Global Rates Weekly

QTrick or QTreat

24 October 2025 Corrected

Rates Research
Global

The View: Fed primus inter pares

Fed meeting in focus amidst a central bank bonanza. Beyond the cut, markets will be focused on QT decisions – we expect an end. EA GDP and AU CPI also important.

Rates: Funding goosebumps

US: We see larger market response on CPI beat vs same sized miss; initiate 6m10y payer ladders. Now expect QT to end in Oct and see risk that Fed starts buying bills.

EU: We expect the ECB to hold rates in October and cut in December, but conviction on a December move is getting smaller; we stay bullish euro rates.

UK: We close our received Dec MPC trade after good news on inflation. What we regarded as an underpriced risk-reward trade now looks a little overpriced.

AU: We expect the 3Q CPI (due Oct 29) to show inflationary pressure that will keep the RBA on hold in November. We recommend paying Nov '25 RBA OIS (16bps cuts priced).

JP: Increase in JGB issuance avoidable if FY25 supplementary budget on par w/ FY24, but we flag potential risks. JGB curve could flatten if media indicates budget within ¥15tn.

CA: We expect BoC to hold its policy rate steady at 2.50% next week, though market pricing remains over 80% priced in.

Front end: Balance sheet boos

US I: Oct FOMC = QT stop & TOMO start, stay long Jan SOFR/FF.

US II/III/IV: Revised Fed QT view: now expect QT to stop end Oct vs prior expectation end Dec. Elevated bill supply may exhaust traditional demand sources; Fed likely needed to balance bill supply / demand dynamics. Repo jump last week stems from long-standing shift in cash / collateral balance.

AU: We turn bullish on AU bank bills ahead of a potential Fed QT change. We see BOB setting at or below 0bps for an extended period in the next 12 months.

Spreads & Inflation: Finland's debt brake & the terrible 2s

EU: Finland has introduced a debt brake. If deemed credible, it could be seen as a credit positive for future rating reviews, but important details are still unknown.

UK: We retain our RPI 1s2s flattener despite Sept print surprise. The rates rally has squeezed 1y1y "real Sonia" (1y1y Sonia less 1y1y RPI) to 11bp, and we would pay it

Technicals: Yields bounce, but downtrends remain

US10Y yield closed below 3.99% reinforcing our lower-yield bias. We view the current rebound as tactical with 4.08% / 4.20% as spots where the rebound may stall.

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Timestamp: 24 October 2025 06:00AM EDT

Our medium term views

Exhibit 1: Our medium-term views
Global views

Rationale	
Duration	• US: underweight, esp the front end. Pay April '26 FOMC OIS; April priced below end '26 median Fed dot with a cautious cutting cycle • EU: We are long 10y Bunds and received 10y5y €str. We expect lower rates (terminal Depo of 1.5). We expect 10y Bund yields to decline below 2.5% in 2H25, before selling off to 2.70% in 2026 • UK: We are broadly neutral Sonia relative to the forwards in the 10y, forecasting Sonia at 4.15% by end-2025 and 4.25% by end-2026. We are constructive Gilts tactically • JP: We expect the 10yr JGB yields to rise to 1.65% at end-2025. Lingering supply-demand concerns • AU: we recommend carry-rich flatteners because the range of outcomes for the RBA is narrow. We like paying 6m1y, receiving 1y5y swaps
Front end	• US: long Jan SOFR/FF. Fed funds is moving higher in range. Fed QT stop (expected end '25) should see MBS repayments shifted to bills, lowering repo • EU: Bank demand for excess liquidity may outstrip supply: Euribor-€str widening, repo to stay cheap vs €str. Receive Mar26 €str on more cuts to come • UK: Future BoE cuts are likely delayed. December Sonia no longer a cheap "out-of-the-money option" after recent rally. We have closed receive Dec MPC-dated Sonia trade • JP: We believe the next rate hike will be delivered in January 2026. TONA is likely to remain slightly below IOER in 2025 • AU: We recommend 1y1y BOB steepeners – funding markets to tighten as RBA drains liquidity
Curve	• US: 2s10s flatteners on fundamentals and front end SOFR H6/H7 flattener on the back of our less aggressive Fed cuts expectation • EU: given the more hawkish ECB reaction function, we see potential for the EUR 2s10s curve to come under flattening pressure in 2H25. Further out, we believe the 10y-30y bond curve can be resilient but look for a shift in P&I receiving to shorter maturities, leading to additional steepening in 10s30s swaps from year-end • UK: By value, BoE's active Gilt sales will increase in short and medium Gilts but not in longs, reinforcing our long-end flattening bias. Pay 10y Sonia v. 30y Gilt long • JP: We think the 5s30s curve could steepen again due to a lack of demand and potential for the Japanese government to draw up a supplementary budget • AU: We see flatter curves, outright and vs US. RBA to deliver fewer cuts than market pricing
Inflation	• US: long 10Y B/E inflation as hedge for loss of Fed independence and upside geopolitical risk • EU: We favor receiving 10y5y real €str and 2y3y/5y5y inflation curve steepeners. We also recommend shorting OATei 2047s vs BTPei 2056s on iota • UK: We would receive forward real yield between UKTi 2035 and UKTi 2049, vs paying equivalent forward in TIPS. Be long UKTi 2027s on z-spread, expecting bank demand • JP: Food inflation which has been the main driver of CPI is expected to slow. Thus, 10yBEI is unlikely to rise further in the near-term
Spreads	• US: Treasuries are cheap historically and post-April tariff announcements. UST swap spreads offer value over MBS, IG, and HY • EU: the periphery has been resilient as investors focused on the improved medium to long term EZ growth outlook, but are cautious near term given complacency around the trade war with the US, and richness to equity & vol. We expect mild tightening pressure on 5-10y German swap spreads • UK: We continue to see scope for some 30y Gilt performance ahead and stay long 30y Gilts on ASW • JP: Given (1) the fiscal risk 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. We like tighter semi ASW and semi-ACGB spreads in the long end
Vol	• US: Vol targets. 2H25 targets: 1y10y 80-95bp; left underperformance vs right, 1y10y vs 1m10y spread fair c.5bp (±5bp), 6m10y payer ladder 20bp. Long fwd vol bias • EU: We expect implied vols to come lower with 1y10y around 70bp range and LHS cheapening vs RHS • AU: Vol bias continues to be lower and directionally skewed towards receivers. Less scope for left to underperform vs right

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Our key forecasts
Global forecasts

% EoP	2023	2024	YE 25	Q1 26	Q2 26	Q3 26	YE 26	YE 27
Fed Funds	5.25-5.50	4.25-4.50	3.75-4.00	3.75-4.00	3.50-3.75	3.25-3.50	3.00-3.25	3.00-3.25
10-year Treasuries	3.88	4.57	4.00	4.05	4.10	4.15	4.25	4.25
ECB refi rate	4.50	3.15	2.15	1.65	1.65	1.65	1.65	2.15
10y Bunds	2.02	2.36	2.50	2.50	2.60	2.65	2.70	2.90
BoJ	-0.10	0.25	0.50	0.75	0.75	1.00	1.00	1.50
10y JGBs	0.61	1.09	1.65	1.75	1.80	1.90	2.00	2.25
BoE base rate	5.25	4.75	4.00	3.75	3.50	3.50	3.50	3.50
10y Gilts	3.53	4.56	4.80	4.85	4.85	4.90	5.00	5.10
RBA cash rate	4.35	4.35	3.35	3.35	3.35	3.35	3.35	3.60
10y ACGBs	3.96	4.36	4.15	4.20	4.25	4.25	4.40	4.40

Source: BofA Global Research

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What we like right now

Exhibit 3: What we like right now
Global views

AMRS :	Tactically underweight front end (pay Apr '26 FOMC OIS), SOFR H6/H7 flattener, 2s10s flattener, long 10y BE, long fwd vol, long Jan '26 SOFR/FF
EMEA :	We are long 10y Bunds, received 10y5y €str (nominal and real space), received Mar26 €str, and in 6m fwd 2s10s floor ladders.
APAC:	Pay 6m1y, receive 1y5y swaps. Spreads: pay 1y1y bills-OIS basis (BOB), buy TCV 5.5% Sep-2039 vs 10y AU swap., pay 3y swap EFP

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

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The View

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The week that will be

This week's main data release is yet to come: the (delayed) September US CPI print. Next week's FOMC decision is unlikely to be impacted by today's print – our economists expect a 25 bp cut in line with consensus and market pricing. An upside surprise could change market pricing for December and beyond. We remain paid April FOMC dates and add a 10y payer ladder to hedge upside risks in US rates (see US Rates Alpha 21 Oct 25).

The inflation print also matters for technical reasons: 1/ depending on how long the shut-down lasts it may be the last inflation print before the December meeting; 2/ it is very likely going to be used as a fallback print for the TIPS market, with potentially different fallback provisions for the swaps markets (see US Rates Watch 22 Oct 25).

Finally, we now expect the FOMC to also confirm the end of QT at next week's meeting (see US Rates Watch 23 Oct 25). Current, unusual, repo market dynamics signal that reserves are no longer abundant and recent Fed speak seems to acknowledge that.

In contrast, we expect the ECB, BoJ and BoC to stay on hold. The ECB meeting is likely to be a placeholder in the absence of new forecasts. However, the EA 3Q GDP print as well as national inflation prints may already challenge the ECB's "good place" rhetoric.

BoJ communication will be parsed for signals of the December vs January likelihood for the next move, with rates market probably most focused on the number of dissenters favoring a hike (see Japan Macro Watch 23 Oct 25). Combined with a lower chance of an upside surprise in the supplementary budget, the near term steepening risks have declined (Japan Rates and FX Watch 23 Oct 25).

Our economists expect the BoC to remain on hold, especially after this week's inflation data (see Liquid Insight 22 Oct 25). Consensus and market pricing still favor a cut.

Finally, next week's 3Q CPI print in Australia will likely show sufficient inflationary pressure to keep the RBA on hold in November (see Australia Watch 21 Oct 25). We recommend paying November RBA OIS (also see Rates – AU).

The week that was

UK inflation came in weaker than expected. A rate cut in November remains unlikely given budget timing (see UK Watch 22 Oct 25). We closed our received Dec MPC Sonia recommendation (see UK Rates Watch 22 Oct 25).

We think this week's print confirms the peak in inflation in New Zealand with weak details pointing to disinflation ahead (see New Zealand Watch 20 Oct 25). On the other hand, Inflation in Canada remains sticky (see Canada Watch 21 Oct 25).

Basel 3 endgame finalization may be near. We see B3 endgame and eSLR changes mostly priced in. More market moving will be decisions on GSIB surcharge and Treasury dealer capacity (see Regs update: US Rates Watch 22 Oct 25).

Finally, France was downgraded to A+ in a surprise move by S&P (see Euro Area Macro Viewpoint 20 Oct 25). We see spreads stabilizing in the 80-85 bp range.

Rates – US

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- We see larger market response on CPI beat vs same sized miss; stay short April '26 FOMC OIS, long 10y BE & initiate 6m10y payer ladders.
- Now expect QT to end in October and see risk that Fed starts buying bills; we hold our long January SOFR/ FF position.

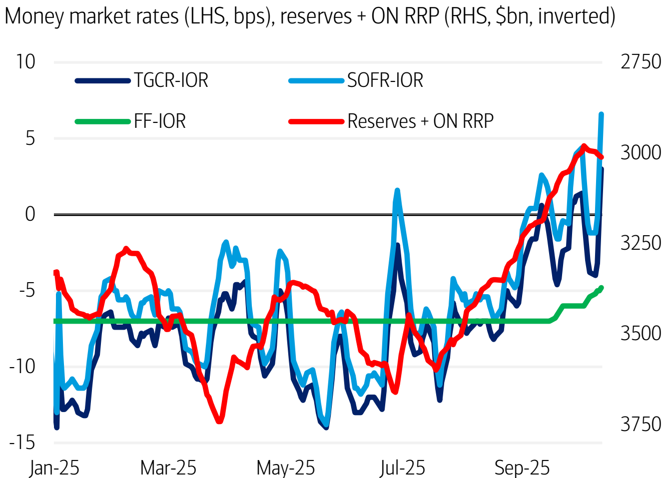
Funding goosebumps

The curve modestly bear flattened on the week as the market priced more caution on cuts near term alongside limited data flow & funding pressures. We now expect Fed to end QT next week (see: Fed QT stop: end October) and start MBS to bill purchases. Bill purchases will stem from MBS reinvestments but Fed could also justify backfilling reserves. Fed TOMO near IOR as backfill increasingly likely half step. Fed bill buying would offset larger amounts of issuance (see: Bill demand gap: Fed help likely needed).

