

Daiwa's View

Decline in US yield to the 2.5% level

- 5-year-forward 5Y yield has almost completed the neutral return process

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Daiwa Securities Co. Ltd.

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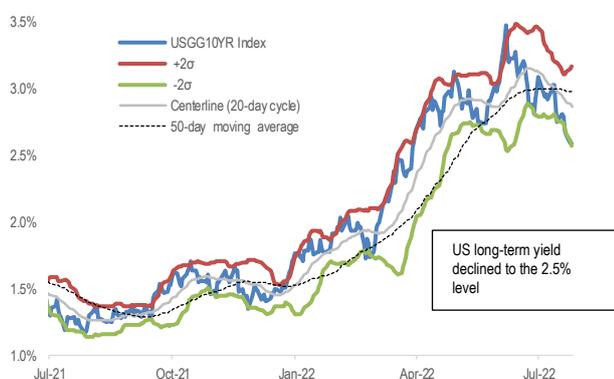
◆ Plunge in WTI

Yesterday, the 10-year US yield declined to the 2.5% level. Rapid appreciation of the yen has continued, with the USD/JPY rate reaching the Y131 level. The main culprit for this substantial drop is likely the sudden decline in the WTI crude oil futures price (which is also influenced by softening demand in the global economy implied by the ISM index), although there are other factors, such as the economic slowdown indicated by the ISM manufacturing index and geopolitical tensions caused by speculation about a visit to Taiwan by US House Speaker Nancy Pelosi.

Yesterday's WTI futures price fell by \$5 to \$93.6, the lowest level since 25 February, or in about five months, returning to the level before the Russian invasion of Ukraine. The WTI futures price plays a major role in defining the 30-year US yield. Yesterday's drop in the WTI price has the effect of lowering the 30-year yield by 7bp. And, its decline from the peak (\$124.8) has the effect of lowering the 30-year yield by 40-50bp (beta = 1.5bp, refer to [our past report](#) for details). Prices of various other commodities, such as copper, had already fallen sharply to their lowest levels since last year. However, the WTI futures price had remained high thus far due to war-related factors. If the WTI price remains at the level before the war in Ukraine, the impact on long-term forward yields will be very great.

Yesterday, the 5-year-forward 5Y yield declined to 2.58%, almost completing the neutral return process to the longer-run level. Soaring commodity prices and passing such higher prices onto "goods" have been widely seen as major factors in inflation during this global yield uptrend. Of course, we should not draw premature conclusions regarding commodity price trends, but, if the WTI price remains low (or stable), forward yields, which have factored in the neutral return process, are unlikely to rise substantially (although a slight rise is expected in line with rate hikes).

10Y US Yield



Source: Bloomberg; compiled by Daiwa Securities.

5Y5Y Yield, Longer-run Projections



Source: Bloomberg; compiled by Daiwa Securities.

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