**	**Downside**
Euro area	Consumer Confidence PMI Serv. & Cmp. Prelim GDP Unemployment Rate HICP Prelim. Germany: Retail Sales Italy: Retail Sales	PMI Mfg Prelim	Germany: IFO Business Survey
US	Jobless Claims PMI Serv. & Cmp Prelim Durable Goods Consumer Confidence ADP Employment GDP Personal Income Core PCE Price Index Employment Cost Index	Unemployment Rate	PMI Mfg Prelim JOLTS Personal Spending Nonfarm Payrolls ISM Mfg Construction Spending U. of Mich. Sentiment
UK	PMI Mfg Prelim		PMI Serv. & Cmp Prelim Retail Sales
Sweden	Unemployment Rate PMI Mfg		GDP
Japan	Industrial Production Retail Sales	Unemployment Rate	Tokyo CPI
Australia	Retail Sales		CPI
New Zealand			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.

Francis Diamond [AC] (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 7: 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 31st July 2025.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 8: 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	2.01	-0.38	0.12	-1.14	0.48	0.23	1.83	-0.31	-0.05	1.40	-0.37	-0.13	-0.03	-0.07	-0.11	0.16	0.20	0.14
5Y	1.71	-0.68	0.21	-1.16	0.46	0.31	1.71	-0.43	0.06	1.35	-0.42	-0.18	-0.10	-0.14	-0.24	0.40	0.46	0.29
10Y	1.64	-0.75	0.23	-1.10	0.52	0.38	1.91	-0.23	0.30	1.58	-0.19	-0.16	-0.24	-0.28	-0.43	0.68	0.82	0.61
30Y	1.75	-0.65	0.41	-0.25	1.37	0.38	2.14	0.00	0.56	1.81	0.05	0.12	-0.42	-0.46	-0.54	0.93	1.14	0.88

^ 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	3.14	-0.87	-0.11	1.14	-0.48	-0.23	1.30	-0.32	-0.07	1.34	-0.28	-0.03	1.28	-0.34	-0.09	2.97	-0.79	-0.28	2.53	-0.85	-0.36	1.11	-0.55	-0.34
5Y	2.87	-1.14	-0.10	1.16	-0.46	-0.31	1.56	-0.06	0.09	1.62	0.00	0.15	1.45	-0.17	-0.02	2.87	-0.89	-0.25	2.51	-0.88	-0.49	1.06	-0.60	-0.55
10Y	2.74	-1.27	-0.15	1.10	-0.52	-0.38	1.78	0.16	0.30	1.92	0.30	0.44	1.71	0.09	0.23	3.00	-0.75	-0.08	2.67	-0.71	-0.54	0.85	-0.81	-0.81
30Y	2.00	-2.01	0.03	0.25	-1.37	-0.38	1.18	-0.44	0.55	1.39	-0.23	0.76	1.13	-0.49	0.50	2.39	-1.36	0.18	2.06	-1.32	-0.26	-0.17	-1.83	-0.92

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	-3.14	0.87	0.11	-2.01	0.38	-0.12	-1.84	0.55	0.04	-1.81	0.59	0.08	-1.86	0.53	0.02	-0.18	0.08	-0.17	-0.61	0.02	-0.26	-2.03	0.32	-0.24
5Y	-2.87	1.14	0.10	-1.71	0.68	-0.21	-1.31	1.08	0.19	-1.25	1.14	0.25	-1.42	0.97	0.08	0.00	0.25	-0.15	-0.36	0.26	-0.39	-1.81	0.54	-0.44
10Y	-2.74	1.27	0.15	-1.64	0.75	-0.23	-0.96	1.43	0.45	-0.82	1.57	0.59	-1.03	1.36	0.38	0.26	0.52	0.07	-0.07	0.56	-0.39	-1.89	0.47	-0.66
30Y	-2.00	2.01	-0.03	-1.75	0.65	-0.41	-0.81	1.58	0.52	-0.61	1.79	0.73	-0.87	1.52	0.47	0.39	0.65	0.15	0.06	0.69	-0.29	-2.17	0.19	-0.95

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	0.18	-0.08	0.17	-1.83	0.31	0.05	-1.66	0.47	0.22	-1.63	0.51	0.25	-1.68	0.45	0.19	-2.97	0.79	0.28	-0.43	-0.06	-0.08	-1.85	0.24	-0.06
5Y	0.00	-0.25	0.15	-1.71	0.43	-0.06	-1.31	0.82	0.34	-1.25	0.89	0.40	-1.42	0.71	0.23	-2.87	0.89	0.25	-0.36	0.01	-0.24	-1.81	0.28	-0.29
10Y	-0.26	-0.52	-0.07	-1.91	0.23	-0.30	-1.23	0.91	0.38	-1.09	1.05	0.52	-1.30	0.84	0.31	-3.00	0.75	0.08	-0.33	0.04	-0.46	-2.15	-0.05	-0.73
30Y	-0.39	-0.65	-0.15	-2.14	0.00	-0.56	-1.21	0.93	0.37	-1.00	1.14	0.58	-1.26	0.87	0.32	-2.39	1.36	-0.18	-0.33	0.04	-0.44	-2.56	-0.46	-1.10

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 31st July 2025.

Francis Diamond [AC] (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 9: 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	0.16	0.20	0.14	0.18	0.07	0.17	0.15	0.10	-0.93	-1.03	-1.03
5Y	0.40	0.46	0.29	0.25	0.12	0.18	0.22	0.12	-0.62	-0.60	-0.63
10Y	0.68	0.82	0.61	0.56	0.18	0.42	0.41	0.30	0.00	-0.13	-0.18
30Y	0.93	1.14	0.88	0.87	0.17	0.45	0.47	0.36	0.78	0.09	0.37

^ 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	1.14	-0.48	-0.23	1.32	-0.30	-0.05	1.21	-0.41	-0.16	1.31	-0.31	-0.06	1.29	-2.41	-2.16	1.23	-2.47	-2.22	1.41	-0.21	0.04	1.31	-0.31	-0.06	1.31	-0.31	-0.06
5Y	1.16	-0.46	-0.31	1.41	-0.21	-0.06	1.28	-0.34	-0.19	1.34	-0.28	-0.13	1.38	-2.04	-1.89	1.28	-2.13	-1.98	1.42	-0.20	-0.05	1.44	-0.18	-0.03	1.42	-0.20	-0.05
10Y	1.10	-0.52	-0.38	1.66	0.04	0.18	1.28	-0.34	-0.20	1.52	-0.10	0.04	1.51	-1.42	-1.28	1.40	-1.53	-1.39	1.57	-0.05	0.09	1.43	-0.19	-0.05	1.39	-0.23	-0.09
30Y	0.25	-1.37	-0.38	1.12	-0.50	0.49	0.43	-1.19	-0.21	0.70	-0.92	0.07	0.73	-0.89	0.09	0.61	-1.01	-0.02	1.04	-0.58	0.40	0.34	-1.28	-0.29	0.62	-1.00	-0.01

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	-2.01	0.38	-0.12	-1.83	0.56	0.05	-1.94	0.45	-0.05	-1.84	0.56	0.05	-1.85	0.54	0.03	-1.91	0.48	-0.03	-1.73	0.66	0.15	-1.84	0.55	0.04	-1.84	0.55	0.05
5Y	-1.71	0.68	-0.21	-1.46	0.93	0.05	-1.59	0.80	-0.09	-1.53	0.86	-0.03	-1.49	0.90	0.01	-1.59	0.80	-0.09	-1.45	0.94	0.06	-1.43	0.97	0.08	-1.45	0.94	0.05
10Y	-1.64	0.75	-0.23	-1.08	1.31	0.33	-1.46	0.93	-0.05	-1.22	1.17	0.19	-1.23	1.16	0.18	-1.34	1.05	0.07	-1.17	1.22	0.24	-1.31	1.08	0.10	-1.35	1.04	0.06
30Y	-1.75	0.65	-0.41	-0.87	1.52	0.46	-1.57	0.82	-0.23	-1.30	1.09	0.04	-1.27	1.12	0.07	-1.39	1.01	-0.05	-0.96	1.43	0.38	-1.66	0.73	-0.32	-1.38	1.02	-0.04

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	-1.83	0.31	0.05	-1.65	0.49	0.23	-1.76	0.38	0.12	-1.66	0.48	0.22	-1.67	0.46	0.20	-1.73	0.40	0.15	-1.56	0.58	0.32	-1.66	0.48	0.22	-1.66	0.48	0.22
5Y	-1.71	0.43	-0.06	-1.46	0.68	0.20	-1.59	0.55	0.06	-1.53	0.60	0.12	-1.49	0.64	0.16	-1.59	0.55	0.06	-1.45	0.69	0.20	-1.42	0.71	0.23	-1.45	0.68	0.20
10Y	-1.91	0.23	-0.30	-1.35	0.79	0.26	-1.72	0.41	-0.12	-1.49	0.65	0.12	-1.49	0.64	0.11	-1.60	0.53	0.00	-1.44	0.70	0.17	-1.57	0.56	0.03	-1.62	0.52	-0.01
30Y	-2.14	0.00	-0.56	-1.27	0.87	0.31	-1.97	0.17	-0.38	-1.69	0.45	-0.11	-1.67	0.47	-0.08	-1.78	0.36	-0.20	-1.36	0.78	0.23	-2.05	0.08	-0.47	-1.77	0.37	-0.19

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 31st July 2025.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 10: 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	Long 10Y Germany Rec 1Yx1Y €STR 6Mx2Y A-12/A-50 rec spread vs A+32 payer	2s/10s bear steepener via 3M OTM Payer	Schatz widener	Schatz/Bund flattening bias	Sell 3Mx(1Yx1Y) unhedged straddle Sell 3Mx2Y gamma	Bearish	Bearish bias on 5Yx5Y HICP OATei40 ASW IOTA wideners Longs 10Y real EUR swaps	3s/10s Italy steepener vs. Germany OW 10Y Spain vs. Italy/Germany wtd. Fly OW 10Y Belgium vs. France/Germany wtd. Fly OW 10Y EU vs. France/Germany wtd. Fly
UK	Neutral	3Mx1Y/15Mx1Y SONIA flattener 2s/10s conditional bull steepener via 3M receivers	ST range trade and MT narrowing bias on 10Y swap spread	Neutral	Buy A/A-50 receiver spread vs OTM payer		Bullish bias on 1Yx1Y RPI Tactical flattening bias 10s/30s RPI curve	
US	Neutral	3s/20s UST curve steepeners 3s/10s/30s belly cheapening butterflies Maintain well-hedged relative value trades on the swap yield curve	Neutral	Neutral	Neutral		Neutral	
Japan		2s/10s JGB curve flattener		10s/30s swap spread curve flattener				
Australia / New Zealand	Receive AUD 2Yx1Y IRS	ACGB 3s/10s futures curve flattener						Pay Dec '25 RBA-RBNZ OIS spread Pay AUD-USD 2Yx2Y spread 1s/3s BBSW-SOFR basis steeper NZD-USD 2s/10s swap box flattener
Scandinavia	Bullish bias	Neutral	10Y Sweden narrower	Neutral			Neutral	Neutral

Source: J.P. Morgan.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Figure 11: 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	17	10	7	-	59%	-1
	Duration	2	1	1	-	50%	-8
	Curve	2	-	2	-	0%	-6
	Country selection / RV	8	5	3	-	63%	-1
	SSA	3	3	-	-	100%	6
	Miscellaneous***	-	-	-	-	-	-
	Inflation	2	1	1	-	50%	-1
Euro Derivatives (swaps and spreads)	Overall	41	26	8	7	76%	1
	Duration	10	6	3	1	67%	2
	Curve	3	3	-	-	100%	6
	Conditional curve / flies	15	8	2	5	80%	0
	Swap Spreads	9	6	2	1	75%	0
	Miscellaneous	4	3	1	-	75%	3
Euro Derivatives (options)	Overall	12	9	3	-	75%	38
	Options (outright)	11	8	3	-	73%	40
	Options (relative)	1	1	-	-	100%	25
	Options (money market)	-	-	-	-	-	-
UK	Overall (ex. options)	14	9	5	-	64%	3
	Duration	5	4	1	-	80%	4
	Curve	5	4	1	-	80%	3
	Swap spreads	1	1	-	-	100%	9
	RV	-	-	-	-	-	-
	Conditional curve / flies	-	-	-	-	-	-
	SSA	-	-	-	-	-	-
	Inflation	3	-	3	-	0%	-2
	Miscellaneous	-	-	-	-	-	-
	Options	-	-	-	-	-	-
Scandinavia	Overall	9	6	3	-	67%	6
	Duration	4	2	2	-	50%	-2
	Curve / Swap Spreads	2	2	-	-	100%	12
	Country selection / RV	3	2	1	-	67%	12
	Inflation	-	-	-	-	-	-
Japan	Overall (ex. options)	3	2	1	-	67%	15
	Duration	-	-	-	-	-	-
	Curve	1	-	1	-	0%	-1
	Country selection / RV	-	-	-	-	-	-
	Swap Spreads	2	2	-	-	100%	23
	FX Basis	-	-	-	-	-	-
	Inflation	-	-	-	-	-	-
	Miscellaneous	-	-	-	-	-	-
	Options	-	-	-	-	-	-
Australia and New Zealand	Overall (ex. options)	17	12	5	-	71%	7
	Duration	5	4	1	-	80%	15
	Curve	-	-	-	-	-	-
	Country selection / RV	11	7	4	-	64%	2
	CDS	-	-	-	-	-	-
	Inflation	1	1	-	-	100%	23
	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.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Elisabetta Ferrara (44-20) 7134-2765
elisabetta.ferrara@jpmorgan.com
J.P. Morgan Securities plc

Table 1: Highlights from recent publications with hyperlinks

	Recent publications	Date
Previous GFIMs	Global Fixed Income Markets Weekly: Waiting for the tariff shoe to drop	18-Jul
	Global Fixed Income Markets Weekly: Range-trading, carry and seasonals	11-Jul
Global	Global SSA Jul25 Outlook: OW EU, UW $-SSA, neutral £-SSA	10-Jul
	Global Swap Spread Outlook: DM swap spreads: still room for further narrowing	26-Jun
	Cross currency basis 2H25 Outlook: Domestic idiosyncratic drivers in the limelight	05-Jun
	2025 Global government issuance outlook	16-Jan
Europe	ECB: Still in a good position: Keep selective long duration and short vol positions	24-Jul
	European Client Survey - Increased OW periphery exposure	24-Jul
	ECB PEPP & APP: All the numbers	09-Jul
	Euro area government issuance 3Q25 update: Pressure on primary to ease after heavy 1H25	02-Jul
	Scandinavia monthly interest rate outlook: 2H25 Outlook: Moving along a narrow path	26-Jun
	De-dollarisation flows update: No clear evidence of de-dollarasiation flows in Euro govie markets in April	19-Jun
	Making European (govies) Great Again: How to track de-dollarisation demand	14-May
	European bond futures rollover outlook: June 2025/September 2025	13-May
	EUR 10s/30s curve update: Navigating Dutch PF reforms	10-Apr
	European rates: Top Trumps for tariffs	03-Apr
	UK:No spring statement surprise, more interesting gilt remit	26-Mar
	Going green in Europe: A green market dashboard for Euro area sovereigns, the UK and the EU	20-Mar
	Euro area government issuance Mar25 preview	27-Feb
	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
US	Macro Corporate Spotlight: De-dollarization: Fact and fable	03-Jun
	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	Monthly Inflation Outlook: Tactically trading break-evens in narrow ranges	02-Jul
	Inflation Markets Bitesize Series: SDR inflation swap flows 1Q25 update	11-Jun
	J. P. Morgan Inflation Expectations Survey: Short-term inflation expectations rise: results from the 35th J.P. Morgan Inflation Expectations Survey	02-Jun
Japan	Japan Rates Topics: JGBs: After the Upper House Election	22-Jul
	Japan Rates Topics: Japan Flows in Pictures: June 2025	08-Jul
Australia & New Zealand	The Antipodean Strategist: Paper cuts	17-Jul
	The Antipodean Strategist: Independence of Irrelevant Alternatives	10-Jul
2025 Outlooks	Global Fixed Income Markets Weekly: 2H25 Outlook: Tariff fatigue, range trade yields, selectively seek carry	16-Jun
	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.

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Euro Cash

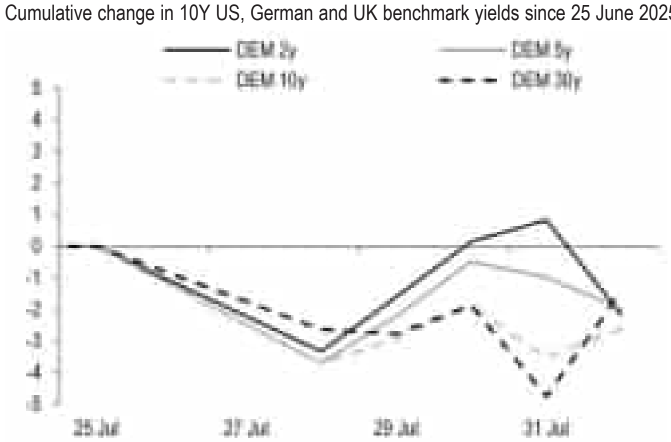
Tactical long 10Y Germany, neutral intra-EMU/€-SSA

- **German yields are ending the week modestly lower after moving in wide ranges on the back of a combination of domestic and US factors**
- **Hold tactical long in 10Y Germany (Bund Feb35) with a tight stop loss**
- **Stay light on intra-EMU/€-SSA carry exposures and keep preference for OW exposures with at least partial hedge vs. UW France or UW Italy to reduce beta to broader risk markets**
- **Hold OW 10Y Spain (100%) vs. Italy (50%) and Germany (50%) and OW 10Y EU (100%) vs. France (50%) and Germany (50%) and OW 10Y Belgium (100%) vs. France (50%) and Germany (50%)**
- **For investors looking to enter carry exposures, Spain, EU, Greece and NRW in intermediate sectors remain our favorite picks**
- **Hold 3s/10s Italy steepener vs. Germany as a risk-off hedge**
- **Supply: around €25bn of conventionals via auction next week in Austria, France, Germany and Spain**

This was a choppy week for Euro rates markets with German yields ending the week modestly lower (**Figure 12**). Cross-market, German yield were relative outperformer in short and intermediate sectors and modest underperformer in long end. Euro rates were driven by a combination of domestic (EU-US trade deal, July flash CPI, hawkish ECB commentaries) and US (US payroll, FOMC, US refunding announcement) developments. The moves were also likely exaggerated due to poor summer market liquidity.

Figure 12: This was a choppy week for Euro rates markets with German yields doing around 10bp round trip

Cumulative change in 10Y US, German and UK benchmark yields since 25 June 2025; bp



Source: J.P. Morgan

Euro rates market reaction this week to the EU-US trade deal announcement was quite muted, which is not surprising given that a potential 15% tariff deal was already flagged in media articles the previous week. As discussed in [Euro area GDP: Modest expansion in 2Q, nudging up 3Q](), G. Fuzesi, visibility about the Euro macro outlook remains low given the many cross-currents. Our economists still expect US trade policy to be a drag on Euro area growth but align 3Q25 closer to the July PMI nudging it up to 0.75%q/q saar vs. 0.5% q/q saar

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

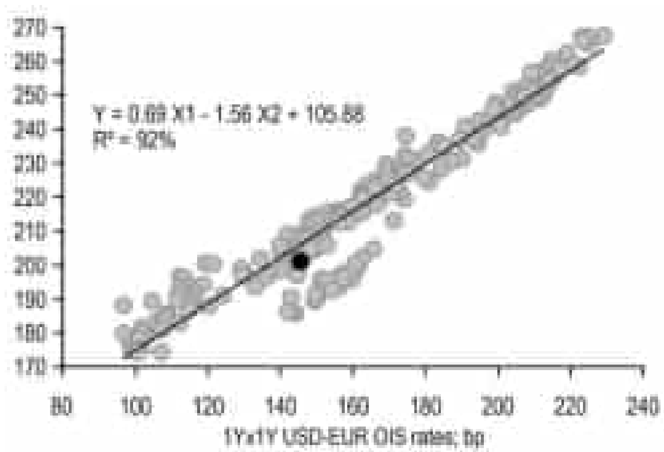
previously. The next 1-2 PMI reports will give an important steer on this, but of course assessments of the EU-US trade deal and the inflation data will be crucial as well for the ECB. On inflation front, the ongoing deceleration of core, especially core services inflation, supports our forecast of core inflation settling below 2% ECB target by 2026 (see *Euro area: Services inflation pressures are moderating*). We, therefore, remain comfortable with our call for a final 25bp cut in October.

As discussed in our post ECB *update* last week, despite ECB's hawkish delivery, we retain a medium-term bullish duration bias driven by our view of the ECB delivering at least one more 25bp cut, expectation of limited term premia in German curve, positive carry, improving long-term demand for EGBs from de-dollarisation and risks still biased to some softening in growth after recent resilience. 10Y German yield is still pricing around 5bp of term premia, which, as discussed in our recent pieces, is excessive as in our view fiscal term premia is not a German story (see *Euro Cash*, 27 June). With our expectation of limited sell-off pressure coming from front-end (see *European Derivatives*) and with intermediate German yields still pricing decent term premia, **we hold tactical long in 10Y Germany** (Bund Feb35) with a stop loss at 2.72%. Despite the sharp sell-off post ECB meeting last week, the Bund Feb35 failed to decisively break above 2.72%.

Cross-market, we find US-Germany spread too tight (i.e. US yield expensive vs. Euro) after adjusting for relative money-market expectations and relative change of forecast revision indices (**Figure 13**).

Figure 13: We find US-Germany spread too tight (i.e. US yield expensive vs. Euro) in intermediate sectors after adjusting for relative money-market expectations and relative change of forecast revision indices

5Y US-Germany yield spread regressed against 1Yx1Y USD-EUR OIS rate and US-Euro Forecast revision index (FRI); past 12M; bp



Source: J.P. Morgan

Intra-EMU spreads

Intra-EMU spreads are modestly tighter over the week on the back of broader risk-on tone in global markets and also reducing US-Europe trade related uncertainty. Italy was the relative outperformer and long-end Netherlands was the exception where spreads are modestly wider over the week.

Our intra-EMU/€-SSA strategy is unchanged. We maintain a light outright exposure given limited carry/tight valuations and OW positioning. **We continue to prefer to express OW**

Aditya Chordia AC (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

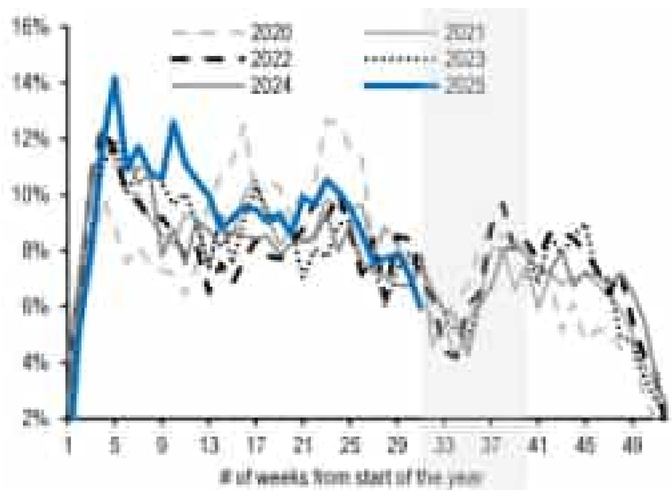
intra-EMU/€-SSA spreads with at least partial hedge vs. UW France or UW Italy to reduce beta to broader risk markets. Also, for investors looking to enter carry exposures, we still find Spain, EU, Greece and NRW in intermediate sectors attractive.

On the *issuance* front, in line with typical summer dynamics, EGB issuance pace has already started to slow down and we expect it to further decelerate up until mid-August, to then pick-up only around the last week of August (**Figure 14**). Both Italy and Spain have canceled their mid-August auctions, as expected, and we anticipate limited syndicate activity until late-August in EGB space.

On *positioning*, as per our latest client *survey*, 24 July, European real money investors modestly increased their OW intra-EMU exposure, with current OW exposures still close to the highest levels seen since early-2022 (**Figure 15**). The current OW positioning could expose intra-EMU spreads to near-term widening pressure on carry exposure liquidations in the event of any risk-off shock, with moves likely getting exaggerated during poor summer liquidity.

Figure 14: EGB issuance pace has already started to slow down and we expect it to further decelerate up until mid-August, to then pick-up only around the last week of August

4W rolling Euro area conventional issuance pace; % of total annual gross conventional issuance



Source: J.P. Morgan

Figure 15: European investors OW exposure remains close to the highest levels seen since early 2022

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

Source: J.P. Morgan European Client *Survey*, 24 July

Intra-EMU trading themes

We keep low beta OW exposures via OW 10Y Spain (100%) vs. 10Y Italy (50%) and 10Y Germany (50%) and OW 10Y EU (100%) vs. short 10Y France (50%) and 10Y Germany (50%). On RV, we hold OW 10Y Belgium (100%) vs. short 10Y France (50%) and 10Y Germany (50%). We keep 3s/10s Italy steepener vs. Germany as a risk-off hedge.

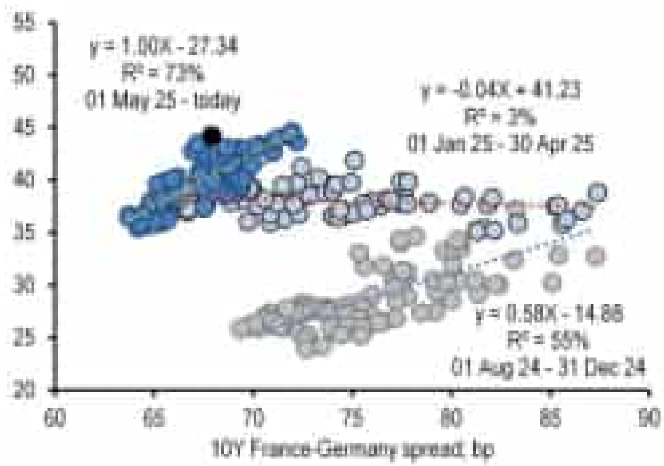
In France, we stay Neutral and will be looking to scale into UW exposure on any tightening move to position for potential political noise in the autumn. We have been partly hedging our OW EU and Belgium exposures with UW France which would also benefit from any potential French political noise.

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

On the French credit curve, the 3s/10s box vs. Germany has been exhibiting bear steepening/ bull flattening dynamics since early May after moving broadly sideways with limited directionality versus level of spreads since the beginning of year (**Figure 16**). The 3s/10s box is screening more than 3bp too steep. As discussed in our previous publications, as per anecdotal evidence OW short-end France on ASW or vs. Germany for carry is a consensus view. In our view, the positioning technicals likely explains the stickiness/resilience of short-end OAT spreads over the past few months. This positioning makes short-end OATs particularly susceptible to the risk of carry trade liquidations.

Figure 16: The 3s/10s France-Germany has started to exhibit bear steepening/bull flattening dynamics over the past few weeks after moving broadly sideways with limited directionality with level of spreads since the beginning of the year

3s/10s France-Germany box against 10Y France-Germany spread; bond specific; bp



Source: J.P. Morgan

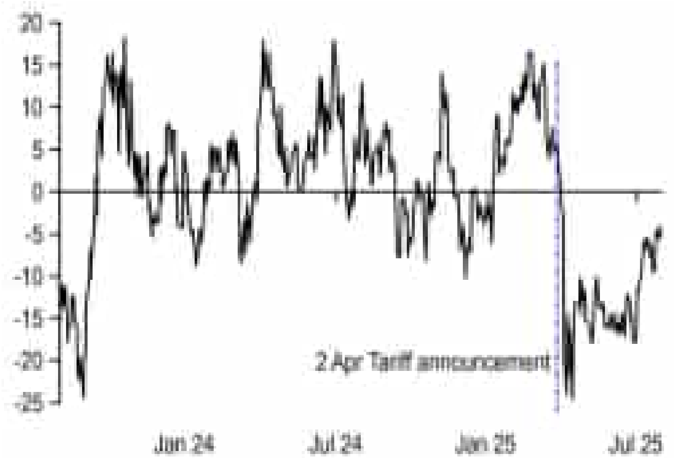
Italian spreads have sharply lagged other Euro credit spreads during the recent risk-on spread tightening move and have now almost fully corrected their excessive relative expensiveness, which they have been trading with since 2 April US tariff announcement (**Figure 17**). As discussed in previous publication (see *here*), the relative outperformance of Italian spreads vs. Euro credit spreads since 2 April intuitively was not clear to us and we, therefore, expected it to gradually reverse. We continue to find risk-reward in Italian carry exposures quite poor. On the contrary, **we continue to hold 3s/10s steepener vs. Germany as a low beta risk-off proxy**.

