

# Daiwa's View

## Nervous reaction to bill on additional economic measures

- US yields remain range-bound

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Daiwa Securities Co. Ltd.

### US yields remain range-bound

### Nervous reaction to bill on additional economic measures

The US market has been affected by expectations for an early agreement on an additional pandemic relief bill. Currently, the market is in a crucial stage, in which fiscal support influences not only economic projections but also corporate credit via debt dynamics. Therefore, it is no wonder that developments with the bill are serving as a major catalyst. The movements of the US 10-year yield over the past two days are 0.645% → 0.715% → 0.675%. The yield reached its intraday high at the same time as the DJIA hit its highest level of 28,000 at one point.

While checking prices over the past two days, we have again recognized the robustness of US yields. For 2H 2020, [we expect the 10-year US yield to range from 0.50% to 0.80% \(core range 0.60-0.75%\)](#). When forecasting the range, we focused on the components of the 10-year yield of “the 5-year yield” and “the 5-year forward 5-year yield.” In addition, we put importance on the two points of (1) stabilization of the 5-year yield under the new forward guidance and (2) constraint in the 5-year forward 5-year yield, caused by Fed Chair Jerome Powell’s remark that “we will keep policy accommodative until we actually have a moderate overshoot of inflation for some time.”

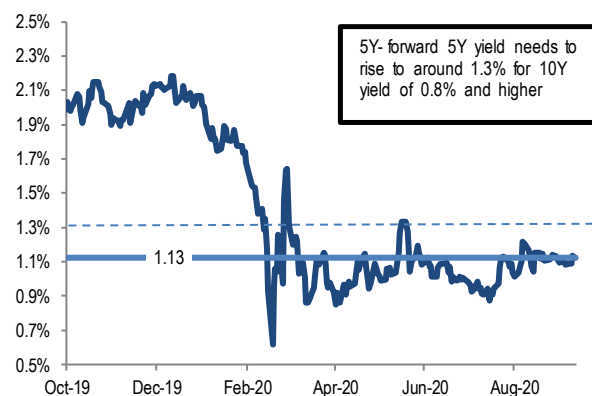
From this perspective, we confirm yesterday’s prices. When the 10-year yield hit its intraday high (0.715%), the 5-year yield and the 5-year forward 5-year yield stood at around 0.30% (+3bp d/d) and 1.13% (+5bp), respectively, both of which were largely within appropriate ranges. Under the assumption that the 5-year yield will be stable, an upside breakout of the 10-year yield necessitates a rise in the 5-year forward 5-year yield to 1.3% and higher. The hurdle is high. Practically, an upside breakout would require (1) the appearance of a rate-hike projection at an early stage, (2) revision to Mr. Powell’s remarks, and (3) expansion of fiscal premium.

### Yield Simulation

(%)	5Y	5Y5Y	10Y
Current level	0.27	1.09	0.68
Intraday high (1 Oct)	0.30	<b>1.13</b>	<b>0.72</b>
Necessary level for 10Y yield of 0.8%	0.30	<b>1.30</b>	<b>0.80</b>

Source: Bloomberg; compiled by Daiwa Securities.

### US 5Y-forward 5Y Yield



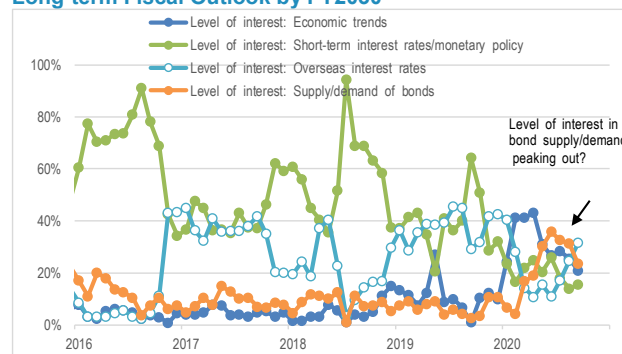
Source: Bloomberg; compiled by Daiwa Securities.

