Global Rates Weekly

Wait watchers

09 May 2025

Rates Research
Global

The View: Patience is a virtue

US data is the main event risk next week. Both CPI and retail sales may fail to give a clear read of the impact of tariffs adding to the Fed's argument for waiting. We are short the US and AU front end, long the UK front end and long EU rates outright.

— R. Preusser

Rates: Fed in no hurry = pay near-dated FOMCs

US: Stable data + Fed in no rush = pay July FOMC OIS. We like: short 30Y spreads, belly dip buying, long July SOFR/FF, steeper inflation curve, and fwd vol expressions.

EU: The periphery has been resilient to rise in Bund yields in March and risk-off in April. We find it trades close to fair currently. We favour SP and enter a PCA fly vs GE & IT.

UK: May MPC communication was more hawkish than hoped for, but we hold onto our core views for now, acknowledging that the risk distribution has shifted.

AU: We recommend paying July RBA OIS. We expect a hawkish cut in May and see July pricing converging with end-March levels after the May RBA meeting.

— M. Cabana, M. Swiber, B. Braizinha, R. Axel, S. Salim, A. Stengeryte, M. Capleton, O. Levingston

Front end: US repo sensitivity: higher than expected

US: UST repo markets were more sensitive than expected at end April, reflecting UST settlements & foreign bank de-leveraging

— M. Cabana, K. Craig

Volatility: Fwd vol proxy

US: We favor a fwd vol bias as we: (1) see the potential for rates to consolidate and likelihoods of slowdown & expansion scenarios to normalize further near-term; but (2) continue to see material risks around the outlook medium term. *— B. Braizinha*

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Our medium term views

Exhibit 1: Our medium-term views
Global views

Rationale	
Duration	• US: slight constructive duration bias, trade 4-5% range in 10y and fade extremes • EU: We turned tactically neutral on the very front-end following the significant rally. We expect lower rates (terminal of 1.25 vs market pricing of 1.55), but believe risk-reward for a long position is more balanced near term. For now, we favour a long position in 15y OATs to express our bullish duration bias. • UK: We are broadly neutral Sonia relative to the forwards in the 10y, forecasting Sonia at 4.10% by end-2025 and 4.20% by end-2026. We are constructive Gilts at current levels. • JP: We expect the 10yr JGB yields to rise to 1.5% at end-2025. The BoJ is expected to keep its de facto QT at least until March 2026. • AU: bullish 3-5y sector as prices converge with our expected terminal cash rates/ neutral rate. Risk of overshoot in global equity market sell-off.
Front end	• US: Mar / Sept '25 SOFR/FF curve flattener with (1) 1H '25 TGA drop & funding stability (2) TGA snapback in 2H '25 • EU: Bank demand for excess liquidity may outstrip supply. Wholesale funding cost to rise: Euribor-€str widening, repo to stay cheap vs €str. • UK: Growth risks, a potentially disinflationary tariff impact, and lower energy prices imply risks shifting to faster cuts than our baseline quarterly path. We receive Nov MPC. • JP: We believe the next rate hike will be delivered more likely in April 2026 rather than our prior base case of June 2025. TONA is likely to remain slightly below IOER in 2025. • AU: We recommend Mar '25/ Sep '25 BOB steepeners to position for tighter funding market spreads and uneven global liquidity dynamics in H1/H2 '25
Curve	• US: We favor 5s30s steepeners on potential for pricing of Fed cuts to pressure the belly and supply concerns to pressure the backend • EU: We expect a repricing of the terminal rate lower over time, This should come with slightly more steepening than forwards are pricing in 2H25. We look for a shift in P&I duration demand from the 30y to shorter maturities, leading to additional steepening pressures on 10s30s from mid year. • UK: We maintain our short in 3s5s7s Sonia fly which is directional with 2s10s Sonia curve steepeners. • JP: We expect the JGB curve to remain steep due to a lack of demand and potential for the Japanese government to draw up a supplementary budget. • AU: The 3s10s curve should steepen to around 100bps over the next 12 months.
Inflation	• US: Short 1y inflation on expectation for narrowing tariff upside risk premium and long 2y3y on higher realized inflation medium term • EU: We favor receiving the forward real yield between BTPei 2033 and BTPei 2039, BTPei 2039 iota narrowers, and US-Euro 2y3y inflation spread wideners. • UK: We recommend a UKTi 2032/2036/2047 cash-and-duration neutral barbell to express a forward real curve flattening view. • JP: 10y BEI should increase in 2025, given supports from the BoJ and MoF.
Spreads	• US: Short 30Y spreads on dual disappointment of de-regs and deficit – also bearish long end spreads on market structure and flight to safety events. • EU: we are neutral on periphery spreads. We see risks of a widening near term, but believe medium to long term outlook is more positive, We turn bullish on OATs for the very near term. We expect stable 5-10y swap spreads near term, but see scope for some cheapening in 2-10y spreads in 2H25 and 2026, vs some richening in 30y Buxl spreads. • UK: We expect low coupon UKT 0.125% 2028s to perform relative to UKT 4.375% 2028s on ASW. We are also long 30y Gilts on ASW. • JP: Given (1) the potential for additional BoJ rate hikes and (2) BoJ's QT, JGBs are likely to be cheaper vs matched maturity swaps. • AU: We see wider swap spreads, especially in the front end given elevated funding risks, but flatter swap EFP box given bond supply is typically concentrated around 10y sector.
Vol	• US: Vol supported by uncertainty. '25 targets: 100-115bp 1y10y in 1H & 85-100bp in 2H; 1y1y c.110-120bp, Gamma flat vs intermediates • EU: We expect implied vols to come lower with 1y10y around 70bp range and LHS cheapening vs RHS. Gamma to stay well supported (1y10y vs 1m10y at 0-5bp). • AU: Lower vol with 1y10y c.70bpbp and left side likely to underperform the right side in'25

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Our key forecasts
Global forecasts

% EoP	2023	2024	Q2 25	Q3 25	YE 25	Q1 26	Q2 26	YE 26
Fed Funds	5.25-5.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	3.25-3.50
10-year Treasuries	3.88	4.57	4.35	4.40	4.50	4.55	4.60	4.75
ECB refi rate	4.50	3.15	2.15	1.65	1.40	1.40	1.40	1.65
10y Bunds	2.02	2.36	2.45	2.40	2.50	2.60	2.70	2.75
BoJ	-0.10	0.25	0.50	0.50	0.50	0.50	0.75	1.00
10y JGBs	0.61	1.09	1.35	1.43	1.50	1.53	1.60	1.75
BoE base rate	5.25	4.75	4.25	3.75	3.50	3.50	3.50	3.50
10y Gilts	3.53	4.56	4.45	4.45	4.45	4.45	4.50	4.55
RBA cash rate	4.35	4.35	3.85	3.85	3.60	3.60	3.60	3.60
10y ACGBs	3.96	4.36	4.05	3.90	3.75	3.80	3.85	4.00

Source: BofA Global Research

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What we like right now

Exhibit 3: What we like right now
Global views

AMRS :	Constructive duration, short 30Y spreads, long 1y4y inflation, long fwd vol
EMEA :	We are long 15y OATs and in 2y3y US-EUR inflation spread wideners.
APAC:	Buy 3y bond futures (YM), pay Aug '25 RBA as hedge. Spreads: Mar/ Sep bills OIS basis steepener.

Source: BofA Global Research; For a complete list of our open trades and those closed over the past 12 months, please see below.

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The View

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The week that will be

US data is the main event risk next week with both CPI and retail sales on the docket. The inflation report will be tricky for markets to interpret given that April should show some impact from tariffs, but at the same time, could also show that corporates are trying to smooth the tariff effect, given the significant bounce in net imports in 1Q25. Likewise for retail sales, seasonal factors may limit the signal from a first 2Q read on the consumer.

Our trade recommendations for US rates mimic a long forward vol position: paid July FOMC (we close the paid June FOMC trade), short 1y inflation and 2s10s flatteners, vs conditional bear steepeners, short back-end spreads and long 2y3y breakevens. We also like long forward vols explicitly, via receiver calendar spreads (see Rates US and Vol US).

We remain long duration in Europe in spread product (France), forward real yields and vs the US in breakevens (US-Euro breakeven widener).

In the UK the main focus will be on the labour market report, following yesterday's BoE meeting. We remain long November MPC Sonia, have a steepening bias and are long 30y Gilts on ASW.

The Australian labour market is the last data release prior to the RBA meeting on 20 May. We expect a 25 bp cut at the upcoming meeting, but see risks skewed towards hawkish communication given inflation remains above target and the unemployment rate is below NAIRU. We are paid Jul RBA OIS (see Rates AU).

The week that was

Last week's US labor market report confirmed a picture of the US economy that continues to move along nicely, with encouraging positive income growth also supportive of the consumer.

This message was clearly reflected in the FOMC decision and press conference too (see US Watch 7 May 25). The emphasis on a further increase in uncertainty, as well as rising risks of higher inflation and higher unemployment suggests to us that the hurdle to rate cuts remains higher than priced by the market. With now less than 4 bp priced for June, we switch our paid position to July FOMC OIS.

The BoE cut rates as expected, but the 2-5-2 vote gave the decision a hawkish bias. We remain comfortable with our steepening bias and longs in Nov MPC, sufficiently far forward to see inflation start coming in lower than their forecasts and opening the door to somewhat faster cuts. Reference to QT opens the door to adjustments that should lend further support to the back-end – we stay long 30y Gilts on ASW.

Rates – US

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Ralph Axel
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- Stable data + Fed in no rush = pay July FOMC OIS
- We like: short 30Y spreads, belly dip buying, steeper inflation curve, fwd vol

Fed in no hurry = pay near-dated FOMCs

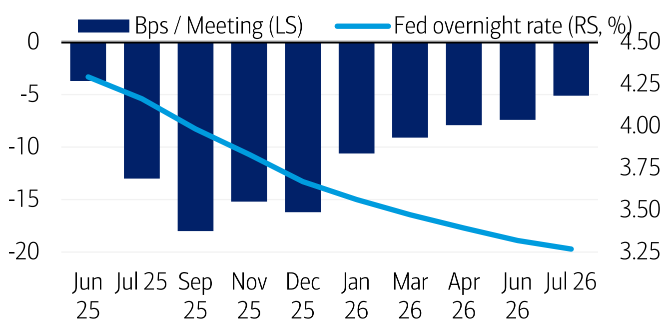
US rates bear flattened in the past week following stronger-than-expected payroll data & Fed that gave no signal of near-term rate cuts (see: May FOMC meeting). The market pared back expectations for very near-term Fed cuts with the June meeting currently priced for 4bps of cuts. The Trump admin announced its first major trade deal with the UK, modestly reducing trade uncertainty. We update rate views, trades, & positions.