We think that today's CPI print has the capacity to either endorse the cutting pace priced by market or meaningfully push back. As discussed in The inflation print that may count twice, there is significant risk that September CPI is the last inflation print we get for remaining Fed meetings this year; the October print is unlikely to be calculated & November print will likely be delayed. Compared to consensus expectations for 0.3% MoM core (consistent with what our US econ team expects see: CPI preview), we think that there would be a larger rates repricing on a 0.4% MoM print vs a 0.2% MoM print. We continue to like being paid April '26 FOMC OIS, are long 10y BEs and closed our 1y10y inflation swap steepener.

Below we detail our thinking on Fed QT end, update on regs views, and discuss payer ladder hedge for higher rates.

Exhibit 4: Money market rates relative to IORB and reserve balances + ON RRP (1w MA)
Money market rates (LHS, bps), reserves + ON RRP (RHS, $bn, inverted)



Source: BofA Global Research, Bloomberg

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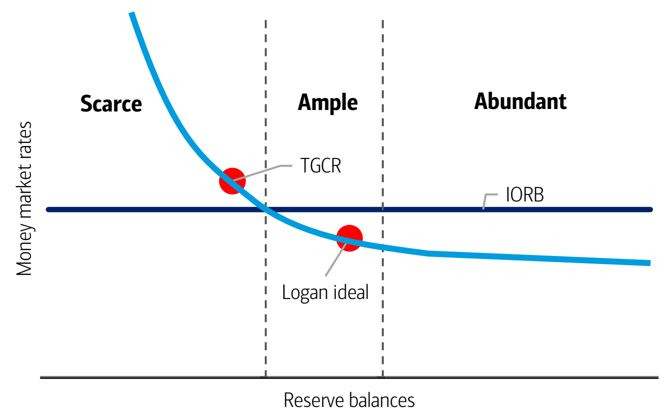
Exhibit 5: Stylized reserve balance demand curve in Fed's ample reserve regime
As reserves drain from abundant to ample, money market rates will become increasingly sensitive to changes in reserves



Source: BofA Global Research

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Repo jump suggests backfill risk

As noted above, we see room for Fed to not only end QT in October but restart balance sheet growth. Key to our thinking is Logan's comments in August that "market rates close to, but perhaps slightly below, [IORB]". Logan thinks TGCR matters most. For TGCR

to sit below IORB, it implies reserves at ~$3.15tn (Exhibit 1 and Exhibit 2). Other views at Fed may differ, especially on FF vs TGCR focus. If Logan's view were to materialize, Fed bill buying backfill = ~$150b. Fed could backfill w/ bill buying at $50-100b/m or new repo operations closer to IOR. We continue to favor being long January SOFR/ FF to position for Fed that ends QT & is active in bills market.

B3 & eSLR changes are largely priced

Basel 3 endgame finalization may be near. We see B3 endgame and eSLR changes mostly priced in. News reports on Wednesday indicate that outlines of a final rule on B3 endgame from the Fed has been distributed to other agencies for review. The reports suggest that the proposal will have a negligible impact on total bank capital needs (3-7% area for large banks), a marked improvement from the original proposal requiring closer to 19% additional capital.

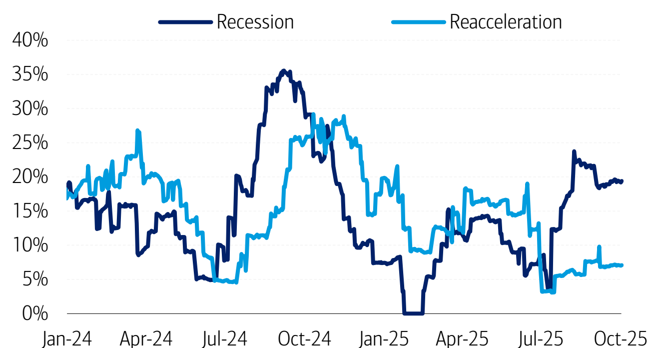
This does not come as a surprise, however, given that the Fed's bank capital conference in July showed strong consensus amongst all stakeholders for getting B3 finalized and making it close to capital neutral for the banking system. More market moving will be decisions on GSIB surcharge and Treasury dealer capacity. We think regulatory relief for primary dealers could materially widen swap spreads. For greater detail see: Regs update—taking a step forward.

Overpriced slowdown supports 6m10y payer ladders

Market sees risks around the outlook skewed to the downside (Exhibit 6) & c.80-85% likelihood of slowdown scenarios (Exhibit 7). In the absence of a clear catalyst for harder landing scenarios, current conditions start to support a contrarian view in conditional space. Costless 6m10y payer ladders (indicative strikes atm/atm+20bp/atm+40bp) have downside breakeven c.4.12% (i.e., around O/N fed funds) with positive carry c.4.5bp/3m (max upside = 20bp, stop = -10bp). These structures are short vol & long the market at inception, and therefore position for a scenario where rates gradually underperform the forwards. Risk = selloff beyond the downside breakeven, likely driven by a material hawkish repricing of Fed policy expectations, with potentially unlimited downside.

Exhibit 6: Likelihoods of tail scenarios

Downside shift in the balance of risks since late July / early August



Source: BofA Global Research

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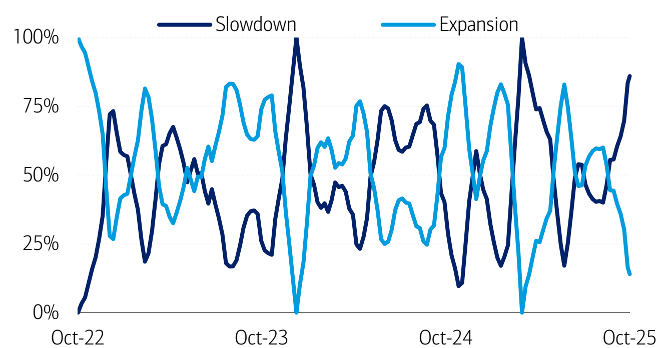
Exhibit 7: Likelihood of slowdown vs expansion scenarios

Slowdown likelihoods c.80-85%



Source: BofA Global Research

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Bottom line: We believe a strong CPI print today has the capacity to shake up a market that is long duration and priced for low vol outcomes. We continue to favor being paid April '26 FOMC OIS, long 10y BEs and closed our 1y10y inflation swap steepener. We also initiate a 6m10y payer ladder as we see slowdown risks overpriced. In our view, today's funding pressure is enough to warrant Fed QT end and potentially restart bill purchases or new Fed repos, and we hold our long January SOFR/ FF position.

Rates – EU

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- We expect the ECB to hold rates in October and cut in December, but conviction on a December move is getting smaller; we stay bullish euro rates.
- Recent French developments suggest 10y OAT-Bund at 80-85bp and contributed to the German spread widening, but we see limited short-dated asset impact for now.

ECB preview: waiting for December, or later

We expect the ECB to keep its policy rates on hold in its October meeting with the depo rate at 2.00%, in line with market expectations. The ECB sent hawkish signals since the summer and changed its risk assessment in September from skewed to the downside to being balanced. President Lagarde will likely reiterate that the ECB is in a good place and that recent developments broadly match expectations in the September forecast exercise. We expect minor changes to the assessment of the outlook and the balance of risks. Lagarde will insist on no pre-committing and on a meeting-by-meeting approach.

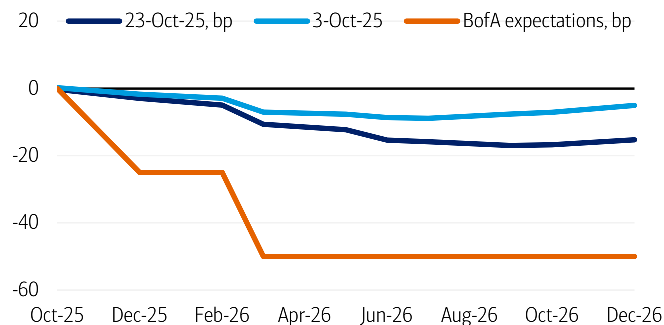
Base case still for depo to go to 1.50% by Mar26

Our economists still expect a cut in December, at least for "insurance", but conviction on December move is getting smaller. Our base case remains for the ECB to deliver a 25bp cut in December 2025 and March 2026. Downside risks grew since the September meeting: 1) trade uncertainties are rising again and will weigh on investment, and 2) fiscal and political uncertainty in France will weigh on the outlook. Data next week will show weaker activity and, at best, inflation in line with its expectations. Data from then until the December meeting will likely reinforce that.

We stay bullish euro rates

The market raised its rate cut expectations since Prime Minister Lecornu's resignation on 6 October, but less than a cumulative 20bp cut is priced-in by 2H 2026 (Exhibit 8). 10y real GDP yields have also come down as more rate cuts were priced in but remain comfortably near the peak of the ECB's last hike cycle (Exhibit 9). We stay bullish euro rates via 1) received Mar26 ECB €str (current: 1.82%, target: 1.65%, stop: 1.95%), 2) long 10y Bunds (current: 2.58%, target: 2.4%, stop: 3.05%), and 3) received 10y5y €str (current: 3.2%, target: 3%, stop: 3.7%). Risks to all three recommendations are a better-than-expected data, another risk to the received 10y5y €str trade is bank paying flows.

Exhibit 8: We still expect more ECB cuts than the market
BofA and market pricing of cumulative ECB rate changes, bp



Source: BofA Global Research, Bloomberg

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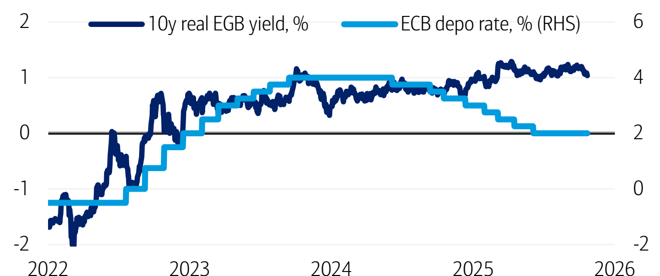
Exhibit 9: 10y real EGB yield declined so far October 2025 but still comfortably above recent peak
ECB depo rate and 10y real EGB yield, %



Source: BofA Global Research, Bloomberg. 10y EGB real yield uses 10y nominal EGB yields, weighted by GDP and subtracts 10y inflation swap.

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We see 10y OAT-Bund at 80-85bp post S&P downgrade

We believe 10y OAT-Bund will rise to a range of 80-85bp following the surprise downgrade by S&P of France on 17 October from AA- to A+ (see Euro Area Macro Viewpoint, 20 Oct 2025). Near-term events in France are: 1) Moody's review of France on 24 October: we believe a rating downgrade is possible but would be seen as a significant step as they have currently France on stable outlook, unlike S&P and Fitch who had France on negative outlook prior to the downgrade, 2) debate in parliament over the 2026 budget: we believe an outcome of 5-5.4% is more realistic than the 4.7% budget draft presented by Prime Minister Lecornu. But the level of political fragmentation suggests the debate will be challenging and we would not rule out current budget provisions being rolled into 1Q26 if roadblocks remain high.

Foreign holders are our primary concern for France regarding the investor base

Our primary concern regarding the investor base is the large foreign holders. Year-to-August 2025, France recorded the largest foreign inflows from both official and non-official investors when compared across the four largest euro area economies at c. €120bn (Exhibit 10). For foreign official investors, we estimate as a base line that a downgrade of France to single A could result in a €70bn reduction in French general government debt holdings. Deviations to this base line could be driven by how investors treat external credit ratings and their own internal credit limits.

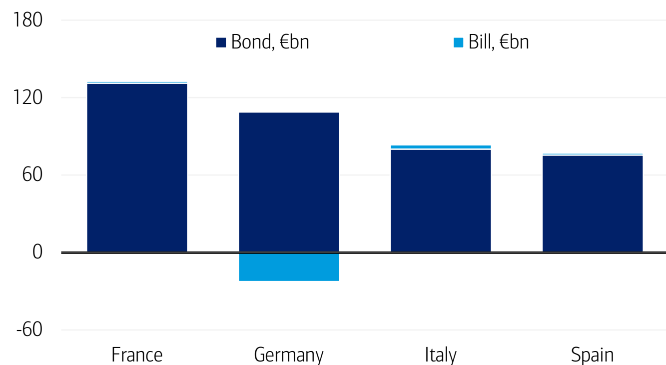
French credit rating impact on short-dated assets may be larger if below A-

We believe short-dated euro assets may be more impacted by France's credit rating downgrades if it is at risk of falling strictly below A-, which is something we do not see in the foreseeable future. In this risk scenario, France's eligibility in some triparty systems may also be at risk. The impact of the S&P downgrade and political events since August on France GC has been limited and we believe this reflects firm demand for France GC from banks, official investors, and short-dated investors who have adjusted their credit rating requirements to allow for continued purchases of French assets. Yet we believe cheapening pressures are still existent on France GC and that it may cheapen by 2-3bp if the 10y OAT-Bund spread is in our expected range.

