Monthly Interest Rates Chartbook
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Economic Summary

US Forecasts

We expect near-term growth softening with a rebound in H2 26.

(%)	2025		2026			
	Q3 Act	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP QoQar *	2.6	1.2	1.0	2.1	3.1	2.7
Real GDP YoY	1.9	1.6	2.0	1.7	1.9	2.2
Core PCE YoY *	2.8	3.0	2.8	2.9	2.7	2.2
Unemployment *	4.6	4.7	4.7	4.5	4.3	4.2
FDTR Lower Bound	4.00	3.50	3.00	3.00	3.00	3.00
FDTR Upper Bound	4.25	3.75	3.25	3.25	3.25	3.25
FDTR Midpoint	4.13	3.63	3.13	3.13	3.13	3.13
2 Year	3.61	3.25	3.25	3.00	3.00	3.00
10 Year	4.15	4.00	4.25	4.25	4.25	4.25

Summary of views

- Before the shutdown, the economy seemed precariously balanced:
  - Labor demand was slowing but so was labor supply
    - So that the unemployment rate was only inching higher
  - At the same time, GDP grew nearly 3% in Q2 and inflation was holding steady
  - Rapid AI-driven investment was offsetting weakness in more tradition areas like home building

- But the shutdown is delaying the release of key measures of the labor market and inflation
  - The Fed and analysts have turned to private sector “near substitutes” to gauge both
    - But alternative measures of inflation are scarce and not as comprehensive as the BLS’ gauges

- We look for the Fed to cut rates this month and again in December
  - *Trends in the labor market were already pointing lower before the government shutdown*
    - *And a lengthy shutdown likely hurts consumer sentiment – even for unaffected workers*
    - *And causes households to delay purchases*

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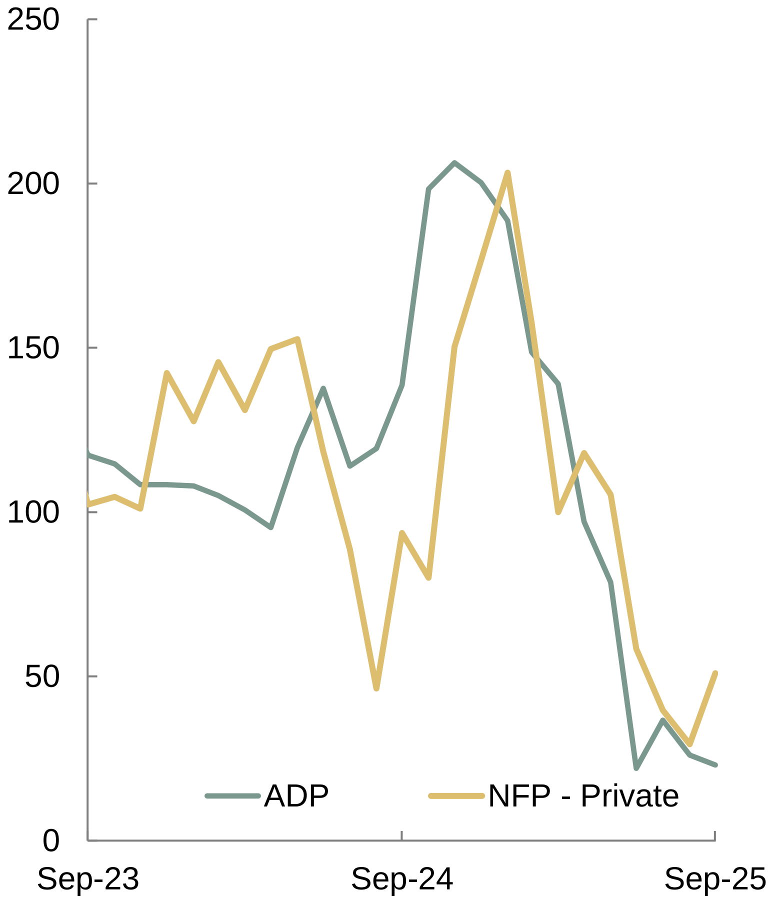
Hiring is slowing

ADP and nonfarm payrolls (chng, 000)

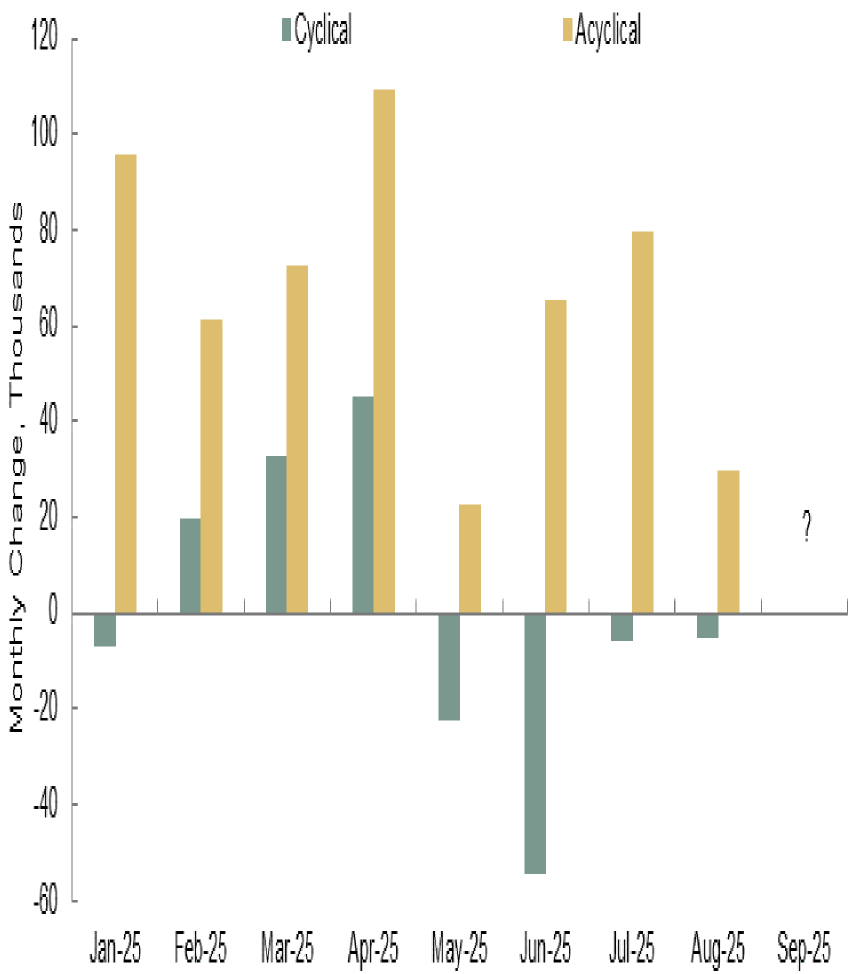


Note: 3m moving average change. Sources: ADP, Bureau of Labor Statistics, SMBC Nikko

- The government shutdown has delayed the release of the BLS' monthly employment report
  - However, private sector measures such as the ADP survey suggest further weakness in hiring

Cyclical and acyclical hiring are each slowing

Non-farm payrolls (change, 000)



Source: BLS, SMBC Nikko

- Cyclical hiring has turned negative since spring
  - But this has been offset by acyclical hiring[1/]
    - Although even this has also begun to slow

1/ Acyclical hiring includes government (Federal and state & local) and education and health services. Cyclical employment includes construction, retail trade, transportation and leisure and hospitality.

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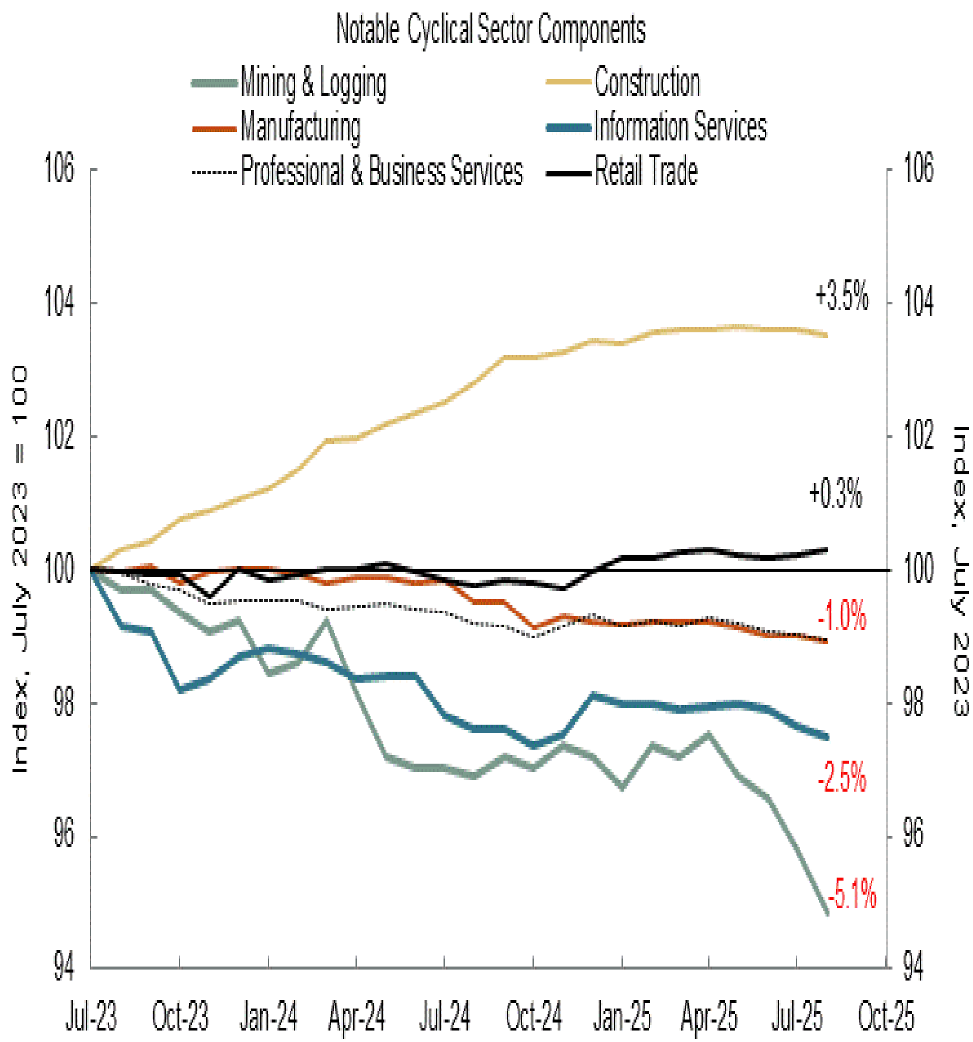
Cyclical hiring (indexed)

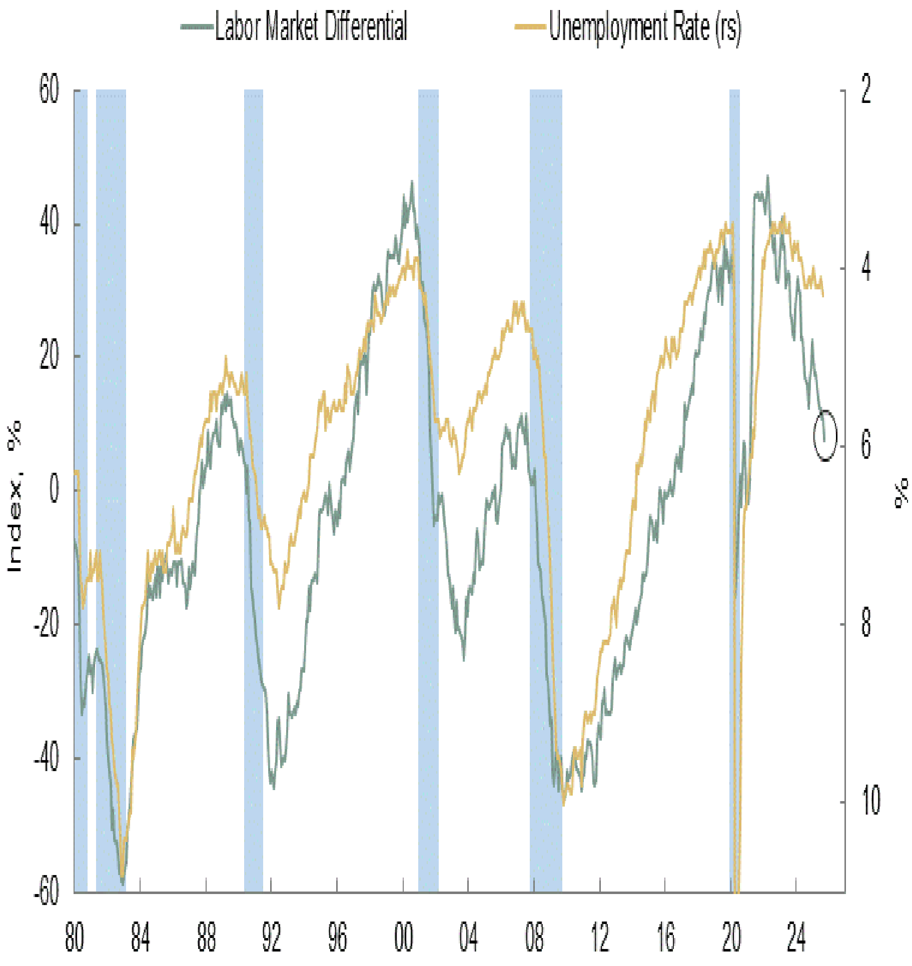


- Construction employment has grown since July 2023 while hiring in other sectors has fallen
  - Much of this appears data-center driven

Source: BLS, SMBC Nikko

Higher unemployment rate?

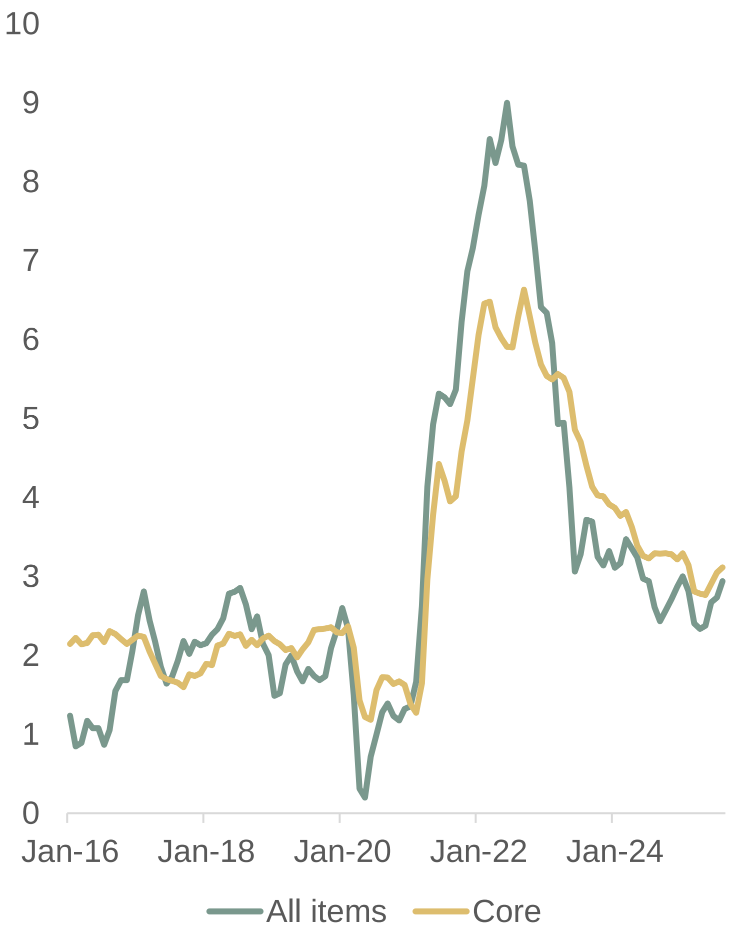
- The difference between jobs hard (and easy) to get in the monthly Conference Board Survey is correlated with the unemployment rate
- The spread has recently widened suggesting the jobless rate will continue to rise



Source: Conference Board, BLS, SMBC Nikko

Inflation stickiness

Inflation (%y/y)



Source: Conference Board, BLS, SMBC Nikko

- Inflation has come down but the deceleration has flattened in recent months
    - However, slowing shelter costs are expected to bring inflation down further[1/]

1/ The BLS will release the September CPI report on October 24.

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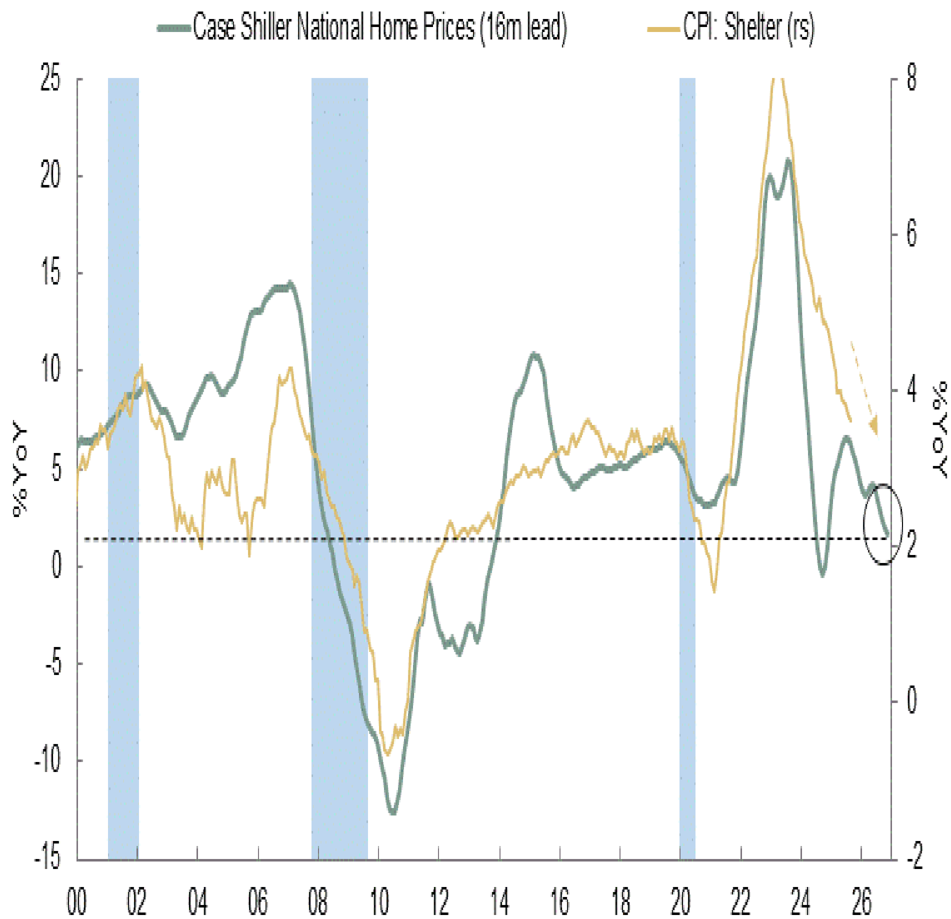
Home prices point to falling shelter costs

- National home prices are falling and historically, this has been correlated with a deceleration in shelter costs