Our high-level rate view summary: US rates are likely range bound but too much bad news & Fed cuts near term. Avoid the UST back end with supply / demand mismatch. We recommend paying the US front end (July FOMC OIS, see Alpha), buying dips in the UST curve belly (i.e., a flattening bias between the frontend & belly which we favor expressing through a 2s10s floor ladder), & underweights at the back end (short 30Y asset swap spreads and long 5s30s conditional bear steepeners). We are short 1y inflation and long 2y3y inflation & are biased long vol / forward vol buying on dips.

Duration: The market has priced elevated recession risks and a near-term aggressive cutting cycle. Recent economic data does not justify the extent of near-term Fed cuts. The market has front run relatively stable recent US economic surprises.

At the frontend, we recommend clients fade the extent of bad news by paying near-dated FOMC OIS. We close our paid June FOMC OIS recommendation near target & shift this to be paid July FOMC OIS (see Alpha). Our logic: current data is solid, Fed is in no hurry to cut, & there are only 2 payroll reports before July FOMC. We see a case to be paid in Sept or Dec '25 given faster pace of Fed cuts later in '25 (Exhibit 4). However, there is more time for data to soften & believe the Fed can cut fast once the data turns.

Exhibit 4: Market pricing of Fed cuts by FOMC meeting
Market is pricing in a faster pace of Fed cuts later in '25



Source: Bloomberg

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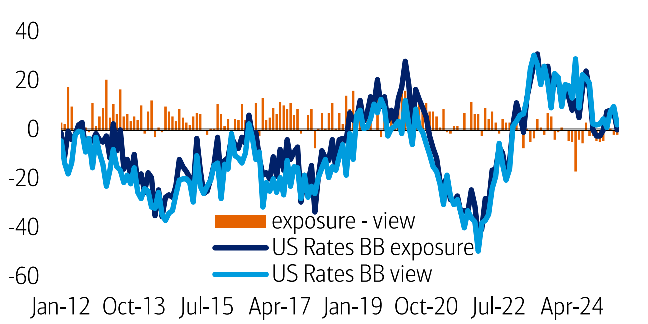
Exhibit 5: Duration exposure and view: USD
Duration sentiment and exposure back to neutral levels



Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to + 100, zero representing neutral. See appendix for formulas.

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Medium term, we continue to have a soft long duration bias given downside growth risks. Clients should target any duration longs in the curve belly (5y), which best proxies for the Fed cutting trough. We think the market should end up pricing a Fed cutting trough of around 3%; this is the Fed neutral rate & we believe it is non-controversial for the market to price an uncertain Fed going to neutral. Current cutting trough of the SOFR curve is 3.25%. We think clients should target belly longs with trough 3.25-3.5%.

Our FX and Rates Sentiment Survey suggests that global benchmark investors are relatively neutral on US duration (Exhibit 5), consistent with how we see domestic benchmark allocators positioned (see: Bid takes a beat). Survey respondents view lower growth & higher inflation as the most likely impact from Trump administration economic policy changes which may muddy investor conviction on duration.

Curve: we retain a steepening bias with long anchored in the curve belly (5y) & short in the very long end (30y). The belly long is consistent with downside growth risks & potential for lower Fed trough. Long end short is due to ongoing supply / demand imbalance. Like our duration views, we look to add steepeners on any market pullback. Between the frontend & belly we favor 2s10s flatteners through a floor ladder.

Spreads: we are short 30y asset swap spreads (Feb 2055 30y vs matched maturity asset swap; entry -90bp, target -110bps, stop -75bp, current -90.5bp). We expect back-end spreads will cheapen with limited end user demand & building concerns around the US fiscal deficit as the tax law advances in Congress. Long end spread positions will be subject to headline risk on de-regulation, but supply should outweigh reg shifts.

We have a neutral to slightly constructive on front end & belly spreads between 2-5y tenors. This stance is driven by expectations for relatively stable near-term funding conditions. US funding markets should remain relatively calm amidst upcoming bill supply cuts lower Treasury cash balance. Once the debt limit is resolved we expect elevated bill supply, higher TGA, & cheaper front-end spreads.

Front end: we are long July SOFR/FF due to near-term bill cuts & TGA paydown (entry -3.5bp, stop -7bp, target +1bp, current -1.5bp). We expect funding conditions will continue to stabilize over May & June; early summer funding stability should offer good entry to position for tighter funding post debt limit resolution. We still expect debt limit resolution in late July / early August, ahead of Congressional recess. Our confidence in tighter funding conditions after debt limit resolution has increased with recent repo sensitivity. See Front-End – US.

Inflation: we forecast a less inverted inflation curve and anticipate more persistent inflation premium vs market pricing (see: Not so fast and furious). We think breakevens across the curve should be supported by the market moving beyond near-term tariff headlines to focus on more persistent supply chain distortions & a broader well supported inflation picture. We are short 1y inflation and long 2y3y inflation.

Vol: our core views reflect a fwd vol bias through:

Positions that reflect a near-term short vol bias: paying July FOMC, short 1y inflation and 2s10s flatteners are all short vol proxies as they reflect fading recession likelihoods, normalization of near-term inflation risks, and in the 2s10s flattening bias also potentially a fading of term premium on the US curve (i.e., lower uncertainty).

Positions that reflect a medium term long vol bias: conditional bear steepeners and short backend spreads generally hedge for scenarios of higher yields and higher volatility and therefore serve as proxies for a medium term long vol bias.

Our fwd vol bias comes together explicitly in our long 18m1y vs 6m1y receiver calendar (vega weighted at inception, currently +21bp of initial vega, risk = frontloaded cuts that fade medium term with potentially unlimited downside).

Bottom line: we are underweight the wings (paid July FOMC OIS & short 30y spreads), belly dip buyers (SOFR trough 3.25-3.5%), long July SOFR/FF, see a steeper inflation curve, and like forward vol proxies.

Rates – EU

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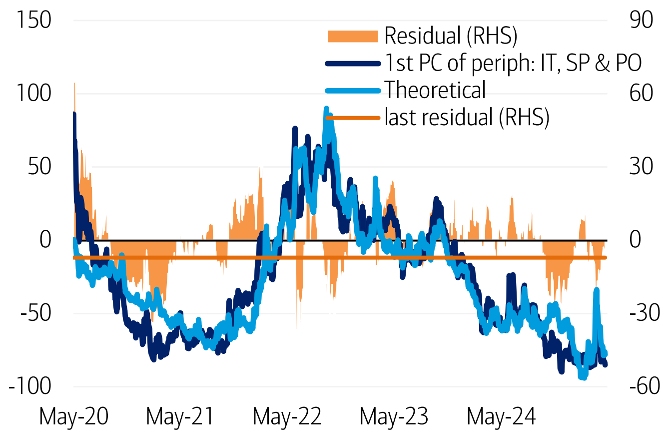
- Periphery spreads have been resilient in the face of higher Bund yields in March and the global risk-off shock in April. We see this as a bullish signal for the complex.
- We favour Spain, given typical relative value drivers: (1) overall macro and political risks (2) supply / demand, and (3) ratings. We go long 10y SP vs IT & GE (PCA fly).

Resilience in periphery spreads sends positive signal

Periphery spreads trade slightly rich versus their 5-year historical relationship to Bund yields, rates vol & equities (accounting also for the structural change around NGEU announcement and introduction of PEPP flexibility) – Exhibit 6.

However, this is not something we would fade in general. In fact, using that historical relationship, we find that the periphery has been quite resilient to the rise in Bund yields in March, and to the equity sell-off in April. The periphery appeared even richer in mid April (the relationship implying that 10y BTP-Bunds should have widened to 150bp when they only widened to 130bp), but the residual normalised over the last couple of weeks thanks to a recovery in equities and decline in rates vol.

Exhibit 6: 1st Principal component of 10y periphery spreads
The periphery has been resilient in Mar-Apr, with smaller residual * now



Source: BofA Global Research. (*) Residual and fair value based on 5 year historical relationship vs Bund yields, rates vol, eurostoxx & including dummy variables for NGEU creation & PEPP flexibility
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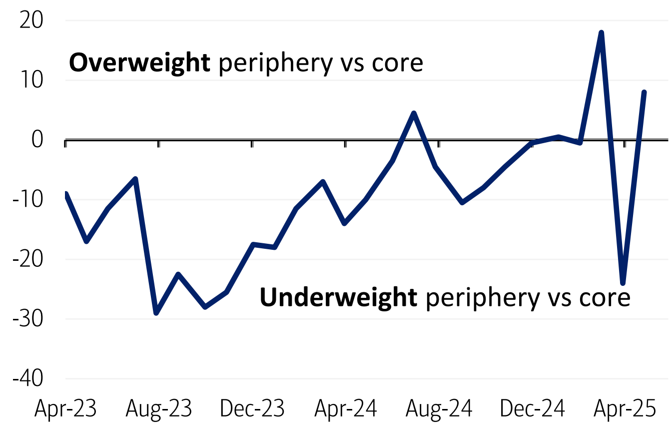
Exhibit 7: Benchmarked investors' positioning in periphery vs core
Investors turned again long periphery vs core, as in March post GE fiscal shift



Source: BofA FX and Rates Sentiment Survey, May-25edition.
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The periphery appeared to have navigated the turmoil with less volatility than expected, which should be providing a positive signal to investors. We are often asked about the reasons behind this resilience, and would flag the following:

1. Continued growth outperformance in periphery vs core. This is something our economists project will extend in '26 (Europe Economic Weekly, 2-May).
2. Optimism on EA potential post German fiscal news, and EA integration post defence spending plans.
3. Attractive swap spread levels that support bank demand (even if periphery spreads have been historically tight, this is not the case for swap spreads).