Spain still remains our favorite pick for strategic OW in intra-EMU space. As discussed in *Spain GDP: Keeping at an elevated pace*, M. Monterio, Spanish GDP rose 3%ar in 2Q25, well above consensus expectations, driven by domestic demand. Spain continues to outperform its regional counterparts, and activity looks likely to remain buoyant in the near term. **We hold longs in 10Y Spain (100%) vs. 10Y Italy (50%) and 10Y Germany (50%) on a risk weighted fly** (**Figure 18**). The trade carries modestly positive roughly 0.4bp over 3M). The fly moved broadly sideways this week.

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Figure 17: Italian spreads have almost fully corrected their excessive expensiveness relative to Euro IG credit spreads, which they have been trading with since 2 April US tariff announcement

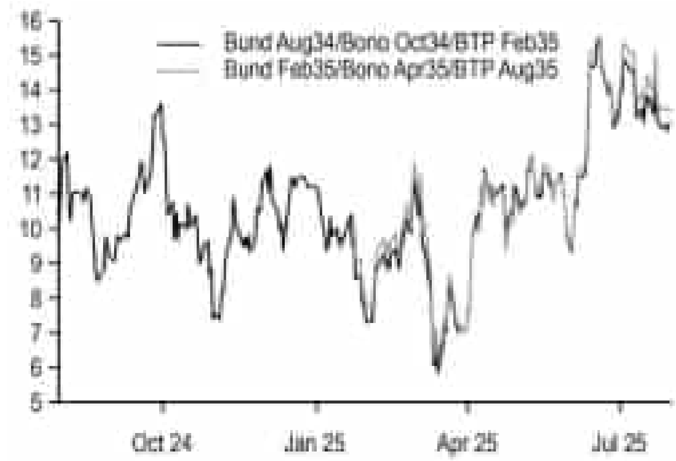
Residual from regressing 10Y Italy-Germany spread vs. EUR IG spreads to Germany*; par rates used; past 2Y; bp



* 10Y Italy-Germany = 1.19*EUR IG spread to Bund – 17.1; R-squared: 89%
Source: J.P. Morgan

Figure 18: We hold longs in 10Y Spain (100%) vs. 10Y Italy (50%) and 10Y Germany (50%) on a risk weighted fly

10Y 50%/100%/50% Germany/Spain/Italy yield fly; bond specific; bp



Source: J.P. Morgan

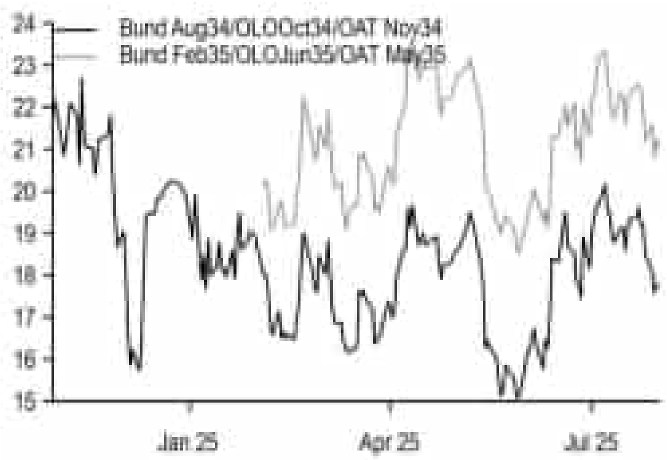
In Belgium, we hold longs in 10Y vs. France (50%) and Germany (50%) on a risk weighted fly (**Figure 19**), given attractive valuations and a way to play for potential political/rating noise in France post summer. Also the recent US-Europe trade deal of potential 15% tariffs on pharmaceutical sector, is a positive for Belgium and Ireland, economies with the highest pharmaceuticals exports, as it reduces the uncertainty for the sector and possibly a better than expected outcome. The fly richened modestly over the past week.

In **Finland**, the modest expensiveness of the intermediate sectors we flagged two weeks back has almost fully corrected (**Figure 20**). We expect Finland to syndicate a 5-7Y benchmark, mostly in late August, and, therefore, expect the sector to remain under pressure going forward.

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Figure 19: We hold longs in 10Y Belgium vs. 10Y France (50%) and 10Y Germany (50%) on a risk weighted fly

10Y 50%/100%/50% Germany/Belgium/France yield fly; bond specific; bp



Source: J.P. Morgan

Figure 20: The modest expensiveness of the intermediate sectors on the Finnish credit curve has almost fully corrected

Residual* from regressing 50:50 3s/5s/10s (3s/7s/10s) Finland-Germany fly vs. 3s/10s Finland-Germany curve (X1) and 5Y (7Y) Finland-Germany spread (X2); past 6M; bond specific used; bp

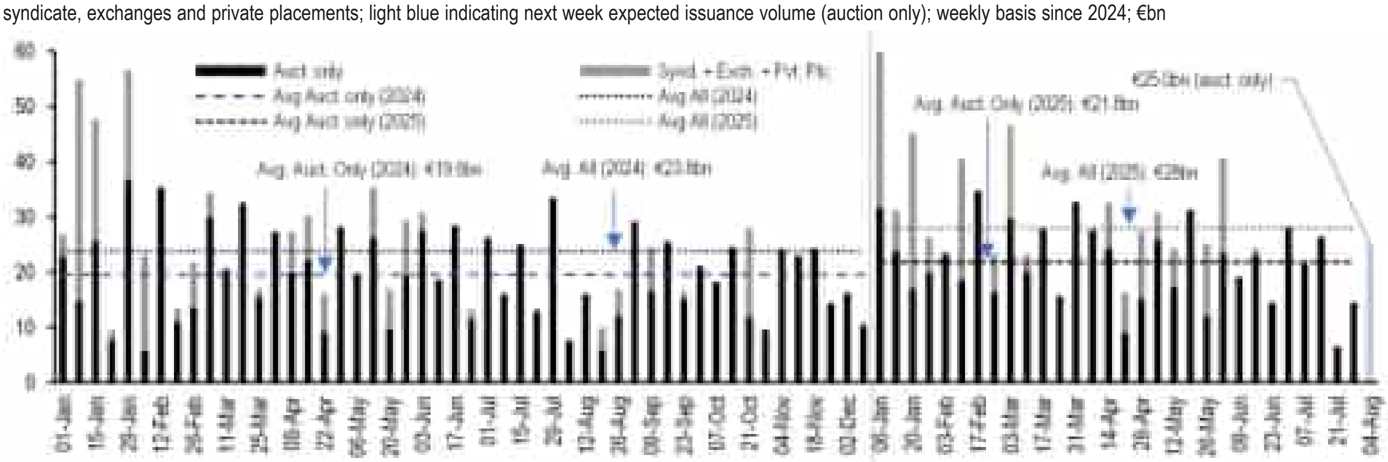
Source: * 3s/5s/10s/ Finland-Germany fly = 0.52*3s/10s Finland-Germany curve – 0.17*5Y Finland-Germany spread – 19.108 R-sqr = 69%.
3s/7s/10s/ Finland-Germany fly = 0.33*3s/10s Finland-Germany curve – 0.08*7Y Finland-Germany spread – 0.67; R-sqr = 49%

Issuance

We expect around €25bn of conventional bond supply next week (Figure 21). Conventional auctions are scheduled in Germany, Austria, France and Spain (**Figure 22**).

Figure 21: We expect around €25bn of conventional bond supply next week

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

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Figure 22: Conventional auctions next week are scheduled in Germany, Austria, France and Spain

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

		Issuer	Short	Medium	Long	Ultralong
Tue	05-Aug	Germany	Sep27 5.0			
Tue	05-Aug	Austria		Feb33 0.4	Feb35 1.0	
Wed	06-Aug	Germany				May38 1.5
Wed	06-Aug	Germany				Jul42 1.0
Thu	07-Aug	Spain	May28 2.0		Oct35 2.0	Jul43 1.5
Thu	07-Aug	France			May 34, May 36 6.0	May 40, Apr55 4.5
Tue	12-Aug	Finland		TBC 1.5		
Wed	13-Aug	Portugal		TBC		
Wed	13-Aug	Germany			Aug35 5.0	
Tue	19-Aug	Germany		Oct30 4.5		
Wed	20-Aug	Germany				Aug54 1.5
Wed	20-Aug	Germany				1.0
Thu	21-Aug	France	4.0	5.0		
Mon	25-Aug	Belgium			1.5	1.5
Wed	27-Aug	Germany		Nov32 4.0		
Wed	27-Aug	Portugal		TBC		
Thu	28-Aug	Finland		ORI (TBC)		
Thu	28-Aug	Italy		3.5	3.5	

Source: Debt Management Offices, J.P. Morgan

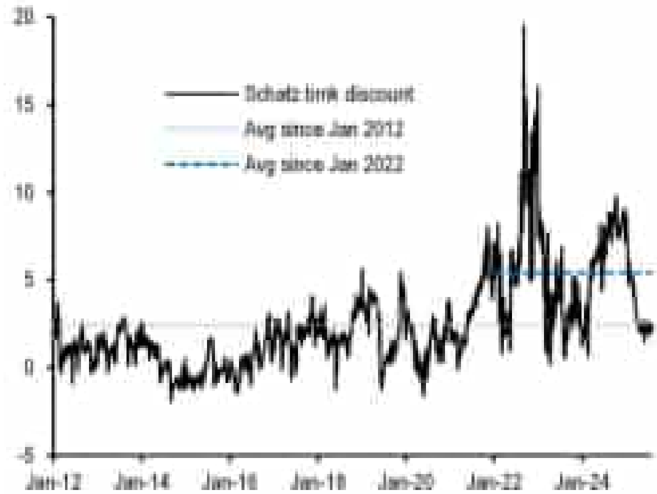
<u>Schatz Sep27: fair</u>

This will be the first tap of the recently issued 2Y German benchmark. The Schatz Sep27 is currently trading with a benchmark discount of around 2.3bp relative to surrounding old Bunds, well below the average benchmark discount observed since early 2022 (~5.4bp), but in line with the long run average benchmark discount (~2.4bp since early 2012), and looks broadly fair in our view (**Figure 23**).

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Figure 23: The 2Y German benchmark is currently trading with a benchmark discount of around 2.3bp relative to surrounding old Bunds, broadly fair in our view

Benchmark discount* on 2Y Schatz; bp



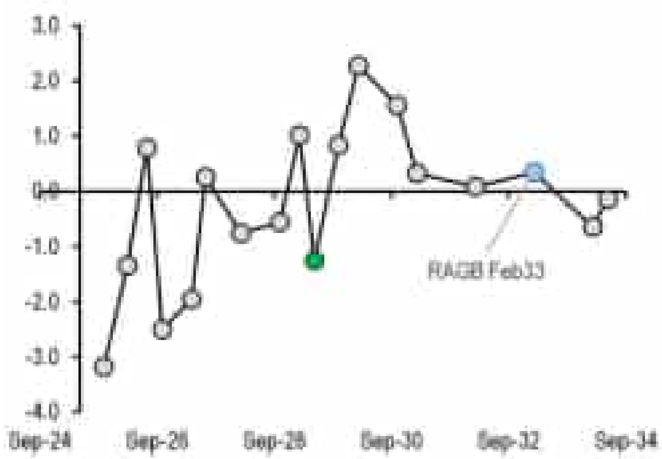
* Benchmark discount is calculated as the difference between 2Y benchmark (Schatz) yield and interpolated yield calculated using surrounding Bunds
Source: J.P. Morgan

RAGB Feb33: fair

The RAGB Feb33 is currently trading broadly fair on the Austria curve based on our par curve fair value model (**Figure 24**).

Figure 24: The RAGB Feb33 is currently trading broadly fair based on our par curve fair value model

3M Yield Error Z-score* for Austrian bonds with maturities up to May34; green dots represent Austrian green bonds



* Z-score computed from 3M history of bond yield error. Yield error = actual bond yield - model yield calculated using JP Morgan par curve model
Source: J.P. Morgan

RAGB Feb35: cheap

The 10Y Austrian benchmark is currently trading with a benchmark roll (z-spread pick-up over the off-the-run RAGB Feb34) of around 6.1bp, above the average benchmark roll observed since the RAGB Feb35 first issuance in late January (~4.9bp, see **Figure 25**), and

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

well above the average benchmark roll observed on the Austrian 10Y benchmark since early 2023 (~3.8bp), and looks cheap in our view.

Figure 25: The 10Y Austria benchmark is now trading with a benchmark roll of 6.1bp, above the average observed since its first issuance in late January and well above the average benchmark roll observed since early 2023, and looks cheap in our view

Benchmark roll* on 10Y RAGB (cross represents new 10Y RAGB benchmark issuance); since 01 Jan 2023; bp

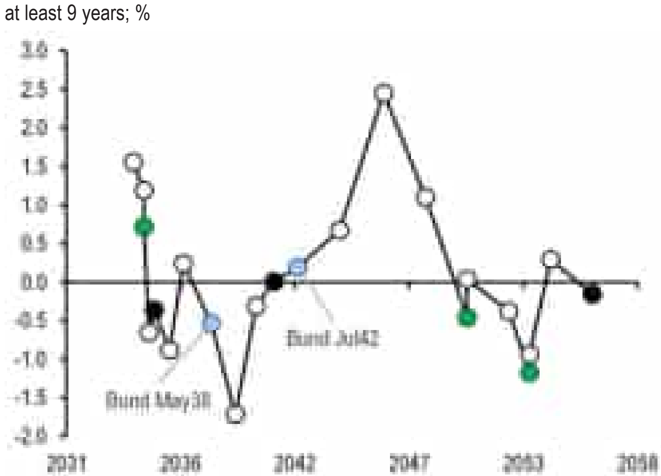
*Benchmark roll is defined as z-spread pick-up over off-the-run benchmark
Source: J.P. Morgan

<u>Bund May38 & Jul42: fair</u>

The Bund May38 and Bund Jul42 are currently trading fair on the German curve based on our yield vs. modified duration framework (**Figure 26**).

Figure 26: The Bund May38 and Bund Jul42 are currently trading fair on the German curve based on our yield vs. modified duration framework

6M Z-score of residual from regressing bond yield vs. corresponding modified duration; black dots represent current 10Y, 15Y and 30Y German benchmarks; green dots represent German green bonds; includes German bonds with residual maturity of at least 9 years; %



Source: J.P. Morgan

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

OAT May34: fair

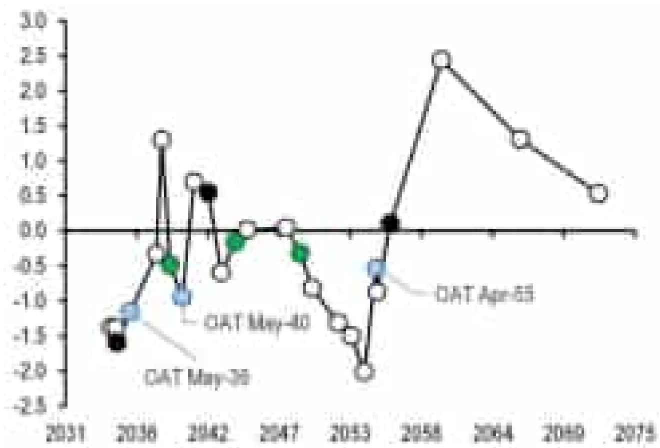
The OAT May34 is currently trading broadly fair on the French curve based on our par curve fair value model.

OAT May36 & OAT May40: modestly dear

The OAT May36 and OAT May40 are currently trading modestly dear on the French curve based on our yield vs. modified duration framework (**Figure 27**).

Figure 27: The OAT May36 and OAT May40 are currently trading modestly dear on the French curve, while the OAT Apr55 is currently trading fair, based on our yield vs. modified duration framework

6M Z-score of residual from regressing bond yield vs. corresponding modified duration; black dots represent current 10Y, 15Y and 30Y French benchmarks; green dots represent French green bonds; includes French bonds with residual maturity of at least 9 years; %



Source: J.P. Morgan

OAT Apr55: fair

The OAT Apr55 is currently trading broadly fair on the French curve based on our yield vs. modified duration framework (**Figure 27**).

Bono May28: fair

The 3Y Spanish benchmark is currently trading on the Spanish curve with a benchmark discount of around 3.7bp relative to surrounding bonds, broadly in line with the average benchmark discount observed over the past 12M (~3.5bp), fair in our view.

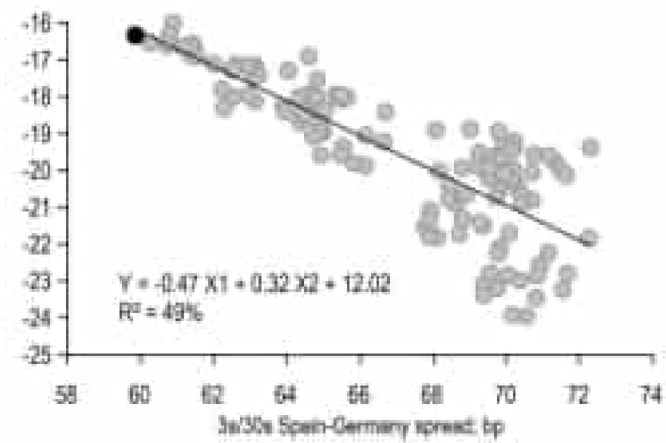
Bono Oct35: cheap

The 10Y sector is trading fair on the Spanish curve regressed vs. 3Y and 30Y sectors (**Figure 28**). Within the sector, the Bono Oct35 is currently trading with a benchmark discount of around 3.4bp relative to surrounding bonds, broadly in line with the average benchmark discount observed since the bond first issuance in early May (~3.5bp), but above the average benchmark discount observed over the past 6M (~2.6bp), cheap in our view.

Aditya Chordia AC (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Figure 28: The 10Y sector on the Spanish curve appears to be trading fair regressed vs. 3Y and 30Y

50:50 3s/10s/30s Spain-Germany fly regressed against 3s/30s Spain-Germany curve (X1) and 10Y Spain-Germany spread (X1); par curve used; past 6M; bp



Source: J.P. Morgan

Bono Jul43: dear

The Bono Jul43 is currently trading dear on the Spanish curve based on our yield vs. modified duration framework.

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Trade recommendations*

German trades

- **Keep long 10Y Germany**
  Keep long €100mn Bund Feb25 @ 2.63%. 3M carry: 1.6bp and 3M slide 2.0bp; P&L since inception (27 Jun 2025): -2.7bp;

Country selection & RV trades

- **Keep 3s/10s Italy steepener vs Germany**
  Keep short €50m BTP Oct35 vs. long €140.8m BTP Jun28 and long €50.2m Bund Feb35 vs. short €144.1m Bund Aug28 @ 56.5bp. 3M carry: -1.2bp and 3M slide: 1.9bp. P&L since inception (16 May 2025): -10.1bp;
- **Keep long 10Y Spain vs Italy/Germany (50%/100%/50%)**
  Keep long €50m Bono Apr35 vs. short €25.0m BTP Oct35 and €24.6m Bund Feb35 @ 11.3bp. 3M carry: 0.3bp and 3M slide: 0.1bp; P&L since inception (09 May 2025): -1.1bp.
- **Keep long 10Y Belgium vs France/Germany (50%/100%/50%)**
  Keep long €50m OLO Jun35 vs. short €25.4m OAT May35 and €23.9m Bund Aug35 @ 19.3bp. 3M carry: 0.6bp and 3M slide: 0.7bp; P&L since inception (18 Jul 2025): 0.3bp.

SSA trades

- **Keep long 10Y EU vs Germany/France (50%/100%/50%)**
  Keep long €50m EU Dec35 vs short €26.5m Bund Feb35 and €26.8m OAT May35 @ 15.9bp. 3M carry: 0.5bp and 3M slide: 0.1bp; P&L since inception (03 Jun 2025): 4.4bp.

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

Aditya Chordia [AC] (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Matteo Mamprin (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc

Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
DURATION			
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
Long 10Y Germany	09-May-25	20-Jun-25	4.3
CURVE			
10s/15s Germany curve steepener	01-Mar-24	12-Jul-24	0.3
2s/10s Germany curve flattener	03-Apr-25	11-Apr-25	-8.0
5s/10s/30s Germany belly richener	21-Mar-25	11-Apr-25	-4.0
COUNTRY SELECTION/RELATIVE VALUE			
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
Short 9Y Portugal vs. Spain	15-Nov-24	04-Apr-25	11.0
10s/30s Spain flattener vs. Italy	24-Jan-25	04-Apr-25	1.0
30s/50s France flattener	07-Mar-25	30-May-25	-19.7
Short 3Y France vs. Germany	14-Mar-25	27-Jun-25	-6.0

TRADE	ENTRY	EXIT	P&L
SSA			
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

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

European Derivatives

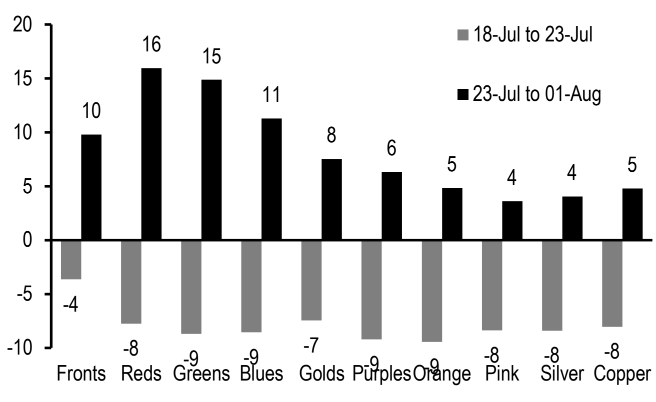
Hold long duration and short vol

- **The ECB kept rates on hold last week but raised the bar for further cuts as they are now in "wait and watch" mode. We expect a final cut in October**
- **Stay received 1Yx1Y €STR on medium term downside risks considerations. Also hold 6Mx2Y receiver spread versus OTM payer; favour Dec25/Dec26 Euribor curve flattener as a low-beta long duration proxy**
- **Keep 2s/10s conditional bear steepener via 3M OTM payers**
- **Medium term steepening bias on 10s/30s swap curve but with low conviction given current valuations; hold 1Yx(10s/30s) A/A+20/A+40 YCSO CMS curve cap fly**
- **Favour 2Yx2Y/10Yx10Y swap curve steepener vs 10s/30s flattener on a beta-adjusted basis as a RV trade with positive carry characteristics**
- **Front-end swap spreads are expected to stay in a narrow range; Keep tactical Sep25 Schatz €STR swap spread widener**
- **Medium-term narrowing bias on Bund spreads but wait for better entry levels**
- **Flattening bias on Schatz/Bund swap spread curve**
- **Stay short 3Mx2Y gamma and 3Mx(1Yx1Y) unhedged straddles**

The last two weeks have been a story of two halves, with the ECB July meeting acting as a natural divider. €STR 1Y forward yields were declining in the days prior to the meeting but the curve has bear flattened significantly since then. US data has also induced some volatility with the payroll data reversing some of the earlier flattening moves. Overall, the 1Yx1Y/9Yx1Y curve has flattened around 12bp since our last publication two weeks ago (**Figure 29**). To recap, after seven consecutive cuts since last September, the ECB kept policy rates unchanged at 2% (depo rate). While this was along expected lines, the press conference was decidedly hawkish. The ECB raised the bar and narrowed the path for a September cut. President Lagarde discarded the minor deviation in 2026 staff core inflation forecast of 1.9% from their target while highlighting the recent resilience in the economy, even though tariff related downside remains.

Figure 29: The €STR forward curve twist flattened on hawkish ECB and global flattening of the yield curve

2W change in various 1Y forward €STR yield (lhs, bp) and underlying forward yield (rhs, %);



Source: J.P. Morgan.

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Since the meeting last week, macro data continues to highlight resilience. Euro area 2Q25 increased by 0.4% q/q saar versus our original expectation of a *decline* of 0.5%. We have now revised our 2H25 GDP forecast modestly higher to 0.75% as we now see sluggishness in 2H25 as opposed to a clear slowing which reflects building support from German fiscal policy and reduced drags from past monetary restriction (see here). Similarly, Euro area flash core inflation printed in line with expectations and shows a continued deceleration in services inflation. ECB commentary since the meeting has also re-emphasised the "wait and watch" mode (**Figure 30**). The EU/US trade deal with a tariff rate of 15% is likely to reduce some uncertainty, although significant details still remain unclear (see here).

Figure 30: ECB commentary post the July meeting has reinforced the "wait and watch" approach from the press conference

Selected excerpts from recent ECB speeches;

Source	Date	Comment
Kazaks	25-Jul	"There is value in holding rates at the current levels and the time of no-brainer moves to hike or cut is over. At the current juncture, a steady-hand policy is appropriate." "There is no need to be jumpy — there's no urgent need to moves rates. Given our sizeable and continued cuts over the last year, there's still a lot of monetary easing to work through the economy."
Villeroy	25-Jul	"[it is] important to remain completely open [about future monetary policy decisions]"
Nagel	25-Jul	"It now makes sense to hold." "The inflation outlook has remained unchanged since the last projection, and the economic outlook has improved slightly. A steady-hand in monetary policy is therefore appropriate, not least because a lot can happen between now and the next monetary policy meeting." "Complacency is not advisable in monetary policy at this time."
Cipollone	26-Jul	"[the economy is sending] conflicting signals"
Kazimir	28-Jul	"I don't expect anything significant to happen that would force my hand to act as soon as September. It would take something like clear signs of unraveling in the labor market for me to act." "[the ECB is not] in the business of pre-committing to future rate paths [as] that would be a fool's errand in such a fluid environment."
Makhlouf	29-Jul	"I think we have reached a point in our easing cycle where we can wait and see whether the data and evidence indicates the need for a change in our monetary policy stance."

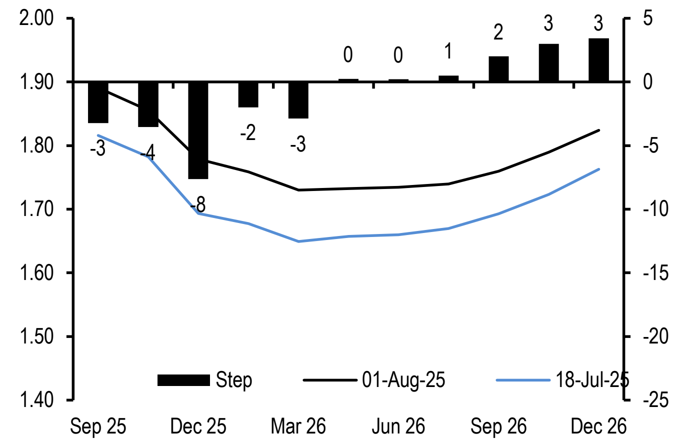
Source: ECB.

Upcoming PMIs and inflation will be crucial in determining further ECB action. The €STR curve is now pricing around 3bp and 14bp of cumulative cuts by September and December 2025 with the terminal rate priced at around 1.85% (**Figure 31**). Admittedly, the bar for another cut is high as the ECB appears to be in no rush and believes it to be in a "good position" to hold and watch developments. In our view, it will require proof of data that would validate the risk of sub-par growth and undershooting medium-term inflation dynamics. Against current macro, the path to such an outcome is admittedly narrow. Our economists believe that the trade war is evolving in a way that points to a large growth drag but moderating recession risk, the risks of which are still assumed to be around 40% (see here). We expect a final ECB cut in October (versus September previously).