Source: Case Shiller index, BLS, SMBC Nikko

Two economies: AI and everything else

- Since 2019, real fixed investment in AI-sensitive items has increased 56%
  - By contrast, investment in non-AI has barely increased

- Within structures investment
  - Growth has been focused on data centers
    - Although data center growth has slowed since 2024, it is still rising at almost a 40%y/y rate
    - Outside of data centers, structures investment is contracting

AI and hiring: Too early

- Primary AI uses include:
  - Searching for information
  - Advertising/marketing
  - Business and predictive analysis
  - Data management

- *But is AI complementary for existing jobs or a substitute?*

- Results are so far mixed:

  - Layoffs related to AI are still uncommon[1/]
    - 13% of service firms anticipated AI related layoffs in the next 6m
    - But, a similar share reported they expected to increase hiring due to AI over the period
    - And significantly more expect to retrain their existing workers to use AI
  - Returns to re-training unemployed workers to use AI are high[2/]
    - But somewhat lower for workers who target jobs with high AI use
  - Other studies report no clear pattern in unemployment across occupations with higher AI exposure[3/]

1/ See, "Are Businesses Scaling Back Hiring due to AI?", J. Abel, R. Deitz, N. Emanuel, B. Hyman, and N. Montalbano, Liberty Street Economics, Federal Reserve Bank of New York, September 4, 2025.
2/ See, "How Retrainable are AI-Exposed Workers?", B. Hyman, B. Lahey, K. Ni, and L. Pilossoph, Federal Reserve Bank of New York, August 2025.
3/ See "Evaluating the Impact of AI on the Labor Market: Current State of Affairs", M. Gimbel, M. Kinder, J. Kendall, and M. Lee, Yale Budget Lab, October 1, 2025

Interest Rates Strategy

Interest rates summary

- Bank reserves are still ample, although the cost of liquidity has risen since mid-September
  - The fed funds-IORB and tri-party-IORB spreads are narrowing
  - We do not expect the Fed to cut IORB to bring these rates lower
    - Instead, we look for the Fed to announce at end to QT at its January FOMC meeting[1/]

- We think the Fed could replace the fed funds rate as its policy target
  - Although it is unclear how the FOMC feels about using a repo replacement target rate
  - Or how quickly this might change

- We look for $400bn in bill supply this quarter
  - While the market has absorbed this summer's heavier issuance we think this quarter's supply may push bill and repo rates 3bp or so higher

- The near-term path for 10-year yields depends on the growth and labor market outlook.
  - Tariff rhetoric has recently intensified and is adding to general risk off sentiment

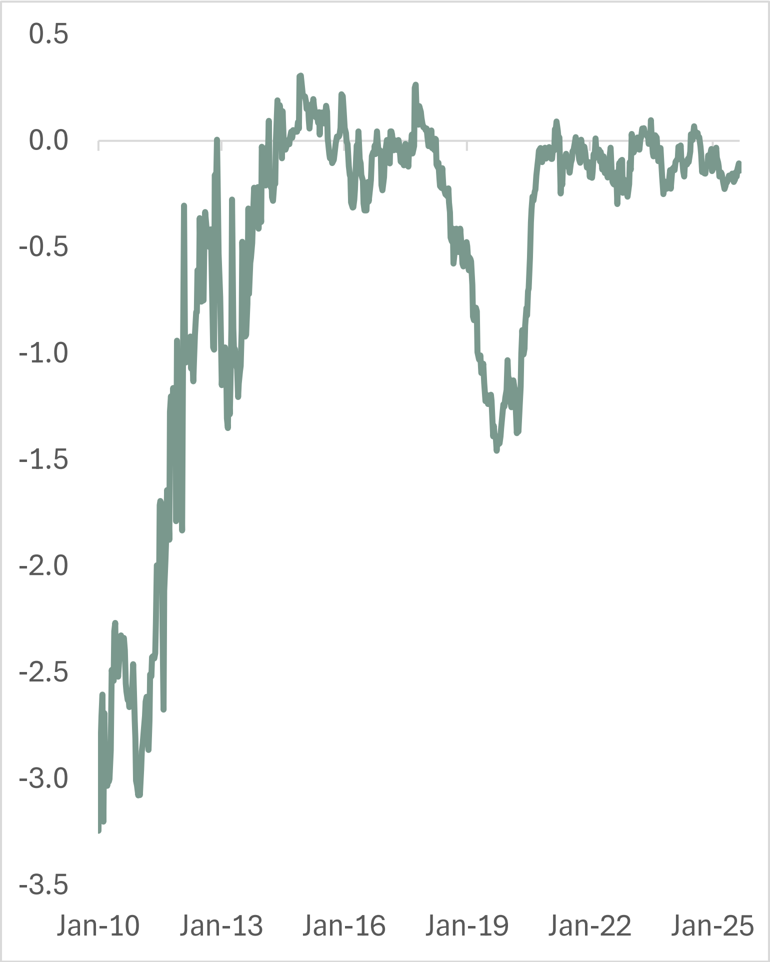
- Muted and temporary tariff effects are priced into inflation breakevens

1/ With Treasury roll-offs ceasing in February.

Bank reserves appear ample…

- Reserve demand elasticity (RDE) measures the slope of banks' demand curve for reserves
  - When the slope is close to zero, a 1% decline in the ratio of bank reserves to total bank assets has no effect on the FF-IORB spread
- There has been little movement in the Fed's measure
  - Suggesting that bank reserves remain ample
- *That said, the fed funds-IORB spread has narrowed 2bp since the September rate cut*
  - Suggesting the price of liquidity is rising and the FHLB's negotiation power has strengthened

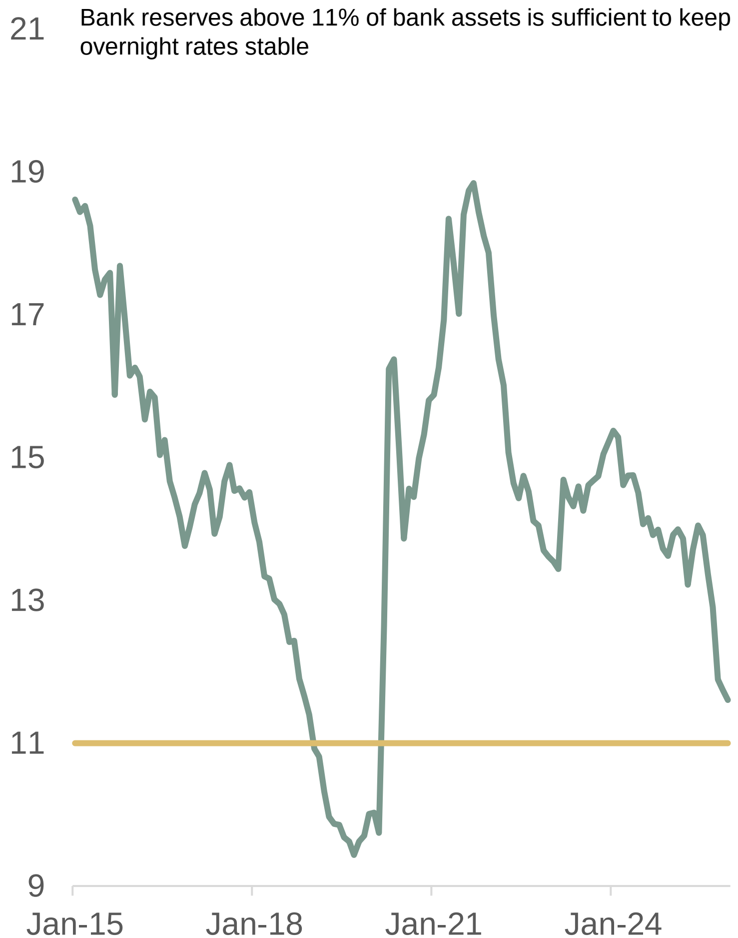
Median RDE (bp)



Source: Federal Reserve Bank of New York, SMBC Nikko

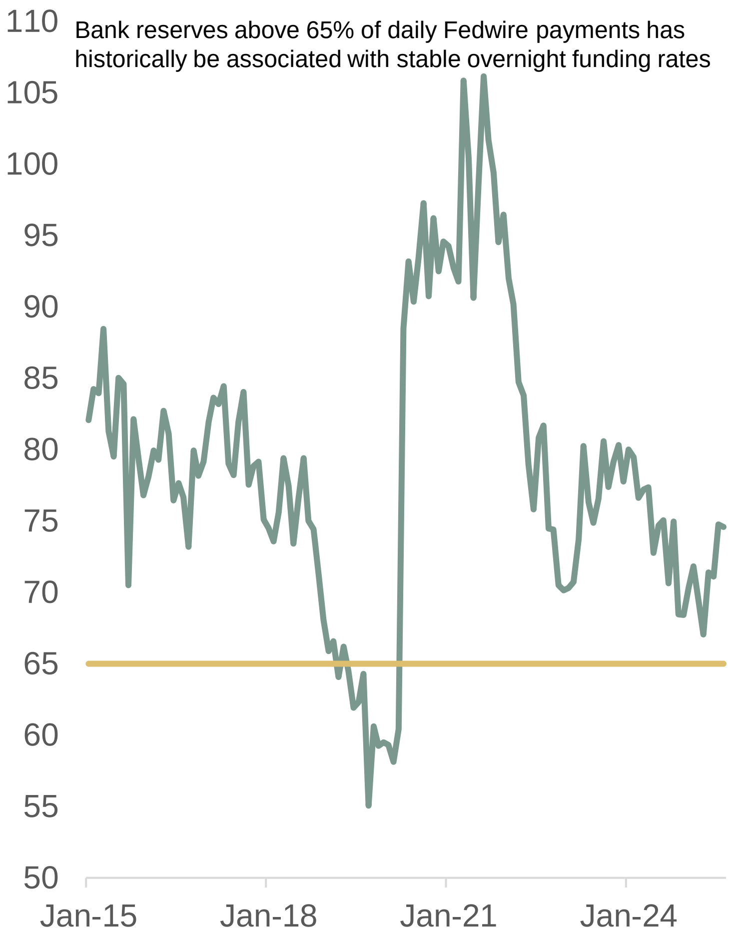
…across several measures

Bank reserves (% bank assets)



Sources: Federal Reserve, SMBC Nikko

Bank reserves (% Fedwire payments)



Sources: Federal Reserve, SMBC Nikko

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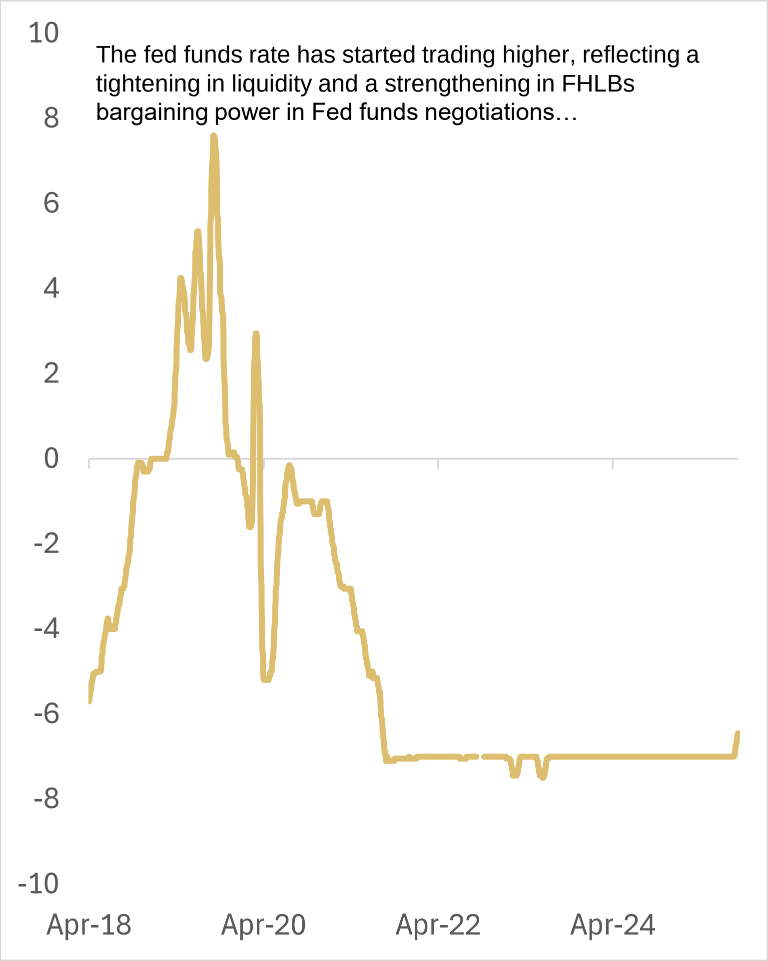
RDE liquidity risk

- The RDE assumes that the slope is relatively smooth
  - That the fed funds rate doesn’t jump abruptly from IORB-7bp to IORB-2bp as the level of bank reserves nears 11%
- But the fed funds rate is more of a *negotiated* than traded rate
  - Ample reserves mean that banks only borrow in the fed funds market to arb IORB
    - And their ability to negotiate depends on their other costs such as deposit insurance premia
      - Which limits borrowing to non-US banks
- *And while the RDE is estimated over a long period, the fed funds rate has hardly budged since 2022*
  - *And this could reduce some of the measure’s sensitivity*

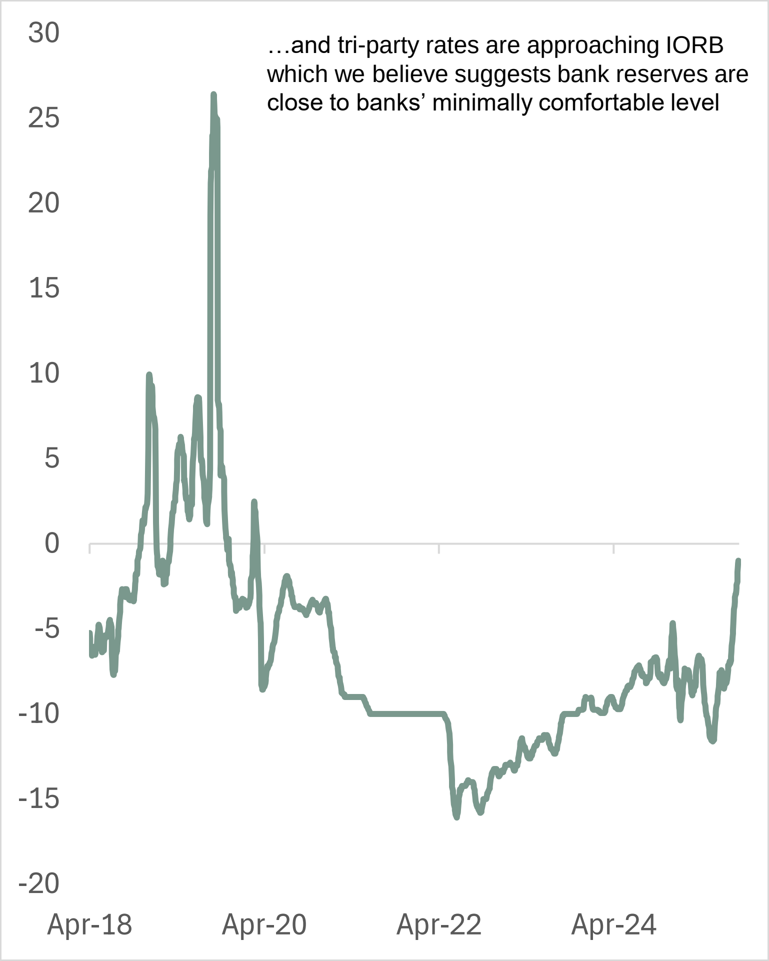
The price for liquidity is rising

FF-IORB (bp)



Note: 20d average. Source: Federal Reserve, SMBC Nikko

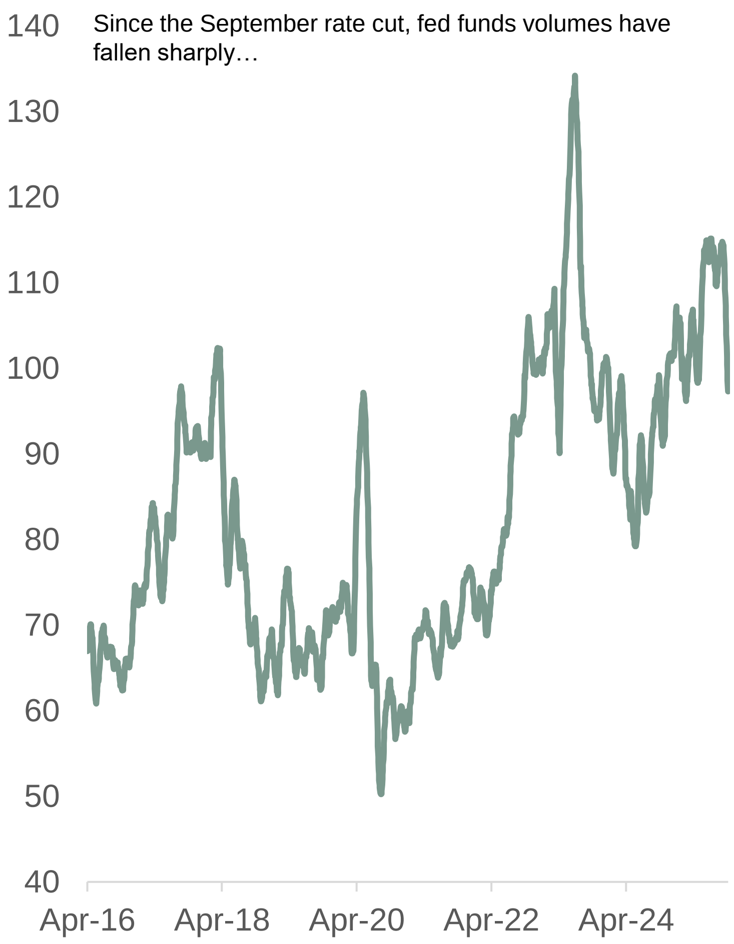
Tri-party repo –IORB (bp)



Note: 20d average. Source: Federal Reserve, SMBC Nikko

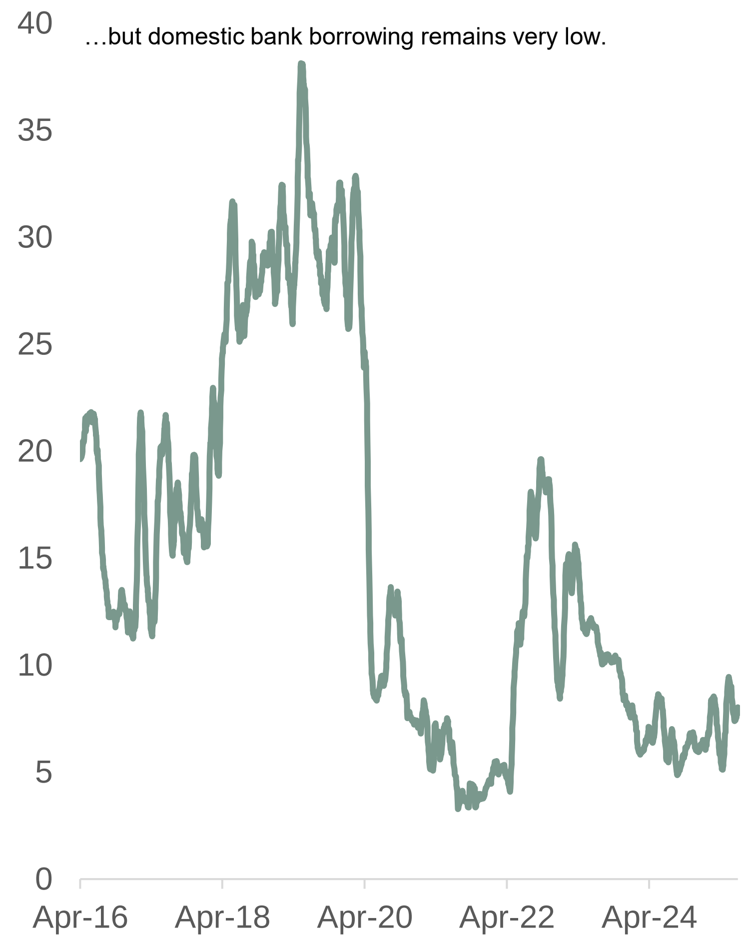
Fed funds trades in a narrow market

Fed funds volume ($bn)