We believe we are now in a dynamic where foreign investors and those in core Europe are increasingly more comfortable with periphery risk. Last week, we found again evidence of that in the data on allocation at the Portuguese syndication (Global Rates Weekly, 2-May). This week, it's the result of our FX and Rates Sentiment Survey that support this, with increased overweight positions in the periphery vs core (Exhibit 7).

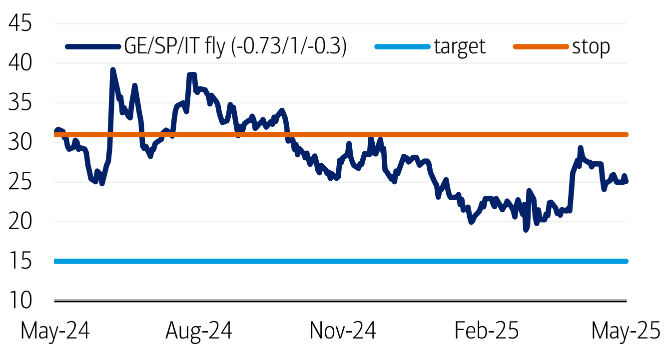
Favour 10y Spain over Italy, beta weighted for near-term

When balancing three typical drivers of RV in the periphery (macro & politics, supply & demand, ratings outlook), we see scope for Spanish bonds to further outperform other peripherals. Spain can indeed continue to benefit from stronger economic growth, more limited exposure to US risks and potential rating upgrades.

We recommend going long 10y Spain on a PCA weighted fly vs Italy & Germany (0.3:0.73 weights). We enter at 25bp, target 15bp with a stop at 31bp (Exhibit 8). The 10y BTP spread to SPGB has tightened significantly over the past month, but we acknowledge that a positive spreads environment as described below can continue to see Italy naturally outperform, and thereby favour the credit fly, which also cheapened recently, to express our view on Spain. Risks are political difficulties resulting in delayed NGEU implementations in Spain and positive surprises on Italian credit rating decisions.

Exhibit 8: PCA (*) fly of 10y Spain vs Germany & Italy

Spain recently cheapened on PCA fly vs Germany & Italy. We target richening



Source: BofA Global Research. (*) PCA weights based on the past 5 years of data.

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Exhibit 9: BofA econ growth estimates for EA periphery

Spain projected to overperform while Italy underperforms Euro area growth

Sovereign	2025	2026
Eurozone	0.8%	1.0%
Spain	2.4%	1.5%
Portugal	2.2%	1.6%
Greece	1.7%	1.7%
Italy	0.4%	0.7%

Source: BofA Global Research

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Macro picture: Spanish outperformance continues, with less risks from the US

BofA economists expect Spain to outperform both EA and periphery growth averages, while Italy's economy underperforms (Exhibit 9). Spanish growth can be supported by an acceleration of NGEU related capex deployment, while Italy transitions from capex to consumption driven growth. In addition, Spain is the least dependent on exports to the US within the periphery, with Italy the most exposed (Europe Economic Weekly, 2-May). Politically however, Italy can benefit from the extended political stability it has since Meloni came into power. Spain has in contrast found difficulty in agreeing on a budget and remain with the 2023 version (on the positive side, this has been fiscally beneficial).

Credit ratings: easier path to upgrades in Spain

Italy recently got upgraded by S&P to BBB+, but remain a notch lower at BBB (pos. outlook) by Fitch, and another notch lower at Baa3 by Moody's. But additional rating upgrades are more uncertain near term as Italy's debt levels are expected to increase with the higher yields. We believe the path to upgrades in Spain is easier, with credit ratings of A (S&P), Baa1 (Moody's, pos. outlook), and A- (Fitch pos. outlook). But we will have to wait until September for a first possible move (see Credit Ratings calendar).

Supply / Demand: balanced view for both

Spain and Italy have covered a similar c.41-42% of their total estimated bond supply for 2025, in line with what they had done in 2024 at this point in time. Both will also see similar net supply over May-June (see Exhibit 8 in European Rates Supply Preview), turning more supportive for Spain in July (which will see negative net supply that month).

From a demand perspective, we note that Spanish syndication allocations showed more signs of increased foreign demand than those in Italy. The latter could have relied more heavily on its domestic investor base. This may more of a challenge as Italy's economy transitions to consumption-based growth, reducing the growth in savings. That said, as noted above, we believe investors are increasingly more comfortable with periphery risk and the high liquidity in Italian bonds will mean they are also set to benefit from that.

Rates – UK

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- May MPC communication was more hawkish than hoped for, but we hold onto our core views for now, acknowledging that the risk distribution has shifted.

Below references BoE review published on 8 May.

Its tri-cky

Cut, hawkish vote, gradual guidance

The BoE cut the Bank Rate by 25bps to 4.25% as expected. The voting pattern of 2-5-2 was more hawkish than we expected, with two members voting to keep rates unchanged (Pill and Mann) and two members voting to cut rates by 50bps (Taylor and Dhingra). All in all, it was still a cautious MPC. Our economists continue to expect the next cut in August, but the "gradual" guidance and hawkish voting pattern imply that chances of a back-to-back cuts as soon as June have reduced significantly, barring a significant growth shock or significant downside inflation surprises.

The BoE stuck to its cautious guidance, emphasizing a "careful", gradual, and meeting-by-meeting approach as well as need for policy to remain restrictive. As we expected, the BoE is not ready yet to open the door to back-to-back cuts amid high uncertainty ahead of the rise in NICs/NLW and without much evidence on growth/ inflation impact of tariffs. This was a disappointment for those expecting a somewhat dovish twist.

It looks like the BoE will need to see sufficient progress in inflation to switch from its "gradual" stance. Our economists see scope for inflation to be lower than BoE's estimates, opening the door for a shift in narrative, but only in the second half of the year. They continue to expect cutting pace acceleration in 2H25 once the near-term hump in inflation from higher employment costs and rising energy bills is out of the way and the disinflationary /growth impact of tariffs is clearer.

Good things come in threes, except maybe MPC vote splits

UK rates curve bear-flattened immediately after the Bank Rate decision, with 2s10s fluctuating in a narrow range afterwards. 10y+ recovery later in the day meant that cross market spreads to USTs and Bunds were broadly unchanged by early afternoon.

May MPC communication (until Bailey's comments around the market close) was more hawkish than we (and the market) had hoped for, but we hold onto our core views for now, acknowledging that the risk distribution has shifted. In the front-end, our Bank Rate base case implies scope for pricing in of more cuts later this year which also implies a steeper curve out to 10y, and we continue to position for a possible QT pace slowdown surprise:

- We keep our received November MPC-dated Sonia entered at 3.66% on 11 Apr (The art of the repeal). Current: 3.70%. Target: 3.46%. Stop: 3.76%. Risk to the trade is hawkish BoE communication.
- We keep our steepener-like short the belly of Sonia 3s5s7s trade entered at -12bp on 5 Sep (Back to school: tough tests this term). Current: -6.3bp. Target:

10bp. Stop: -21bp. Risk to the trade is an upside inflation surprise.

- We keep our long 30y Gilt on ASW (using UKT 4.375% 2054) entered at 91bp on 1 May with a target of 75bp and stop of 100bp (On the lookout for slower QT hints). Current: 94bp. Risk to the trade is re-emergence of UK fiscal worries.

On QT, the BoE did not reveal much during the press conference with Dave Ramsden emphasizing that the process to consider the next year's QT will "start soon". But the following excerpts from the MPR were notable, we think:

> *"Quantitative tightening (QT) and the unwinding of the Term Funding Scheme with additional incentives for SMEs (TFSME) have weighed on broad money growth."*
>
> *"UK banks have been significant buyers of gilts, which has led to a lower reduction in deposits, and hence broad money, than if UK private sector residents had been the sole buyers of gilts during QT. Bank staff continue to judge that the tightening impact of QT on the real economy is smaller than the stimulus associated with quantitative easing."*
>
> *May 2025 Monetary Policy Report*

"Smaller" isn't the same as "small"

This is far from an admission that effects of QE and QT are symmetric. But the dampening of money growth (and potentially credit growth, by association) is undesirable, and saying the QT impact is smaller than the QE impact appears more nuanced than the usually stronger asymmetry claim that QE was powerful while QT happens "in the background":

> *"The MPC expects that the impact of QT – and hence the implications for the appropriate path for Bank Rate – will remain small as the policy rate is reduced. That is consistent with Bank Rate being the active tool of monetary policy and QT operating in the background."*
>
> *August 2024 Monetary Policy Report*

By accepting that bank buying of Gilts has mitigated some - but only some - of the weakness in broad money associated with the reserves drain, the natural implication is that the Bank should be going more slowly, in our view. But if the Bank is intent on maintaining the £100bn pace beyond September, requiring active Gilt sales, it should be selling short-dated Gilts that are more appealing to banks (skewing its sales shorter, in the same way the DMO has moved).

Rates – AU & NZ

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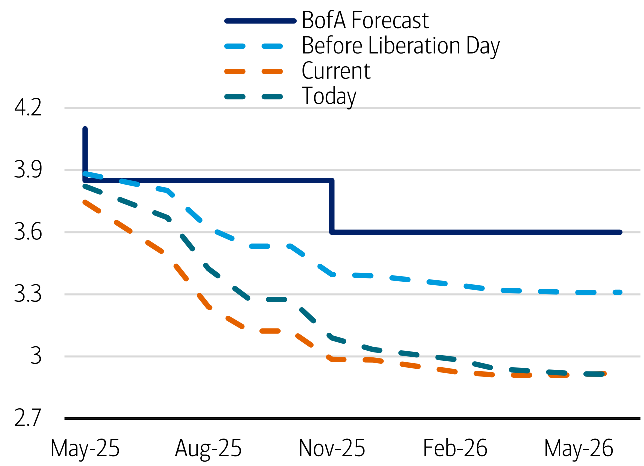
Merrill Lynch (Australia)

Higher probability of a May hold than a 50bp cut

We recommend paying July RBA OIS (entry 3.66% (43bps priced), target 3.77% (30bps priced), stop loss 3.60% (50bps priced)). The market is pricing 43bps of cuts by July. We see the RBA delivering a 25bp cut in May but the probability of back-to-back cuts is low. We believe the RBA Governor will strike a hawkish tone in her post-meeting press conference and push pricing of a July cut to around 5bps (20% probability) around the level markets priced before President Trump's 'Liberation Day' reciprocal tariff announcements on 2 April. The risk to the trade is an aggressive weakening in hard data (AU labour market, US jobs data) before the RBA's 20 May announcement.