France may have contributed to German swap spread widening so far in Oct

German swap spread widened c. 3bp since 3 October in the 2y, 5y, and 10y tenor. Our swap spread regressions suggest 45-75% of that widening could not be explained by peripheral spreads, rate volatility, and repo (Exhibit 11). We would interpret this residual widening as capturing the impact of 1) the recent increase in French political and fiscal uncertainty, 2) trade war escalation, and 3) global risk-off.

Exhibit 10: France recorded most foreign inflows year-to-August
Foreign inflows into euro area government bonds year-to-August, €bn



Source: BofA Global Research, Haver

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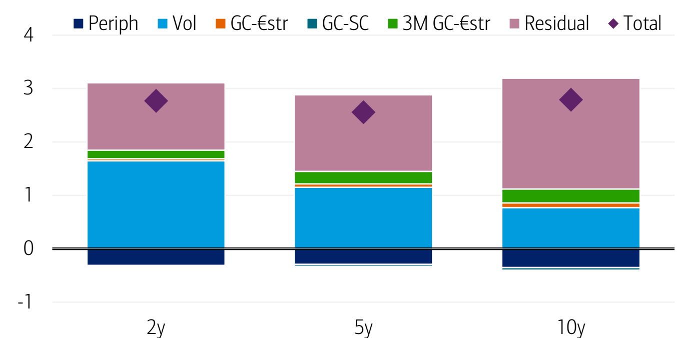
Exhibit 11: France may have widened German swap spreads by 1-2bp
Change in swap spreads since 3 October attributed to peripheral spreads, rate volatility, and repo, bp



Source: BofA Global Research, Bloomberg

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Rates – UK

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- We close our received Dec MPC trade after good news on inflation. What we regarded as an underpriced risk-reward trade now looks a little overpriced.

Clear the Dec

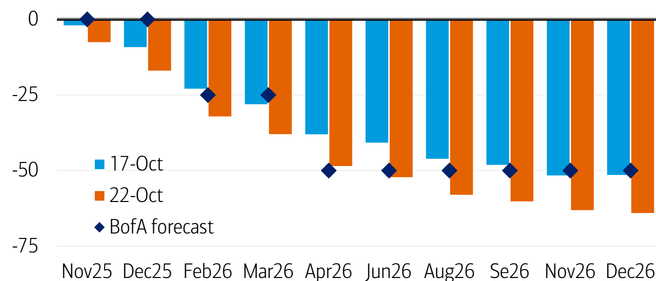
Weaker than expected UK inflation data triggered another bout of repricing of Gilt yields lower and BoE rate cut expectations higher this week (Exhibit 12 and Exhibit 13). Our economists read the inflation print as encouraging, with the potential September peak in inflation not as high as feared. But they remain of view that the next Bank rate cut will occur in February 2026, with the MPC needing to see more inflation progress and the Budget contours in the meantime (for more, see Inflation Review: Inflation weaker than expected, 22 October). In turn, we no longer see December MPC dated Sonia as a cheap "out-of-the-money option", with 17bp of Bank Rate cuts priced in by year-end (for more, see Closing receive December MPC-dated Sonia, 22 October).

This week's long-end Gilt performance was aided by welcome news on the public sector finance front, outlined in more detail below. The last auction of long-end Gilts in 2025, £0.7bn (cash) of 1.5% Green Gilt 2053 on Tuesday, also means that long-end supply will be limited to an APF long-Gilt sale on 3 November (£0.55bn) and possibly a programmatic tender. Lack of supply should benefit our constructive long-end stance, assuming the Autumn Budget does not deliver a negative surprise:

- We **keep long 30y Gilt on ASW** (using UKT 4.375% 2054) with a target of 75bp (monitored on z-spread basis) and a stop of 100bp (we entered the trade on 2 May at 91bp: for more see On the lookout for slower QT hints). Current: 88bp. Risk to the trade is material fiscal slippage against deficit objective.

- We **keep pay 10y Sonia versus long 30y Gilts** (using 30y benchmark UKT 4.375% 2054) entered on 19 September at 139bp targeting 120bp with a stop of 155bp (see our report United Fedlines for more). Current: 130bp. Risk to the trade is sharp curve steepening on the back of fiscal worries.

Exhibit 12: Front-end Sonia staged another strong rally this week, spurred by weaker than expected inflation data
Sonia-implied Bank Rate cut pricing and BofA forecasts (bp)



Source: Bloomberg, BofA Global Research

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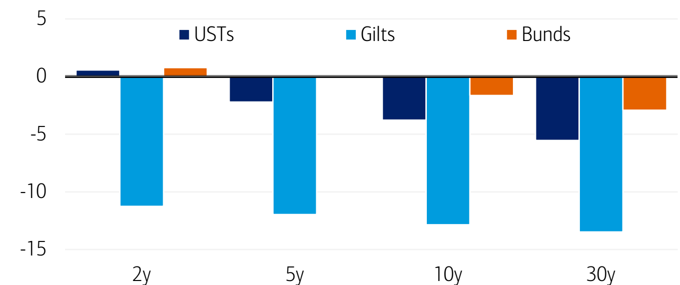
Exhibit 13: Gilts again performed well cross-market this week, with a rally of nearly 15bp in 30y and a flatter term structure
UST, Gilt and Bund yield changes since 3 October, bp



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Next week, BoE Bankstats data may shed light on recent Gilt demand dynamics. We will pay attention to Gilt demand from foreigners, who seemed to be buying opportunistically in July, with the Government's commitment to fiscal rules after the 2 July market volatility perhaps providing some comfort (foreigners reduced their Gilt holdings by £6.0bn in August, having added £22.3bn in July). The domestic bank bid for Gilts will be interesting to see for signs of demand for carry in the 10y area (one of the

reasons behind our pay 10y Sonia versus long 30y Gilts trade idea). Domestic bank holdings have risen steadily every month since July 2024 with £6.1bn per month of net purchases on average.

Below is an excerpt from Public Sector Finance data for September, 21 October.

Public sector finance data for September: a glimmer of light

The UK's public sector finance data for September released on Tuesday showed the CGNCR, on which the DMO bases its funding arithmetic, coming in at £15.9bn, £4.1bn below the OBR forecast published in March 2025. Cumulatively, the CGNCR amounted to £89.0bn in fiscal year-to-September, an overshoot of £6.0bn versus the OBR's projection (Exhibit 1). NS&I net inflows stood broadly unchanged at £3.6bn fiscal year-to-September, £8.1bn away from the fiscal year target of £11.7bn (Exhibit 2). Average monthly NS&I fluctuations since 2021/22 would now imply the NS&I raising £8.3bn by fiscal year-end, within the ±£4.0bn contribution range agreed with HM Treasury.

The last pre-Budget set of Public Sector Finance data for October is due on 21 November. We expect this CGNCR slippage to be reduced further by about £4.0bn because of lower projected capital transfers from the Treasury to the APF, due to lower-than-previously-projected active QT from October (reducing crystalised losses).

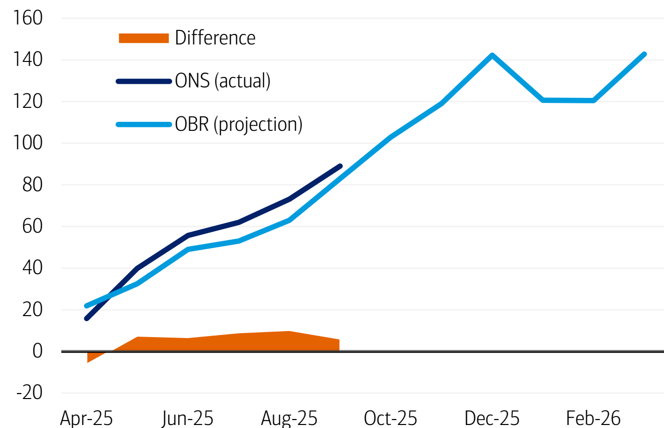
The DMO is well placed to navigate the Autumn Budget

The CGNCR outcome in September leaves the DMO well placed to navigate the Autumn Budget with the DMO likely able to cancel some, if not all, of the 1Q26 long Gilt auctions, redirecting the cash to the long Gilt syndication in 1Q26 instead (potentially a repeat syndication of the new 15y), or cancel the syndication, but keep the auctions. In either scenario, communication on the long-end "bucket" WAM target - a strong signal of the DMO's commitment to managing it down – would be market-positive.

We also remain of the view that T-bills are an efficient way to accommodate in-year Remit changes and could at least partially alleviate the CGNCR spillover so late in the financial year. Any communication on T-bill market development would also be well received by the market, we think.

Exhibit 14: CGNCR ex. National Rail Asset Management (NRAM) and Bradford & Bingley (B&B), Network Rail (NR), £bn

£6.0bn cumulative slippage six months into fiscal year 2025/26

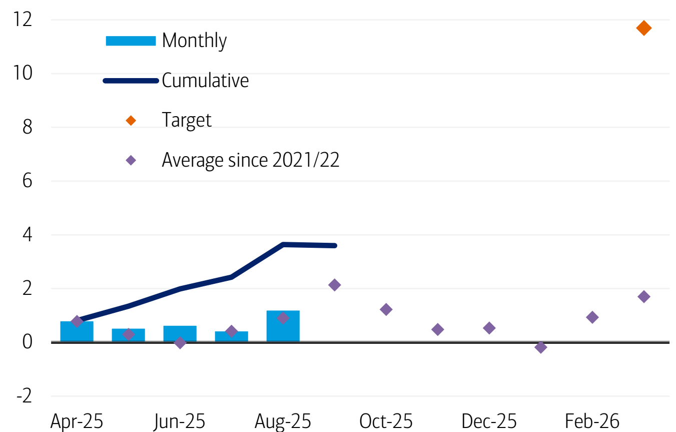


Source: ONS, OBR, BofA Global Research.

BofA GLOBAL RESEARCH

Exhibit 15: NS&I monthly and cumulative flows, £bn

At £3.6bn as of September, £8.1bn away from the £11.7bn target



Source: ONS, BofA Global Research

BofA GLOBAL RESEARCH

Rates – AU

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- We now see RBA pause in Nov and recommend paying Nov '25 RBA OIS.
- We still like paying front-end flatteners (pay 6m1y/ receive 1y5y swaps).

RBA to leave rates unchanged, pay Nov RBA OIS

We expect the 3Q CPI (due Oct 29) to show broad-based inflationary pressure that will keep the RBA on hold in November. We recommend paying November RBA OIS.

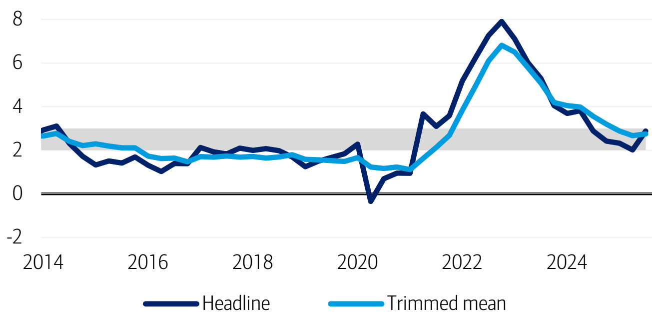
Inflationary pressure on the rise…

We forecast trimmed mean inflation, the RBA's preferred measure, will rise by 0.9% q/q and 2.7% y/y (from 0.6%, 2.7% in 2Q). Sticky services inflation, also evident in many peer economies, coupled with rising housing inflation poses an upside risk to the inflation outlook, in our view. See Australia Watch 21 October 2025.

… forward-looking indicators suggest labour market tightness

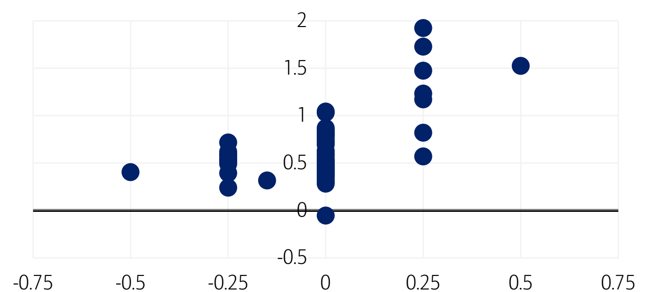
Accelerating inflation in 3Q reflects persistent CPI components, which coupled with rising private demand momentum, signals upside risks to the inflation outlook. While the labour market was weaker than expected in September, monthly data are noisy and trends and forward-looking indicators suggest labour market tightness (see our report: Labour review: soft headline, firm fundamentals).