**“Level of interest” in concerns about issuance of additional gov’t bonds peaking out?**

Of course, these partially depend on fiscal premium and the issuance of additional Treasuries. However, the level of interest in the theme of additional Treasury issuance may have weakened compared to that in the initial stage of the COVID-19 pandemic. This is probably caused by weakening consciousness of a “national (public) crisis.” Currently, discussions are tangled between the Republican Party and the Democratic Party due to a failure in working out differences of just around a \$0.5tn gap. This fact is one symbol of such weaker consciousness. Given the fact that they quickly reached a bipartisan agreement on a very large amount of fiscal spending in the middle of this year, we think that the difference in consciousness between now and then is visible.

This change is likely a common phenomenon across developed nations in varying degrees. Therefore, concerns about the issuance of additional JGBs in line with additional economic measures may be peaking out. The *QUICK Monthly Market Survey <Bonds>* conducted in late September showed a decline in “the level of interest” in supply/demand of bonds, which had grown since the beginning of FY20. Of course, the level is still high. However, it is highly likely that the level of concern about the issuance of additional JGBs, which is becoming a hot issue mainly for 40-year JGBs, will not heighten to the same degree as at the time of the second supplementary budget.

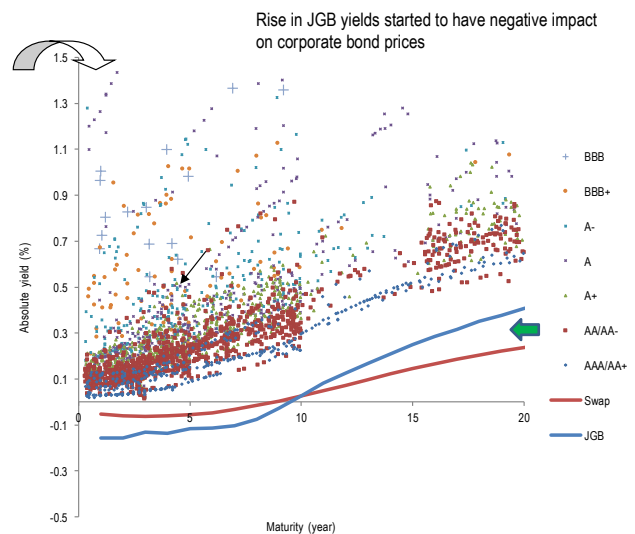
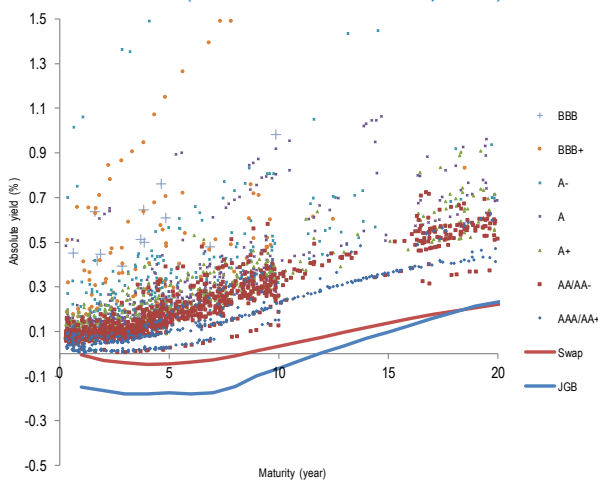
**Long-term Fiscal Outlook by FY2030**



Source: *QUICK Monthly Market Survey <Bonds>*; compiled by Daiwa Securities.

In addition, the sharpest rise in JGB yields for the year has made JGBs attractive vs. other assets. For example, more corporate bond market participants are pointing out that sales of 10-year bonds have been sluggish. One factor behind this is the outflow of funds to the JGB market in line with higher yields. Intuitively, few people would probably think that 10-year corporate bonds at the 0.2% level are attractive when 20-year JGBs are yielding 0.4% (charts below). Of course, this case is just the tip of the iceberg, and inflow of funds from various assets are supposed in a practical sense. Increased premium on the issuance of additional JGBs may be ready for harvest.

**Yields of Yen Bonds (end-Jan 2020 vs. end-Sep 2020)**



Source: *Reference Statistical Prices [Yields] for OTC Bond Transactions*; compiled by Daiwa Securities.

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- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
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### **Other Disclosures Concerning Individual Issues:**

1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.

As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITs: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

**When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.**

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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