Exhibit 10: RBA pricing before and after April 2
We see market pricing for July moving closer to its April 2 level



Source: BofA Global Research *Liberation Day: 2 April 2025, Before Liberation Day = 31 March 2025,

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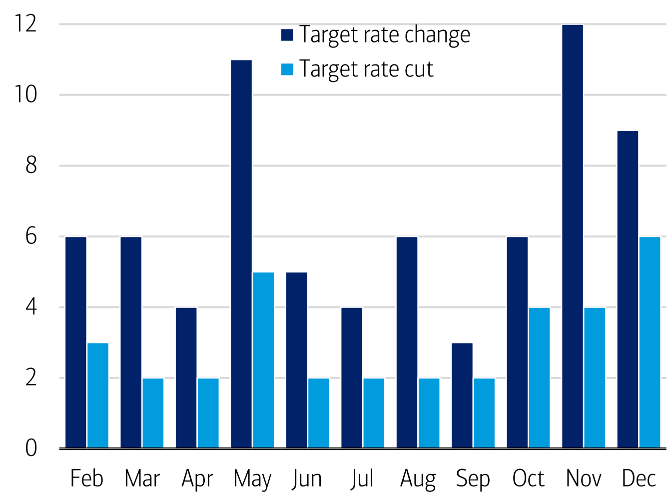
Exhibit 11: Number of rate moves by month (1996-2024)
The RBA tends to move at quarterly pace because of quarterly CPI releases



Source: Bloomberg

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We expect the RBA to cut by 25bps in May and November, and don't believe the current outlook and elevated policy uncertainty warrant more than a quarterly pace of cuts. The primary risk to this view would be a weak quarterly CPI print at the end of July, prompting an August RBA rate cut (Exhibit 11). This means the realistic downside to our easing path (25bp rate cuts in May and November) is an additional rate cut in August, absent an imminent global emergency.

Why will the RBA move more slowly than mkt pricing?

Large cash rate movements (e.g. 50bps cut in May) are optimal when the policy rate is far from the desired level, but when global trade policies are highly uncertain (i.e. tariff rates could be much higher or lower than today over the next few months) and we believe a more cautious approach is warranted. The RBA in unlikely to pre-emptively lower rates given two-sided risks around US and China trade policy (i.e. tariff rates could be shifted higher or lower than today over the next few months).

Moreover, the starting point - underlying inflation above target, unemployment rate below the NAIRU - also suggests the RBA can adopt a gradual easing approach. In so doing, the RBA would follow the precedent set by policymakers at recent Bank of Canada and Reserve Bank of New Zealand meetings. have adopted a similar approach at their most recent monetary policy meetings.

Front end – US

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- UST repo markets were more sensitive than expected at end April, reflecting UST settlements & foreign bank de-leveraging
- Domestic banks likely lent cash to stabilize repo; repo increase with low TGA raises concern about funding after debt limit

This is an excerpt of US repo sensitivity: higher than expected

Higher repo sensitivity likely means less excess cash

Clients recently asked about the increase in UST repo rates at April month end. We attribute this to Treasury settlements & Canadian quarter end. We were surprised by the extent of repo sensitivity at April month end & believe it may suggest a less abundant level of overall system cash. We update our SOFR-FF projection accordingly. We hold our July SOFR/FF long & eye shorts in 2H '25 SOFR/FF amidst stable early summer funding.

Repo increase driven by settlements & sheet tightening

End April UST repo rose more than expected according to UST settlement sizes. We track the 3D SOFR move change around UST coupon settlement dates; the impact of the end April $75b coupon settlements was nearly double the expected impact (Exhibit 12).

The repo increase was also likely influenced by month end de-leveraging, especially from Canadian banks at their Q2 April quarter end (Exhibit 13). Other foreign banks also de-lever on month ends which drives lower OBFR volumes & higher ON RRP (Exhibit 14). Month end de-levering likely supports higher repo rates as cash borrowers need to pay up for cash from less regular cash lenders via the cleared bi-lateral market.

Higher repo rates => banks shifting cash out of reserves

The April month end repo jump occurred with a sharp drop in bank reserves (Exhibit 15). The reserve drop was very sharp on April 30 (Wednesday spot level) vs the average weekly level. Domestic banks likely took cash out of reserves to back-stop repo amidst foreign bank de-leveraging, especially since GC rates were sufficiently elevated vs IORB (Exhibit 16). Banks have historically moved cash out of IORB if GC 5-10 > IORB (Exhibit 17).

We find it encouraging that banks currently have excess cash available to deploy in the repo market but are surprised this cash is needed with TGA ~$250b below steady state. Current repo sensitivity with an artificially low TGA reinforces our concerns about upward funding potential after debt limit resolution; TGA back to $850b in late '25 will likely see ON RRP near zero & will test the extent of bank excess cash holdings.

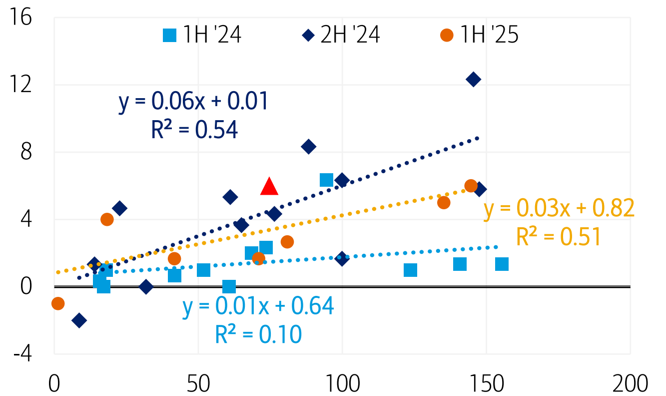
Repo sensitivity => SOFR/FF projection update

Recent repo moves encourage us to update our SOFR/FF projections. We modify our SOFR-IORB projections to overweight periods of recent repo sensitivity & underweight periods of low repo sensitivity. More detail on our approach is in the appendix.

Our output implies more near-term funding stability vs the market, in-line with our long July SOFR/FF view. Our projections show less medium-term repo pressure vs the market in late '25 but similar levels to the market in 1H '26. We still eye shorts in late '25 & early '26 SOFR/FF; recent repo sensitivity suggests our projections may underestimate the extent of upcoming funding pressure after debt limit resolution.

Exhibit 12: Change in SOFR on mid-month & EOM settlement dates vs UST settlement size

April month-end represented in the red triangle implies higher upward pressure for a mid-size month-end settlement



Source: BofA Global Research, Treasury, Bloomberg

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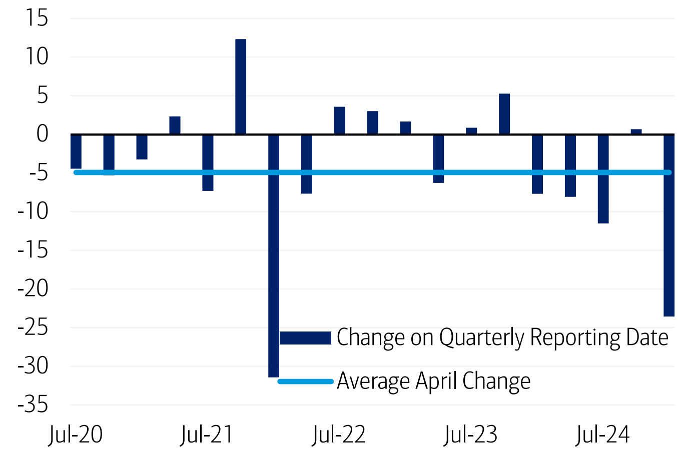
Exhibit 13: Change in CAD bank repo by quarter end vs prior 2m, $bn

Canadian banks typically de-leverage balance sheet size on Q/E dates



Note: CAD banks included = RBC, BNS, CIBC, BoM, TD; **Source:** Office of Financial Research

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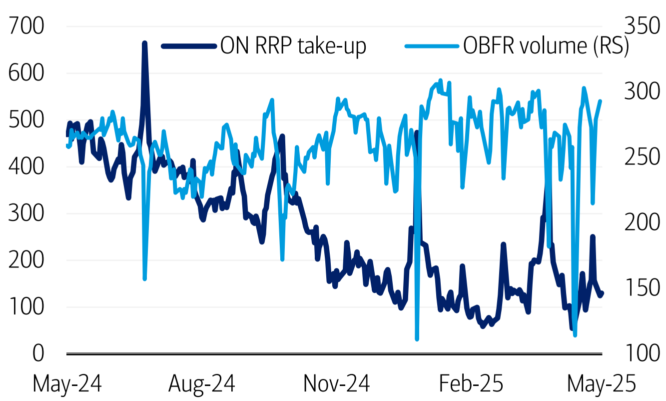
Exhibit 14: ON RRP take-up vs OBFR volumes ($bn)

ON RRP spikes correspond with lower OBFR volumes



Source: Bloomberg

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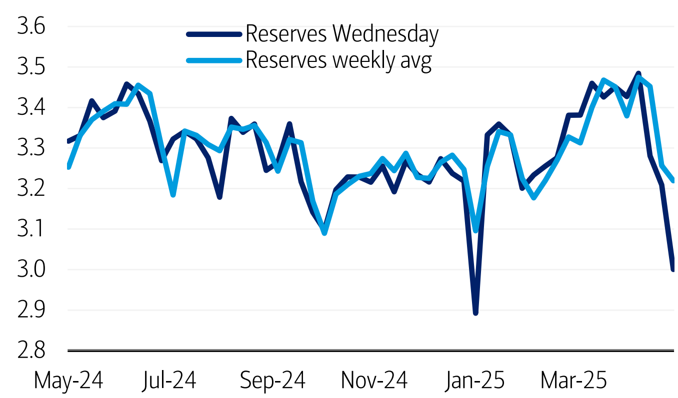
Exhibit 15: Fed reserve balances on weekly average and Wed level ($tn)