Note: 20d average. Source: Federal Reserve, SMBC Nikko

Domestic bank borrowing ($bn)



Note: 20d average. Source: Federal Reserve, SMBC Nikko

Replacing fed funds…

- *Is it time to replace the fed funds rate as a policy target?*
  - The Fed is no longer operating a scarce reserves regime, so banks do not need to borrow in this market to top up their intraday liquidity
    - And the Fed got rid of reserve requirements during COVID

- As a result, trading reflects an arbitrage as the FHLBs are unable to earn IORB and domestic banks pay deposit insurance premiums tied to the size of their balance sheet (which includes fed funds borrowing)
  - The narrowness of the market makes it vulnerable to changes in the behavior of either non-US banks or the FHLBs
    - Which could cause an abrupt plunge in its already thin activity

- *The ideal replacement rate should be both a tool to communicate the Fed's policy intentions as well as an instrument to monitor liquidity conditions*

Tri-party replacement

- Recently, Dallas Fed President Logan argued for shifting the Fed's target from the fed funds rate to the tri-party repo rate[1/]
  - Trading volume is much higher in tri-party repo
  - And, historically, the tri-party rate has traded very close to the fed funds rate
    - That said, it is more volatile on a day-by-day basis

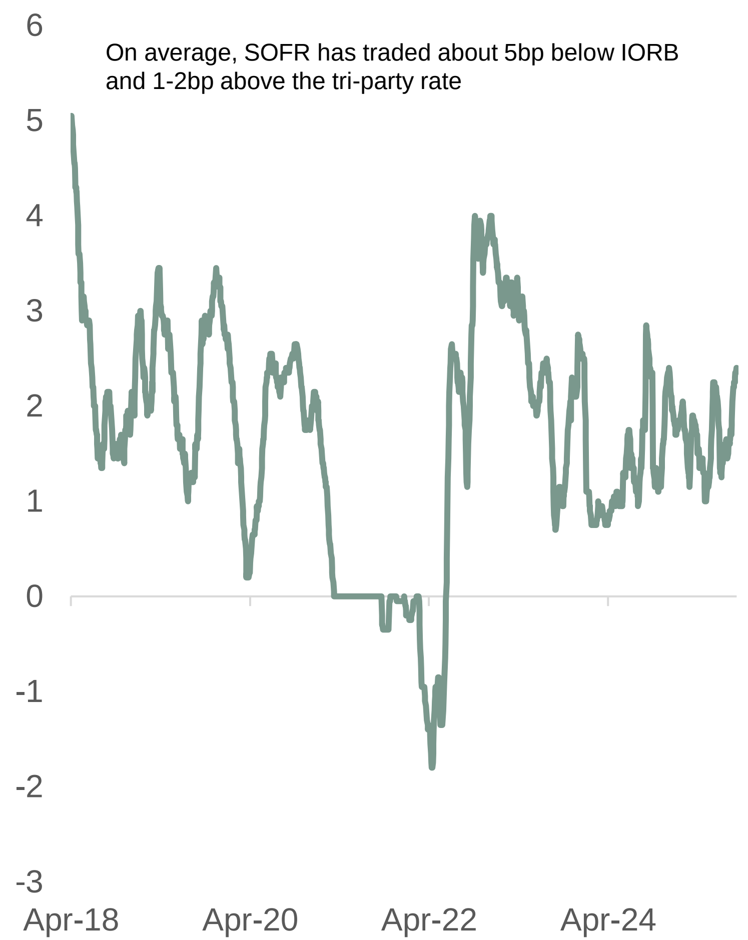
- Since 2018, the overnight tri-party rate has traded about 6bp below IORB
  - And its daily standard deviation is about 10bp
    - Which suggests the Fed could maintain its current 25bp target bands

1/ See, "Options for Modernizing the FOMC Operating Target Interest Rate", L. Logan and S. Schulhofer-Wohl, Federal Reserve Bank of Dallas, September 25, 2025

Why not SOFR?

- SOFR was chosen as a benchmark rate to replace Libor
  - So, shouldn't it be the Fed's policy target?
- But SOFR reflects more than the demand for financing
  - And it is sensitive to the demand for specific CUSIP collateral
    - Which, depending on market positioning could shift its median
- The Fed expressed discomfort with its policy rate being used as benchmark during discussions to replace Libor[1/]

SOFR-tri-party (bp)



Note: 20d average. Source: Federal Reserve Bank of New York, SMBC Nikko

1/ It was concerned that such a benchmark would make it difficult for the Fed to change target rates in the future if a large derivatives market was tied directly to the rate

Balance sheet or spread target?

- The Fed is looking to target an "efficiently-sized" balance sheet
    - One that is no bigger than necessary to support policy implementation
        - While maintaining a limited presence in markets

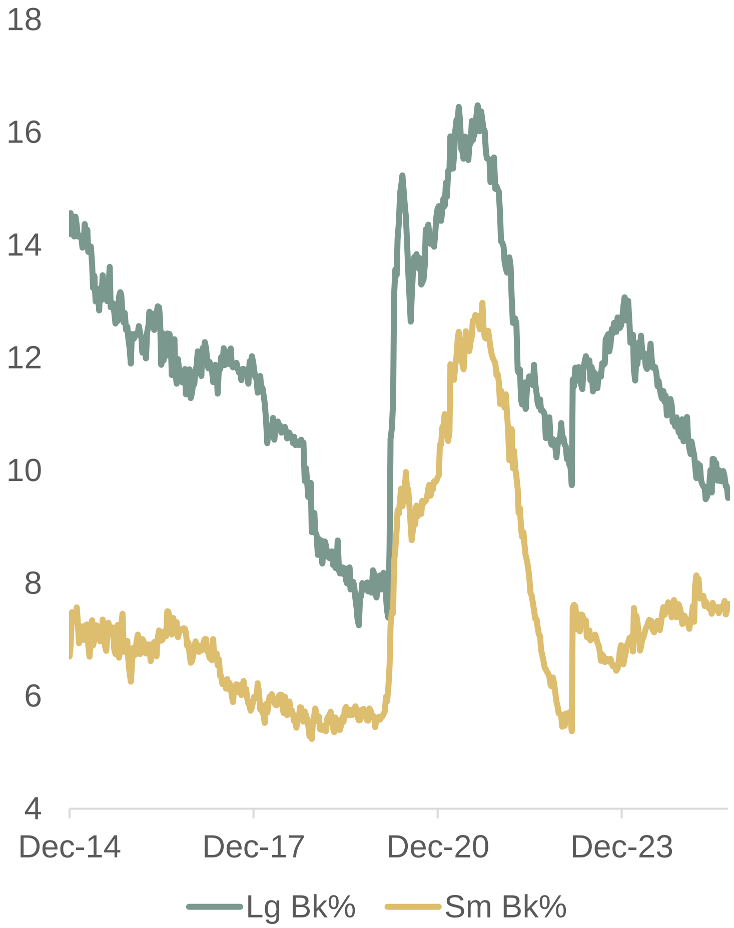
- But the optimal size is unknown
    - And shrinking the balance sheet until it reaches a specific target level – of, say, $6.5trn – risks repeating the spike in financing rates that occurred in September 2019

- Some Fed officials argue that balance sheet normalization should continue until the spread between overnight rates and IORB is minimized[1/]
    - This would imply that the cost of overnight liquidity and its return were roughly equal
        - With a small spread of, say, 2bp between tri-party, fed funds and IORB

1/ See "Efficient and effective central bank balance sheets", L. Logan, Dallas Federal Reserve Bank, February 25, 2025.

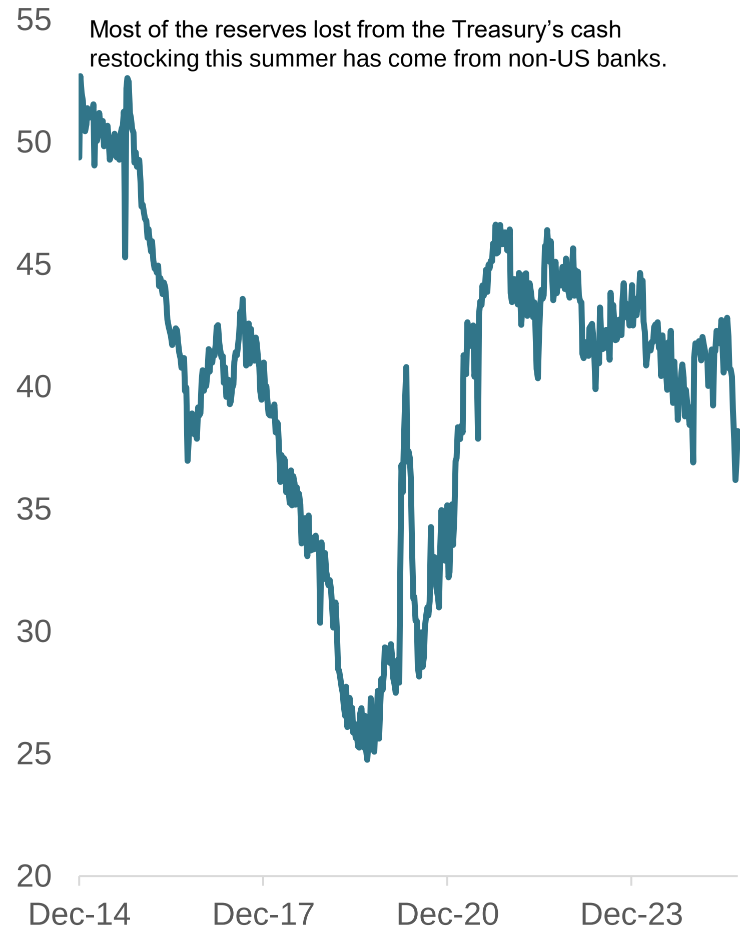
Bank reserves are falling…

Reserves (% assets)



Note: Domestic banks. Sources: Federal Reserve, SMBC Nikko

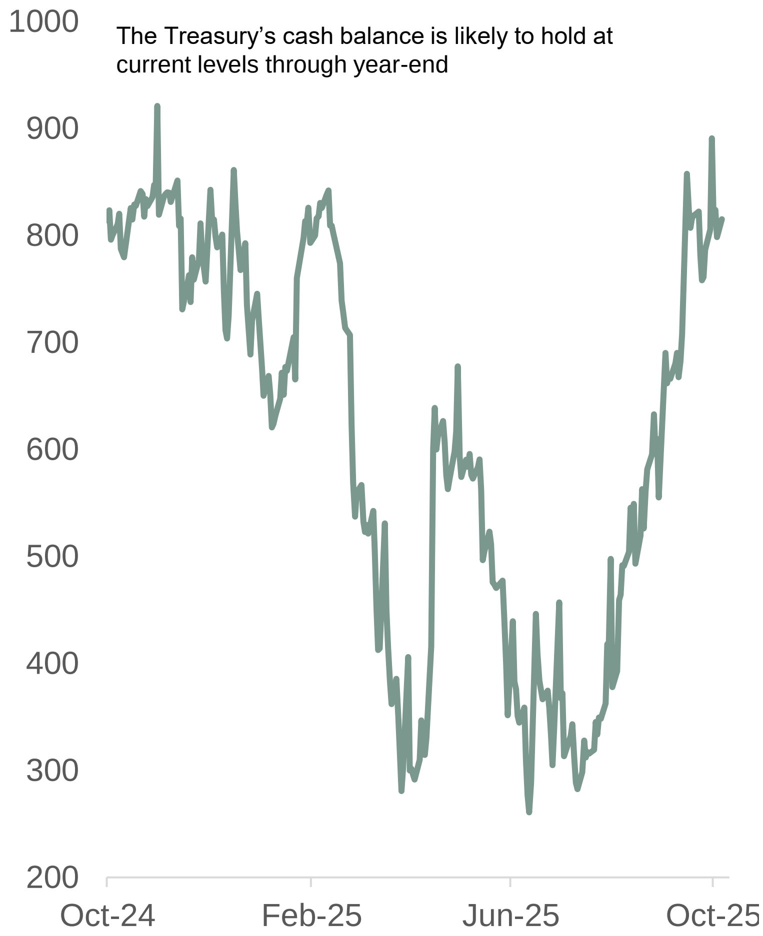
Foreign banks (% assets)



Sources: Federal Reserve, SMBC Nikko

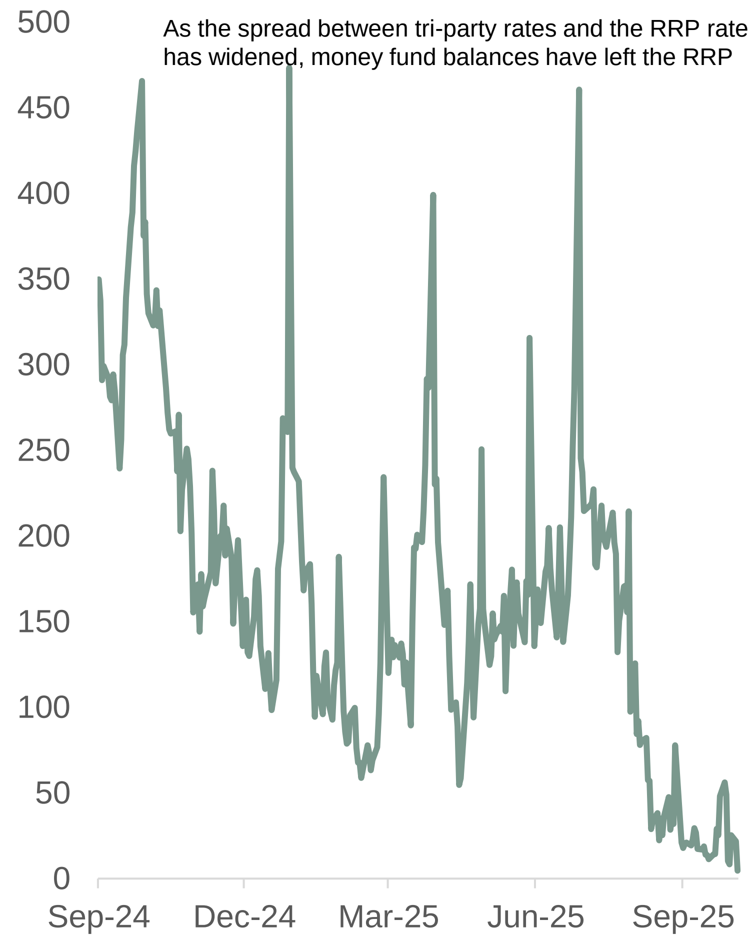
…and the Treasury's cash restocking is finished

Treasury cash ($bn)



Sources: US Treasury, SMBC Nikko

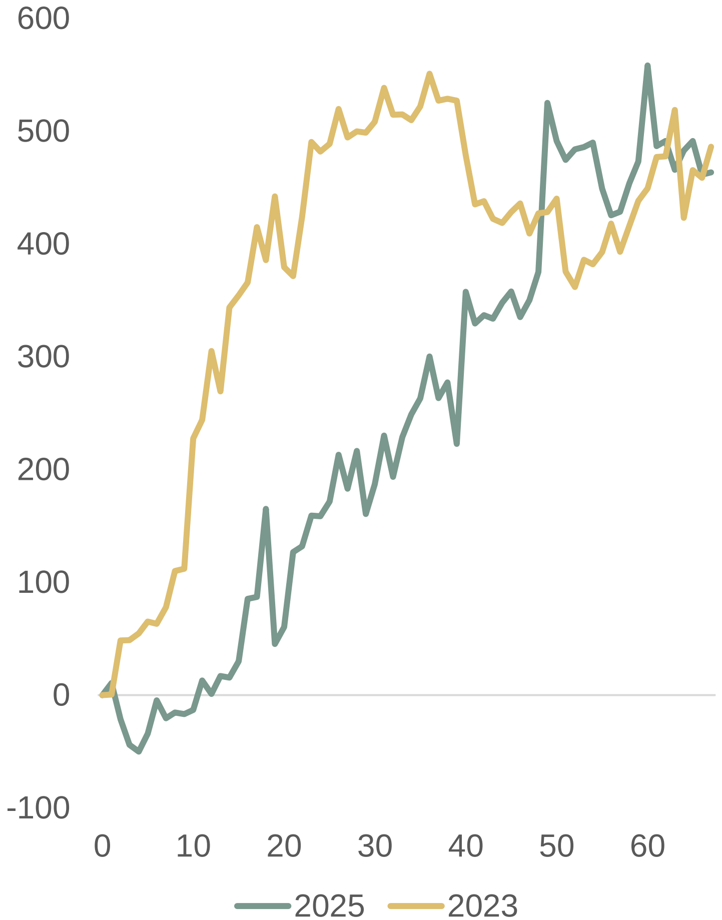
RRP balances ($bn)



Sources: Federal Reserve, SMBC Nikko

Milder Treasury cash restocking

Treasury cash ($bn)

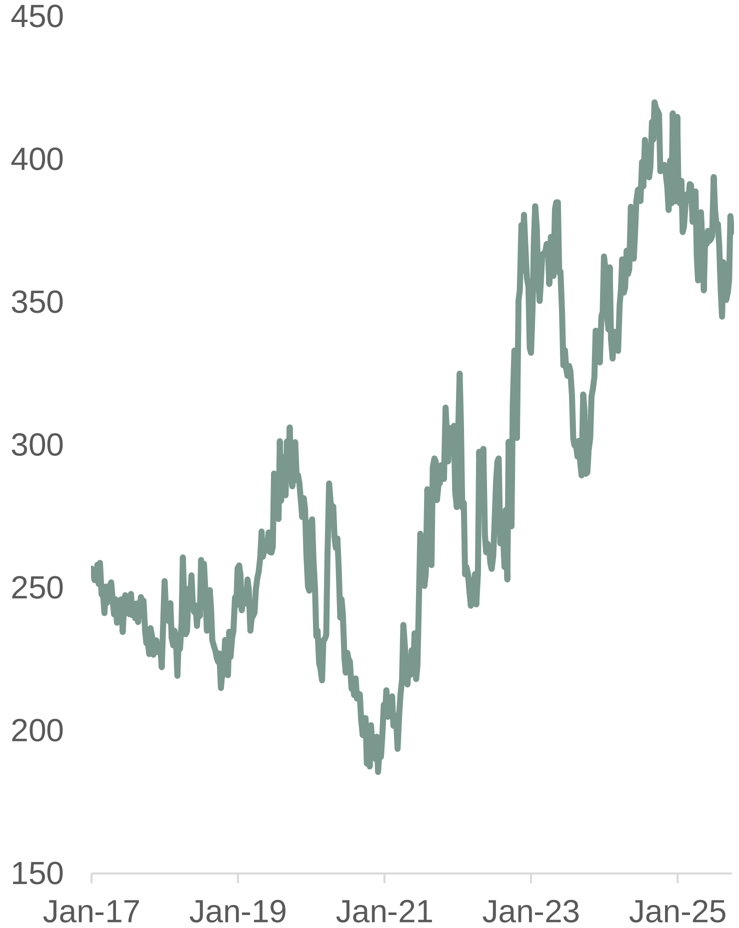


- The Treasury restocked its cash balance after the debt ceiling increase this summer more slowly than it did in 2023
  - To reduce the effect on short-term rates

