Daiwa's View

Sharp slide in yields after release of CPI data

- Bull flattening due to decline led by forward yields

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In yesterday's US Treasury bond market, yields fell significantly after the announcement of August CPI data. However, it would be insufficient to think that weak CPI readings have eased concerns about inflation. The essence of yesterday's movements is hidden in the fact that we didn't see things 'develop as usual' with lower yields resulting in higher stock prices.

If the August CPI data implied the waning of excessive concerns about inflation, stock prices would have risen alongside the steepening of the yield curve. However, yesterday, we saw exactly the opposite movements. Compared to the closing levels at the end of last week (10 Sep), the 5-year yield declined by 4bp, while far-forward yields, such as the 5-year forward 5-year yield, fell by 10bp.

US Stock Index, Treasury Yields

	S&P 500	5Y	5Y OIS	5Y5Y	5Y5Y OIS	10Y	10Y OIS	10Y20Y	30Y
	(pt)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
10-Sep	4,459	0.82	0.73	1.92	1.61	1.34	1.15	2.16	1.93
13-Sep	4,469	0.80	0.71	1.90	1.57	1.33	1.13	2.11	1.90
14-Sep	4,439	0.78	0.69	1.82	1.49	1.28	1.08	2.06	1.85
Chg (from 10 Sep to 14 Sep)	-20	**-0.04**	-0.04	**-0.10**	-0.12	-0.06	-0.07	**-0.10**	-0.08

Source: Bloomberg; compiled by Daiwa Securities.

We can point out that the following seem to be likely factors behind these price movements: (1) the true implications of the CPI statistics and (2) the consensus trade (rate short). Regarding the CPI data, given the contribution from the impact of the Delta variant, we do not think that one month's data is enough to conclude that 'transitory' pressure will continue to weaken from now on. In other words, the CPI data is not something that can lead us to expect a dovish shift by the Fed.

We think that positions were also considerably crowded. There have been news reports that all respondents in a recent survey by a US investment bank expected higher yields. The CFTC has also confirmed an accumulation of speculative short positions since August. However, as these kinds of surveys and CFTC positions indicate a 'bygone future,' they do not necessarily tell the future.

If anything, in the process of crowded positions unwinding, we tend to see price movements that are the opposite of those in surveys. In that sense, things 'developed as usual,' in that short positions were accumulated due to deep-rooted reflation expectations, and those positions were unwound due to the "buy the fact" dictum.

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