April month-end reserve balances show a pronounced drop out of reserves



Source: Bloomberg

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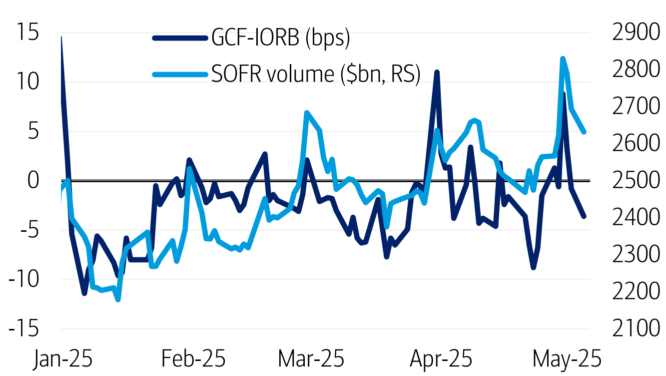
Exhibit 16: GCF-IORB spread vs SOFR volumes

SOFR volumes increased on month-end in line with the drop in reserves and rise in repo rate vs IORB



Source: Bloomberg. Note: GFC=General collateral financing

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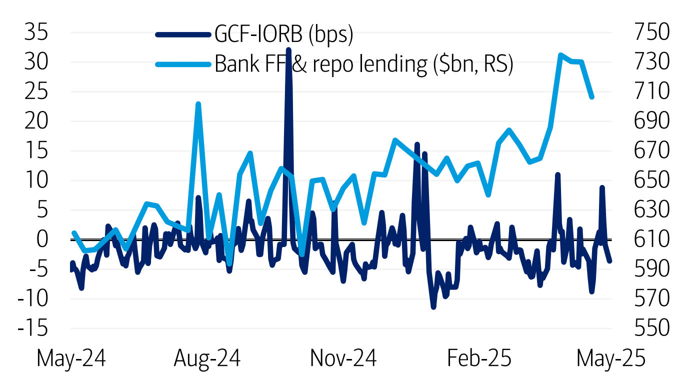
Exhibit 17: GCF-IORB spread vs commercial bank FF & repo lending

Commercial bank lending in repo spikes higher when repo trades 5-10bp above IORB



Source: Bloomberg

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Volatility – US

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- We favor a fwd vol bias as we: (1) see the potential for rates to consolidate and likelihoods of slowdown & expansion scenarios to normalize further near-term; but (2) continue to see material risks around the outlook medium term.

Fwd vol proxy

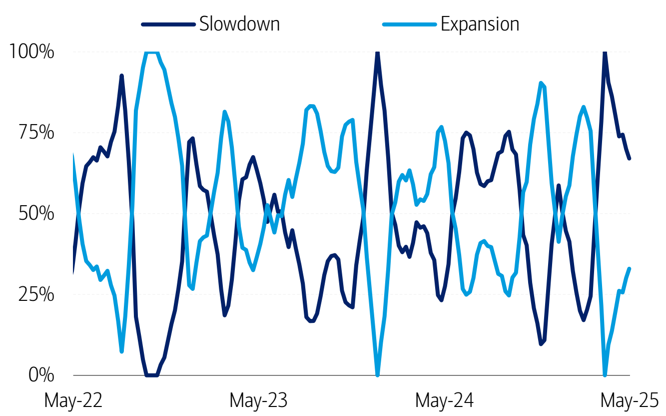
We favor a fwd vol bias as we: (1) see the potential for rates to consolidate and likelihoods of slowdown & expansion scenarios to normalize further near-term (see Exhibit 18); but (2) continue to see material risks around the outlook medium term (see Exhibit 19). To some extent, our recommendations do reflect this fwd vol bias:

- **Positions that reflect a near-term short vol bias**: paying July FOMC, short 1y inflation and 2s10s flatteners are all short vol proxies as they reflect fading recession likelihoods, normalization of near-term inflation risks, and in the 2s10s flattening bias also potentially a fading of term premium on the US curve (i.e., lower uncertainty). We favor expressing our 2s10s flattening bias through costless 6m fwd 2s10s floor ladders (we recommended the position at 46bp for 6mfwd 2s10s, currently c.38bp, risk = flattening beyond the downside breakeven of the curve with potentially unlimited downside in inversion scenarios).
- **Positions that reflect a medium term long vol bias**: conditional bear steepeners (we recommended 1y fwd 5s30s bear steepeners, currently c.23bp, risk a bear flattening of the 5s30s curve on hawkish monetary policy with potentially unlimited downside) and short backend spreads generally hedge for scenarios of higher yields and higher volatility and therefore serve as proxies for a medium term long vol bias.

Our fwd vol bias comes together explicitly in our long 18m1y vs 6m1y receiver calendar (vega weighted at inception, currently +21bp of initial vega, risk = frontloaded cuts that fade medium term with potentially unlimited downside).

Exhibit 18: Likelihoods of expansion and slowdown scenarios proxied by the frequencies of bear widening and bull tightening moves in the dynamic of 10y inflation breakevens

Likelihoods of slowdown scenarios continue to normalize from the peak around the "liberation day" tariffs announcement



Source: BofA Global Research

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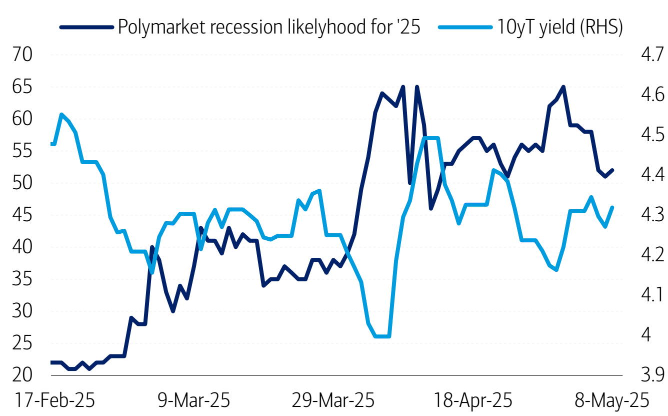
Exhibit 19: Polymarket recession likelihood for '25 vs the dynamic of 10y yields

Recession likelihood peaked c.65% around "liberation day" and have traded in the c.45-65% range since, even as 10yT yields stayed relatively contained at ±25bp range around fundamental fair value (which we see c.4.25-4.3%)



Source: BofA Global Research, Bloomberg

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Rates Alpha trade recommendations

Exhibit 20: Global Rates Trade Book - open trades

Open trades

	Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
Europe	Long 10y Spain vs Germany & Italy	09-May-25	25	15	31	25	Spain richens back on credit fly	Italian upgrade, Slow capex in spain
	2y3y/5y5y Euro inflation steepener	2-May-25	20.0	35.0	10.0	20.9	Swift fall in inflation	Stalling disinflation
	Receive BTPei 2033-39 fwd yield	1-Apr-25	358	300	400	353	Bullish call, RV, index events	Generalized Italy cheapening
	Long EU 30y vs Netherlands	28-Mar-25	72	60	80	71	EU cheap to NL, on supply concerns	Large increase in EU bond supply
	Long 15y OAT May-42	21-Mar-25	3.84	3.5	4.05	3.70	Long duration + a tactical bullish view on FR	FR political risks, larger long end EGB supply
	Receiving 6m1y EUR vs CHF	14-Mar-25	176bp	130bp	200bp	161bp	Continued ECB easing and SNB pause	Negative SNB policy rate
	US-Euro 2y3y inflation widener	7-Mar-25	28bp	50bp	15bp	42.2bp	Inflation view; roll-down	US recessionary threat
	BTPei 2039 iota narrower	7-Mar-25	25.4	17.0	30.0	21	Index events	Heavy BTPei 2039 supply
	6m5y 1x1.5 rec	5-Feb-25	0bp	14bp	-10bp	1bp	Repricing of ECB terminal lower	Rally beyond downside breakeven
	Short 1y1y vs 1y10y vol	24-Nov-24	6.5bp	20bp	-10bp	1bp	Underperformance of left side on dovish ECB	Hawkish policy shift
	Long 30y Bunds vs Netherlands	24-Nov-24	14.5	25	8	10	Fade the cheapness of GE long-end	Change in German constitution
	Pay 1y1y Euribor-€str basis	24-Nov-24	21.5	30	17	22	Reduced liquidity, increased term funding cost	New ECB LTROs / early end to QT
	5y1y ATM-25/-100bp rec spread	8-Feb-24	25bp	60bp	0	23bp	Lower ECB terminal rate, without negative carry	Better than expected EUR data
UK	Long 30y Gilt on ASW	2-May-25	91	75	100	94.1	Expect BoE to at some point signal slower QT	UK fiscal worries
	Receive Nov MPC-dated Sonia	11-Apr-25	3.69	3.45	3.81	3.56	Expect market to price cut pace acceleration	Upside inflation surprises
	Long UKT 0 1/8% 2028 vs. UKT 4 3/8% 2028 on ASW (on z-spd)	24-Jan-25	-29	-40	-24	-30	Retail demand for low coupon Gilt	Change in the tax treatment of Gilts for retail
	UKTi 2037/39 real curve flattener	24-Oct-24	17	9	25	24	Attractive level; low coupon value	Supply related dislocation
	UKTi 2032/36/47 barbell (+43.8%/-100%/+56.2% risk)	05-Sep-24	14.8	5.0	20.0	-19	Expect forward flattening	Illiquid conditions
	Short Sonia 3s5s7s (pay 5s)	05-Sep-24	-12	10	-21	-6.1	Mortgage paying flows	Stamp Duty tax rise at the Oct budget
	Sell UKTI 2036 v UKT 2042 on ASW	26-Jul-24	-21	-8	-28	-23.6	Historical extreme spread	Poor nominal auction demand
US	Pay July FOMC OIS	8-May-25	4.15%	4.3%	4.05%	4.17%	Solid data & Fed in no hurry to cut	Sharp data worsening & near-term Fed cuts
	Short 30y swap spread	30-Apr-25	-90	-110	-75	-90	Disappointment in de-regs and deficits	WAM shortening by Treasury or Fed
	18m1y vs 6m1y rec	1-May-25	0bp	30bp	-15bp	21bp	< frontloaded cuts, > backloaded cuts	>frontloaded cuts with < medium term
	6m fwd 2s10s floor ladder	1-May-25	46bp	17bp	-10bp	38bp	Underperformance of curve vs fwds	Flattening beyond the c.20bp BE
	Long 2y3y inflation	24-Apr-25	2.24	2.50	2.05	2.29	Expect above market inflation medium term	Downturn that lowers inflation compensation
	Long July SOFR/FF	11-Apr-25	-3.5bp	+1bp	-7bp	-1.5bp	Softer funding with bill paydowns	Early debt limit resolution
	6m10y payer spreads	7-Apr-25	8.5bp	25bp	-8.5	2bp	Fed on hold, limited scope for bearish shocks	Limited to upfront premium
	1y inflation swap short	10-Apr-25	3.49	2.90	3.90	3.38	Lower tariff premium	Upside tariff risks, oil price shock higher
	6m5y payer ladder	7-Mar-25	0bp	25bp	-10bp	2bp	Repricing of Fed policy through higher	Selloff beyond downside BE
	6m1y rec spd	21-Jan-25	11bp	25bp	-11bp	19bp	Higher slowdown likelihoods	Limited to upfront premium
	Sell 1m10y vs 6m10y receiver	21-Jan-25	0bp	20bp	-10bp	17bp	Higher slowdown likelihoods	More significant rally near vs medium term
	1y1y receiver 1x1.5	12-Dec-24	9bp	60bp	-15bp	-5bp	Hedging slowdown scenarios	Aggressive hard landing scenarios
	1y fwd 5s30s bear steepener	24-Nov-24	0bp	30bp	-15bp	23bp	Term premium build & reacceleration scenarios	Bear flattening on hawkish Fed
	1y10y payer spd vs 3m10y payer	24-Nov-24	0bp	30bp	-15bp	-5bp	Higher recalibration/reacceleration likelihoods	Frontloaded sell that fades medium term
	1y1y straddles vs strangles	24-Nov-24	+0.31%	20bp str /vega	-10bp str /vega	0.308%	Long vol of vol	Lower vol of vol
	Long 5y30y vol vs 2y30y vol	24-Nov-24	+5.5bp vega	15bp vega	-10bp vega	2bp	Vega supported bearish tail scenarios	Outperformance of intermediate vs long vega
	1y fwd 2s10s floor ladder	28-May-24	-20bp	-40bp	-60bp	22bp	Hedging hawkish fed scenarios	Unlimited downside in Inversion > -80bp
	3y1y rtr spd a/-50bp	6-Nov-23	pay 23bp	50bp	-23bp	5bp	Soft landing scenario	Capped to premium
	Long 1y10y rtp spd vs 4m10y rtp	3-Jul-24	0bp	20bp	-10bp	-11bp	Bearish election risks medium-term	Frontloaded bearish risks
APAC	AU 2s5s flattener vs CAD 2s5s steepener	15- Apr -25	-17.7bp	+4bp	-30bp	-10.8bp	CAD and AUD rates mispricing trade uncertainty	Fewer BoC cuts than market pricing
	AU 6m3y receiver 1x1.5	27-Mar-25	4bp	30bp	-15bp	4bp	Dovish repricing of RBA terminal	Hawkish RBA shift
	JP 1y2y payers spd vs 1y10y payers	24-Nov-24	0bp	40bp	-15bp	1bp	Bear flattening of the curve	Lagging BoJ & curve bear steepening
	JP 1y5y payer ladders	24-Nov-24	0bp	28bp	-10bp	2bp	Repricing of policy trough	Underperformance vs. downside b/e
	KR 1y fwd 2s10s bull steepeners	24-Nov-24	0bp	25bp	-10bp	10bp	Dovish BoK and bull steepening	Hawkish shift for BoK
	KR 1y5y receiver spd	24-Nov-24	-16bp	34bp	-15bp	27bp	Repricing of policy trough lower	Capped to upfront premium