Exhibit 16: Headline inflation forecast to rise to 2.9% while trimmed mean remains broadly steady at 2.7% in 3Q
Headline and trimmed mean inflation (% y/y)



Source: ABS, BofA Global Research. Note: Latest observation reflects BofA forecast.
BofA GLOBAL RESEARCH

Exhibit 17: The RBA has not cut in the meeting immediately following a 0.8% q/q trimmed mean or higher since at least 2010
RBA cash rate change (x-axis) vs trimmed mean q/q (y-axis) over 2010-25



Source: ABS, RBA, BofA Global Research
BofA GLOBAL RESEARCH

RBA: on hold at 3.60%…

We now expect the RBA will remain on hold at 3.6% in November (prior 25bp cut) following ~30bps upside surprise to the RBA's 3Q trimmed mean forecast, after an upside surprise in 2Q, sees core inflation (annualized) of ~3%. Moreover, the RBA has not cut rates in the meeting following a 0.8% q/q or higher trimmed mean post-GFC.

Pay November RBA OIS

We recommend paying November '25 RBA OIS. We enter the trade at 3.415% with a target of 3.6% and a stop loss of 3.35%. Risk: RBA lowers rates in November. An unexpected increase in the headline unemployment rate fueled a 9bp rally in November RBA OIS. Investor feedback before the print suggested paid positions were popular so the substantial rally in the front contract was probably exacerbated by an unwind of crowded positions. As a result, market pricing ahead of CPI now looks especially attractive for shorts.

Rates – JP

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- We think an increase in JGB issuance is avoidable if the FY25 supplementary budget is on par with FY24. Risks to our view include frontloaded defense spending targets, funding for US investments.
- JGB curve could flatten if media reports indicate budget to be within ¥15tn.

This is an excerpt from Japan Rates and FX Watch, 23 October 2025

FY25 supplementary budget funding

The extraordinary Diet session that began on 21 October will discuss the fiscal policy options advocated thus far by Japan's ruling and opposition parties. While some (e.g., scrapping the provisional gasoline tax) will be implemented in FY25, others such as consumption tax cuts are further off.

For the purposes of JGB supply-demand, we will be watching whether these policies require an increase in issuance, and if so its scale and timing. At this point, we do not expect the FY25 supplementary budget to lead to an increase in JGB issuance to institutional investors, but we think the risk of additional issuance would increase if the budget exceeds ¥10tn.

Budget thresholds that would trigger more FY25 issuance

At this early stage of the extraordinary Diet session there is naturally considerable uncertainty about the size and details of the FY25 supplementary budget. However, if it is smaller than FY24's ¥13.9tn, we think the government could narrowly avoid increasing JGB issuance within FY25.

1. Above-forecast tax revenues, below-forecast JGB interest payments: Tax revenues have tended to exceed MOF's initial forecasts in recent years[1] while JGB interest payments come in below, resulting in a budget surplus. Under Japan's Public Finance Act, half of the budget surplus is used to fund JGB redemptions and the remainder for fiscal spending. If the surplus is on par with FY24, it would provide ¥1tn-1.5tn in funding.

2. Reallocate frontloaded JGB issuance: MOF tends to shift the issuance for frontloaded JGBs to Newly-issued Bonds when drawing up supplementary budgets to avoid increasing auction issuance during the fiscal year. For instance, the entire ¥2.7tn increase in special deficit-financing bond issuance in the first FY22 supplementary budget involved reallocating frontloaded issuance to avoid increasing auction issuance to institutional investors. MOF plans to increase frontloaded bond issuance by around ¥7tn in FY25, and it has the option of reallocating this to fund the FY25 supplementary budget.

3. Increase JGB issuance to individual investors: The recent rise in rates has prompted an increase in issuance to individual investors. MOF plans around ¥5.1tn in issuance to individuals in FY25, and we think it could increase this by around ¥1tn[2].

[1] MOF's simulation of FY25 JGB interest payment costs assumes a nominal coupon on 10-year JGBs of 2.0%, versus the recent 10yr JGB yield of around 1.65%.
[2] Total issuance of JGBs for individual investors across all maturities in FY25 to date has averaged 20–30% higher per month compared to FY24.

4. Reallocate FILP bond issuance: MOF has the option of reallocating the issuance for FILP bonds to other JGBs such as special deficit-financing bonds when drafting the supplementary budget. For instance, during the FY23 supplementary budget process it reduced the original ¥12tn issuance for FILP bonds by ¥7tn while increasing issuance of construction and special deficit-financing bonds. Planned FY25 FILP bond issuance is ¥10tn, a portion of which could be reallocated to issuance of other government bonds.

Increase in defense spending, $550bn in US investments

However, there is also a risk that MOF may not be able to use above-forecast tax revenues and reallocated FILP bond issuance for the FY25 supplementary budget. Japan has set a target to increase defense spending from the current level of around 1.8% of GDP (approximately ¥9.9 trillion) to 2% by FY2027, but new prime minister Sanae Takaichi reportedly aims to reach this 2% target during FY25. Since FY23, the Japanese government has been using half of the preceding fiscal year's budget surplus to fund increases in defense spending. The reasons behind Takaichi's decision to frontload the increase may include (1) another potential tax revenue overshoot in FY25, and (2) the planned 27-29 October visit by President Trump, who is also pushing Japan to spend more on defense. Assuming the FY25 budget surplus is similar to FY24, and 50% is used to fund higher defense spending, we think the 2% target is achievable.

It may also not be possible to reallocate the FILP bond issuance quota to other government bonds during the FY25 supplementary budget process. This is because a portion of the $550bn (roughly ¥80tn) in US investments agreed by the Ishiba administration is likely to be funded through FILP bond issuance and USD/JPY currency swaps. If it proves impossible to reduce FILP bond issuance as in the past, we see the risk that total JGB issuance could increase (for more on Japan's US investments, see Japan Rates and FX Watch: Japan preparing for $550bn US investment 02 October 2025).

We therefore think MOF could narrowly avoid increasing JGB issuance to institutional investors during FY25 if the supplementary budget is close to FY24's ¥14tn. However, given that reallocating frontloaded JGB issuance or increasing issuance to individuals may be its only options, we see a greater risk of higher JGB issuance if the supplementary budget is larger than ¥10tn.

Market implications

The new LDP-JIP coalition is two seats short of a majority in the Lower House and six short in the Upper House. It will therefore need to coordinate with other parties to secure a majority. All of Japan’s political parties promised fiscal stimulus during the Upper House election race; if the LDP opts to cooperate with the DPFP, with which it has long been in discussions, this would require it to compromise both with the JIP on reducing social insurance premiums and with the DPFP on income tax cuts, increasing the bias toward procyclical fiscal policy (for details, see Japan Watch: New LDP-JIP coalition: Policy & market implications 20 October 2025).

However, this is a longer-term issue, and we think JGB auction issuance is unlikely to increase during FY25. Thus, we believe that JGB curve could flatten if media reports indicate the FY2025 supplementary budget to be within ¥15tn (for details on fiscal policy measures under the new Takaichi administration, see Japan Viewpoint: Takaichi’s fiscal policy: Options and key focus ahead 09 October 2025).

Rates – CA

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- We expect BoC to hold its policy rate steady at 2.50% next week, though market pricing remains over 80% priced in.

This is an excerpt of BoC preview: BoC cut likely delayed to Dec

BoC likely to delay cut to December amid sticky inflation

We expect the BoC to keep its policy rate unchanged at 2.50% on Oct 29. The decision will likely be driven by persistently elevated core inflation-both measures remain above 3.0% (Chart of the day)-and a strong rebound in Sep's labor market report (+60.4k net job gains). Despite these developments, the broader economy remains weak, with the unemployment rate above its likely natural level. We continue to expect the BoC to lower its policy rate to 2.00% through 25bp cuts in Dec and Jan. The main risk to our forecast lies in timing: the BoC could opt to cut in Oct if it chooses to look through sticky core inflation. On FX, we think that risk/reward favors positioning for lower USD/CAD. The BoC kept the door open to cuts.

What to expect from the Monetary Policy Report?

We expect the BoC to consider uncertainty sufficiently reduced to resume its standard economic forecasting framework, moving away from scenario-based projections tied to US tariff developments. While trade negotiations remain ongoing and uncertainty is still elevated, the BoC is likely to base its updated forecasts on the current tariff environment.

Rates: CAD curve prices out cuts - but not enough

Canadian rates have rallied over the last month, driven by the back-end, with the 2s10s curve slightly flatter on net. As of this writing, the market is pricing in an 80% chance of a BoC cut at their October meeting following a stronger than expected labor market report earlier this month and despite higher inflation. 80% looks high given that Dec/Jan would be an equally viable option to deliver another 50bp cuts - but allows BoC to see if the inflation uptick continues. Notably the BoC has cut over 90% of the time when market pricing of a cut was greater than 80% priced in.

At 2.5% nominal policy, BoC is arguably running negative real policy and so is likely not worried about being overly restrictive. The 80% probability for the Oct meeting in our view reflects a BoC that is more in a hurry than it may need to be. We expect a lower cutting trough than what the market currently prices in, which creates risk of lower front-end rates and a steeper curve.

While we like flatteners in the US, a CAD curve steepener also looks compelling vs the US flattener in our view. We see the CAD curve steepeners as a relatively carry-efficient way to hedge global tariff risk and other steepening risks. Though US-CA trade negotiations have resumed, uncertainty remains. A public hearing is set for Nov 17 to discuss the United States-Mexico-Canada Agreement (USMCA) and public comment on the current agreement is open until Nov 3. Uncertainty regarding tariffs and ongoing trade negotiations will likely continue to weigh on CAD rates with risks of higher inflation but weaker growth.

Front end – US I

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TOMO half step now our base case

Funding is fluid, our views on Fed actions are too. We believe the Fed will stop QT next week and believe the only way to re-establish "ample" reserves is to add liquidity (see Fed QT stop: end Oct). Our writings have focused on bill buying backfill, aka POMOs (see: Fed backfill risk). We view POMOs as the most robust solution, but may seem extreme to some at the Fed. We acknowledge the appeal of a TOMO "half step". We now expect Fed to take TOMO half step at Oct FOMC via O/N and term repo operations slightly above IOR.

Oct FOMC: now expecting TOMO half step

New Oct FOMC base case: Fed introduces TOMO for O/N at IOR+5bp & term (14d) at IOR+10bp, size $500b (aka unlimited). IOR 5bp cut too. **Logic**: Fed liquidity needed, mkt can tell it size. **Challenge**: awkward & obviates need for SRF. **Client pushback**: Fed too interventionist, market not free. **Our retort**: Fed repo looks scarce, repo drives FF.

Client Qs / feedback: (1) Q: what is difference btw TOMO & SRF? A: counterparties only; SRF = PDs + bank depositories, TOMO = PD only (2) Q: is SRF > TOMO stigma? A: yes, esp for banks (3) why not POMO backfill? A: they should but extreme for some Fed.

Client biggest pushback: Fed ample definition has changed, Fed willing to see repo > IOR, IOR can be lowered to increase bank repo incentive, SRF should be used in larger size. **Our response**: banks don't have excess cash & would otherwise be lending, IOR cut only sees repo charge faster to SRF, '19 ghost says don't over-drain *again*. **Worst Fed outcome** = mini step next week => Nov repo spike => Nov TOMO / POMO scramble.

Our frustrations: (1) Fed ignored shifting funding landscape & believed reserves well abundant (2) Fed did not tell us ideal money market (MM) setting post QT. Minimal Fed MM guidance leads to elevated market uncertainty about reaction function next week.

TOMO history: Fed TOMO half stepped in '19

Fed did TOMO half step in '19. Fed '19 TOMO = IOR flat & $75b total. Fed then rolled out term TOMOs & POMOs. '19 history rhymes in '25.

Market impact: TOMO = wider SOFR/FF

TOMOs at IOR+5bp cap SOFR and TGCR in range (ex dealer intermediation constraints). TOMOs should see wider SOFR/FF (esp Nov – Jan) & support 2-5Y swap spreads. Risk assets may see TOMO / POMO as financial repression & risk on. Stay long Jan SOFR/FF.

Base case next week: QT stop, TOMO start, IOR cut

Our Fed plumbing view evolved this week. To recap, at Oct FOMC we expect: QT stop, MBS to bill buying, TOMO intro w/ O/N = IOR+5bp & term = IOR+10bp, IOR cut 5bp (Exhibit 2). TOMOs bridge to eventual POMOs, which remain best solution.

Bottom line: Oct FOMC = QT stop & TOMO start, stay long Jan SOFR/FF.

Front end – US II

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BofAS

Katie Craig
BofAS

- We change Fed QT view: QT now expected to stop at end Oct vs prior expectation of end Dec.
- Catalyst for change: higher repo rates in GSE float period + repo sensitivity to TGA build. Fed speak QT shift also supports.