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Figure 31: The €STR curve is now pricing around 3bp and 14bp of cumulative cuts for the September and December 2025 meetings

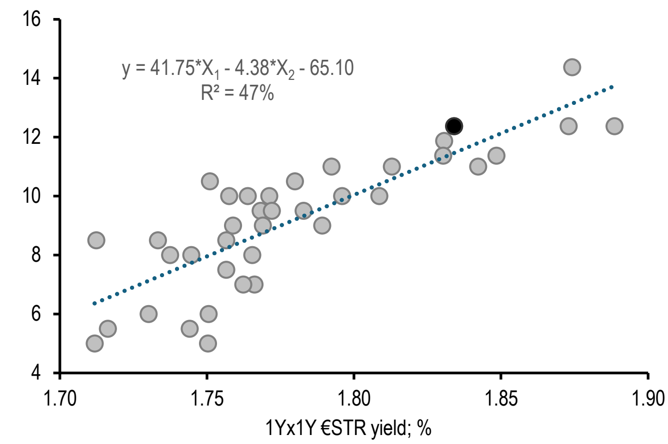
ECB meeting steps for the €STR curve (rhs, bp) and current €STR curve (lhs, %);



Source: J.P. Morgan.

Figure 32: Bias for a flatter Dec25/Dec26 Euribor curve on anchored front-end rates and positive directionality to yields

Dec25/Dec26 Euribor curve regressed against *1)*1Yx1Y €STR (X_1) and *2)* ECB July meeting dummy (X_2); since 11th June 2025; bp



Source: J.P. Morgan.

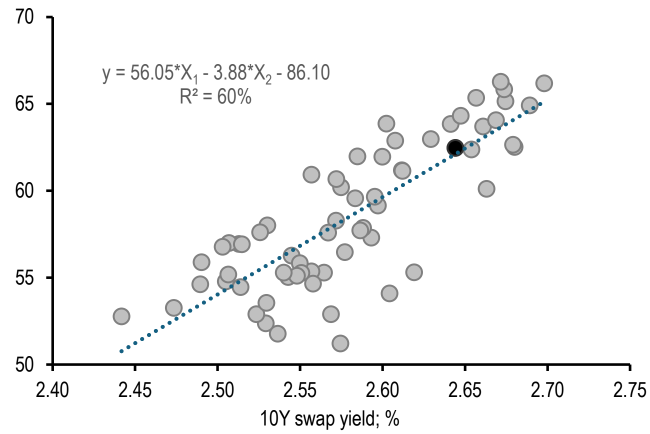
The 1Yx1Y €STR yield is expected to remain in a tight range over the coming days with current levels now close to the upper end of the expected range. Nevertheless, we continue to keep receiving 1Yx1Y €STR as medium-term risks still support lower terminal rates. For instance, the weak US payroll data has brought a September Fed cut back into focus with the SOFR curve pricing around 18bp for this meeting. Aggressive Fed easing could push the ECB into further easing to avoid the risk of a stronger currency. We continue to hold 6Mx2Y receiver spread versus OTM payer as a medium term bullish trade.

We have a flattening bias on the money market curve and favour Dec25/Dec26 Euribor curve flattener. The curve has exhibited a decent positive directionality to 1Yx1Y €STR over the past few months. In our view, with the 2H25 sector of the Euribor curve relatively anchored, the money market curve is likely to continue exhibiting this positive directionality versus yields and the curve to act as a low-beta duration proxy. Our bullish duration bias in 1Yx1Y €STR is supportive of a flatter curve (**Figure 32**).

The 2s/10s swap curve has flattened around 10bp since mid-July primarily on hawkish ECB. Adjusting for the one-off post ECB move, the curve continues to exhibit a strong empirical positive directionality versus yields (**Figure 33**). We continue to hold our 2s/10s conditional bear steepener via 3M payers as a bearish hedge. We acknowledge that this curve had bear-flattened on hawkish ECB but we have a strong conviction that front-end yields are now anchored and the positive directionality is likely to prevail. Additionally, we recall that we had recommended this trade via OTM payers to partially cushion against the risk of any such bear-flattening move (see here).

Figure 33: Keep 2s/10s conditional bear steepener via OTM payers

2s/10s swap curve regressed against *1)* 10Y swap yield (X_1) and *2)* ECB July meeting dummy (X_2); past 3M; bp



Source: J.P. Morgan.

Further out, the 10s/30s curve has also flattened around 3bp over the past two weeks, driven by a combination of the overall bear-flattening move and anecdotal evidence of some profit taking from long-end forward steepeners via fast money. As we have been discussing over the past few weeks, we have a medium-term steepening bias on the 10s/30s curve but had refrained from outright steepeners on the risk of some near-term retracement given that the curve has been flashing too steep in our fair value models. We still do not find outright 10s/30s swap curve steepeners attractive despite recent flattening. In **Figure 34**, we present a list of proxies for 10s/30s which offer better carry characteristics and RV. For instance, 2Yx2Y/10Yx10Y swap curve has exhibited a strong positive directionality to 10s/30s swap curve, offers around 3bp of beta-adjusted carry over 3M, and is currently around 5bp too flat versus 10s/30s. 3M carry for 10s/30s steepener is around 1bp.

We also favour 2Yx2Y/10Yx10Y swap curve steepener versus 10s/30s flattener on a beta-adjusted basis as positive carry outright RV trade; the residual has exhibited a strong degree of mean reversion over the past few months (**Figure 35**).

Figure 34: We highlight a list of attractive proxies to outright 10s/30s swap curve

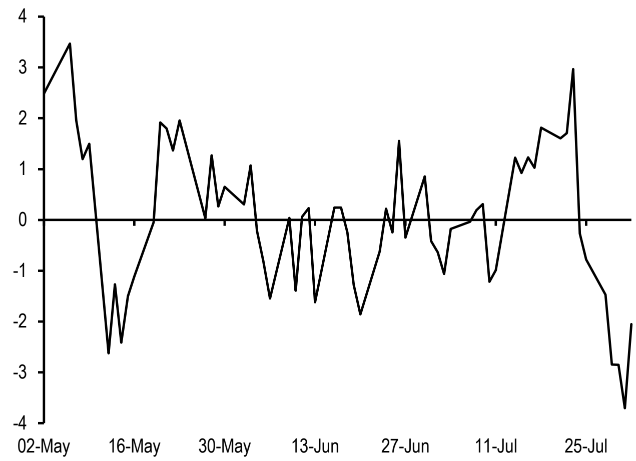
6M regression stats from regressing various forward curves against 10s/30s swap curve;

				Statistics vs 10s/30s curve			
Structure	Current	Carry	Beta-adj carry	Beta	R-squared	Residual	Std Error
1Yx1Y/5Yx5Y	93	4	3	164%	70%	-15.3	12.5
2Yx2Y/5Yx5Y	57	2	2	109%	78%	-9.6	6.8
2Yx2Y/10Yx10Y	72	6	3	175%	97%	-5.5	3.6
5Yx5Y/15Yx5Y	3	4	5	85%	80%	6.8	5.0
5Yx5Y/10Yx10Y	15	3	5	66%	83%	4.1	3.5
5Yx5Y/15Yx15Y	-19	3	3	122%	87%	7.0	5.5

Source: J.P. Morgan.

Figure 35: We favour 2Yx2Y/10Yx10Y swap curve steepener versus 10s/30s flattener on a beta-adjusted basis as a RV trade

Residual from regressing 2Yx2Y/10Yx10Y swap curve against 3Mx(10s/30s) swap curve; past 3M; bp



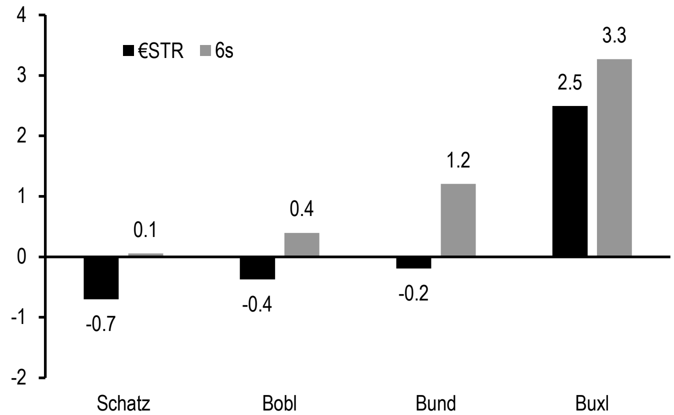
Source: J.P. Morgan.

Swap spreads

German swap spreads were mixed with the spread curve twist steepening over the past two weeks; Schatz €STR spread narrowed around 1bp whereas Buxl spread widened 2.5bp (**Figure 36**). The steepening of the swap spread curve was primarily on the back of the bear flattening of the German yield curve on hawkish ECB; 2s/10s German bond yield curve overall flattened around 2bp over the past two weeks. Anecdotal evidence suggests flows were mixed with bias towards spread narrowers which remain well subscribed. Nevertheless, German swap spreads continue to remain in a narrow range with limited volatility – a dynamic we expect to continue over the coming days (**Figure 37**).

Figure 36: German swap spread curve twist steepened over the past two weeks

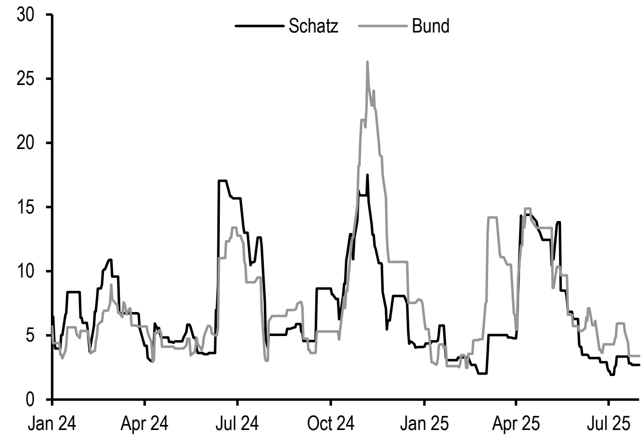
2W change in German swap spreads (vs €STR and 6s); bp



Source: J.P. Morgan.

Figure 37: Swap spread volatility has been low with front and intermediate spreads moving in a small range over the past month

Rolling 1M range for Schatz and Bund €STR swap spread; since 1 Jan 2024; bp



Source: J.P. Morgan.

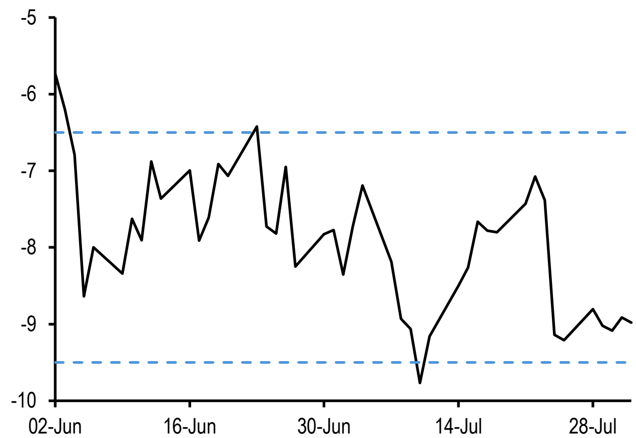
We hold our tactical swap spread widening bias in fronts/intermediate spreads and hold Sep25 Schatz €STR swap spread widener. As we have been highlighting, Schatz €STR swap spreads have moved in a well-defined range over the past few weeks (-6.5,-9.5bp) (**Figure 38**). The relative stability has itself reflected stable funding rates and muted risk-off concerns over the past few weeks. Schatz swap spreads appear broadly fair in our long-term fair value model. We believe that this will continue to range trade and with spreads at the bottom-end of the range, we stay in wideners that we had recommended a few weeks ago. Our medium-term bullish duration bias is also supportive of wider spreads. In **Figure 39**, we show the recent relationship of German spreads versus yields. As seen, Schatz and Bobl spreads have exhibited a strong negative directionality versus yields, whereas the directionality for Bund/Buxl is currently weak. An expected continuation of the strong negative directionality versus yields supports front-end spread wideners.

We **also favour Sep25 Bobl conditional bull wideners implemented via calls/receivers**. Implied directionality is around 14% versus delivered directionality of around 20%.

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Figure 38: Schatz swap spreads have moved in a narrow and well-defined range over the past couple of months; keep tactical Sep25 Schatz €STR swap spread widener

Schatz €STR swap spread; past 2M; bp



Source: J.P. Morgan.

Figure 39: Front/intermediate spreads are exhibiting strong negative directionality versus yields whereas this relationship is weak further out. We favour Sep25 Bobl conditional bull widener

3M statistics from regressing German invoice spread versus invoice yield; %

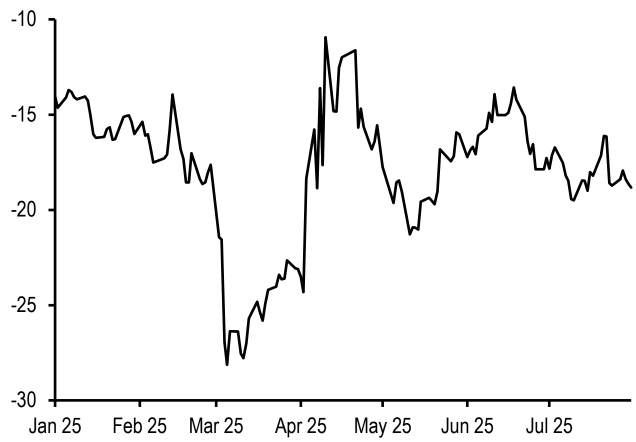
	Beta	R-squared	Residual	Reg error
Schatz	-17%	76%	0.5	0.5
Bobl	-18%	79%	0.0	0.6
Bund	-13%	23%	0.0	1.6
Buxl	8%	3%	2.8	3.9

Source: J.P. Morgan.

Further out the curve, Bund swap spreads have also been moving in a 7-8bp range since mid-April (post the tariff announcement and subsequent 90D pause) and is currently towards the upper end of that range (**Figure 40**). We have a medium-term bias towards narrower Bund spreads – a view we have extensively discussed in the past (see here). Additionally, Bund spreads now appear too wide in our long-term fair value model (**Figure 41**). Nevertheless, we refrain from entering outright narrowers given the seasonality of swapped issuance activity in early August which exerts some widening pressure on intermediate spreads. Thus, we wait for better entry levels for outright narrowers.

Figure 40: Bund swap spreads are closer to the upper end of their recent ranges

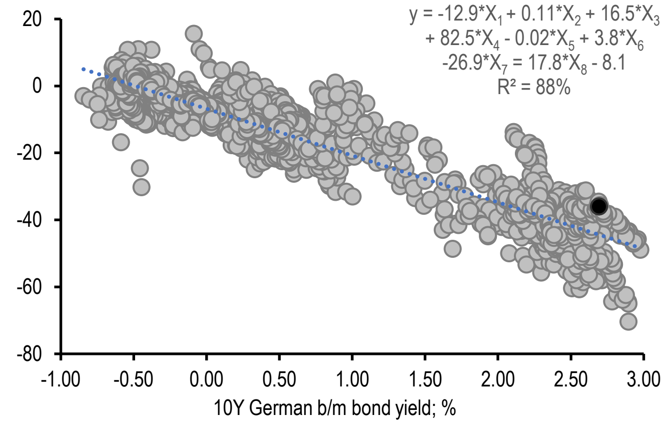
Bund €STR swap spread; since 1 Jan 2025; bp



Source: J.P. Morgan.

Figure 41: Bund spreads appear too wide in our long-term fair value model; we favour narrowers on medium term considerations but wait for better entry levels on summer seasonality

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

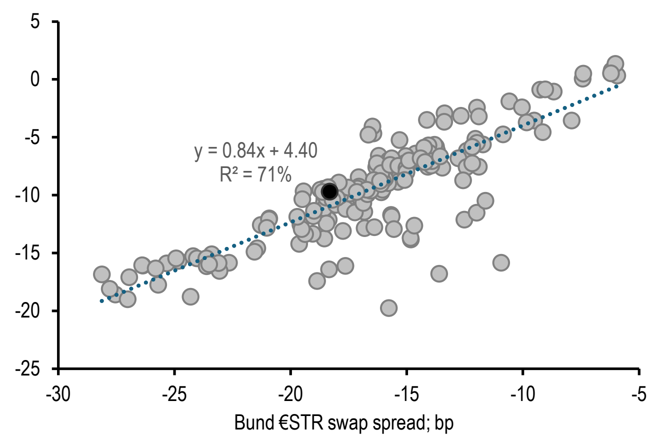


Source: J.P. Morgan.

We favour Schatz/Bund swap spread curve flatteners given the discussion above. This curve is a good proxy for Bund spread narrowing bias as the front-end is expected to exhibit limited volatility (**Figure 42**).

Figure 42: We favour Schatz/Bund swap spread curve flattener as a proxy to Bund narrower

Schatz/Bund €STR swap spread curve regressed against Bund €STR swap spread; since 1 Nov 2024; bp



Source: J.P. Morgan.

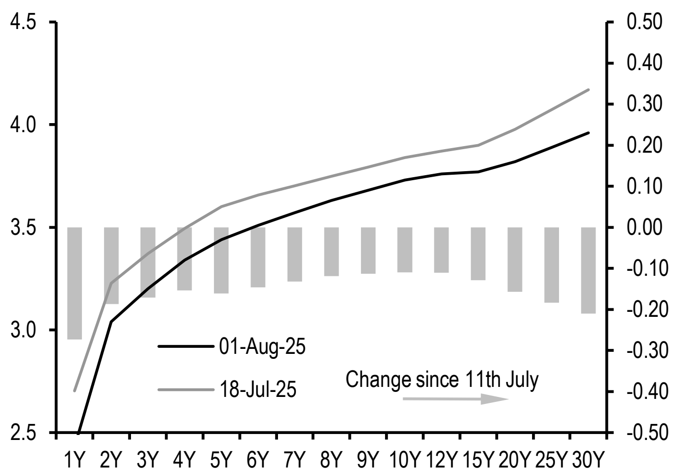
Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Volatility

Implied volatility marginally declined across the curve over the past two weeks, with a modest outperformance of the intermediate sector (**Figure 43**). 1M delivered volatility, however, increased around 0.5-1bp/day over this day and was primarily driven by a hawkish ECB which drove significant front-end repricing. Nevertheless, the overall summer lull and typical seasonality remains in full swing with short volatility being profitable over the month of July despite the minor blip around the ECB meeting last week (**Figure 44**). Specifically, short gamma positions in OTC structure would have outperformed options on German futures. This is explained by the strong negative swap spread directionality that we have observed over the past few weeks (see above). Short gamma positions have benefited in July both from a decline in implieds and lower ex-post delivered volatility relative to ex-ante implied volatility.

Figure 43: Implied volatility marginally declined across the curve over the past two weeks

2W change in implied volatility (3M expiry) versus current and 2W ago level of vol curve; bp/day



Source: J.P. Morgan.

Figure 44: Selling gamma would have been profitable over the month of July with strong contributions from both vega and gamma P&Ls

Statistics on various short gamma positions (expressed in 3Mx10Y straddle gamma equivalent) over the month of July (bp of notional) versus change in implieds in July and delivered volatility over the month of July (bp/day);

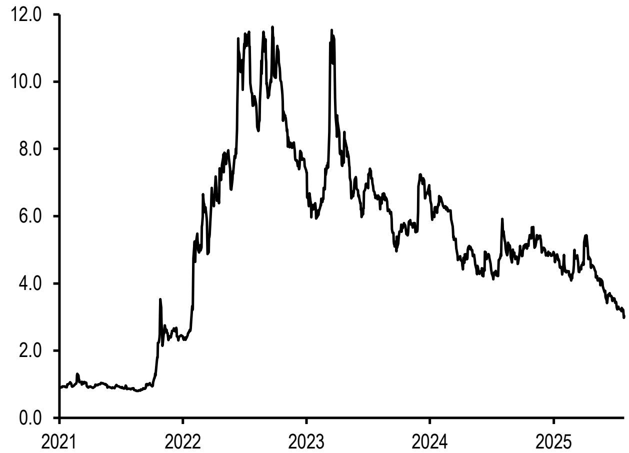
	Short gamma P&L	Chg in imp vol	Imp vol: 1st July	Subsequent deliv vol
3Mx2Y	25	-0.5	3.5	2.7
3Mx5Y	19	-0.4	3.8	3.0
3Mx10Y	21	-0.3	4.0	3.1
3Mx30Y	26	-0.3	4.2	3.1
Schatz	8	-0.6	4.0	3.5
Bobl	14	-0.6	4.5	4.4
Bund	18	-0.4	4.7	3.9

Source: J.P. Morgan.

We continue to stay short volatility with a focus on the upper-left corner. On valuations, implieds are now at their lows since the ECB started its tightening cycle in early 2022 (**Figure 45**). Despite unattractive valuations, we remain confident of short volatility positions as we believe that front-end yields are likely stuck in a narrow range. The hawkish ECB delivery at the July meeting has raised the bar for further cuts and narrowed the path for this to be delivered in September; our baseline is for them to cut in October. The US/EU trade deal also somewhat reduces the downside risk to growth. Thus, with expectations remaining for the ECB to be at or close to on-hold (our baseline), we believe that front-end yields are likely to stay in a narrow range which is supportive of short volatility positions.

Figure 45: Front-end implieds have declined to the lows seen just at the start of the tightening cycle. Despite this, we prefer short volatility positions in the top-left sector

3Mx2Y implied volatility; since 1 Jan 2021; bp/day



Source: J.P. Morgan.

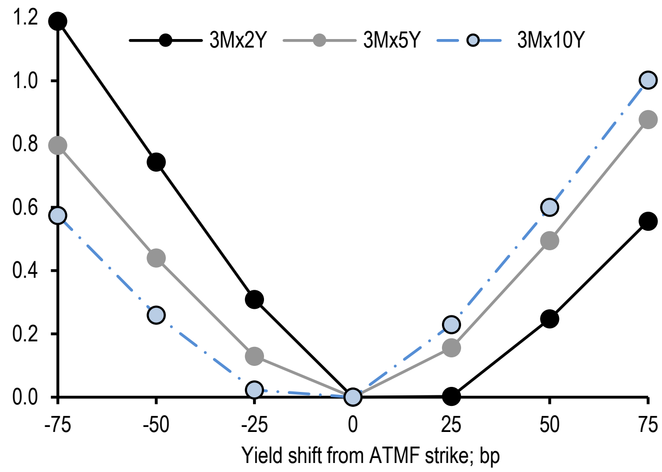
The recent jump in delivered volatility was primarily due to the large one-off move on the hawkish ECB last week. Our analysis last week showed that 2Y yield would need to jump 9bp three times over the next month to breakeven theta gains from short gamma positions. This analysis assumes that implieds remain unchanged. However, with implieds declining over the last few days, the bar for yield jumps to breakeven theta gains from short gamma positions has risen for our recommended trade. Thus, we continue to stay short gamma in 3Mx2Y. Fixed dated implieds have declined around 0.2bp/day since inception. We expect to benefit from the expected low delivered volatility in the trade.

Investors who wish to initiate new shorts should consider selling OTM payer gamma in the 2-5Y sector. Payer skew is positive (**Figure 46**). In our view, the bar for an ECB rate hike over the coming months is very high. Admittedly, there is risk of some further increase in front-end yields if data continues to be resilient but the magnitude for such potential moves is expected to be limited. Thus, we would expect implieds to decline further if yields continue to rise – a relationship we have observed in recent weeks. Overall, we find selling OTM payer gamma attractive.

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

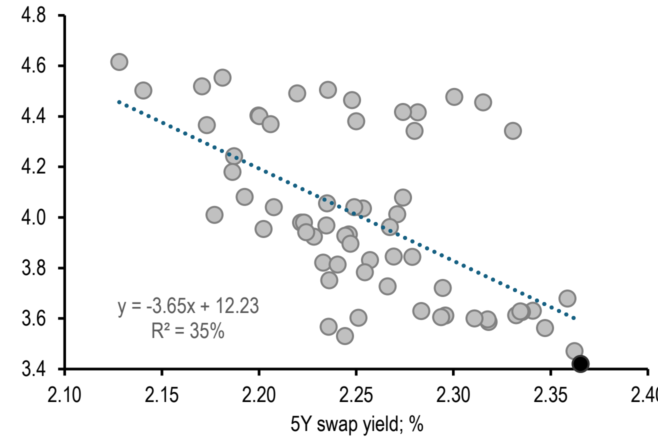
Figure 46: Payer skew is positive even though empirically implieds are exhibiting a negative relationship versus yield; we favour selling OTM payer gamma in the 2-5Y sector

Skew (difference versus current ATM vol) for various swaptions; bp/day



Source: J.P. Morgan.

3Mx5Y implied volatility regressed against 5Y swap yield; past 3M; bp/day



Source: J.P. Morgan.

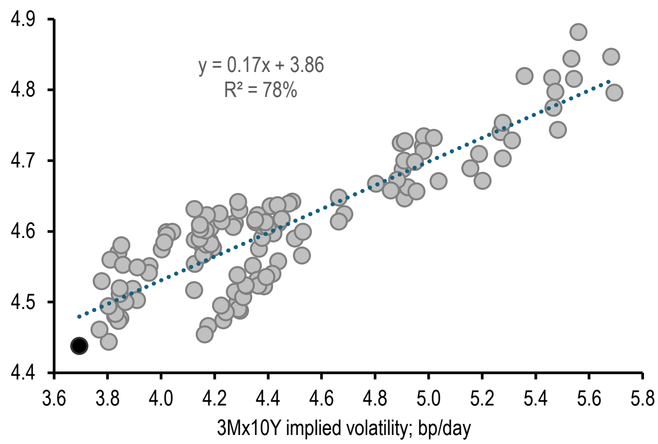
Along similar lines, we also stay short 3Mx(1Yx1Y) unhedged straddle that we have been recommending for the past few weeks.

Vega implieds have moved broadly in tandem with gamma over the past few months (**Figure 47**). Our overall bearish gamma view thus translates into a bearish vega view as well. However, we refrain from outright short vega positions despite attractive fundamentals. This primarily reflects the seasonality around callable issuance over the summer weeks. In **Figure 48**, we show the evolution of callable issuances around July-end since the pandemic and make the following observations. First, callable issuances are running at elevated levels currently compared to historical averages; higher callable issuances are supportive of lower vega implieds. In an environment where yields are low and ECB is likely to stay in a quasi-hold (notwithstanding another 25bp cut in our baseline scenario), callable supply is likely to stay elevated as investors seek ways to earn carry. This is overall supportive of short vega positions. Second, however, historically callable issuances tend to decline in August before picking up again in September. An expected return of this seasonality suggests that we may get better entry levels for short vega positions over the coming weeks. Thus, while we are bearish on vega, we wait for better entry levels.

Khagendra Gupta [AC] (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Figure 47: Vega implieds have broadly moved in tandem with gamma implieds

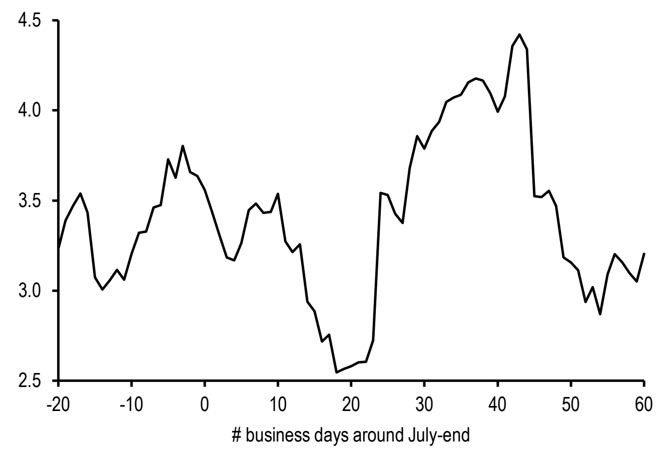
5Yx10Y implied volatility regressed against 3Mx10Y implied volatility; past 6M; bp/day



Source: J.P. Morgan.