Exhibit 21: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
Europe	Long 5y Greece vs Portugal	19-Nov-23	42	0	65	2-May-25	12
	Receive Dec ECB €str	2-Jan-25	1.77	1.3	2.18	17-Apr-25	1.47
	EUR 3m2y payer fly	16-Jan-25	12.4	35	2	16-Apr-25	0
	Pay 10y real Sofr, rec. 10y real €str	24-Nov-24	-112	-180	-80	1-Apr-25	-75
	Pay 1y1y CHF OIS	11-Dec-24	0.06%	0.35%	-0.10%	07-Mar-25	0.29%
	6m fwd 2s10s bull flattener OTM	23-Oct-24	0	900K	-500K	07-Mar-25	11K
	BTPei 2039 breakeven long	29-Jan-25	189	220	170	07-Mar-25	198
	US 9m30y payer spd vs EUR payer	5-Feb-25	0bp	30bp	-15bp	07-Mar-25	-15bp
	Receive 5y5y "real ESTR" rate	02-Jul-24	28	-20	60	07-Mar-25	60
	Pay Mar ECB €str	23-Jan-25	2.44	2.55	2.37	07-Mar-25	2.42
	BTPei'29/'33/'39 CDN barbell	18-Oct-24	31.6	15.0	40.0	27-Feb-25	25.3
	OATei '36'/'40/'43 fly	25-Sep-24	5.5	0.0	9.0	27-Feb-25	2.6
	Sell OATei 43 vs 53 on z-spread	03-Sep-24	29	15	37	27-Feb-25	28
	3m2y payer fly	23-Oct-24	14.7bp	40bp	3bp	16-Jan-25	16.1bp
	Receive 2y1y €str	2-Dec-24	1.74	1.4	1.95	2-Jan-25	2.01
	Long 30y Bunds	03-Sep-24	2.58%	2%	2.83%	12-Dec-24	2.44%
	Received 2y1y €str	03-Sep-24	2.12%	1.7%	2.4%	2-Dec-24	1.7%
	EUR 1y fwd 2s10s OTM floor, funded US floor	19-Nov-23	-15bp	25bp	-25bp	19-Nov-24	15bp
	Receive 3y1y €str vs CAD OIS	03-Sep-24	39	80	15	21-Nov-24	86
	Long Schatz vs Bobl Euribor spreads	31-Aug-23	3	15	-8	14-Nov-24	8
	3m fwd 10s30s bull flattener	23-Oct-24	0	900K	-500K	31-Oct-24	770K
	Pay belly of 5s10s30s	24-Jun-24	23	50	10	31-Oct-24	30
	Short ATM 1y2y payer vs OTM in US	03-Sep-24	0	25bp	-15bp	23-Oct-24	25bp
	Receive belly of 2s3s5s PCA fly	02-May-24	-20	-26	-16	21-Oct-24	-14.5
	Long Schatz ASW	05-Jul-24	32.4	47	24	18-Oct-24	23
	Pay 9Mx12M EUR FX-Sofr basis	22-May-24	-6.9bp	-2bp	-10.2bp	18-Oct-24	-1.6
	1y1y/2y3y EURi steepener	26-Jul-24	3	16	-5	25-Sep-24	8
	EUR 2y 3s6s widener	19-Mar-24	8.1	14	5	12-Sep-24	4.8
	Receive 2y1y €str	19-Nov-23	2.45	1.70	2.90	03-Sep-24	2.09
	Long 6m7y OTM receiver vs 6m7y OTM payer	24-Jun-24	0	800K	-400K	07-Aug-24	800K
	Sep24 FRA-OIS widener	02-Feb-24	11.3	15	5	05-Aug-24	12.5
	1y fwd 2s10s EURi steepener	19-Jan-24	13	30	4	26-Jul-24	17
	5s10s EURi steepener	19-Nov-23	8	25	-5	26-Jul-24	12
	6m fwd 2s5s bull flattener	20-May-24	0	300K	-150K	25-Jul-24	-150K
	10s30s flattener in EUR vs US	04-Oct-23	0	40	-20	24-Jun-24	7
	Long OAT Apr29 vs BGB Jun29	25-Apr-24	8	2	11	10-Jun-24	5.9
	OATei 2029s/2053s real curve flattener	16-Apr-24	37	10	50	04-Jun-24	19
	OATei 2027s/2029s real curve steepener	9-Feb-24	7.4	18.0	2.0	04-Jun-24	-2
	Long 10y Bund vs UST	13-Feb-24	182	225	155	09-May-24	200
	Sell EUR 6m5y OTM payer to buy OTM payer in US	19-Nov-23	0	600K	-400K	18-Apr-24	110K
	Receive 2y3y €str vs SOFR	04-Oct-23	104	180	60	04-Apr-24	155
	BTP ASW 5s10s steepener	19-Nov-23	50	75	35	04-Apr-24	55
	Long DBRi 2026/short OATei 2026 on z-spread	22-Mar-24	10	-10	20	04-Apr-24	14
	3m1y ATM+25/+50 payer spd	06-Dec-23	5	15	0	23-Feb-24	15.5
	Pay Apr ECB date, receive Mar	02-Feb-24	-18	0	-28	19-Feb-24	-11
UK	Receive UKTi 2036-2042 fwd real yield	28-Feb-25	267	200	300	8-Apr-25	305
	Long G vs. WN invoice spreads	28-Feb-25	13.9	30	5	8-Apr-25	30
	Short 5y RPI	29-Jan-25	396	350	450	1-Apr-25	376
	Pay 5y real Sonia, receive 5y real €str	21-Aug-24	43	-40	90	1-Apr-25	-4
	UKTi 2052/68 yield flattener	20-Feb-24	-13	-35	0	1-Apr-25	-27
	Receive Aug MPC-dated Sonia	14-Mar-25	4.07	3.95	4.13	24-Mar-25	4.13
	Pay March MPC Sonia	7-Feb-25	4.397%	4.468%	4.357%	20-Feb-25	4.45
	1y fwd 2s10s Sonia steepener	8-Nov-24	-1	25	-15	31-Jan-25	-15
	Pay 5y real Sonia	12-Jul-24	1	60	-30	29-Jan-25	15
	Sell UKT 4.5% 2028 vs. UKT 0.5% 2029 (on z-spd)	05-Sep-24	-8	-20	4	24-Jan-24	-9.2
	Buy UKT 4 3/8 2054 vs. T 4 5/8 2054 on ASW	12-Jul-24	1.0	-15.0	10.0	31-Oct-24	2.7
	Buy UKT 5/8% 2050 vs. 4 5/8% 2034 on ASW	07-Jun-24	33.5	13.0	45.0	31-Oct-24	23.8
	Sell SFIM9 vs. SFIM6 futures	14-Jun-24	-19.5	10	-35	09-Sep-24	5
	UKTi 2032-36-42 barbell (+35%/-100%/+65%)	26-Apr-24	13.6	5	18	05-Sep-24	11.8
	UKTi '36/47 vs '34/46 fwd yield sprd	2-Feb-24	24	8	32	05-Sep-24	16
	UKTi 2036/47 real curve flattener	26-Sep-23	55	30	70	05-Sep-24	51
	Sell UKT4e27 v UKT1e28 on ASW	10-Nov-22	1.8	-25	12	05-Aug-24	-25
	Aug-Dec MPC-dated Sonia steepener	19-Jul-24	-38.0	-20.0	-48.0	2-Aug-24	-40
	UKTi 2029s real yield short	10-May-24	21	70	-10	12-Jul-24	30
	Real yield switch - UKTi 2033 into OATei 2034	18-Oct-23	26	-25	50	14-Jun-24	53
	Long SFIZ4 vs. short SFIM4	03-May-24	33.5	50	20	09-May-24	44.5
	Pay Jun'24 BoE-Sonia vs Jun'24 ECB-Estr	22-Mar-24	132	153	122	11-Apr-24	139.5

