

Daiwa's View

Instruction to stop talks on additional economic measures

- Heavier relative burden on monetary policy
- Additional easing likely to spread globally at end of this year

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Daiwa Securities Co. Ltd.

Heavier relative burden on monetary policy

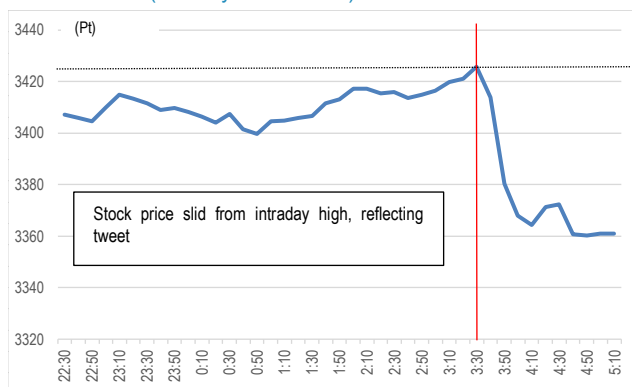
Instruction to stop talks on additional economic measures

Yesterday, US stocks ended lower and yields declined. The biggest factor was US President Donald Trump's tweet—"I have instructed my representatives to stop negotiating until after the election" regarding pandemic relief measures. This virtually dashed the hope for an early passage of additional economic measures, which had grown after Mr. Trump's hospitalization. Early formulation of additional economic measures is a precondition of a V-shaped recovery envisaged by public and private, and therefore a downward revision to Oct-Dec economic projections is almost certain.

Reflecting the aforementioned tweet, stock prices sharply fell from the intraday high. The long-term yield also slid sharply, but the level immediately before the tweet was not its intraday high. We note the fact that the yield edged down (0.79% → 0.77%) after hitting its intraday high shortly before the tweet, and then plunged to the 0.73% level reflecting the news. Although this was a slight difference during intraday trading, we can point out the aspect that the market was aware of the limited potential for further upside of the US long-term yield as it was approaching [the threshold of 0.8%](#).

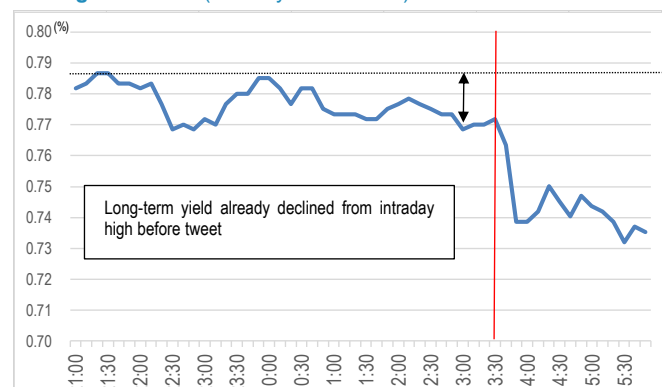
Yesterday, Fed chair Jerome Powell made a speech at the National Association for Business Economics. As before, he called for the early formulation of additional economic measures in strong language, warning that "too little support would lead to a weak recovery." It seems cynical that President Trump suspended talks on such measures immediately after Mr. Powell's warning. Now is the phase when the fiscal/monetary policy mix plays an important role. The less the fiscal support, the heavier the relative burden of monetary policy.

S&P 500 Index (intraday movements)



Source: Bloomberg; compiled by Daiwa Securities.

US Long-term Yield (intraday movements)



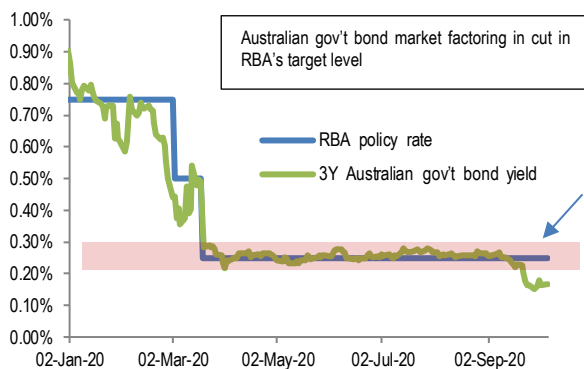
Source: Bloomberg; compiled by Daiwa Securities.

Additional easing likely to spread globally at end of this year

Yesterday, there was another important event in Australia. The Reserve Bank of Australia (RBA) implied that additional easing is imminent.

As we pointed out in our preview report, speculation on additional easing had mounted¹ triggered by the 22 September speech by deputy chair Guy Debelle. A change in the statement reconfirmed the RBA's plan for additional easing at the November board meeting. The main tool of the additional easing is expected to be an increase in purchases of intermediate/long-term bonds. However, as there is a possibility of a slight cut in interest rates, a rate cut has been factored in further in the Australian government bond market.

Australian Policy Rate, Yield of 3Y Gov't Bonds



Source: Bloomberg; compiled by Daiwa Securities.

Comparison of RBA Board Meeting's Statement (final paragraph, from Sep to Oct)

[September]

The Board continues to consider how further monetary measures could support the recovery.

[October]

The Board continues to consider how additional monetary easing could support jobs as the economy opens up further.

Source: RBA; compiled by Daiwa Securities.

The Fed is scheduled to shift monetary easing to “open-ended” easing in Nov-Dec 2020. In addition, the probability of the ECB embarking on additional easing is also increasing, reflecting a change in the recent market environment. Due to the participation of the RBA in this trend, additional easing is likely to spread globally at the end of this year.

Additional easing is already a done deal. However, its impact on the bond market would differ greatly whether it will be coordinated with fiscal policy or be implemented amid the single-engine flight—i.e., the lack of fiscal policy. This also warrants attention similar to the developments of the US presidential election.

¹ Australian 3-year yield declined by around 10bp, diverging from target level of 0.25%.

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- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

Assumptions, Significance and Limitations of Credit Ratings

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Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.com/site/japan>)

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Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

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).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

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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

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association