This is an excerpt of Fed QT stop: end October

QT stop date change: now end Oct, previously end Dec

We now expect the Fed to stop QT at the end of Oct vs prior expectation at end Dec. On Monday we wrote: "we see increased risks of a Fed QT stop at end Oct" (see Repo jump & Fed bill backfill risk). Elevated repo prints over recent days drove our change.

Repo levels: elevated for GSE cash period

Recent elevated repo levels have surprised us, especially for this time of the month. Recall, repo rates typically decline the 3rd week of the month during the GSE "float period" (float period = GSEs receive monthly mortgage principal + interest payments & invest this cash in repo before distributing to agency MBS holders later in month).

On Oct 21, TGCR & SOFR surprisingly rose to 4.21% & 4.23%. Similar repo levels are expected over coming days before rising further into October month end. Repo rates around current or higher levels will continue pulling FF higher in the target range. A recent increase in TGA to $929b likely supported the higher repo rates.

Money markets at current or higher levels should signal to the Fed that reserves are no longer "abundant". By some metrics the Fed many also judge that reserves are no longer "ample". We believe sustained prints of TGCR > IOR is inconsistent with ample reserves. Recent TGA rise => money market jump ≠ ample.

Recent repo & other money market indicators may also be influenced by end October factors. Recall, end October = Canadian bank fiscal year end. Canadian banks may be reducing repo / funding intermediation activity into month end, exacerbating money market moves. After Canadian fiscal year end we suspect US bank balance sheets will tighten as they prepare for end '25 year end. There is no funding relief in sight.

Fed communications: shifting assessment of abundance

Fed assessment of "abundant" vs "ample" reserves shifted last week (recall, abundant > ample). Prior to last week, a wide range of Fed officials asserted "we're still in an abundant reserves condition". Last week they shifted: Powell = QT to end "in coming months", Waller = reserves are "where we think we should be, just for ample". Powell & Waller communication shift indicates Fed QT end likely sooner vs later.

QT end detail: MBS to bills, admin rate & backfill watch

At Oct FOMC we now expect 2 things: (1) QT cessation at end Oct (2) mortgage repayments immediately invested into UST bills. MBS to UST bills should be $10-20b/m.

We strongly believe the Fed should also: (1) lower admin rates (IOR & SRF by 5bps each) to better anchor money markets in target range (2) backfill reserves via bill buying at a pace of $75-100b/m to push TGCR below IOR. Neither action is our base case b/c it may take more time to convince broader FOMC. Fed should act swift but often moves slow.

Bottom line: QT now to be stopped at end Oct b/c recent repo increase & Fed speak.

Front end – US III

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Katie Craig
BofAS

- Fed is very likely to start buying bills immediately following the conclusion of QT.

This is an excerpt of Bill demand gap: Fed help likely needed

Treasury strategy: heavy bill issuance

We expect the Treasury to maintain stable coupon sizes & meet incremental financing needs through bills over FY '26 & '27 (see our reports: Lower UST WAM => backdoor easing & August refunding recap). This approach will see UST issue nearly $600b & $1.1t+ of bills in both FY '26 & '27. Such aggressive bill issuance is elevated by historic standards and risks exhausting T-bill demand from traditional investors. To better balance bill supply & demand, we believe a long dormant buyer will be needed: the Fed.

Treasury bill issuance: multiples of recent history

The average fiscal year bill issuance in the post-COVID & post-GFC-COVID period was around $300b/y. Our expectations for bill issuance in coming years would represent a 2-3.5x increase vs this history. In the past 2 FY bill issuance has been more elevated at $580b/y but took place with high Fed ON RRP balances, which implies excess MMF cash to be deployed in money markets. With Fed ON RRP now zero, elevated bill issuance risks exhausting traditional bill investor demand, especially in FY '27.

Bill investor demand: MMF & rest of world

Treasury bill demand is largely concentrated amongst two key investor types, according to Fed Flow of Funds: (1) MMF, and (2) rest of world. MMF are the largest single T-bill buyers and currently hold nearly $2t (33% of total). Rest of world / international investors hold $1.4t (24% of total). Flow of funds identifies a range of other investors including the Fed, insurance companies, and non-MMF mutual funds; together these investors hold $1.4t (25% of total). This leaves bill demand of $1t (17% of total) held by "other" investors, which most likely reflects households.

MMF T-bill demand: a function of money market rates

Amongst the bill investor types listed above, we think it is easiest to estimate MMF demand. MMF AUM growth has historically been a function of overall money market levels. Specifically, we find MMF AUM grows: (1) near flat with rates 0-1%, (2) ~10%/y with rates 2-3%, (3) ~15%/y with rates 4–6%. We expect money market rates to decline towards 3% over '26, which suggests MMF AUM growth of near 10%.

The MMF industry is currently $7.34t, which would imply $734b of AUM growth in the next one year. Government & prime MMF bill holdings are roughly 33% of total AUM (see also our report: MMF portfolio update Sep '25). This implies MMF bill demand of $225b in the next 12m. We see risks as skewed to the downside with risks to lower rates and a reduction of current very long MMF WAM.

Demand from other investors: 10%/y or so

Estimating bill demand from other investors is more challenging than MMF. Bill demand from rest of world & other investors not identified in flow of funds has been around 10%/y in the post-COVID. A 10%/y growth rate would see these investors increase their bill holdings another $350b. Like MMF, we see downside risks to these estimates given that both are likely sensitive to rate levels and money market curve shape. The "other" investor category is a residual and unlikely to prove a stable demand source. As a result, we might guess non-MMF investors can be reasonably relied upon to generate $150-250b/y demand.

Front end – US IV

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- We see rising risk of Oct QT end + Fed bill buying backfill, depending on Fed preference for money market rates in range.
- We stay long Jan SOFR/FF for risk of early QT end & bill backfill buying.

This is an excerpt of Repo jump & Fed bill backfill risk

Repo jumps, Fed bill backfill risk goes higher

SOFR & TGCR prints last week surprised several clients. We offer thoughts on repo drivers, expectations, & Fed B/S implications. We now see increased risks of a Fed QT stop at end Oct & large-scale bill buying in Nov / Dec; stay long Jan SOFR/FF.

Jump reflective of cash / collateral shift, as warned in Mar

Repo jump stems from long shift in cash / collateral balance. Shift reached an inflection point in recent weeks due to sufficient cash withdrawn from system. Detail:

Collateral: US deficit ~$2t/y, ~$500b/q, & $91b last week. Repo jumped W with $39b settlements. There is higher sensitivity of coupon settlement dates & repo.

Cash: Fed has drained $2t+ via QT. ON RRP is now ~$0. Banks have been fighting for liquidity to buffer against unrealized securities losses. As a result, banks less willing to lend in repo vs '19. Fed over drained cash & likely now sees it.

Prior signals of cash / collateral shift masked by TGA & debt limit. We have long warned of it. In Mar '25 we wrote: "QT end date Dec '25... after TGA is rebuilt and clearer funding pressures evidenced... the Fed's "dashboard" of money market & liquidity indicators will clearly shift from green, past yellow, and towards red." See: QT update.

Fed over drain = bill buying backfill; Logan = $200b fill

Repo jump likely sustained & higher until Fed hits stop. Stop = Fed QT end + potential bill buying backfill. Backfill = function of Fed preference for repo & FF in target range.

Fed has not been clear where they want money markets in range. Logan in late Aug: "market rates close to, but perhaps slightly below, [IORB]". Logan thinks TGCR matters most. If TGCR<IOR, it implies reserves at ~$3.15tn. Others at Fed may differ, esp w/ FF focus. We overweight Logan's view.

If Logan's view were to materialize, Fed bill buying backfill = ~$150b. Fed could backfill w/ bill buying at $50-100b/m (in '19, Fed bill backfill = $60b/m; UST market ~1.85x since '19). If QT stop end Oct, Fed backfill could start in Nov. If QT stop end Dec, Fed backfill could start in Jan '26.

Market impact: long SOFR/FF, esp in early '26

Fed QT stop + bill buying backfill risk = positive for front end spreads, esp short dates. SOFR/FF mkt only sees high SOFR; mkt needs to see Fed backfill risk. Fed backfill = could pin SOFR closer to IOR. We believe SOFR & TGCR should be only tad higher vs FF in theory (FHLBs can switch TGCR & FF, see FHLB liquidity & Fed plumbing primer). We think admin rate change less likely & effective; see p2 for detail.

Bottom line: we stay long Jan '26 SOFR/ FF with risk of Oct QT end & potential Fed bill buying backfill. Risk = longer QT. Mkt should look beyond high SOFR, focus on backfill risk.

Front end – AU

Oliver Levingston
Merrill Lynch (Australia)

End of Fed QT is bullish AU basis

We see positive spillovers for AU spreads and Australian banks as the Federal Reserve looks set to end quantitative tightening. We have previously flagged RBA balance-sheet drawdown (draining banks' reserve balances at the RBA) as a potential trigger for 3-month bills-OIS basis (BOB) to move closer to 15bps. See our AU money market primer July 2025. Yet the global liquidity cycle is about to turn, and we no longer hold this view.

Fed bill-buying is bullish for spreads

BofA's base case is Fed balance-sheet expansion from Mar '26, which should have a powerful impact on money market spreads. AU money market conditions continue to remain quite loose and tighter BOB spreads are likely after the Fed shifts its balance-sheet policy. BOB setting at or below 0bps for an extended period is now more likely than not in the next 12 months, in our view.

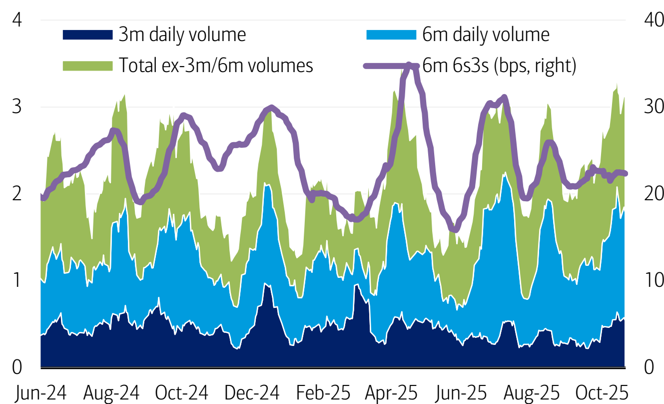
Risk: RBA-Fed divergence = wait for a spike in basis

The risk to our view is that 6s3s and BOB have already started to price a Fed pivot. For example, whereas 6s3s and (to a lesser extent) 3m BOB have tracked fluctuations in supply (using volumes traded in the daily rate set window as a proxy), this relationship has weakened more recently (Exhibit 18).

Yet investor feedback suggests our Fed QT call is out-of-consensus and the relationship between bill supply and basis spreads has never been strong enough to act as a trading signal, so we think this is a low-probability outcome. In our view, a sudden stop to QT and an earlier-than-anticipated shift to balance-sheet expansion would be bullish for bank bills and bonds vs swap.

The risk we ascribe a higher probability to would be divergence in the RBA and Federal Reserve's approach to balance-sheet policy ultimately placing widening pressure on spreads. Surplus ES balances have declined and are now within the RBA's range of estimates for underlying reserve demand (AUD 100-200bn, see Exhibit 19). Episodic widening is also possible in a risk-off event. Therefore, we recommend waiting for a spike in money market spreads to receive basis.

Exhibit 18: Bank accepted bills – volumes traded in the daily rate set window (AUD bn, left) vs 6ms 6s3s (bps, right)
We use daily rate set window volumes as a proxy for supply



Source: BofA Global Research, ASX, Bloomberg

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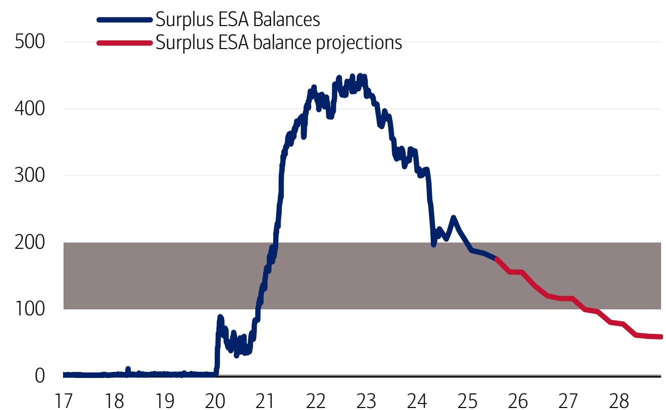
Exhibit 19: Surplus ESA balances vs path implied by RBA b/s drawdown
RBA estimates underlying bank reserve demand = AUD 100-200bn



Source: RBA

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Spreads – EU

Edvard Davidsson
MLI (UK)

- Following fiscally challenging years, Finland has now reached a broad, politically supported agreement to introduce a debt brake.
- If deemed credible, it could be seen as a credit positive for future rating reviews, but important details are still unknown.

