Daiwa Securities

Daiwa's View

Dec JOLTS report / Quarterly Refunding stabilized term premium

- US yields are continuing to face downward pressure on term premium in line with downward revisions to borrowing estimates in Quarterly Refunding

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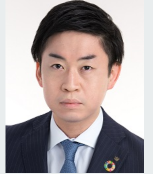

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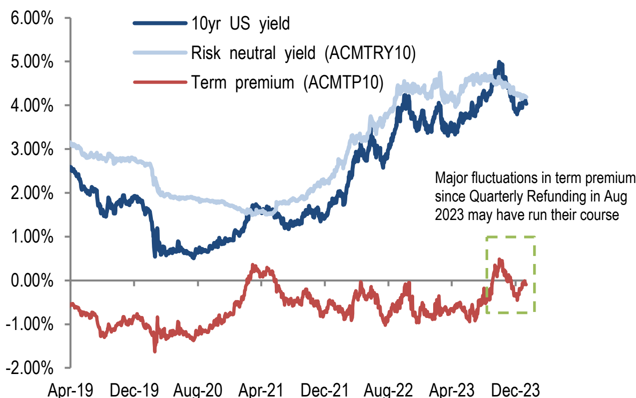
Yesterday, the US long-term yield continued to decline, falling from 4.07% to 4.03%. The yield jumped temporarily to 4.10% due to a news flash stating that the much-watched JOLTS report had put the number of job openings at 9.026mn, which was higher than previous estimates. However, the yield shifted downwards as the market once again focused on the decline in the number of "quits" (voluntary unemployment) to 3.4mn, the lowest level in about three years (meaning that people had reduced confidence about receiving higher wages through a job change) and on how the increase in job offerings was concentrated in certain industries, such as professional and business services.

Rather than focusing on the JOLTS report, it might be better to consider the fact that yesterday's US Treasury market continued to face the aftereffects of the decline in the term premium, which was caused by a downward revision to the necessary borrowing estimates in the Quarterly Refunding announced by the Treasury Borrowing Advisory Committee (TBAC), given the fact that the yield curve continued to flatten for two days in a row. The downward revision to the borrowing estimates in the Jan-Mar 2024 quarter from $815bn to $760bn, which was announced unexpectedly by the TBAC on 29 January, surprised some companies, such as JP Morgan, which had anticipated re-acceleration to $855bn (deterioration in supply and demand). Due to this good news in terms of supply and demand conditions, the 10-year US term premium declined from -0.03 to -0.10%. The issuance of 3-year notes, 10-year notes, and 30-year bonds, which serve as benchmarks for issuance, are expected to be revised downwards in February from estimates in October 2023, with reductions skewed towards the long-term/superlong sectors, with issuance of 3-year notes unchanged at $54bn, that of 10-year notes reduced from $44bn to $42bn, and that of 30-year bonds reduced from $27bn to $25bn. This also appears to have contributed to the curve's trend towards flattening.

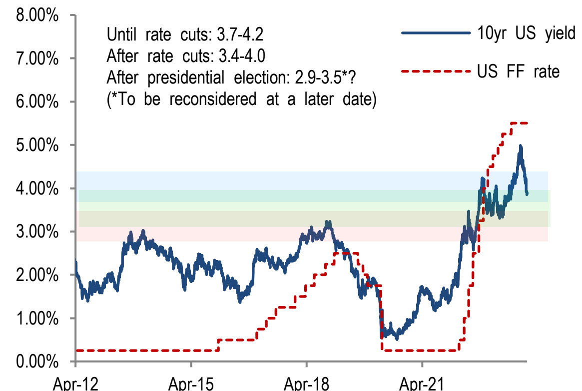
That said, the Treasury issuance remains very large, and the term premium is in negative territory. Therefore, it would be difficult to expect the term premium to continue declining in this one-sided way. Assuming the major fluctuations in the term premium since the Quarterly Refunding in August 2023 have generally run their course due to the latest Quarterly Refunding, the risk neutral yield—i.e., pure expectations with regard to the federal funds rate path—is likely to be the major factor affecting changes in the yield from now on.

10yr US Yield, Term Premium



Source: Bloomberg; compiled by Daiwa.

Forecasts for 10yr US Yield



Source: Bloomberg; compiled by Daiwa.

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