Note: Daily cumulative changes since the debt ceiling was increased. X-axis is day after the increase Sources: US Treasury, SMBC Nikko

Foreign RRP balances have drifted lower

Foreign RRP balances ($bn)



- Foreign official institutions can leave cash in the Fed's foreign RRP program
  - Which earns the same rate as the domestic program
- Balances are less interest rate sensitive than those in the domestic program
  - And, instead, reflect foreign official institutions' preferences for immediately accessible cash

Sources: Federal Reserve, SMBC Nikko

Ending QT

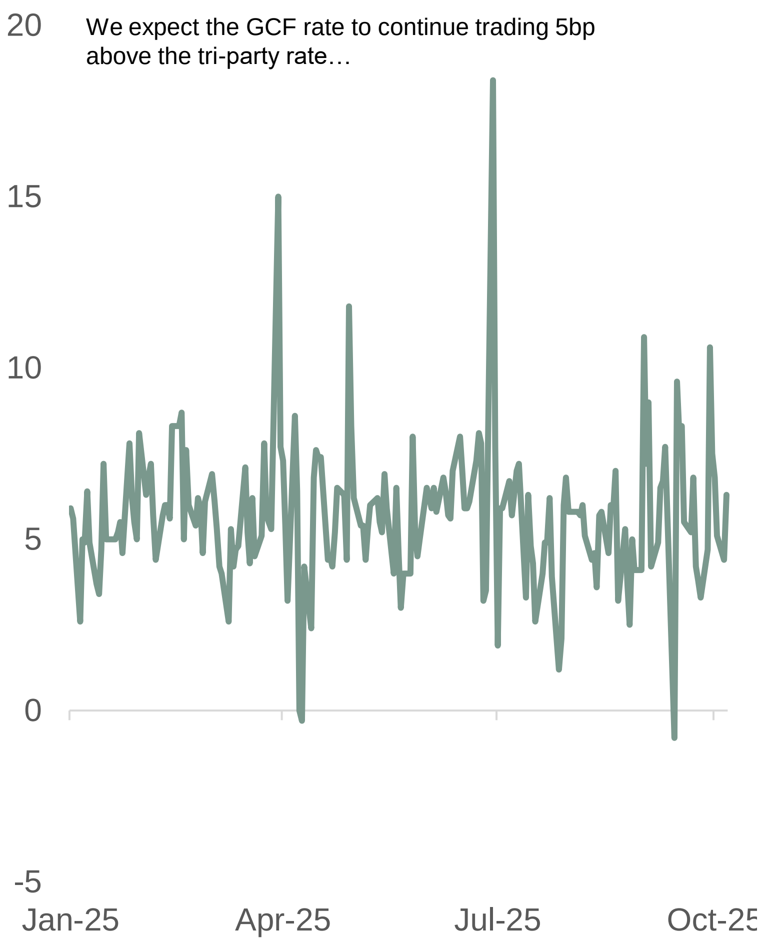
- Bank reserves will end this year at just under \$2.9trn and 11.6% of bank assets
  - Since August, the price of liquidity has begun moving higher
    - As the spread between tri-party repo rates and IORB narrowed from -8bp in August to -1bp in October

- *We think the speed of the recent narrowing in the tri-party-IORB and the fed funds-IORB spreads are enough for the Fed to end QT in February 2026*[1/]
  - By February 2026, we think bank reserves will be \$2.85trn and 11.4% of bank assets

1/ With an announcement at the January FOMC meeting

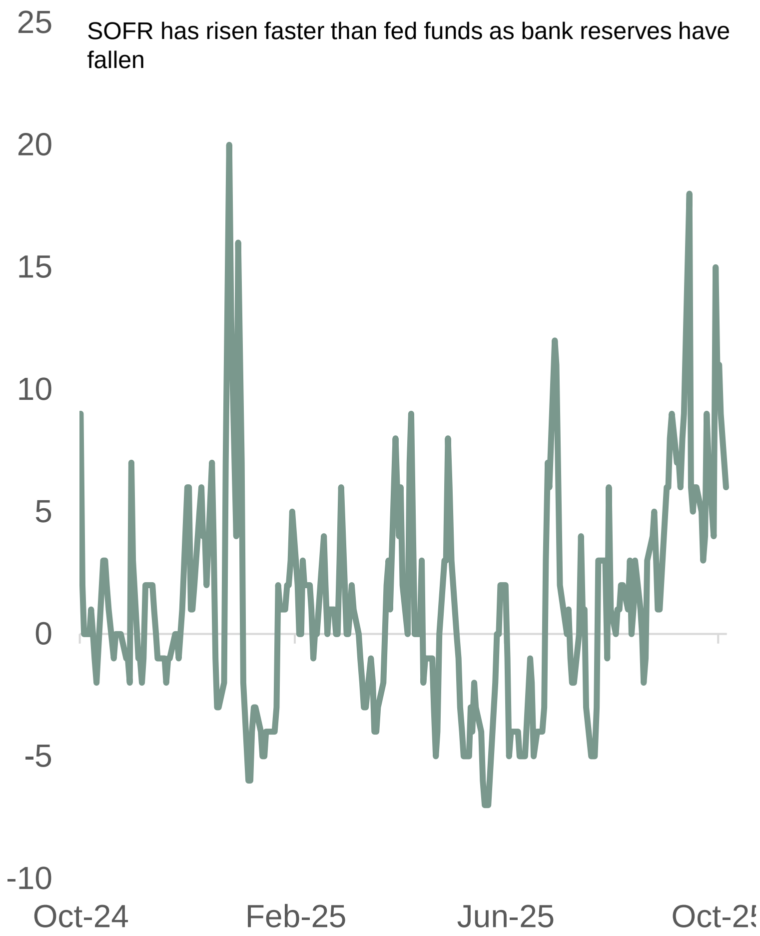
Repo rate spreads

GCF less tri-party repo (bp)



Sources: Federal Reserve Bank of New York, SMBC Nikko

SOFR less fed funds (bp)



Sources: Federal Reserve Bank of New York, SMBC Nikko

Cutting IORB?

- *Could the Fed cut IORB at an upcoming FOMC meeting to bring the fed funds and repo rates lower?*
  - *Lower overnight rates might allow the Fed to continue shrinking its balance sheet for longer*

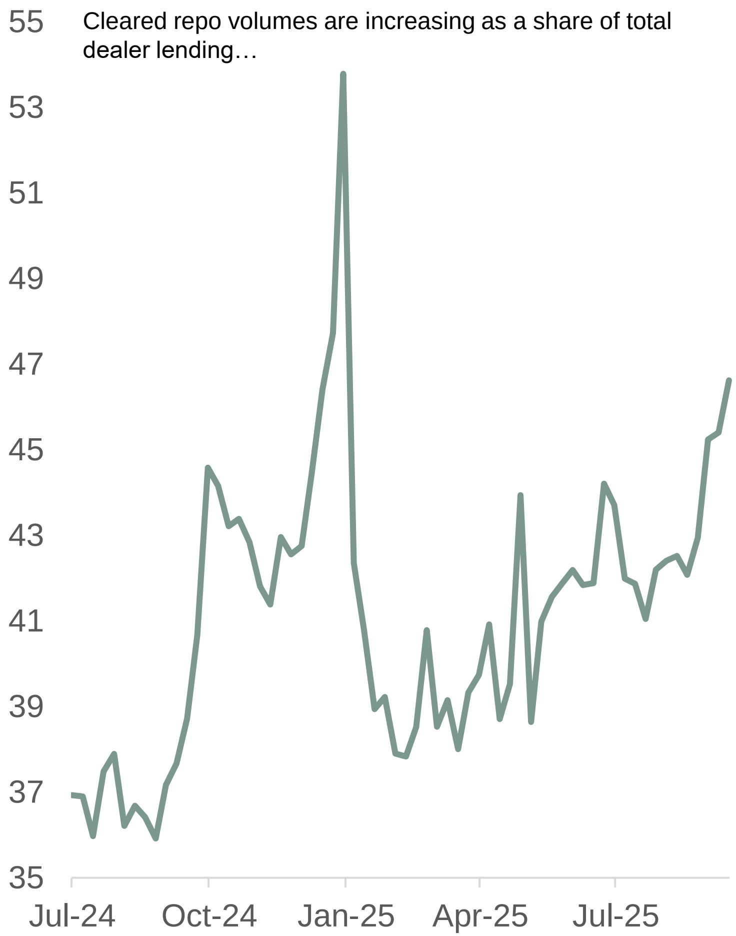
- We are skeptical of this approach
  - As the level of reserves becomes scarce, repo and fed funds rates begin to trade above IORB
    - And, while lowering IORB might *temporarily* pull overnight rates down, it will not change the fundamental imbalance between the supply and demand for reserves[1/]

- Lowering IORB and running QT for longer might mean that SRF use becomes more frequent

1/ This strategy was tried several times in 2018-19 and only briefly slowed the increase in overnight rates. Higher repo and fed funds reflected a shortfall in bank reserves rather than some anchoring effect tied to the spread between IORB and RRP.

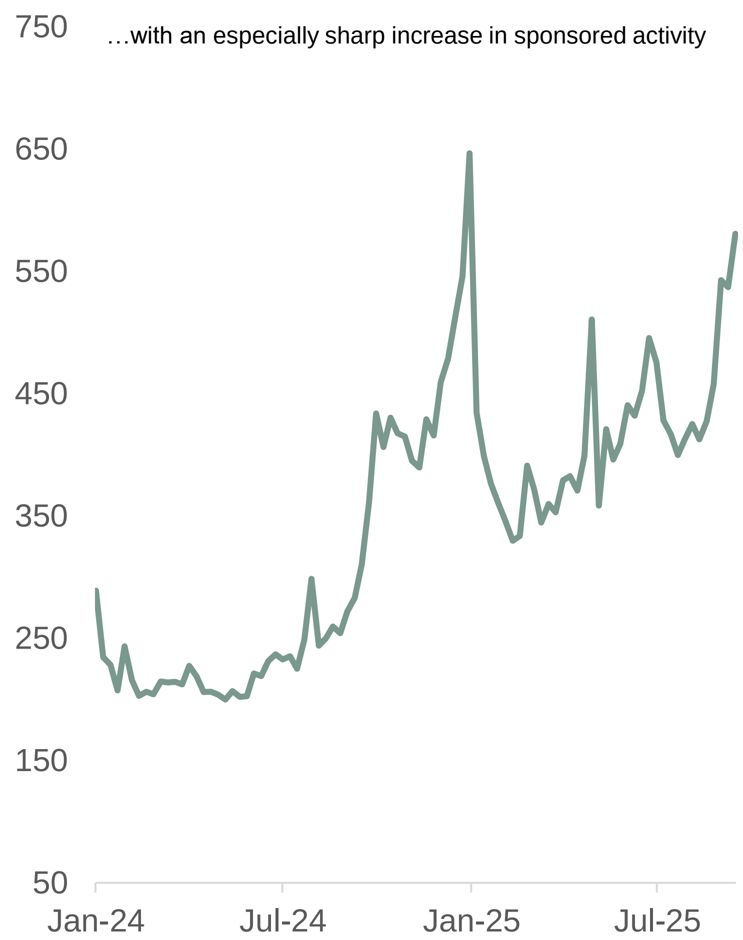
Cleared repo

Cleared repo (% total)



Note: Dealer reverses (dealer lends cash). Sources: Federal Reserve Bank of New York, SMBC Nikko

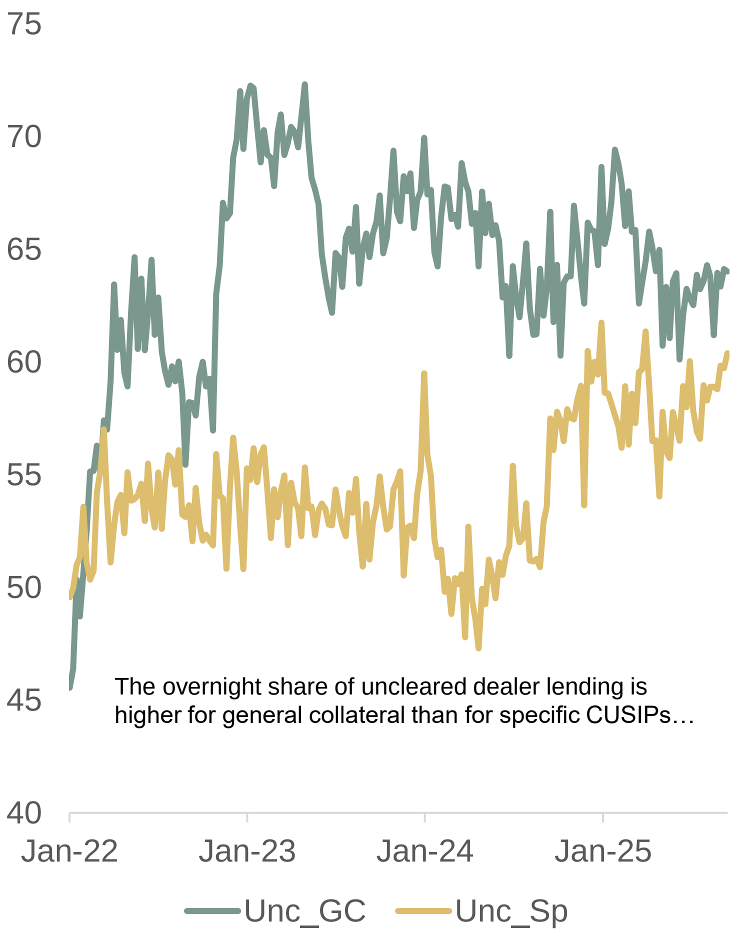
Sponsored repo ($bn)



Note: Dealer reverses (dealer lends cash). Sources: Federal Reserve Bank of New York, SMBC Nikko

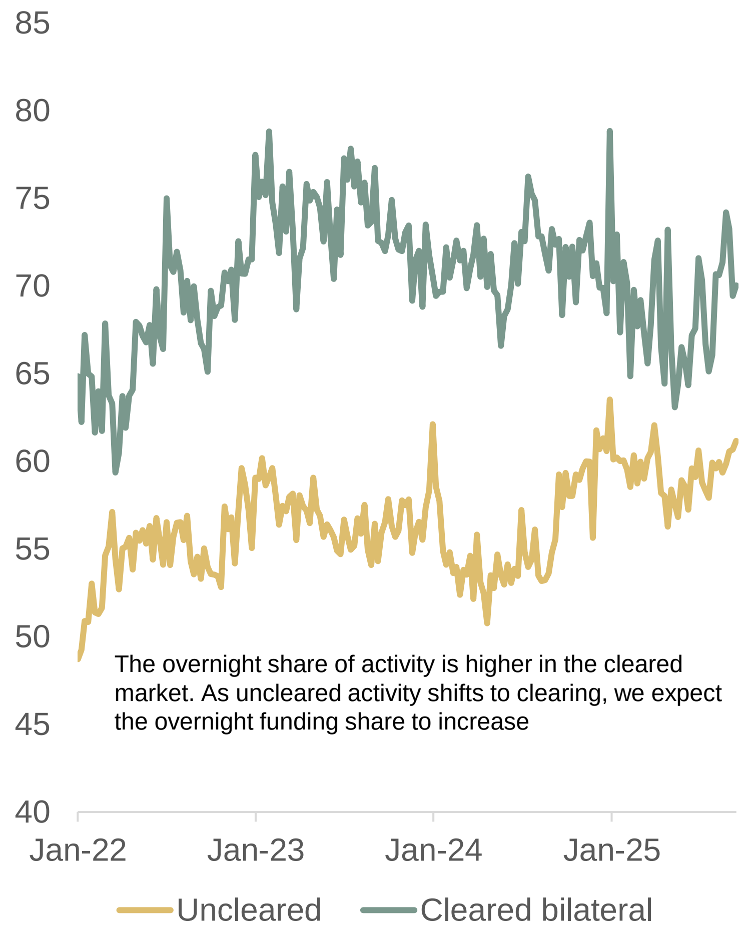
Overnight lending

Overnight uncleared repo (% total)



Note: Dealer reverses (dealer lends cash). Sources: Federal Reserve Bank of New York, SMBC Nikko

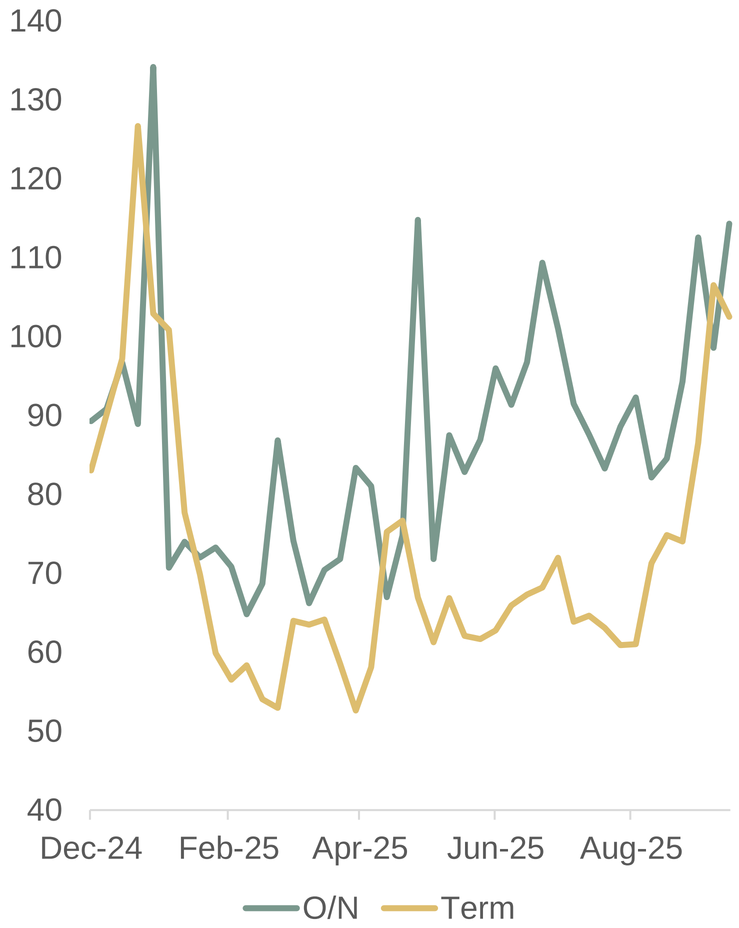
Overnight repo (% total)



