

# Daiwa's View

## US yield declined to 2.8% level

- Downside breakout from an important technical point

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Daiwa Securities Co. Ltd.

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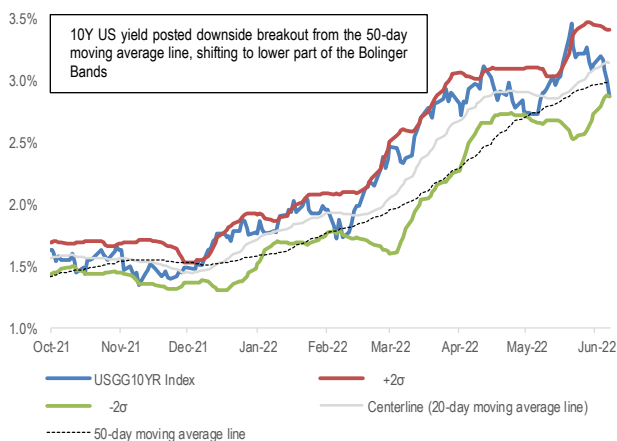
The US long-term yield declined to the 2.8% level. [Since the announcement of the CPI reading for the German state of North Rhine Westphalia, we have continued to see a tendency for sharp reactions to downturns in indicators.](#) In particular, the ISM index, which is some of the most important data in the US, was weaker than estimates this time.

Accordingly, the US long-term yield also posted a substantial downside breakout from an important technical point. The 10-year US yield not only showed a downside breakout from the 20-day moving average line (3.15%), but also clearly broke the 50-day moving average line (2.99%) for the first time since the beginning of FY22. Of course, the above-mentioned phenomena might be taken lightly as 'just chart data.' However, these price movements reflect a new fundamental factor in the downturn in the ISM Index amid growing concerns about a recession in the US. We, therefore, think that this cannot be taken lightly.

Until now, sugarcoating by Fed officials had supported a good economic outlook. We also saw the development of a resurgence of concerns about inflation. However, unlike in past cases, in this case, the 10-year US breakeven inflation rate has not risen. Such (exhausted) happenings appear to have become a thing of the past with the Fed's new "unconditional" stance, to which the Fed shifted last month in order to rein in inflation.

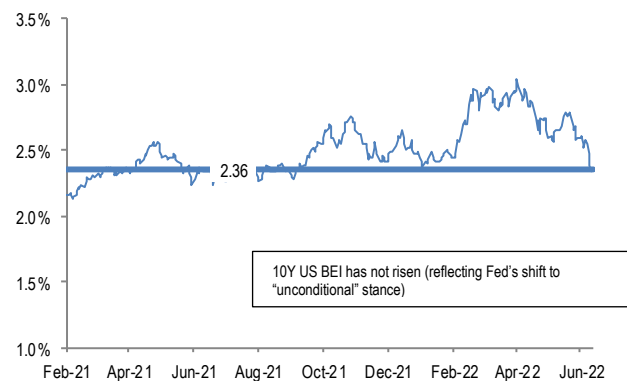
It can be said that these developments are consistent with our [Daiwa's View report \(US rates outlook for 2022 \[revised\]\)](#), in which we forecast peaking of the 10-year US yield, seeing the wording "unconditional" as a game changer. Due to last week's plunge, the yield suddenly touched the  $-2\sigma$  line (2.88%) in the Bolinger Bands, and, therefore, a certain degree of rebound is expected. However, in light of the aforementioned fundamentals, it is highly likely that the US long-term yield has shifted to the lower part of the band.

### 10Y US Yield



Source: Bloomberg; compiled by Daiwa Securities.

### 10Y US Inflation Expectations (BEI)



Source: Bloomberg; compiled by Daiwa Securities.

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