

## Daiwa's View

## Continuing flattening

## ➤ Unwinding of excessive movements?

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Daiwa Securities Co. Ltd.

## Unwinding of excessive movements?

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## ◆ Unwinding of excessive movements?

US yields flattened substantially yesterday as well. Thus far, we have seen many cases of “bear flattening,” in which the 30-year yield rose relatively late amid the rise in the 5-year yield. However, yesterday we saw “bull flattening,” in which the 30-year yield slid by around 8bp amid the 5bp drop in the 5-year yield.

Based on far-fetched reasons, we may be able to point out the fact that (1) the auction of 3-year Treasuries went smoothly and (2) concentrated purchases are continuing in maturities close to the longest one (20-year off-the-run) in purchase operations by the New York Fed (= virtual extension of weighted avg. maturity). However, the former does not serve as a reason behind the flattening (where did reflation trade go?), while the latter is not a new move that started yesterday.

Rather, we think that yesterday's price movements were “pain trade,” in which laggards in unwinding short positions (steepener) were forced to do so,—i.e., a “reaction to excessive movements.” Against the longer-run rate (2.5%), a benchmark in judging the level of superlong yields, the 10-year forward 10-year yield and the 20-year forward 10-year yield also rose to around 3% and 2.7%, respectively (left-hand chart below).

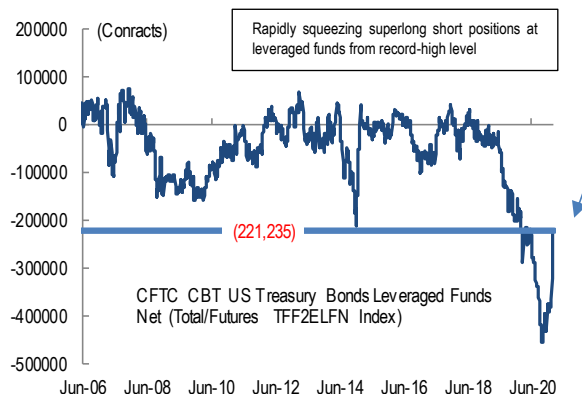
The trend direction—a recovery of the macro economy and an earlier exit strategy by the Fed—is unlikely to change. However, the current levels lead to the question of “where should we head to going forward?” In particular, the level of the 20-year yield (10-year forward 10-year yield) is quite excessive (this cheapness probably reason behind concentration in purchase operations by New York Fed). According to the CFTC data, rapid unwinding has been confirmed regarding superlong short positions by speculative investors (right-hand chart below).

US 10Y-forward Yields, Longer-run Rate



Source: Bloomberg; compiled by Daiwa Securities.

CFTC US T-Bonds Leveraged Funds Net Total/Futures



Source: Bloomberg; compiled by Daiwa Securities.

**US 10Y-forward Yields, Longer-run Rate (%)**

UST	10y	10y10y	20y	20y10y	30y
9-Mar-21	1.54	<u>2.93</u>	2.15	<u>2.57</u>	2.25

Source: Bloomberg; compiled by Daiwa Securities.

**Results of Purchase Operations by New York Fed (9 Mar)**

CUSIP	Security Description	Par Amount Accepted(\$)
912810SQ2	T 01.125 08/15/40	3,100,000,000
912810ST6	T 01.375 11/15/40	501,000,000

\*Maturity/Call Date Range: Monday, May 15, 2028 - Friday, February 15, 2041

Source: New York Fed; compiled by Daiwa Securities.

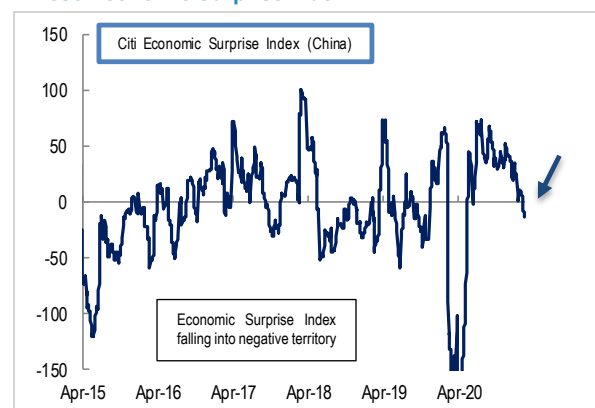
**◆ China**

We have seen worrisome moves also in China. Yesterday, there was the scene that Chinese stocks rapidly narrowed declines amid a media report *Chinese Stocks Erase Plunge After State Funds Said to Intervene*. As Chinese authorities are very cautious about a bubble, they have made several moves to warn against it. If yesterday's report is true, this would mean that their stance has turned from a suppressive one to supporting buying. The authorities may have wanted to avoid a plunge during the period when the National People's Congress is held, or the decline in stock prices may have been excessive beyond the correction level. Although it is difficult to discern the real intention, this news increased at least expectations for the Chinese authorities temporarily calming down moves to warn against a bubble.

In addition, the Chinese Economic Surprise Index is losing momentum, falling into negative territory. Sluggish stock prices may be affected by the economic slowdown (right-hand chart below). Since the beginning of this year, concerns about a bubble have put global policymakers in shackles (or they have accepted higher yields and warned against bubble). However, if we are seeing a slight slowdown (correction in speed) of the Chinese economy, one of the two largest economies, we may start to see a correction in the pace of rising global yields.

**Chinese Stocks (CSI300)**


Source: Bloomberg; compiled by Daiwa Securities.

**Chinese Economic Surprise Index**


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]

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##### 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 may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

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#### [Moody'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: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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##### Assumptions, Significance and Limitations of Credit Ratings

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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

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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

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