Note: Dealer reverses (dealer lends cash). Sources: Federal Reserve Bank of New York, SMBC Nikko

Demand for sponsored term funding

Sponsored repo (Dec-24=100)

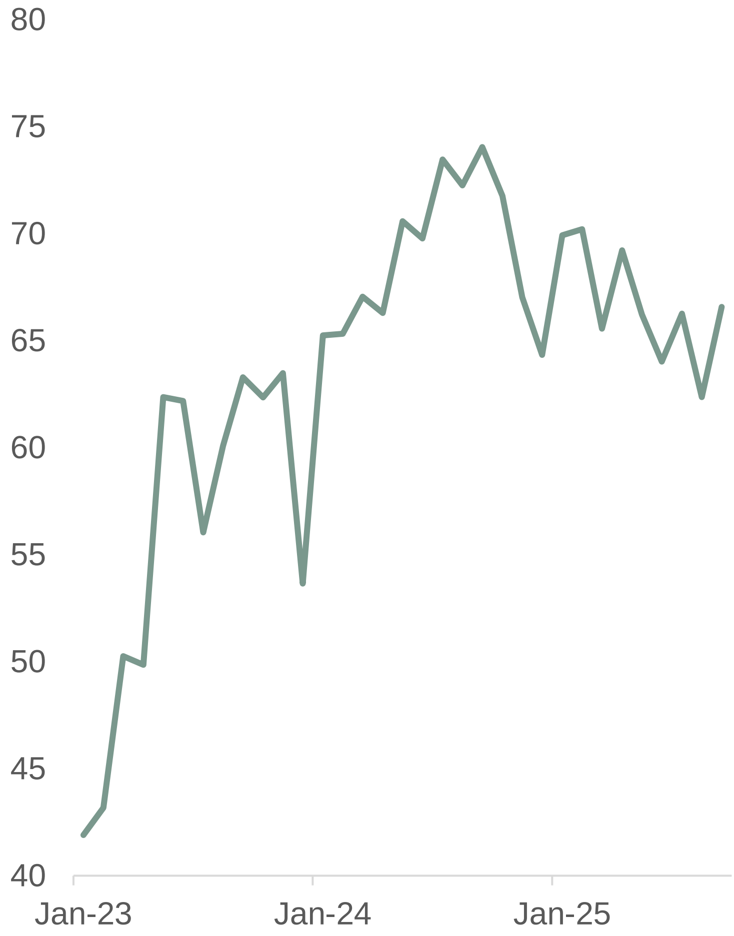


- Demand for term sponsored repo increased this summer
    - Particularly in <30d tenors
- It is not clear if the increase was driven by expected volatility in September that boosted investor demand to lock in funding
- In the future as more of the market shifts to clearing, term financing may become more expensive
    - As it is harder to match offsetting end dates in cleared transactions to net down balance sheet

Sources: Federal Reserve Bank of New York, SMBC Nikko

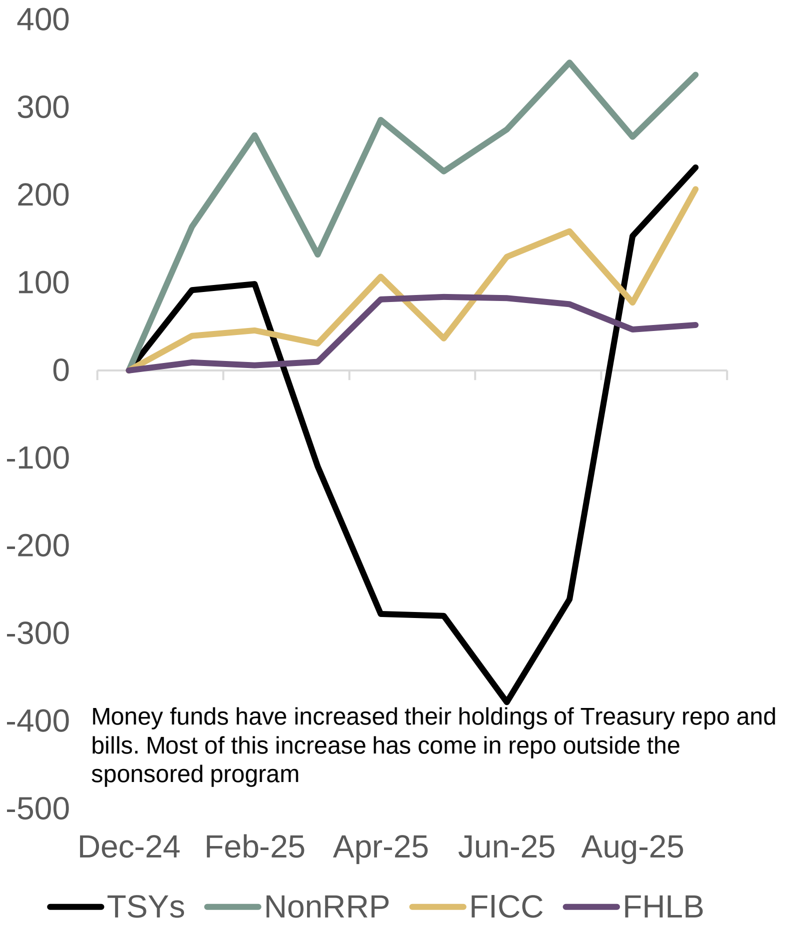
Money fund repo allocations

Money fund FICC repo (% sponsored)



Sources: Crane's Data, DTCC, SMBC Nikko

Change in money fund holdings ($bn)

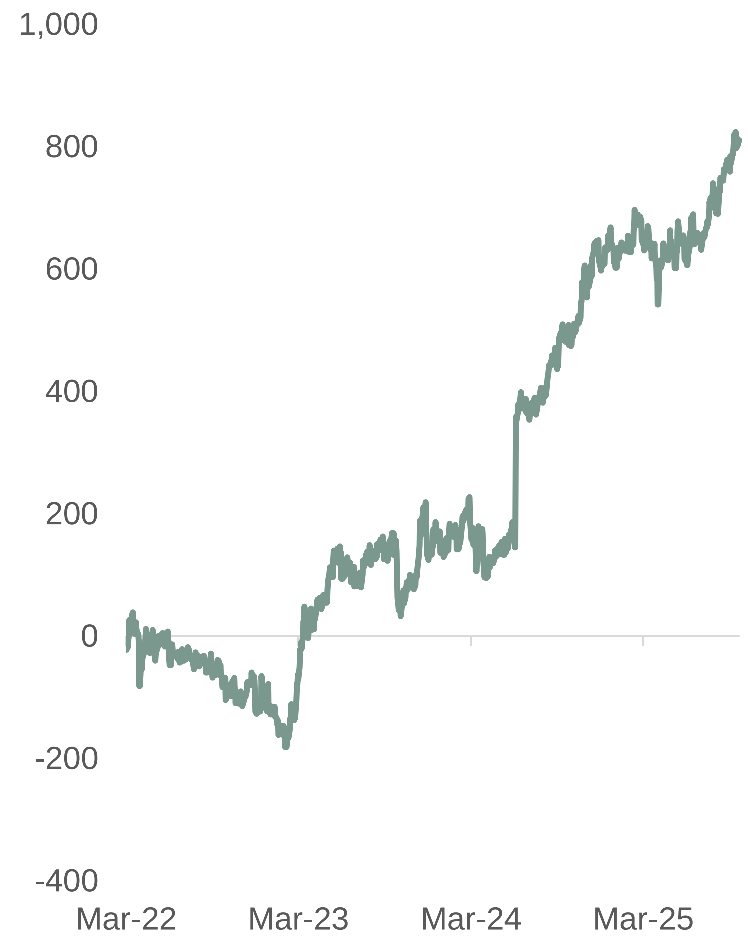


Note: Cumulative change in money fund holdings since December 2024. Sources: Crane's Data, SMBC Nikko

Money fund balances continue to rise

- Money fund balances continue to rise despite the Fed's recent rate cut
    - Since mid-September, balances have risen $40bn
- As of early October, gov-only and prime funds held $6.2trn and $1.3trn, respectively
- *We expect balances will continue rising*
    - As market rates remain above 3%
    - And the spread between money fund yields and bank deposit rates remains wide

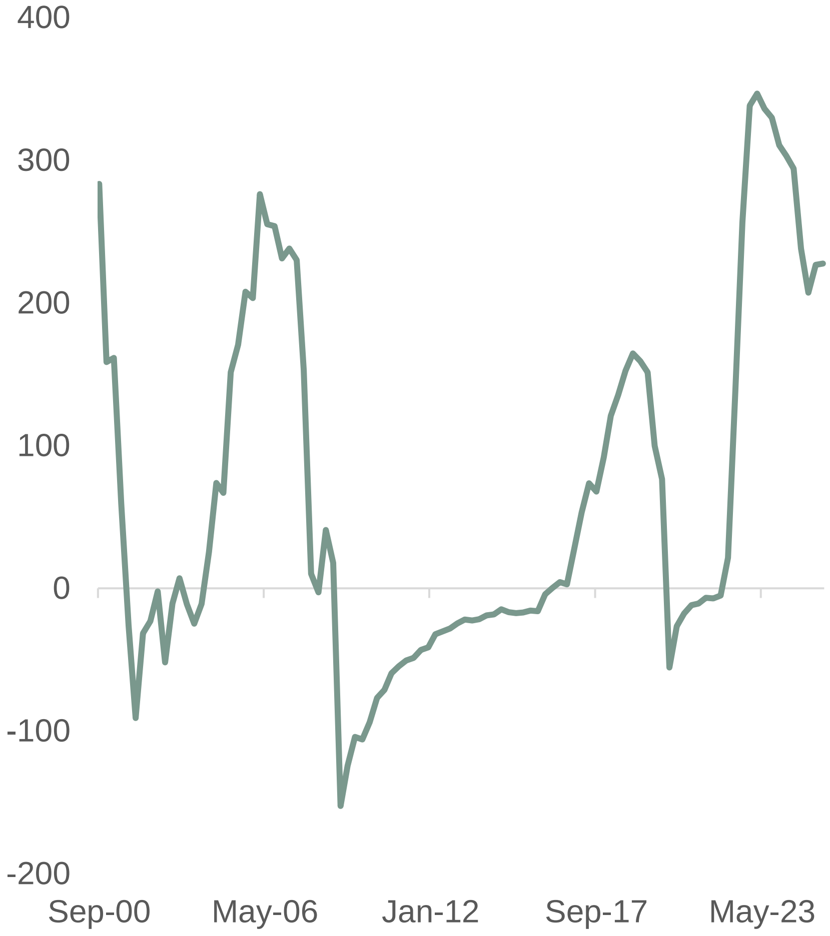
Money fund balances ($bn)



Note: Cumulative change since March 2022. Sources: Crane's Data, SMBC Nikko

Money fund yields and deposit rates

Fed funds less deposit rates (bp)

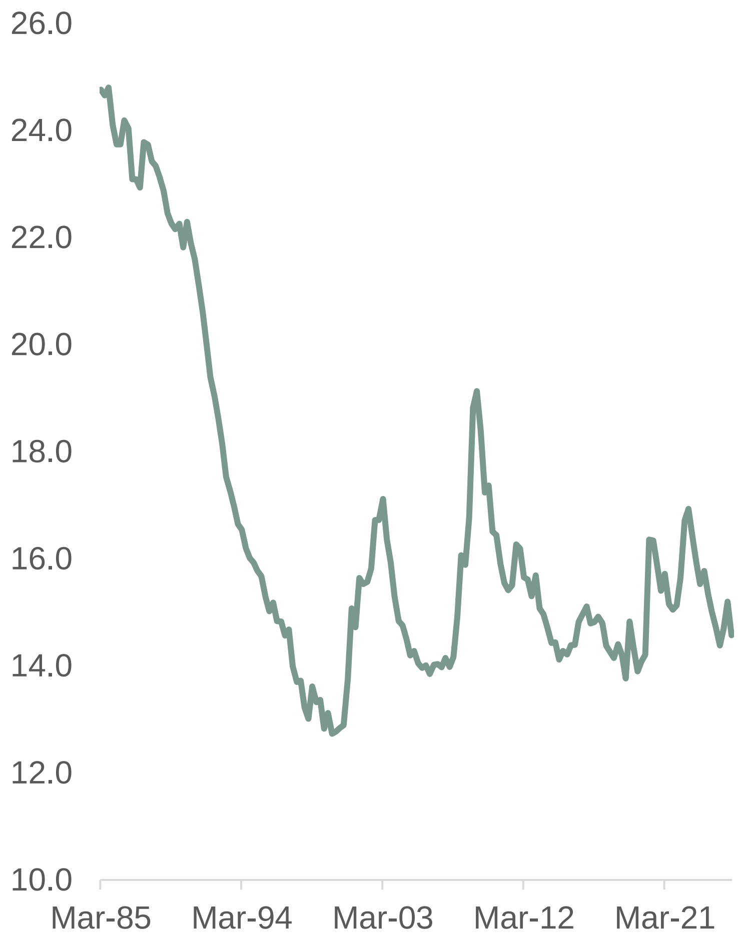


- Despite the Fed’s rate cuts, money fund yields continue to exceed deposit rates

Note: We use the fed funds rate as a proxy for money fund yields.
Sources: FDIC, Federal Reserve, SMBC Nikko

Are households holding more cash than in the past?

Cash holdings (% financial assets)



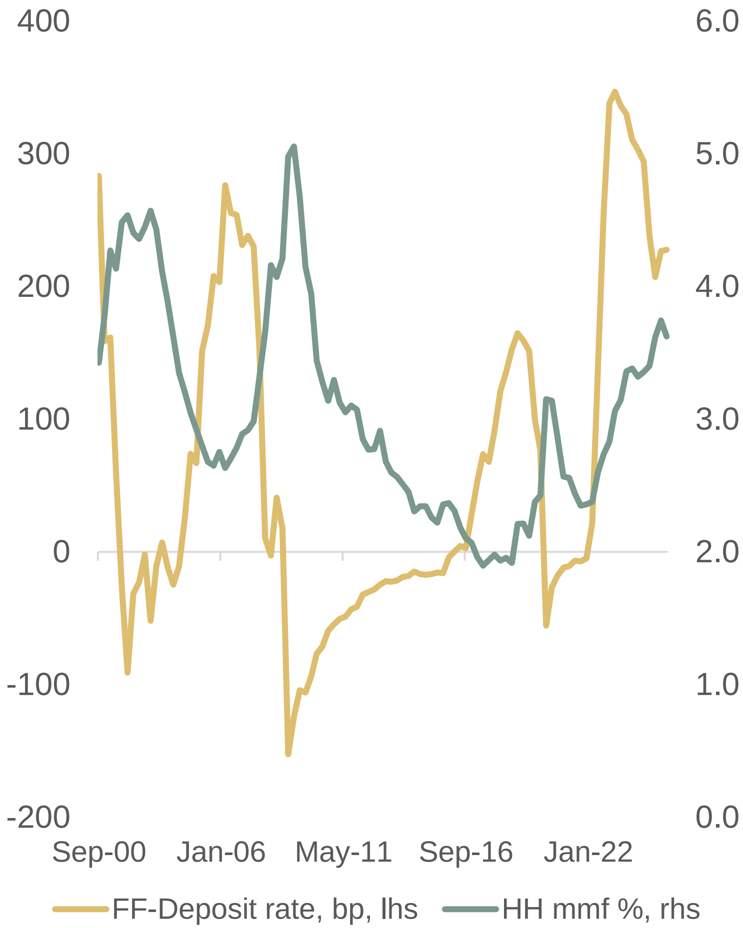
- We define cash holdings as immediately available liquidity – assets that do not require monetization to liquidate[1/]
- The current cash asset ratio is consistent with the historical average (since 1990)
- Most of the total is held in deposits – particularly time and saving deposits
  - Money fund balances are about 3.6% of their financial assets

Sources: Federal Reserve, SMBC Nikko

1/ This includes transactions and savings deposits along with money fund balances.

Household money fund holdings and deposit spreads

MMF holdings and spreads (%, bp)



- Households holdings of money funds have increased to 3.6% of their financial assets since 2022
- But historically, the extra yield they earn from money funds over deposit rates seems only weakly correlated with their allocations

Sources: Federal Reserve, FDIC, SMBC Nikko

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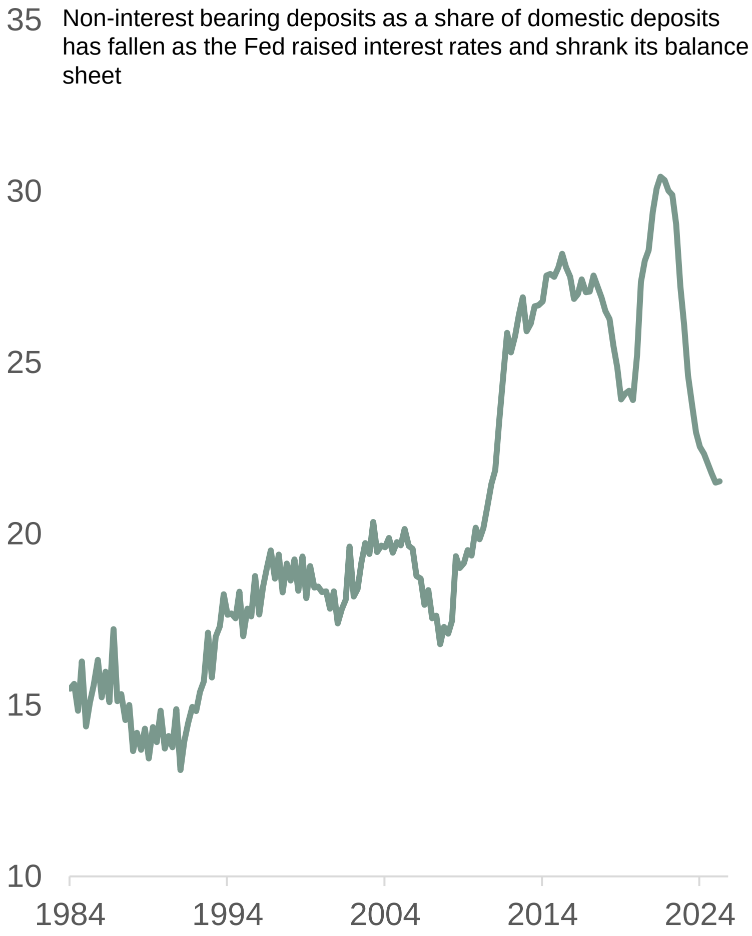
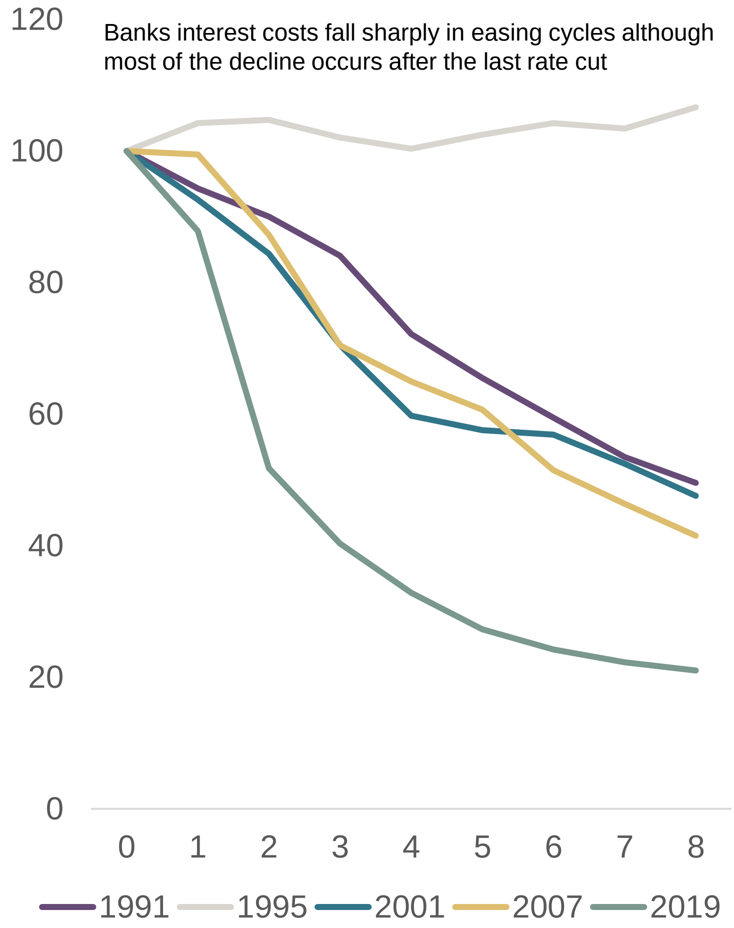
Bank deposits