Figure 48: Seasonality of callable issuance around summer warrants some patience in initiating short vega positions; we wait for better entry levels

Rolling 1M MA of callable issuance around July-end; since 2015; €mn equivalent per 0.1bp/day change in implieds;



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

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Trade Recommendations

Swap curve

- **Stay in 2s/10s conditional bear steepener via 3M OTM payers**
  Hold longs in €100mn 2.804% 3Mx10Y payer (ATMF strike 2.694%, notification date 20 Oct 2025, maturity date 22nd Oct 2025) versus short €453.3mn 2.07% 3Mx2Y payer (ATMF strike 2.02%, notification date 20 Oct 2025, maturity date 22nd Oct 2027) to remain in a conditional bear steepener at 73.4bp versus spot and forward curve at 56.2bp and 57.0bp, respectively; P&L since inception (18th July 2025): -46.7bp of notional;
- **Keep receiving 1Yx1Y €STR**
  Stay received €100mn 1Yx1Y €STR swap (swap start date 13 May 2026, swap maturity 13 May 2027) at 1.84% versus entry level of 1.70%; P&L since inception (9th May 2025): -13.8bp of yield;
- **Hold 1Yx(10s/30s) A/A+20/A+40 YCSO curve cap fly**
  Stay long €100mn 1Yx(30s10s) A/A+20/A+40 curve cap fly (maturity date 27 Apr 2026) (forward CMS curve at 10.6bp versus entry level of -9.7bp) at 5.6cents; P&L since inception (25th Apr 2025): +1.7bp of yield;
- **Hold 6Mx2Y receiver spread (A-12.5/A-50) versus short OTM (A+32) payer**
  Stay long €100mn 1.81%/1.44% 6Mx2Y receiver spread (notification date 13 Oct 2025, maturity date 15 Oct 2027) versus short €100mn 2.26% 6Mx2Y payer (ATMF+32bp); P&L since inception (11th Apr 2025); -0.6bp of notional;

Swap spreads

- **Hold Sep25 Schatz €STR swap spread widener**
  Stay long 1000 Sep25 Schatz futures versus paying €105.4m CTD maturity matched €STR swaps (swap start date 8 Sep 2025, swap maturity date 10 Jun 2027) to remain in a swap spread widener at -8.9bp versus entry level of -9.0bp; P&L since inception (11th July 2025): +0.1bp of yield;

Volatility

- **Stay short 3Mx2Y gamma**
  Stay short €100mn 2.02% straddle (notification date 20 Oct 2025, maturity date 22nd Oct 2027) at 3.25bp/day. This trade requires active delta hedging; P&L since inception (18th July 2025): -1.2bp of notional;
- **Hold shorts in 3Mx(1Yx1Y) unhedged straddle**
  Stay short €100mn 2% straddle (notification date 8 Sep 2025, midcurve start date 10 Sep 2026, midcurve end date 10 Sep 2027) at 27.0bp of notional versus current level of 19.8 bp of notional; P&L since inception (6th June 2025): +7.2bp 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.

Khagendra Gupta AC (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Trades closed over the past 12 months

TRADE	ENTRY	EXIT	P&L
DURATION			
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
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
May25 Bobl call fly	21-Mar-25	03-Apr-25	1.5
6Mx1Y A-12.5/A-50 rec spread vs A+30 payer	12-Dec-24	11-Apr-25	2.5
Jun25 Schatz call fly	03-Apr-25	17-Apr-25	0.0
Jun25 Schatz call fly	17-Apr-25	23-May-25	-1.2
Receive Jul25 ECB €STR	30-May-25	11-Jul-25	-6.0
Receive Sep25 ECB €STR	11-Jul-25	24-Jul-25	-3.0
CURVE			
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
Receive body of 1Yx1Y/2Yx1Y/3Yx1Y €STR fly	06-Mar-25	03-Apr-25	3.6
CONDITIONAL CURVE AND FLIES			
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
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

TRADE	ENTRY	EXIT	P&L
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
Sep25/Sep27 conditional bull flattener	07-Mar-25	03-Apr-25	3.0
3s/20s conditional bull flattener	14-Mar-25	16-Apr-25	-10.0
5s/10s/30s conditional bull belly richener	28-Feb-25	16-May-25	0.0
3s/20s conditional bull steepener	30-May-25	27-Jun-25	2.3
Reds/blues conditional bull steepener via 3M receivers	11-Apr-25	11-Jul-25	0.0
SWAP SPREADS			
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
May25 Bund bull widener	07-Mar-25	04-Apr-25	6.0
May25 Bund bear narrower	14-Mar-25	11-Apr-25	0.6
Jun25 Bund bull widener	21-Feb-25	16-May-25	0.0
Jun25 Bund/Buxl swap spread curve steepener	25-Apr-25	30-May-25	3.5
Jul25 Bund bull widener	16-May-25	13-Jun-25	1.1
Sep25 Bund narrower	06-Jun-25	27-Jun-25	0.4
OPTIONS (OUTRIGHT)			
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
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
Short 5Yx2Y vega	07-Mar-25	04-Apr-25	-5.0
Short 2Yx5Yx5Y synthetic forward vol	14-Mar-25	04-Apr-25	-20.0
Long 6Mx5Y gamma	25-Apr-25	09-May-25	-5.0
Sell 1Yx2Y unhhedged straddle	28-Feb-25	16-May-25	15.0
Sell 3Mx10Y unhedged straddle	09-May-25	30-May-25	40.0
Sell 3Mx30Y unhedged straddle	30-May-25	06-Jun-25	30.0
Sell 3Mx30Y gamma	06-Jun-25	11-Jul-25	90.0

Source: J.P. Morgan.

Trades closed over the past 12 months

	ENTRY	EXIT	P&L
OPTIONS (RELATIVE)			
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
Buy Jun25 Bobl gamma vs swaption	28-Mar-25	11-Apr-25	25.0
OPTIONS (MONEY MARKET)			
MISCELLANEOUS			
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
Buy Sep25 SOFR put versus Euribor	27-Jun-25	11-Jul-25	1.0

Source: J.P. Morgan.

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC

Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC

Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC

Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

Treasuries

Jerome and the Terrible, Horrible, No Good, Very Bad Day

- The 2025 Extel Global Fixed Income Research Survey closes this weekend. If our work, including the flagship US Treasury Market Daily and US Fixed Income Markets Weekly publications, weekly At Any Rate podcasts, thematic research pieces, or direct dialogue has been valuable to your investment processes over the last year, we humbly ask you to support J.P. Morgan in this year's survey here. Please vote 5 Stars for J.P. Morgan and us where we are listed in the following categories: "Cross Asset Strategy", "Fixed-Income Strategy", "U.S. Rates Strategy", "Technical Analysis", "Interest Rate Derivatives", "Short-Duration Strategy", "Treasury Inflation Protected Securities", and "Federal Agency Debt Strategy"
- We continue to favor the front end from a strategic basis, but we are not tempted to chase and add duration here, as we don't think today's data was uniformly weak, and markets are now pricing in more aggressive easing than we forecast
- However, we do not think the front end has much room to cheapen, as the unemployment rate's rise lends downside risk to the economy, and Governor Kugler's resignation raises the likelihood President Trump will announce his FOMC Chair nomination earlier than previously expected, adding one more dovish governor to the Committee
- We recommend maintaining 5s/20s steepeners as a low-beta way to retain exposure to lower front-end yields with a more attractive carry profile than outright longs, while benefiting from continued concerns surrounding Fed independence
- The August quarterly refunding announcement contained few surprises. Given that there was no change to the forward guidance and February is just two quarters away, we adjust our forecast and now anticipate Treasury will begin a multi-quarter series of coupon auction size increases in May 2026, versus February previously
- Treasury announced a number of changes to the buyback program, including doubling the frequency of long-end operations. While this will incrementally shorten the WAM of Treasury's debt stock, the impact should be marginal

Market views

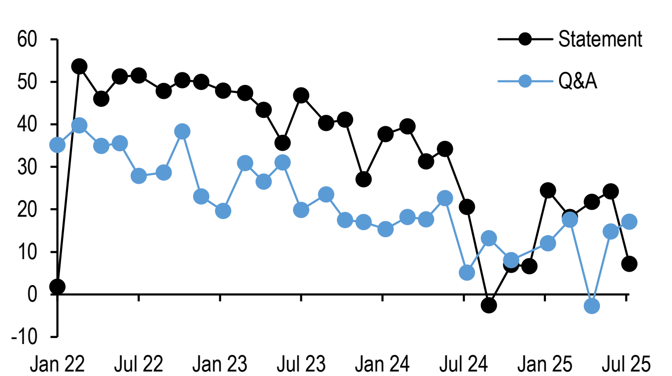
We argued last week that there was a plethora of first-tier data this week that could shape policy expectations, but the labor market data would likely be the most impactful in shaping policy expectations and Treasury yields, and indeed, that was the case. Early in the week, the Treasury curve flattened, likely as market participants pared back on risk ahead of these key events, but also due to the outcome of the FOMC meeting. As expected, the Fed left rates unchanged, and our NLP interpreted the post-meeting statement as the most dovish since December, largely due to dissents from Governors Bowman and Waller, marking the first meeting where more than one governor dissented since 1993 (**Figure 49**). However, during the post-meeting press conference, Chair Powell emphasized, "Our two mandate variables, right, are inflation and maximum unemployment. Stable prices and maximum employment, not so much growth. So the labor market looks solid, inflation is above target, and even if you look through the tariff effects, we think it's still a bit above target. And that's why our stance is where it is" (see *Two job applications attached to FOMC statement*, Michael Feroli, 8/1/25).

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC

Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

Figure 49: Our NLP read the FOMC statement dovishly, thanks to the dissents from two governors for the first time since 1993

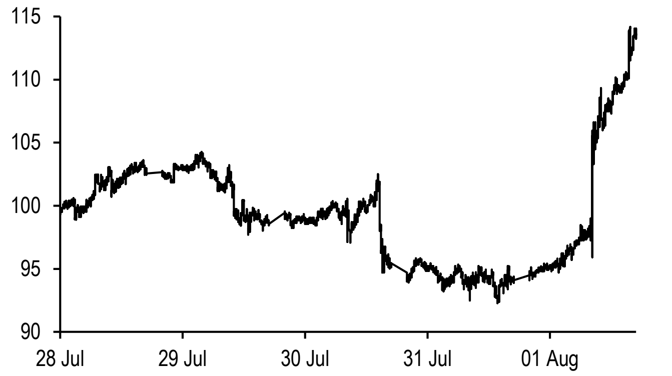
Fed Hawk-Dove Statement score of Fed statements and Press Conference Q&A; Index



Source: J.P. Morgan

Figure 50: The curve traded a 20bp range this week, and is now back at the steep end of its multi-month range

2s/30s Treasury curve intraday 7/28/25-8/1/25; bp



Source: J.P. Morgan

However, front-end yields repriced lower and the curve steepened aggressively after Friday's employment release (**Figure 50**) . Nonfarm payrolls rose 73k (consensus: 104k), the prior two months were revised 258k lower, and the unemployment rate rose to 4.248%, a new cycle high (see *Trend job growth hits the skids*, Michael Feroli, 8/1/25). This only accelerated on the news after the close that Fed Governor Kugler, who had been absent from this week's FOMC meeting, would be stepping down from the Board of Governors effective next Friday. Over the week, 2-, 5-, 10-, and 30-year yields declined 21bp, 18bp, 15bp, and 11bp, respectively, with front-end yields retracing to their lowest levels in a month.

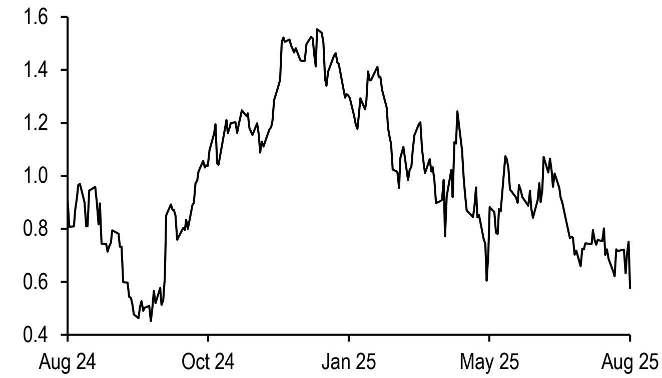
As we look ahead, we continue to favor the front end from a strategic basis, but we are not tempted to chase and add duration here, for a few reasons. **First, we don't think today's release is as uniformly weak as the headline would suggest.** The unemployment rate did inch up to its highest levels since early-2022, but on an unrounded basis, it has not broken out of the 4.1-4.2% range it has held since last spring, indicating that at least some of the slowing in payroll growth stems from a sharp slowdown in labor supply that has been experienced YTD. Meanwhile, under the hood, the labor income implications are relatively positive early in 3Q25 as the work week rose to 34.3 hours, and average hourly earnings rose 0.3%, with wage inflation firmly stuck in a 3.6-4.2% range over the last year.

Second, there are valuation considerations: markets are pricing in over 70bp of easing in 2025 and close to 140bp of easing in total, an earlier and more aggressive pace than we have forecast. Notably, real front-end rates are now back to the lows observed a year ago amid weakening labor market data (**Figure 51**). **Third**, the front end offers inferior risk-adjusted carry relative to the rest of the curve, making it hard to structurally hold longs here (**Figure 52**).

Jay Barry [AC] (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC
Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

Figure 51: Real policy expectations have retraced to their lows observed a year ago...

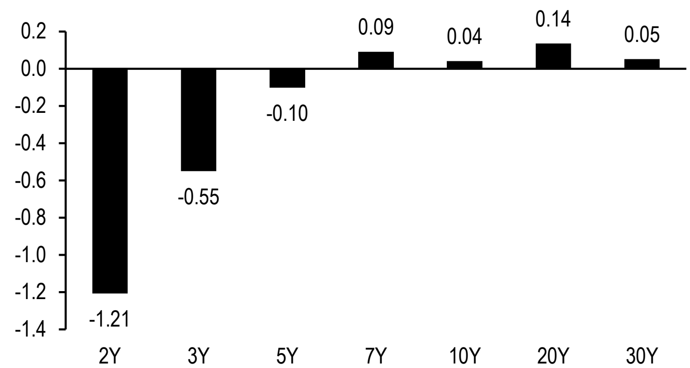
1y1y real OIS rates; %



Source: J.P. Morgan

Figure 52: ...and an inferior risk-adjusted carry profile doesn't warrant adding exposure to the front end at current levels

3-month risk-adjusted carry in on-the-run Treasuries*;



* 3-month carry divided by 3-month standard deviation of daily yields changes
Source: J.P. Morgan

Despite these factors, we are also unwilling to turn underweight as well: given Chair Powell has elevated the unemployment rate above other labor market factors in evaluating the labor market and the risk to earlier policy easing, we think the front end is more likely to stay at the lower end of the range it has held in recent months until the next employment report, which is now five weeks away. Furthermore, Governor Kugler's announcement justifies a near-term dovish bias: her early resignation paves the way for President Trump to nominate a new governor earlier than previously expected, and this nominee is likely to be the next FOMC Chair when Powell's term ends in May 2026. While such a "Shadow Chair" would not carry influence over the economy, it does justify more dovish policy expectations. Recall that in 1986, FOMC Chair Volcker was outvoted by the four governors appointed by President Reagan, and 2-year yields declined further in the months after this event. **Thus, we recommend a neutral stance on duration.**

In the meantime, we recommend maintaining 5s/20s steepeners. They offer a low-beta way to retain exposure to lower front-end yields, with a better carry profile than outright longs. Moreover, as we discussed last week, we do not think concerns over Fed independence will go away, and these concerns should manifest through a premium in TIPS breakevens as well as a steeper Treasury curve (see Treasuries, *US Fixed Income Markets Weekly*, 7/25/25). Indeed, market-based inflation expectations have remained well anchored, even though inflation has been above target for more than four years thanks to the Fed's perceived commitment to both sides of its dual mandate. This week, President Trump lauded the dissents from Governors Bowman and Waller, and his vocal criticism of Powell has increased, arguing "the board [of governors] should take control, and do what everyone knows has to be done," and that he should be "put 'out to pasture'." Markets are assigning a low probability that President Trump will fire Chair Powell before the end of his term, but the ongoing open criticism points towards a dovish replacement, who is expected to be nominated before year end. To the extent that an overtly dovish candidate for FOMC Chair would reduce the market's confidence in the Fed's commitment to its 2% target, it would justify a steeper curve.

August refunding review

In the August refunding announcement, Treasury left nominal coupon and FRN auction sizes unchanged for the current quarter, as was widely expected, while signaling that it anticipates maintaining these auction sizes "for at least the next several quarters." Given larger funding gaps over coming years, we had expected this guidance would be watered down to

Jay Barry [AC] (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC

Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC

Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC

Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

drop the phrase "at least" if Treasury was on track to make changes at the February 2026 refunding. **However, given that there was no change to the guidance and February is just two quarters away, we adjust our forecast and now anticipate Treasury will begin a multi-quarter series of coupon auction size increases in May 2026**. Our thinking is informed by both political factors that could be driving Treasury's decisions and what we believe to be a prudent debt management strategy. Additionally, while our baseline is for a May start to increases, we think risks are still skewed toward later.

The rest of the statement and other documents were very close to our expectations. With respect to TIPS, Treasury anticipates continuing with $1bn increases to offering sizes at the 5- and 10-year tenors, in line with our forecast. However, the forward guidance was changed from the language that had been used for a number of quarters, which stated "Treasury believes it would be prudent to continue with incremental auction sizes in order to maintain a stable share of TIPS as a percentage of total marketable debt outstanding." The guidance now states that Treasury believes incremental increases would be prudent "this quarter," with no reference to maintaining a stable TIPS share. We maintain our forecast for continued gradual increases in 5- and 10-year tenors, but this change in guidance increases uncertainty around our TIPS issuance projections in 2026.

Away from issuance plans, the buyback program was in focus, as we expected, given that the dealer questionnaire had asked dealers to opine on possible enhancements to the program. **Based on feedback from the dealer community and from TBAC, Treasury announced a number of changes to the program. First, Treasury doubled the frequency of liquidity support buybacks in both the 10- to 20-year and 20- to 30-year sectors from 2 to 4 times per quarter, while maintaining a $2bn per operation purchase maximum in both buckets** (**Figure 53**). **Second**, Treasury has adjusted the TIPS buyback buckets, replacing the existing 1- to 7.5-year and 7.5- to 30-year buckets with 1- to 10-year and 10- to 30-year maturity buckets. It also kept the frequency of front-end TIPS operations unchanged at two per quarter, while increasing the maximum size to $750mn, and reduced the frequency of long-end TIPS purchases from two to one. Thus, the maximum purchase total for TIPS operations remains unchanged, but with purchases more concentrated at the front end of the curve. **Third, Treasury increased the aggregate size of cash management buybacks** from a maximum par amount of $120bn per year to $150bn per year, while noting it does not anticipate conducting cash management buybacks this quarter. **Fourth**, Treasury will allow a limited number of additional counterparties to directly access buyback operations beginning in 2026.

Figure 53: Treasury doubled the frequency of its long-end liquidity support operations and changed the maturity buckets of TIPS operations. The maximum quarterly size increased from $30-$38bn

Quarterly Treasury Liquidity Support buyback calendar configuration, prior vs. announced; units as indicated

	Prior				Announced			
Security Type	Bucket	Size ($bn)	Frequency	Total ($bn)	Bucket	Size ($bn)	Frequency	Total ($bn)
Nominals	[1M,2Y]	4	1	4	[1M,2Y]	4	1	4
	(2Y,3Y]	4	1	4	(2Y,3Y]	4	1	4
	(3Y,5Y]	4	1	4	(3Y,5Y]	4	1	4
	(5Y,7Y]	4	1	4	(5Y,7Y]	4	1	4
	(7Y,10Y]	4	1	4	(7Y,10Y]	4	1	4
	(10Y,20Y]	2	2	4	(10Y,20Y]	2	4	8
	(20Y,30Y]	2	2	4	(20Y,30Y]	2	4	8
TIPS	[1Y,7.5Y]	0.5	2	1	[1Y,10Y]	0.75	2	1.5
	(7.5Y,30Y]	0.5	2	1	(10Y,30Y]	0.5	1	0.5
Total			13	30			16	38

Source: US Treasury

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC
Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

While increased long-end purchases will incrementally shorten the WAM of Treasury's debt stock compared with the size of the current program, the impact will be marginal. The current program, if executed fully at its maximum size, shortens WAM by just 0.4 months per year — well within the typical standard deviation of annual changes in modern history. This was also emphasized in TBAC's letter to Bessent, which bluntly stated, "The Committee feels strongly that issuance is the primary tool for managing the debt profile."

On that front, while there was limited discussion on strategic topics around longer-term coupon issuance plans, the TBAC report to Secretary Bessent noted that some discussion on demand trends and term premium did take place. The report acknowledged the passage of the GENIUS Act, establishing a framework for issuing stablecoins, and noted "much of the Committee seemed more optimistic about this as a source of new demand for T-bills." More importantly, the report stated that, since the TBAC study on optimal debt structure was delivered in Q3 2023, "deficits and deficit uncertainty has increased" and "term premium has increased modestly more than the scenarios considered, suggesting that a refresh of the optimal debt structure analysis could be beneficial. Additionally, the Committee discussed the fact that evolution in demand patterns suggests increased demand in front-end and intermediate maturities relative to reduced demand in longer-end maturities." **Given these comments, we would not be surprised to see a charge question at the November refunding focused on Treasury demand trends and implications for the optimal debt structure.** Moreover, these comments are consistent with our own expectations for the composition of issuance in 2026, and we still expect increases to auction sizes will be concentrated in the front end and belly, while long-end auction sizes are unchanged.

Accounting for a later start to coupon auction size increases, a modest downward revision to our net financing estimate for the current quarter based on Treasury's latest guidance, and the modest changes to the buyback program, **we now project $1.895tn in net privately-held borrowing in 2025, with $307bn in net T-bill issuance, and $1.727tn in net privately-held borrowing in 2026, with $540bn coming in T-bills** (**Figure 54**). These adjustments result in only small changes to our projections for the WAM of outstanding debt: we now project the WAM of Treasury's debt to decline to 70 months by the end of 2026 and 68 months by the end of 2028, from 72 months currently, and not far from the longer-run average (**Figure 55**).

Figure 54: We project $1.895tn in net marketable borrowing in 2025, with $307bn in net T-bill issuance

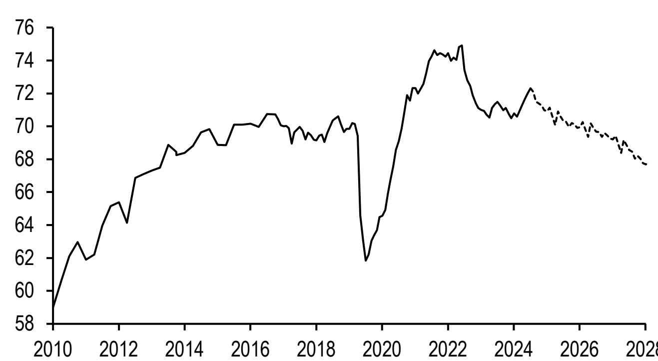
J.P. Morgan projection of net privately-held borrowing, Federal Reserve purchases of Treasuries, and expected change in Treasuries held by private investors; $bn

Year	Net privately-held borrowing		Fed secondary market purchases		Net change in privately-held debt	
	Bills	Coupons	Bills	Coupons	Bills	Coupons
CY 2020	2,547	1,752	157	2,184	2,390	-432
CY 2021	-1,195	2,898	0	957	-1,195	1,942
CY 2022	-37	1,638	0	75	-37	1,563
CY 2023	2,047	1,107	0	0	2,047	1,107
CY 2024	538	1,909	0	0	538	1,909
CY 2025	307	1,895	0	0	307	1,895
CY 2026	675	1,727	135	0	540	1,727

Source: US Treasury, J.P. Morgan

Figure 55: The WAM of Treasury's debt should decline modestly over coming years

Weighted average maturity with J.P. Morgan projections through YE28; months



Source: US Treasury, J.P. Morgan

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC
Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

Taking a step back, Treasury has now delivered three quarterly refunding announcements under Secretary Bessent's leadership, and it's worth recognizing that the most aggressive step taken to pressure long-term yields lower has been keeping the forward guidance on coupon issuance unchanged. Treasury has not used its buyback program as an active WAM management tool, nor has it considered cuts to long-end auction sizes. The details of the documents presented suggest Treasury is looking to the larger funding gap that opens up in coming years, with an eye toward eventually adjusting its forward guidance and increasing auction sizes in the future.

Turning to the details of the lone charge question, Treasury tasked TBAC with addressing: "What factors should Treasury consider in evaluating changes to maximum purchase amounts? Are there certain buyback sectors where either increases or decreases in purchase maximums are warranted? What changes to the buyback schedule, if any, should Treasury consider? Are there any other buyback enhancements not listed in the quarterly refunding statement that Treasury should consider?"

The presenter argued that the Treasury market is broadly functioning well, but noted an increase in primary dealer inventories over the last year and higher offer-to-max ratios in long-end buybacks this year. The presenter identified this could be a reason to increase the maximum size of the buyback program, but importantly, under the stated intent of the program, not as a tool to manage WAM. Indeed, the presenting TBAC member found that Treasury could increase buyback sizes without materially altering the WAM of Treasury's debt — at present the program is shortening the WAM of Treasury's debt by approximately 0.4 months on an annualized basis, below the 2-month annual vol of the Treasury's WAM going back over the last 40 years.

The presenter also introduced a quantitative framework for the liquidity support program that could be used to identify which sectors may benefit from more or less buyback support. This framework utilizes offer-to-max ratios from buyback ops in a given sector, dispersion for a fitted Treasury curve in a buyback sector, as well as any evidence of increased liquidity preference via on-the-run/off-the-run valuations, though the presenting member argued that primary dealer positioning data as well as price dispersion statistics might also be informative in determining how to size buybacks in various sectors over time. Currently, the presenter found that the 10- to 20-year and 20- to 30-year sectors could benefit from more buyback support, as both long-end sectors have experienced consistently higher offer-to-max ratios, while the 10- to 20-year sector has seen some cheapening on an asset swap basis recently and primary dealer inventories have been rising there as well. Conversely, the presenter found that off-the-runs were trading very well in the 2- to 3-year and 7- to 10-year sectors amid low offer-to-max ratios and a higher incidence of unfilled rates, but refrained from recommending cuts there. The presenter introduced a similar framework for the cash management program, using the factors described above as well as primary dealer positions and T-bill coupon spreads, but recognized that this could be secondary to the stated goals of reducing volatility in the TGA and T-bill issuance.

Turning to other aspects of the program, the presenting member argued Treasury could consider yield spread bidding to increase the operational efficiency of the program, where participants lock an offer yield spread to the nearest on-the-run, thus obviating the need to update offers on each CUSIP into the close of an operation, thus simplifying the process for primary dealers and potentially gaining more favorable execution for Treasury in the process. The presenter also argued that broadening the counterparty eligibility could make sense, as it has already been out to work in the auction process, but may be easier to do once central clearing is implemented.