Challenging years following Covid & Russia-Ukraine war

Finland's fiscal balance has been challenged since 2020 following the Covid-19 pandemic as well as the Russia-Ukraine war. Finland's deficits have widened and debt/GDP levels have increased. The 4.4% deficit/GDP in 2024 triggered consolidation packages of c. €9bn, which have since been deemed by both Bank of Finland and Fitch as insufficient to reduce deficits below 3% in 2026 or 2027.

Turning the corner? Introduction of a new debt brake

Consequently, the Finnish government announced on 14 October, the introduction of a debt brake aimed at curbing widening deficits and rising debt/GDP levels. Our current understanding of the introduced debt brake is a stricter version of the current EU fiscal rules, but with important details still undecided: namely, the enforceability of corrective fiscal measures, and the broader credibility of the debt brake.

Finland's debt brake: The overarching goal is to reach a debt/GDP level of 60%, in line with the broader EU marker, but then continue the reduction towards 40%. To produce fiscal stability, a parliamentary working group is tasked with creating an eight-year cross-parliamentary fiscal target. With the debt brake, fiscal deficits must be kept below 2.5%, and the average reduction of debt/GDP levels must be at least 0.75% per annum over the eight-year period.

The agreement has been signed by all major political parties except the Left Alliance and will enter into force following the next election in 2027 at the latest. Additionally, the agreement looks to be excluding social security funds, which has historically been a budget positive for Finland, insinuating a stricter approach. Also, to amend the debt brake, it must be passed by parties representing ¾ of the MPs. However, it is our understanding that official corrective measures cannot be enforced until 2031 for the deficit target, and 2033 for the debt/GDP reduction.

Credibility becomes the name of the game

Given the next parliamentary election is 1.5 years away (April 2027), and the enforceability of corrective measures will not become active for more than five years, we still see the actual political will for fiscal consolidation as an important factor for the medium-term fiscal performance. In terms of credit ratings, the perceived credibility of the debt brake, and the strength of the political agreement, in the absence of explicit corrective measures, will remain important. In aggregate, we see Finland's solid track record of structural reforms, high levels of institutional strength, the eventual introduction of corrective measures, and the broad acceptance of the debt brake along the political spectrum, serving as net positives for the rating agencies, despite the lack of clarity in important details.

S&P is next to review Finland, currently at AA+ (stable outlook). S&P's previous projections have been on the more optimistic side. Potential downside revisions will have to be judged against the introduction of the debt brake. Still, their comments on its credibility can serve as an important benchmark for the remaining rating agencies.

Fitch, who recently downgraded Finland in July this year to AA (stable outlook), cited rising government debt over the medium term, insufficient fiscal consolidation packages

and low probability of additional measures before the April 2027 election, as well as sustained wide deficits as reasons for the rating action. If deemed credible, the debt brake could alleviate in the medium term, the mentioned reasons for the downgrade. In fact, observing the factors that have been communicated by Fitch to be credit positive (see: Exhibit 20), an eventual return to AA+ could be a future possibility. Fitch has no remaining scheduled rating reviews of Finland in 2025.

Lastly, in their latest review, Moody's clearly outlined the institutional and governance strength of the Finnish government. Its key credit strengths, in addition to their knowledge-based economy, is according to Moody's their "commitment of the authorities to structural reforms" and "stable, consensus-based political system and effective institutions". In contrast to most other core/semi-core EA sovereigns, Moody's also points to a broad political consensus of fiscal consolidation and a strong track-record of structural reforms. Thus, we assume Moody's to see the debt brake as a credit positive, until more official corrective measures enter into force. However, as an upgrade would result in Aaa (currently Aa1, stable outlook), we do not see Moody's rushing this decision and believe they would prefer to see actual traction before any possible upgrades. Their next rating update is due 12 December.

Lonely at the top: high grade EGBs become scarce

The credibility of the debt brake, and its eventual impact on credit ratings, come at a crucial time, as the AAA-AA rated EGB club is becoming more exclusive. Following the downgrade of France by S&P on 17 October, their average rating has now entered into single A territory, which significantly decreases the size of the AAA-AA EGB segment. For credit rating sensitive investors, this may result in gradual divestments of French debt (see: Surprise S&P downgrade for France), and a subsequent search of a new home for their capital. As the highest-yielding AAA-AA issuer amongst EGBs, except for Belgium (see: Exhibit 21), Finland may be a partial beneficiary of these new flows. Furthermore, with the S&P revising Belgium's credit rating this Friday (24 October) currently standing at AA- with a negative outlook (and Fitch already having downgraded them to A+), we could see a downgrade resulting in a single-A average rating for Belgium, making high-grade EGBs even more scarce.

Exhibit 20: Summary of credit rating agencies' criteria for potential upward or downward revisions of FI's credit rating, pre debt brake
Deficits and debt levels remain in focus. The agencies also list an escalation of the Russia-Ukraine war as a potential credit negative.

Rating agency (month of latest review)	Summary of potential credit positive pressures	Summary of potential credit negative pressures
Moody's (Jun-25)	A sustained improvement in the debt trajectory earlier and faster than what's currently expected	The government not delivering on its commitment to reverse the deterioration in fiscal metrics.
Fitch (Jul-25)	General government debt/GDP on a clear downward path over the medium term	A further substantial increase of government debt/GDP ratio over the medium term
S&P (Apr-25)	Consolidation efforts strengthened Finland's fiscal performance and its external balance sheet improved significantly	A more protracted deterioration of the country's fiscal position from weaker economic recovery challenging consolidation efforts

Source: S&P, Fitch, Moody's, & BofA Global Research.

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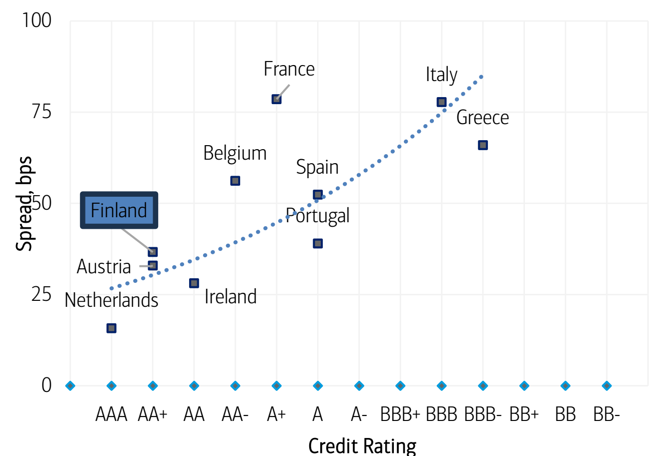
Exhibit 21: Credit ratings versus 10y spread to bunds
There are less AA rated issuers after the downgrades of France



Source: S&P, Fitch, Moody's, Bloomberg, & BofA Global Research

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Inflation – UK

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- We retain our RPI 1s2s flattener despite Sept print surprise. The rates rally has squeezed 1y1y "real Sonia" (1y1y Sonia less 1y1y RPI) to 11bp, and we would pay it.

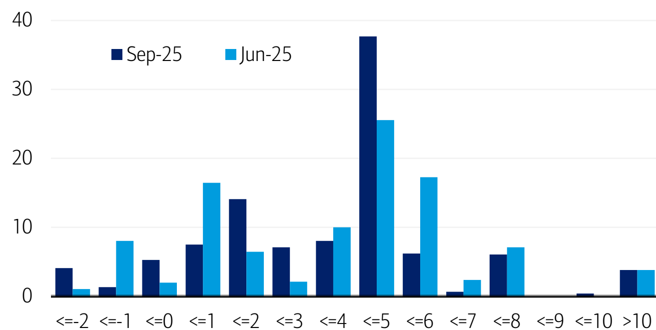
The terrible 2s

1y1y Sonia below our terminal Bank rate, but 1y1y RPI is not target-consistent

In this month's Inflation Strategist (see: 'Inspirations and aSPIREations', 3 October), we recommended a 1s2s RPI flattener at +6.5bp, targeting -25bp, with a stop-loss at +25bp (currently +6.8bp), seeing the main risk to the trade being a sharp fall in energy prices. The case largely rested on the view that the UK has an inflation persistence problem and inflation's decline to target would be slow, justifying a 1s2s RPI inversion.

The Bank of England felt the same way – in its August Monetary Policy Report, the MPC forecast CPI inflation falling to 2.7% one year ahead then 2.0% two years out. The downside surprise in the September print is a minor headwind for the trade, creating the sense that inflation's decline might be speedier, but it will take a lot more to convince us (and the Bank, we believe) that inflation is on a rapid path to target. For this reason, we exited our received December MPC-dated Sonia trade after the post-print rates rally (see Rates-UK section).

Exhibit 22: The distribution of core CPI component inflation rates is far from encouraging…
Core CPI component inflation rates distribution, %



Source: BofA Global Research, LSEG Data & Analytics

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Exhibit 23: …with more than 50% of core CPI components recording inflation above 4% and only 32% with rates below 2%
History of the proportions of Core CPI components recording inflation rates above 4% and below 2%, %

Source BofA Global Research, LSEG Data & Analytics

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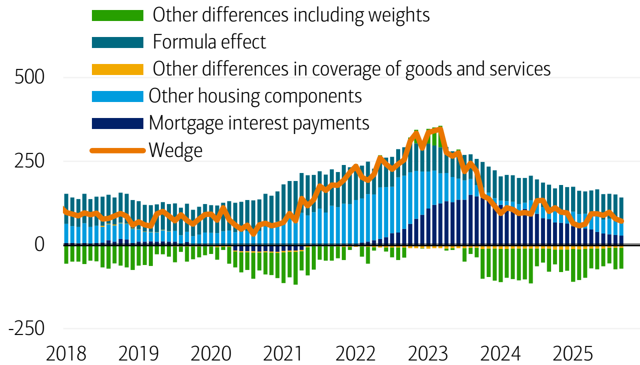
To us, this 1s2s RPI flattener is more to do with the 2y being expensive than the 1y being cheap. This isn't just about an expected trend decline in underlying inflation, it's also a view about likely RPI-CPI wedge dynamics over the next few years.

The latest reading of the RPI-CPI wedge came in at 72bp, and as Exhibit 24 shows, the trend decline has been largely about the declining housing component (most importantly a declining mortgage interest payment component), and this seems set to continue for quite a long time. Although it has been relatively stable recently, the formula bias remains comfortably below 100bp, where we expect it to stay, or subside further.

We would repeat that we think the ONS decomposition overstates the "true" formula bias, as least inasmuch as it concerns the linker market. The "ONS Table 5b" decomposition that we show calculates the formula bias as if the problematic Carli arithmetic mean formula (that causes the bias) had been applied to the same CPI sub components that use Carli in the RPI. For our purposes, we are more interested in the reverse – what would happen if the Carli formula ceased to be used in the RPI. This alternative measure of the formula bias would likely to be smaller, almost always,

because of the greater aggregate weights of those categories in CPI than in RPI. (This is part of the reason why the "other differences including weights" category is almost always negative – it is correcting for an overstated formula bias, to our way of thinking).

Exhibit 24: ONS decomposition of the RPI-CPI "wedge", bp
From Table 5b of the ONS Consumer Prices dataset. Wedge decline to date mostly driven by housing components.



Source: BofA Global Research, LSEG Data & Analytics

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Exhibit 25: Clothing & footwear "formula bias" shrinks as wedge component, back to pre-2010 methodology shock levels
Calculated as the spread between RPI & CPI clothing & footwear inflation rates, multiplied by clothing & footwear's weight in RPI. bp

Source: BofA Global Research, LSEG Data & Analytics

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The jump in the clothing & footwear contribution to the bias in 2010, due to a sampling methodology change, set the ball rolling along the track to the RPI reform decision. But as Exhibit 25 shows, its bias contribution – as we prefer to measure it – is back to pre-2010 levels. The difference between RPI and CPI clothing inflation rates is still large, but clothing's weighting in RPI has collapsed, shrinking the bias contribution (Exhibit 26).

Exhibit 26: The difference between clothing & footwear inflation rates in RPI and CPI still large, but its RPI index weight has collapsed.
The clothing and footwear "formula bias" (now c.6%) caused by RPI using a Carli arithmetic mean, while CPI uses a geometric mean.