Non-interest (% domestic deposits)



Sources: FDIC, SMBC Nikko

Deposit interest expenses (indexed)



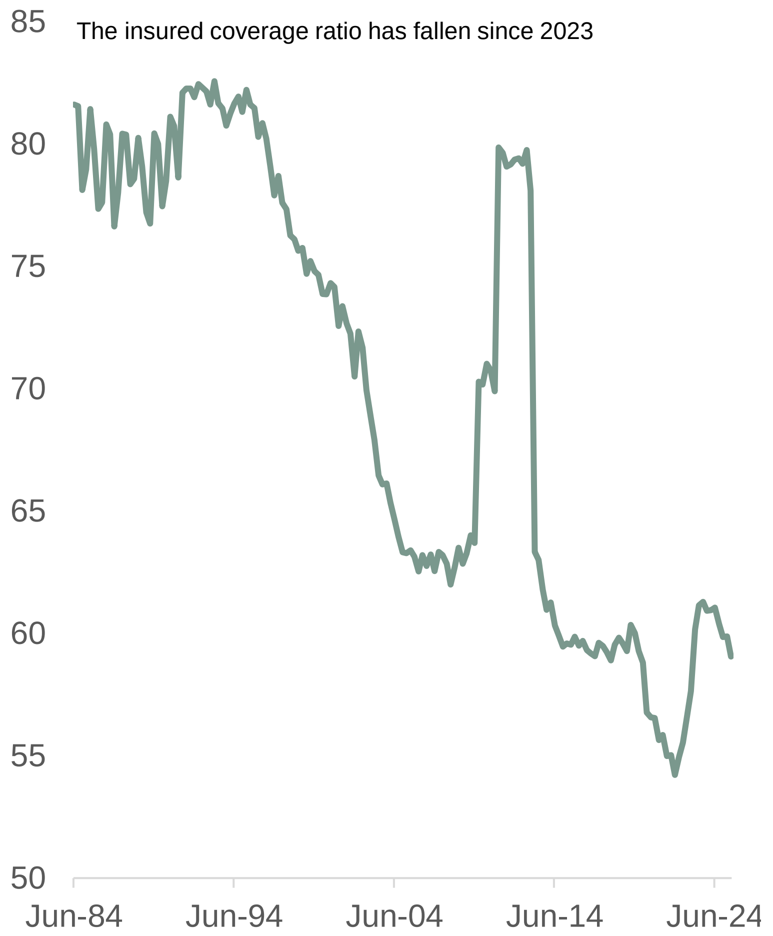
Note: Bank interest expenses on domestic deposits indexed to the first quarter of the easing cycle. X-axis is quarters after first easing. Sources: FDIC, SMBC Nikko

Fading memories? Uninsured deposit growth

- The “value” of deposit insurance increases during periods of financial stress. As memories of the March 2023 deposit strains fade, growth in uninsured deposits has accelerated even as the real value of coverage has been eroded by inflation.
    - Demand for deposit insurance coverage rises fastest in periods of financial turmoil such as March 2023. The coverage ratio, or share of deposit balances covered by FDIC insurance, rose to 61% after the SIVB failure. But it has fallen since 2024 and growth in uninsured balances has accelerated.
- Some of this may reflect the steady erosion in the inflation-adjusted value of the coverage cap since it was last increased in 2008. The real coverage limit has fallen 34% over the period.
- However, we think that the recent decline may reflect two other influences. Memories of the 2023 deposit strains have faded and the depositors most concerned about protecting their balances have already moved into accounts at larger banks and money market funds.
- There is bipartisan support for expanding deposit insurance coverage. But the structure of this coverage remains to be worked out.

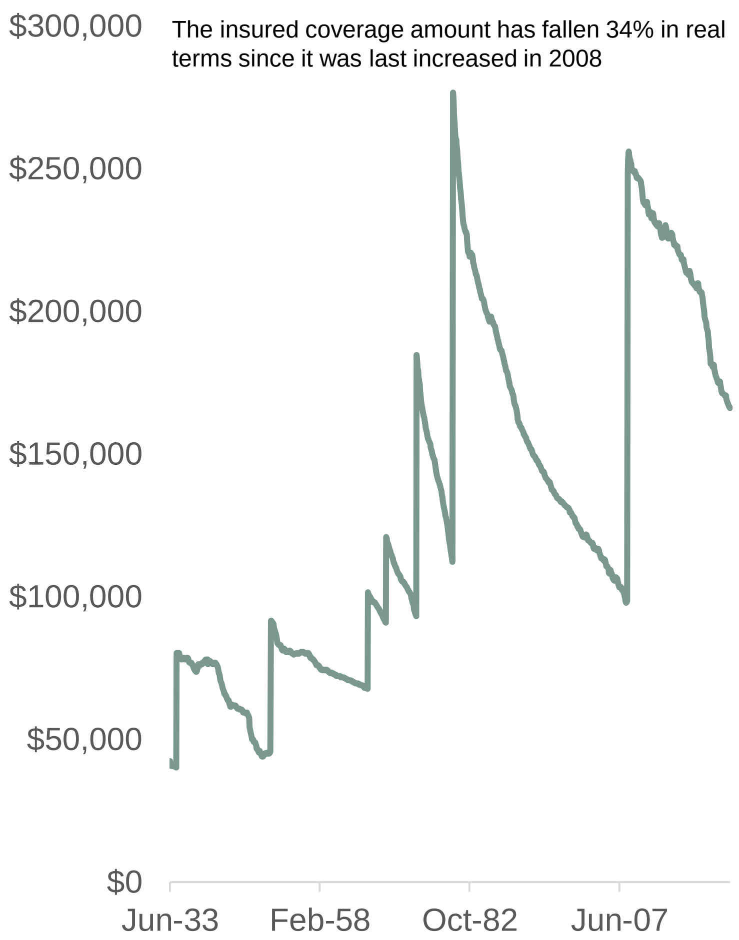
Insured deposits

Insurance coverage (% dom deposits)



Note: The FDIC provided unlimited coverage on non-interest transactions deposits after the financial crisis. The program expired in 2012. Sources: FDIC, SMBC Nikko

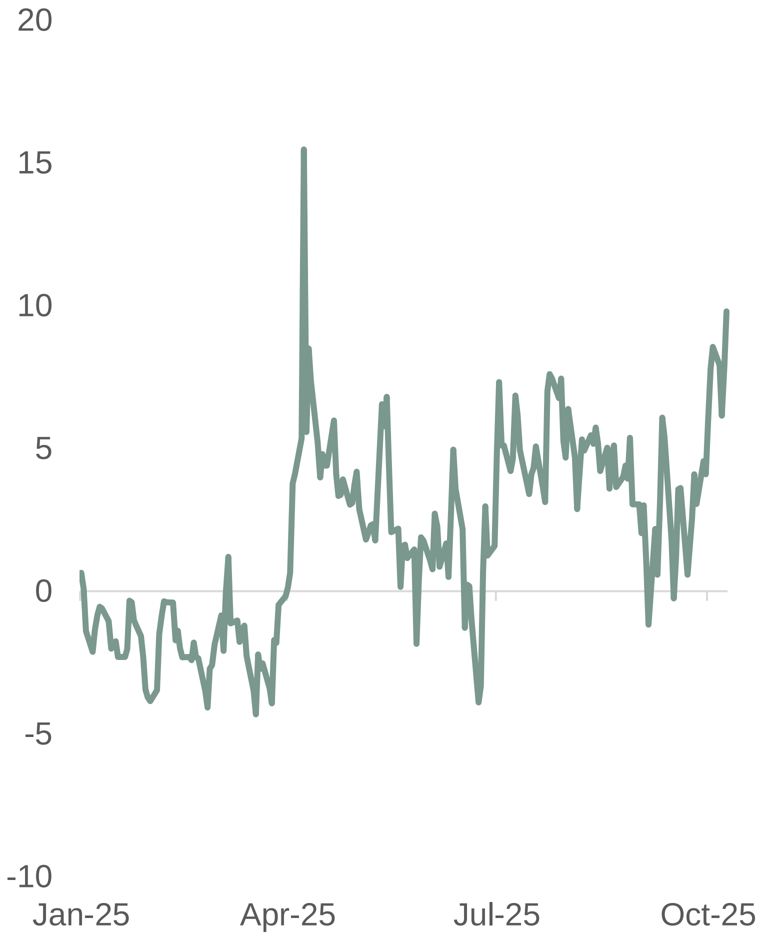
Coverage amount (2008=100)



Sources: FDIC, SMBC Nikko

Heavy bill issuance this summer had a modest effect on yields

3m bill less OIS (bp)



Sources: Bloomberg, SMBC Nikko

- *We look for Treasury bill supply to increase $400bn in Q4*[1/]

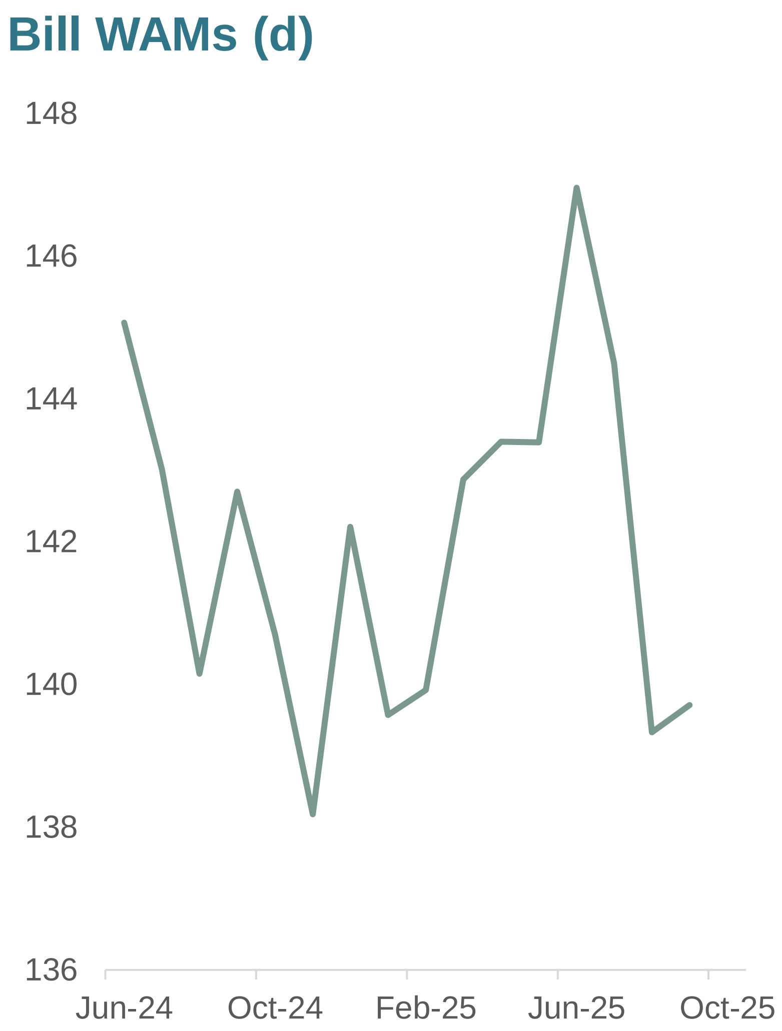
- We expect bill yields will hold steady at current levels
  - This summer strong money fund demand for bills pushed the bill-OIS spread narrower

  - *But as tri-party rates have risen, bill rates will need to move higher to attract money fund demand*[2/]

1/ The increase has been sooner than expected but concentrated in shorter maturities.
2/ See slide 16

Bill issuance: WAMs

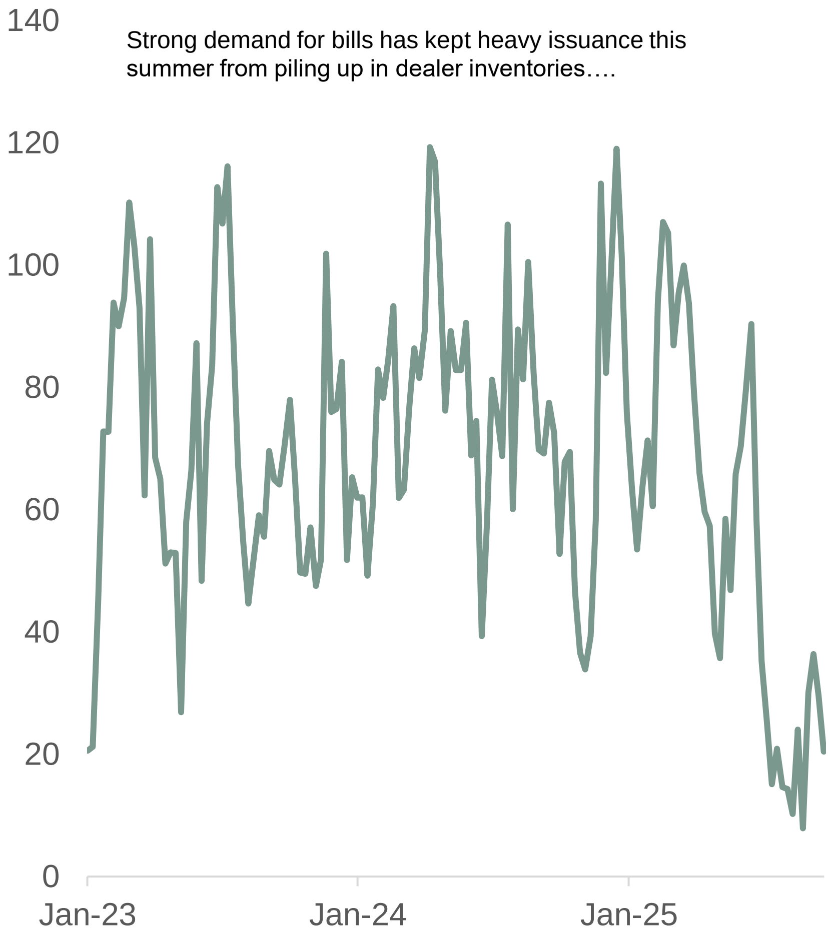
- The Treasury eased bill absorption by money funds by increasing shorter-maturity bills proportionally more
    - As a result bill WAMs have fallen



Source: US Treasury, SMBC Nikko

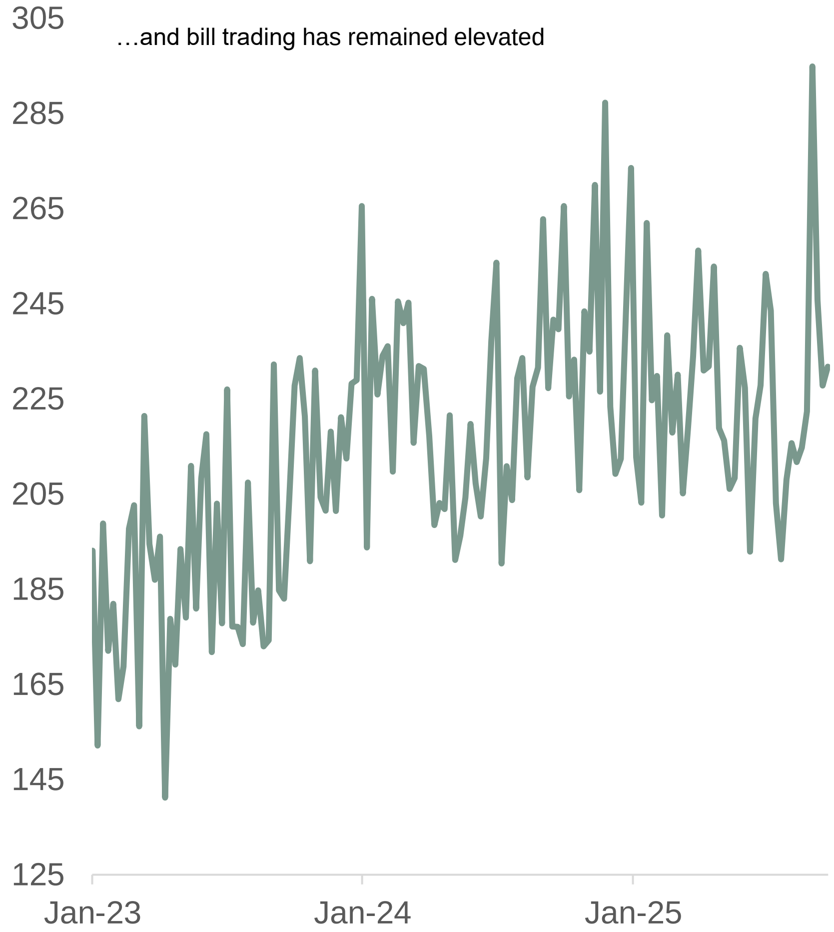
Heavy bill issuance has been readily absorbed

Dealer bill inventories ($bn)