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC
Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

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Trade recommendations

- **Maintain 5s/20s steepeners**

- Stay long100% risk, or $115mn notional of T 3.875% Jun-30s
- Stay short 100% risk, or $40.3mn notional of T 5% May-45s
- (*US Fixed Income Markets Weekly*, 7/25/25: P/L since inception: 3.8bp)

- **Maintain 4.625% Feb-35s/1.125% Aug-40s steepeners**

- Stay long 100% risk, or $32mn notional of T 4.625% Feb-35s
- Stay short100% risk, or $31.5mn notional of T 1.125% Aug-40s
- (*US Fixed Income Markets Weekly*, 7/25/25: P/L since inception: -0.4bp)

- **Maintain 53%/54% weighted 3.25% Jun-27s / 4.875% Oct-30s / 3.50% Feb-33s belly-cheapening butterflies**

- Stay long 53% risk, or $71mn notional of T 3.25% Jun-27s
- Stay short 100% risk, or $51.4mn notional of T 4.875% Oct-30s
- Stay long 54% risk, or $21.5mn notional of T 3.5% Feb-33s
- (*US Fixed Income Markets Weekly*, 7/11/25: P/L since inception: -0.8bp)

- **Maintain 88%/25% weighted 3s/5s/20s belly-cheapening butterflies**

- Stay long 88% risk, or $78mn notional of T 3.75% May-28s
- Stay short 100% risk, or $55.8mn notional of T 3.875% Apr-30s
- Stay long 25% risk, or $5mn notional of T 4.75% Feb-45s
(*US Fixed Income Markets Weekly*, 5/9/25: P/L since inception: -7.3bp)

- **Maintain 64:11 weighted 3s/10s/30s belly-cheapening butterflies**

- Stay long 64% risk, or $59mn notional of T 3.75% Apr-28s
- Stay short 100% risk, or $31.7mn notional of T 4.625% Feb-35s
- Stay long 11% risk, or $1.8mn notional of T 4.625% Feb-55s
(*US Fixed Income Markets Weekly*, 5/2/25: P/L since inception: -5.7bp)

Jay Barry AC (1-212) 834-4951
john.f.barry@jpmorgan.com
J.P. Morgan Securities LLC
Phoebe White (1-212) 834-3092
phoebe.a.white@jpmorgan.com
J.P. Morgan Securities LLC

Liam L Wash (1-212) 834-5230
liam.wash@jpmchase.com
J.P. Morgan Securities LLC
Amanda Berke (1-212) 834-5739
amanda.berke@jpmchase.com
J.P. Morgan Securities LLC

Figure 56: Closed trades in last 12 months

P/L reported in bp of yield unless otherwise indicated

TRADE	ENTRY	EXIT	P/L
Duration			
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
2-year duration longs	04/03/25	05/12/25	-33.5
2-year duration shorts	06/27/25	07/03/25	14.4
Curve			
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
20s/30s flatteners	02/07/25	05/09/25	-5.3
2s/5s steepeners	03/20/25	06/13/25	-8.8
10s/30s flatteners	06/13/25	07/16/25	-7.1
Relative value			
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
50:50 weighted 1s/2s/5s belly-richening butterflies	03/20/25	06/13/25	-1.5
3.25% Jun-27s/1.375% Dec-28s steepeners	04/01/25	07/02/25	-5.8
100% 5s/7s steepeners paired with 60% 10s/30s flatteners	06/27/25	07/17/25	1.5
Term premium			
64:11 weighted 3s/10s/30s belly-cheapening butterfly	02/25/25	03/28/25	5.9
Number of positive trades			13
Number of negative trades			9
Hit rate			59%
Aggregate P/L			2.1

Source: J.P. Morgan

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Interest Rate Derivatives

In the wake of the storm

- VOTE: The Extel (formerly known as II) 2025 US Fixed Income Strategy Survey closes on Friday, August 1st. Please consider supporting J.P. Morgan strategists with your vote here. Please vote 5 Stars for J.P. Morgan and us, where we are listed in the following categories: "Interest Rate Derivatives", "Cross Asset Strategy", "Fixed-Income Strategy", "U.S. Rates Strategy", "Technical Analysis", "Short-Duration Strategy", "Treasury Inflation Protected Securities", and "Federal Agency Debt Strategy"
- In an eventful week that brought multiple economic data prints, the August quarterly refunding announcement, and a Fed meeting with two dovish dissents, Friday's employment report proved to be an important one. On the back of this softer payrolls report, yields declined sharply, implieds increased led by short tails, and markets are now pricing in over 55bp of cuts by December
- Friday's employment report has also resulted in more policy clarity as tails in the implied distribution have dissipated and markets appear to have coalesced on about 2 eases by December
- Looking ahead, we turn neutral on volatility on balance of risks. The tightening in the dispersion of policy expectations may be helpful in moderating jump risk and delivered volatility, but threats to Fed independence along with the resignation of Fed Governer Kugler (and questions about who may replace her) have the potential to keep implieds elevated
- On a relative basis, we recommend buying volatility on 5Y tails versus selling a theta neutral amount on 30Y tails using 6M expiry swaption straddles, and/or buying 3Yx10Y straddles versus selling 85% vega-weighted 2Yx30Y straddles
- The quarterly refunding announcement did not suggest that Treasury will take a more activist approach to buybacks or cut long-end auction sizes, in line with our UST team's expectations. As a result, the swap spread curve flattened post the announcement, and with potential risk for a steeper spread curve, we turn neutral on the swap spread curve
- Turn neutral on front-end and belly spreads, as funding markets have been and are likely to remain orderly despite the increased T-bill issuance expected over the coming weeks; furthermore, positive headlines around Basel III endgame could support spreads in the near term
- We refresh our projections for the Fed's balance sheet and continue to expect QT to continue until 1Q26. We expect the TGA to continue normalizing before reaching $850bn in September and anticipate the balance sheet reaching approximately $6.6 trillion by year-end, with O/N RRP and Reserves around $50 billion and $2.9 trillion, respectively
- The sharp repricing in near-term Fed expectations was largely responsible for the steepening in swap yield curves observed on Friday, and we look to hedge exposure to Fed expectations going forward. One attractive way to do this, which also offers favorable relative value considerations, is to initiate 1Y forward 2s/10s/30s belly cheapening butterflies (0.38:-1.0:0.63 weighted)

In the wake of the storm

It was a week of multiple storms for the United States. The West Coast faced tsunami warnings, and NYC grappled with heavy rain and flooding in parts of the city. Similarly in markets, the unemployment report took the markets by storm on Friday, as one of the most

Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

action-packed weeks came to a close. The headline unemployment report came in slightly softer than the consensus (73K versus consensus 104K), and the unemployment rate ticked up to 4.2%. The biggest surprise was the revision to the prior two months' estimates, which were revised down by a huge 258K, the largest two-month downward revision outside of April 2020 (see Trend job growth hits the skids, M. Feroli, 8/1/2025). This caused rates markets to rally, led by the front end as the 2-year yields declined by more than 25bp over the day, and the curve bull steepened.

The jobs report wasn't the only significant event of the week. The week started off with Treasury announcing its financing estimates on Monday afternoon, projecting $1,007bn in net privately-held marketable borrowing in the Jul-Sep quarter. On Tuesday, consumer confidence rose, but the labor market differential narrowed to 11.3, the narrowest since early 2021. Additionally, June JOLTS data indicated that job openings declined 275K (see US: Cooling labor market back in focus, M. Tasci, 7/29/2025). Wednesday was a reversal as private payrolls increased by 104K in July, the firmest increase since March (see US: Private payrolls swing to positive in ADP report in July, M. Tasci, 7/30/2025). The 2Q real GDP rose 3.0%, q/q saar in the second quarter, and our economists continue to expect it to slow to around a 0.75% annualized pace in the back half of the year (see US: 2Q GDP growth rebounded on volatile trade flows, M. Hanson, 7/30/2025). Also on Wednesday, we had Treasury's quarterly refunding announcement and the FOMC meeting. The Fed held rates steady, as expected, and there were two dovish dissents, from Governors Bowman and Waller. On the tariff front, the August 1st deadline took effect for countries that have not yet made a deal, but levies will become effective August 7th.

At the end of a stormy week, swap yields are lower by about 20bp in the front and 15bp in the long end (**Figure 1**). Friday's employment data also caused Fed expectations to reprice: OIS forwards are now pricing in ~20bp of cuts by September, over 55bp of cuts by December, and over 100bp by June next year (Figure 58).

Figure 57: Over the past week, swap yields have decreased and swap yield curves have steepened

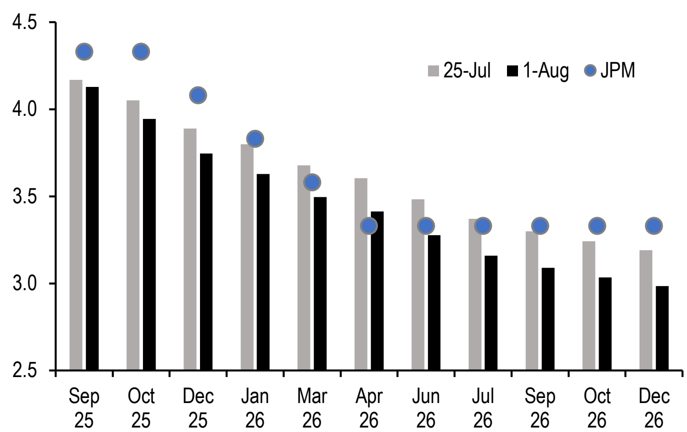
Selected statistics for SOFR swap yields (%) and swap yield curves (bp), 7/25-8/1

	Start	Change	End	Min	Mean	Max
2Y	3.66	-0.19	3.47	3.47	3.64	3.72
3Y	3.56	-0.18	3.38	3.38	3.54	3.60
5Y	3.59	-0.17	3.41	3.41	3.55	3.61
7Y	3.69	-0.17	3.53	3.53	3.66	3.72
10Y	3.86	-0.16	3.70	3.70	3.82	3.89
20Y	4.15	-0.14	4.00	4.00	4.11	4.18
30Y	4.10	-0.14	3.96	3.96	4.06	4.13
2s/5s	-8	1	-6	-13	-9	-6
2s/10s	19	3	23	11	18	23
2s/30s	43	5	49	32	41	49
5s/10s	27	2	29	24	27	29
5s/30s	51	4	55	45	50	55
10s/30s	24	2	26	21	24	26

Source: J.P. Morgan

Figure 58: OIS forwards are now pricing in over 55bp of easing by year-end

Forward 1M OIS rates at FOMC meeting dates in 2025 and 2026 as of 7/25 and 8/1, in addition to the JPM forecast for the Fed Funds rate on those dates; %



Source: J.P. Morgan

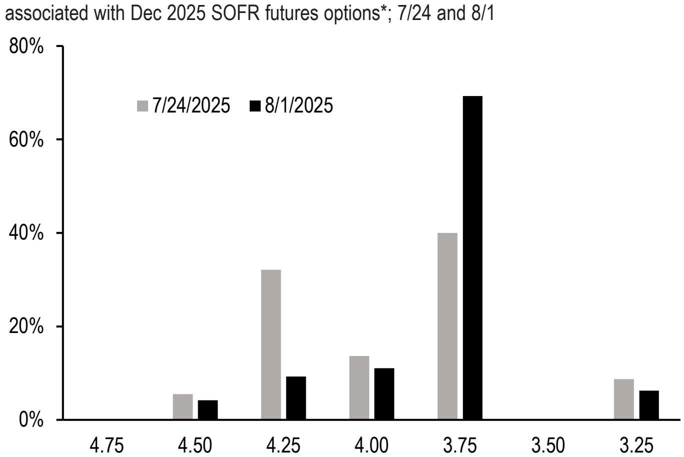
Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC
Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC
Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Friday's payroll report has also resulted in more policy clarity, with the tails in the implied distribution dissipating as markets appear to have coalesced on 2 eases by December. As before, we look to the implied probability distributions from the SOFR futures market. Specifically, we find it useful to associate Normal distributions with each specific policy rate outcome and then express the implied probability distribution as a weighted sum of these Normal distributions. We determine the weights that produce a weighted combination that best fits observed option prices. When these weights are concentrated in a few scenarios, it indicates policy clarity. In contrast, when there is considerable policy uncertainty, the weights will be dispersed across numerous possible scenarios. When we look at the implied distribution derived from fitting Dec '25 SOFR futures options prices, we can see that about 60% of the weight is on the 2-cut scenario (Figure 59). This is in stark contrast to what we observed just one week ago, when there was much more dispersion in the outcomes. We entered this week with a bullish bias on volatility, as the probability of one data point (surprise to the upside or to the downside) to move yields by a large amount and result in elevated delivered volatility was high given the elevated policy uncertainty. Indeed, this is what played out on Friday as 2-year yields declined by over 20bp and implieds in the 2-year tails increased sharply (**Figure 60**).

Figure 59: Markets have coalesced around a 2-cut scenraio by YE25

Weights on December 2025 policy rate scenarios representing a range of different Fed Funds outcomes, as calculated from a decomposition of the implied probability distribution associated with Dec 2025 SOFR futures options*; 7/24 and 8/1

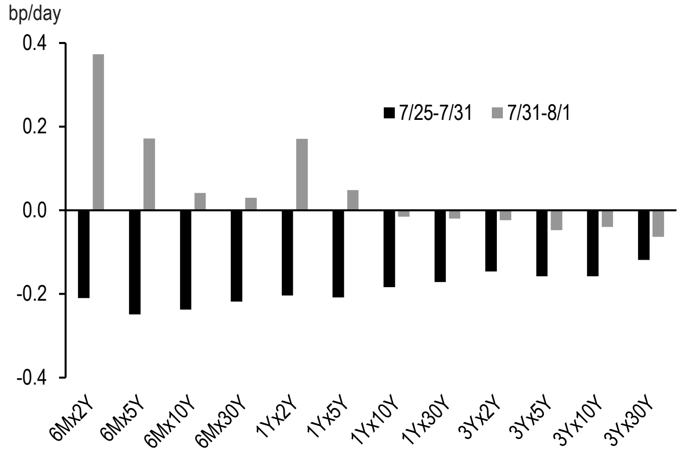


* We enumerate a list of scenario-specific Normal distributions with fixed standard deviations and means that are separated by 25bp. We parameterize the implied distribution as a weighted combination of these individual distributions. The weights are then solved for by fitting to the observed prices of calls and puts at various strikes. For details on our approach, see Interest Rate Derivatives, US Fixed Income Markets Weekly, 2/23/2024

Source: J.P. Morgan, CME

Figure 60: Following Friday's employment report, upper-left implied volatility increased sharply

Change in implied volatility of various SOFR swaption structures, 7/25-7/31 and 7/31-8/1; bp/day



Source: J.P. Morgan

Looking ahead, **we turn neutral on volatility on balance of risks**. **On one hand**, **there are reasons to be bearish on gamma**. The tightening in the dispersion of policy expectations will likely be helpful in moderating jump risk and delivered volatility in markets going forward, benefitting short gamma positions. Additionally, the calendar is likely to be supportive as well, with one of the most action-packed weeks behind us and no first-tier data next week. This would be supportive of selling 2-year tails, given the sharp increase in implieds on Friday. **However**, there could be near-term pressures that keep implieds elevated. President Trump continued his vocal criticism of Fed Chair Powell, and the resignation of Fed Governor Kugler paves the way for President Trump to nominate a new governor earlier than expected. Consequently, there could be some more noise around Fed policy, which could keep implieds elevated. We thus recommend patience before entering shorts.

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

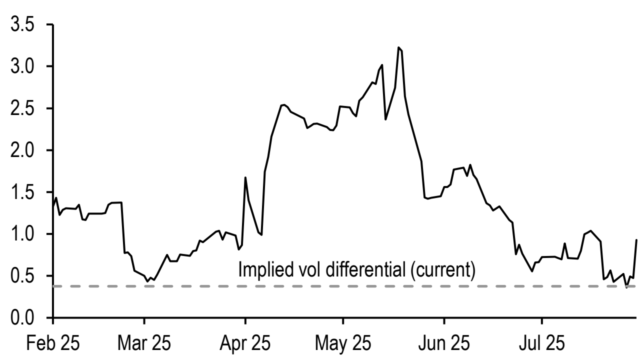
Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

On a relative basis, we recommend buying 5-year tails versus 30-year tails. As **Figure 61** shows, the current implied vol differential appears too low relative to the realized vol differential for this pair. Therefore, **we recommend buying 6Mx5Y straddles versus a theta-neutral amount of 6Mx30Y straddles** (see Trade Recommendations). Also on a relative basis, we recommend buying 3Yx10Y straddles versus 85% vega-weighted 2Yx30Y straddles. As **Figure 6** shows, 3Yx10Y implied volatility has had a strong relationship to 2Yx30Y implied volatility and Fed expectations and now appears too cheap with respect to this relationship. Therefore, **we recommend this trade** (see Trade Recommendations).

Figure 61: Realized volatility on 5-year tails has outperformed 30-year tails by a margin well in excess of the current implied volatility differential

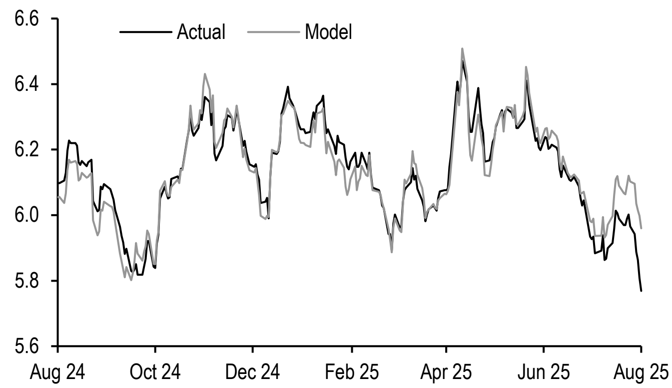
6Mx5Y - 6Mx30Y realized volatility differential* and current (8/1) 6Mx5Y - 6Mx30Y implied volatility differential, past 6m; bp/day



*Realized vol is calculated as 6-week standard deviation of daily changes in the ATMF yields
Source: J.P. Morgan

Figure 62: 3Yx10Y implied volatility has been well correlated with 2Yx30Y implied volatility and Fed expectations; it now appears cheap with respect to this relationship

3Yx10Y actual and modeled* implied volatility, past 1y; bp/day



* 3Yx10Y modeled implied volatility is defined as 0.84*2Yx30Y implied volatility + 0.14*(1Yx1Y OIS - 3Mx3M OIS). Calculated from a 1y regression
Source: J.P. Morgan

Another important event this week was the August quarterly refunding announcement on Wednesday. We discussed our takeaways in our mid-week publication earlier this week (*Interest Rate Derivatives Mid-Week Update*, 7/30/2025) and will only summarize here. **One**, Treasury left nominal coupon and and FRN auction sizes unchanged for the current quarter, as was widely expected, while signaling that it anticipates maintaining these auction sizes "for at least the next several quarters." With no change to the guidance language today, our UST strategists have adjusted their forecast and now anticipate that Treasury will begin a multi-quarter series of coupon auction size increases in May 2026 (instead of February 2026). **Two**, based on feedback from the dealer community and from the TBAC, Treasury announced a number of changes to the buyback program. However, our UST strategists expect that the impact of these changes on the WAM of the Treasury's debt stock compared with the size of the current program will be marginal. TBAC also emphasized in its letter to Treasury Secretary Bessent that "The Committee feels strongly that issuance is the primary tool for managing the debt profile." Finally, the rest of the statement and other documents delivered were close to our UST strategists' expectations. For a more detailed review, please see *Treasuries*.

Heading into the refunding announcement, we had maintained our swap spread curve flattening bias on the premise that swap spread curves had steepened on the expectation that the Treasury may take a more activist approach and cut long-end auction sizes. We expected the

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC
Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC
Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

swap spread curve to flatten in the long-end post the announcement if the Treasury did not take an activist approach. This is indeed what has happened, as the swap spread curve in the long-end has flattened over the week: long-end spreads have narrowed by about 1.5bp, and 2-year spreads have widened by 2bp (Figure 63). Seen through the lens of term structure, term funding premium is higher by 0.2bp/year, and zero duration spreads are wider by about 2bp.

Looking ahead, **we turn neutral on the swap spread curve as term funding premium could be biased lower in the near-term**. Friday's payroll report could result in easing expectations to continue to increase, which could result in more bond fund inflows. As our empirical model for TFP indicates (**Figure 64**), an increase in bond fund AUM would be supportive of a lower TFP and steeper swap spread curves. Therefore, we turn neutral on the swap spread curve and recommend unwinding swap spread curve flattening exposure (see Trade Recommendations).

We also turn neutral on front-end and belly spreads. Our narrowing bias was a tactical view premised on the fact that the increase in net T-bill supply could lead to firmer funding conditions and be a headwind for swap spreads. However, funding markets have remained orderly, and our Short Term strategists do not expect a material impact on the repo markets as we head into the peak net T-bill issuance in the coming weeks (see *Short Term Fixed Income*). Additionally, recent positive headlines around Basel III endgame could on the margin support swap spreads in the near term. Therefore, **we turn neutral on swap spreads for now and recommend unwinding swap spread narrowing exposure** (see Trade Recommendations).

Figure 63: Long-end swap spreads are narrower, and front-end swap spreads are wider over the week

Selected statistics for maturity-matched SOFR swap spreads (bp), term funding premium* (bp/year), and zero-duration spreads** (bp), 7/25-8/1

	Start	Change	End	Min	Mean	Max
2Y	-23.8	1.8	-22.0	-24.2	-23.2	-22.0
3Y	-29.8	0.7	-29.0	-30.0	-29.7	-29.0
5Y	-38.1	1.2	-36.9	-38.6	-38.1	-36.9
7Y	-46.4	1.7	-44.7	-47.2	-46.2	-44.7
10Y	-54.1	0.8	-53.2	-54.6	-54.0	-53.2
20Y	-77.6	-0.6	-78.1	-78.7	-78.1	-77.6
30Y	-82.7	-1.5	-84.2	-84.4	-83.5	-82.7
TFP	4.5	0.2	4.6	4.4	4.5	4.6
ZDS	-17.7	1.9	-15.8	-17.8	-17.2	-15.8

* 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 (ZDS) 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 64: An increase in bond fund AUM due to expectations of lower rates would be supportive of lower TFP and steeper swap spread curves

Statistics from regressing* term funding premium (bp/year)** versus its drivers*** (units as indicated), current (8/1/2025) values for the drivers, and current and fair values for term funding premium (bp/year)

Factor	Coeff	T-stat	Cur.
Total marketable debt ex fed holdings / Fed assets	1.7	16.6	3.6
Top 25 bond fund aum ($tn)	-8.9	-11.3	0.90
Foreign official holdings of USTs ($tn)	-1.5	-5.9	3.9
5Yx5Y OIS (%)	0.32	6.1	3.99
VA aggregate duration (1m avg, $bn 20s)	0.04	18.4	63.6
Commercial bank deposits ($tn)	-0.14	-4.1	18.3
Intercept	10.7	13.8	
R-sq	89%		
Std. error	0.3		
Term funding premium - fair value			4.4
Term funding premium - actual			4.6

* Regression period from Jun 2021 - Jun 2025
** Term funding premium (TFP) is defined in the footnote of the previous figure
*** Top 25 bond fund AUM ($tn) is defined as the AUM of the top 25 actively managed US core bond funds
Source: J.P. Morgan, Bloomberg Finance L.P., Federal Reserve H.8, Federal Reserve H.4.1

We refresh our projection for the Fed's balance sheet based on Treasury's estimates for the TGA balances in the refunding documents. **Figure 65** shows our projection for the Fed's balance sheet through YE25. **We continue to expect QT to continue throughout the year** (we currently expect QT to end in 1Q26, while recognizing that risks to this end date could

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC
Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC
Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC
Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

be skewed to later) **and expect the TGA to continue normalizing before reaching its target of $850bn in September**. We anticipate the balance sheet to reach approximately $6.6 trillion by year-end, with O/N RRP and Reserves at around $50 billion and $2.9 trillion, respectively.

Figure 65: Our projection for the evolution of the Fed's balance sheet through YE25

Current* and projected total Fed balance sheet assets, RRP†, TGA, Reserves, and Commercial bank deposits** through YE 2025, $bn

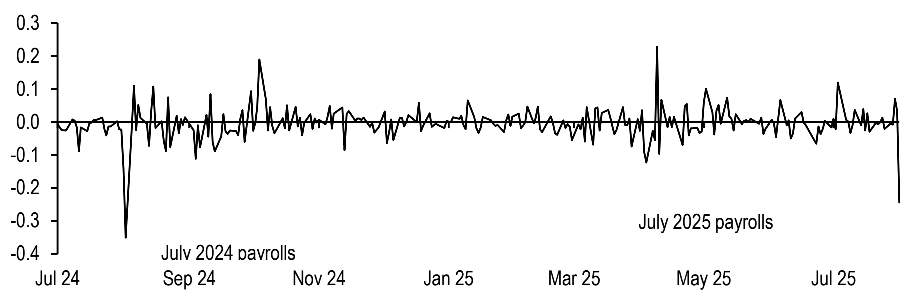
End-of-the-month	Fed Assets	RRP			TGA	Reserves	Commercial Bank Deposits
		O/N RRP	Foreign RRP	Total RRP			
Current	6,695	155	371	526	371	3,347	18,259
Aug-25	6,670	50	360	410	630	3,179	18,185
Sep-25	6,647	50	360	410	850	2,936	18,050
Oct-25	6,624	50	360	410	850	2,913	18,092
Nov-25	6,602	50	360	410	850	2,891	18,134
Dec-25	6,580	50	360	410	850	2,869	18,176

* Current as of 7/31/2025 Fed H.4 release
** Deposits as of 7/25/2025 Fed H.8 release
† Foreign RRP is assumed to decrease to 2024 average levels. O/N RRP is calculated as the difference between Total RRP and Foreign RRP
Source: J.P. Morgan, FRED, Federal Reserve H.4.1, Federal Reserve H.8

Friday's employment data caused short-term Fed expectations (proxied by 3Mx3M OIS rates) to reprice sharply lower by close to 25bp, the largest single-day decline since the July 2024 payrolls (Figure 66), while medium-term Fed expectations (proxied by the 3Mx3M / 15Mx3M OIS curve) remained relatively stable. As could be expected with such a decline in short-term rates, swap yield curves steepened over the day, and the Reds / Greens curve steepend by 8bp today, also the largest single daily move in the past year.