Source: BofA Global Research, LSEG Data & Analytics

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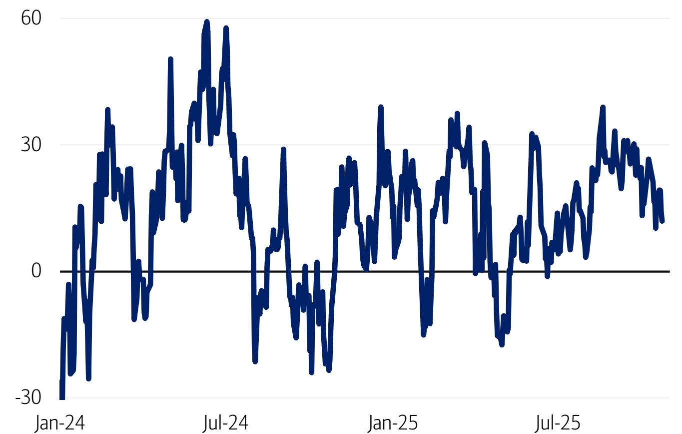
Exhibit 27: 1y1y "real Sonia" slides, with rate expectations falling faster than inflation expectations
1y1y Sonia less 1y1y RPI, bp



Source: BofA Global Research, Bloomberg

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The recent market rally has taken 1y1y Sonia to 341bp, only 11bp above 1y1y RPI at 329bp. This looks too narrow to us – 1y1y Sonia is below our terminal Bank rate forecast of 3.5%, yet 329bp looks inconsistent with CPI moving to target, especially if were right about the wedge's direction of travel. **We would pay the 1y1y "real Sonia" rate of 11bp, setting a target of 30bp and a stop-loss at 0bp.** Risk to the trade is the MPC easing to underpin growth despite stubborn inflation.

Technicals

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- On Oct 16, US 10Y yield closed below 3.99%, continuing the daily downtrend from May and supporting our cyclically bullish (lower yield) bias for Q425-1H26.
- Yield has since established a tactical low at 3.93% and recovered, but faces initial resistance at 4.08%, 4.12%, and the declining 50-day SMA.
- A close above 4.20% key resistance (pivot high) would violate the daily downtrend and prompt us to reassess our near-term lower-yield bias.

For more on our US yield and curve views, please see the
[Rates Technical Advantage: Bonds heart cockroaches 15 October 2025]

Yields bounce, but downtrend remains

Exhibit 28: US 10Y Yield – Closed < 3.99% support, continuing the downtrend from May, before bottoming at 3.93%. We view this low as a tactical bottom and maintain our cyclically bullish (lower yield) bias. Initial yield resistance is 4.08% with 4.20% a critical / controlling level for the current downtrend.
US 10Y yield daily candle chart, 50d SMA, 200d SMA, RSI, MACD

Source: BofA Global Research, Bloomberg

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Rates Alpha trade recommendations

Exhibit 29: Global Rates Trade Book - open trades
Open trades

Region	Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
Europe	Sell 2055 TIPS, buy 2056 BTPei	8-Oct-25	12	-20	28	7.7	Net external asset trends	Contagion from adverse France moves
	Receive Mar26 ECB €str	3-Oct-25	1.86	1.65	1.95	1.81	Weak outlook to prompt more cuts	Upside data surprises
	Receive 10y5y "real ESTR" rate	5-Sep-25	107	70	125	97	Lower neutral	Global bear market in rates
	Sell OATei 47, buy BTPei 56 on z-spread	5-Sep-25	69	40	85	52	Extreme RV anomaly	Reduced France uncertainty
	Receive 10y5y €str	2-Sep-25	3.4%	3%	3.7%	3.18%	Downside in growth, lower premia	Paying by banks, upside data surprises
	Long 10y Bunds	2-Sep-25	2.8%	2.4%	3.05%	2.57%	Downside in growth, pressure on risk assets	Upside data surprises
	Pay Jun26 IMM 1y Euribor-€str basis	7-Aug-25	23.7	30	19.5	24	Reserve demand-supply imbalance to worsen	Low reserve demand, structural operations
	Short 5y German swap spreads	11-Jul-25	6.5	0	12	11	Seasonality, supply concerns, receiving in swaps	Risk-off move, program paying in 5y swaps
	6m 2s10s floor ladder	7-Jul-25	63bp	51.4bp	70bp	51bp	Flattening bias in 2s10s.	2s10s flattening beyond the downside b/e
	Short 6m2y rec ladder	7-Jul-25	0bp	25bp	-14bp	-1bp	Wide range of outcomes.	Rally to 1.5-1.9%
	US-Euro 2y3y inflation widener	1-Jul-25	38	70	20	48	Historically narrow, roll-down	US recession
	2y3y/5y5y Euro inflation steepener	2-May-25	20.0	35.0	10.0	18	Swift fall in inflation	Stalling disinflation
	Long 30y Bunds vs Netherlands	24-Nov-24	14.5	25	8	16	Fade the cheapness of GE long-end	Change in German constitution
	5y1y ATM-25/-100bp rec spread	8-Feb-24	25bp	60bp	0	17bp	Lower ECB terminal rate, without negative carry	Better than expected EUR data
UK	1s2s RPI flattener	2-Oct-25	6.5	-25.0	25.0	8.5	RPI forecast, RV anomaly	Falling energy prices
	Pay 10y Sonia vs long 30y Gilt	19-Sep-25	139bp	120bp	155bp	130bp	Gilt supply migrating to shorter-WAM	Sharp curve steepening from fiscal concerns
	Long UKTi 2027s on z-spread	5-Sep-25	15	0	23	19	Expect banks bid on UKTi26s maturity	Supply driven Gilt cheapening
	UKTi 2058/68 real curve flattener	1-Jul-25	-12.7	-22	-7	-17	RV cheapness of '68s, convexity	Ultra-long supply poorly digested
	Rec fwd UKTi real rates/pay fwd TIPS real rates	14-May-25	22	-40	50	-7	DMO Shortening its issuance	Poorly digested long-dated supply in Gilts
	Long 30y Gilt on ASW	2-May-25	91	75	100	87	Expect BoE to at some point signal slower QT	UK fiscal worries
US	6m10y payer ladder	22-Oct-25	0bp	20bp	-10bp	1bp	Scenarios of hawkish repricing of policy trough	Scenarios of Fed hikes
	Paid April '26 FOMC OIS	19-Sep-25	3.31%	3.65%	3.05%	3.37%	Cautious Fed & April underpriced vs end of '26	More dovish Fed with faster cutting cycle
	2s10s flattener	19-Sep-25	55bp	30bp	70bp	51bp	Less aggressive Fed cuts & positive carry	More dovish Fed with faster cutting cycle
	Long Jan SOFR/FF	15-Sep-25	-6.5bp	-2bp	-11bp	-7bp	Fed likely to step in on further funding pressure, end QT	Fed more tolerant of SOFR above IORB and FF
	SOFR H6H7 flattener	11-Sep-25	-53bp	-75bp	-35bp	-44bp	Cautious Fed near-term-> more cuts post Powell	Frontloading of Fed cuts & steeper SOFR curve
	Sell 1y1y vs 1y10y vol	14-Aug-25	+4bp Vega (v)	15bp Vega (v)	-5bp Vega (v)	4bp	Underperformance of left vs right side vol on soft landing scenarios	Higher uncertainty around the Fed policy near term
	Long 10y BE	23-June-25	234bp	255bp	220bp	230bp	Fed independence threat hedge	Risk off flow that sees oil decline
	6m5y payer ladder	23-May-25	0bp	27bp	-10bp	0bp	Scenarios of hawkish repricing of policy trough	Scenarios of Fed hikes
	18m1y vs 6m1y rec	1-May-25	0bp	30bp	-15bp	99bp	< frontloaded cuts, > backloaded cuts	>frontloaded cuts with < medium term
	6m fwd 2s10s floor ladder	1-May-25	46bp	17bp	-10bp	30bp	Underperformance of curve vs fwds	Flattening beyond the c.20bp BE
	1y1y receiver 1x1.5	12-Dec-24	9bp	60bp	-15bp	4bp	Hedging slowdown scenarios	Aggressive hard landing scenarios
	1y fwd 5s30s bear steepener	24-Nov-24	0bp	30bp	-15bp	16bp	Term premium build & reacceleration scenarios	Bear flattening on hawkish Fed
	1y1y straddles vs strangles	24-Nov-24	+0.31%	20bp v	-10bp v	0.37%	Long vol of vol	Lower vol of vol
	Long 5y30y vol vs 2y30y vol	24-Nov-24	+5.5bp v	15bp v	-10bp v	15bp	Vega supported bearish tail scenarios	Outperformance of intermediate vs long vega
	3y1y rtr spd a/-50bp	6-Nov-23	23bp	50bp	-23bp	13bp	Soft landing scenario	Capped to premium
APAC	Pay 6m1y, receive 1y5y swaps	10-Oct-25	62bp	38bp	74bp	-8bp	Carry-rich flattener for an extended RBA pause	Weak AU Sept. jobs report
	Long 6m5y payer spd USD vs KRW	23-Sep-25	0bp	25bp	-10bp	-9bp	Underperformance of USD vs KRW rates	Underperformance of KRW vs USD rates
	Long 6m20y payers JPY vs AUD	21-Aug-25	0bp	20bp	-10bp	-3bp	Underperformance of JPY vs AUD rates	Underperformance of AUD vs JPY rates
	Short 20y JGBs vs AUD semis	18-Aug-25	289bp	200bp	330bp	290bp	Fiscal risks underpriced into autumn Diet	JGBs could rally if risk sentiment deteriorates.
	US 10y invoice spreads vs AU	30-May-25	40bp	60bp	25bp	37	Fiscal divergence	US reg reform, AU budget update
	Pay 3y swap EFP (q/q)	28-May-25	-9.5bp	10bp	-19.5bp	0.1bp	Robust AU bond demand profile mispriced	Global spread tightening
	Buy TCV 5.5% Sep 2039 vs 10y IRS	15-May-25	133bp	100bp	148bp	132bp	Fiscal convergence between AU and Victoria	Wider spreads likely in a risk-off event
	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	13bp	Repricing of policy trough	Underperformance vs. downside b/e
	KR 1y fwd 2s10s bull steepeners	24-Nov-24	0bp	25bp	-10bp	13bp	Dovish BoK and bull steepening	Hawkish shift for BoK
	KR 1y5y receiver spd	24-Nov-24	-16bp	34bp	-15bp	15bp	Repricing of policy trough lower	Capped to upfront premium

Exhibit 30: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
Europe	US 3m10y payer spd vs EUR payers	7-Jul-25	0bp	25bp	-15bp	-8bp	-7bp
	Receive Oct ECB €str	18-Jul-25	1.765	1.565	1.925	26-Sep-25	1.929
	Receiving 6m1y EUR vs CHF	14-Mar-25	176bp	130bp	200bp	18-Sep-25	196bp
	6m 2s5s30s rec fly	7-Jul-25	0	150k	-80k	05-Sep-25	150k
	Receive 5y5y "real ESTR" rate	14-May-25	74	25	100	05-Sep-25	83
	OATei 2038/53 real curve flattener	13-June-25	20	0	30	20-Aug-25	30
	6m5y 1x1.5 rec	5-Feb-25	0bp	14bp	-10bp	4-Aug-25	0
	Pay 1y1y Euribor-€str basis	24-Nov-24	21.5	30	17	07-Aufg-25	24
	Long 10y Spain vs Germany & Italy	9-May-25	25	15	31	04-Aug-25	22
	Short 5y EU vs NL	19-Jun-25	21.8	30	17	31-Jul25	16
	Long 2y IT vs FR	20-Jun-25	7	-10	16	24-Jul-25	5.8
	Long EU 30y vs Netherlands	28-Mar-25	72	60	80	18-Jul-25	60
	Short 1y1y vs 1y10y vol	24-Nov-24	6.5bp	20bp	-10bp	11-Jul-25	24bp
	Receive BTPei 2033-39 fwd yield	1-Apr-25	358	300	400	01-Jul-25	320
	BTPei 2039 iota narrower	7-Mar-25	25.4	17	30	03-Jun-25	19.9
	US-Euro 2y3y inflation widener	7-Mar-25	28bp	50bp	15bp	30-May-25	50bp
	Long 15y OAT May-42	21-Mar-25	3.84	3.5	4.05	27-May-25	3.67
	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
UK	Receive December MPC-dated Sonia	5-Sep-25	3.88	3.72	3.96	22-Oct-25	3.80
	UKTi 2037/39 real curve flattener	24-Oct-24	17	9	25	17-Oct-25	17
	UKTi '32/36/47 barbell	05-Sep-24	14.8	5.0	20.0	17-Oct-25	8.5
	Sell UKTI 2036 v UKT 2042 on ASW	26-Jul-24	-21	-8	-28	17-Oct-25	-12
	Rec Nov MPC-dated Sonia	13-Jun-25	3.78%	3.50%	3.95%	01-Aug-25	3.78%
	1s2s RPI flattener	23-May-25	7	-30	25	01-Aug-25	-16
	Long UKT 0 1/8% 2028 vs. UKT 4 3/8% 2028 on ASW	24-Jan-25	-29	-40	-24	08-Jul-25	-24
	Short Sonia 3s5s7s (pay 5s)	05-Sep-24	-12	10	-21	26-Jun-25	-5.3
	Receive Nov MPC-dated Sonia	11-Apr-25	3.69	3.45	3.81	15-May-25	3.81
	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
US	1y10y payer spd vs 3m10y payer	24-Nov-24	0bp	30bp	-15bp	23-Oct-25	-15bp
	1y10y inflation swap steepener	3-Sep-25	-83bp	-40bp	-110bp	22-Oct-25	-68bp
	6m10y payer spreads	7-Apr-25	8.5bp	25bp	-8.5	07-Oct-25	-7bp
	Short 30y spread	1-Aug-25	-88bp	-105bp	-70bp	03-Oct-25	-83bp
	Received 5y OIS	8-Aug-25	3.44%	2.8%	3.8%	19-Sep-25	3.29%
	5s30s nominal steepener	3-Sep-25	122bp	160bp	90bp	19-Sep-25	105bp
	Receive BoC Sept OIS vs pay Fed Sept OIS	12-Sep-25	7bp	0bp	13bp	15-Sep-25	3bp