Exhibit 21: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
	Sell Dec'24 BoE MPC-onia vs.. BoC CORRA OIS	06-Feb-24	14	75	-25	11-Mar-24	33
US	Pay June FOMC OIS	2-May-25	4.18%	4.3%	4.05%	8-May-25	4.29%
	Pay July FOMC OIS	22-Apr-25	3.93%	4.15%	3.8%	2-May-25	3.99%
	Pay July FOMC OIS & receive 5Y OIS	22-Apr-25	-41bps	-80bps	-15bps	2-May-25	-60bps
	Long 30y swap spread	22-Apr-25	-94	-84	-105	1-May-25	-90
	1m fwd 2s30s bull flattener	22-Apr-25	0bp	20bp	-10bp	1-May-25	4bpr
	Short 30y swap spread	13-Mar-25	-79.5	-105	-70	22-Apr-25	-94
	2s5s30s fly	11-Apr-25	-55bp	-90bp	-35bp	22-Apr-25	-74
	Long 2y swap spread	11-Apr-25	-26	-17	-32	22-Apr-25	-27
	M6M7 SOFR curve steepener	3-Apr-25	1bp	30bp	-20	10-Apr-25	7
	Pay May'25 FOMC OIS	7-Apr-25	4.20	4.33	4.1	10-Apr-25	4.29
	3m2y receiver spd vs 3m2y payers	21-Jan-25	0bp	30bp	10bp	10 Apr 25	24bp
	TIPS 5y5y beta-breakeven long	1-Apr-25	-14	40	-50	9 Apr-25	-58
	5s30s steepener	6-Oct-23	20	90	-20	9-Apr-25	90
	2y forward, 3s28s inf steepener	4-Sept-24	0bps	30bps	-15bps	9-Apr-25	32bp
	1y4y inflation swap long	14-Nov-24	2.56	3	2.25	8-Apr-25	2.21
	Pay June FOMC OIS swap	26-Mar-25	4.15%	4.25%	4.09%	3-Apr-25	4.07%
	1y10y payer ladders	28-May-24	0bp	37bp	-20bp	27-Mar-25	5bp
	6m5y payer ladder	24-Nov-24	0bp	27bp	-15bp	27-Mar-25	7bp
	M5/Z6 flatteners	4-Feb-25	-18	-50	10	3-Mar-25	-48.5
	6m1y rtp ladders	9-Aug-24	0	25	-20	9-Feb-25	16
	Short 30y spreads (May '54)	20-Jun-24	-80	-105	-65	06-Feb-25	-80
	Receive TII 1/26 to TII 1/30 fwd real yield	12-Dec-24	1.77	1.4	1.98	19-Dec-24	2.05
	Mar/Sep SOFR/FF '25 curve flattener	13-Sep-24	0 bps	-3.5bp	+2bp	17-Dec-24	-3
	1y2y risk reversal	24-Nov-24	0	30	-15	9-Nov-24	15
	5s10s TII steepener	19-Nov-23	-6	50	-40	14-Nov-24	15
	Long 5y30y vol vs 2y30y vol	20-Nov-22	+14bp vega	15bp vega	-10bp vega	24-Nov-24	21bp
	1y fwd 2s10s cap spd a/+50bp	6-Nov-23	20bp	30bp	-20	6-Nov-24	18bp
	Short 1y1y vs 1y10y vol	6-Nov-23	Rec 26bp	30bp	-20	14-Nov-24	27bp
	Buy Dec TY basis	22-Oct-24	0 ticks	2 ticks	-0.75 ticks	06-Nov-24	1.5 ticks
	SOFR M5-Z7 steepener	20-Sep-24	0	50	-30	4-Oct-24	-30
	Long Mar SOFR/FF	8-May-24	-1.5bp	2bp	-3.5bp	15-Jul-24	-3.5
	2-10 CAD steepener vs 2-10 US flattener	4-Jun-24	-17.2	15	-40	13-Jun-24	-10
	Short 1y1y inflation swap	13-Jun-24	2.39	1.9	2.7	26-Aug-24	2.28
	6m10y rtp ladders	26-Mar-24	0bp	28bp	-20bp	26-Sep-24	0bp
	Long 30y BE	26-Mar-24	2.28	2.75	2.05	5-Aug-24	2.05
	Oct / Nov SOFR/FF curve steepener	9-Nov-23	-0.5bp	+2.5bp	-2bp	8-May-24	-0,5bp
	2y fwd 2s10s cap	8-Jul-22	45	150	-50	8-Jul-24	-15bp
	SOFR/FF widener in 1y1y vs 2y1y	9-Nov-23	-0.75bp	-2.5bp	+2bp	8-May-24	-1.05bp
	Long 5Y nominal	18-Apr-24	4.62%	4%	-18bp	9-May-24	4.46%
	M5-M7 SOFR Steepener	13-Dec-23	-3bp	75bp	-40bp	6-Mar-24	-41bp
	Long 2y inflation swap	22-Jan 24	2.20	2.60	1.90	21-Mar-24	2.55
	6m2y rtp spd vs 6m2y otm rtr	19-Nov-23	0bp	55bp	-25bp	2 May 24	41bp
	6m10 rtp ladders a/+32bp/+64bp	19-Nov-23	0bp	32bp	-20bp	21-March-24	15bp
	Long 2y CA vs short 2y US	19-Nov-23	-39bp	-70bp	-15	14-Mar-24	-47
	1y10y receiver spreads	9-Mar-23	-18bp	32bp	-18bp	9-Mar-24	-18bp
APAC	10s20s JGB curve flattener	25-Mar-25	73	60	79.5	8-Apr-25	85
	Buy au 3y (YM) , pay Aug RBA	04-Mar-25	-8bp	-50bp	10bp	11-Apr-25	-16bp
	2yr fwd 2s10s OIS flatteners	19-Feb-25	40	25	47.5	4-Apr-25	39
	AU 1y1y risk reversal	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	23bp
	AU Long 1y2y AU vs US receivers	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	15.5bp
	Mar/Sep '25 BOB steepener	3-Oct-24	2bp	6bp	0bp	18-Mar-25	4bp
	Short 5yr JGB ASW	24-Jan-25	0	8	-5	06-Mar-25	8
	Receive Feb '25/ Pay Apr '25 RBA s	29-Jan-25	-11bps	0bp	-17bp	21-Feb-25	-4bp
	AU pay 5y5y 6s3s	19-Nov-23	4.4bps	9bp	2bp	05-Feb-25	8.45bp
	5yr20yr JGB curve flatteners	9-Jan-25	114	104	119	17-Jan-25	104
	Long 20yr JGB asset swap	24-Nov-24	27	20	31	16-Jan-25	31
	Receive AU 5y5y IRS vs US	11-Nov-24	107	75	123	20-Dec-24	74
	Long 5yr ACGBs vs 5yr JGBs	24-Nov-24	305	280	320	13-Dec-24	320
	AU Pay Feb '25 RBA, buy Sep futures	24-Nov-24	-23bp	-45bp	-12bp	10-Dec-24	-48bp
	AU/JP: buy 5y ACGBs, sell 5y JGBs	24-Nov-24	352bp	305bp	375bp	10-Dec-24	305bp
	KRW 1y5y receiver spd	5-Jun-24	15bp	25bp	-15bp	19-Nov-24	13bp

Exhibit 21: Global Rates Trade Book - closed trades
Closed trades

Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
JPY 6m5y payer ladders	10-Jul-24	0bp	30bp	-15bp	19-Nov-24	6bp
JPY 6m7y payer ladders	23-Sep-24	0bp	13bp	-10bp	19-Nov-24	2bp
AUD 1y fwd 2s10s bull steepener	19-Nov-23	0bp	30bp	-25bp	19-Nov-24	-4bp
AUD 1y5y rtr spd a/-40bp	19-Nov-23	17.5bp	22.5bp	-18bp	19-Nov-24	12bp
AUD 1y5y rtr spd vs 3m5y rtr a-12bp	19-Nov-23	0bp	40bp	-25bp	19-Nov-24	-1bp
JPY 1y fwd 5s30s bear flattener	19-Nov-23	0bp	25bp	-20bp	19-Nov-24	-12bp
2s10s 6s3s steepener	12-Aug-24	-6bp	0bp	-9bp	19-Jun-24	-9bp
Pay Dec '24 RBA	20-Aug-24	4.125%p	4.34%	4.01%	17-Oct-24	4.27%
Sell Mar '25 futures, buy Dec '24 & Sep '25 futures	12-Aug-24	4bp	14bp	-1bp	20-Aug-24	0bp
1y1y/3y2y flattener	26-Jul-24	18bp	3bp	25.5bp	26-Jul-24	6.5bp
Jun24/Dec24 bills-OIS flattener	19-Jun-23	7.5bp	1.5bp	10.5bp	13-Jun-24	5bp
Receive 10y swap spreads	17-May-23	51	20	65	3-Apr-24	20
Buy ACGB 3.5% 2034 vs. UKT 0.625% 2035	13-Nov-23	18.5	-40	45	22-Feb-24	-5.1
JPY 6m10y rtp spd vs 6m2y rtp	19-Feb-24	0bp	40bp	-20bp	19-Aug-24	0bp
Swap EFP (3y/10y) box flattener	19-Nov-23	10b[s	0bps	15bps	22-Mar-24	-1
receive AU 5y5y IRS, pay US 5y5y IRS	19-Nov-23	109	0	148	21-Feb-24	99
2yr10yr TONA swap steepener	1-Feb-24	68.5	80	62.7	22-Feb-24	62.7
Feb/Mar 2024 OIS steepener	19-Nov-23	0	15	-7.5	12-Jan-24	-7.5
Pay June 2024 3m bills vs OIS	7-Nov-23	15	30	8	12-Jan-24	8
10yr/30yr TONA swap flatteners	19-Nov-23	59	49	64	19-Jan-24	64
10yr/30yr TONA swap flatteners	19-Nov-23	59	49	64	19-Jan-24	64