Figure 66: Short rates plummeted in the aftermath of the jobs report, the largest single-day decline since the July 2024 print

Daily changes in 3Mx3M OIS, past 1Y; %



Source: J.P. Morgan

But how much steepening was to be expected with this decline in short-term Fed expectations? We turn to our empirical fair value framework for this analysis (see our *Interest Rate Derivatives 2025 Mid-Year Outlook*, 6/13/2025). As Figure 67 shows, curves steepened more than what would have been expected by our fair value framework. However, from the table, we can also see that the contribution from near-term Fed expectations explains almost all the steepening in the curves on Friday, which could indicate that the steepening was mostly in reaction to changes to Fed expectations. The other factor that moved on Friday, and also over the week, was long-term inflation expectations, which are about 10bp lower than the prior week. Last week, we had recommended positioning for

Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

curve trades that were hedged for exposure to inflation swap, which we continue to recommend; **this week, we recommend curve trades that are hedged for exposure to near-term Fed expectations.**

Figure 67: Swap curves steepened more than what would have been expected by our fair value framework, led by changes in near-term Fed expectations

Curve levels and residuals* as of 7/31 and 8/1, factor impacts**, expected changes***, and actual changes in various swap yield curve structures from 7/31 to 8/1 (%), in addition to current levels of drivers in the two periods

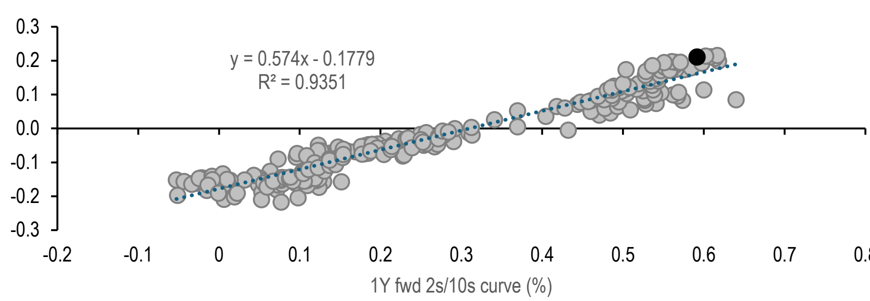
	Values as of 7/31		Factor Impact								Values as of 8/1	
Curve	Curve	Residual	Guidance	3Mx3M OIS	Fed Expec. Crv	Fed B/S	5Yx5Y Infl. swap	Intercept shift	Expected Chg	Actual Chg	Curve	Residual
2s/5s	-0.13	-0.15	0	0.07	0.00	0	-0.05	0	0.02	0.06	-0.06	-0.11
2s/10s	0.11	-0.18	0	0.11	0.00	0	-0.08	0	0.03	0.12	0.23	-0.10
2s/30s	0.32	-0.13	0	0.15	0.00	0	-0.10	0	0.06	0.17	0.49	-0.02
5s/10s	0.24	-0.03	0	0.04	0.00	0	-0.03	0	0.01	0.05	0.29	0.01
5s/30s	0.45	0.02	0	0.08	0.00	0	-0.05	0	0.03	0.10	0.55	0.09
10s/30s	0.21	0.05	0	0.04	0.00	0	-0.02	0	0.02	0.05	0.26	0.08
1Y fwd 2s/5s	0.19	-0.09	0	0.05	0.00	0	-0.04	0	0.01	0.05	0.24	-0.05
1Y fwd 2s/10s	0.50	-0.08	0	0.08	0.00	0	-0.06	0	0.02	0.10	0.60	-0.01
1Y fwd 2s/30s	0.68	-0.01	0	0.11	0.01	0	-0.07	0	0.04	0.14	0.81	0.08
1Y fwd 5s/10s	0.32	0.01	0	0.02	0.00	0	-0.02	0	0.01	0.04	0.36	0.05
1Y fwd 5s/30s	0.49	0.08	0	0.06	0.00	0	-0.03	0	0.03	0.08	0.57	0.13
1Y fwd 10s/30s	0.17	0.07	0	0.03	0.00	0	-0.01	0	0.02	0.04	0.21	0.09
2Y fwd 2s/5s	0.24	-0.02	0	0.02	0.00	0	-0.02	0	0.00	0.03	0.27	0.01
2Y fwd 2s/10s	0.55	0.03	0	0.03	0.00	0	-0.03	0	0.00	0.06	0.61	0.08
2Y fwd 2s/30s	0.63	0.11	0	0.06	0.00	0	-0.04	0	0.02	0.09	0.72	0.17
2Y fwd 5s/10s	0.30	0.04	0	0.01	0.00	0	-0.01	0	0.00	0.03	0.33	0.07
2Y fwd 5s/30s	0.39	0.12	0	0.04	0.00	0	-0.01	0	0.02	0.06	0.44	0.16
2Y fwd 10s/30s	0.08	0.08	0	0.03	0.00	0	-0.01	0	0.02	0.03	0.11	0.09
Drivers												
7/31			0	4.07	-0.81	6.70	2.47	1				
8/1			0	3.83	-0.82	6.70	2.42	1				

* Residual is from our fair value model, which uses the following factors: the level of short rates (3Mx3M forward OIS; %), the Fed expectations curve (15Mx3M minus 3Mx3M forward OIS curve; %), the size of the Fed's balance sheet ($tn), long-term inflation expectations (5Yx5Y inflation swap rates; %), a forward guidance factor (as a control variable to account for historical periods in which the Fed utilized forward guidance as a policy tool; years), and an intercept shift (to adjust for the repricing of the curves due to tariffs)
** Factor impact is defined as the change in each driver over the time period times its beta from our fair value model. Note that we omit the forward guidance and intercept shift factors in in this table for brevity (for details on our fair value model, see Figure 17 of our *Interest Rate Derivatives 2025 Mid-Year Outlook*, 6/13/2025)
*** Expected change is defined as the sum of the individual factor impacts
Source: J.P. Morgan, Federal Reserve H.4.1

One way to do this **while also finding some relative value is to pair 1Y fwd 10s/30s flatteners with 60% weighted 1Y fwd 2s/10s steepeners, which results in a 0.38:1:0.63 weighted 1Y fwd 2s/10s/30s butterfly**. As Figure 68 shows, the 1Y fwd 10s/30s curve has had a positive beta to the 1Y fwd 2s/10s curve and currently appears too steep with respect to this relationship. The 60% weighting on the 2s/10s curve also neutralizes most of the exposure to near-term Fed expectations (utilizing our fair value framework). Therefore, we **recommend this trade** (see Trade Recommendations).

Figure 68: The 1Y fwd 10s/30s curve is positively correlated with the 1Y fwd 2s/10s curve and currently appears too steep with respect to this relationship

1Y forward 10s/30s swap curve versus 1Y fwd 2s/10s swap curve, past 1Y history; %



Source: J.P. Morgan

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC
Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC
Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC
Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Trade Recommendations

- **Buy 6Mx5Y swaption straddles versus selling a theta neutral amount of 6Mx30Y swaption straddles**
  On a relative basis, we recommend buying 5-year tails versus 30-year tails, as the current implied vol differential appears too low relative to the realized vol differential for this pair.
  - Buy $100mn notional 6Mx5Y ATMF swaption straddles. (Notification date: 2026-02-02, swap tenor: 5Y, ATMF: 3.363%, strike: 3.363%, spot premium: 233.3bp per notional, forward premium: 238.3bp per notional, bpvol at inception: 5.83bp/day.)
  - Sell $28.7mn notional 6Mx30Y ATMF swaption straddles. (Notification date: 2026-02-02, swap tenor: 30Y, ATMF: 3.952%, strike: 3.952%, spot premium: 803.4bp per notional, forward premium: 820.7bp per notional, bpvol at inception: 5.26bp/day.) This trade assumes active delta hedging every business day.
- **Buy 3Yx10Y swaption straddles versus selling 85% of the vega risk in 2Yx30Y swaption straddles**
  On a relative value basis, 3Yx10Y implied volatility has had a strong relationship to 2Yx30Y implied volatility and Fed expectations and now appears too cheap with respect to this relationship.
  -Buy $100mn notional 3Yx10Y ATMF swaption straddles. (Notification date: 2028-08-01, swap tenor: 10Y, ATMF: 4.021%, strike: 4.021%, spot premium: 950.4bp per notional, forward premium: 1050.6bp per notional, bpvol at inception: 5.83bp/day).
  -Sell $48.0mn notional 2Yx30Y ATMF swaption straddles. (Notification date: 2027-08-02, swap tenor: 30Y, ATMF: 3.993%, strike: 3.993%, spot premium: 1595.1bp per notional, forward premium: 1710.0bp per notional, bpvol at inception: 5.52bp/day). This trade assumes active delta hedging every business day.
- **Sell the belly of a 1Y forward 2s/10s/30s swap yield curve butterfly (0.38:1:0.63 weighted)**
  We recommend trading the curve while hedged for short-term Fed expectations after this week's move, while also looking for relative value. The 1Y fwd 10s/30s curve looks too steep with respect to the 1Y fwd 2s/10s curve, and given the 60% beta with respect to this relationship, this trade reduces to a 1Y fwd 2s/10s/30s (0.38:1:0.63) weighted fly. The weighted fly is neutralized to most of the exposure to near-term Fed expectations.
  - Receive fixed in $159.9mn notional of a 08/01/26x2Y SOFR swap at a yield of 3.143% (PVBP: $191.1/bp per mn notional). Pay-fixed in $100.0mn notional of a 08/01/26x10Y SOFR swap at a yield of 3.746% (PVBP: $804.3/bp per mn notional). Receive fixed in $30.1mn notional of a 08/01/26x30Y SOFR swap at a yield of 3.957% (PVBP: $1686.0/bp per mn notional). This trade uses risk weights of 0.38/-1.0/0.63 on the 1Yx2Y/1Yx10Y/1Yx30Y swaps, respectively. This trade is being initiated at a yield spread of 5.9bp.
- **Unwind Reds/Greens conditional bull steepeners using 6M expiry midcurve receivers**
  This curve has steepened with the decline in rates and outperformed our expectations; we recommend unwinding at a profit of 2.4bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-25.
- **Unwind longs in 6Mx10Y swaption straddles, delta-hedged daily**
  We turn neutral on volatility, and we recommend unwinding this trade at a loss of 2.5abp. For original trade write up, see Fixed Income Markets Weekly 2025-07-25.
- **Unwind 10s/30s maturity matched swap spread curve flatteners**
  We turn tactically neutral on the swap spread curve, as term funding premium could be

Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC
Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC
Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC
Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

biased lower in the near-term, and we recommend unwinding this trade at a profit of 1.2bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.

- **Unwind 7s/20s swap spread curve flatteners hedged with 15% risk in a 7s20s UST curve flattener**
  For a similar reason as above, we recommend unwinding this trade at a profit of 0.5bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.
- **Unwind 5Y swap spread narrowers**
  We turn neutral on outright spreads, and we stop out at a loss of 4.2bp. For original trade write up, see Interest Rate Derivatives Mid-Week Update 2025-07-08.
- **Unwind exposure to shorting 50% of the vega risk in 1Yx2Y swaption straddles versus buying 2Yx2Y swaption straddles**
  This trade has underperformed our expectations, and we recommend unwinding at a loss of 5.5abp. For original trade write up, see Fixed Income Markets Weekly 2025-06-27.
- **Maintain 3M forward 5s/15s flatteners with 85% of the risk in 2Y fwd 1s/7s steepeners**
  P/L on this trade is currently 1.2bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-25.
- **Stay short in the belly of a 3M forward 5s/10s/30s swap yield curve butterfly (0.53:-1:0.53 weighted) to asymmetrically position for a shallower easing cycle**
  P/L on this trade is currently -1.1bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.
- **Maintain 6M forward 1s/7s conditional bull steepeners**
  P/L on this trade is currently -6.3bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.
- **Maintain longs in 1Yx5Y A+100 minus A swaption payer skew**
  P/L on this trade is currently -1.5abp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.
- **Maintain a 4.625% Jun 2027 / 4.375% Jul 2027 swap spread curve flattener (1:0.9 weighted)**
  P/L on this trade is currently -0.7bp. For original trade write up, see Fixed Income Markets Weekly 2025-07-11.
- **Maintain maturity-matched 3.875% Feb 2043 / 3% Feb 2049 swap spread curve flatteners (0.8:1 weighted)**
  P/L on this trade is currently -2.2bp. For original trade write up, see Fixed Income Markets Weekly 2025-06-06.
- **Stay short in the belly of a H6/H7/M7 3M SOFR futures butterfly (0.15:-1:0.90 risk weighted)**
  P/L on this trade is currently -0.7bp. For original trade write up, see Fixed Income Markets Weekly 2025-05-30.
- **Maintain longs in the FVU5 factor weighted CTD basis with repo termed out to 9/2/2025**
  P/L on this trade is currently -0.3/32nds. For original trade write up, see Fixed Income Markets Weekly 2025-05-09.

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

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

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

Trade	Entry	Exit	P/L
Spreads and basis			
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
Initiate 3Y maturity matched swap spread wideners using the Jan '28 issue	3/21/2025	4/4/2025	(4.8)
Buy 3% May 2042 maturity matched swap spreads versus selling 1.75% Aug 2041 maturity matched swap spreads	3/21/2025	4/11/2025	0.9
Initiate 2s/7s swap spread curve flatteners, paired with a 10% risk weighted 2s/7s UST curve flattener	4/25/2025	5/2/2025	1.2
Initiate TU/TY invoice spread curve flatteners, paired with a 10% risk weights TU/TY futures curve flattener	4/25/2025	5/2/2025	(0.5)
Initiate 30Y swap spread wideners, paired with a risk weighted short in S&P 500 futures	4/25/2025	5/16/2025	(7.8)
Initiate 2Y maturity matched swap spread wideners	5/2/2025	5/30/2025	2.1
Initiate 5s/10s maturity matched swap spread curve steepeners	5/2/2025	6/6/2025	0.9
Initiate 100:50 weighted 10s/30s maturity matched swap spread curve flatteners	5/30/2025	6/6/2025	0.1
Pay fixed in 3.75% Aug 2027 maturity matched swap spreads	5/16/2025	6/27/2025	(0.2)
Initiate 7s/10s maturity-matched swap spread curve steepeners	6/27/2025	7/11/2025	1.0
Initiate 5Y maturity-matched swap spread narrowers	7/8/2025	8/1/2025	(4.2)
Initiate 10s/30s maturity matched swap spread curve flatteners	7/11/2025	8/1/2025	1.2
Initiate 7s/20s swap spread curve flatteners hedged with 15% risk in a 7s20s UST curve flattener	7/11/2025	8/1/2025	0.5

Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Duration and curve	Entry	Exit	P/L
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)
Initiate 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	01/24/25	04/04/25	1.2
Initiate 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	01/31/25	04/04/25	0.5
Sell the belly of a 1Y forward 3s/7s/30s swap yield curve butterfly (0.5:-1.0:0.5 weighted) to asymmetrically position for a rise in term premium	03/07/25	04/04/25	(5.8)
Initiate 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	03/14/25	04/04/25	(1.8)
Initiate 3Yx2Y / 2Yx15Y flatteners, paired with 40% risk in a 6Mx3M / 1Yx1Y flattener	03/21/25	04/11/25	(4.0)
Initiate 18m fwd 2s/10s steepeners	04/04/25	04/11/25	6.4
Initiate 18m fwd 2s/30s steepeners	04/11/25	04/21/25	27.7
Initiate conditional 7s/30s flatteners in a selloff constructed with 6M expiry payer swaptions and financed by selling ~15% of the forward DV01 risk in 3Mx3Y payer swaptions	04/04/25	04/25/25	(8.1)
Initiate 3M forward 3s/10s flatteners paired with 75% of the risk in 1Y fwd 1s/7s steepeners	03/28/25	05/30/25	(4.8)
Initiate 1Y fwd 2s/15s steepeners vs 3Y fwd 2s/7s flatteners (0.35:1 weighted)	05/02/25	05/30/25	(3.2)
Initiate 5M fwd 2s/5s conditional bull steepeners	03/21/25	06/13/25	(1.7)
Initiate Z5/M6 3M SOFR futures flatteners paired with 70% risk in H6/H7 3M SOFR futures curve steepeners	06/06/25	06/27/25	6.6
Initiate 6Mx3M/3Mx1Y (0.8:1 weighted) swap yield curve steepeners	06/27/25	07/08/25	2.8
Sell the belly of a 3M forward 3s/5s/20s swap yield curve butterfly (0.75:-1:0.35 weighted)	05/09/25	07/11/25	(6.0)
Initiate 9M fwd 3s/7s swap curve steepeners	06/27/25	07/16/25	1.5
Initiate 18M fwd 10s/30s swap curve flatteners	06/27/25	07/16/25	(2.2)
Initiate 2Yx1Y / 3Yx2Y swap yield curve steepeners (0.5:1.0 weighted) vs a 55% risk weighted long in 2Yx10Y swaps	07/11/25	07/16/25	1.9
Buy the belly of a U5/Z5/H6 3M SOFR futures butterfly (-0.45:1:-0.60 risk weighted)	03/28/25	07/25/25	(2.3)
Initiate 6Mx3M/3Mx1Y (0.8:1 weighted) swap yield curve steepeners paired with 20% risk-weighted long in 3Mx2Y swaps	06/27/25	07/25/25	0.2
Initiate Reds/Greens conditional bull steepeners using 6M expiry midcurve receivers	07/25/25	08/01/25	2.4

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Options	Entry	Exit	P/L
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)
Overweight 6Mx5Y swaption straddles versus a vega-neutral amount of 6Mx7Y swaption straddles	02/21/25	04/04/25	1.2
Initiate 2Yx10Y swaption straddle longs, paired with a receive fixed swap overlay to hedge directional exposure with rates	03/28/25	04/04/25	3.9
Buy 1Y forward 1Yx10Y forward volatility, synthetically constructed via 50% vega-weighted shorts in 1Yx10Y and longs 2Yx10Y swaption straddles	02/28/25	04/11/25	3.2
Sell 6Mx10Y straddles versus a vega neutral amount of 6Mx30Y straddles	03/14/25	04/11/25	1.4
Initiate outright longs in 1Yx2Y swaption straddles	04/04/25	04/11/25	3.8
Initiate outright longs in 1Yx10Y swaption straddles	04/11/25	05/02/25	(5.8)
Buy 1Y forward 1Yx2Y volatility versus 1Y forward 1Yx10Y volatility by synthetically constructed via vega-weighted vanilla swaptions	03/07/25	05/09/25	(2.0)
Sell 6Mx30Y swaption straddles, delta-hedged bi-weekly	05/09/25	05/21/25	(8.4)
Initiate longs in 6Mx10Y swaption straddles versus shorts in a gamma neutral amount of 6Mx30Y swaption straddles	05/02/25	06/06/25	0.7
Buy 2Yx2Y straddles versus 10Yx10Y straddles, hedged with a 130% vega weighted short in 3Yx3Y swaption straddles, and add a short duration overlay by paying a suitable amount in 3Yx3Y forward swap	05/02/25	06/27/25	(7.2)
Sell 1Y forward 1Yx30Y volatility, synthetically constructed via suitably weighted 2Yx30Y and 1Yx30Y swaptions	05/09/25	06/27/25	0.6
Buy 6Mx5Y versus a vega neutral amount of 6Mx7Y swaption straddles	05/30/25	06/27/25	(0.2)
Sell 1Yx2Y swaption straddles versus buying a vega-neutral amount of 2Yx2Y swaption straddles	06/27/25	07/11/25	1.6
Buy 5Yx2Y versus a vega neutral amount of 10Yx10Y swaption straddles	05/30/25	07/16/25	(5.4)
Sell 3Mx2Y straddles versus buying a vega-neutral amount of 9Mx2Y straddles	07/16/25	07/25/25	0.0
Initiate longs in 6Mx10Y swaption straddles, delta-hedged daily	07/25/25	08/01/25	(2.5)
Treasury Futures	**Entry**	**Exit**	**P/L**
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
Initiate calendar spread wideners in US futures	5/16/2025	5/27/2025	0.4
Initiate calendar spread narrowers in UXY futures	5/16/2025	5/27/2025	(0.6)
Total number of trades			**140**
Number of winners			**75**
Hit rate			**54%**

Ipek Ozil [AC] (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Recent Weeklies / Mid-Week Updates	
25-Jul-25	Marble not yet carved
16-Jul-25	Stop and stare
11-Jul-25	Headed for another five-setter?
08-Jul-25	Picking up the bill
27-Jun-25	Spreads (don't) Love Reform
06-Jun-25	Forget the past and start again
04-Jun-25	US Treasury Market Daily: The implications of lifting the WFC asset cap
30-May-25	Heisenberg uncertainty principle
16-May-25	Friday night special
09-May-25	What goes up must come down
02-May-25	Job report strikes back
25-Apr-25	Mr. Congeniality
21-Apr-25	US Treasury Market Daily: It's just a flesh wound
11-Apr-25	The Great Vol of China
09-Apr-25	There's no crying in basis: Dissecting Treasury market liquidity, swap spreads, basis, and funding
04-Apr-25	"Forward", the General cried from the rear, and the front rank died
28-Mar-25	Signal and Noise
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

Ipek Ozil AC (1-212) 834-2305
ipek.ozil@jpmorgan.com
J.P. Morgan Securities LLC

Philip Michaelides (1-212) 834-2096
philip.michaelides@jpmchase.com
J.P. Morgan Securities LLC

Arjun Parikh (1-212) 834-4436
arjun.parikh@jpmchase.com
J.P. Morgan Securities LLC

Chris Hayward (1-212) 622-6152
chris.hayward@jpmchase.com
J.P. Morgan Securities LLC

Outlooks	
13-Jun-25	Interest Rate Derivatives 2025 Mid-Year Outlook: Webs of opacity
26-Nov-24	Interest Rate Derivatives 2025 Outlook: Nobody said it was easy
Recent Special Topic Pieces	
18-Jun-25	SLR Reform Update: Waiting with bated breath
16-May-25	SLR reform: Helpful, but not a panacea
15-May-25	US bond futures rollover outlook: June 2025 / September 2025
12-Feb-25	US bond futures rollover outlook: March 2025 / June 2025
08-Nov-24	US bond futures rollover outlook: December 2024 / March 2025
13-Aug-24	US bond futures rollover outlook: September 2024 / December 2024

Takafumi Yamawaki AC (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Japan

All-in-one: July MPM, GPIF results, and a little bit on T-bills

- **Yesterday, we published a note on the July MPM and what's next. At the meeting, the BoJ decided to maintain its current policy settings. In the Outlook Report, the BoJ revised its inflation projections upward and changed the risk balance of prices to "generally balanced." With the next rate announcement scheduled for September 19, this brings the market's focus back to the tug-of-war between global economic indicators and domestic fundamentals. In the absence of signs of an imminent global/US recession or unexpected political developments, we expect short-term rates to remain largely range-bound.**
- **Politics remain at the forefront, and in our view, a holistic assessment of the risk balance is more meaningful given that multiple potential outcomes remain. We think the back end of the JGB curve is disproportionately exposed to fiscal risks. Moreover, if dovish pressure arises from domestic political developments, the long end is likely to bear the brunt as the market prices in a higher inflation risk premium.**
- **The August supply cycle is set to begin next Tuesday. While political headlines and upcoming US data releases could significantly alter the landscape, we hold a relatively constructive view on Tuesday's 10-year auction, as the demand side of the equation seems robust, in our view. In particular, the richness of the SC of JB379, along with the large size of shorts, suggests the potential for robust short-covering demand. Conversely, we remain cautious about the 30-year auction next Thursday.**
- **We expect the steepness at the back end of the JGB curve to persist, limiting the scope for a material rally in the near term. We maintain that our 10s/30s swap spread curve flattener view will play out over time.**
- **On *Gengaku Sochi*, we anticipate market participants will likely use a JPY200bn envelope to buy back JB368 and JB369 this month. Indeed, SLF counterparties borrowed JPY41bn and JPY60bn of JB368 and JB369, respectively, today.**
- **GPIF released its 1Q FY2025 results today. At the end of June 2025, the total reserve funds managed by GPIF and the Pension Special Account amounted to JPY263.8tn, with JPY260.0tn managed by GPIF. The allocation of the pension reserves managed by GPIF aligned closely with the 25% target.**
- **On plumbing, we take a brief look at the JSDA data for June to analyze bank activity in the T-bill market.**

There's no summer break in Japan

The text below is an abridged/edited version of the report published on Thursday (see here for the full version).

At the July MPM, the BoJ decided to maintain its current policy settings. In the Outlook Report, the BoJ revised its inflation projections upward and upgraded the risk balance assessment of prices to "generally balanced" from "skewed to the downside." Looking ahead, our economists believe that the BoJ's revisions to its outlook and risk balance support our house call of an October rate hike.

Takafumi Yamawaki [AC] (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Turning to market developments, OIS pricing implies around a 70% probability of a 25bp hike by the end of the year (**Figure 69**). Meanwhile, 1y1y swap is hovering a touch above 90bp. With the next rate announcement scheduled for September 19, the BoJ has ample time to assess the impact of US tariffs on the global economy. In our view, this brings the market's focus back to the tug-of-war between global economic indicators and domestic fundamentals. We anticipate the market will oscillate between optimism and pessimism, influencing market pricing accordingly. **In the absence of signs of an imminent global/US recession and unexpected political developments, we expect short-term rates to remain largely range-bound**.

Away from monetary policy, politics remain at the forefront (**Figure 70**). After the ruling coalition lost its majority in the upper house, pressure seems to be mounting on Prime Minister Ishiba, despite his repeated comments of his intention to remain in office. The LDP leadership has decided to hold the Joint Plenary Meeting on August 8, and many prefectural chapters are calling for the resignation of the leadership. Moreover, LDP Secretary-General Moriyama, who is against a consumption tax cut, has stated that he will decide how to take responsibility after completing an analysis of the election results in August.

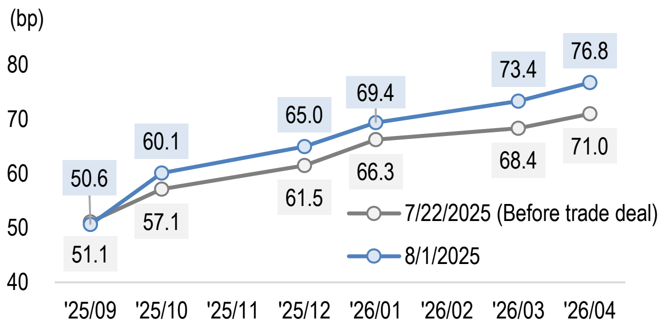
Outside of the internal politics within the LDP, it remains uncertain whether there will be an attempt to expand the ruling coalition. However, even the mere initiation of such discussions is expected to exert upward pressure on JPY rates and cause a bear steepening of the curve, as tax cuts could be demanded by the opposition as a condition for joining the coalition. Additionally, a FY2025 supplementary budget is still uncertain, but securing opposition support could rekindle fiscal concerns. Importantly, discussions on the FY2026 initial budget are set to gain momentum towards the end of the year, which may similarly reignite fiscal concerns.

In our view, a holistic assessment of the risk balance is more meaningful given that multiple potential outcomes remain. Our core thinking remains (1) uncertainty surrounding fiscal policy persists, and (2) the bias is tilted towards a larger fiscal package. While the actual impact on the calendar-base issuance should be contained even if there is a relatively large fiscal package, **we think the true significance lies in the perception of unrestrained fiscal discipline, leaving the back end of the JGB curve disproportionately exposed to fiscal risks**. Moreover, **if dovish pressure arises from domestic political developments, the long end is likely to bear the brunt as the market prices in a higher inflation risk premium**.

Takafumi Yamawaki AC (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Figure 69: Market pricing sharply repriced higher after the US-Japan trade deal, now implying around a 70% probability of a 25bp hike by the year-end

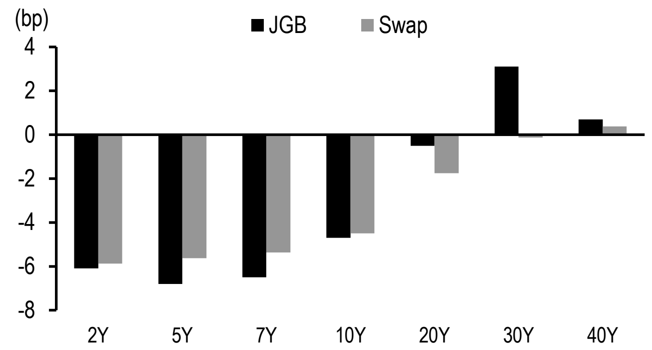
BoJ policy rate outlook based on OIS market expectations (TONAR) (bp; as of 3 p.m. JST)



Source: J.P. Morgan.

Figure 70: Politics remain at the forefront, and the market appears to be pricing in some risk premium at the back end recently

Change in rates between July 25 and August 1 (bp)



Source: J.P. Morgan.

Amid political uncertainty, the August supply cycle is set to begin next Tuesday. While political headlines and upcoming US data releases could significantly alter the landscape, we hold a relatively constructive view on Tuesday's 10-year auction, as the demand side of the equation seems to be in better shape, in our view. **First**, our tracker for public pensions' rebalancing needs indicates that they may need to purchase a large amount of domestic bonds across the curve to bring their portfolios into balance (see the next section). **Second**, we anticipate that there might be demand for 10-year ASW from banks, as they deploy excess cash for carry and/or rotate away from deeply underwater super-long ASW. **Third**, our fair-value framework suggests that the 10-year JGB is fairly priced against its fundamental drivers (**Figure 71**). **Last but not least, the richness of the SC of JB379, along with the large size of shorts, suggests potential for robust short-covering demand**. We are closely monitoring the resolution of the on-the-run 10-year bond's repo situation, which is arguably the most acute since the March 2023 YCC episode.

Conversely, we remain cautious about the 30-year auction next Thursday. With the LDP's Joint Plenary Meeting scheduled the following day, it is challenging to anticipate strong end-user demand. Furthermore, foreign investors have been buying super-long bonds at a rapid clip this year, but their appetite may wane in an uncertain political/fiscal environment. Dealers may need to replenish inventories, which could be marginally supportive, but the back end sits on a fragile equilibrium.

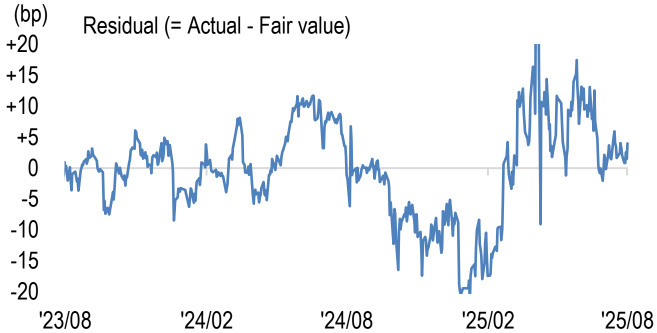
Putting it all together, we expect the steepness at the back end of the JGB curve to persist, limiting the scope for a material rally in the near term. We maintain that our 10s/30s swap spread curve flattener view will play out over time.