Source: Federal Reserve, SMBC Nikko

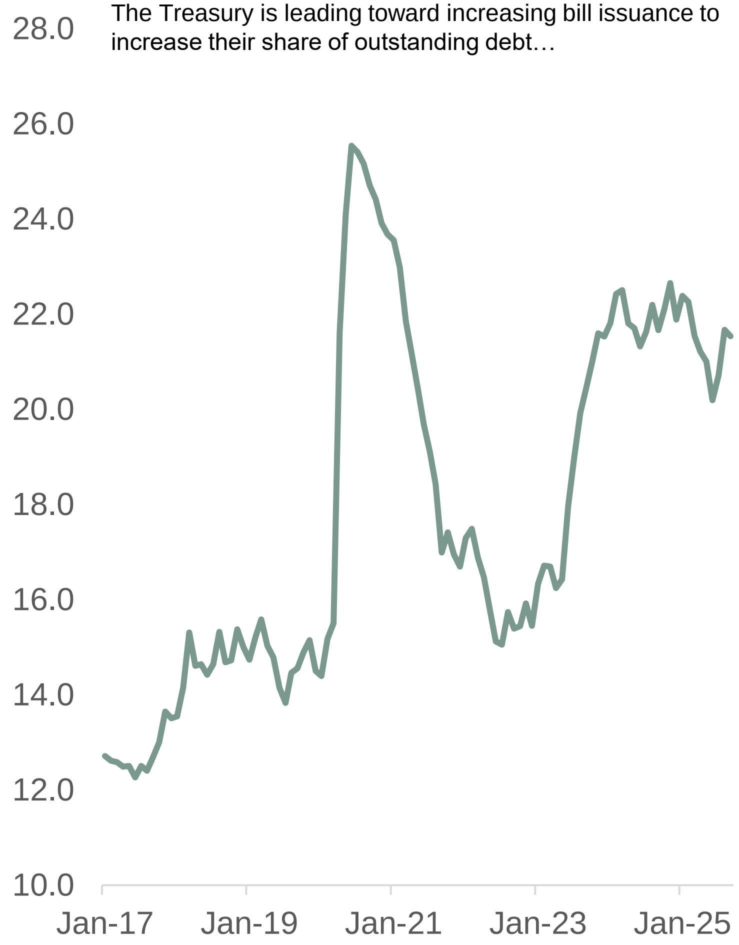
Dealer bill transactions ($bn)



Source: Federal Reserve, SMBC Nikko

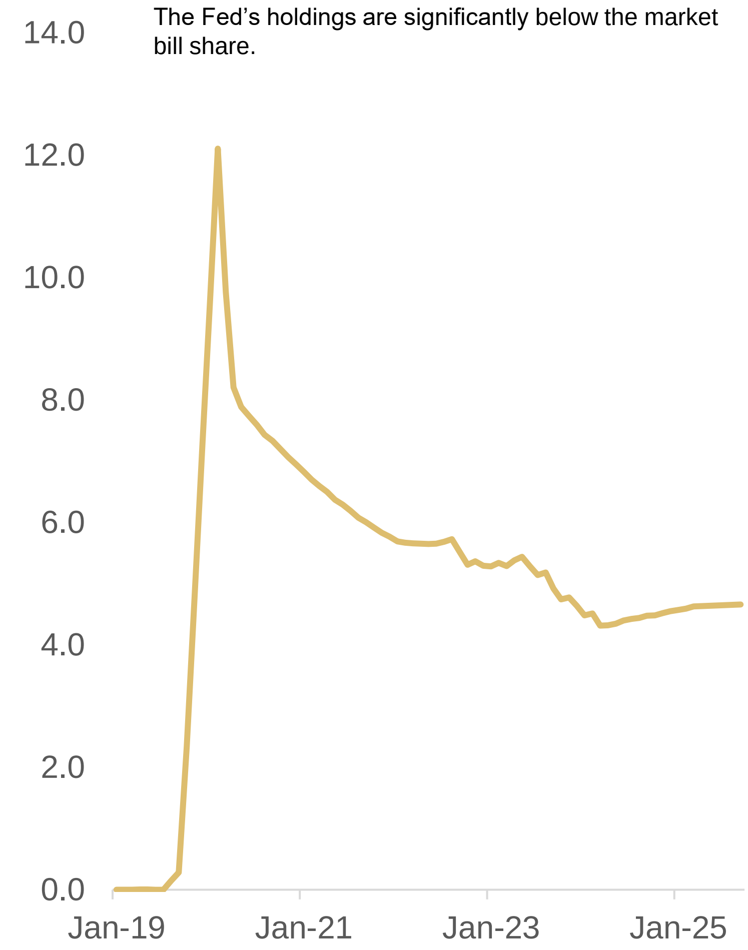
Bills outstanding

Bills (% outstanding debt)



Sources: Federal Reserve, SMBC Nikko

Bills (% Fed Treasury holdings)



Sources: Federal Reserve, SMBC Nikko

Bill absorption

- **Despite heavy bill issuance this summer, bill yields increased just 2bp[1/]**
  - The Treasury concentrated issuance at shorter maturities where money fund demand was strongest
  - And it ramped up its cash balance after the debt ceiling more slowly than in 2023 which helped keep short-term rates from rising sharply

- **But money funds' bill appetite may not be as robust this fall**.
  - Balances may slow as interest rates fall and managers may prefer to increase their repo allocations. Money fund WAMs have fallen since the September rate cut.

- **The Treasury has maintained its heavy bill issuance concentrated in shorter maturities so far this quarter**.
  - We do not believe the Treasury is gearing up to make changes in coupon issuance at next month's quarterly refunding.

1/ Bill supply has increased over $700bn (or 12%) since the debt ceiling was raised this summer

Digital dollarization

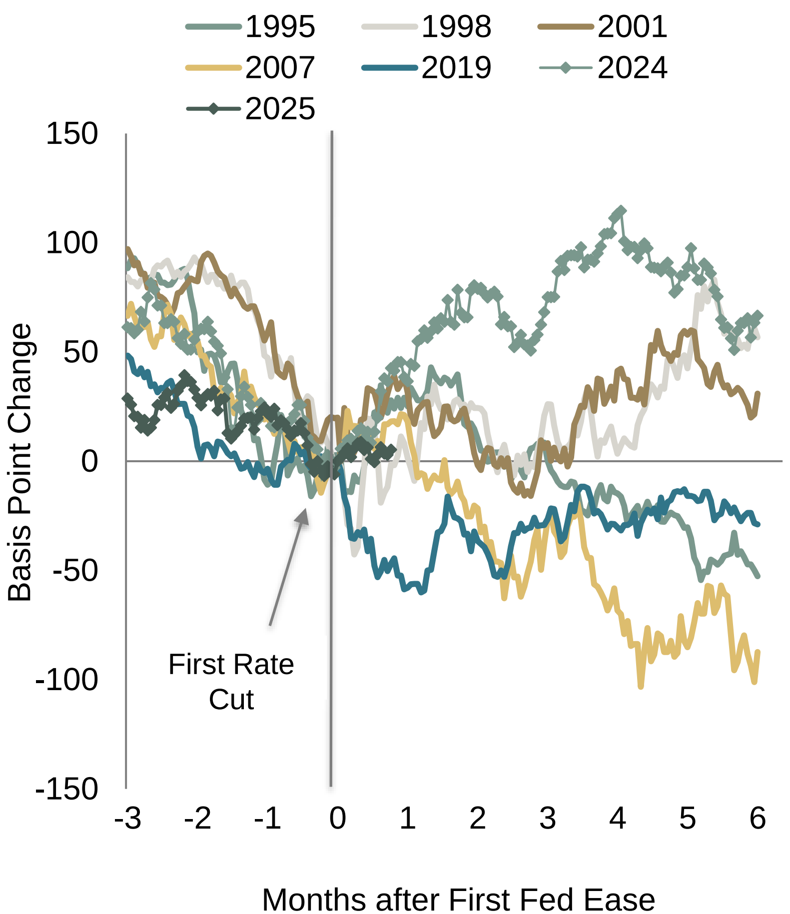
- Dollarized stablecoins are likely to be especially attractive in areas with significant unbanked populations, or regions with unstable domestic units and high remittance fees.
- This also helps explain the significant offshore demand for physical US currency – particularly, the $100 bill. Between 50 and 60% of the $2.2trn in outstanding paper dollars is held offshore.
- Potential demand for dollar stablecoins as substitutes for large denominations and as lower-cost remittance vehicles could exceed $1trn over the next decade. This might translate into $600-700bn in incremental demand for bills over the period.
- However, substituting U.S. currency with stablecoins would mean replacing a non-interest-bearing liability with an interest-bearing one, even if the stablecoin holder does not receive interest directly.

Source: US Treasury, SMBC Nikko

10-Year followed pattern (rally) into the first cut and weeks thereafter (range trade)

- This template repeated even though the easing cycle began last year
  - 10y yield touched 4% ahead of the September ease
    - So far, it has followed the pattern thereafter - range trade in the weeks ahead.
    - *Any large directional moves higher or lower in the months ahead are likely to be dictated by the growth and labor outlook*

10y Treasury yields (bp)

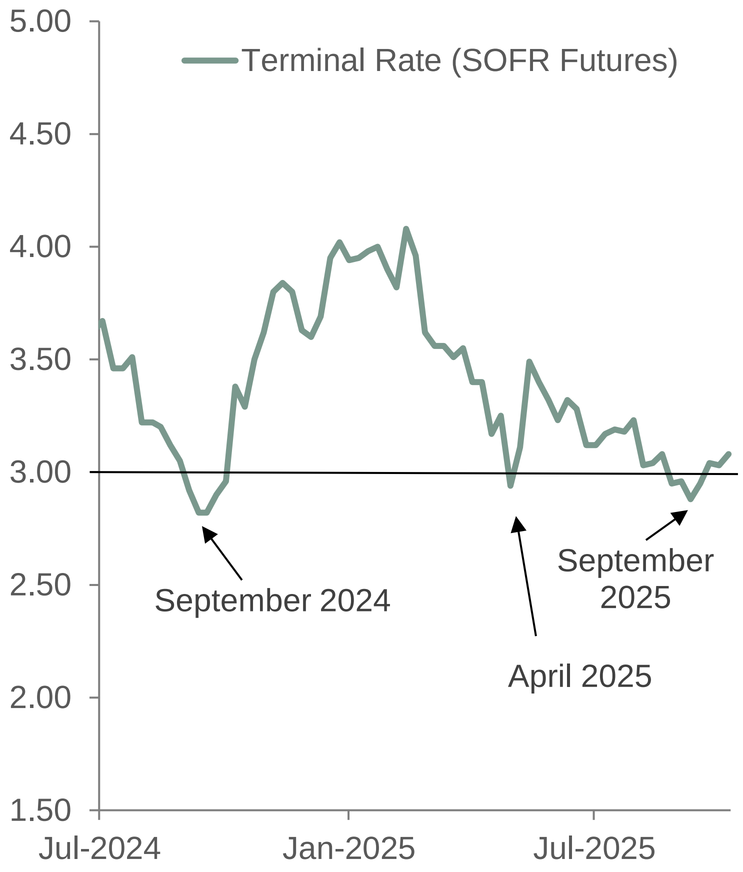


Sources: SMBC

10-Year Valuation – Fed policy expectations + term premium

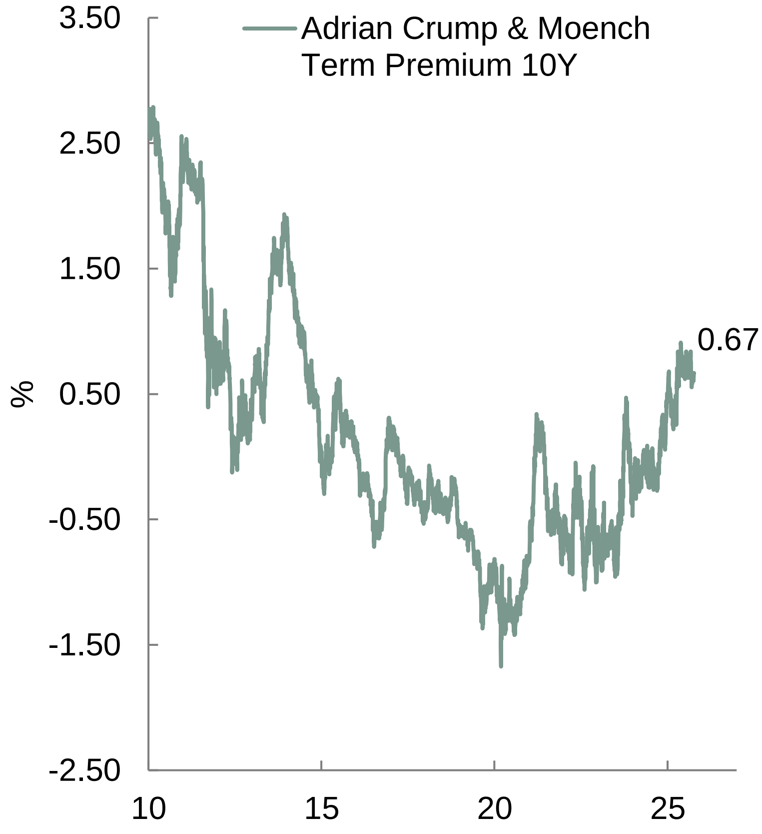
Terminal rate pricing (SOFR futures)

Resilient growth and inflation concerns have led to the rejection of a neutral rate pricing below 3%



Sources: Bloomberg, SMBC Nikko

Term premium

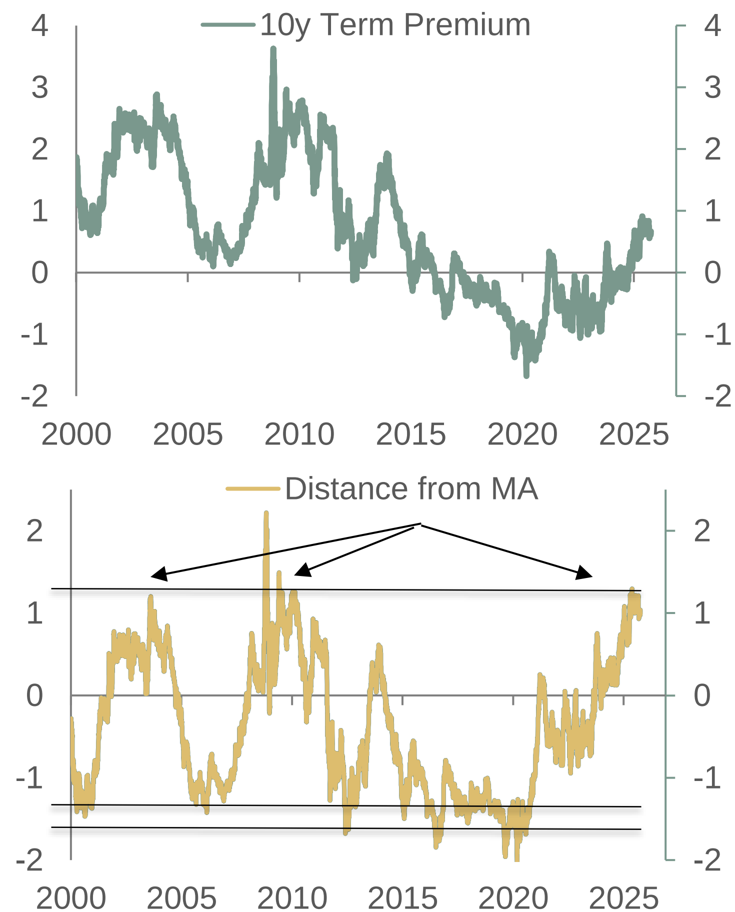


Sources: Federal Reserve, SMBC Nikko

Term premium in consolidation phase ?

- History shows that term premium finds resistance after a rise of 115-140 bps rise from the 10y moving average (MA). Currently term premium at 67 bps vs. 10y average at -37 bps.
- However, unless the fiscal situation improves, after a period of consolidation, term premium may rise again.

Estimated term-premium and its distance from the 10y Moving Average (%)

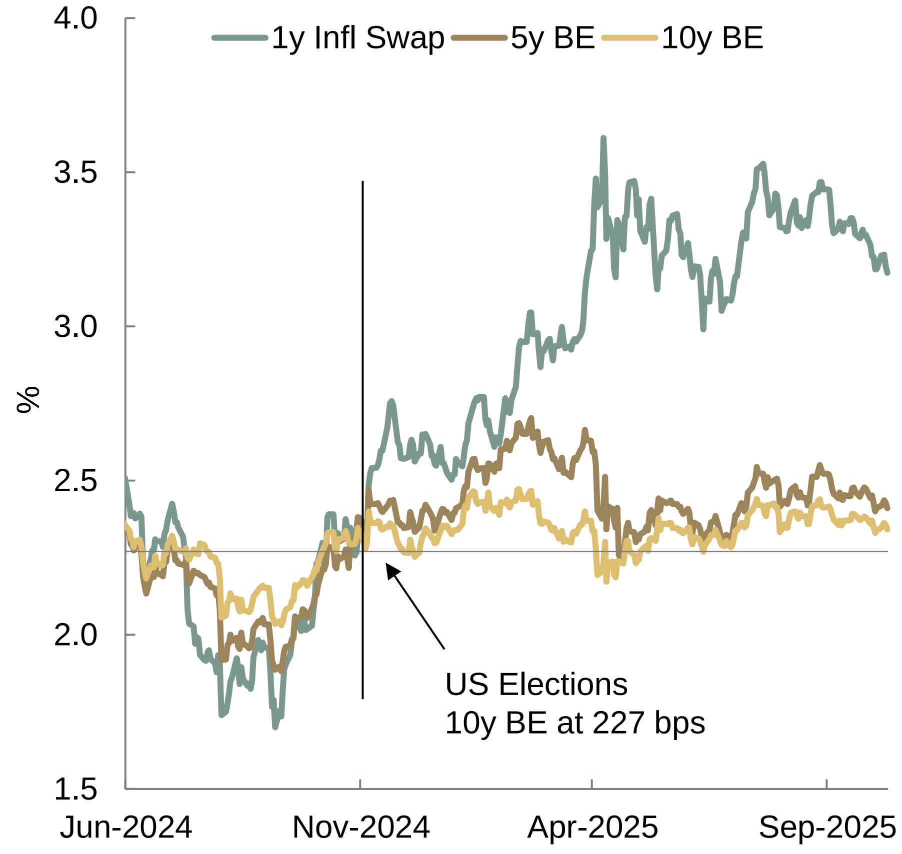


Sources: Federal Reserve, Bloomberg, SMBC

Tariff inflation: Muted impact further out the inflation BE curve

- 1y Inflation Swaps are 115 bps higher since the end of September and 85 bps since the election
  - But, 10y TIPS breakevens are only slightly higher than their election day levels (234 bps as of Oct 10)

Inflation breakevens (%)