Source: BofA Global Research

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Global rates forecasts

Exhibit 22: Latest levels and rate forecasts
Forecasts by quarter up to Q2 '26 plus YE 2026

		Latest	Q2 25	Q3 25	YE 25	Q1 26	Q2 26	YE 26
USA	O/N SOFR	4.30	4.29	4.31	4.32	4.33	4.34	3.35
	2y T-Note	3.89	3.90	3.80	3.75	3.75	3.75	3.85
	5y T-Note	3.99	4.00	4.05	4.10	4.15	4.20	4.25
	10y T-Note	**4.37**	**4.35**	**4.40**	**4.50**	**4.55**	**4.60**	**4.75**
	30y T-Bond	4.83	4.75	4.80	4.90	4.95	5.00	5.10
	2y Swap	3.55	3.74	3.62	3.55	3.55	3.55	3.65
	5y Swap	3.54	3.70	3.73	3.76	3.81	3.86	3.91
	10y Swap	**3.80**	**3.90**	**3.93**	**4.01**	**4.04**	**4.07**	**4.22**
	30y Swap	3.96	3.95	3.93	4.04	4.04	4.07	4.22
Germany	3m Euribor	2.14	1.90	1.60	1.40	1.40	1.45	1.75
	2y BKO	1.77	1.70	1.60	1.65	1.85	1.95	2.15
	5y OBL	2.08	2.00	1.95	2.05	2.20	2.30	2.40
	10y DBR	**2.54**	**2.45**	**2.40**	**2.50**	**2.60**	**2.70**	**2.75**
	30y DBR	2.99	2.90	2.85	2.95	3.00	3.10	3.15
	2y Euribor Swap	1.96	1.85	1.75	1.75	1.90	2.00	2.20
	5y Euribor Swap	2.20	2.15	2.10	2.15	2.25	2.35	2.45
	10y Euribor Swap	**2.50**	**2.45**	**2.40**	**2.45**	**2.50**	**2.60**	**2.65**
	30y Euribor Swap	2.50	2.45	2.45	2.55	2.70	2.80	2.90
Japan	TONA	0.48	0.48	0.48	0.48	0.48	0.73	0.98
	2y JGB	0.63	0.60	0.63	0.65	0.70	1.05	1.30
	5y JGB	0.87	0.85	0.88	0.90	0.95	1.30	1.60
	10y JGB	**1.34**	**1.35**	**1.43**	**1.50**	**1.53**	**1.60**	**1.75**
	30y JGB	2.90	2.70	2.78	2.85	2.85	2.85	2.95
	2y Swap	0.64	0.58	0.60	0.60	0.65	1.00	1.25
	5y Swap	0.80	0.75	0.78	0.78	0.80	1.15	1.45
	10y Swap	**1.11**	**1.10**	**1.13**	**1.20**	**1.23**	**1.30**	**1.45**
U.K.	3m Sonia	4.21	4.00	3.60	3.50	3.50	3.50	3.50
	2y UKT	3.93	3.70	3.60	3.60	3.60	3.60	3.65
	5y UKT	4.03	3.90	3.90	3.90	3.90	3.95	4.00
	10y UKT	**4.55**	**4.45**	**4.45**	**4.45**	**4.45**	**4.50**	**4.55**
	30y UKT	5.32	5.05	5.00	4.95	4.90	4.90	4.90
	2y Sonia Swap	3.73	3.60	3.50	3.50	3.50	3.50	3.50
	5y Sonia Swap	3.73	3.70	3.70	3.70	3.70	3.75	3.80
	10y Sonia Swap	**4.03**	**4.00**	**4.05**	**4.10**	**4.10**	**4.15**	**4.20**
Australia	3m BBSW	3.82	3.85	3.85	3.60	3.60	3.60	3.60
	2y ACGB	3.32	3.50	3.25	3.00	3.05	3.10	3.50
	5y ACGB	3.57	3.60	3.40	3.20	3.25	3.30	3.40
	10y ACGB	**4.24**	**4.05**	**3.90**	**3.75**	**3.80**	**3.85**	**4.00**
	3y Swap	3.35	3.50	3.25	3.00	3.05	3.10	3.50
	10y Swap	**4.17**	**4.05**	**3.90**	**3.75**	**3.80**	**3.85**	**4.00**
Canada	2y Govt	2.59	2.50	2.50	2.50	2.50	2.50	2.50
	5y Govt	2.81	2.65	2.70	2.75	2.80	2.85	2.95
	10y Govt	**3.21**	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.30**
	2y Swap	2.43	2.37	2.37	2.37	2.37	2.37	2.37
	5y Swap	2.56	2.43	2.48	2.53	2.58	2.63	2.73
	10y Swap	**2.92**	**2.74**	**2.79**	**2.84**	**2.89**	**2.94**	**3.04**

Source: BofA Global Research. US swaps vs overnight Sofr, EUR swaps vs 6M Euribor, Japan swaps vs Tona, GBP swaps vs Sonia, AUD swaps vs BBSW, CAD swaps vs CORRA OIS

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Appendix: Common acronyms

Exhibit 23: Common acronyms/abbreviations
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
ann	annualized	NADEF	Nota Aggiornamento Documento Economia e Finanza
APF	Asset Purchase Facility	NFR	Net Financing Requirement
APP	Asset Purchase Programme	lhs/LS	left-hand side
AS	Austria	m	month
BdF	Banque de France (Bank of France)	MA	Moving Average
BE	Belgium	MACD	Moving average convergence/divergence
BEA	Bureau of Economic Analysis	MBM	Meeting-by-meeting
BLS	Bank Lending Survey	mom	month-on-month
BoE	Bank of England	MPC	Monetary Policy Committee
BoI	Banca d'Italia (Bank of Italy)	MWh	Megawatt-hour
BoJ	Bank of Japan	NBFI	Non-bank financial institution
BoS	Banco de España (Bank of Spain)	NGEU	NextGenerationEU
bp	basis point	NE	Netherlands
BTP	Buoni Poliennali del Tesoro	NRRP	National Recovery and Resilience Plan
Buba	Bundesbank	NSA	Non-seasonally Adjusted
c	circa	NS&I	National Savings & Investment
CA	Current Account	OAT	Obligations assimilables du Trésor
CB	Central Bank	OBR	Office for Budget Responsibility
CNRF	Contingent Non-Bank Financial Institution Repo Facility	OECD	Organisation for Economic Co-operation and Development
CPI	Consumer Price Index	ONS	Office for National Statistics
CSPP	Corporate Sector Purchase Programme	OBR	Office for Budget Responsibility
CGNCR	Central Government Net Cash Requirement	p	preliminary/flash print
d	day	PBoC	People's Bank of China
GE	Germany	PEPP	Pandemic Emergency Purchase Programme
DMO	Debt Management Office	P&I	Pension and Insurance
DS	Debt sustainability	PMI	Purchasing Managers' Index
DXY	US Dollar Index	PMRR	Preferred Minimum Range of Reserves
EA	Euro area	PPF	Pension Protection Fund
EC	European Commission	PRT	Pension Risk Transfer
ECB	European Central Bank	PSPP	Public Sector Purchase Programme
ECJ	European Court of Justice	PT	Portugal
EFSF	European Financial Stability Facility	QE	Quantitative Easing
EGB	European Government Bond	qoq	quarter-on-quarter
EIB	European Investment Bank	QT	Quantitative Tightening
EMOT	Economic Mood Tracker	RBA	Reserve Bank of Australia
EP	European Parliament	RBNZ	Reserve Bank of New Zealand
SP	Spain	rhs/RS	right-hand side
ESI	Economic Sentiment Indicator	RPI	Retail Price Index
ESM	European Stability Mechanism	RRF	Recovery and Resilience Facility
EU	European Union	RSI	Relative Strength Index
f	final print	SA	Seasonally Adjusted
FPC	Financial Policy Committee	SAFE	Survey on the access to finance of enterprises
FR	France	SMA	Survey of Monetary Analysts / Simple moving average
FY	Fiscal Year	SNB	Swiss National Bank
GC	Governing Council	SPF	Survey of Professional Forecasters
GDP	Gross Domestic Product	STR	Short Term Repo
GNI	Gross National Income	SURE	Support to mitigate Unemployment Risks in an Emergency
GFR	Gross Financing Requirement	S&P	Standard & Poor's
GR	Greece	TFSME	Term Funding Scheme with additional incentives for SMEs
GSB	Green Savings Bond	TLTRO	Targeted Longer-term Refinancing Operations
HICP	Harmonised Index of Consumer Prices	TPI	Transmission Protection Instrument
HMT	His Majesty's Treasury	TTF	Title Transfer Facility
IMF	International Monetary Fund	UK	United Kingdom
INSEE	National Institute of Statistics and Economic Studies	UST	US Treasury yield
IP	Industrial Production	WDA	Work-day Adjusted
IR	Ireland	y	year
IGFR	Illustrative Gross Financing Requirement	yoy	year-on-year
PCA	Principal Component Analysis	ytd	year-to-date
IG	Investment Grade	DV01	Dollar value of a one basis point change in yield
IT	Italy	WAM	Weighted Average Maturity

Source: BofA Global Research

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