Lastly, on a technical note, the use of *Gengaku Sochi* is back into focus (see here for 101). We anticipate market participants will likely use a JPY200bn envelope to buy back JB368 and JB369 from the BoJ (**Figure 72**). Similar to July, we think *Gengaku* will be used in early August. Indeed, SLF counterparties borrowed JPY41bn and JPY60bn of JB368 and JB369, respectively, today. We think that it may take some time for the impact of a recovery in the free float to materialize.

Takafumi Yamawaki AC (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Figure 71: Valuation seems fair against its fundamental drivers; the repo tightness of JB379 and positioning point to a risk of richening

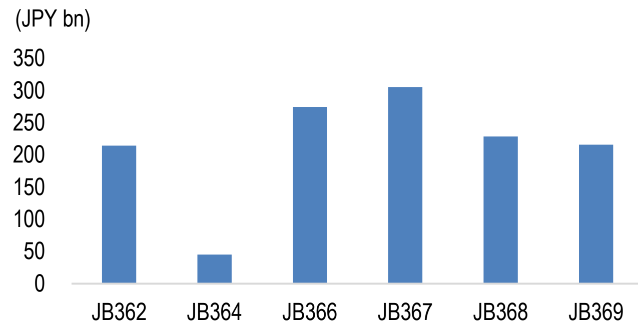
Residual of our 10-year JGB model* (bp)



Source: BoJ, MoF, Bloomberg Finance L.P., J.P. Morgan estimates. *10-year JGB yields regressed on 1Yx1Y JPY OIS (%), 10-year Treasury yields (%), and BoJ holdings as a share of GDP (%); regression over the last 2 years. R-squared = 92.6%, S.E. = 7.8bp.

Figure 72: We anticipate market participants will likely use a JPY200bn envelope to buy back JB368 and JB369 from the BoJ

Room to the JPY1.5tn threshold (JPY bn) (BoJ holdings as of July 18)



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

GPIF 1Q FY2025 results

Today, the Government Pension Investment Fund (GPIF) released its 1Q FY2025 results (**Figure 73**). At the end of June 2025, the total reserve funds managed by GPIF and the Pension Special Account amounted to JPY263.8tn, with JPY260.0tn managed by GPIF. The pension reserves managed by GPIF were allocated as follows: domestic bonds (25.07%), foreign bonds (24.72%), domestic equities (24.63%), and foreign equities (25.58%), aligning closely with the 25% target (**Figure 74**).

Figure 73: At the end of June 2025, the total reserve funds managed by GPIF and the Pension Special Account amounted to JPY263.8tn, with JPY260.0tn managed by GPIF

GPIF portfolio overview: **March 2025 vs. June 2025** (JPY bn; %)

(JPY bn)	'25/03	Flow	Performance	'25/06	Allocation	Target
Total pension reserves	257,418	-3,860	10,205	263,763		
Domestic Bonds	71,150	-2,283	-100	68,917	26.13%	25% ± 7%
Domestic Bonds	No disclosure	No disclosure	No disclosure	62,226		
FX hedged Non-yen bonds	63,515	1,614	-100	1,526		
GPIF Short-term (JPY)				1,427		
Pension Special account	7,636	-3,897	0 (*)	3,739		
Foreign bonds	62,730	539	1,006	64,275	24.37%	25% ± 6%
FX unhedged Non-yen bonds	No disclosure	No disclosure	No disclosure	64,206		
GPIF Short-term (Non-yen)	62,730	539	1,006	69		
Domestic Equities	61,619	-2,087	4,522	64,054	24.28%	25% ± 8%
Foreign Equities	61,919	-179	4,777	66,517	25.22%	25% ± 7%

(*) Assume flat performance for short-term assets
(*) Pre-asset management fees, expenses basis

Bonds (50%±11%)
Equities (50%±11%)

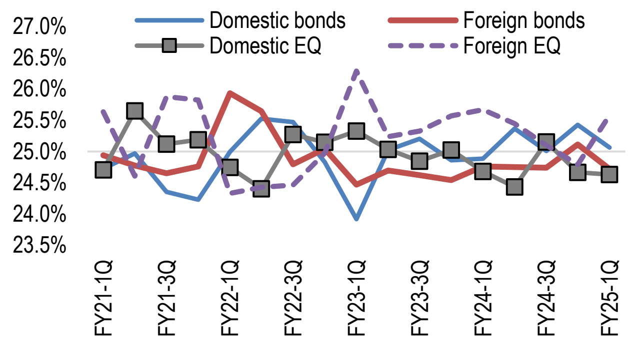
Source: GPIF, J.P. Morgan.

The quarterly disclosure is less comprehensive than the annual disclosure and does not provide some figures. However, based on the available data, we can estimate cash inflows and outflows for each asset class. We estimate that GPIF appears to have allocated JPY1.61tn to domestic bonds, excluding the flow out of the Pension Special Account, and JPY0.54tn to foreign bonds. Conversely, we estimate that there were outflows of JPY2.09tn from domestic equities and JPY0.18tn from foreign equities.

Takafumi Yamawaki [AC] (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Figure 74: At the end of June 2025, the allocation to each asset class was more or less 25%

Asset allocation of pension reserves managed by GPIF (%)



Source: GPIF, J.P. Morgan.

To estimate the portfolio at the end of July, we calculated the performance of each asset class (**Figure 75**). Although the specific operations conducted by GPIF are unclear, assuming a reallocation to maintain each asset class at 25%, there is a decent likelihood that the following operations would need to be executed: a cash inflow of JPY2.35tn into domestic bonds, a cash inflow of JPY0.78tn into foreign bonds, a cash inflow of JPY0.73tn into domestic equities, and a cash outflow of JPY3.87tn from foreign equities (**Figure 76**).

Figure 75: To estimate the GPIF portfolio at the end of July, we calculated the performance of each asset class using major indices

Performance of major index for each asset class

		6/30/2025	7/31/2025	Performance
USD/JPY	USDJPY	144.0	150.8	104.7%
Domestic Bonds	BPIJTO01	357.9	354.0	98.9%
Foreign Bonds	SBWGNJYU	605.8	622.4	102.7%
Domestic Equities	TPXDDVD	4974.5	5132.2	103.2%
Foreign Equities	NDUEACWF	5142.8	5464.8	106.3%

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

Figure 76: Assuming a reallocation to maintain each asset class at 25%, GPIF may need to buy a large sum of domestic bonds

Estimated GPIF portfolio at the end of July 2025 (JPY bn; %)

	6/30/2025		7/31/2025		to 25%
Domestic Bonds	65,178	25.1%	64,467	24.1%	+2,349
Foreign Bonds	64,275	24.7%	66,032	24.7%	+784
Domestic Equities	64,054	24.6%	66,084	24.7%	+732
Foreign Equities	66,517	25.6%	70,682	26.4%	-3,865
Total	260,024		267,266		

Source: GPIF, J.P. Morgan estimates.

Plumbing: June JSDA data update

In the previous weekly report, we discussed the near-term outlook for T-bill issuance, demand from money reserve funds (MRFs), and the BoJ's funds-provisioning measures. The JSDA data for June indicate that city banks were net sellers of T-bills through dealers (i.e., gross purchases minus gross sales, *excluding* redemptions) (**Figure 77**). However, as previously noted, historically, there has been a strong correlation between domestic banks' direct purchases of T-bills at auctions, as reported in the MoF's Debt Management Report, and a proxy for direct auction participation estimated using the JSDA data (**Figure 78**). Based on this, the "Others excluding MoF and BoJ" category for June likely reflects large direct auction participation by domestic banks in June.

Takafumi Yamawaki AC (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Figure 77: "Others ex. MoF and BoJ" category suggests significant direct auction participation by domestic banks in June…

Net buying of T-bills by investor (JPY bn)

(JPY bn)	FY23	FY24	FY25	'25/01	'25/02	'25/03	'25/04	'25/05	'25/06
MoF (Auction)	31,858	27,550	26,067	24,700	24,700	29,200	24,700	24,700	28,800
BoJ (Rinban)	342	0	0	0	0	0	0	0	0
City Banks	464	194	-1,733	2,773	-331	-691	-4,570	60	-687
Regional Financial Institutions	197	-131	-14	-10	20	25	-19	-34	10
Agricultural Financial Institutions	0	7	3	10	-10	10	0	10	0
Other Financial Institutions	17	51	35	45	170	59	0	56	50
Life and Non-life Insurance	-1	222	208	188	454	463	331	191	103
Trust Banks	1,526	1,615	1,930	761	1,556	2,171	2,427	1,935	1,429
Investment Trusts	525	932	952	291	399	317	757	835	1,264
Corporates/Individuals etc.	0	449	931	726	205	406	787	963	1,042
Foreigners	23,271	18,531	18,460	21,223	15,689	16,181	20,520	17,909	16,950
Dealers	15	15	19	35	46	61	18	12	28
Others ex. MoF and BoJ	3,842	4,518	4,091	-2,026	5,033	11,337	3,966	-253	8,559
(Note) Direct bid by domestic banks	3,838	3,715							

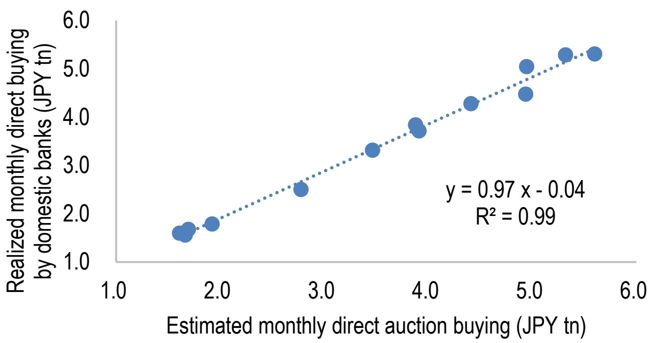
Source: JSDA, MoF, BoJ, J.P. Morgan estimates.

However, in June, our fair-value framework showed that T-bills were attractively priced vs. OIS (**Figure 79**). Even outside of the model, 3-month T-bills became cheaper relative to OIS by around 4bp in June. The net selling by international investors (JPY1.2tn month-over-month, based on the MoF's transactions data) likely affected the supply-demand balance. Additionally, it is possible that the demand from the banking sector was less price inelastic.

Looking ahead, we continue to expect that the steady fair value for 3-month T-bills will be OIS minus around 5bp in 2H25, with the risk skewed towards a higher clearing level (e.g., OIS minus 3bp).

Figure 78: …as there has been a strong correlation between domestic banks' direct purchases of T-bills and a proxy for direct auction participation

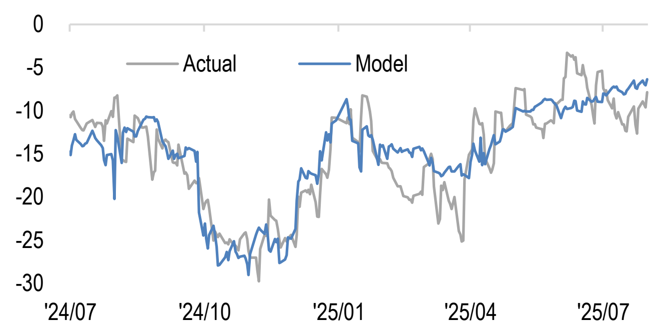
Monthly direct buying of T-bills by domestic banks (from the MoF's Debt Management Report; y-axis) vs. Estimated monthly direct auction buying demand* (using the JSDA data; x-axis) (JPY tn) (FY2012-24)



Source: MoF, J.P. Morgan estimates. * Total monthly auction amount of T-bills minus gross sales by "Others"

Figure 79: Looking ahead, we continue to expect that the fair value for 3-month T-bills will be OIS minus around 5bp in 2H25

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 = 82.6%, S.E. = 2.7bp.

Takafumi Yamawaki AC (81-3) 6736-1748
takafumi.yamawaki@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.
Hiroki Yamamoto (81-3) 6736-1757
hiroki.yamamoto@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Trade recommendations

- **10s/30s swap spread curve flattener**:
  Receive 30Y swap (JSCC) @ 2.149% vs. Short 30Y JX86 (maturity: 20 March 2055) @ 2.781%; Pay 10Y swap (JSCC) @ 1.162% vs. Long 10Y JB378 (maturity: 20 March 2035) @ 1.400%. P/L since inception is +3.2bp (recommended: 13 June 2025)
- **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 -25.4bp (recommended: 12 April 2024)

Figure 80: Closed trades in the last 12 months

P/L reported in bp of yield unless otherwise indicated

TRADE	ENTRY	EXIT	P&L
DURATION			
Pay 1Yx1Y swap (JSCC)	9-Aug-24	30-Aug-24	6
CURVE			
10s/30s JGB curve steepeners	30-May-24	2-Aug-24	15
Pay 1Yx1Y vs. 2Yx1Y OIS	22-Nov-24	4-Apr-25	-1
SWAP SPREADS			
2Y swap spread narrower	19-Mar-24	6-Sep-24	4
10Y swap spread narrower	2-Aug-24	4-Apr-25	19
30Y swap spread narrower	22-Nov-24	11-Apr-25	26
FX BASIS			
OPTIONS			
INFLATION			

Source: J.P. Morgan.

Ben K Jarman [AC] (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Australia & New Zealand

Growth vs financial conditions

- **Australian core inflation printed at 2.7%oya in the June quarter, marginally above the RBA's standing forecast**
- **The gradual moderation in underlying inflation is consistent with our view for a shallow easing cycle**
- **We use AUD 10Y real yields, inflation swap and breakevens to construct supply and demand factor proxies**
- **AUD 10Y real yields have a large positive beta to demand shocks, with only limited spillover into breakevens**
- **This demand beta is even larger than in the US, meaning that the AUD real yield curve is, other things equal, more responsive to a fading global demand outlook**
- **P/E multiples are inherently linked to the mix of growth and interest rate outcomes, which have been most uncertain in recent years**
- **P/E volatility is fading as a contributor to price outcomes more recently as tail risks recede, so should help remove term premia in the AUD curve**
- **We retain a modest bullish bias on Antipodean FX, but acknowledge Powell's dismissal of growth risks presents difficult trade-offs for high beta FX into payrolls**
- **Section 232 carve-outs have hit the copper market, a bellwether for high beta/cyclical asset models and a reliable predictor of 1m AUD/USD FX returns**

Strategy Update – Real yields in motion

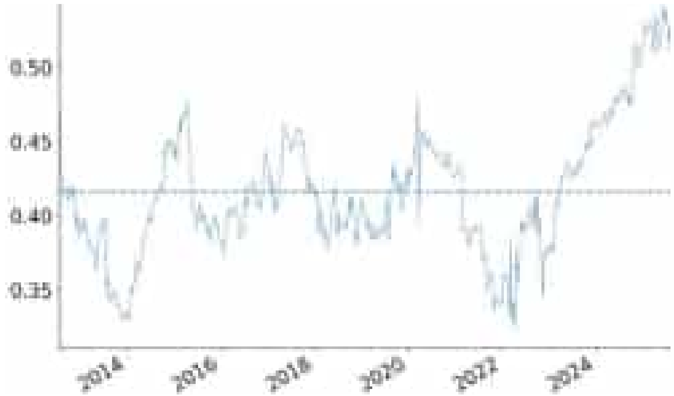
AUD yields have exhibited higher beta to US term premium shocks this year. But that relationship has started to wane in recent weeks (**Figure 81**), which seems justified in the context of our global growth outlook. The JPM top-down view highlights a tension between fundamental causes for slowdown in 2H (uncertainty shock, front-loading payback) and resilience in financial conditions. The combination is trimming tail scenarios: sources of potential upside in the US continue to fade (fiscal, de-reg), but the tariff shock is potentially less acute if implementation and price pass-through is smoothed over time, and financial markets remain sanguine.

Reducing the tails on global growth is particularly relevant for AUD assets, given their high beta to 1) real yields and 2) equity performance. Real yields nicely summarize the push and pull in the package of supply and demand shocks under way, and we can define explicit proxies for these using a basket of local market yields and breakevens. Taking the first two principal components of weekly returns in AUD 10Y real yields, inflation swaps, and breakevens, the first PC pushes real yields in the opposite direction to swap/BEI, so seems to mostly reflect expected inflation from supply shocks. The second PC pushes all variables in the same direction, so better represents a risk premium for demand shocks (**Figure 82**). We say risk premium in the sense that one shouldn't expect persistent demand shocks - which result in higher inflation, without a growth cost - to be accommodated by the central bank, but markets may want to price some risk of this scenario.

Ben K Jarman [AC] (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Figure 81: Model residuals for AUD 10Y yields have been better explained by UST10Y yield residuals than idiosyncratic factors this year, but that has reversed a little in recent weeks

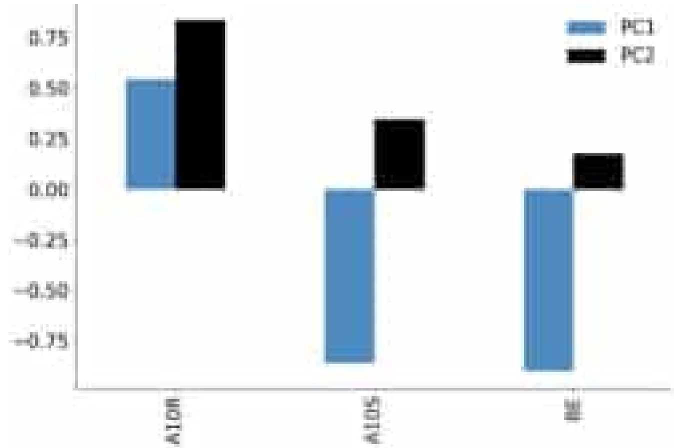
Proportion of ACGB 10Y yield forecast error variance explained by UST10Y yield error



We estimate a rolling VAR system of weekly changes in 10Y yields for AUD, USD, JPY, DEU and GBP. The forecast error covariance matrix from this model defines the share of residuals (forecast surprises) in each market due to the others.
Source: ABS, J.P. Morgan.

Figure 82: PC1 drives around 70% of variation, pushing real yields inverse to inflation swap/BEI

Loadings of AUD 10Y real yield, inflation swap, and breakeven respectively to PC1 and PC2



PCA uses weekly changes in the above variables since 2010. PC1 represents 70% of the total variation explained by PC1 and PC2.
Source: J.P. Morgan.

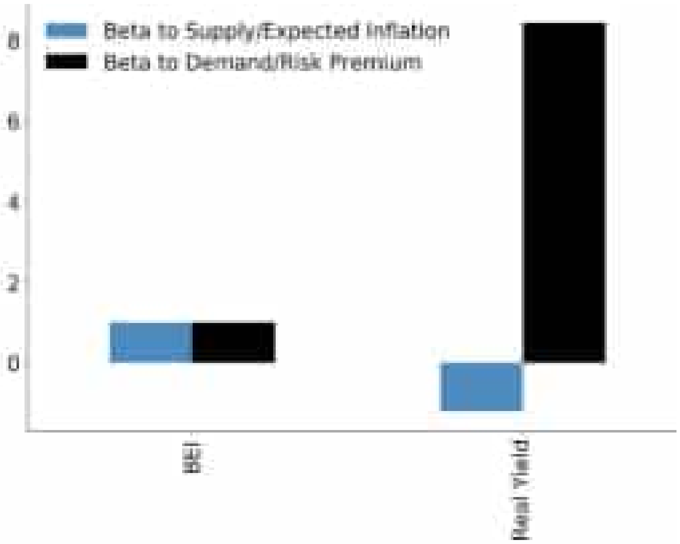
Reconstituting these factors, we can display the beta of breakevens and real yields to the supply and demand components. By construction, the beta of breakevens to both components is 1. The beta of real yields to supply is -1.2, so roughly offsetting breakevens, as one would expect of a scenario where central banks accommodate supply shocks due to weaker growth. The situation is much more stark for demand shocks, which are spread across real yields and breakevens in the ratio of 8.4 to 1 (**Figure 83**). So while demand impulses do have some 'slippage' into BEI, the dominant translation is into real yields. We estimate the comparable ratio in the US to be 7.6 to 1, meaning that AUD real yields are, other things equal, more responsive to demand shocks than US.

Concerns about fiscal discipline and central bank independence, in this framework, probably cut across both supply and demand channels. Dovishness, via central bank acquiescence to inflation or government debt monetization would push BEI and real yields higher (demand), while hawkishness, e.g. a decision to demonstrate CB independence, or deliver fiscal tightening, drives a wedge between inflation and real yields/growth (supply). All told, US10Y real yields are lower than where they started the year and our measure of demand/risk premium has been coming down (**Figure 84**). Weaker US growth and fading upside catalysts then appear to be overwhelming existential dovish risks to policy frameworks and inflation. This weakening in the demand factor is capping AUD real yields.

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Figure 83: Demand impulses are overwhelmingly reflected in real yields

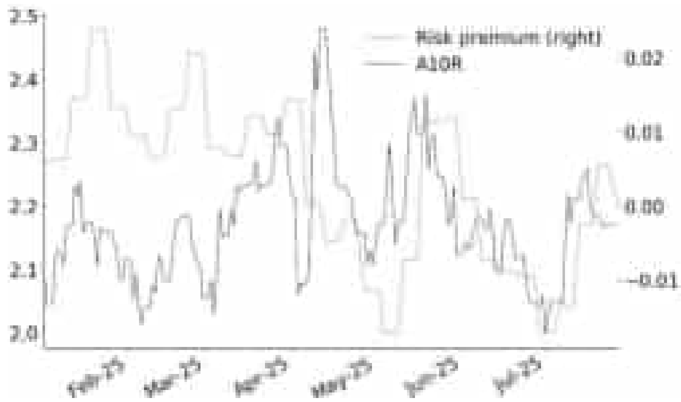
Betas of AUD10Y BEI and real yield to supply/demand changes



Estimating the equation AUD 10Y BEI = b_0 +b_1*PC1+b_2*PC2, we define b_1*PC1 to be the supply factor and b_2*PC2 to be demand. By construction, the beta of BEI to these factors is 1.
Source: J.P. Morgan.

Figure 84: Demand/risk premium in AUD 10Y yields has been trending lower, helping to cap real yields

LHS: ACGB 10Y real yield (%), RHS: Demand risk premium (unitless)



Source: J.P. Morgan.

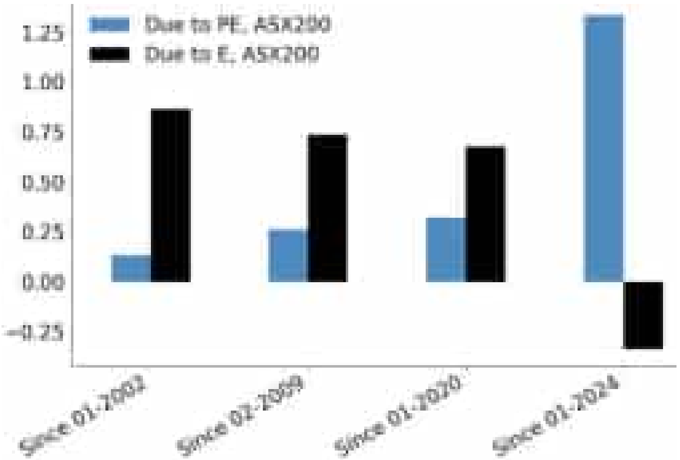
A similar signal is coming from the equity channel. Though most conversation surrounds the level of equity multiples, P/Es have become an increasingly important driver of AUD equity *volatility*. Over a long-run sample since 2002, P/E explains 13% of the variance in the ASX200, with earnings the dominant volatility driver. The P/E contribution has however steadily increased over time, and surged in staggering fashion since 2024 (**Figure 85**), again, even more so than in the US.

Multiples are inherently linked to the mix of interest rates and economic growth, to which the Australian economy is particularly exposed via its interest rate sensitivity (variable rate mortgages) and global cyclical leverage (mining/commodities). The significant equity market variation coming from earnings multiples during recent years' global supply shocks then reconciles with investors' heightened sensitivity about where real interest rates and growth will settle.

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Figure 85: Equity volatility has been driven by P/E volatility in recent years, due to macro uncertainty regarding the mix of interest rates and growth

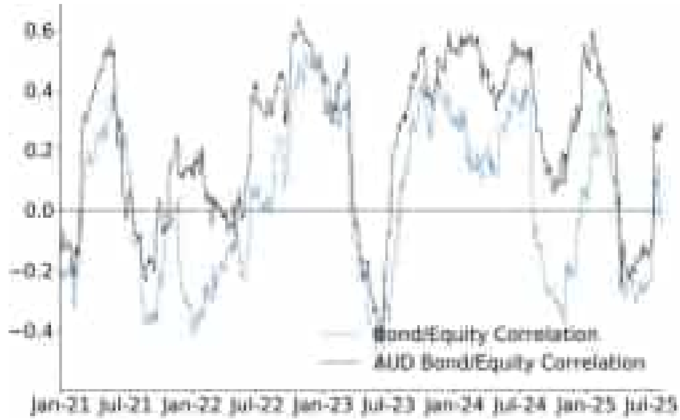
Shares of variation in ASX200 driven by covariance with EPS, and P/E



Derives from covariance formula and log laws using Var(ln(P)) = Cov(ln(P),ln(P)) and ln(P) = ln(P/E) + ln(E)
Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 86: Bond/equity correlation is higher in AUD than globally, but easing in the latter should help cap AUD yields over time...

Rolling 3m correlation in daily returns



GLobal uses MSCI world and JPM GBI, AUD uses ASX200 and Bloomberg Ausbond Comp.
Source: Bloomberg Finance L.P., J.P. Morgan.

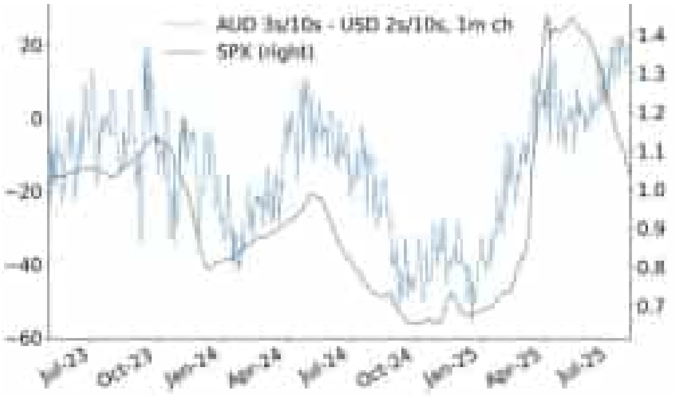
We've similarly argued before that Australian assets received a discount this cycle in part due to their heightened sensitivity to supply shocks and global financial conditions, as evident in Australia's higher bond-equity correlation (**Figure 86**). Trimming the tails on global growth, and stabilizing US real yields, are now starting to reduce global bond-equity correlation, and on a rolling basis, the contribution of P/E to US equity volatility is also fading. This should similarly be helping to remove term premium in AUD, relative to US (**Figure 87**).

Our trade portfolio has been tilted to flatteners, reflecting the view that excess concession had been built into the AUD curve this year, for essentially non-domestic reasons. The real yield component of this view has performed and we use the opportunity to take off the 2027s/2050s-51s ACGBi-USTi real yield flattener. Also close the AUD 3s/10s EFP box steepener and short in the belly of the ACGB Sep-26/Nov-28/Apr-33 fly, both of which were presumed to benefit from a flatter real yield curve and hawkish RBA. We keep the 3s/10s ACGB nominal curve flattener against received 2Yx1Y IRS, which has been treading water.

