

# Daiwa's View

## 10-year US yield approaching 0.9%

- The term premium has already exceeded the level during the shock caused by New York Fed operations in Jun

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Daiwa Securities Co. Ltd.

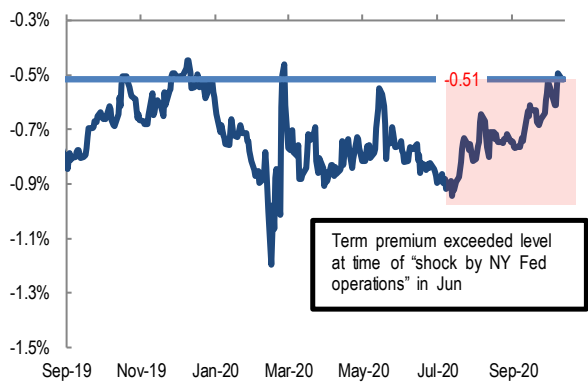
**The term premium has already exceeded the level during the shock caused by New York Fed operations in Jun**

### 10-year US yield approaching 0.9%

To begin with, we will confirm events in the Asian market. At its November Board meeting, the Reserve Bank of Australia (RBA) decided to conduct additional easing. It announced that it would purchase A\$100bn (around \$70.4bn) in government bonds with maturities of around five to ten years over the next six months, in addition to a reduction in the official cash rate as well as a cut in the upper end of the target for the 3-year Australian government bond yield from 0.25% to around 0.1%. Reflecting this decision, the yields of 3-year and 10-year Australian government bonds declined by 2bp (0.11→0.09%) and 5bp (0.82→0.77%), respectively, leading to bull flattening. In terms of both its details as well as its timing, the decision can be seen as an excellent move encouraging the entire Australian yield curve to remain low and stable at a time when US yields become volatile ahead of the US presidential election.

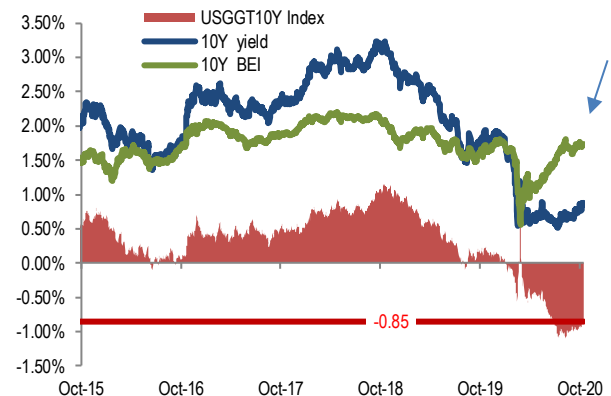
Yesterday, the US long-term yield rose and tested 0.90% at one point. But it eventually closed without topping 0.90% in the New York market. The 5-year US yield also saw an uptrend, exceeding 0.40% at one point. However, it then moved at around 0.395%. The current focus of attention is the supply/demand factor—i.e., the term premium. The 10-year US term premium has risen to -0.51%, which is already above the level at the time of the shock caused by New York Fed operations in June. Since the current rise in yields is not accompanied by a rise in inflation expectations, the real interest rate has been edging up, leading to a slight decline in the degree of monetary accommodation. The term premium-led upward pressure on yields may accelerate, reflecting the result of the US presidential election. If so, we think Fed chair Jerome Powell will recognize this at tomorrow's post-FOMC press conference. We would like to monitor the situation carefully, without jumping to conclusions.

Term Premium on 10Y US Treasuries



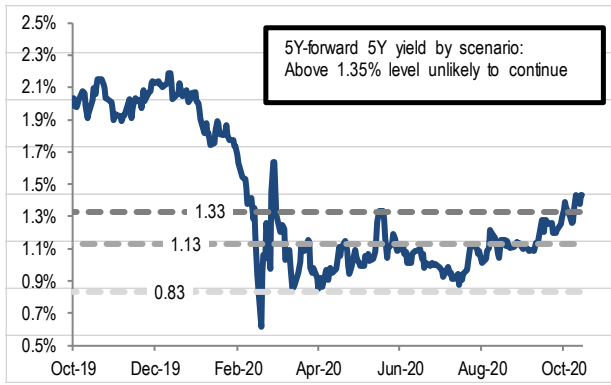
Source: Bloomberg; compiled by Daiwa Securities.

US 10Y Yield, Inflation Expectations (BEI), Real Interest Rate



Source: Bloomberg; compiled by Daiwa Securities.

**5Y-forward 5Y US Yield**



Source: Bloomberg; compiled by Daiwa Securities.

**Simulation of 10Y US Yield**

UST (%)	5Y	5Y5Y	10Y
Current level	0.40	1.43	0.89
Up ①	0.40	1.75	<u>1.06</u>
Up ②	0.50	2.00	<u>1.23</u>
Down ①	0.40	1.35	<u>0.86</u>
Down ②	0.30	1.15	<u>0.71</u>

Source: Bloomberg; compiled by Daiwa Securities.

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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.
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### ■ Credit Rating Agencies

#### [Standard & Poor's]

##### The Name of the Credit Rating Agencies group, etc

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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)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

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Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

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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](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.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- 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