Exhibit 30: Global Rates Trade Book - closed trades

Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
	Short Oct SOFR/FF	27-Jun-25	-4bp	-8bp	-1bp	15-Sep=25	-6bp
	Pay Sept FOMC OIS	14-Aug-25	4.12	4.25	4.05	22-Aug-25	4.12
	Short 3y spread	30-Jun-25	-31bp	-40bp	-20bp	1-Aug-25	-31bp
	6m5y payer ladder	7-Mar-25	0bp	25bp	-10bp	11-Aug-25	0bp
	Pay Dec FOMC OIS	15-May-25	3.78%	4.25%	3.5%	1-Aug-25	3.83%
	Short July SOFR/FF	30-Jun-25	+1bp	-2bp	+2.5bp	1-Aug-25	-0.5bp
	3y20y swap spread steepener	2-Jul-25	-51bp	-30bp	-65bp	28-Jul-25	-47bp
	6m1y rec spd	21-Jan-25	11bp	25bp	-11bp	22-Jul-25	2bp
	Sell 1m10y vs 6m10y receiver	21-Jan-25	0bp	20bp	-10bp	22-Jul-25	8bp
	Long 2y3y inflation	24-Apr-25	2.24	2.50	2.05	16-Jul-25	2.46
	Pay July BoC OIS	6-Jun-25	2.65%	2.75%	2.55%	14-Jul-25	2.72%
	Long 1y10y rtp spd vs 4m10y rtp	3-Jul-24	0bp	20bp	-17bp	7-Jul-25	-14bp
	Short 30y swap spread	30-Apr-25	-90	-110	-75	30-Jun-25	-91
	10s30s curve steepener	15-May-25	45bp	70bp	15bp	13-Jun-25	48bp
	Pay SOFR Z6	29-May-25	3.26%	3.9%	2.75%	13-Jun-25	3.27%
	Pay July FOMC OIS	8-May-25	4.15%	4.3%	4.05%	6-Jun-25	4.3%
	Pay Bank of Canada June OIS	21-May-25	2.675%	2.75%	2.6%	04-Jun-25	2.75%
	Z5-Z6 FF curve flattener	13-May-25	-34bp	-70bp	-10bp	29-May-25	-57bp
	1y fwd 2s10s floor ladder	28-May-24	-20bp	-40bp	-60bp	28-May-25	0bp
	Long July SOFR/FF	11-Apr-25	-3.5bp	+1bp	-7bp	19-May-25	+1bp
	1y inflation swap short	10-Apr-25	3.49	2.90	3.90	12-May-25	3.12%
	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
APAC	AU 6m3y receiver 1x1.5	27-Mar-25	4bp	30bp	-15bp	27-Sep-25	12bp
APAC	Selling IVSP (= sell JBZ5 vs receive swap)	20-Aug-25	-12.5	-16.0	-9.5	10-Oct-25	-13.2
APAC	AU 6m1y payer ladder	14-Jul-25	0bp	18bp	-10bp	25-Sep-25	5bp
APAC	Short Dec '26 futures, buy US	15-Aug-25	7bp	50bp	-15bp	19-Sep-25	25bp
APAC	Sell AU Jun '26 futures	25-Jul-25	96.78	96.50	97.00	15-Aug-25	96.91
APAC	Buy Dec '25 bill futures, sell YM	16-May-25	21bp	8bp	27bp	25-Jun-25	14bp
APAC	5s30s JGB curve steepener	15-May-25	198	215	189.5	21-May-25	215
APAC	AU 2s5s flattener vs CAD 2s5s steepener	15-Apr-25	43bp	21bp	54bp	1-May-25	29bp
APAC	10s20s JGB curve flattener	25-Mar-25	73	60	79.5	8-Apr-25	85
APAC	Buy au 3y (YM) , pay Aug RBA	04-Mar-25	-8bp	-50bp	10bp	11-Apr-25	-16bp
APAC	2yr fwd 2s10s OIS flatteners	19-Feb-25	40	25	47.5	4-Apr-25	39
APAC	AU 1y1y risk reversal	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	23bp
APAC	AU Long 1y2y AU vs US receivers	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	15.5bp
APAC	Mar/Sep '25 BOB steepener	3-Oct-24	2bp	6bp	0bp	18-Mar-25	4bp

Exhibit 30: Global Rates Trade Book - closed trades
Closed trades

Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
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
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

Global rates forecasts

Exhibit 31: Latest levels and rate forecasts
Forecasts by quarter up to Q4 '26 plus YE 2027

		Latest	YE 25	Q1 26	Q2 26	Q3 26	YE 26	YE 27
USA	O/N SOFR	4.21	3.94	3.95	3.71	3.46	3.21	3.21
	2y T-Note	3.47	3.30	3.30	3.30	3.35	3.45	3.45
	5y T-Note	3.59	3.50	3.55	3.55	3.60	3.70	3.75
	10y T-Note	**4.00**	**4.00**	**4.05**	**4.10**	**4.15**	**4.25**	**4.25**
	30y T-Bond	4.58	4.70	4.75	4.80	4.90	5.00	5.05
	2y Swap	3.21	3.03	3.01	3.00	3.05	3.15	3.15
	5y Swap	3.21	3.13	3.16	3.15	3.20	3.30	3.35
	10y Swap	**3.50**	**3.43**	**3.46**	**3.50**	**3.55**	**3.65**	**3.65**
	30y Swap	3.80	3.84	3.87	3.90	4.00	4.10	4.15
Germany	3m Euribor	2.07	1.85	1.65	1.65	1.65	1.65	2.15
	2y BKO	1.93	1.85	1.85	1.90	1.95	2.00	2.25
	5y OBL	2.18	2.10	2.10	2.20	2.25	2.30	2.60
	10y DBR	**2.58**	**2.50**	**2.50**	**2.60**	**2.65**	**2.70**	**2.90**
	30y DBR	3.17	3.10	3.15	3.20	3.25	3.30	3.45
	2y Euribor Swap	2.08	1.95	1.90	1.95	2.00	2.05	2.30
	5y Euribor Swap	2.28	2.15	2.10	2.20	2.25	2.30	2.60
	10y Euribor Swap	**2.59**	**2.40**	**2.40**	**2.45**	**2.50**	**2.55**	**2.75**
	30y Euribor Swap	2.84	2.75	2.80	2.85	2.90	3.00	3.15
Japan	TONA	0.48	0.48	0.73	0.73	0.98	0.98	1.48
	2y JGB	0.94	0.85	1.00	1.07	1.25	1.30	1.80
	5y JGB	1.23	1.10	1.25	1.32	1.50	1.55	2.00
	10y JGB	**1.67**	**1.65**	**1.75**	**1.80**	**1.90**	**2.00**	**2.25**
	30y JGB	3.09	3.25	3.30	3.33	3.35	3.50	3.55
	2y Swap	0.93	0.82	0.95	1.02	1.18	1.23	1.70
	5y Swap	1.18	1.05	1.18	1.25	1.40	1.45	1.88
	10y Swap	**1.50**	**1.45**	**1.53**	**1.58**	**1.65**	**1.70**	**1.93**
U.K.	3m Sonia	3.88	3.85	3.50	3.50	3.50	3.50	3.50
	2y UKT	3.78	3.70	3.75	3.80	3.80	3.80	3.95
	5y UKT	3.89	4.15	4.15	4.20	4.20	4.25	4.45
	10y UKT	**4.42**	**4.80**	**4.85**	**4.85**	**4.90**	**5.00**	**5.10**
	30y UKT	5.23	5.55	5.50	5.50	5.55	5.55	5.60
	2y Sonia Swap	3.53	3.50	3.55	3.60	3.60	3.60	3.75
	5y Sonia Swap	3.61	3.85	3.85	3.90	3.90	3.95	4.15
	10y Sonia Swap	**3.94**	**4.25**	**4.25**	**4.25**	**4.30**	**4.40**	**4.50**
Australia	3m BBSW	3.50	3.45	3.45	3.45	3.45	3.55	3.75
	2y ACGB	3.34	3.45	3.50	3.55	3.85	3.85	3.85
	5y ACGB	3.55	3.65	3.70	3.75	3.75	3.95	4.05
	10y ACGB	**4.12**	**4.15**	**4.20**	**4.25**	**4.25**	**4.40**	**4.40**
	3y Swap	3.40	3.55	3.60	3.65	3.65	3.65	3.85
	10y Swap	**4.18**	**4.25**	**4.30**	**4.35**	**4.35**	**4.50**	**4.50**
Canada	2y Govt	2.39	2.50	2.50	2.55	2.60	2.65	2.85
	5y Govt	2.66	2.75	2.80	2.85	2.90	2.95	3.25
	10y Govt	**3.09**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**
	2y Swap	2.25	2.36	2.36	2.41	2.46	2.51	2.71
	5y Swap	2.45	2.52	2.57	2.62	2.67	2.72	3.02
	10y Swap	**2.82**	**2.94**	**2.99**	**3.04**	**3.09**	**3.14**	**3.19**

Source: BofA Global Research

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Appendix: Common acronyms

Exhibit 32: Common acronyms/abbreviations
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
ann	annualized	IT	Italy
APF	Asset Purchase Facility	NADEF	Nota Aggiornamento Documento Economia e Finanza
APP	Asset Purchase Programme	NFR	Net Financing Requirement
AS	Austria	lhs/LS	left-hand side
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
GE	Germany	PBoC	People's Bank of China
DMO	Debt Management Office	PEPP	Pandemic Emergency Purchase Programme
DS	Debt sustainability	P&I	Pension and Insurance
DXY	US Dollar Index	PMI	Purchasing Managers' Index
EA	Euro area	PMRR	Preferred Minimum Range of Reserves
EC	European Commission	PPF	Pension Protection Fund
ECB	European Central Bank	PRT	Pension Risk Transfer
ECJ	European Court of Justice	PSPP	Public Sector Purchase Programme
EFSF	European Financial Stability Facility	PT	Portugal
EGB	European Government Bond	QE	Quantitative Easing
EIB	European Investment Bank	qoq	quarter-on-quarter
EMOT	Economic Mood Tracker	QT	Quantitative Tightening
EP	European Parliament	RBA	Reserve Bank of Australia
SP	Spain	RBNZ	Reserve Bank of New Zealand
ESI	Economic Sentiment Indicator	rhs/RS	right-hand side
ESM	European Stability Mechanism	RPI	Retail Price Index
EU	European Union	RRF	Recovery and Resilience Facility
f	final print	RSI	Relative Strength Index
FPC	Financial Policy Committee	SA	Seasonally Adjusted
FR	France	SAFE	Survey on the access to finance of enterprises
FY	Fiscal Year	SMA	Survey of Monetary Analysts / Simple moving average
GC	Governing Council	SNB	Swiss National Bank
GDP	Gross Domestic Product	SPF	Survey of Professional Forecasters
GNI	Gross National Income	STR	Short Term Repo
GFR	Gross Financing Requirement	SURE	Support to mitigate Unemployment Risks in an Emergency
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	UST	US Treasury
INSEE	National Institute of Statistics and Economic Studies	WDA	Work-day Adjusted
IP	Industrial Production	yoy	year-on-year
IR	Ireland	ytd	year-to-date
IGFR	Illustrative Gross Financing Requirement	DV01	Dollar value of a one basis point change in yield
PCA	Principal Component Analysis	WAM	Weighted Average Maturity
IG	Investment Grade		

Source: BofA Global Research

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Potential Risk at Expiry & Options Limited Duration Risk

Unlike owning or shorting a stock, employing any listed options strategy is by definition governed by a finite duration. The most severe risks associated with general options trading are total loss of capital invested and delivery/assignment risk, all of which can occur in a short period.

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