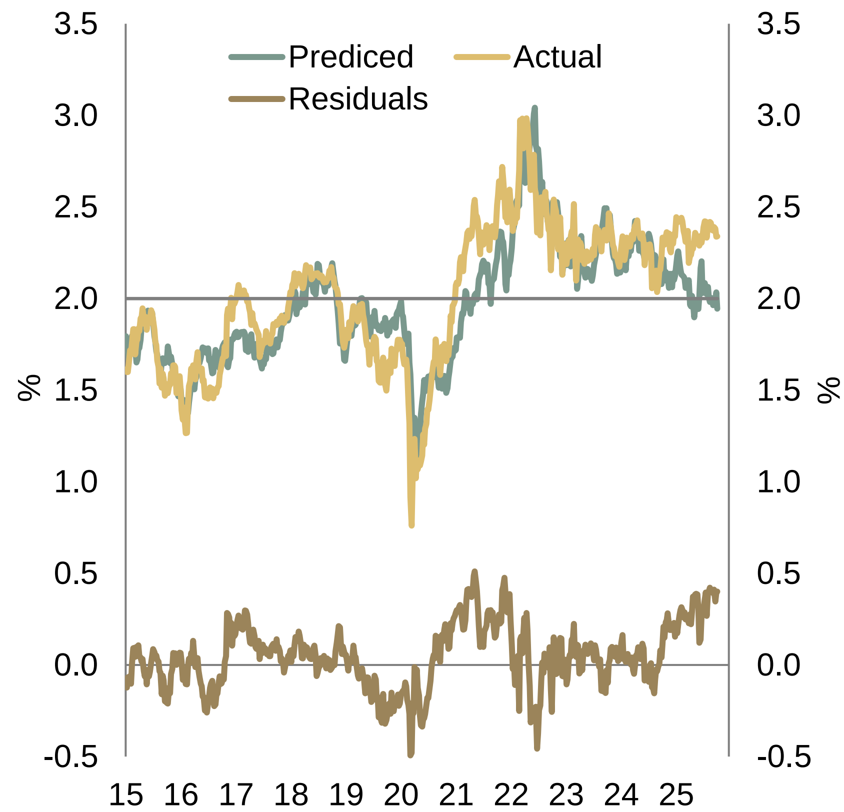


Sources: US Treasury, Bloomberg, SMBC

Inflation Breakeven premium is near 2021 level

- 10y Inflation breakevens are 40 bps cheaper than our model
  - Likely reflecting some concerns about central bank independence

10y inflation breakevens (%)



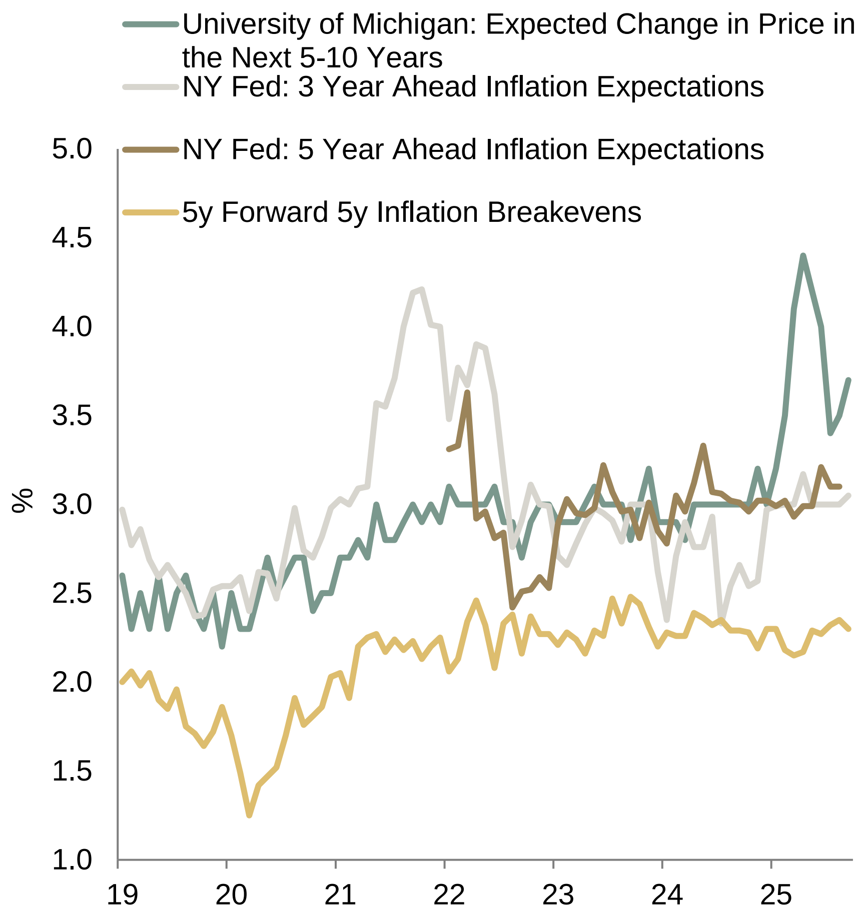
Sources: US Treasury, Bloomberg, SMBC

SMBC

Long-term inflation expectations: Mixed signals

- Uncertainty about the persistence of inflation pressures remains.
- The jump in University of Michigan long-term inflation expectations has not been reflected in other surveys
  - Which appear to be holding steady

Long-term inflation expectations (%)

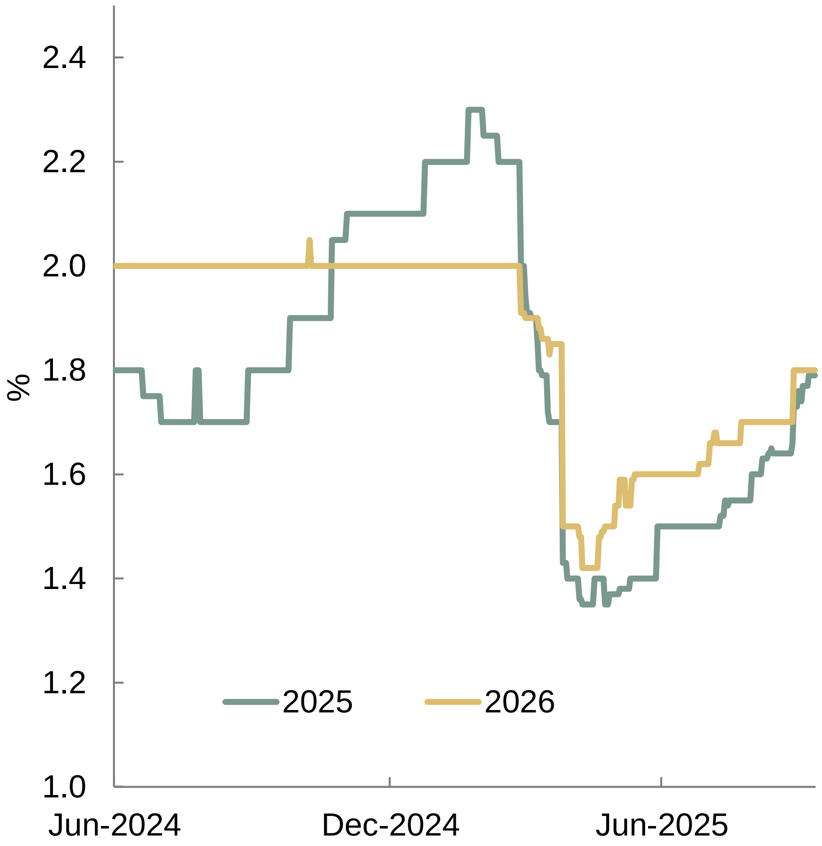


Sources: Federal Reserve, NY Fed, University of Michigan, Bloomberg, SMBC

Policy uncertainty is reflected in the growth outlook

- Growth expectations were revised down after Liberation Day and since then have been inching higher.

Consensus GDP estimates (%)



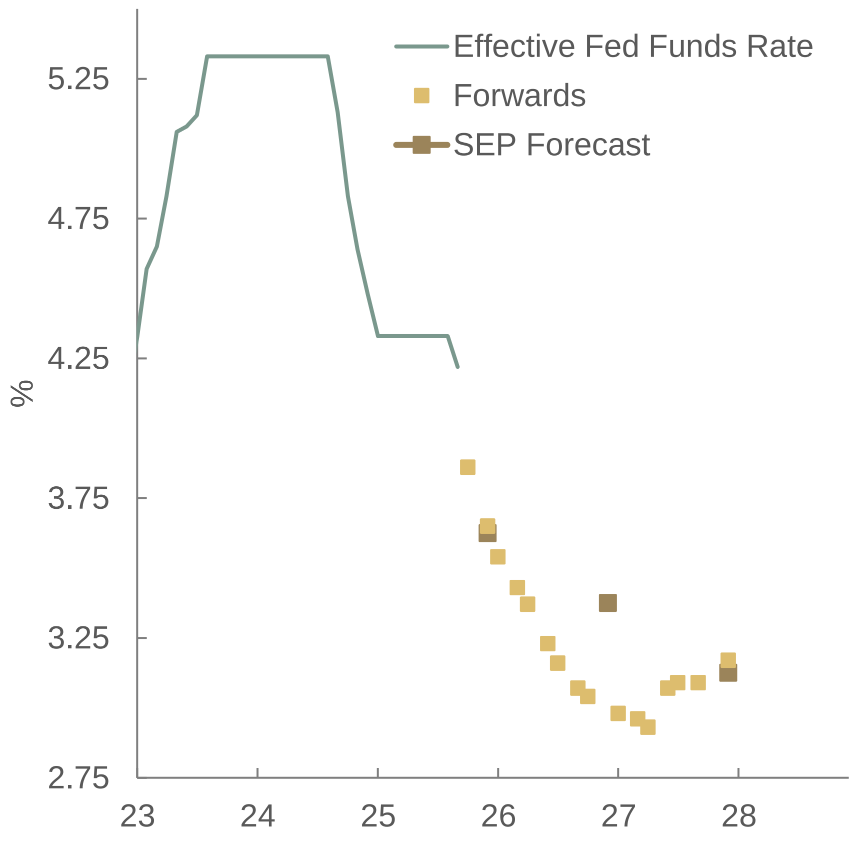
Sources: Bloomberg, SMBC

SMBC

Fed funds path

- Investors expect policy rates to be taken slightly below neutral (est. 3%) following the recent deterioration in the employment situation

Projected fed funds path (%)



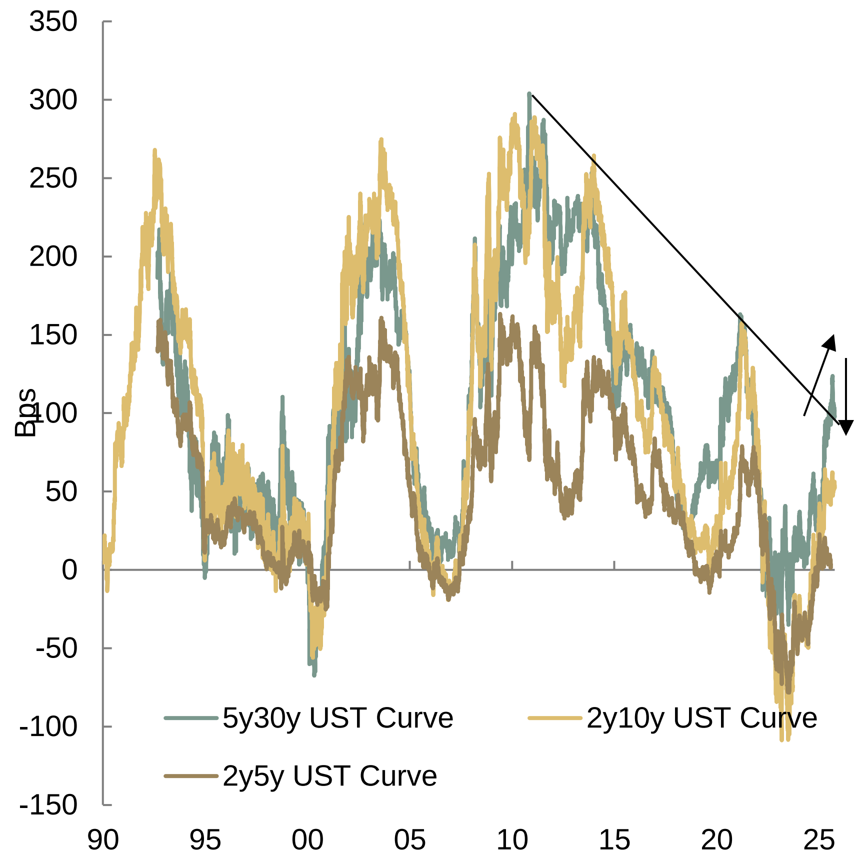
Sources: Federal Reserve, Bloomberg, SMBC

5s30s curve at a level

- Medium term case for a steeper curve remains with Fed in easing mode and fiscal worries globally

- Yet, in the near term, the 5s30s curve remains near the key 100 bps level, where a clear breakout or a breakdown would determine the trend for the next 2-3 months.

Curve spreads (bp)



Sources: US Treasury, Bloomberg, SMBC

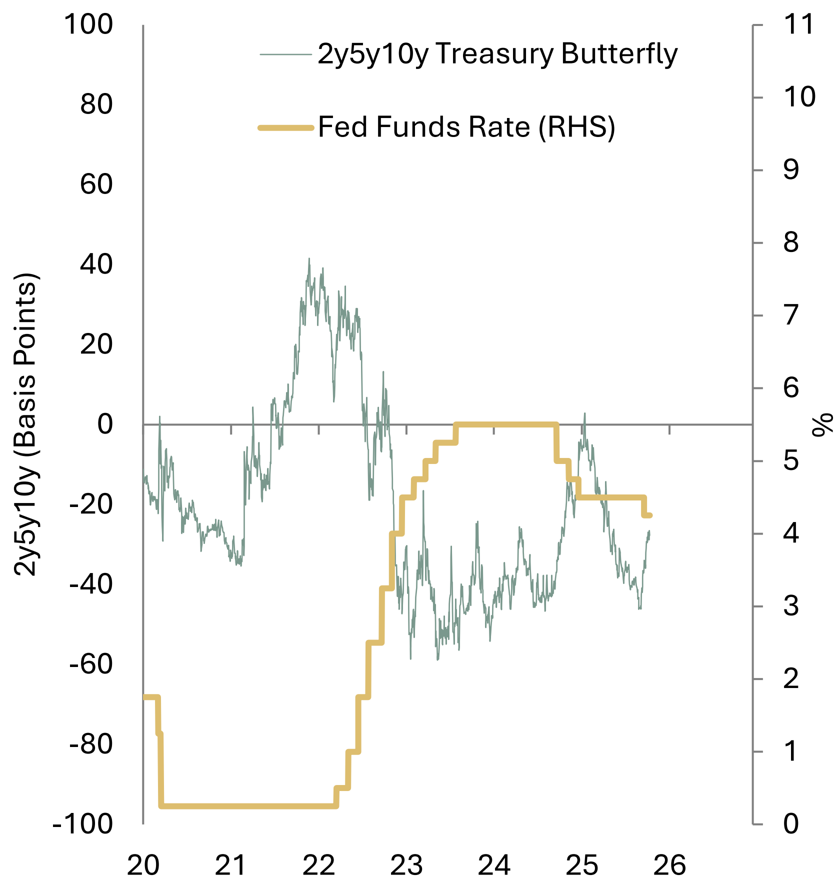
5y has cheapened against 2y and 10y but more room to go

- 5y had richened from January to September 2025 as the 2s5s flattened (cuts being pushed out) and the 5s10s curve steepened (term premium being injected in the long end)

- 5s has richened as investors that were hiding in the 5y-7y part of the curve (going underweight) into September 2025 are extending to 10y-30y part of the curve, as they turn neutral.

- The cheapening in the 5y has been fast and some consolidation would be welcome but there is more room for cheapening of the 5y.

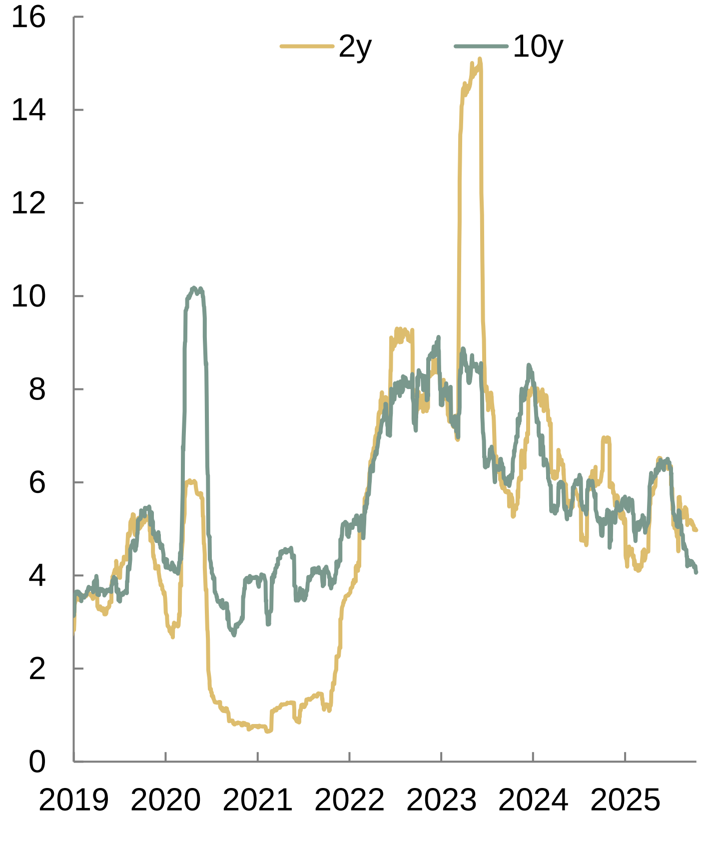
2y5y10y UST Fly (bps) vs. Fed Funds (%)



Sources: US Treasury, Bloomberg, SMBC

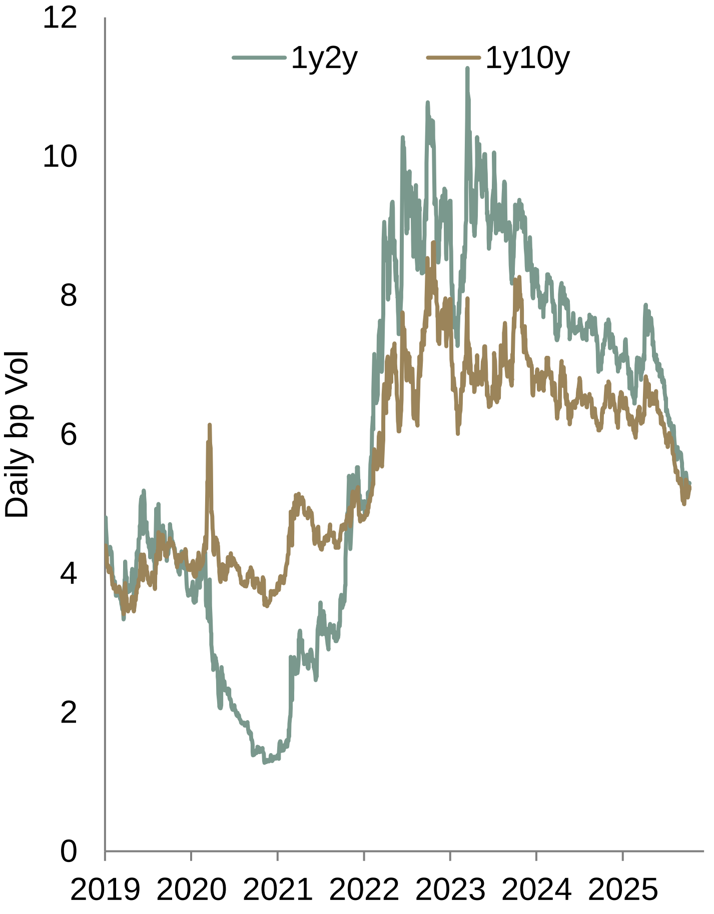
Time to fade the multi-year lows in vol ?

Realized vol (daily bp)



Sources: Bloomberg, SMBC Nikko

Implied vol (daily bp vol)



Sources: Bloomberg, SMBC Nikko

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