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Figure 87: ...as P/E also starts to recede as a volatility driver for US equities, it should dampen curve shape for AUD, which is more sensitive to global financial conditions

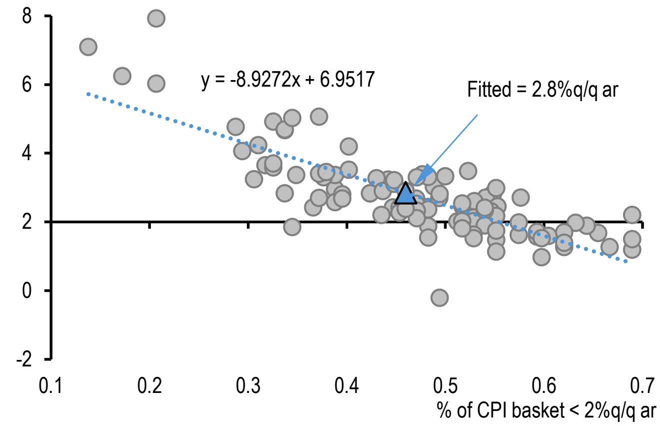
LHS: ACGB 3s/10s - UST 2s/10s curve, 1m ch (Bp); RHS: Rolling 6m contribution of P/E variance to SPX



Source: J.P. Morgan.

Figure 88: The CPI details were consistent with core inflation at 2.8%, and it would take a meaningful increase in the share of items running <2% to push core to the target mid-point (2.5%)

X axis: % of CPI basket at <2%q/q ar, Y axis: Trimmed mean (%q/q ar)

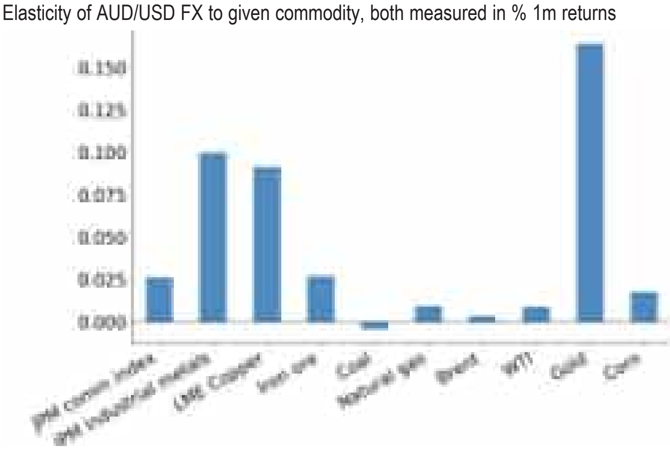


Fitted value for 2Q trimmed mean given basket breakdown (x axis) shown.
Source: ABS, J.P. Morgan.

At the front end of the curve, the fundamentals for AUD underperformance versus the US remain in place. This week's retail report showed an acceleration through 2Q, which should underpin firmer GDP growth in the quarter. In the 2Q CPI report, core inflation came in a tenth above the RBA's SoMP forecast and the internals appear consistent with core remaining in the upper half of the band (**Figure 88**). This shouldn't prohibit a cut next meeting but does leave in question the degree of easing thereafter, and the AUD nominal curve has not sufficiently flattened to reflect the RBA's surprise hold last month. We expect the RBA's message will be cautious in August which can see terminal reprice higher. Stay paid AUD-USD 2Yx2Y (IRS-SFR) spread, and paid Dec '25 RBA-FOMC OIS spread.

Figure 89: AUD/USD FX is even more sensitive to copper than iron ore over the short run

Elasticity of AUD/USD FX to given commodity, both measured in % 1m returns



% 1m change in FX for % 1m change in commodity price using lasso model to control for multicollinearity. Parameters tuned by k-fold cross-validation.
Source: J.P. Morgan.

Figure 90: The NZ labour market appears to be stabilizing, but the degree of inflexion is unclear

LHS: Unemployment, qtrly ch, %-pts; RHS: Job ads index

Source: Stats NZ, NZ Ministry of Business, J.P. Morgan.

From the global perspective, we are a little cautious on tactical trading conditions for Antipodean FX near-term. The FOMC press conference suggested a relatively high pain tolerance

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

on labour market weakness, which Chair Powell characterized as demand and supply slowing "in tandem". This is a difficult set-up for high beta heading into payrolls, as a dovish Fed repricing requires compelling data weakness, while short USD positioning has already been under pressure. Separately, Section 232 carve-outs announced today have clearly wrong-footed the copper market leading to a sharp collapse in front contracts. Copper is a bellwether for high beta/cyclical asset models and, we have found, is one of the more reliable individual predictors of 1m AUD/USD FX returns (**Figure 89**).

Moreover, iron ore prices and related stocks have already run quite hard over the last month on the "anti-involution" narrative, which our mining analysts suggest is prone to fatigue soon. So while we remain positive on AUD/USD having expected a 10% recovery from the 1Q trough, after hitting our take profit-stop level in long (AUD, NZD)/USD basket this week, it seems reasonable to exercise patience before re-entering. The story is similar for NZD where the central bank's message seems FX-supportive, but the market isn't buying it for now and seems to respond asymmetrically to softer news lately. Next week's NZ labour force survey should in our view show a stabilization after consistent weakening (**Figure 90**), but unemployment model signals are admittedly mixed, compared to prior quarters.

Ben K Jarman [AC] (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Summary of main views

Duration	Curve	Swap spreads	Swap spread curve	Inflation	Cross-market
Buyer of dips in the AUD 3Y futs	AUD 3s/10s curve flatter	Fade narrowing in AUD 10Y EFP	Steeper AUD swap spread curve	AUD-USD real yield curve box flatter	Hold NZ-US 2s/10s swap box flattener
Receive AUD 2Yx1Y IRS					
					1s/3s BBSW-SOFR basis steeper
					Pay Dec '25 RBA-RBNZ OIS spread
					Pay AUD-USD 2Yx2Y IRS spread

Trade recommendations

- **Pay the Dec '25 RBA-FOMC OIS spread**
  Pay 25K DV01 Dec '25 RBA OIS at 3.225%, receive 25K DV01 Dec '25 FOMC OIS at 3.809%, a spread of -58.4bp. P/L since inception (12 July): -15.1bp
- **Pay the AUD-USD 2Yx2Y (IRS-SFR) spread**
  Pay 25K DV01 AUD 2Yx2Y IRS at 3.546%, receive 25K DV01 USD 2Yx2Y SOFR at 3.543%, a spread of +0.2bp. P/L since inception (12 June): +16.4bp
- **Close the ACGBi-USTi 2027s/2050-51s real yield box flattener**
  Short 25K DV01 ACGBi Nov-27 at 1.149%/long 25K DV01 USTi Jul-27 at 1.271%, long 25K DV01 ACGBi Feb-50 at 2.784%/short 25K DV01 USTi Feb-51 at 2.666%, a curve spread of +24.0bp. Closed at a curve spread of +1.5bp. P/L since inception (12 June): +22.5bp
- **Hold a 1s/3s BBSW-SOFR basis curve steepener**
  Receive 25K DV01 1Y BBSW-SOFR basis at 2.125bp, pay 25K DV01 3Y BBSW-SOFR basis at 2.875bp, a spread of +0.75bp. P/L since inception (8 May): +1.0bp
- **Hold an ACGB 3s/10s futures curve flattener vs receiving AUD 2Yx1Y IRS**
  Sell 25K DV01 of YMM5/XMM5 curve at +97.5bp, receive 25K DV01 AUD 2Yx1Y IRS at 3.56%. P/L since inception (10 April): +1.6bp
- **Close the paid position in AUD 3s/10s EFP box curve spread**
  Pay 25K DV01 AUD 10Y EFP (U5 fut), receive 25K AUD 3Y EFP (U5 fut, swap Q-Q). Rolled from M5 (net basis: +6.6bp). P/L since inception (20 March): +7.7bp
- **Close the short in 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 February): -15.2bp
- **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 November): -15.9bp

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 30 July 2025.

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Forecasts

	Current	Sep-25	Dec-25	Mar-26	Jun-26
United States					
Fed Funds	4.50	4.50	4.25	3.75	3.50
2-year note	3.92	3.75	3.50	3.25	3.25
10-year note	4.34	4.40	4.35	4.25	4.25
2s10s curve (bps)	42	65	85	100	100
Australia					
RBA cash rate	3.85	3.60	3.35	3.35	3.35
90-day rate	3.68	3.55	3.55	3.50	3.30
3-year yield	3.42	3.50	3.40	3.40	3.30
10-year yield	4.26	4.15	4.05	4.00	4.00
3-year swap spread (bps)	-9	-5	-5	-5	-5
10-year swap spread (bps)	-12	0	0	0	0
3s10s curve (bps)	84	65	65	60	70
AUS-US 10-year spread (bps)	-8	-25	-30	-25	-25
New Zealand					
RBNZ OCR	3.25	3.25	3.25	3.00	2.75
90-day rate	3.20	3.40	3.15	2.90	2.90
2-year bond	3.27	3.50	3.60	3.60	3.40
10-year bond	4.53	4.35	4.40	4.30	4.20
2s10s swap curve	89	85	80	70	90
NZ-US 10-year spread	19	-5	5	5	-5
Foreign Exchange					
AUD/USD	0.65	0.67	0.68	0.68	0.68
NZD/USD	0.59	0.61	0.61	0.61	0.63
EUR/USD	1.14	1.17	1.20	1.22	1.22
USD/JPY	149	141	140	139	139
AUD/JPY	96.3	94.5	95.2	94.5	94.5
NZD/JPY	88.3	86.0	85.4	84.8	87.6
AUD/NZD	1.09	1.10	1.11	1.11	1.08

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

Ben K Jarman AC (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited
Tom Kennedy (61-2) 9003-7981
tom.kennedy@jpmorgan.com
J.P. Morgan Securities Australia Limited

Trades closed last 12M

TRADE	ENTRY	EXIT	P&L
DURATION			
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
Long YMM5	27-Mar-25	10-Apr-25	49.0
Pay August '25 RBA OIS	10-Apr-25	08-May-25	21.1
Pay October '25 RBNZ OIS	15-May-25	05-Jun-25	13.6
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			
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
Receive AUD-USD 5Yx5Y (IRS-SFR) spread	06-Mar-25	10-Apr-25	8.2
Pay Nov '25 RBA OIS vs received Oct '25 FOMC OIS	08-May-25	15-May-25	-11.7
Receive NZD-AUD 1Yx1Y IRS spread	10-Apr-25	15-May-25	27.2
Long NZGB Apr-33s on ASW	14-Nov-24	10-Jul-25	-8.7
Paid Aug '25 RBA-RBNZ OIS spread	03-Jun-25	10-Jul-25	19.4
Short belly of ACGB Sep-26/Nov-28/Apr-33 fly	06-Feb-25	31-Jul-25	-15.2
AUD 3s/10s swap EFP box steepener	20-Mar-25	31-Jul-25	7.7
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
ACGBi-USTi 2027/2051 real yield box flattener	12-Jun-25	31-Jul-25	22.5

Source: J.P. Morgan.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Interest rate forecasts

		01-Aug	Sep-25	Dec-25	Mar-26	Jun-26	YTD chg. (bp)
US	Fed funds	4.25-4.50	4.25-4.50	4.00-4.25	3.50-3.75	3.25-3.50	-
	SOFR	4.28	4.35	4.10	3.60	3.35	-
	2Y bmk yield	3.78	3.75	3.50	3.25	3.25	-47
	5Y bmk yield	3.83	3.90	3.70	3.50	3.50	-54
	10Y bmk yield	4.27	4.40	4.35	4.25	4.25	-28
	30Y bmk yield	4.83	4.85	4.85	4.80	4.80	7
	2s/10s bmk curve	48	65	85	100	100	19
	10s/30s bmk curve	57	45	50	55	55	35
	2s/30s bmk curve	105	110	135	155	155	54
Euro area	Refi rate	2.15	1.90	1.90	1.90	1.90	-
	Depo rate	2.00	1.75	1.75	1.75	1.75	-
	3M Euribor	1.99	1.75	1.75	1.75	1.75	-68
	2Y bmk yield	1.92	1.85	1.70	1.75	1.80	-15
	5Y bmk yield	2.26	2.10	2.00	2.05	2.15	12
	10Y bmk yield	2.67	2.55	2.40	2.50	2.55	32
	30Y bmk yield	3.18	3.00	2.90	3.00	3.05	60
	2s/10s bmk curve	75	70	70	75	75	48
	10s/30s bmk curve	51	45	50	50	50	28
	2s/30s bmk curve	126	115	120	125	125	76
vs. 6s	2Y swap spread	14	16	18	18	18	2
	5Y swap spread	8	10	9	8	6	0
	10Y swap spread	-2	-5	-7	-10	-12	0
	30Y swap spread	-34	-37	-33	-30	-30	9
10Y spread	Austria	32	35	35	35	35	-10
to Germany	Belgium	53	55	55	50	50	-9
(curve adj.)	Finland	39	35	35	35	35	-7
	France	66	75	70	65	65	-16
	Greece	68	70	70	70	70	-19
	Ireland	23	30	30	25	25	-4
	Italy	85	100	110	110	110	-31
	Netherlands	16	20	20	20	20	-6
	Portugal	42	50	50	50	50	-6
	Spain	58	60	60	60	60	-12
	Wtd. peri. spread	72	82	88	88	88	-23
	EU	42	40	33	30	30	-12

* Levels as of 2pm London time.**Newly issued benchmark change is from inception up to COB

		01-Aug	Sep-25	Dec-25	Mar-26	Jun-26	YTD chg. (bp)
UK	Base rate	4.25	4.00	3.75	3.50	3.50	-
	2Y bmk yield	3.81	3.90	3.75	3.65	3.65	-62
	5Y bmk yield	3.88	3.95	3.80	3.80	3.80	-49
	10Y bmk yield	4.54	4.60	4.50	4.50	4.50	-1
	30Y bmk yield	5.37	5.45	5.35	5.35	5.35	22
	2s/10s bmk curve	74	70	75	85	85	61
	10s/30s bmk curve	82	85	85	85	85	23
	2s/30s bmk curve	156	155	160	170	170	84
vs. SONIA	2Y swap spread	-17	-17	-15	-15	-15	-1
	5Y swap spread	-24	-27	-31	-33	-35	4
	10Y swap spread	-54	-55	-57	-60	-62	1
	30Y swap spread	-85	-82	-84	-86	-88	5
Japan	Policy rate	0.50	0.50	0.75	0.75	1.00	-
	2Y bmk yield	0.81	0.80	0.90	1.00	1.15	21
	5Y bmk yield	1.08	1.10	1.15	1.25	1.40	35
	10Y bmk yield	1.55	1.55	1.60	1.70	1.80	46
	20Y bmk yield	2.56	2.50	2.50	2.60	2.65	68
	30Y bmk yield	3.10	2.90	2.90	2.95	3.00	82
	2s/10s bmk curve	74	75	70	70	65	25
	10s/30s bmk curve	155	135	130	125	120	36
	2s/30s bmk curve	229	210	200	195	185	61
Australia	Cash rate	3.85	3.60	3.35	3.35	3.35	-
	3Y bmk yield	3.39	3.50	3.50	3.40	3.30	-52
	10Y bmk yield	4.24	4.15	4.15	4.00	4.00	-21
New Zealand	Cash rate	3.25	3.25	3.25	3.00	2.75	-
	2Y bmk yield	3.30	3.50	3.60	3.60	3.40	-30
	10Y bmk yield	4.53	4.35	4.40	4.30	4.20	-1
Sweden	Repo rate	2.00	1.75	1.75	1.75	1.75	-
	2-year govt	1.89	1.65	1.65	1.75	1.90	-15
	10-year govt	2.32	2.05	2.20	2.35	2.50	-6
Norway	Depo rate	4.25	4.00	3.75	3.50	3.50	-
	2-year govt	3.53	3.45	3.40	3.25	3.10	-36
	10-year govt	3.74	3.75	3.70	3.60	3.50	-9

Matteo Mamprin AC (44-20) 7134-0329
matteo.mamprin@jpmorgan.com
J.P. Morgan Securities plc
Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

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	497	-0.3	2.9	-4.4	-2.7	84	2.4	116	5.3
Belgium	636	0.8	2.8	-5.4	-3.0	107	-0.7	114	6.5
Cyprus	36	3.0	2.0	3.5	4.7	58	-6.5	77	3.6
Finland	284	1.0	1.7	-3.7	-2.2	86	-0.7	108	9.9
France	2,989	0.6	0.9	-5.6	-3.1	116	-0.6	93	7.2
Germany	4,409	0.0	2.4	-2.7	-1.6	64	5.3	111	6.3
Greece	251	2.3	2.8	0.7	3.8	147	-8.2	51	10.4
Ireland	567	3.4	1.6	0.7	1.3	39	12.6	223	4.0
Italy	2,256	0.7	1.8	-3.3	0.6	137	1.3	82	6.1
Netherlands	1,192	1.3	3.0	-2.1	-1.4	45	10.2	141	3.8
Portugal	299	1.8	2.1	0.1	2.3	92	1.2	60	6.3
Slovenia	70	2.0	2.1	-1.3	-0.1	66	4.7	71	10.8
Spain	1,670	2.6	2.3	-2.8	-0.2	101	2.7	73	10.8
Euro area	15,667	0.9	2.1	-3.2	-1.2	90	3.0	95	6.3
US	30,445	1.6	3.0	-6.7	-1.9	123	-3.6	171	4.1
UK	2,968	1.0	3.6	-5.3	-2.2	103	-2.6	107	4.7
Japan	626	2.7	2.0	-1.6	-0.7	249	4.9	67	2.5
Australia	2,899	2.0	2.6	-1.5	-	35	-2.8	-	4.3
New Zealand	449	1.7	2.2	-2.3	-	43	-5.0	-	5.1
Norway	5,421	1.5	2.5	12.0	13.7	50	15.0	175	2.0
Sweden	6,628	1.1	2.2	-1.5	-0.8	34	7.1	120	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 Spring 2025, Ameco, CBO, OBR, IMF, National Treasury Offices and National Statistics Offices.

Sovereign rating

	S&P		Moody's		Fitch		DBRS	
Austria	AA+		Aa1		AA		AAA	NEG
Belgium	AA	NEG	Aa3	NEG	A+		AA	
Cyprus	A-		A3		A-		A low	POS
Finland	AA+		Aa1		AA		AA high	
France	AA-	NEG	Aa3		AA-	NEG	AA high	NEG
Germany	AAA		Aaa		AAA		AAA	
Greece	BBB		Baa3		BBB-	POS	BBB	
Ireland	AA	POS	Aa3	POS	AA		AA	
Italy	BBB+		Baa3	POS	BBB	POS	BBB high	POS
Netherlands	AAA		Aaa		AAA		AAA	
Portugal	A	POS	A3		A-	POS	A high	
Slovenia	AA		A3	POS	A	POS	A high	POS
Spain	A		Baa1	POS	A-	POS	A high	
US	AA+		Aa1		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
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↑	
03-Oct-25												F↑		
10-Oct-25		M↓							S			M↑		S
17-Oct-25							S		D↑	S				
24-Oct-25		S↓		S	M									
31-Oct-25														
07-Nov-25						M		F						
14-Nov-25			S				F↑				M			D
21-Nov-25			M, F						M↑			S, D↑		M
28-Nov-25					S↓	D							D	
05-Dec-25	F, D↓	F				S								
12-Dec-25				M										
19-Dec-25														
26-Dec-25														

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

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc
Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

J.P.Morgan

J.P. Morgan Global Rates Strategy

New York				
Jay Barry	MD	Head of Global Rates Strategy	(1-212) 834 4951	john.f.barry@jpmorgan.com
Teresa Ho	MD	US Fixed Income Strategy	(1-212) 834-5087	teresa.c.ho@jpmorgan.com
Phoebe White	ED	US Rates Strategy	(1-212) 834-3092	phoebe.a.white@jpmorgan.com
Ipek Ozil	ED	US Rates Strategy	(1-212) 834-2305	ipek.ozil@jpmorgan.com
Pankaj Vohra	VP	US Fixed Income Strategy	(1-212) 834 5292	pankaj.x.vohra@jpmchase.com
Philip Michaelides	VP	US Rates Strategy	(1-212) 834-2096	philip.michaelides@jpmchase.com
Liam Wash	Associate	US Fixed Income Strategy	(1-212) 834-5230	liam.wash@jpmchase.com
Amanda Berke	Associate	US Fixed Income Strategy	(1-212) 834-5739	amanda.berke@jpmchase.com
Arjun Parikh	Analyst	US Rates Strategy	(1-212) 834-4436	arjun.parikh@jpmchase.com
Molly Herckis	Analyst	US Fixed Income Strategy	(1-212) 622-0899	molly.herckis@jpmchase.com

London				
Francis Diamond	ED	Head of European Rates Strategy	(44-20) 7134-1504	francis.diamond@jpmorgan.com
Khagendra Gupta	ED	European Rates Derivatives Strategy	(44-20) 7134-0486	khagendra.x.gupta@jpmorgan.com
Aditya Chordia	ED	Euro Cash Strategy	(44-20) 7134-2132	aditya.x.chordia@jpmorgan.com
Elisabetta Ferrara	Associate	Rates Strategy	(44-20) 7134 2765	elisabetta.ferrara@jpmorgan.com
Frida Infante	Associate	Rates Strategy	(33 1) 8703 2581	frida.infante@jpmorgan.com
Matteo Mamprin	Associate	Rates Strategy	(44-20) 7134-0329	matteo.mamprin@jpmorgan.com

Tokyo				
Takafumi Yamawaki	ED	Head of Japan Rates Research	(81-3) 6736-1748	takafumi.yamawaki@jpmorgan.com
Hiroki Yamamoto	Associate	Japan Rates Research	(81-3) 6736-1757	hiroki.yamamoto@jpmorgan.com

Sydney				
Ben Jarman	MD	Head, AU/NZ Economics, Rates & FX Strategy	(61-2) 9003-7982	ben.k.jarman@jpmorgan.com
Tom Kennedy	ED	AU/NZ Economics, Rates & FX Strategy	(61-2) 9003-7981	tom.kennedy@jpmorgan.com
Tom Ryan	Analyst	AU/NZ Economics, Rates & FX Strategy	(61-2) 9003-7632	thomas.f.ryan@jpmorgan.com

Francis Diamond [AC] (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

Global Market Movers

04 Aug	05 Aug	06 Aug	07 Aug	08 Aug
United States Factory orders (10:00am) Jul Durable goods (10:00am) Jul	**Euro area** PMI Serv. & Cmp final (10:00am) Jul Serv: 51.2 Cmp output: 51.0 **PPI (11:00am) Jun** **Germany** PMI Serv. & Cmp final (9:55am) Jul Serv: 50.1 Cmp output: 50.3 **France** Industrial production (8:45am) Jun Monthly Budget Situation (8:45am) Jun PMI Serv. & Cmp final (9:50am) Jul Serv: 49.7 Cmp output: 49.6 **Italy** PMI Serv. & Cmp (9:45am) Jul Serv: 53.1 Cmp output: 51.5 **Spain** PMI Serv. & Cmp (9:15am) Jul Serv: 52.9 Cmp output: 52.5 **United Kingdom** PMI Services final (9:30am) Jul Services 51.2 Composite Output: 51.0 New car regs (9:30am) Jul **United States** International trade(8:30am) Jun Services PMI(9:45am) Jul final 55.0 ISM services(10:00am) Jul **Japan** PMI services final (9:30am) Jul Minutes of Jun 16, 17 BoJ Monetary Policy Meeting (8:50am) **Sweden** Services PMI (8:30am) Jul Total: 53.0 **New Zealand** ANZ commodity price (1:00pm) Jul **Australia** ANZ job advertisements (11:30am) Jul	**Euro area** Retail sales (11:00am) Jun 0.3%m/m **Germany** Mfg orders (8:00am) Jun Total: 2.0%m/m **Italy** Industrial production (10:00am) Jun **United Kingdom** PMI Construction (9:30am) Jul **Japan** Employees' survey (8:30am) Jun 3.5 %oya	**Germany** Industrial production (8:00am) Jun IP ex Constr: -0.5%m/m Foreign Trade (8:00am) Jun **France** Foreign trade (8:45am) Jun **United Kingdom** Halifax HPI (12:01am) Jul MPC rate announcement (12:00pm) Aug Cut by 25bps to 4.00% BoE monetary policy report (12:00pm) Aug Decision Maker Panel Survey (2:00pm) Jul **United States** Productivity and costs prelim(8:30am) 2Q Initial claims (8:30am) w/e Aug 2 Wholesale trade (10:00am) Jun Consumer credit (3:00pm) Jun **Japan** Coincident CI prelim (2:00pm) Jun Consumption activity index (2:00pm) Jun **Sweden** CPI flash (8:00am) Jul CPIF 3.00% Budget Balance (8:00am) Jul **Norway** IP Mfg (8:00am) Jun **Australia** Trade balance (11:30am) Jun **China** Foreign Exchange Reserves (4:03pm) Jul Trade balance Jul US$ 104.7bn	**France** ILO unemployment (7:30am) 2Q Unemployment (7:30am) 2Q **Japan** All household spending (8:30am) Jun Bank lending (8:50am) Jul Current account (8:50am) Jun [illegible] billion yen Economy watchers survey (2:00pm) Jul 45.5 Summary of Opinions of Jul 30-31 BoJ Monetary Policy Meeting (8:50am) **Sweden** Industrial production & orders (8:00am) Jun Production Value Index (8:00am) Jun

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

11 Aug	12 Aug	13 Aug	14 Aug	15 Aug
Italy HICP & CPI final x(10:00am) Jul Foreign trade (11:00am) Jun **Norway** CPI (8:00am) Jul PPI (8:00am) Jul Holiday: Japan	**Germany** ZEW bus. survey (11:00am) Aug **Netherlands** CPI final (6:30am) Jul **United Kingdom** BRC retail sales monitor (12:01am) Jul Labor market report (7:00am) Jul **United States** NFIB survey(6:00am) Jul CPI(8:30am) Jul Federal budget(2:00pm) Jul **Japan** M2 (8:50am) Jul **Australia** NAB business confidence (11:30am) Jul RBA official rate announcement	**Japan** Reuters Tankan (8:30am) Aug Corporate goods prices (8:50am) Jul **Sweden** PES unemployment (8:00am) Jul **Norway** Consumer confidence (8:30am) 3Q	**Euro area** GDP 2nd flash(11:00am) 2Q Employment prelim (11:00am) 2Q Industrial production (11:00am) Jun **France** HICP & CPI final (8:45am) Jul **United States** PPI(8:30am) Jul Initial claims(8:30am) w/e Aug 9 **United Kingdom** RICS HPI (12:01am) Jul Business investment prelim (7:00am) 2Q Construction output (7:00am) Jun Monthly GDP (7:00am) Jun Industrial production (7:00am) Jun Index of services (7:00am) Jun Trade balance (7:00am) Jun Real GDP prelim (7:00am) Q2 Quarterly productivity (9:30am) Q2 **Sweden** CPI final (8:00am) Jul **Norway** Norges Bank rate announcement (10:00am) Aug Investments in oil and gas (10:00am) Q3 **Australia** Unemployment rate (11:30am) Jul	**United States** Import prices(8:30am) Jul Retail sales(8:30am) Jul Empire State survey(8:30am) Aug Industrial production(9:15am) Jul Business inventories(10:00am) Jun Consumer sentiment(10:00am) Aug preliminary TIC data(4:00pm) Jun **Japan** GDP prelim (8:50am) 2Q IP final (1:30pm) Jun **Norway** Trade balance (8:00am) Jul **New Zealand** Business NZ PMI (10:30am) Jul **China** IP (10:00am) Jul FAI (10:00am) Jul Retail sales (10:00am) Jul

Selective list as of 01 August 2025. Forecasts are m/m, nsa, unless stated & times are local. Telephone your J.P. Morgan representative for an update/more details.
Highlighted data are scheduled for release on or after the date shown. Times shown are local.

Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc

Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc

Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc

Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
J.P. Morgan Securities Australia Limited

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Francis Diamond AC (44-20) 7134-1504
francis.diamond@jpmorgan.com
J.P. Morgan Securities plc
Aditya Chordia (44-20) 7134-2132
aditya.x.chordia@jpmorgan.com
J.P. Morgan Securities plc
Khagendra Gupta (44-20) 7134-0486
khagendra.x.gupta@jpmorgan.com
J.P. Morgan Securities plc
Ben K Jarman (61-2) 9003-7982
ben.k.jarman@jpmorgan.com
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Completed 02 Aug 2025 12:36 AM BST
Disseminated 02 Aug 2025 12:36 AM BST